

EVALUATION OF FINANCIAL MANAGEMENT AND ITS IMPACT ON OVERALL PERFORMANCE OF BANK: A STUDY OF STATE CO-OPERATIVE BANK

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Abstract *In present scenario of liberalization, privatization, and globalization (LPG) banking sector is one of the most important financial institutions which plays active role in present economic environment by developing trade, commerce and industry. State co-operative banks are one of the financial institutions in co-operative sector which were established for development of co-operative movement in the country and specially in rural India. The SCBs (State Co-operative Banks) co-ordinate and regulate the working of DCCBs (Districts Central Co-operative Banks). They act as custodians of surplus funds of the DCCBs and supplement them by attracting deposits and by obtaining loans from the RBI. The DCCBs mobilize resources in districts for financing their members, they also channelize funds from the SCBs to primary credit societies. The PACS at the village level form the base of the co-operative banking. Therefore, financial management is very much applicable to co-operative banks to run the organisation efficiently and smoothly. Implication of financial management in state co-operative bank is useful because it deals with raising fund as capital, borrowings, deposits from public and using these funds for granting loan and advances to loanee and investment for generation of income. Through this paper, an attempt is made to evaluate financial performance of state co-operative banks, to examine the overall growth rate, to evaluate use of financial management in state co-operative banks and its real impact on overall performance of state co-operative bank, and to examine the status of state co-operative bank by applying the tools of financial management.*

Keyword: *State Co-operative Banks, Financial management, Financial performance, NPA, Financial Ratio*

INTRODUCTION

Financial management is the art and technique of procuring required funds for the enterprises and ensuring the most judicious and effective utilization of the funds procured for the enterprise. Procuring funds at minimum possible cost and utilizing them to get adequate returns to cover the cost of borrowing and also leave a fair margin to meet the operational costs, reserve requirements, etc. is the main function of financial manager. The most appropriate use of such funds also forms a part of financial management. According to Soloman, "Financial management is concerned with efficient use of important economic resources, namely, capital funds. Financial management is applicable to every type of organization, irrespective of its size, kind or nature. Where there is use of finance, financial management is helpful. Its main aim is to use business funds in such a way that firm's value/ earnings are maximized."

In present scenario of liberalization, privatization, and globalization (LPG) banking sector is one of the most important financial institutions which plays active role in present economic environment by developing trade,

commerce and industry. State co-operative banks are the one of the financial institution in co-operative sector which are established for promoting co-operative movement in the country. State co-operative banks are said to be the apex institutions for states in Indian federal structure. However, the Government, RBI, and NABARD are apex institutions from the point of promotion, supply of resources, supervisions and control of state co-operative bank.

The SCBs (State Co-operative Banks) co-ordinate and regulate the working of DCCBs (Districts Central Co-operative Banks). They act as custodians of surplus funds of the DCCBs and supplement them by attracting deposits and by obtaining loans from the RBI. The DCCBs mobilize resources in districts for financing their members, and they also channelize funds from the SCBs to PACS (Primary Agricultural Co-operative Societies). The PACS at the village level form the base of the co-operative banking.

Therefore, financial management is very much applicable and useful to state co-operative banks to run the organization efficiently and smoothly. Implication of financial management in state co-operative bank is useful because it deals with raising fund as capital, borrowings, deposits from

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public and using these funds for granting loan and advances to loanee and investment for generation of income. The main objective of financial management is i) maximization of profit and ii) maximization of owner's wealth. The financial management in co-operative bank has the following goal:

Maximizing Surplus: as co-operative banks are not meant for earning profit, they have to increase the surplus in order to increase its services to the society or member and to meet all genuine expenses.

Minimizing Risk: a sound financial management must anticipate financial risk and must try to reduce it. Forecasting such risk is an important aspect of financial management.

Maintain Control: control over the flow of finance and safeguarding its utility are major aspects of financial control. Then the cash flow must be watched and monitored properly and efficiently.

Achieve Flexibility: surplus provides cushion during the times of uncertainties and it must be maintained wisely without hampering the interest of society and members.

On the other hand, in a co-operative, owners or members are the primary users. Therefore, in the co-operative environment, the theory of profit maximization generally will not hold true. Co-operatives have objectives other than generating direct profits for its owners. These unique objectives may cause operational decisions made by co-operative managers and directors to sometimes differ from those made by management of (investor-oriented firm) IOFs. Investment in a co-operative is primarily based on investor's use of it. Appreciation in the value of member's equity is not common. Additionally, legal requirements often limit dividends paid on co-operative stock. As a result, the traditional theory of the firm does not fully hold in the co-operative environment. Profit maximization translates into neither greater dividend nor appreciated value of 'member's co-operative investment'.

REVIEW OF LITERATURE

Sinha S.K. and Sahaya, Management of Co-operative Enterprise (1981): In Chapter XVI: Financial management in Co-operative, they discussed theoretically about objective of financial management, financial planning, management of liabilities, management of assets, management of expenses, and profitability ratio in co-operatives institutions.

Nakkiran,S, Cooperative Management, (2006): In Chapter 12: Financial Management in Co-operative, he focused on financial decisions which include investments, financing, working capital and dividend decision. He explained about function, importance, responsibilities, and financial planning. He elaborated theoretically all the financial

decisions in best possible manner. He also discussed financial aspect through cash flow, fund flow and ratio analysis. Kumbirai, M. and Webb, W. (2010). A Financial Ratio Analysis of Commercial Bank Performance in South Africa: In his paper he investigates the performance of South Africa's commercial banking sector for the period 2005- 2009. Financial ratios are employed to measure the profitability, liquidity and credit quality performance of five large South African commercial banks. The study found that overall bank performance increased considerably in the first two years of the analysis. A significant change in trend is noticed at the onset of the global financial crisis in 2007, reaching its peak during 2008-2009. This resulted in falling profitability, low liquidity and deteriorating credit quality in the South African banking sector.

David S. Chesnick, "Financial Management and Ratio Analysis For Cooperative Enterprises". In this study he discusses differences in financial management and goals between the investor-oriented firms and co-operatives. It briefly reviews what bankers look for when appraising potential borrowers. A summary of standard financial ratios used to analyze a variety of business structures is included, along with other modified ratios to address deficiencies evident in standard ratios.

Mavaluri, Boppana and Nagarjuna (2006) suggested that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to stable the economy. They found that public sector banks have been more efficient than other banks operating in India.

Singla (2008) emphasized on financial management and examined the financial position of sixteen banks by considering profitability, capital adequacy, debt-equity and NPA.

NATURE AND SCOPE OF THE STUDY

The present study is empirical and descriptive in nature. The study is confined to examine the financial management, financial performance, and overall growth of state co-operative bank. For this, all existing 31 state co-operative banks in India are taken into consideration.

OBJECTIVES

1. To evaluate the financial performance of state co-operative banks
2. To examine the overall growth rate.
3. To evaluate use of financial management in state co-operative banks and its real impact on overall performance of state co-operative bank.

Table 1: A Profile State Co-operative Bank

(Amount in Corers)

| | 2004-05 | 2005-06 | 2006-07 | 2007-08 | Growth (%) as against to 2005 |
|--|---------|---------|---------|---------|-------------------------------|
| A. No of Co-operative Banks | 31 | 31 | 31 | 31 | Nil |
| B. Balance Sheet Indicators | | | | | |
| i. Owned Funds(Capital + Reserves) | 9,495 | 10545 | 10,549 | 10,718 | 12.88% |
| ii. Deposits | 44,316 | 45,405 | 48,560 | 52,973 | 19.53% |
| iii. Borrowings | 14,608 | 16,989 | 22,256 | 22,164 | 51.73% |
| iv. Loans and Advances Issued | 44,452 | 48,260 | 52,777 | 57,455 | 29.25% |
| v. Loans and Advances Outstanding | 37,346 | 39,684 | 47,354 | 48,228 | 29.14% |
| vi. Investment | 23,303 | 27,694 | 21,140 | 29,060 | 24.70% |
| vii. Total Liabilities/ Assets | 71,806 | 76,481 | 85,756 | 90,151 | 25.55% |
| C. Financial Performance | | | | | |
| i. Banks in Profit | | | | | |
| a) Number Of Banks in Profit | 26 | 27 | 27 | 23 | -11.54% |
| b) Amount of Profit | 328 | 408 | 319 | 234 | -28.65% |
| ii. Banks in Loss | | | | | |
| a) Number Of Banks in Loss | 4 | 4 | 4 | 5 | 25% |
| b) Amount of Loss | -37 | -30 | -44 | -49 | 32.43% |
| iii. Overall Profit/ Loss (-) | 291 | 378 | 275 | 185 | -36.43% |
| iv. Accumulated Loss (-) | -274 | -274 | -389 | -429 | 56.57% |
| D. Non-performing Assets | | | | | |
| i. Amount | 6072 | 6360 | 6704 | 6,169 | 1.60% |
| ii. As percentage of Loans Outstanding | 16.3 | 16.0 | 14.12 | 12.8 | -21.47% |
| iii. Recovery of Loans to Demand(%) | 83.5 | 87 | 85.7 | 84.6 | 1.32% |

*Source: Compiled from Reports on Trend and Progress of Banking

4. To examine the status of state co-operative bank by applying the tools of financial management.

METHODOLOGY

This study is based on secondary data. Journal, periodical and published reports are the main source of secondary data. Basically, secondary data (i.e. facts and figures) are collected from 'Report on Trend and Progress of Banking'. Study period is considered 2004-05 to 2007-08. Financial management tools like Common Size Statement, Ratio analysis and Cash Flow are used for analysis of data.

PROFILE OF THE STATE CO-OPERATIVE BANKS

It includes: a) Number of co-operative bank, b) Balance Sheet Indicators, c) Financial Performance, and d) Non-performing Assets during the study period i.e. 2004-05 to

2007-08. At the end, growth rate in percentage is ascertained for each individual item.

- Number of co-operative banks: It shows number of state co-operative banks during the study period.
- Balance Sheet Indicators: Here all main components of balance sheet are revealed from 2004-05 to 2007-08.
- Financial Performance: It highlights banks in profit, banks in loss, overall profit/ loss (-), and accumulated loss(-).
- Non-performing Assets: It shows NPA amount, NPA as percentage of Loans Outstanding, and NPA Recovery of Loans to Demand (%).

Table1 discloses that number of state co-operative banks during the study period remain same. All the components of balance sheet indicators improved in succeeding years. Growth (%) as against 2004-05 are: Owned Fund-12.88%, Deposit-19.53%, Borrowings-51.73%, Loan and Advances Issued 29.25%, Loan and Advances Outstandings-29.14, and Investment-24.70%.

Table 2: Common Size Balance Sheet Statement of State Co-operative Bank

(Amount in corers)

| | 2004-05 | | 2005-06 | | 2006-07 | | 2007-08 | | Growth (%) as against to 2004-05 |
|-------------------|---------|------|---------|------|---------|------|---------|------|--|
| | Amount | % | Amount | % | Amount | % | Amount | % | |
| Liabilities | | | | | | | | | |
| Capital | 1012 | 1.4 | 1114 | 1.5 | 1246 | 1.5 | 1468 | 11.8 | 45.06% |
| Reserve | 8488 | 11.8 | 9431 | 12.3 | 9402 | 10.8 | 9250 | 10.3 | 8.98% |
| Deposits | 44335 | 61.7 | 45405 | 59.4 | 48560 | 56.6 | 52973 | 58.8 | 19.48% |
| Borrowing | 14602 | 20.3 | 16989 | 22.2 | 22256 | 26.0 | 22164 | 24.6 | 51.79% |
| Other Liabilities | 3388 | 4.8 | 3542 | 4.6 | 4392 | 5.1 | 4296 | 4.8 | 26.80% |
| Total | 71825 | 100 | 76481 | 100 | 85756 | 100 | 90151 | 100 | |
| Assets | | | | | | | | | |
| Cash and Bank | 6600 | 9.2 | 4323 | 5.7 | 9291 | 10.8 | 8065 | 8.9 | 22.20% |
| Investment | 23303 | 32.4 | 27694 | 36.2 | 24140 | 28.1 | 29060 | 32.2 | 24.70% |
| Loan and Advances | 37353 | 52.0 | 39684 | 51.9 | 47354 | 55.2 | 48228 | 53.5 | 29.11% |
| Other Assets | 4569 | 6.4 | 4781 | 6.2 | 4971 | 5.8 | 4798 | 5.3 | 5.01% |
| Total | 71825 | 100 | 76481 | 100 | 88756 | 100 | 90151 | 100 | |

Financial Performance: Number of state co-operative banks in profit are 26, 27, 27, 23 in year 2004-05, 2005-06, 2006-07, 2007-08 respectively and growth in profit is ascertained negative in 2007-08 as compared 2004-05, i.e. -11.54%. 'Number of banks in Profit' is reduced from 26 in year 2004-05 to 23 in year 2007-08. Consequently, amount of profit also reduced from 328 corers in year 2004-05 to 234 corers in year 2007-08. It indicates poor functioning and financial management in the banks.

Number of State Co-operative Banks in 'Loss' increased from 4 in 2004-05 to **5** in 2007-08. While loss amount of the state co-operative banks are: Rs. 37 corers in 2004-05, Rs. 30 corers in 2005-06. Rs. 44 corers in 2006-07, and Rs. 49 corers in 2007-08, but overall profit after adjusting current year loss are : Rs. 291 corers in 2004-05, Rs. 378 corers in 2005-06, Rs. 275 corers in 2006-07, and Rs. 185 corers in 2007-08. Overall profit growth in percentage is negative i.e. (-) 36.43%. Overall profit reduced to Rs. 185 corers in 2007-08 as compared to Rs. 291 corers in 2004-05. Accumulated loss amount rose from Rs. 274 corers in 2004-05 to Rs. 429 corers in 2007-08.

Non-performing Assets of the state co-operative banks are: Rs. 6072 corers in 2004-05, Rs. 6360 corers in 2005-06, Rs. 6704 corers in 2006-07, and Rs. 6169 corers in 2007-08 and overall growth percentage is 1.60%. NPA amount as percentage of 'Loans Outstanding' are: 16.3% in 2004-05, 16.0% in 2005-06, 14.12% in 2006-07 and 12.8% in 2007-08. 'Recovery of Loans to Demand' (%) are: 83.5%, 87%, 85.7%, 84.6% in year 2004-05, 2005-06, 2006-07, 2007-08 respectively and growth percentage in 2007-08 is 1.32% as

compared to 2004-05. Mounting NPA is the result of poor financial management and it leads to blockage of working capital. Certainly, blocked amount hampered the circulation of fund which hampered and affected the overall functioning of the bank.

COMMON SIZE BALANCE SHEET STATEMENT OF STATE CO-OPERATIVE BANK

All the assets and liabilities of last four years i.e.2004-05, 2005-06, 2006-07 and 2007-08 are converted to percentage in Table 2 to have a clear understanding. Again growth in percentage is also ascertained in 2007-08 as compared to 2004-05 to observe the growth at the end of the study period.

Table 2 shows that Deposit and Borrowing are the major component of liabilities with major share during all the study period which form 1st and 2nd position. Reserve, Other Liabilities, and Capital stood at 3rd, 4th, and 5th position. Loan and Advances and Investment are two main components of Common Size Balance Sheet Statement which form 1st and 2nd position.

Regarding growth (%) in 2007-08 as against 2004-05, Borrowing is highest i.e. 51.29% whereas capital is the second highest with 45.06% growth. Other growth in liabilities components are: other Liabilities-26.80%; Deposits-19.48%, and Reserve-8.98%. Growth in assets are: Loan and Advances-29.11%; Investment-24.70%; Cash and Bank-22.20% and Other Assets-5.01%.

Table 3: Financial Performance of State Co-operative Bank

(Amount in Corers)

| | 2004-05 | | 2005-06 | | 2006-07 | | 2007-08 | |
|---|---------|------|---------|------|---------|------|---------|------|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| A. Income (i + ii) | 5772 | 100 | 5656 | 100 | 5242 | 100 | 5750 | 100 |
| i. Interest Income | 5382 | 93.2 | 5320 | 94.1 | 4974 | 94.4 | 5657 | 98.4 |
| ii. Other Income | 390 | 6.8 | 336 | 5.9 | 269 | 5.1 | 93 | 1.6 |
| B. Expenditure (i + ii + iii) | 5486 | 100 | 5278 | 100 | 4969 | 100 | 5655 | 100 |
| i. Interest Expended | 3701 | 67.5 | 3658 | 69.3 | 3708 | 74.7 | 4397 | 79.0 |
| ii. Provisions and Contingencies | 1259 | 22.9 | 1039 | 19.7 | 502 | 10.1 | 372 | 6.7 |
| iii. Operating Expenses | 526 | 9.6 | 581 | 11.0 | 757 | 15.2 | 796 | 14.3 |
| (Of which: Wage Bill) | 369 | 5.7 | 381 | 7.2 | 398 | 8.0 | 425 | 7.6 |
| C. Profit | | | | | | | | |
| i. Operating Profit (A - B.i. - B.iii.) | 1545 | | 1417 | | 777 | | 557 | |
| ii. Net Profit | 286 | | 378 | | 275 | | 185 | |
| D. Total Assets | 71825 | | 76481 | | 85756 | | 90151 | |

*Source: Compiled from Reports on Trend and Progress of Banking

Main source of working fund are Capital, Reserve, Deposits and Borrowing, whereas 'Investments' and 'Loan and Advances' are made out of these working fund for generating income which is balanced during the study period but more required to do to in this area to make more productive of these funds and here role of finance manager is very important. Effective financial management in bank will fetch more income (interest earned on 'Investments' and 'Loan and Advances') which will be more than the operating cost (i.e. interest paid on 'Deposit and Borrowings' and other operating expenses).

FINANCIAL PERFORMANCE OF STATE CO-OPERATIVE BANK

In Table 3, an attempt is made about the income earned by bank. Income head includes two sources i) Interest Income ii) Other Income which include commission, bill discounting and some other sources. Expenditure head of the state co-operative bank includes i) Interest Expended ii) Provisions and Contingencies, and iii) Operating Expenses. Finally Operating Profit is calculated by deducting Interest Expended and Operating Expenses from Total Income, whereas Net Profit is calculated by deducting Total Expenditure (i + ii + iii) from Total Income (i+ii).

Table 3 indicates that interest income increased during the study period which are: 93.2% in 2004-05; 94.1% in 2005-06; 94.4% in 2006-07 and 98.4% in 2007-08. Other income gradually reduced over the year which are: 6.8%, 5.9%, 5.1%, 1.6% in year 2004-05, 2005-06, 2006-07, 2007-08 respectively. Similarly, Interest Expended also increased

which are: 67.5%, 69.3%, 74.7%, 79.0% in year 2004-05, 2005-06, 2006-07, 2007-08 respectively. One good thing is that Provisions and Contingencies reduced during the study period which are: 22.9%, 19.7%, 10.1%, 6.7% in year 2004-05, 2005-06, 2006-07, 2007-08 respectively. Operating Expenses are increased during the study period which are: 9.6%, 11%, 15.2%, 14.3% in 2004-05, 2005-06, 2006-07, 2007-08 respectively. Operating Profit of the SCB is in decreasing order which are Rs.1545 corers, Rs.1417 corers, Rs.777 corers, Rs.557 corers, in year 2004-05, 2005-06, 2006-07, 2007-08 respectively. Similarly, Net Profit is also in decreasing order except for the year 2006 which are: Rs.286 corers, Rs.378 corers, Rs.275 corers, Rs.185 corers in year 2004-05, 2005-06, 2006-07, 2007-08 respectively. Total Assets of the bank increased during the study period by 25.51% in 2007-08 as compared to 2004-05.

As per growth is concerned, growth (%) in 2007-08 as against 2004-05, total income reduced by (-) 0.38 % (Rs. 22 corers) whereas 'Interest Earned' has increased by 5.11% (Rs.275 corers) but 'Other Income' reduced by 76.15% (Rs.-297 corers). Expenditure also goes up by 3.08% (Rs.169 corers) in 2007-08 as compared to 2004-05 and reasons behind this: increase in 'Interest expended' and 'Operating Expenses'. 'Interest expended' increased by 18.81% (Rs. 696 corers) and 'Operating Expenses' increased by 51.33% (Rs. 270 corers). Overall, Operating Profit and Net Profit, both are reduced in 2007-08 as compared to 2004-05 by 63.95% (Rs.980 corers) and 35.31% (Rs.101 corers).

Non-Performing Asset (NPA): An amount under any of the credit facilities viz., term loan, overdrafts, cash credit account, etc. is to be treated as 'past due' when it remains

Table 4: Assets Quality of State Co-operative Bank

(Amount in Corers)

| | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|------------------------------------|---------|---------|---------|---------|
| A. Total NPA (i+ ii + iii) | 6073 | 6360 | 6704 | 6169 |
| i. Sub Standard | 2962 | 2498 | 2957 | 2779 |
| ii. Doubtful | 1975 | 2234 | 2625 | 2652 |
| iii. Loss | 1136 | 1628 | 1122 | 737 |
| B. NPA to Loans Ratio (Percentage) | 16.3 | 16.0 | 14.2 | 12.8 |
| C. Recovery to Demand (Percentage) | 86 | 87 | 85.7 | 84.6 |
| D. Provision Required | 2806 | 3314 | 2820 | 2654 |
| E. Provision Made | 2982 | 3558 | 3200 | 2998 |

*Source: Compiled from Reports on Trend and Progress of Banking

unpaid for 30 days beyond the due date. A non-performing asset (NPA) is defined as a credit facility in respect of which interest or installment of principal is past due for 'two quarters'. In respect of advances for agricultural purposes, if interest has not been paid during the last 2 seasons of harvest (covering two half years), after it has become 'past due' then such advance should be treated as NPA. Further, if any one of the credit facilities enjoyed by a client becomes NPA, all of the other credit facilities enjoyed by the client also deemed to have become NPA and are treated accordingly.

Table 4 reveals that NPA increased up to Rs.6704 corers in year 2006-07 which is highest during the study period. Again, it reduced up to Rs.6169 corers in 2007-08. NPA to Loans Ratio (%) is in descending order i.e.16.3%, 16%, 14.2%, 12.8% in 2004-05, 2005-06, 2006-07, 2007-08 respectively. Recovery to Demand (%) during the study period are: 86%, 87%, 85.7%, 84.6% in year 2004-05, 2005-06, 2006-07, 2007-08 respectively.

As per the observation NPA of the bank is always mounting which is required to be improved. Recovery to demand is reduced in last two years of the study period which is not a good symptom of recovery management as well as financial management of the bank and it blocked the circulating working capital of the bank. Table 4 reveals that 'Provision made for NPA' is always more than the 'Provision Required for NPA'. Here bank has to take necessary steps to minimize the volume of both provisions.

Cash Flow Statement (CFS): CFS indicates case receipts and cash disbursement during the financial year. It summaries the operating, investment and financing activities of a business enterprises during an accounting period and completes the disclosures of changes in financial position. To prepare cash flow statement, items of all four years are considered. This statement is very important and effective tools of financial management to see inflow and outflow of fund. Specially movement of fund based on cash is observed here.

Cash flow Statement reveals that Cash Lost in Operating Activities are: Rs.(-) 1316 corers, Rs.(-) 1234 corers, Rs.(-) 6949 corers, Rs.(-) 1023 corers in 2004-05, 2005-06, 2006-07, 2007-08 respectively. Cash used in Investment Activities are: Rs.(-) 205 corers, Rs.(-) 4603 corers in 2004-05, 2005-06 and Rs.(-) 1316 corers in 2007-08. Cash flow form Investment Activities is observed to be Rs. 3364 corers in 2006-07. Cash flow from Financing Activities is observed in all the four year which are: Rs.3055 corers, Rs 3559 corers, Rs. 8554 corers, Rs.4543 corers in 2004-05, 2005-06, 2006-07, 2007-08 respectively. Net Increases in Cash or Cash equivalent is observed in two years i.e Rs.1534 corers in 2004-05 and Rs.4969 corers in 2006-07. Again, Net Decreases in Cash or Cash equivalent is also observed in two years i.e. Rs.(-) 2278 corers in 2005-06 and Rs.(-)1227 corers in 2007-08.

RATIO ANALYSIS: EXPENSES AND PROFITABILITY RATIO

These ratios are calculated based on 'Profit and Loss Account' of the bank and based on pure financial performance of the bank.

Operating Expenses to Total Expenses Ratio reveals that operating expenses is mounting since ratio is in ascending order till year 2006-07(i.e. 9.59% in 2004-05, 11.01% in 2005-06 and 15.23% in 2006-07) but again it reduced to 14.08% in 2007-08.

Provisions and Contingencies to Total Expenses: This ratio is in descending order which are: 22.95%,19.69%,10.10%, 6.58% in year 2004-05, 2005-06, 2006-07, 2007-08 respectively.

Interest Expended to Total Expenses: this ratio is also mounting every year, which are: 67.46% 69.31%, 74.62%, 77.75% in 2004-05, 2005-06, 2006-07, 2007-08 respectively.

Table 5: Cash Flow Statement

| | 2005 | 2006 | 2007 | 2008 |
|---|--------|--------|--------|--------|
| A. Cash Flow from Operating Activities: | | | | |
| Net Profit before Taxation and Extraordinary item | | | | |
| Profit as per Balance Sheet | + 919 | + 943 | - 127 | - 33 |
| Operating profit before working Capital Changes | + 919 | + 943 | - 127 | - 33 |
| Working Capital - | | | | |
| (CA) Loan and Advances increases | - 2248 | - 2331 | - 7670 | - 96 |
| Other Liabilities | + 13 | + 154 | + 850 | - 874 |
| Cash Lost (-)/ Flow(+) from Operating Activities | - 1316 | - 1234 | - 6949 | - 1023 |
| | ===== | ===== | ===== | ===== |
| B. Cash flow form Investment Activities | | | | |
| Investment Increases | - 192 | - 4391 | + 3554 | - 4920 |
| Other Assets increases | - 13 | - 212 | - 190 | + 173 |
| Cash used(-)/Flow (+) from Investment Activities | - 205 | - 4603 | + 3364 | - 4747 |
| | ===== | ===== | ===== | ===== |
| C. Cash flow from Financing Activities | | | | |
| Increase in Capital | + 61 | + 102 | + 132 | + 222 |
| Deposits | + 849 | + 1070 | + 3155 | + 4413 |
| Borrowings | + 2145 | + 2387 | + 5267 | - 92 |
| Cash flow from Financing Activities | + 3055 | + 3559 | + 8554 | + 4543 |
| | ===== | ===== | ===== | ===== |
| Net Increases(+)/Decreases(-) in Cash or Cash equivalent (A+B+D) | + 1534 | - 2278 | + 4969 | - 1227 |
| Opening Balance of Cash | + 5066 | + 6600 | + 4322 | + 9290 |
| Closing Balance of cash | + 6600 | + 4322 | + 9291 | + 8064 |

*Source: Compiled from Reports on Trend and Progress of Banking

Table 6: Ratio Analysis: Expenses and Profitability Ratio

| Ratio Analysis | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|--|--|--|--|
| Operating Expenses to Total Expenses | $\frac{526}{5486} \times 100 = 9.59\%$ 5486 | $\frac{581}{5278} \times 100 = 11.01\%$ 5278 | $\frac{757}{4969} \times 100 = 15.23\%$ 4969 | $\frac{796}{5655} \times 100 = 14.08\%$ 5655 |
| Provisions and Contingencies to Total Expenses | $\frac{1259}{5486} \times 100 = 22.95\%$ 5486 | $\frac{1039}{5278} \times 100 = 19.69\%$ 5278 | $\frac{502}{4969} \times 100 = 10.10\%$ 4969 | $\frac{372}{5655} \times 100 = 6.58\%$ 5655 |
| Interest Expended to Total Expenses | $\frac{3701}{5486} \times 100 = 67.46\%$ 5486 | $\frac{3658}{5278} \times 100 = 69.31\%$ 5278 | $\frac{3708}{4969} \times 100 = 74.62\%$ 4969 | $\frac{4397}{5655} \times 100 = 77.75\%$ 5655 |
| Provisions and Contingencies to Operating Profit | $\frac{1259}{1545} \times 100 = 81.49\%$ 1545 | $\frac{1039}{1417} \times 100 = 73.32\%$ 1417 | $\frac{502}{777} \times 100 = 64.60\%$ 777 | $\frac{372}{557} \times 100 = 66.79\%$ 557 |
| Operating Profit to Total Income | $\frac{1545}{5772} \times 100 = 26.77\%$ 5772 | $\frac{1417}{5656} \times 100 = 25.05\%$ 5656 | $\frac{777}{5242} \times 100 = 14.82\%$ 5242 | $\frac{557}{5750} \times 100 = 9.69\%$ 5750 |
| Gross Profit to Total Income GP=Int.(Earned - Paid) | $\frac{2071}{5772} \times 100 = 35.88\%$ 5772 | $\frac{1998}{5656} \times 100 = 35.32\%$ 5656 | $\frac{1534}{5242} \times 100 = 29.26\%$ 5242 | $\frac{1353}{5750} \times 100 = 23.53\%$ 5750 |
| Net Profit to Total Income | $\frac{286}{5772} \times 100 = 4.95\%$ 5772 | $\frac{378}{5656} \times 100 = 6.68\%$ 5656 | $\frac{275}{5242} \times 100 = 5.25\%$ 5242 | $\frac{185}{5750} \times 100 = 3.22\%$ 5750 |

Table 7: Ratio Analysis Based on Balance Sheet of the Bank

| Ratio Analysis | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---------------------------------|---|--|--|--|
| Returns on (Profit) Owners Fund | $\frac{328}{9495} \times 100 = 3.45\%$ | $\frac{408}{10545} \times 100 = 3.87\%$ | $\frac{319}{10549} \times 100 = 3.02\%$ | $\frac{234}{10718} \times 100 = 2.18\%$ |
| Rate of Profit to Total Assets | $\frac{328}{71806} \times 100 = 0.46\%$ | $\frac{408}{76481} \times 100 = 0.53\%$ | $\frac{319}{85756} \times 100 = 0.37\%$ | $\frac{234}{90151} \times 100 = 0.26\%$ |
| Debt –Equity Ratio | $\frac{14608}{9495} = 1.54 : 1$ | $\frac{16989}{10545} = 1.61 : 1$ | $\frac{22256}{10549} = 2.11 : 1$ | $\frac{22164}{10718} = 2.07 : 1$ |
| Equity Ratio | $\frac{9495}{71806} \times 100 = 13.22\%$ | $\frac{10545}{76481} \times 100 = 13.79\%$ | $\frac{10549}{85756} \times 100 = 12.30\%$ | $\frac{10718}{90151} \times 100 = 11.89\%$ |

Provisions and Contingencies to Operating Profit: This ratio is also in descending order till 2006-07 (i.e. 81.49% in 2004-05, 73.32% in 2005-06 and 64.60% in 2006-07) but again it increased to 66.79% in 2007-08.

Operating Profit to Total Income: This ratio is in descending order which are : 26.77% in 2004-05, 25.05% in 2005-06 and 14.82% in 2006-07 ,9.69% in 2007-08.

Gross Profit (GP) to Total Income: Here GP = Total Earnings – Interest paid on Deposits and Borrowings. This ratio is not sound enough and are: 35.88% in 2004-05, 35.32% in 2005-06 and 29.26% in 2006-07, 23.53% in 2007-08. It is in descending order during the study period.

Net Profit to Total Income: This ratio is not stable during the study period which are: 4.95% in 2004-05, 6.68% in 2005-06 , 5.25% in 2006-07 and 3.22% in 2007-08.

RATIO ANALYSIS: BASED ON BALANCE SHEET ITEM OF THE BANK

Returns on (Profit) Owners Fund: Status of this ratio during the study period are: 3.45% in 2004-05, 3.87% in 2005-06, 3.02% in 2006-07, 2.18% in 2007-08. A high rate of return may be the result of efficient management, favorable business condition and trading on equity and vice-versa.

Rate Profit to Total Assets: According to this ratio return on total assets are not impressive. Year wise status of this ratio are: 0.46% in 2004-05, 0.53% in 2005-06, 0.37% in 2006-07, 0.26% in 2007-08. Return on total asset measures the overall efficiency of the total resources employed in the business. This ratio reveals how the asset have been used to generate profit from business.

Debt – Equity Ratio: This first two years are not satisfactory but in the last two years somehow it is good. The ratios are : 1.54:1 in 2004-05; 1.61: 1 in 2005-06; 2.11 : 1 in 2006-07 ; 2.07 :1 in 2007-08.

This ratio measures the relationship between ‘outsider fund’ and ‘shareholder fund’ and it measures the long term

solvency of the concern. It shows the ability to pay the interest regularly and to repay the principal (i.e. capital) on maturity.

Equity Ratio: This ratio during the study period are: 13.22%, 13.79%, 12.30%, 11.89% in year 2004-05, 2005-06, 2006-07, 2007-08 respectively. Higher value of the ratio is better and it indicates the solvency position of the concern.

SUGGESTION FOR EFFECTIVE FINANCIAL MANAGEMENT IN CO-OPERATIVE BANKS

The basic function of financial management in any organization including the co-operative bank is to maintain liquidity and profitability. But co-operatives eschew (avoid) profit and strives to earn a surplus.

- Co-operative banks raise their fund by way of owned funds and borrowed funds. Owned funds consist of share capital and reserve funds. Borrowed funds consist of deposits and borrowings from other agencies. Co-operative bank must concentrate on raising more deposits.
- The funds raised must be employed for more productive purposes, proper credit planning must be applied.
- Cash inflow must match outflows. The banks must forecast the timing of inflow and use them to pay its creditors and loan operation.
- When money is spent on various items the cost of such investment must be noted periodically.
- Pricing a product or a banking service is another aspects of financial function. The financial manager can supply important information on costs, changes in costs of production or services and profit margin. This helps to follow an ideal price policy which can help to market a product or services and to maintain a profit margin.
- Each different source of funds received by a firm or a bank may have different condition and cost. Short-

term debt may be costlier than long term debt. Thus must be measured and a return be assured for capital.

- A successful financial management must predict future profits. For this the current costs and variable costs must be calculated to assure a reasonable profit.
- A firm's assets must be carefully managed and a number of decisions must be made on their use. The financial manager coordinates his activities with other managers and decides to increase or stabilize assets.
- Funds are the liquid assets of firm. Cash and liquid assets come under this category. The financial manager must guarantee to finance receivable and inventories and must make arrangements for the purchase of assets. Management of funds has both liquidity and profitability.

CONCLUSIONS

All together 31 state co-operative banks are in operation of which 5 are operating in loss and their loss amount is Rs.49 corers at the end of 2007-08. 'Accumulated Loss' of these banks all together is Rs.429 corers at the end of 2007-08. But the remaining 26 state Co-operative banks are operating in profit. Mounting 'Provisions and Contingencies' and 'Operating Expenses' are the main causes of loss in operating state co-operative banks and reduction in volume of net profit of profit making state co-operative banks. Both, operating profit and net profit are in descending order during the study period. Growth in balance sheet indicators is almost satisfactory. Again, poor HRM as well as poor financial management are equally responsible for incurring loss. Mounting NPA has to be controlled and recovery performance required to be improved. Even operating expenses have to be controlled to maximize profit. Finally, financial management will be effective tool for the bank for improvement.

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