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A Study on Financial performance statement Analysis of urban co –Operative banks in south

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Introduction to Banking Sector in India

The growth and development of an economy largely depends upon the amount of growth of the banking and financial institutions in that country. It can be said that the banking sector is the backbone of an economy. Banking sector helps the development of other important sectors of the economy. The development of agriculture sector, industrial sector, service sector and infrastructure is possible only when there is sufficient development of banking and finance sector in the economy. The Indian banking sector can also be proud of such development, but in the process of development, Indian banking sector has to pass through several difficulties, sufferings and pains of partition. Today Indian banking sector can be proud of the remarkable growth and development. But, before 20th century, there was prevailing the system of money lenders and sahukars. They lent money at the high rate of interest. The entry of government banks, joint stock banks, co-operative banks and private sector banks have taken over a good deal of business from the money lenders and sahukars, although they still exist, they have lost their looming position. In the Indian baking system, besides commercial banks, the co-operative banks have also played a supporting role in providing need based finance especially for agricultural and agriculture-based operations including farming, cattle, milk, hatchery, personal finance etc. along with some small industries and self-employment driven activities. Generally, co-operative banks are governed by the respective co-operative acts of state governments. But, since 1966, the co-operative banks are also being regulated by RBI as a result of amendment in Banking Regulation Act, 1949. The Reserve Bank is responsible for licensing of banks and branches, and it also regulates credit limits to state co-operative banks on behalf of primary co-operative banks for financing SSI units. According to the Indian banking structure, banks can be classified into two broad segments, commercial banks and co-operative banks. Commercial banks can subdivided into nationalized banks, state bank group, private sector banks, foreign banks, etc. The commercial banks account for a significant share of the banking business, the co-operative banks also hold an important position in Indian banking sector. Initially, the co-operative banks were set up to supplement the domestic sources of credit, but now-a-days these banks mainly serve the requirement of agriculture and allied activities, rural industries and trade and services of urban areas. The co-operative banks have three tier structures, which includes primary co-operative societies, district co-operative banks and state co-operative banks. This research work focuses on the evaluation of financial statements of co-operative banks in context of South region of Gujarat state.

History of Indian Banking Sector:

The history of Indian banking sector is very vast and fascinating. It shows the life style of Indian people during that time. The *Vedas*speak about the usage of gold coins, silver coins, copper and bronze coins. Late *Vedic* text speaks about the use of tin, lead and iron coins. A money economy existed in India since the time of Buddha.

In ancient India, during the Maurya dynasty (321 to 185 B.C.), an instrument called 'adesha' was used. It was an order on banker desiring him to pay the money of note to the third person. The 'adesha' corresponds to the system of bill of exchange as we use today. During the period of Buddha, this instrument was widely used. Merchants in large towns used this bill of exchange widely.

Development of Banking After Independence:

Indian banking sector underwent the drastic changes and reforms especially after the independence. The government of India passed the State Bank of India Act in 1955 and nationalized the Imperial Bank of India. The government gave extensive powers and facilities to this bank especially for the rural and semi urban areas. The government of India made SBI the principal agent of RBI. SBI is empowered to handle the banking activities for the state and for the union.

Besides that, the government of India took several steps for growth and development of banking business in India. Since the Britishers had played an important role in the development of banking in India, the Indian banking structure seems to have westernized approach. There were many joint stock companies in India that were undertaking banking business, but they were largely focused on the major cities of India. The rural and semi-urban areas were not focused by these banks and these areas remained unbanked. These banks financed for the limited activities such as the export of jute and tea, etc. and traditional industries like textile and sugar. There was no uniform pattern for the management and control of the banks in India. There was a major concern about the banks in Pakistan after the partition. The steps were taken to close some of the banks in Pakistan with the desire of Pakistan Government. In 1949, around 55 banks went into liquidation or they left the banking business. During this time period, the banking industry did not get much attention and there were no major efforts for the controlling and regulation of the banking activities. In 1955, the government of India passed the State Bank of India Act, 1955 and Imperial Bank was nationalized. Now it is name as the State Bank of India (SBI). The government made SBI the principal agent of RBI and handed over the banking activities of the union and state government. The government gave extensive powers to this bank especially for the development of banking activities in rural and semi-urban areas. There were 7 subsidiary banks. The number of their associate banks was 5960. The State Bank group includes State Bank of Hyderabad, State Bank of Mysore, State Bank of Travancore, State bank of Bikaner and Jaipur, State Bank of Indore, State Bank of Patiala and State Bank of Saurashtra.

History of Co-operative Banks in India:

Co-operatives are organized groups of people and jointly managed and democratically controlled enterprises. They exist to serve their members and depositors and produce better benefits and services for them.

In India, based on the recommendations of Sir Frederick Nicholson in the year 1899 and Sir Edward Law in the year 1901, the Co-operative Credit Societies Act was passed in 1904.[1] This paved the way for the establishment of co-operative credit societies in India. The Co-operative Societies Act, 1912 recognized the need of formation of non-credit societies and the central credit societies. The statebenefaction for the co-operative societies continued till India got freedom in 1947. After the independence, India accepted the concept of planned economy and the co-operative organizations were given an important role. The Saraiya Committee recommended that the co-operative societies have an important role in the democratic country like India. After that, various committees examined the importance of co-operative societies in India. All the committees came to the same conclusion. The Rural Credit Survey Committee (1954), the first comprehensive enquiry into problems of rural credit, after a detailed examination of the entire situation, gave the findings and summed up that "Co-operation has failed, but the Co-operation must succeed".

Since 1950s, the co-operatives in India have made remarkable progress in the various segments of Indian economy. During the last century, the co-operatives have entered in various segments like credit, banking, production, processing, distribution, housing, warehousing, irrigation, transport, textiles and even in the industry. Out of all these segments, dairy and sugar have made a remarkable success in India. Today, India can take the proud of largest co-operative network in the world. In India, there are around half a million co-operative societies and more than 200 million members.

Tools and Techniques Used for Financial Performance Analysis:

No.	Category	Types of Ratio	Interpretation
1	Liquidity Ratio	Net Working Capital = Current Assets – Current Liabilities	To measure the liquidity of the firm
		Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	To measure the long term liquidity of the firm. The higher the ratio, the more the liquidity. A ratio of 2:1 is safe
		Acid Test or Quick Ratio =	To measure the

		$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	liquidity position of the firm. A ratio of 1:1 is safe.
2	Turnover Ratio	Inventory Turnover Ratio = $\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$	To show how fast the inventory is sold. The higher the ratio, the better the liquidity.
		Debtor Turnover Ratio = $\frac{\text{Net Credit Sales}}{\text{Average Debtors}}$	To show how fast the debts are collected. A high ratio shows shorter time lag between credit sales and cash collection.
		Creditor Turnover Ratio = $\frac{\text{Net Credit Purchases}}{\text{Average Creditor}}$	High ratio shows that accounts are settled quickly.
3	Capital Structure Ratio	Debt-Equity Ratio = $\frac{\text{Long term Debt}}{\text{Shareholder's Equity}}$	This ratio indicates the relative proportion of debt and equity in financing the assets of a firm. A ratio of 1:1 is safe.
		Debt to Total Capital Ratio = $\frac{\text{Long term Debt}}{\text{Permanent Capital}}$ Or	To show proportion of permanent

		$\frac{\text{Total Debt}}{\text{Permanent Capital + Current Liabilities}}$ Or $\frac{\text{Total Shareholder's Equity}}{\text{Total Assets}}$	capital of firm consisting long term debt. A ratio of 1:2 is safe.
4	Coverage Ratio	Interest Coverage = $\frac{\text{Earning before Interest and Tax}}{\text{Interest}}$	To show how efficiently company can pay outstanding debt. A ratio of more than 1.5 is safe.
		Dividend Coverage = $\frac{\text{Earning After Tax}}{\text{Preference Dividend}}$	To show the ability of firm to pay dividend on preference share. A high ratio is better for creditor
		Total Coverage = $\frac{\text{Earning Before Interest and Tax}}{\text{Total Fixed Charges}}$	To show overall ability of the firm to fulfill the liability. A high ratio show better ability.
5	Profitability Ratios	Gross Profit Margin = $\frac{\text{Gross Profit} \times 100}{\text{Sales}}$	To measure the profit in relation to sales. Too high or too low ratio is dangerous.
		Net Profit Margin =	To measure the

		$\frac{\text{Net Profit After Tax Before Interest}}{\text{Sales}}$ Or $\frac{\text{Net Profit After Tax and Interest}}{\text{Sales}}$	net profit of the firm with respect to sale. Too high or too low ratio is dangerous.
6	Expenses Ratio	Operating Ratio = $\frac{\text{Cost of Goods Sold} + \text{Other Expenses}}{\text{Sales}}$	To show the operational efficiency of the firm. Lower operating ratio means higher operating profit.
		Cost of Goods Sold Ratio = $\frac{\text{Cost of Goods Sold}}{\text{Sales}}$	To measure the cost of goods sold per sale.
		Specific Expenses Ratio = $\frac{\text{Specific Expenses}}{\text{Sales}}$	To measure the specific expenses per sale.
7	Return on Investment	Return on Assets = $\frac{\text{Net Profit After Taxes } \times 100}{\text{Total Assets}}$ Or $\frac{\text{(Net Profit After Taxes} + \text{Interest } \times 100}{\text{Total Assets}}$ Or $\frac{\text{(Net Profit After Taxes} + \text{Interest) } \times 100}{\text{FIxed Assets}}$ Or $\frac{\text{(Net Profit After Taxes} + \text{Interest) } \times 100}{\text{Tangible Assets}}$	To measure the profitability of the total funds per investment of a firm.
		Return of Capital Employed = $\frac{\text{Net Profit After Taxes } \times 100}{\text{Total Capital Employed}}$ Or $\frac{\text{(Net Profit After Taxes} + \text{Interest)} \times 100}{\text{Total Capital Employed}}$	To measure profitability of the firm with respect to the total capital employed.

		Or $\frac{(\text{Net Profit After Taxes} + \text{Interest}) \times 100}{\text{Total Capital Employed} - \text{Intangible Assets}}$	The higher the ratio, the more efficient use of the capital employed.
		Return on Total Shareholder's Equity = $\frac{\text{Net Profit After Taxes} \times 100}{\text{Total Shareholder's Equity}}$	To reveal how profitably the owners' fund is utilized by the firm.
		Return on Ordinary Shareholders' Equity = $\frac{(\text{Net Profit After Taxes and Pref. Dividend} \times 1}{\text{Ordinary Shareholders' Equity}}$	To determine the firm has earned satisfactory return for its equity holders or not.
8	Shareholders' Ratio	Earnings per Share = $\frac{(\text{Net Profit of Equity Shareholders}}{\text{Number of Equity Shareholders}}$	To measure the profit available to the equity holders on per share basis
		Dividend per Share = $\frac{(\text{Net Profit After I. and Pref. Dividend}}{\text{Number of Ordinary Shares Outstanding}}$	To measure the net dividend distributed.
		Dividend Payout Ratio = $\frac{\text{Total Dividend to Equity Shareholders}}{\text{Total Net Profit of Equity Shareholders}}$ Or $\frac{\text{Divident per Ordinary Share}}{\text{Earnings per Share}}$	To measure what percentage of net profit is paid to equity shareholder after tax and preference dividend.
		Earnings per Yield = $\frac{\text{Earnings per Share}}{\text{Market Value per Share}}$	To show the percentage of each rupee

			invested in the stock that was earned by the company.
		Dividend Yield = $\frac{\text{Divident per Share}}{\text{Market Value per Share}}$	To show how much a company pays out as dividend per year relative to its share price.
		Price-Earnings Ratio = $\frac{\text{Market value per Share}}{\text{Earnings per Share}}$	To show price currently paid by the market for each rupee of EPS. The higher the ratio, the better it is for owners.
		Earning Power = $\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$	To measure overall profitability and efficiency of the firm.
9	Activity Ratios	Inventory Turnover = $\frac{\text{Sales}}{\text{Closing Inventory}}$	To measure how fast the inventory is sold.
		Raw material Turnover = $\frac{\text{Cost of Raw Material Used}}{\text{Average Raw Material Inventory}}$	
		Work in Progress Turnover = $\frac{\text{Cost of Goods Manufactured}}{\text{Average Work in Process Inventory}}$	
10	Assets Turnover Ratio	Total Assets Turnover = $\frac{\text{Cost of Goods Sold}}{\text{Total Assets}}$	To measure the efficiency of a firm in managing and utilizing the
		Fixed Assets Turnover = $\frac{\text{Cost of Goods Sold}}{\text{Fixed Assets}}$	

		Capital Turnover = $\frac{\text{Cost of Goods Sold}}{\text{Capital Employed}}$	assets. The higher the ratio, the better it is.
		Current Assets Turnover = $\frac{\text{Cost of Goods Sold}}{\text{Current Assets}}$	

Review of Literature

Alamelu, and Devamohan, (2010), in their study titled, "Efficiency of Commercial Banks in India" calculated the business ratios, such as interest income to average working funds, non-interest income to average working funds, operating profit to average working funds, return on assets, business per employee and profit per employee for public sector banks, private sector banks and foreign banks for theperiod 2004-05 to 2008-09. It was observed that the foreign banks and new generation private banks have superior business ratios. They effectively leverage technology, outsourcing and workforce professionalism which helped them to protect their bottom line. On the other hand, the public sector banks are yet to exploit fully the advantages of vast branch network and large workforce. That's why they have unimpressive business ratios. Old generation private banks do not have impressive business ratios, as they are constrained by small size and conservatism

Anand, G., S., (1984),evaluated the performance of the Grape Growers' Marketing and Processing Co-operative Society in Bangalore. He applied the solvency, liquidity, turnover, total sales to fixed assets and total sales to owned funds ratios to examine the performance of the society

Anand, S., K., (1981), employed the solvency, stock turnover, working capital and profitability ratios to evaluate the financial position and performance of the state consumer's co-operative federation, Maharashtra

Asaithambi, K., (1988), analyzed the performance of Andaman and Nicobar State Co-operative Bank for the period from 1982- 83 to 1985-86. The performance indicators selected for the study were membership, share capital, working capital, deposits, and loans outstanding and overdue. The results of the analysis showed that the bank has been maintaining high degree of efficiency in all the vital aspects of its operations[2].

Bankim, C., (1996), the author examined the performance of Maharashtra State Co-operative Bank for the period 1989- 90 to 1992-93. The variables for the study were: working capital structure and composition, deposit mix, credit mix, credit-deposit ratio, loan outstanding, overdue and profitability. The findings of the study were: the working capital mix indicated a major share of deposits and borrowings; deposits contributed 70 percent in working capital and among various deposits, the fixed deposits alone contributed 69 percent; the credit mix was rational; high degree of relationship between the credit and the deposits; excellent performance in recovery and an upward trend in profit

Research Methodology

Title of the Present Research:

To conduct present research, the researcher has analyzed different ideas and dimensions of research the problems and finalized the title of the present research. The title of the present research study is mentioned as below:

"Financial Performance Statement Analysis – A Study of Urban Co-Operative Banks in South Gujarat"

Period of the Study:

The present research is focused on analysis of financial performance of various Co-operative Banks for the period of 5 years from 2009-10 to 2013-14. There is no special reason to consider this period as the period of study. But to derive perfect conclusion of the study and to cover all aspects of changes in financial performance, this period seems to be quite appropriate. So, to make the present study fruitful, the researcher has selected the above mentioned period.

Scope of the Present Study:

This study aims to analyze financial performance statements of urban cooperative banks provide financial services within the sphere of South Gujarat region.The financial statement of any bank is desired to analyze periodically with a view to assess the past and current performance, prediction of profitability and growth prospects, prediction of bankruptcy and failure and assessment of the operational efficiency. This study covers seven leading cooperative banks of South Gujarat region for the purpose of their financial statements analysis.

Population and Sample of the Study:

Surat is known as the birth place of UCBs of South Gujarat as India's first registered UCB named "The Surat Peoples Co-operative Bank Ltd." was established by the late Shri Vrindavandas C. Jadav on March 10, 1922 in Surat (South Gujarat).Today it commands the largest market share in urban banking in Surat with utmost satisfaction of the customers. The progress of the UCBs in Surat took place slowly and steadily. Prior to independence, only 3 UCBs were registered in Surat. Only 3UCBs were established from 1951 to 1965, while during 30 years from 1966 to 1995 only 10 UCBs were established. But majority of the UCBs were established after 1995. By the year ended 31st March 2012, Surat could boost 34 UCBs with a network of 199 branches having Rs. 10707 crores totalbusiness. So, out of this population of 199 UCBs, in this research work the researcher has focused on 7 UCBs. The list of these banks is given below.

Analysis And Interpretation of the Data

Introduction:

After the systematic collection of data for the research, there is a requirement to arrive at the conclusion regarding the financial performance of the Co-operative banks selected in the sample. To arrive at the conclusions, the systematic analysis of the data is necessary. In this chapter, the researcher has made the analysis of the data and on the basis of that analysis; the researcher has given interpretations there from.

Interest Income as % of Working-Fund:

It is one of the measures to determine profitability. In this ratio, the interest income is calculated as a percentage of working fund. It shows what percentage of working fund is made up of interest income. For a bank, the higher the ratio, the better it is.

$$\frac{\textbf{InterestIncome}}{\textbf{WorkingFund}}\textbf{X100}$$

Following table shows the Interest Income as % of Working Fund ratio of all the banks taken in the sample.

Table – 1

A Table Showing Interest Income as % of Working Fund

YEAR	VCCB	SUTEX	SPCB	SNCB	SMCB	TSCB	PCB
2009-10	6.2	8.39	8.57	7.91	5.15	7.85	7.56
2010-11	7.2	8.63	8.69	7.35	8.62	8.36	8.16
2011-12	8.01	9.35	9.56	8.54	8.61	9.07	8.64
2012-13	8.06	9.63	10.35	8.73	9.46	8.96	8.31
2013-14	7.65	9.58	10.2	8.94	8.84	9.41	9.34

Non-Interest Income as % of Working-Fund:

It is one of the measures to determine profitability. In this ratio, Non-interest income is shown as a percentage of working fund. This ratio shows how much is the part of non-interest income in the working fund. The higher the ratio, the better it is for the bank.

$$\frac{\textbf{Non}-\textbf{InterestIncome}}{\textbf{WorkingFund}}\textbf{X100}$$

Following table provides the information about the Non-Interest Income as % of Working Fund ratio of the banks taken in the sample.

Table – 5

A Table Showing Non-Interest Income as % of Working Fund

YEAR	VCCB	SUTEX	SPCB	SNCB	SMCB	TSCB	PCB
2009-10	0.50	0.50	0.59	0.47	0.38	0.45	0.67
2010-11	0.69	0.52	0.87	0.35	0.38	0.40	0.45
2011-12	0.57	0.45	0.43	0.39	0.31	0.53	0.54
2012-13	0.52	0.45	0.44	0.33	0.38	0.43	0.42
2013-14	0.63	0.45	0.35	0.35	0.47	0.42	0.46

Summary, Findings and Suggestions

Summary:

The present research work can be summarized as follows:

This research work focuses on the financial performance of Co-operative banks in South Gujarat Region. So, in the first chapter, the researcher has given the introduction to the banking sector in India. The researcher has stated that banking sector helps the development of other important sectors of the economy. The development of agriculture sector, industrial sector, service sector and infrastructure is possible only when there is sufficient development of banking and finance sector in the economy. The Indian banking sector can also be proud of such development, but in the process of development, Indian banking sector has to pass through several difficulties, sufferings and pains of partition. According to the Indian banking structure, banks can be classified into two broad segments, commercial banks and co-operative banks. Commercial banks can subdivided into nationalized banks, state bank group, private sector banks, foreign banks, etc. The commercial banks account for a significant share of the banking business, the co-operative banks also hold an important position in Indian banking sector.

The researcher has said that the history of Indian banking sector is very vast and fascinating. It shows the life style of Indian people during that time. The *Vedas*speak about the usage of gold coins, silver coins, copper and bronze coins. Late *Vedic* text speaks about the use of tin, lead and iron coins. A money economy existed in India since the time of Buddha.

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