

Growth Analysis of Urban Cooperative Bank: A case study of Vishweshwar Cooperative Bank Ltd. Pune

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ABSTRACT

Urban Cooperative Banks (UCB's) are very important part of the Indian Banking sector. In spite of many short comings most of the UCB's are very successful in terms of business volume, growth, profitability and efficiency. This Study is an attempt to identify the relationship between various factors leading to growth, profitability and efficiency of Vishweshwar Urban Cooperative Bank, Pune by case study method. The variables studied are total expenditure, total assets, total liabilities, interest earned to total fund, interest expended to total assets, spread as percentage of total fund, Interest earned, non interest expenditure, net profit to total funds percentage, and profit before Provisions for seven years by CAGR. It is concluded that other than fixed assets all other variables had better growth and which paved the way for the growth of the Bank

KEY WORDS: Growth of UCB, CAGR

1.0 INTRODUCTION:

Post 1991, Indian economy has under gone change due to incoming FDI and modification in regulations. Banking sector is one of the sectors, which has under gone major changes and faced stiff competition in these years. Urban Cooperative Banks (UCB's) is very important part of the Indian Banking sector along with Nationalised and Private Banks. Historically, UCB's are as old as Private Banks in India. Although commercial banks form the mainstay of the banking system in India, the role played by co-operative banks cannot be underestimated and these banks constitute a vital component in the multi-stage credit delivery mechanism in rural as well as urban areas (Chakrabarty 2003). It is observed that the total number of UCBs in the Country increased from 1,307 in 1991 to 1,543 as of end-March 2018.

Despite being a small segment of the banking system, the High Power Committee on Urban Co-operative Banks constituted by the RBI in 1999 recognized the role played by UCBs in urban financial inclusion. In the report of Reserve Bank of India (2005), it is emphasised that several artisans and small businessmen are under-banked and often find it difficult to access large commercial banks. UCBs cater to the needs of this population and hence can emerge as major players in urban financial inclusion through their outreach and provision of customized services. UCB's have been characterised as small banks, many times community banks and as such lack banking expertise. In spite of these short comings many of the UCB's are very successful in terms of business volume, growth, profitability and efficiency. This Study is an attempt to identify the relationship between various factors leading to growth, profitability and efficiency of Vishweshwar Urban Cooperative Bank, Pune.

2.0 LITERATURE REVIEW:

Internationally and in India, the literature on efficiency measurement of banks is extensive. The literature review concludes that the major studies that have used frontier methods to examine the efficiency of banks in India including a few studies on co-operative banks in the country.

Amit Basak (2009), found that though some UCBs have performed creditably in the recent years, a large number of them have shown discernible signs of weakness. The operational efficiency is unsatisfactory and characterized by low profitability, ever-growing Non-Performing Assets (NPAs) and relatively low capital base.

Ratna and K.Nimbalkar (2011), showed that urban co-operative banks faced steep competition with public sector banks and private sector banks, particularly after globalization in 1991. At the same time these banks are facing the problem of Non-Performing Assets also.

Patel Jaimin et al (2017) examined the profitability and productivity of nationalised banks and private sector banks with special reference to selected three banks in India during the period 2010-2011 to 2014-2015. Author studied parameters like RoA%, RoE%, RoCE%, loans/ total Deposit and total debt/ Equity and found that with the increasing competition in the banking sector, profitability had become a greatest challenge to Indian commercial banks. Banks should explore every possibility for improvement and increase the profitability.

Yogesh Puri (2012), examined financial performance of nationalized banks, for five years (1998-2002) and it was analyzed by using difference of means tests. The banking sector in India includes domestic banks (privately owned, partially privatized banks, fully PSB's) as well as foreign banks, and objective of this study was to study the impact of nationalization of banks in Indian economy. The study found that ownership of the banks do make difference in banks performance.

R.Vettriselvan et al (2015), found that the negative trend in membership position and working capital in initial period and positive growth in working capital holding while studying the Dindigul Urban Cooperative Bank. The study is carried out for the period 2002-03 to 2011-12. The analysis is done by computing compound growth rates of various financial parameters.

3.0 GAPS IN RESEARCH:

It is observed that most of the research work is on Nationalised banks and private banks. The studies on Urban Cooperative Banks are very less and the emphasis is on socio-economical impact of UCB's and role of UCB's in Financial Inclusion. Performance and efficiency analysis of UCB's in general and of Pune city in particular is almost negligible. Keeping this into consideration, the research gaps, and an attempt is made in the present study to examine the performance of Vishweshwar Cooperative Bank Ltd., by mainly calculating CAGR of membership, deposits, advances and other variables.

4.0 RESEARCH QUESTIONS:

In the above context the following Research Questions emerged,

RQ1: Are Urban Cooperative Banks sustaining and growing in the post reform banking scenario?

RQ2: What are the parameters of measurement of growth of an Urban Cooperative Bank?

5.0 RESEARCH OBJECTIVES:

This Study is an attempt to find answers to the above research questions. The following Objectives have been set to answer the research questions.

Objective 1: To analyze the growth and composition of Income and Expenditure of Vishweshwar Cooperative Bank Ltd., during the Study period.

Objective 2: To examine the growth of membership and share capital in the Vishweshwar Cooperative Bank Ltd., during the Study period.

Objective 3: To analyze the growth and composition of Cash and Cash Deposit Ratio (CDR) in Vishweshwar Cooperative Bank Ltd., during the Study period.

Objective 4: To study the growth and composition of Working Capital in Vishweshwar Cooperative Bank Ltd., during the Study period.

6.0 RESEARCH HYPOTHESES:

The main hypothesis set is as follows,

H₀₋₁: There is no significant growth of Vishweshwar Cooperative Bank Ltd., during the study period.

H_{A-1}: There is significant growth of Vishweshwar Cooperative Bank Ltd., during the study period.

The verification of main hypothesis is done by verifying 4 sub hypotheses, which are based on the study variables. The sub hypotheses set to study the above objectives are,

H₀₋₂: There is no significant growth in the loans and advances of Vishweshwar Urban Co-operative Bank Ltd., during the Study period.
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H_{A-2}: There is significant growth in the loans and advances of Vishweshwar Urban Co-operative Bank Ltd., during the Study period.

H₀₋₃: There is no significant growth in the total income of Vishweshwar Urban Co-operative Ltd., during the study period.

H_{A-3}: There is significant growth in the total income of Vishweshwar Urban Co-operative Ltd., during the study period.
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H₀₋₄: There is no significant increase in the growth of total expenditure of Vishweshwar Urban Co-operative Bank Ltd., during the Study period.

H_{A-4}: There is significant increase in the growth of total expenditure of Vishweshwar Urban Co-operative Bank Ltd., during the Study period.
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H₀₋₅: There is no significant growth of Share Capital in the Vishweshwar Urban Co-operative Bank Ltd., during the Study period.

H_{A-5}: There is significant growth of Share Capital in the Vishweshwar Urban Co-operative Bank Ltd., during the Study period.
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7.0 RESEARCH METHODOLOGY:

The Study is based upon secondary data covering period of seven years from 2010-2017. The study variables selected are total expenditure, total assets, total liabilities, interest earned to total fund, interest expended to total assets, spread as percentage of total fund, Interest earned, non interest expenditure, net profit to total funds percentage, and profit before Provisions.

The secondary data is mainly obtained from the Annual Reports of the Bank for the years 2010-11 to 2016-17. To understand the macro situation secondary data is obtained from the websites of RBI, Indian Banker Association, National and State federations of Urban Cooperative Banks.

7.1 STATISTICAL ANALYSIS:

The main objective of the Study is achieved by Computing Compound Annual Growth Rates (CAGRs) and coefficient of Variation (CoV) of various operational and financial parameters. The data analysis is carried out with the help of MS Excel and PSSP.

7.2 LIMITATION OF STUDY:

The Study is of the Vishweshwar Urban Co-operative Bank Ltd., Pune only and may not be generalised for all urban cooperative banks.

The secondary data of Bank is obtained for the years 2010 to 2017, seven years only. Hence, the period of Study is from 2010-11 to 2016-17.

7.3 SCOPE OF STUDY:

Study aims to analyse growth of an urban cooperative bank for learnings and adopting parameters of growth to other urban cooperative banks.

8.0 DATA ANALYSIS AND INTERPRETATION:

8.1 The Vishweshwar Cooperative Bank Ltd, Pune

The Vishweshwar Sahakari Bank Ltd., Pune was established in the year 1972 by Founder Late Shri Namdeorao Rukari, Bharatsheth Gadve & Baburao Harpale with aim of taking the bank to the common people by adopting the principle of cooperation in banking. It was started as a small cooperative bank, with merger of Nipani Bank, Karnataka during the year 2011. Bank has become Multi State Coop Urban Bank with Jurisdiction Maharashtra and Karnataka states. The Table No. 1 shows Bank's financial position for seven years.

Table No: 1 Financial position of Vishweshwar Cooperative Bank Ltd.
(Rs. in Core)

Particulars/Year	31.03.2011	31.03.2012	31.03.2013	31.03.2014	31.03.2015	31.03.2016	31.03.2017
No. of Members	15622	16081	17060	19110	20826	22213	22924
Branches	15	19	22	23	26	27	29
Share Capital	23.33	26.2	29.2	34.28	40.64	46.38	48.57
Reserve Fund	41.22	61.71	66.81	75.7	82.62	93.95	105.32
Total Deposits	717.53	830.57	1005.93	1165.73	1308.65	1506.95	1611.72
Total Advances	427.76	537.81	629.49	742.07	852.7	975.33	934.59

Total Business	N/A	1368	1635	1908	2161	2482	2546.31
Net Profit	10.33	9.66	10.25	10.6	13.54	15.02	15.33
N.P.A. (Net)	0%	0%	1.96%	2.95%	2.54%	1.45%	3.4%
Audit Class	A	A	A	A	A	A	A
Dividend	12%	15%	12%	12%	12%	12%	12%

(Source: Annual Reports of Bank)

The Table No. 1 exhibits the status of the Vishweshwar Cooperative Bank Ltd., for the last seven years. In the year ending on 31st March 2017 Bank had crossed the total business of Rs. 2500 cores. The total business of the bank has grown by 16 percent to Rs. 2546 corers. The Table No.1 shows that the deposits of Bank grew by 16 percent to Rs.1611 cores. Total advances grew by 18 percent to Rs.935 cores. The Net profit increased and reached Rs 15.33 cores. The number of shareholders has increased by 7 percent in the last seven years. The share capital of Bank increased to 15 percent since 2011. Branches of the bank grew by 12 percent to 29 branches by the end of 31st March 2017.

8.2 CAGR of Vishweshwar Cooperative Bank Ltd, Pune

The Compound Annual Growth rate of the Managerial parameters, Operational parameter and Efficiency parameters are computed and presented in the following sections.

8.2.1 CAGR of Membership, Equity, Reserve, Deposit and Profit:

In this Section the Compound Annual Growth rates of Management Parameters are computed and presented. The CAGR of Membership, Equity, Reserves, Deposits and Profit are given in the Table No. 2.

Table No. 2 CAGR of Membership, Equity and Others

	Particulars\Years	3/31/2010	3/31/2011	3/31/2012	3/31/2013	3/31/2014	3/31/2015	3/31/2016	3/31/2017	CAGR
1	No. of Members	15350	15622	16081	17060	19110	20826	22213	22924	5%
2	No. of Shares	4382021	4665468	5240263	5839617	6856176	8128989	9276768	9714954	10%
3	Paid Share Capital	219101050	233273400	262013150	291980850	342808800	406449450	463838400	485747700	10%
4	Reserve Funds	374575373	412238856	617067024	664894837	756966453	826247862	939501963	1053234196	14%
5	Deposits	6968977703	7175304907	8305715220	1.0059E+10	11657333284	13086490928	15069486245	1.6117E+10	11%
6	Profit	43088959	103252971	96598055	102232688	105985476	135436773	150187594	153318344	17%

(Source: Annual Reports of Bank)

The Table No. 2 above shows that in the study period Membership of the Bank is increased by 5 percent but the growth of the Share Capital is remarkable; double the growth of membership, by 10 percent. In the study period, CAGR of Reserve of the Bank was 14 percent. Deposits of the Bank are also increased by CAGR 11 percent. The CAGR of Profit of the Bank was very high at 17 percent. Thus the Bank has shown remarkable growth in all the Management parameters of the Bank.

8.2.2 CAGR of Assets:

In this Section the Compound Annual Growth rates of Asset Parameters are computed and presented. The CAGR of cash & bank balances, Investment, Loan & Advances and Fixed Assets are presented in the Table No. 3

Table No. 3 CAGR of Assets

	Particulars\Years	3/31/2010	3/31/2011	3/31/2012	3/31/2013	3/31/2014	3/31/2015	3/31/2016	3/31/2017	CAGR
1	Cash & balances with banks	263299711	242600893	279138703	623299422	483955778	819617335	778616896	849280613	16%
2	Investment	2934463056	3016407056	3145580412	3374826704	4467466076	4178696068	4786439050	5679951271	9%
3	Loans and Advances	3855024431	4277641841	5378069655	6294764327	7420680240	8527038002	9753284592	9345938708	12%
4	Fixed Assets	7052787198	7536649790	8802788770	1.0293E+10	12372102094	13525351405	15318340538	185191688	-37%

(Source: Annual Reports of Bank)

The Table No. 3 above shows that in the study period "Cash on Hand & banks" of the Bank is grown by 16 percent with the growth of the Investment, by 9 percent. In the study period, CAGR of Loans and Advances of the Bank was 12 percent. However, the Fixed Assets of the Bank decreased by CAGR 37 percent. Thus, the Bank has shown growth in all the Assets parameters except the fixed Assets of the Bank.

8.2.3 CAGR of Income:

In this Section the Compound Annual Growth rates of Income Parameters are computed and presented. The CAGR of Interest received and the other Income of the Bank are given in the Table No. 4 below,

Table No. 4 CAGR of Income

	Particulars\Years	3/31/2010	3/31/2011	3/31/2012	3/31/2013	3/31/2014	3/31/2015	3/31/2016	3/31/2017	CAGR
1	Interest Received	688881364	747663232	866718291	1064121826	1237899403	1413734336	1615545353	1736923597	12%
2	Other Income	25153740	19203287	21727979	26124716	45001428	59356140	61250501	96515726	18%

(Source: Annual Reports of Bank)

The Table No. 4 above shows that during the study period "Interest Received" by the Bank is grown by 12 percent with the growth of the other Income, by 18 percent. This shows that, the Bank has shown growth in all the Interest parameters.

8.2.4 CAGR of Expenditure:

In this Section the Compound Annual Growth rates of Expenditure Parameters are computed and presented. The CAGR of Interest paid, Wage bill, Management Expenditure of the Bank are given in the Table No. 5 below,

Table No. 5 CAGR of Expenditure

	Particulars\Years	3/31/2010	3/31/2011	3/31/2012	3/31/2013	3/31/2014	3/31/2015	3/31/2016	3/31/2017	CAGR
1	Interest Paid	528096911	460048901	534459970	738174161	863389920	976361751	1096284163	1185787962	11%
2	Wage Bill	59597194	81085977	98811710	115463861	129578499	145571417	165296433	184152142	15%
3	Management Expenses	463226	397854	909683	827779	1781052	1811421	1872365	1746662	18%

(Source: Annual Reports of Bank)

The Table No. 5 above shows that during the study period "Interest Paid" by the Bank is grown by 11 percent with the growth of the wage bill, by 15 percent and CAGR of the management expenditure was 18 percent. This shows that, all the expenditure parameters also increased during Study period.

9.0 Findings and Conclusion:

This study presents the major findings of the operational and financial performance of Vishweshwar Cooperative Bank Ltd, Pune, over a period of Seven years from 2010-2011 to 2016-2017. The analysis of the secondary data during the Study leads to the following findings and conclusions.

9.1 Summary of CAGR:

The Table No. 6 presents the summary of Compound Annual Growth Rates of various growth parameters computed in above sections.

Table No.6 Summary of CAGR

	Particulars	CAGR
1	No. of Members	5
2	No. of Shares	10
3	Paid Share Capital	10
4	Reserve Funds	14
5	Deposits	11
6	Profit	17
7	Investment	9
8	Loans and Advances	12
9	Fixed Assets	-36
10	Interest Received	12
11	Other Income	18
12	Interest Paid	11
13	Wage Bill	15
14	Cash & balances with banks	16
15	Interest On Loans and advances	13
16	Other Income	18
17	Total Income	13
18	Management Expenses	18
19	Other Expenses	17
20	Total Expenditure	11

The Table No. 6 exhibits that other than Fixed Assets, all the parameters of the banking operations for the Bank are continuously growing during the study period. It is noteworthy that CAGR of profit is 17 percent during the study period. The CAGRs of all the incoming variables like interest received, other income, deposits, and reserves are higher than the outgoing variables like interest paid, wage bill, management expenses and others.

9.2 Hypotheses Testing:

On the basis of summary of CAGRs presented in the Table No. 6 above the sub hypotheses are verified in the Table No. 7 below,

Table No.7 Testing of Hypotheses

Sr.No	Hypotheses	Result
1	H_{0.2} : There is no significant growth in the loans and advances of Vishweshwar Urban Co-operative Bank Ltd., during the Study period.	Rejected
	H_{A.2} : There is significant growth in the loans and advances of Vishweshwar Urban Co-operative Bank Ltd., during the Study period.	Accepted as CAGR is 12
2	H_{0.3} : There is no significant growth in the total income of Vishweshwar Urban Co-operative Ltd., during the study period.	Rejected
	H_{A.3} : There is significant growth in the total income of Vishweshwar Urban Co-operative Ltd., during the study period.	Accepted as CAGR is 13
3	H_{0.4} : There is no significant increase in the growth of total expenditure of Vishweshwar Urban Co-operative Bank Ltd., during the Study period.	Rejected
	H_{A.4} : There is significant increase in the growth of total expenditure of Vishweshwar Urban Co-operative Bank Ltd., during the Study period.	Accepted as CAGR is 11
4	H_{0.5} : There is no significant growth of Share Capital in the Vishweshwar Urban Co-operative Bank Ltd., during the Study period.	Rejected
	H_{A.5} : There is significant growth of Share Capital in the Vishweshwar Urban Co-operative Bank Ltd., during the Study period.	Accepted as CAGR is 10

We can conclude from Table No.7 that all the alternative sub hypotheses are accepted. It implies that there is significant growth in loans and advances, total income, share capital as well expenditure. As a result, it is established that the main hypothesis " **H_{0.1}** : There is no significant growth of Vishweshwar Cooperative Bank Ltd., during the Study period." Is rejected and the alternative hypothesis, " **H_{A.1}** : There is significant growth of Vishweshwar Cooperative Bank Ltd., during the Study period. "is accepted.

9.3 Conclusions:

- o It is observed that operational performance of Bank is progressive, during the study period.
- o The total business of Bank was increasing and volume of business was also high range during the last 7 years
- o Borrowings point of view Bank had a high level of risk.
- o It is observed that Bank had made high volume of investments .
- o It is found that financial performance point of view the performance of Bank is good.

Central Government and Reserve Bank of India should give encouragement and financial support and assistance to urban cooperative banks for better deployment of their funds and improve its services to public at large. It is suggested that urban co-operative banks should emphasize on generating more profits by efficient utilization of its capital, assets, borrowings, deposits, debt and improving the productive efficiency of employees. Profitability of the investments and deployment of liquid assets (cash) should be cared for improved efficiency.

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