

INVESTMENT PORTFOLIO OF DISTRICT CENTRAL COOPERATIVE BANKS OF UTTAR PRADESH

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Abstract : Indian cooperative banks are needed to restructure in respect of their investment portfolio and changing demand of economy and expectation. This paper is an attempt to analyze the investment behaviour and pattern of District Central Cooperative Banks(DCCBs) of Uttar Pradesh (UP) for the period of 15 years from 2002-03 to 2016-17. The study is based on secondary data, and descriptive research design is used for the analysis. The findings revealed that the portfolio of DCCBs of UP is dominated by fixed deposit. It has 84% of share in the total composition. DCCBs of UP kept 39% of the total fund as an investment.

Index Terms – Cooperative, Investment, Portfolio.

I. INTRODUCTION

Indian cooperatives are 114 years old, and Indian rural cooperatives are one of the world's largest credit institutions catering the credit needs of around 120 million farmers(Rangarajan,1972). In 1904, the Cooperative Societies Act was passed to provide the legal framework for the cooperative societies. Although the act provided a strong legal foundation for the establishment and growth of cooperatives in India, it had no provisions for central cooperatives banks. In the year 1912, with an aim to permit registration of central societies an amendment was made in the Cooperative Societies Act (1912), which implemented the federal system to the cooperatives banks and placed the foundation of District Central Cooperative Banks(DCCBs). With the establishment of the first central cooperative bank in Uttar Pradesh in 1906, the duration from 1906 to 1918 was known as establishment of central cooperative banks in the nation.

Indian cooperatives credit institutions are broadly segmented into two types of institutions, agricultural credit institutions and non-agricultural credit institutions. Agricultural credit institutions are further divided into two categories, viz. short-term agricultural credit institutions and long-term agricultural credit institutions. The short term agricultural credit institutions have a three-tier federal structure: state cooperatives bank, at the apex; district central cooperatives bank, at the district level and; primary agricultural credit societies, at the village level. (Maclagan committee, 1915)

Primarily, District Central Cooperative Banks (DCCBs) are set up for providing agricultural loan to the rural farmer, but this paper deal with the other side of DCCBs, i.e., investment portfolio. The investment portfolio of bank is something that represents a stable and robust contribution to banks earnings, provide necessary to meet day to day, cyclical and long-term requirement. Investment portfolio provides a proper balance of quality and variation to bank assets, dependable sources of earning. (Hoff land, 1978). The surplus amount available at the bank's disposal can be further invested in securities to earn interest. The DCCBs, although facing several issues, are investing in the securities.

There is a need to analyze the investment portfolio of DCCBs to understand their investment behaviour. This study attempts to analyze the investment pattern of District Central Cooperatives Banks of Uttar Pradesh and growth in the securities during the 15 years' time span from 2002-03 to 2016-17.

II. PERFORMANCE, GROWTH AND PROGRESS OF COOPERATIVE BANKS

Several researchers studied the performance, growth and progress of cooperative banks. Thirupathi Kanchu (2012) investigated that amount of capital, reserve and borrowing almost doubled during the study period and reported that District Cooperatives banks maintain a good percentage of credit-deposit ratio and investment portfolio of cooperatives bank indicate maximum growth percentage over the study period. In a similar study, Kawale Pushpalata G and Sagar Pandhari N(2014), opined that DCCBs shows continuous growth in reserve, total liabilities, total assets, working capital and total deposits, membership of banks shows a declining trend, net profit, cash and bank balance, total income and investment shows a fluctuating trends over the study period, and there is moderate increase in share capital of bank. In a similar study, Sukhmani Waraich and Anu Dhawan (2013) opined that all selected DCCBs is performing well in term of declining NPA and good asset portfolio. Sameer Naqvi (2016) investigate the growth and progress of DCCBs particular reference to Uttar Pradesh and reported that loan to overdues shows a declining trend, maintain sound liquidity position, increasing cost of management to employee shows an increasing trend over the study period and the number of branches shows negligible growth.

Jadhav, Kumbhar and Pokharkar (2007) observed that performance of DCCBs in Vidarbha region is satisfactory in respect of loan and advances, share capital, reserve fund, own fund, deposits, investment, profit, cost of management and working capital. In a

similar study, Mavaluri, Boppana and Nagarjuna(2006) observe the performance of banking in respect to profitability, productivity, asset quality and financial management.

Priya Someshwar (2015) investigate the investment pattern of scheduled commercial banks in India and reported that the SLR securities dominating the investment portfolio of scheduled commercial bank reason might be low risk and high exemption benefits. After SLR securities remaining amount invest in private corporate sector bond and debentures followed by PSUs bond and debentures due to fixed rate of return. After that it invests in shares of private sector shares and commercial paper, minimal amount invest in share issued by PSUs and other securities. Time series analysis used for the study and analysis shows that there is constant growth in aggregate investment made by the scheduled commercial bank, except in one year..

III. METHODOLOGY

Panel data of all DCCBs working in Uttar Pradesh at the aggregate level were compiled for the analysis. Data collected from the annual report of "Basis Data on Performance of District Central Cooperative Banks" published by National Federation of State Cooperative Banks Ltd. (NFOSCOB) and Indian Stata for the period of 15 years from 2003 to 2017. The data was recorded in variables such as investment in government securities, debentures of Land Development Bank (LDBs), other trustee securities, fixed deposit and other investment. Sources of funds include total deposits, total borrowing, share capital and total reserve. Data were further analysed using MS-Excel software and SPSS to calculate the various values required for analysis. The obtained results were presented with the help of tables and graphs

IV. ANALYSIS AND INTERPRETATION

Table No. 1.1 provides the summary of statistics of variables (investment in government securities, debentures of Land Development Bank (LDBs), other trustee securities, fixed deposit and other investment) for the period of 15 year.

Table No. 1.1
Descriptive Statistics

(Rs in lakh)

	Govt Securities	Debentures Of LDB	Trustee Securities	Fixed Deposit	Others investment
Range Statistic	278319	40102	47300	494482	89238
Minimum Statistic	557	0	1517	192350	10611
Maximum Statistic	278876	40102	48817	686832	99849
Sum Statistic	476197	70184	359392	6857229	515756
Mean Statistic	31746.47	4678.93	23959.47	457148.00	34383.73
Std. Deviation Statistic	78358.99	10514.19	14781.38	200862.72	27134.61

Sources: Author Estimate

Table No. 1.1 provides the summary of statistics of these variable for the period of 15 year.

Table No.1.2
Proportion of securities to total investment
(2002-03 to 2016-17)

(Rs in lakh)

year	In govt securities	Debenture of LDBs	Trustee security	Fixed Deposit	Other investment
2002-03	0.4	0.09	2.66	91.9	4.95
2003-04	0.25	0.18	5.12	87.7	6.75
2004-05	0.24	0.15	5.87	89.27	4.49
2005-06	0.44	0.06	4.9	86.89	7.71
2006-07	0.18	0.15	5.72	86.64	7.31
2007-08	0.17	0.16	3.51	86.22	9.94
2008-09	0.16	0	8.89	86.62	4.33
2009-10	0.11	0.83	8.24	87.49	3.33
2010-11	0.11	0.84	5.97	89.36	3.72
2011-12	0.65	5.27	0.2	90.28	3.6
2012-13	0.09	4	6.28	81.59	12
2013-14	0.08	0.07	3.3	83.97	12.58
2014-15	4.63	0.04	3.41	86.32	5.6
2015-16	16.59	0.22	2.71	75.77	4.71
2016-17	28.96	1.51	3.13	63.31	3.1

Sources: www.nafscob.com

Author Estimate

For the detail analysis of aggregate investment, the composition of investment made by DCCBs was taken for the study. As in table 1.2 proportion of each security to aggregate investment where provided. From 2002 to 2012, fixed deposit dominate the composition of investment, it is about an average of 88% in aggregate investment. After 2012 it started declining, and it is about an average of 78% in aggregate investment from 2012-13 to 2016-17. Average proportion of Investment in government securities from the year 2002-03 to 2014-15 is only 0.24%, but in the year 2014-15 it rise to 4.63% further it increases to 16.59 % and 28.96% in the year 2015-16 and 2016-17. Though the proportion of investment in trustee securities is very low but it is fluctuating over the study period, and the average proportion is about 4.66% over the study period. Investment in debenture of LDBs is least prefer securities, and showing only average of 0.9% of investment made in debentures, in the year 2008-09 investment in the debentures is 0%.proportion of investment in other securities is also very fluctuation, though it shows average proportion is about 6% but it is, in the year 2012-13 and 2013-14 it shows proportion of investment is 12% and 12.58%.

Figure 2.1
Composition of investment
(2002-03 to 2016-17)

(in percentage)

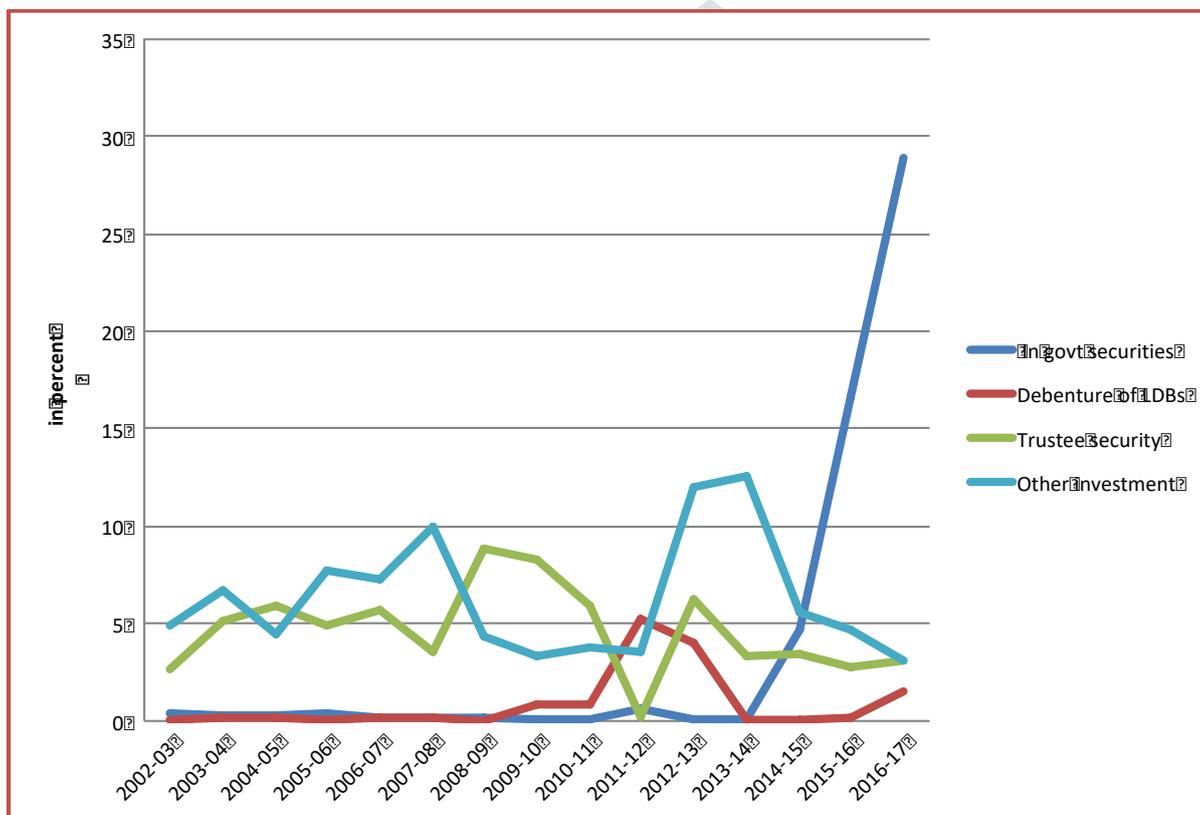


Figure 2.1 showing the composition of investment made by DCCBs of Uttar Pradesh, composition excludes the fixed deposit because fixed deposit dominates 84% the composition. So, to get a detail view of the rest of 16% of the composition. The figure clearly showing the fluctuation in investment as government securities sudden started rising from the year 2013-14 and reach to pick. Trustee securities and other investment in some year move along, and in some year they are moving opposite to each other. In the 2016-17 they reach to the same position. Debentures of LDBs is least preferred securities; it shows a sudden increase in 2012 and 2103 after it again reaches to the same position.

Table No 1.3 shows the aggregate investment and percentage of investment to total fund available. Surplus fund available after the disbursement of loan to the agricultural sector where mobilized as an investment. In the table 1.3 aggregate investment shows consistently rising trend over the study period, as on 31 March 2003 investment was Rs 2,17,124 lakh which increased to Rs. 9,62,887 lakh in the year 2016-17, indicating the growth of 343% over the study period.

Table No.1.3
Aggregate investment and % of investment to total fund
(2002-03 to 2016-17)

(Rs. In lakh)

year	Aggregate Investment	% of investment to sources of fund	Profit and loss
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2002-03	217124	31.67	4151
2003-04	219333	30.30	3442
2004-05	236501	30.98	2395
2005-06	283194	33.18	-12430
2006-07	332181	35.54	-13997
2007-08	347645	34.66	-22981
2008-09	444575	40.29	-9172
2009-10	582934	45.84	-13512
2010-11	641313	45.92	-17284
2011-12	760770	47.20	-20332
2012-13	777487	45.63	-21318
2013-14	793826	44.36	-21570
2014-15	785768	40.45	-10491
2015-16	893211	40.87	-15900
2016-17	962887	39.88	-38150

Sources: Author Estimate

Table 1.3 also shows the percentage of investment to the total fund, as the table shows the percentage of investment to total fund increases year after year which means a decline in the disbursement of agricultural loan which is very alarming. Percentage of investment to total fund was 31.67 % in the 2002-03 which increased to 39.88 % in 2016-17, it was highest in the year 2011-12 (47.20 %) and lowest in the year 2003-04 (30.30 %). Data shows DCCBs made an average 39%, of investment to the total fund of Uttar Pradesh which is very high.

As the percentage of investment in total fund increases, DCCBs is moving to losses, in table 1.3, after 2004-05 DCCBs is constant facing losses.

Increasing in the amount of investment is a positive sign which shows that performance of DCCBs is moving in a positive direction, but increasing percentage of investment in the total fund is not favorable, it shows that DCCBs is not fulfilling its primary objective for which it was formulated..

IV. CONCLUSION AND DISCUSSION

The study investigates the investment portfolio of DCCBs of Uttar Pradesh to the period of 2002-2017. Cooperative banks have been operating in Uttar Pradesh for more than 115 years. Although their accomplishment is significant but failures are equally worrying. The rising trend in the aggregate investment are substantial but trending more toward investment rather than providing agricultural loan is inadequate.

Kapoor committee (2000) and Kelkar Committee(1986) report suggested that 50% of investment was concentrated in Government of India(GOI)/state government securities and approved bonds, but DCCBs of UP invest 80% of his fund in the form of fixed deposit which redeemed/renew on maturity, rest 20% was invested in government securities, trustee securities and other investment. It shows a lack of professional approach and skilled fund manager to investment activity in DCCBs of UP.

Report of Vaidyanathan Committee (2005), reviled that northern DCCBs kept 28% of their fund as investment also three tire committee report (2013) reviled that all DCCBs kept 32% of fund as an investment, constituted 51% of the fixed deposits, whereas investment portfolio of DCCBs of UP much higher at 39% and fixed deposit has 84% of share in total composition.

Aggregate Investment of District Cooperative Bank of Uttar Pradesh showing an increasing trend, but it required a professional approach to investment activity and efficient fund manager and effective strategy to fund management.

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