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FINANCIAL PERFORMANCE OF CO-OPERATIVE BANKS OF VIJAYAPUR DISTRICT: A CASE STUDY OF BIJAPUR DISTRICT CENTRAL CO-OPERATIVE BANK (BDCCB)

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Abstract
The objective of the present paper is to analyze the financial performance of Co-operative Banks over a period of 5 year (2012-13 to 2016-17`). For this purpose, financial ratios like Net Worth Ratio, Debt Equity Ratio, Non Performing Asset Ratio, Credit Deposit Ratio, Total Investment and Total Advance to Total Deposits Ratio, Long term Deposits to Total Deposits Ratio, Net Capital Ratio, Current Ratio, Current Liabilities to Net worth Ratio have been used. With the help of this analysis, it was inferred that in the BDCCB, the financial efficiency ratios showed that the growth and survival prospects of BDCCB are excellent. As per these ratios, these banks succeeded in maintaining an optimum level of financial performance.

Keywords: Financial Performance, Co-Operative Banks, Financial Ratios, Net Worth Ratio, Debt Equity Ratio, Non Performing Asset Ratio, Credit Deposit Ratio, Etc.

Introduction

Financial statements are only the means of providing general information regarding operational results and financial position of a business firms. These statements merely contains financial data about business events which do not reveals any significant conclusions such as efficiency of the management strength and weakness of the firm, index of future progress etc. Therefore meaning and significance are not known till their user does not analysis and interpret them for their specific purpose. Financial analysis is a multipurpose and multidimensional technique which involves a systematic for a certain period. The use of techniques is an art which requires pertinent knowledge experience and intuition for its development. In the word of **M.R. Agarwal** "the science of financial analysis is assuming an increasingly important role as a tool for appraising the real worth of a going concern. It helps in drawing out the implications which are contained in the statements themselves"

The bank uses various indicators for measuring its financial performance. These indicators are of great importance and tell us the true financial position of the bank. This indicators help in identifying the strengths and weaknesses of the bank and suggesting improvements in its future working. It is, thus, very important for a banking or business concern to analyze its financial performance at the end of each financial year.

Need For the Study

Due to certain changes in the banking sector and new economic policies, the co-operative sectors underwent a crisis. At the same time the failure of some good schedule banks and urban banks also attracted the attention of the people and has raised the question of security of their funds. So that need to find actual financial stability of the co-operatives banks and assures investors about the operational as well as financial efficiency of the co-operatives banks.

Statement of the Problem

Co-operative banks work under the regulation of RBI and co-operative department of state government. RBI introduced prudential norms to strengthen the bank’s balance sheet and enhance transparency. These prudential norms relates to the income recognition, asset classification, providing for bad and doubtful debts and capital adequacy. They imposed various policy measures on co-operative banks like deregulation of interest rates, changes in SLR, CRR, liberalization of banks, lending norms, capital adequacy norms and income measurement, allowing the banks to tap the resources from capital market and entry of private and foreign banks in the banking industry has created major challenges before the co-operative banking.

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Under such changing environment, to maintain stability, liquidity, profitability, goodwill and overall efficiency is the challenge before the bank management and so they have to transform the traditional way of management into modern and professional management. Hence the tools and techniques of financial performance evaluation should be adopted by the management of the co-operative banks to overcome the situation and to survive in the competition and critical situation before the co-operative banks.

Scope of the Study

The researcher has selected BDCCB for the study. The study is based on the annual reports of the banks for a period of 5 years from 2012-13 to 2016-17. The performance of the co-operative banks was measured through efficiency of financial ratios.

Objectives of the Study

The broader objectives of the study are as under:

1. To examine the financial efficiency of co-operative banks in Bijapur district.
2. To suggest to improve financial efficiency of co-operative banks of Bijapur district

Research Methodology

The study is based on secondary data. The secondary data consists of the annual reports of BDCCB. The present study covers the span of five years i.e. from 2012-13 to 2016-2017. In this study, BDCCB has been included.

Framework Analysis: The performance of the co-operative banks was measured through financial efficiency ratios such as Net Worth Ratio, Debt Equity Ratio, Non Performing Asset Ratio, Credit Deposit Ratio, Total Investment and Total Advance to Total Deposits Ratio, Long term Deposits to Total Deposits Ratio, Net Capital Ratio, Current Ratio, Current Liabilities to Net worth Ratio.

Data Analysis and Interpretation

Net Worth Ratio

This ratio is a test of the financial and credit strength of the organization and measures the relationship between the owner's funds and total assets. It is also known as "Proprietary Ratio ", "Net worth to Total Assets Ratio" or "Equity Ratio" It determines the long term solvency of the banks and the manner of financing the bank. It shows the percentage of assets financed by the proprietor's fund. This ratio is expressed in percentage as under

Net Worth Ratio=Net Worth/ Total Assets*100

Net Worth= Equity share capital plus Reserves and surplus

Total Assets = Total funds

Table No. 1: Net worth Ratio (In Percentage)

Year	Net Worth	Total Assets	Ratio
2012-13	146.40	1498.53	**9.77**
2013-14	163.66	1776.23	**9.21**
2014-15	198.27	2058.74	**9.63**
2015-16	247.83	2224.79	**11.14**
2016-17	280.53	2549.82	**11.00**

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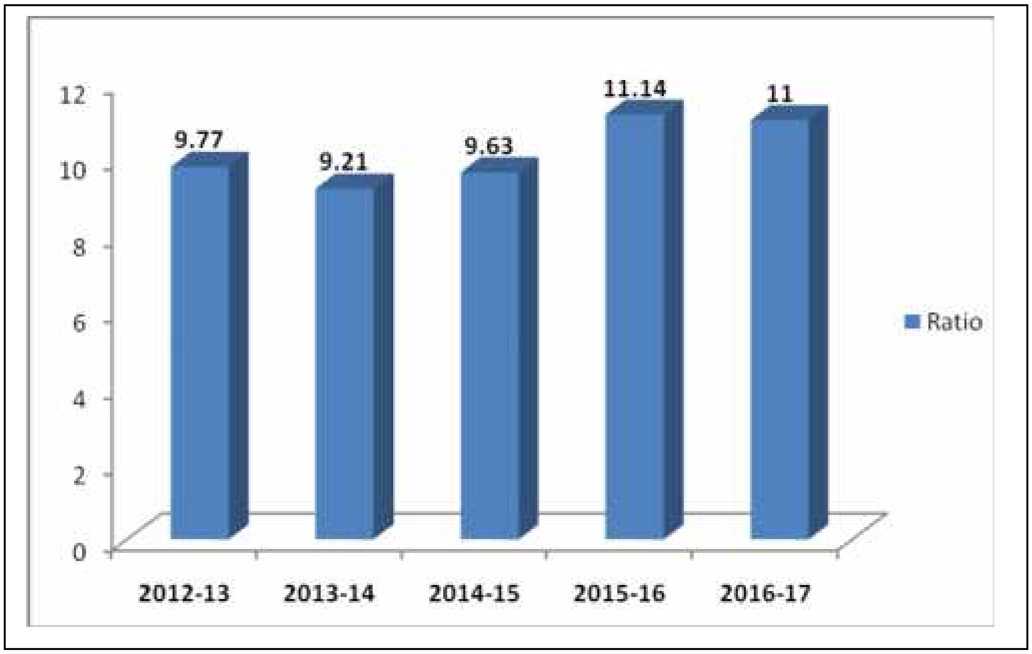
Graph No. 1: Net Worth Ratio



Debt Equity Ratio

Debt- equity ratio is an important test to judge long term solvency of the enterprise. It expresses the relationship between owned funds and borrowed funds and determines the bank's ability to repay debts out of its owned funds. This ratio is called "External Internal Equity" or "Debt to Net Worth" as it measures the amount invested by outsiders to that by owners of an enterprise.

Debt Equity Ratio= External Equities/ Internal Equities*100

Or

Debt Equity Ratio= Total Debts /Shareholders' funds or Net Worth *100

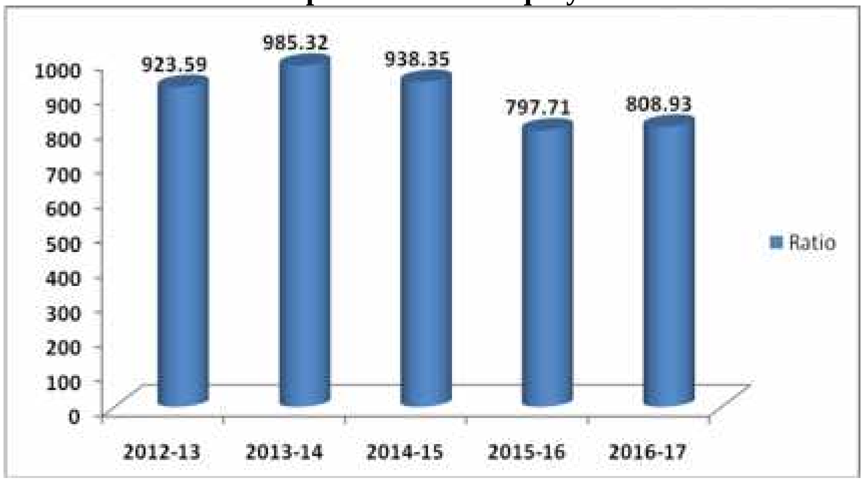
External Equities or Total Debt=Long term liabilities plus short term liabilities

Internal Equities or Shareholder funds= Share Capital plus Reserve and Surplus.

Table No. 2: Debt Equity Ratio

Year	Debt	Equity	Ratio
2012-13	1352.13	146.40	**923.59**
2013-14	1612.57	163.66	**985.32**
2014-15	1860.47	198.27	**938.35**
2015-16	1976.96	247.83	**797.71**
2016-17	2269.29	280.53	**808.93**

Graph No. 2: Debt Equity Ratio



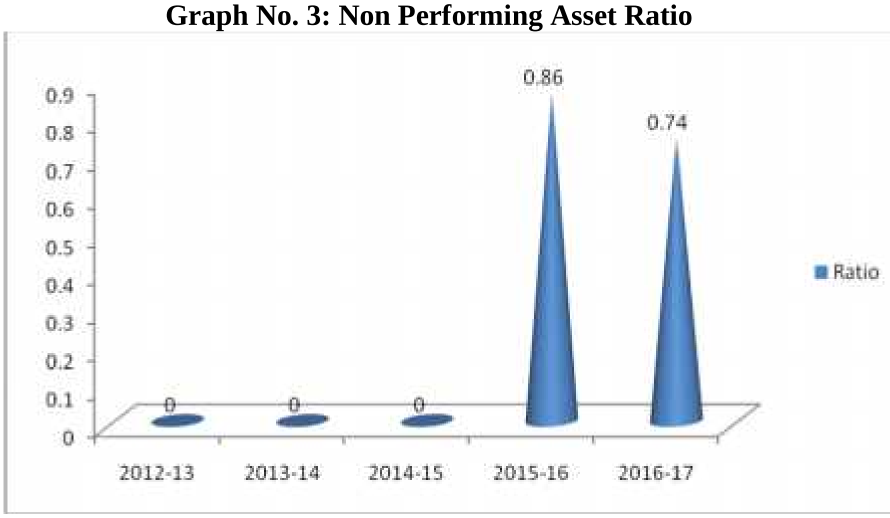
Non Performing Assets As Percentage To Total Advances

The introduction of prudential norms to strengthen the bank's balance sheet and enhance transparency is considered as a milestone measure in the financial sector reforms. On the recommendation of Narasimham Committee I (1991) the RBI advanced the banks to classify their advances in four categories: - (i) standard asset (ii) sub standard asset (iii) doubtful asset (iv) loss asset.

Table No. 3: Non Performing Asset Ratio

Year	Ratio
2012-13	0
2013-14	0
2014-15	0
2015-16	0.86
2016-17	0.74

Graph No. 3: Non Performing Asset Ratio



Credit Deposit Ratio

Credit deposits ratio indicates the relationship between advances and deposits and is expressed as a percentage of total credit provided to the total deposits mobilized. This is the ratio of total advances granted by a bank to its total deposits on any particular period. This ratio is calculated as follows:

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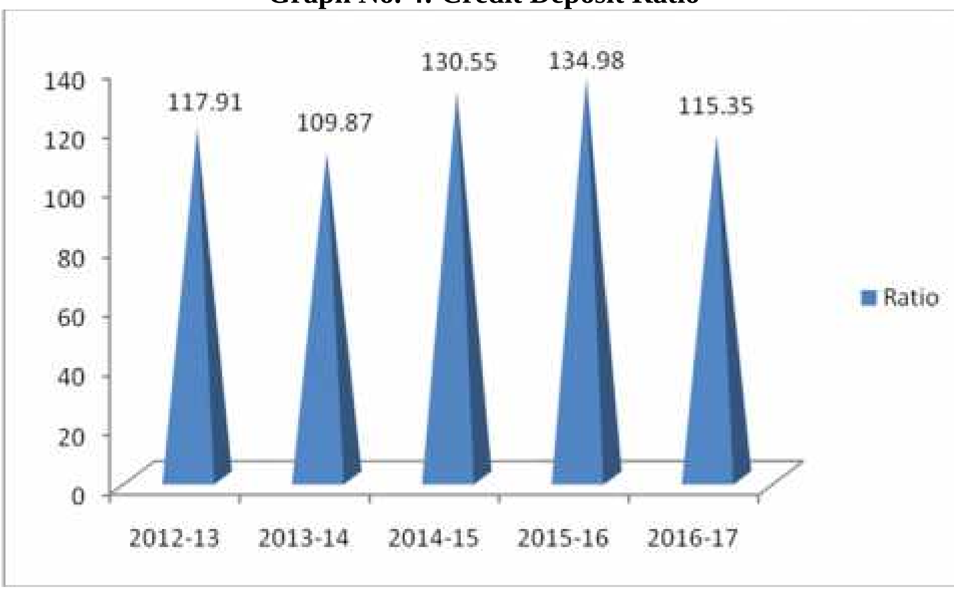
Credit- Deposit Ratio= Total Credits/ Total Deposits*100
Total Credit= Total advances: short term plus medium- term plus long term advances.
Total Deposits= Demand deposits plus Time deposits.

Table No. 4: Credit Deposit Ratio

Year	Total Credit	Total Deposit	Ratio
2012-13	940.42	797.56	**117.91**
2013-14	1054.04	959.31	**109.87**
2014-15	1437.79	1101.31	**130.55**
2015-16	1647.86	1220.82	**134.98**
2016-17	1669.12	1446.98	**115.35**

Graph No. 4: Credit Deposit Ratio



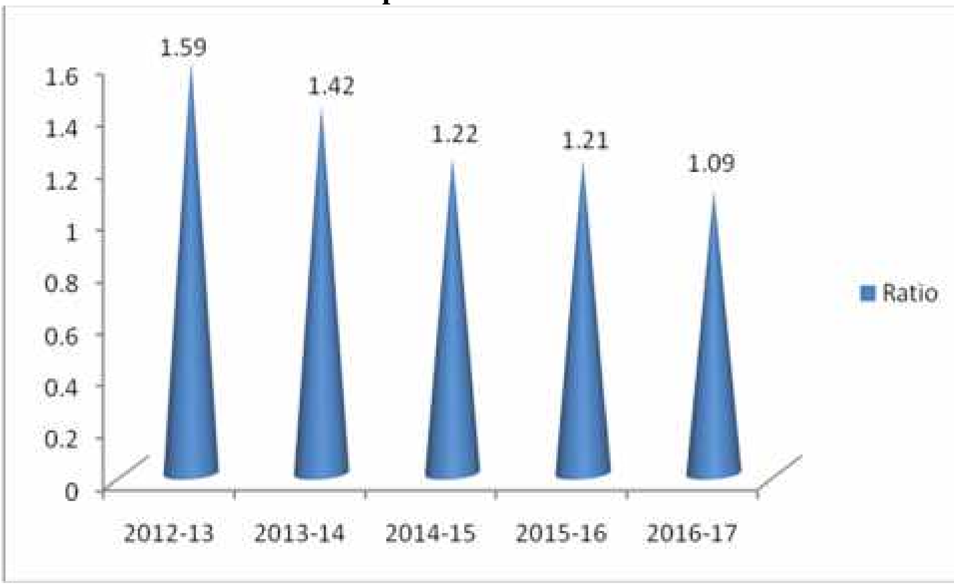
Current Ratio
This ratio indicates the extent of soundness of the current financial position of a bank, & the degree of safe and security provided for the creditors. However, to the management, it reflects the financial planning or the presence of idle assets. It is the relationship between current assets and current liabilities. It is calculated by dividing current assets by current liabilities. Current ratio 2:1 is considered to be satisfactory.

Current Ratio = Current Assets/Current Liabilities * 100

Table No. 5: Current Ratio

Year	Current Assets	Current Liabilities	Ratio
2012-13	960.13	602.31	**1.59**
2013-14	998.23	702.15	**1.42**
2014-15	1220.25	996.78	**1.22**
2015-16	1225.45	1013.56	**1.21**
2016-17	1345.78	1230.48	**1.09**

Graph No. 5: Current Ratio



Current Liabilities to Net Worth Ratio

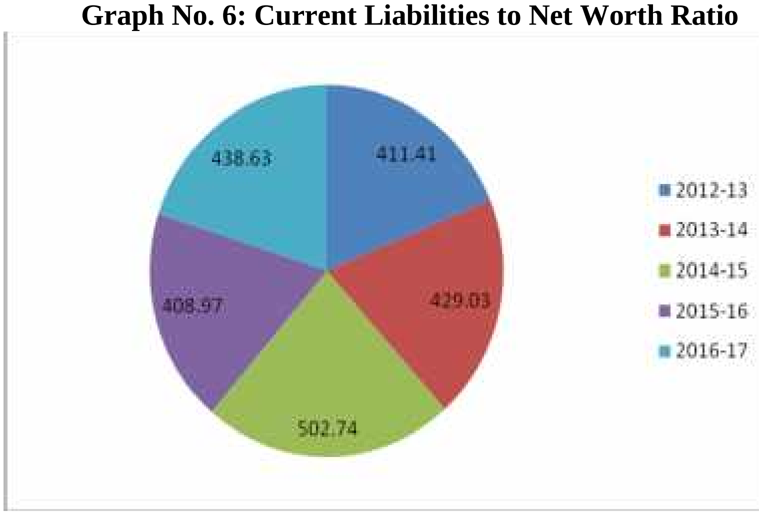
A current liability to net worth ratio shows the relationship between short term deposits and funds owned by the banks from internal source. Since owned funds provide safety to the current depositors in regards to repayment their obligations. This ratio is expressed as follows.

Current Liabilities to Net Worth Ratio = Current Liabilities/Net Worth.

Table No. 6: Current Liabilities to Net Worth Ratio

Year	Current Liabilities	Net Worth	Ratio
2012-13	602.31	146.40	**411.41**
2013-14	702.15	**163.66**	**429.03**
2014-15	996.78	**198.27**	**502.74**
2015-16	1013.56	**247.83**	**408.97**
2016-17	1230.48	**280.53**	**438.63**

Graph No. 6: Current Liabilities to Net Worth Ratio



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Total Investment & Advances to Total Funds Ratio

In banking business, the main task of the bank is to obtain deposits at low cost and advances at highest cost and earn good returns on it. A bank which is efficient in obtaining funds through short- term sources and advancing for long term purpose can earn good returns. Total investments & advances to total funds ratio indicates the relation between investments and advances to total funds. It shows how much funds is advanced or invested from total funds. The ratio is calculated as follows.

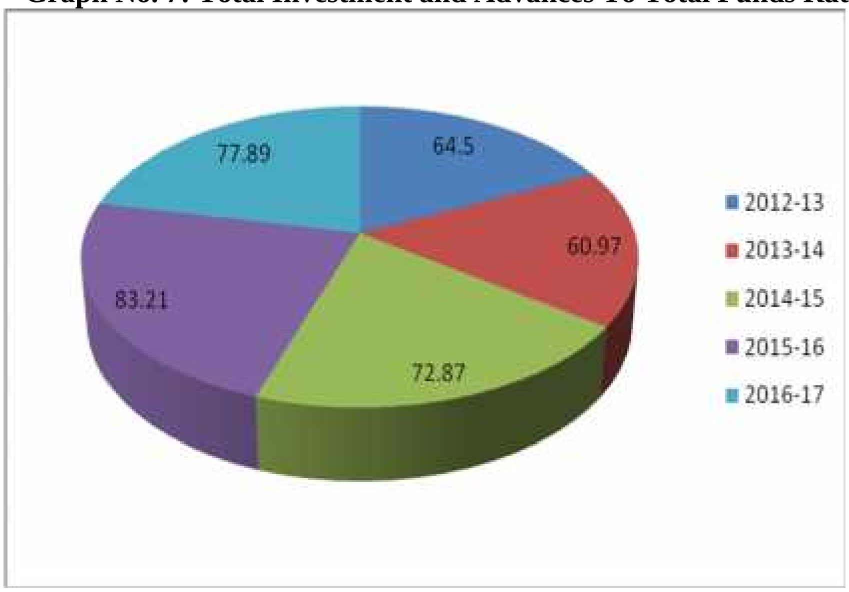
Total Investments and Advances to Total funds Ratio= Total investment & Advances/Total Funds*100.

Total Investment & Advances= Short- term, Medium term, and long-term investments and Advances.
Total Funds= Total Liabilities.

Table No. 7: Total Investment and Advances To Total Funds Ratio

Year	Total Investment & Advances	Total Fund	Ratio
2012-13	966.62	1498.53	**64.50**
2013-14	1082.93	1776.23	**60.97**
2014-15	1500.17	2058.74	**72.87**
2015-16	1847.11	2219.96	**83.21**
2016-17	1985.98	2549.82	**77.89**

Graph No. 7: Total Investment and Advances To Total Funds Ratio



Long Term Deposits to Total Deposits Ratio

Deposit is lifeblood of banking organization which keeps the banks alive. Higher collection of deposits cause smooth running of banking business as well as indicates goodwill of the bank in society. The profitability of banks mainly depends on the capacity to collect deposits. But collecting deposits, the banks should be aware about the manner and type of deposits as each deposit has its procurement cost. Higher the procurement cost, lower will be the profit margin.

Long Term Deposits to Total Deposits Ratio= Long Term Deposits/ Total Deposits*100.
Long Term Deposits= Fixed deposits and Other Long Term Deposits.
Total Deposits= Term Deposits plus Demand deposits.

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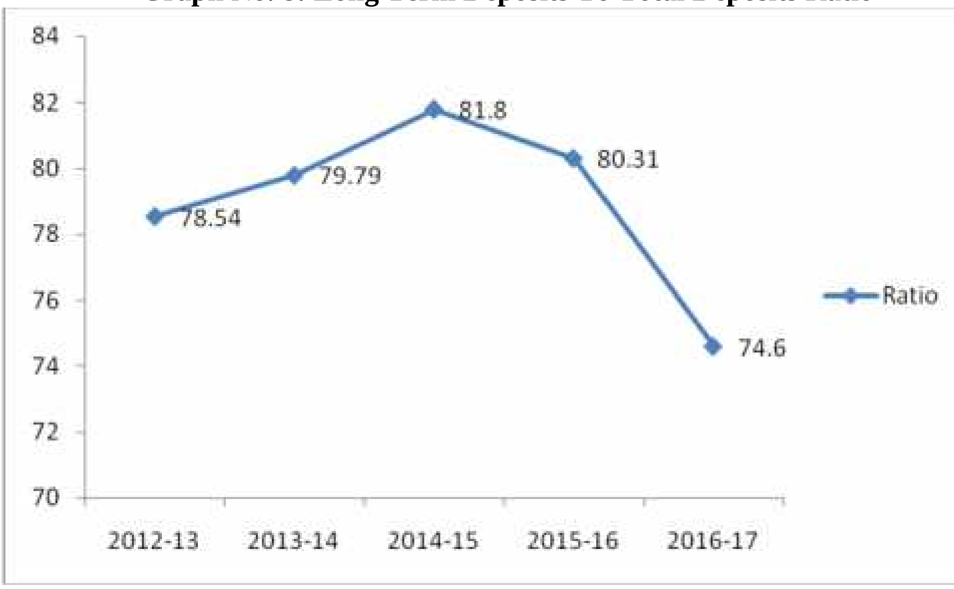
Table No. 8: Long Term Deposits To Total Deposits Ratio

Year	Long Term Deposits	Total Deposits	Ratio
2012-13	626.37	797.56	**78.54**
2013-14	765.40	959.31	**79.79**
2014-15	900.88	1101.31	**81.80**
2015-16	980.47	1220.82	**80.31**
2016-17	1079.32	1446.98	**74.60**

Graph No. 8: Long Term Deposits To Total Deposits Ratio



Net Capital Ratio

The ratio indicates the degree of liquidity of the bank in the long run. It measures the degree of availability of assets to pay off the long term liabilities.

$$\text{Net Capital Ratio} = \frac{\text{Total Assets}}{\text{Total Liabilities}} \text{ X } 100$$

This ratio would throw light on the real financial strength of the bank.

Table No. 9: Net Capital Ratio

Year	Total Assets	Total Liabilities	Ratio
2012-13	1498.53	1352.13	**110.83**
2013-14	1776.23	1612.57	**110.15**
2014-15	2058.74	1860.47	**110.66**
2015-16	2224.79	1976.96	**112.54**
2016-17	2549.82	2269.29	**112.36**

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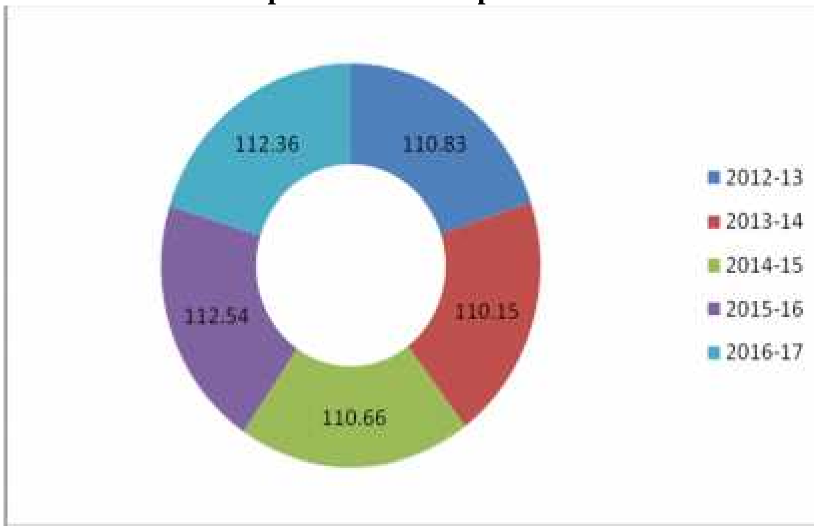
Graph No. 9: Net Capital Ratio



Findings of the Study

The financial efficiency was analyzed and interpreted with the help of financial ratios. Net Worth Ratio, Debt Equity Ratio, Non Performing Asset, Credit Deposit Ratio, Current Ratio Current Liabilities to Net worth Ratio, Total Investment and Total Advance to Total Deposits Ratio, Long term Deposits to Total Deposits Ratio, Net Capital Ratio was calculated and analysed.

1. The highest average **Net worth Ratio** shows the percentage of assets financed by the proprietor's fund. The maximum ratio is in the year 2015-16 i.e., 11.14, while the ratio was minimum in the year 2013-14 i.e., 9.21.

1. **Debt Equity Ratio** is an important test to judge long term solvency of the enterprise. The maximum ratio is in the year 2013-14 is 985.32 indicated lesser safeties, while the ratio was minimum in the year 2015-16 i.e., **797.71.**
2. **NPA:** The important aspect of credit efficiency was taken by the researcher was net NPA to Net advances, which was a solid problem for the banks. In the year 2015-16 has the highest NPA which is 0.86%. From 2012-13 to 2014-15 it is 0 because these years BDCCB was doing excellent work in the area of NPA management.
3. **Credit Deposit Ratio** indicates the relationship between advances and deposits and is expressed as a percentage of total credit provided to the total deposits mobilized. The maximum ratio is in the year 2015-16 i.e., 134.98% which indicates efficiency of management in advancing loans against deposits, while the ratio was minimum for the year 2013-14 i.e., 109.87% which credit creation incapability of the bank in relation to deposits, which considerably affect the profitability of bank followed.
4. **Current Ratio** indicates the extent of soundness of the current financial position of a bank, & the degree of safe and security provided for the creditors. The maximum average ratio is in the year 2012-13 i.e., 1.59% which indicates that the soundness of the current financial position of the bank & provides the safety and security for the creditors.
5. **A Current Liability to Net Worth Ratio** shows the relationship between short term deposits and funds owned by the banks from internal source. The maximum average ratio is in the year 2014-15 i.e., 502.74%, while the ratio was minimum in the year 2015-16 i.e. 1.09.
6. **Total Investments & Advances to Total Funds Ratio** indicates the relation between investments and advances to total funds. It shows how much fund is advanced or invested from total funds. An increasing ratio indicates that the banks are using their funds for more advances & investments rather than keeping them ideal. The maximum average ratio is in the year 2015-16 i.e., 83.21% which indicates higher profitability and lesser liquidity while the ratio was minimum in the year 2013-14 i.e. 60.97% which indicates lower profitability and higher liquidity.

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7. **Long term Deposits to Total Deposits Ratio** indicates the proportion of long term deposits in total deposits. A higher ratio indicates higher proportion of long term deposits in total deposits which is not good from the efficiency and profitability point of view. The maximum average ratio is in the year 2014-15 i.e., 81.80% indicates higher proportion of long term deposits in total deposits which is not good from profitability point of view, as the bank has to pay high rate of interest on these types of deposits, while the ratio was minimum in the year 2016-17 i.e. 74.00% which indicates lesser proportion of long term deposits as it decreases the procurement cost.
8. **Net Capital Ratio:** The ratio indicates the degree of liquidity of the bank in the long run. It measures the degree of availability of assets to pay off the long term liabilities. The maximum average ratio is in the year 2015-16 i.e.112.54%. This indicates that BDCCB through light on the real financial strength of the bank and it also measures the degree of availability of assets to pay off the long term liabilities during the study period.

Limitations of the Study and Scope For Future Research

The main limitation of the study is that it only considered a sample of BDCCB and other banks like public, private & foreign banks were not considered for the present study. The study is based on secondary data; no primary data has been used for the present study. Only quantitative factors (such as manager competency, market share of banks, and exposure to international markets) were ignored. Though care was taken in this study to present an analytical picture of the co-operative banking sector, but the generalization is subject to certain limitations.

It is hoped that the finding of the study would be of interest to the future researchers. Further, the scope of the study can be widened but using public, private & foreign sector banks in India. Many internal & external factors affecting the financial performance of the banks can be analyzed to make the future studies more prominent and comprehensive.

Conclusion

The future of co-operative banks is challenging because of the competition from public sector banks and private sector banks. Public sector banks and private sector banks are concentrating on their major expansion activities both vertically and horizontally. The growth of cooperative banks depends on transparency in control and operation, governance, customer-centric policies, technology-up gradation and efficiency. In the study, what has been done is applying imported prudential norms to the banks. Transplanting solutions from abroad would be of little help. To find a more pragmatic solution to the issues in cooperative banks a detailed socio- economic study has to be conducted on the functioning of these banks.

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