FUND MANAGEMENT
A STUDY OF PUDUKAD SERVICE CO-OPERATIVE BANK LTD NO.580

BY

NEETHU T A

(2006 – 05 – 138)

PROJECT REPORT

Submitted in partial fulfillment of the requirement for the degree of

Bachelor of Science in Co-operation and Banking

FACULTY OF AGRICULTURE

KERALA AGRICULTURAL UNIVERSITY

COLLEGE OF CO-OPERATION, BANKING & MANAGEMENT

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VELLANIKKARA, THRISSUR – 680 656

KERALA, INDIA

2010

Declaration

DECLARATION

I hereby declare that this project report entitled **FUND MANAGEMENT A STUDY OF PUDUKAD SERVICE CO-OPERATIVE BANK LTD NO.580** is a bonafide record of research work done by me during the course of project work and that it has not previously formed the basis for the award to me for any degree / diploma, associateship, fellowship or other similar title of any other University or Society.

Vellanikkara

19-11-2010

NEETHU TA

(2006– 05 – 138)

Certificates

CERTIFICATE

Certified that this project report entitled **"FUND MANAGEMENT – A STUDY OF PUDUKAD SERVICE CO-OPERATIVE BANK LTD NO. 580"** is a record of research work done independently by Miss. NEETHU T A (2006-05-138) under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship or associateship to her.

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Neethu T A

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CHAPTER 1

DESIGN OF THE STUDY

1.1 Introduction

Financial institutions play a significant role in the economic development of a country. It promotes mobilization of resources and allocates these resources in the form of loans and advances. The financial institutions of India comprises of commercial banks, co-operative banks, regional rural banks and foreign banks. Among these institutions the role of co-operative banks in meeting the credit needs of the people across the country is very high. Co-operation as an instrument for removing disparities in the distribution of wealth has proved very effective because of the profit earned by societies are distributed among all the members not on the basis of capital invested by them but on the basis of use they have made of the society.

The co-operative credit system has separate wings for meeting the short term and long term credit needs. PACS are the grass root level of the short term structure. For co-ordinating and assisting the activities of the PACS there are District Co-operative Banks at district level, State Co-operative Banks at state level and National Federation at national level.

The Co-operative Credit Societies Act 1904 marked the real beginning of the co-operative movement in India. The Act provided an environment for the establishment of Primary Agricultural Credit Societies (PACS) in villages. This is considered to be the first institutional arrangement for the provision of agricultural and rural credit to be owned and managed by the beneficiary members. To achieve the objective of democratic planning and socialistic pattern, National Development Council, reviewed the co-operative programme in 1958 and called for organization of Service Co-operative throughout the country.

The term Service Co-operative is more or less synonymous with multipurpose society. The Working group on co-operative policy 1959 considered the primary function of co-operative as

- Provision of short term and medium term credit
- Supply of agricultural inputs and other production requirements
- The marketing of agricultural produce
- Help, formulate and implement a plan of agriculture production for the village
- Undertake such educative advisory and welfare work as may be feasible

1.2 Statement of the problem

The Pudukad Service Co-operative Bank started functioning on 14 - 02 -1947. From 1998 onwards the bank showed profit and the net profit of Rs 71.08 lakhs was achieved in the last year (2009-10). The membership, deposits and credit disbursement of the bank is also increased from year to year.

Fund management, in the context of co-operative banks can be discussed under two broad heads, namely sources and deployment of funds. It deals with raising capital and deposits at the least possible cost and deploying funds in the most profitable investments and in loans and advances. The profitability of PACS depends on the judicious management of their funds. The PACS must ensure that no part of the funds lie idle and they are deployed in the most remunerative way. Hence the present study is designed to examine the fund management practices of Pudukad Service Co-operative Bank.

1.3 Objective of the study

To examine the fund management practices of Pudukad Service Co-operative Bank.

1.4 Methodology

The data required for the study was collected from the audited annual reports, balance sheets and receipts and disbursement statements of the bank. The data was collected for the period of 15 years (1992-93 to 2006-07). The following variables were used for the study

- Share capital
- Reserves and surplus
- Deposits
- Borrowings
- Investment in fixed assets
- Loans and advances
- Interest received
- Interest paid
- Non interest expenses
- Non interest income

The fund management practices has been done with the help of different following ratios showing efficiency in mobilization, deployment and operation

I. EFFICIENCY IN MOBILISATION

- Owned Funds to Working Capital Ratio

$$\left(\frac{\textbf{Owned Funds}}{\textbf{Working Capital}}\right) \textbf{X 100}$$

Owned Funds = Share Capital + Reserves

$$\text{Working Capital} = \left(\begin{array}{l}\text{Share Capital} + \text{Reserves} + \text{Deposits} + \text{Borrowings} \\ - \text{Investment in Fixed Assets}\end{array}\right)$$

- Borrowed Funds to Working Capital Ratio

$$\left(\frac{\textbf{Borrowed Funds}}{\textbf{Working capital}}\right) \textbf{X 100}$$

Borrowed Funds = Deposits + Borrowings

Working Capital = (Share Capital + Reserves + Deposits + Borrowings – Investment in Fixed Assets)

- Deposits to Working Capital Ratio

$$\left(\frac{\textbf{Deposits}}{\textbf{Working Capital}}\right) \textbf{X 100}$$

Deposits are the deposits received by the bank

Working Capital = (Share Capital + Reserves + Deposits+ Borrowings – Investment in Fixed Assets)

- Deposits to Borrowed Funds Ratio

$$\left(\frac{\textbf{Deposits}}{\textbf{Borrowed Funds}}\right) \textbf{X 100}$$

Deposits are the deposits received by the bank

Borrowed Funds = Deposits + Borrowings

- Owned Funds to Borrowed funds Ratio

$$\left(\frac{\textbf{Owned Funds}}{\textbf{Borrowed Funds}}\right) \textbf{X 100}$$

Owned Funds = Share Capital + Reserves

Borrowed Funds = Deposits + Borrowings

II. EFFICIENCY IN DEPLOYMENT

- Credit to Deposits Ratio

$$\left(\frac{\textbf{Credit}}{\textbf{Deposits}}\right) \textbf{X 100}$$

Credits are the loans and advances given by the bank

Deposits are the deposits received by the bank

- Credit to Working Capital Ratio

$$\left(\frac{\textbf{Credit}}{\textbf{Working Capital}}\right) \textbf{X 100}$$

Credits are the loans and advances given by the bank

Working Capital = (Share Capital + Reserves + Deposits + Borrowings – Investment in Fixed Assets)

- Credit to Owned Funds Ratio

$$\left(\frac{\textbf{Credit}}{\textbf{Owned Funds}}\right) \textbf{X100}$$

Credits are the loans and advances given by the bank

Owned Funds = (share capital + Reserves and surplus)

- Credit to Borrowed Funds Ratio

$$\left(\frac{\textbf{Credit}}{\textbf{Borrowed Funds}}\right) \textbf{X 100}$$

Credits are the loans and advances given by the bank

Borrowed Funds = Deposits + Borrowings

- Credit to Total Funds Ratio

$$\left(\frac{\textbf{Credit}}{\textbf{Total Funds}} \right) \textbf{X 100}$$

Credits are the loans and advances given by the bank

Total Funds = Owned Funds + Borrowed Funds

III. EFFICIENCY IN OPERATION

- Spread Ratio

$$\left(\frac{\textbf{Interest Received} - \textbf{Interest Paid}}{\textbf{Total Funds}} \right) \textbf{X 100}$$

Interest received is the amount received as interest on lending

Interest paid is the amount paid as interest on deposits

Total Funds = Owned Funds + Borrowed Funds

- Burden ratio

$$\left(\frac{\textbf{Non Interest Expenses} - \textbf{Non Interest Income}}{\textbf{Total Funds}} \right) \textbf{x} \quad \textbf{100}$$

Non interest expenses includes contingency expenses and establishment expenses

Non interest income is the miscellaneous income of the bank

Total Funds = Owned Funds + Borrowed Funds

- Profitability ratio

$$\left(\textbf{Spread ratio} - \textbf{Burden ratio} \right)$$

1.5 Scope of the study

The study tries to evaluate the effectiveness in the mobilization and deployment of funds of the Pudukad Service Co-operative Bank by computing various financial ratios. It also beneficial to the bank to highlight the important factors that focus on the profitability of the bank.

1.6 Limitation of the study

The present study formed the part of the graduate programme. Hence it has all limitations of time, money and other resources. The study is limited to one service co-operative bank hence the conclusion drawn cannot be generalized. The audit has been completed up to 2006-07 so the recent years fund management practices cannot be considered.

1.7 Scheme of study

The study has been presented in four chapters;

1) Design of the study
2) Organizational profile of the bank
3) Analysis of fund management practices of the bank
4) Summary of findings and conclusions

REVIEW OF LITERATURE

Visalakshi (1996) observed that idle cash is a waste for the banks and efficient cash management is an important factor for enhancing profitability of the banks. Therefore the banks have to give considerable attention on their cash management.

Sukhdeve (1998) in his study on fund management observed that the risk is inherent in banking and it is unavoidable. It is the task of fund management not to avoid risk but to manage it and keep different types of risk within acceptable level.

Satish and Deshpande (1998) pointed out that in the context of economic and financial sector liberalization; the co-operative banks have to become self-dependent. They opined that grater emphasis has to be given on mobilization of resources like deposits as well as greater efficiency in deployment of funds.

Bhagavan Reddy and Ravivarma (1999) in their efforts to study about "management of funds in PACS" pointed out that the proportion of share capital in the working capital of PACS was very low and the PACS were mainly depending on borrowings from external agencies. The study highlighted the need for improving the share capital base of the bank. It also argued that the lending rate of the bank for short term, medium term and long term should be compatible with the borrowing rate of the bank.

Dayanandan and Sasikumar (1999) while evaluating the performance of DCBs of Kerala pointed out that for any financial institution it is an imperative need to have sufficient funds to meet its primary aim of improving socio economic life of the members and to strengthen itself financially.

Padmini (2000) conducted a study on Trends in pattern of sources and uses of funds of Distr5ict co-operative banks in Kerala. It states that through fund mobilization is done reasonably well in most of the selected DCB performed adequately well while the others lagged behind. Lack of profit and poor management practices were seen to be respective for this institution.

Dash (2000) opined that urban banks have to sharpen their operational and managerial skill in the context of economic reform and liberalization process in India. They highlighted the need for judicious management of funds by UCBs by formulating feasible strategies in the area of deposit mobilization, cash management, credit management, investment and asset liability management.

According to Satyanarayana (2000) the most important linkage in the liability mix is the expected risk element, which needs to be envisaged, measured and taken care of with in the regularity framework. Thus the parameters like risk adjusted spread i.e. net interest income and net interest margin will assume great importance.

Kamat (2001) in his attempt to study the "productivity challenges before co-operative banks" pointed out that a reduction in cost will certainly bring about improve in profitability. It can be achieved through enforcement of measures like mobilizing low cost resources and identifying cost effective avenues of deployment of funds such as loans and advances and investments.

Raikar (2003) analyzed "Growth, profitability and cost efficiency of urban co-operative banks in India". He stated that deposits comprise all important components of the bank working fund and the profitability of the latter depends on the cost effective mobilization of deposits. In fact, profitability of bank is significantly correlated to the efficient deployment of funds.

According to Renjankumar (2004) the financial and banking sector reforms initiated in recent years have brought about changes in the banking sector. The deregulation of interest rates clashed the market forces in determining the pricing policies on banks leading to the squeeze on business spreads. This has severely impacted the co-operative banks that traditionally have been functioning with the high financial and management cost regime.

Sadare (2004) in his study revealed that lower is the ratio of operating cost to total asset, better is the efficiency. There are many banks, which are having higher ratio in terms of operating expenses to total asset. If an attempt is made to reduce such ratios the same will help these banks to show better performance in terms of efficiency as well as profitability.

Samwel, Markkandayan, and Selvan (2006) revealed in the study that there are plenty of surplus resources with the urban and semi urban population, channelising these for the economic growth is the main task of the banks. For optimum utilization of their financial resources banks will have to maximize returns on these funds while minimizing their cost.

Chowdari (2006) analysed that Indian banks have been able to reduce the level of NPAs. Still they are in a dilemma whether to lend to corporates and follow up the recovery or shift their focus elsewhere. To this effect, they are moving towards safer side by increasing lending to housing sector, consumer durables etc. Although benefits of retail lending are many, corporate lending cannot be ignored. Banks should develop appropriate strategies in terms of risk management, lending practices etc, which will help to reduce NPAs in corporate credit.

Selvarani (2007) pointed that the Working capital is the amount of funds which a small scale industry must have to finance to day to day operations. An effective utilization of working capital results in the maximum of productivity and profit. Shortage of working capital and increased rate of interest charged by banks are the two major problems which cause difficulties to the women industrialists.

Natarajan (2007) opined that fund mobilization by SCBs in Kerala is comparatively easier when compared to other states, but most of the banks fail to properly utilize their deposits through disbursement of loans end up with surplus. Even though poor fund management put many of the SCBs in Kerala to incur loss, quite many of them fail to generate profit in carrying on their non banking business.

Mohan (2008) in his study concluded that the success of banks, by and large depends upon the management of funds. The fund management in co-operative banks requires new orientation for achieving higher productivity and profitability. Cost reduction in mobilizing resources and yield increase in deployment of funds are to be ensured. The banks have to keep a constant watch on the movement of funds to make sure not only that they are used to the best advantage but also that no financial difficulty arises in due course.

Sumitra Gowaiker (2008) in her study on "Transparency in management of co-operatives" reveals that regular members are the owners of the co-operatives and they must get the clear picture of financial matters and other policy matters of the co-operatives. Co-operatives will have to strike the balance between interests and business portfolios then adopt new strategies and steps to overcome the perceived limitations of the co-operative form of set up.

Dheenadhayalan and Devianbarasi (2009) pointed out in their study on "relationship between liquidity and profitability" that liquidity management becomes a basic and broad aspect of judging the performance of a corporate entity. The excessive liquidity indicates accumulation of idle funds and inadequate liquidity adversely affects the credit worthiness of the institution. Thus, the need for efficient liquidity management in corporate business life has always been significant for smooth running of the business.

Subbaiah, Jeyakumar and Umadevi (2009) revealed in the study that deposits are the basic raw material for the banks and deposit mobilization is a challenge to all the banks. Bank deposits not only provide the resources for investment and increasing employment, but also serve as a means of easing inflationary pressure by fostering the saving habits among the people.

Ravivarma and Rajendra Naidu (2009) pointed out on their study on the "Performance evaluation of PACS" that co-operative finance is the cheapest and best source of rural credit with low rate of interest. Major reasons for the development of regional imbalances in the development of PACS are insignificant deposit mobilization, poor share capital and heavy dependence on outside borrowings.

Pujari, Ashok, Suhag and Malik (2009) in their study they observed that deposits attracted by these societies increased double were still low. The shre of borrowings in total working capital of PACS showed declining trend due to increased deposits and owned capital. The amount of overdue to be recovered by PACS increased significantly. The stagnancy of value of CD ratio revealed increase in deposits and credits in same proportion. The government should increase share in working capital to advance more credit to rural people to meet their capital requirement.

Zakir and Natarajan (2010) pointed that there is a situational need to go in for modern banking practices for employees in co-operatives which are experiencing tough competition with commercial banks, new generation banks and within the co-operative fold itself. It is essential to efficiently utilize their workforce to the maximum in order to get a reasonable profit and survive in this competitive environment.

Organizational profile

CHAPTER 2
ORGANISATIONAL PROFILE - PUDUKAD SERVICE CO-OPERATIVE BANK LTD. NO. 580

2.1 Introduction

The Pudukad Service Co-operative Bank Ltd. No. 580 is one of the co-operative institutions in Thrissur district. The head office of the bank is situated at the Pudukad grama Panchayat. The bank has two branches, one of them functioning at Chengalloor and another one is at Thoravu. The area of operation of the PSCB is extended to the Thoravu and Chengalloor villages in the Pudukad panchayat spread over seven square kilometers.

Pudukad Service Co-operative Bank was registered on 20th January 1947. It was registered under the Kerala Co-operative Societies Act, 1969. It started functioning on 14th February 1947. The promoters of the society were mainly agriculturist and business people. On 31st March 1962, the society was registered as a service co-operative society in order to increase the quantum of agricultural and business loans.

2.2 Objectives

The objectives of PSCB as per byelaws are the following:

1. To promote thrift, self help and mutual help among the members and facilitate programmes for this purpose.

2. To grant short term and medium term loans to members.

3. To accept deposits from individuals and other institutions.

4. To gather seeds, fertilizers, insecticides, agricultural implements and other resources required for agricultural and domestic industries and to open consumer depots within the area of operation of the bank.

5. To supply agricultural and industrial produce to the members for their benefit, through marketing societies.

6. To render assistance to members for producing new kinds of seeds.

7. To acquire warehouses to procure and preserve the produces of the members.

8. To acquire movable and immovable assets required for the functioning of the bank.

9. To open branches within the area of operation of the bank with the approval of the Registrar.

10. To purchase agricultural implements for members on rental basis.

11. To accept valuables and securities for safe custody.

12. To create various financial schemes for financial stability of members.

Table 2.1 Detailed data of the bank for 15 years (1992-93 to 2006-07)

Year	Membership	Share capital (Rs in lakhs)	Reserves (Rs in lakhs)	Deposits (Rs in lakhs)	Borrowings (Rs in lakhs)	Loans and Advances (Rs in lakhs)	Overdue (Rs in lakhs)	Net profit/loss (Rs in alkhs)
1992-1993	60678	7.0533	8.7007	195.2717	16.9370	133.8889	12.0909	-5.5582
1993-1994	73306	8.4151	10.7744	248.4250	21.1262	171.3333	15.72704	5.3422
1994-1995	89489	10.0334	9.4830	305.6386	20.1580	173.8165	17.1335	8.4819
1995-1996	108994	11.9839	14.0344	315.9399	17.3247	260.1302	21.8596	1.0245
1996-1997	124496	13.5341	14.0158	416.0462	23.7185	303.9795	37.7723	6.7646
1997-1998	146322	17.0217	15.5689	489.9194	33.3456	376.5919	39.8911	1.4430
1998-1999	191227	21.2467	17.7988	677.2575	30.6194	484.7529	46.1859	5.0511
1999-2000	279320	30.8165	21.5883	924.6628	44.9675	632.4482	55.6236	3.6931
2000-2001	393435	41.9209	35.6339	1123.569	44.8520	824.7050	78.9433	5.9644
2001-2002	491413	51.5911	91.5960	1426.9995	34.8037	933.1020	83.5562	2.3701
2002-2003	576476	59.5061	47.2198	1684.8139	1.5745	1163.4562	97.0493	0
2003-2004	866565	60.5044	52.4895	1878.3016	1.0594	1366.2829	115.4856	4.2403
2004-2005	580391	59.2298	82.0532	2213.2472	1.7598	1582.6027	128.1243	11.1743
2005-2006	563221	57.4109	96.2678	2637.4814	1.0549	1825.5031	140.1183	20.8745
2006-2007	1144595	58.2937	152.0030	3288.6508	1.0177	2378.4712	183.4892	31.2235

Source: Audited reports of the PSCB Ltd No.580 from 1992-93 to 2006-07

2.3 Membership

A person is admitted in a co-operative as a member as per the provisions in the Act, rules and byelaws. The supreme authority of co-operative is vested with the general body which is constituted by its members. Any person who has attained 18 years of age, a resident or having landed property within the jurisdiction of the bank and who is of sound mind can become the member of the bank.

The Pudukad Service Co-operative Bank has three types of members, 'A' class, 'B' class and 'C' class. The 'A' class members are the individuals who are the real stake holders of the bank. Only 'A' class members have the right to vote and constitute general body of the bank. 'B' class members are the Government and NCDC. 'C' class members are the nominal members who avail gold loan facility and they have no other rights.

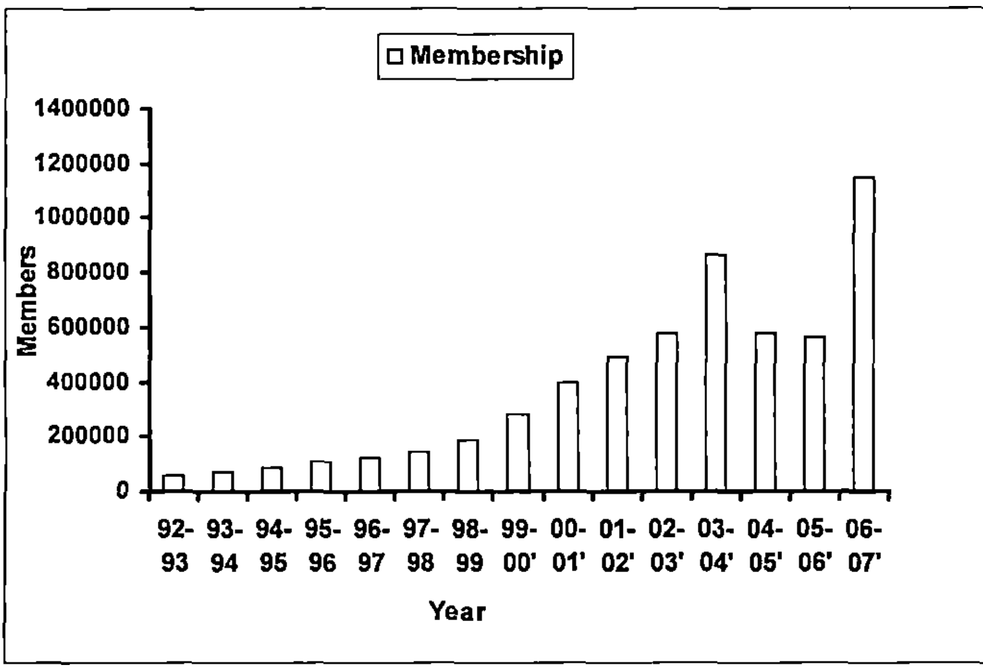

Fig 2.1 membership of PSCB Ltd No.580 from 1992-93 to 2006-07

2.4 Management

The General Body is the supreme authority. Management of the bank is vested with the Board of Directors of the bank consisting of nine members elected by the General Body. Out of the nine members one seat is reserved for women and one seat for SC/ST candidates. The tenure of the Board of Directors is five years. The President of the bank is elected by the directors.

ORGANISATIONAL STRUCTURE

General Body

Board of Directors

President

Secretary

Assistant Secretary

Internal Auditor

Branch Manager

Accountant

Senior Clerk

Junior Clerk

Appraisal

Attender

Peon

2.5 Mobilization of funds

The common sources of funds are the share capital, reserve fund, deposits and borrowings.

2.6 Share capital

The paid-up share capital is the important component in the owned funds of the bank. All the members of the bank contribute to the share capital. The value of shares in primary units is kept low in order to accommodate economically weaker individuals. 'A' class share is Rs. 10/- each. 'B' class share is Rs. 100/- each and 'C' class share is Rs. 2/- each. An individual can become the member only after the purchase of shares. A member can withdraw his share capital only after five years of joining.

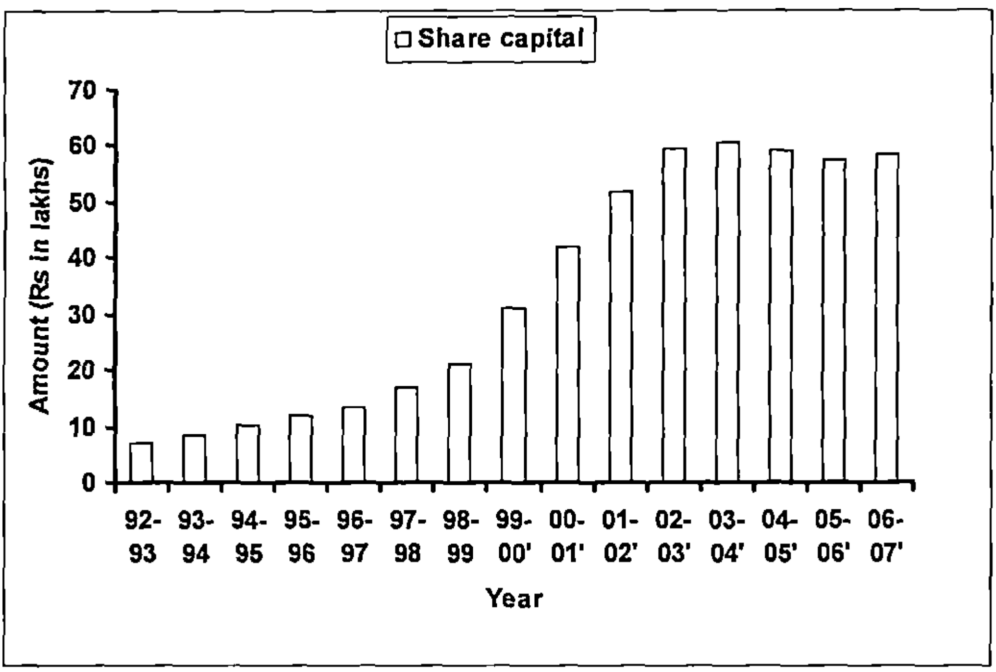

Fig 2.2 Share Capital of PSCB Ltd No.580 from 1992-93 to 2006-07

2.7 Reserve Funds

A reserve fund refers the appropriation of profit of the bank to meet an unknown and uncertain future contingency. It is a component of owned fund of the bank. The reserve fund of the bank is to be kept as per the Kerala Co-operative

Societies Act, 1969.According to the bye law of the bank reserve fund is invisible and no members shall have the right to claim on it. Reserves are of two types, statutory and non statutory reserves.

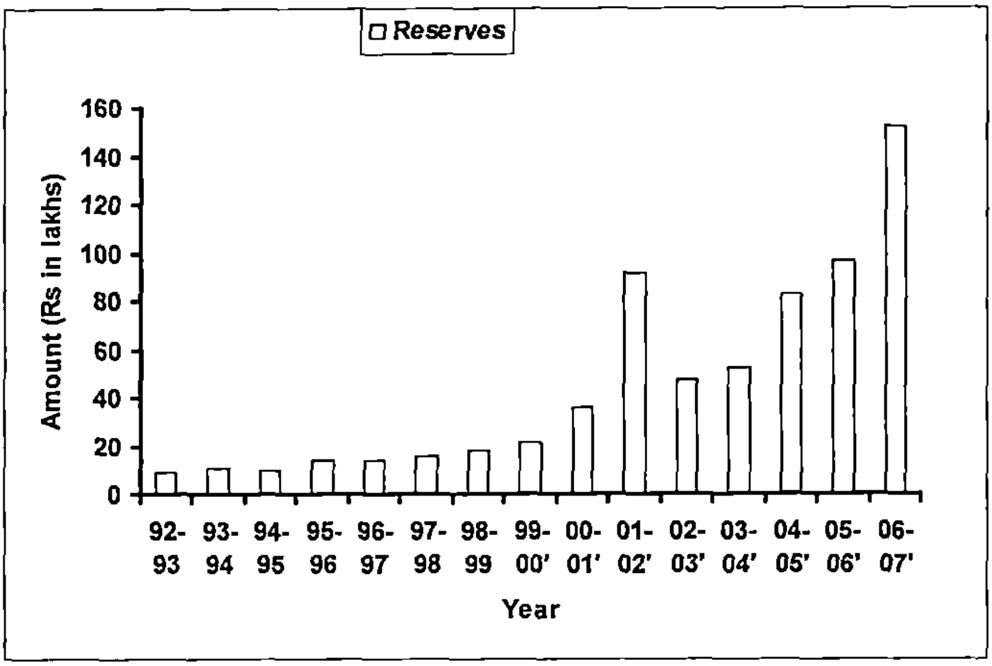

Fig 2.3 Reserves of PSCB Ltd No.580 from 1992-93 to 2006-07

2.8 Deposits

Deposits constitute the important source of funds of primary credit societies to mobilize rural savings. Deposits are regarded as the life blood of the banking business. Since deposits constitute bulk of the resources it determines the lending capacity of the bank. Deposits are accepted from both members and non members. Deposits create the relationship applicable to that of banker-customer relationship in ordinary banking world.

2.8.1 Fixed Deposit

Fixed deposits are deposits received by the bank for a fixed period specified in advance. The rate of interest depends up on the period for which it is deposited. At the time of depositing the depositor will get a document called Fixed Deposit Receipt stating the amount, period of maturity and rate of interest. The interest rate is 4.5- 10 percent.

2.8.2 Savings Deposit

Any person can open a savings bank account with the bank by maintaining a minimum balance of Rs.500/-. Savings deposit is maintained by the bank to pool the small savings of low rate middle income group. The interest rate is 6 percent.

2.8.3 Recurring Deposit

To motivate the savings of people the bank collects monthly deposit from public. This type of deposits is known as recurring deposit. The depositor has to deposit a fixed equal installment up to the maturity date. The amount can be withdrawn only after the maturity date.

2.8.4 Current Deposit

Current deposit usually opened by the business people. Current deposits are repayable on demand and fetch no interest.

2.8.5 Treasury Deposit

It is a daily deposit scheme. As per this scheme the deposit of Rs.10/- per day for a period of 460 days. After the period the bank will return the amount to the depositor. The bank will give a passbook to the depositor; the payment of deposit is entered in the passbook.

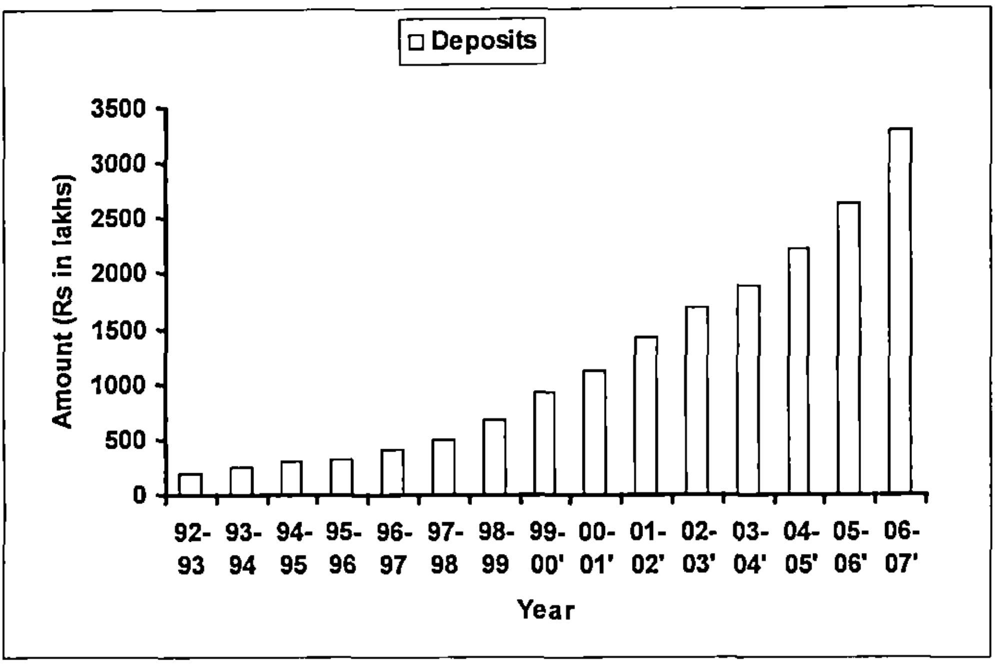

Fig 2.4 Deposits of PSCB Ltd No.580 from 1992-93 to 2006-07

2.9 Borrowings

Borrowings of the bank form part of borrowed funds occupy an important place on the working capital of co-operative banks; too much dependence in this fund is not a good sign for self reliance in resources. The Board of Directors can borrow funds with the prior approval of the Registrar and the financing bank, either from members and non members or from other institutions or from the Government. The PSCB has borrowed from Thrissur District Co-operative Bank. A part of the borrowings are used for lending purposes and also for satisfying liquidity needs of the bank. The borrowings include short term, medium term and long term loans. The loans thus availed by the bank are again lent to the members for agricultural and non agricultural purposes.

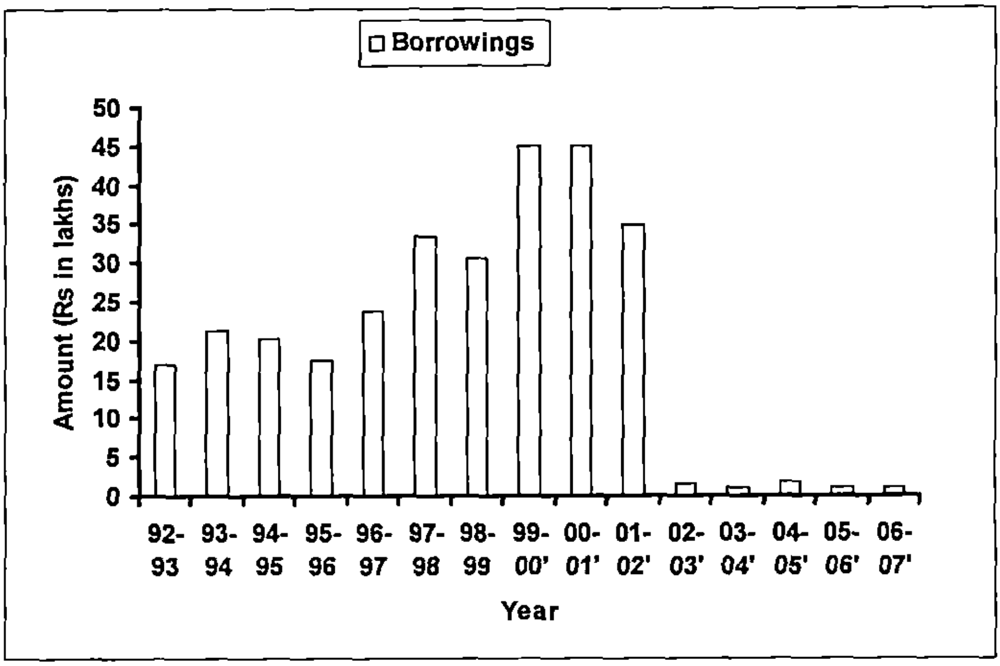

Fig 2.5 Borrowings of PSCB Ltd No.580 from 1992-93 to 2006-07

2.10 Deployment of funds

The credit co-operatives in Kerala have drawn national attention through their spectacular achievement in deposit mobilization. But their performance in loan operation is not much appreciable. The funds collected by the banks in various forms are to be deployed in profitable avenues.

2.11 Loans and Advances

Giving loans and advances is the most important function of the bank. Loans are granted after the approval of the Board of Directors. The bank provides loans and advances only to its members.

2.11.1 Short term loans

The short term loans are provided for a maximum period of 18 months. Short term loans include loans for both agricultural and non agricultural purpose. Short term agricultural loans are provided to small and marginal farmers. Non agricultural loans include personal and consumption loans. The maximum limit for agricultural loan is determined on the basis of the scale of the agricultural projects.

2.11.2 Medium term loans

The medium term loans are given for a period ranging from 3 to 5 years for the development purposes such as reclamation of land, purchase of land and small machines, digging and repairs of wells and for self employment schemes.

2.11.3 Long term loans

The bank issues long term loans for a period ranging from 5 to 15 years. Long term loans are given for making permanent improvement of land, construction of minor irrigation sources, and purchase of costly agricultural implements. The members have to mortgage their land for getting the loans.

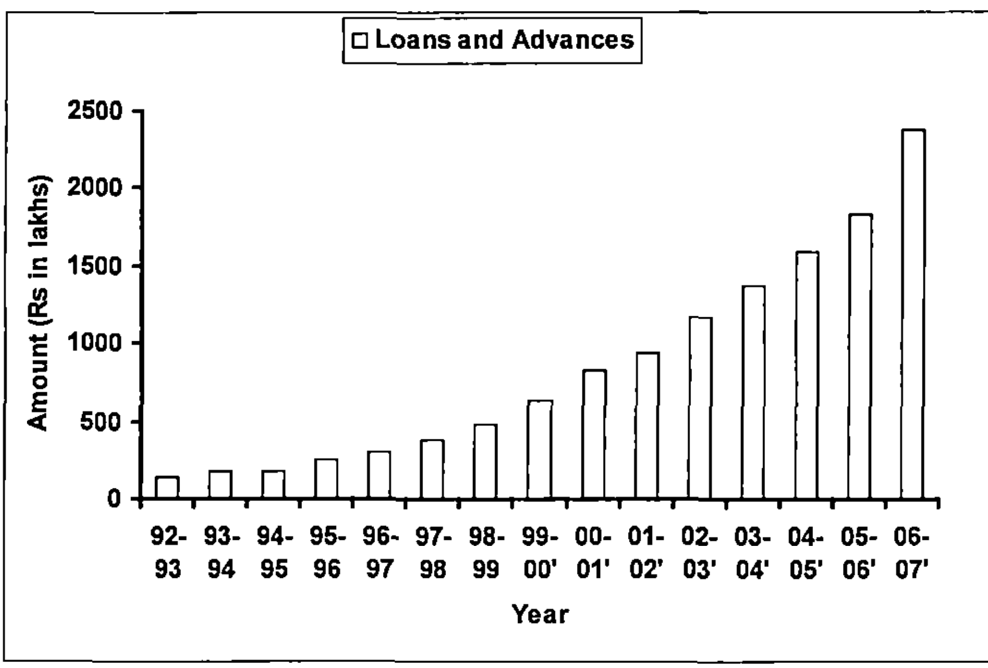

Fig 2.6 Loans and Advances of PSCB Ltd No.580 from 1992-93 to 2006-07

2.12 Overdues

Like credit societies in other states the problem of overdues continues to be a major challenge confronting the PACS in the state. If the overdues are increasing, it adversely affects the profitability of the bank. The management should take proper measures to overcome the situation.

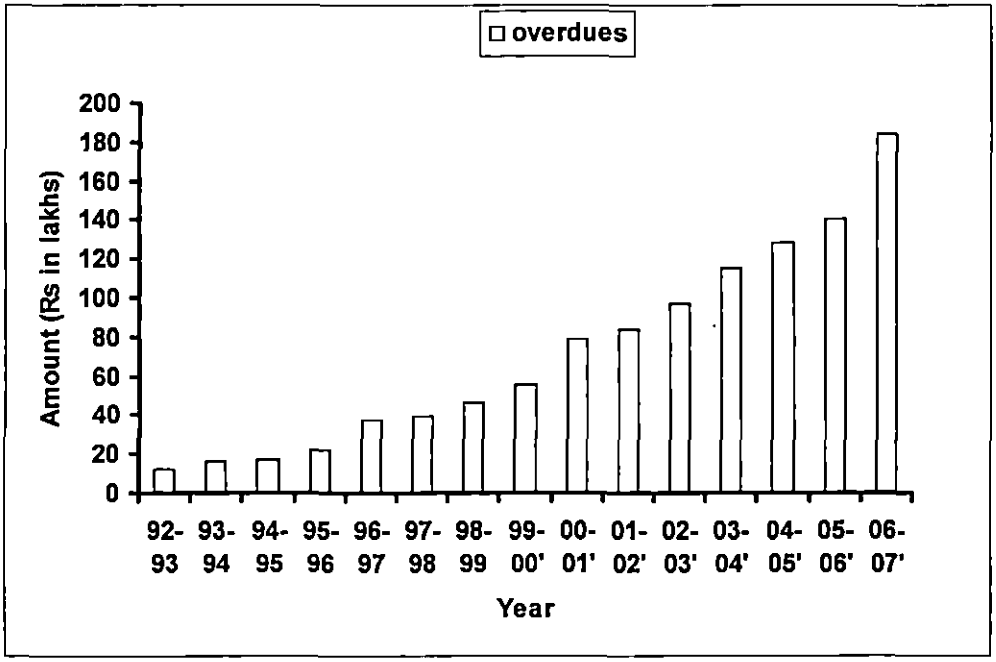

Fig 2.7 Overdues of PSCB Ltd No.580 from 1992-93 to 2006-07

2.13 Net profit/loss

Net profit is balance amount as per profit and loss account of the bank. Net profit is obtained by deducting total expenditure from total income. Profitability means that the ability of the firm, business organizations and enterprises to earn adequate profit, which reflects the overall efficiency in management of the bank.

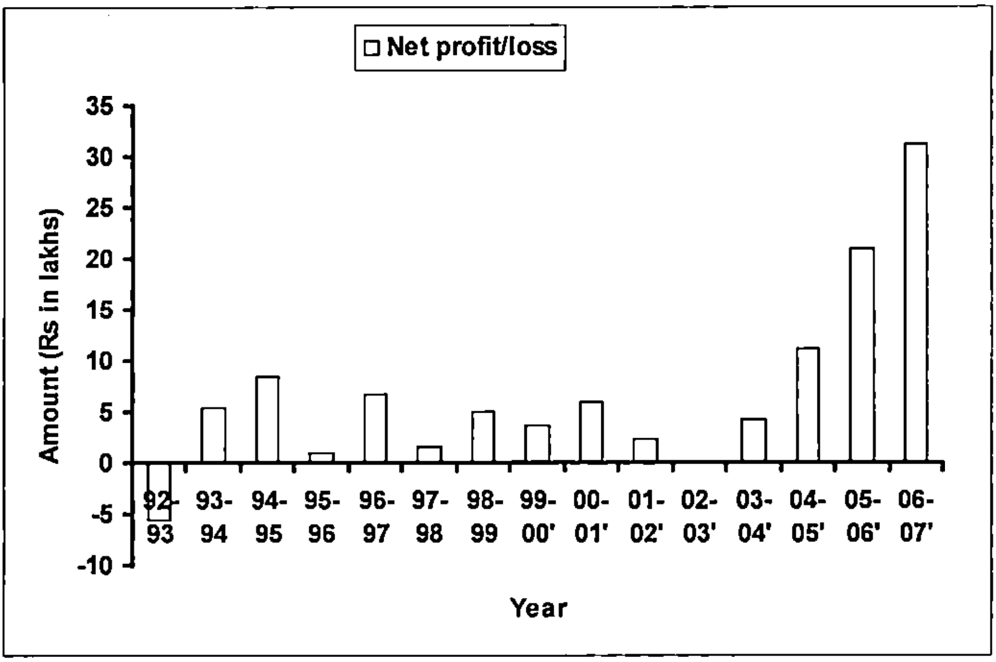

Fig 2.8 Net profit/loss of PSCB Ltd No.580 from 1992-93 to 2006-07

Conclusion

The Pudukad Service Co-operative Bank has been extending its maximum service to its valuable members of Pudukad grama panchayat. From the figures it depicts that the deposits were increased from year to year. It shows the confidence of the members against bank. The bank has been trying to fulfill all its member's needs and aspirations in a very sincere way.

Analysis

CHAPTER 3

ANALYSIS OF FUND MANAGEMENT PRACTICES IN PUDUKAD SERVICE CO-OPERATIVE BANK LTD NO 580

The term fund is an integral part of modern economic life and occupies an important place in all economic activities. In a narrow sense, the term fund has been defined to mean cash. But in a broader sense, fund is defined as net working fund available to the organization. Fund management refers to the management of net funds available for investment and external funds purchased from other banks. It aims at mobilizing adequate resources in most convenient but cost effective manner and at optimum utilization of scarce resources for best monetary and social terms. Fund management is more of a treasury function than asset liability management, which deals mainly with control of interest rate risk and liquidity risk, and the pricing of loans in specific time periods.

In this chapter, the objective is to examine the fund management practices of Pudukad Service Co-operative Bank. The analysis of fund management practices of PSCB are studied with the help of ratio analysis. A ratio is a quantitative relationship between two figures. These quantitative relationships provide very useful guidelines for qualitative judgement.

The ratios are derived from the audit reports of the bank, for a period of 15 years from 1992-93 to 2006-07. For the purpose of the study the ratios are grouped into three categories.

3.1 Efficiency in Mobilization

For efficient functioning of a banking institution, funds are required and these funds should be mobilized in a rational way. This requires a systematic analysis of the efficiency in the mobilization of funds. The following ratios are used for the purpose.

1. Owned Funds to Working Capital Ratio
2. Borrowed Funds to Working Capital Ratio
3. Deposits to Working Capital Ratio
4. Deposits to Borrowed Funds Ratio
5. Owned Funds to Borrowed Funds Ratio

3.1.1 Owned Funds to Working Capital Ratio

This ratio indicates the share of own funds in the working capital. A higher ratio is desirable in this regard since it reflects the sufficiency of the owned funds. It gives a picture of bank's ability to mobilize own funds. The ratio is calculated by using the formula

$$\left(\frac{\text{Owned Funds}}{\text{Working Capital}}\right) \text{X } 100$$

Owned Funds = Share capital + Reserves

Working Capital = (Share capital + Reserves + Deposits + Borrowings- Investment in Fixed Assets)

Table 3.1 Ratio of Owned Funds to Working Capital of PSCB
From 1992-93 to 2006-07 (Rs in lakhs)

Year	Owned funds	Working Capital	Ratio
1992-1993	15.7541	216.0481	7.2918
1993-1994	19.1895	266.3713	7.2040
1994-1995	19.5164	328.3287	5.9441
1995-1996	26.0183	336.6286	7.7290
1996-1997	27.5499	438.1198	6.2882
1997-1998	32.5906	521.4790	6.2496
1998-1999	39.0455	705.1008	5.5375
1999-2000	52.4048	960.2732	5.4572
2000-2001	77.5548	1161.4817	6.6772
2001-2002	143.1871	1467.5634	9.7567
2002-2003	106.7259	1597.0087	6.6828
2003-2004	112.9939	1754.4833	6.4402
2004-2005	141.2830	2182.9151	6.4722
2005-2006	153.6787	2631.0324	5.8410
2006-2007	210.2967	3360.7636	6.2574

Source: Audited Reports of the PSCB Ltd No. 580 from 1992-93 to 2006-07

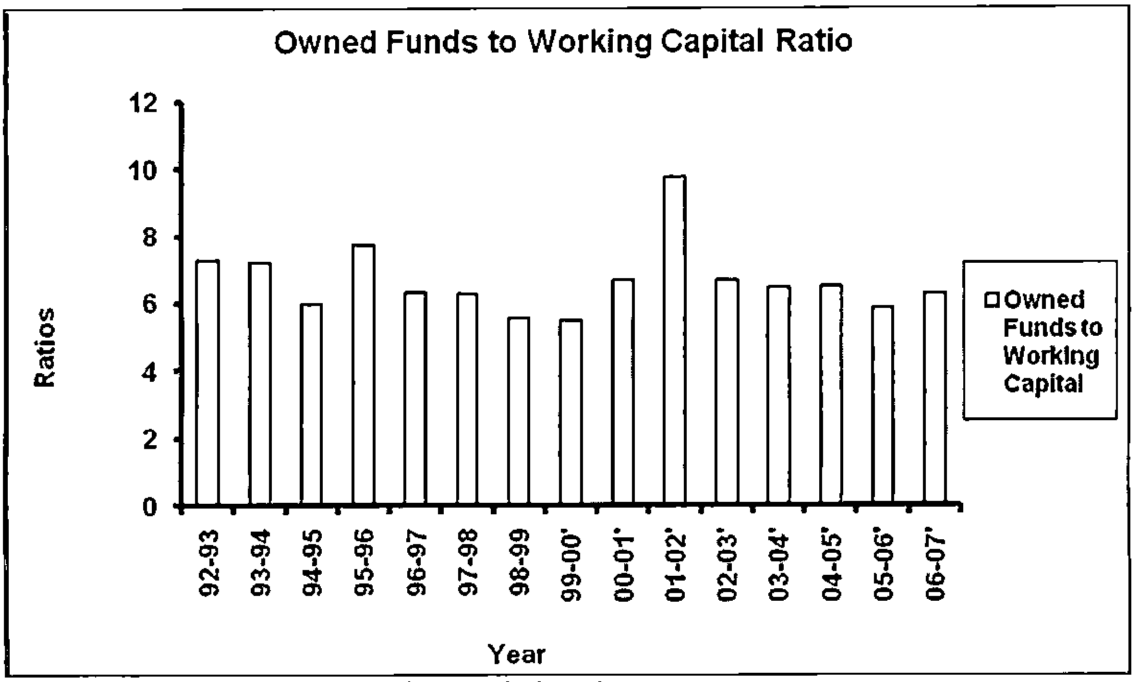

Fig 3.1 Owned Funds to Working Capital Ratio

Table 3.1 reveals the ratio of Owned Funds to Working Capital of the bank for the period of fifteen years from 1992-93 to 2006-07. As per the table a fluctuating trend was shown during the period. The ratio showed that owned funds constitutes a lesser share of WC of the bank. By increasing the owned funds the bank can reduce the interest expense, so a higher ratio is always preferable.

3.1.2 Borrowed Funds to Working Capital Ratio

The ratio highlights the share of Borrowed Funds in Working Capital. A higher ratio is an indicative of higher share of borrowed funds in the working capital and smaller ratio indicates the dominance of owned funds in the working capital. The borrowed fund would affect cost and unless the bank ensures profitable deployment of such funds, the bank may have to suffer losses. The ratio is calculated by using the formula:

$$\left(\frac{\text{Borrowed Funds}}{\text{Working Capital}} \right) \text{X } 100$$

Borrowed Funds = Deposits + Borrowings

Working Capital = (Share capital + Reserves + Deposits + Borrowings- Investment in Fixed Assets)

Table 3.2 Ratio of Borrowed Funds to Working Capital of PSCB
From 1992-93 to 2006-07 (Rs in lakhs)

Year	Borrowed fund	Working Capital	Ratio
1992-1993	212.2087	216.0481	98.2229
1993-1994	269.5512	266.3713	101.1938
1994-1995	325.7966	328.3287	99.2287
1995-1996	333.2646	336.6286	99.0006
1996-1997	439.7647	438.1198	100.3754
1997-1998	523.2650	521.4790	100.3425
1998-1999	707.8769	705.1008	100.3937
1999-2000	969.6303	960.2732	100.9744
2000-2001	1168.4205	1161.4817	100.5974
2001-2002	1461.8032	1467.5634	99.6075
2002-2003	1686.3884	1597.0087	105.5967
2003-2004	1879.3610	1754.4833	107.1176
2004-2005	2215.0070	2182.9151	101.4701
2005-2006	2638.5363	2631.0324	100.2852
2006-2007	3289.6685	3360.7636	97.8845

Source: Audited Reports of the PSCB Ltd No. 580 from 1992-93 to 2006-07

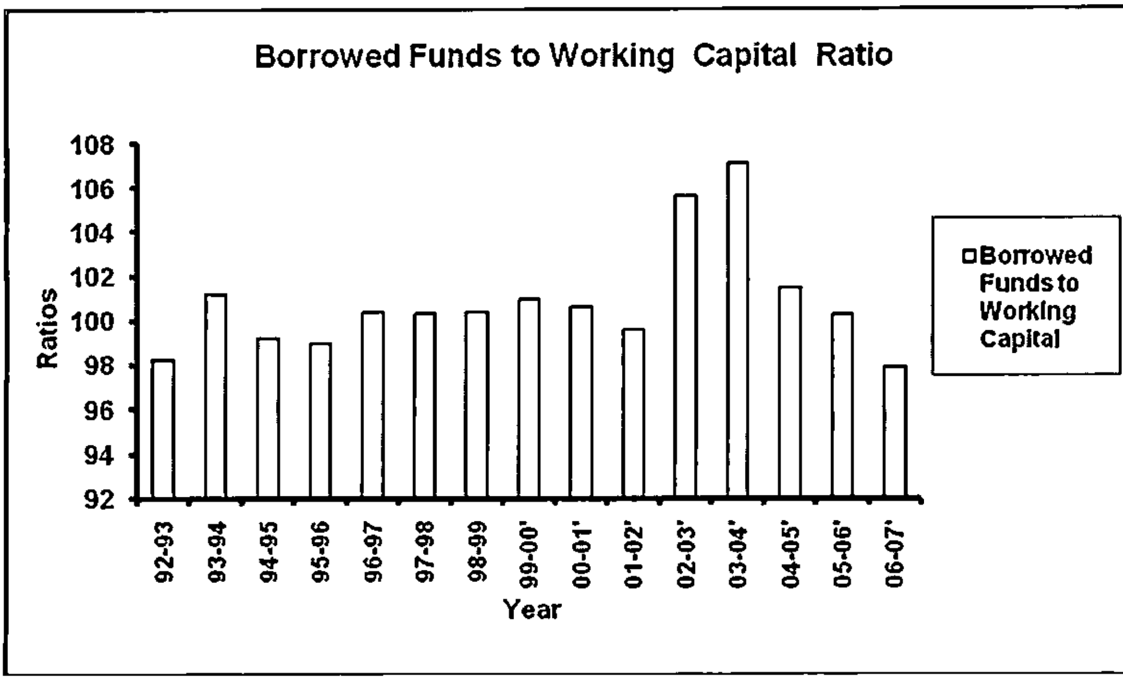

Fig 3.2 Borrowed Funds to Working Capital Ratio

Table 3.2 states that the ratio of borrowed funds to working capital of the bank for fifteen years from 1992-93 to 2006-07. The table shows a fluctuating trend during the period. The ratio showed that borrowed fund constitutes a major share of working capital of the bank. As the share of BF in the WC increases, the interest expense of the bank will also increase. So a lesser ratio is always good for bank.

3.1.3 Deposits to Working Capital Ratio

Deposits constitute a major portion of working capital. This ratio indicates the share of deposits in the working capital. It is an indicator of bank's dependence on deposits as a source of fund. A higher ratio is desirable since it reflects the ability of the bank to mobilize deposits from public and members. This ratio has to be related to interest paid on deposits. The ratio is calculated by using the formula:

$$\left(\frac{\text{Deposits}}{\text{Working Capital}} \right) \text{X } 100$$

Deposits are the deposits received by the bank

$$\text{Working Capital} = \left\{ \begin{array}{l} \text{Share capital + Reserves + Deposits + Borrowings} - \\ \text{Investment in Fixed Assets} \end{array} \right\}$$

Table 3.3 Ratio of Deposits to Working Capital of PSCB from 1992-93 to 2006-07 (Rs in lakhs)

Year	Deposits	Working Capital	Ratio
1992-1993	195.2717	216.0481	90.3834
1993-1994	248.425	266.3713	93.2626
1994-1995	305.6386	328.3287	93.0892
1995-1996	315.9399	336.6286	93.8541
1996-1997	416.0462	438.1198	94.9617
1997-1998	489.9194	521.4790	93.9480
1998-1999	677.2575	705.1008	96.0511
1999-2000	924.6628	960.2732	96.2916
2000-2001	1123.5685	1161.4817	96.7357
2001-2002	1426.9995	1467.5634	97.2359
2002-2003	1684.8139	1597.0087	105.4981
2003-2004	1878.3016	1754.4833	107.0573
2004-2005	2213.2472	2182.9151	101.3895
2005-2006	2637.4814	2631.0324	100.2451
2006-2007	3288.6508	3360.7636	97.8542

Source: Audited Reports of PSCB Ltd No. 580 from 1992-93 to 2006-07

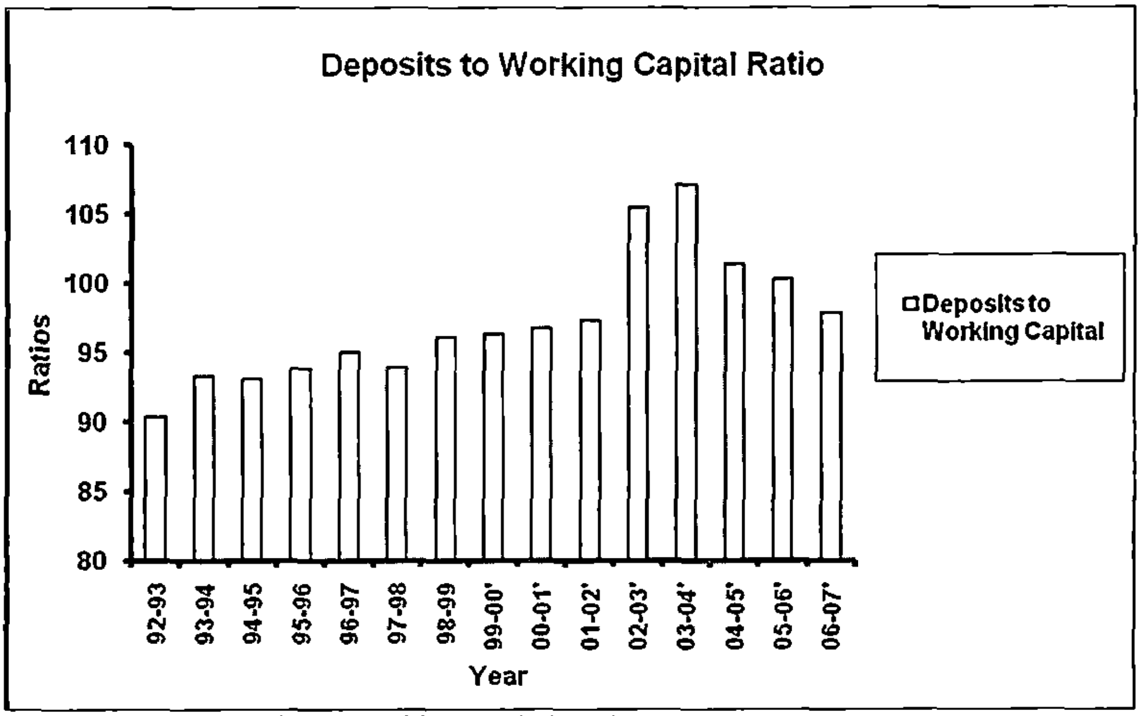

Fig 3.3 Deposits to Working Capital Ratio

Table 3.3 indicates that the ratio of deposits to working capital of the bank for fifteen years from 1992-93 to 2006-07. The amount of deposits is increasing from year to year. The ratio depicts that the contribution of deposits in working capital is high. It shows the efficiency in the deposit mobilization of the bank. The highest ratio was recorded during 2003-04 (107.0573) and the lowest ratio was recorded during 1992-93 (90.3834).

3.1.4 Deposits to Borrowed Funds Ratio

This ratio is the measure of the efficiency of the bank in mobilizing funds locally on its own strength. Deposits are only one form of borrowings for the service co-operative bank. This ratio indicates the share of deposits in the borrowed funds. A higher ratio indicates more amounts of deposits in borrowed funds and the lower ratio shows the dominance of borrowings in the borrowed funds. The ratio is calculated by using the formula:

$$\left(\frac{\text{Deposits}}{\text{Borrowed Funds}} \right) \text{X } 100$$

Deposits are the deposits received by the bank

Borrowed Funds = Deposits + Borrowings

Table 3.4 Ratio of Deposits to Borrowed Funds of PSCB from 1992-93 to 2006-07 (Rs in lakhs)

Year	Deposits	Borrowed funds	Ratio
1992-1993	195.2717	212.2087	92.01871
1993-1994	248.4250	269.5512	92.16245
1994-1995	305.6386	325.7966	93.8127
1995-1996	315.9399	333.2646	94.80152
1996-1997	416.0462	439.7647	94.60655
1997-1998	489.9194	523.2650	93.6274
1998-1999	677.2575	707.8769	95.67447
1999-2000	924.6628	969.6303	95.36241
2000-2001	1123.5685	1168.4205	96.16131
2001-2002	1426.9995	1461.8032	97.61913
2002-2003	1684.8139	1686.3884	99.90663
2003-2004	1878.3016	1879.3610	99.94363
2004-2005	2213.2472	2215.0070	99.92055
2005-2006	2637.4814	2638.5363	99.96002
2006-2007	3288.6508	3289.6685	99.96906

Source: Audited Reports of PSCB Ltd No. 580 from 1992-93 to 2006-07

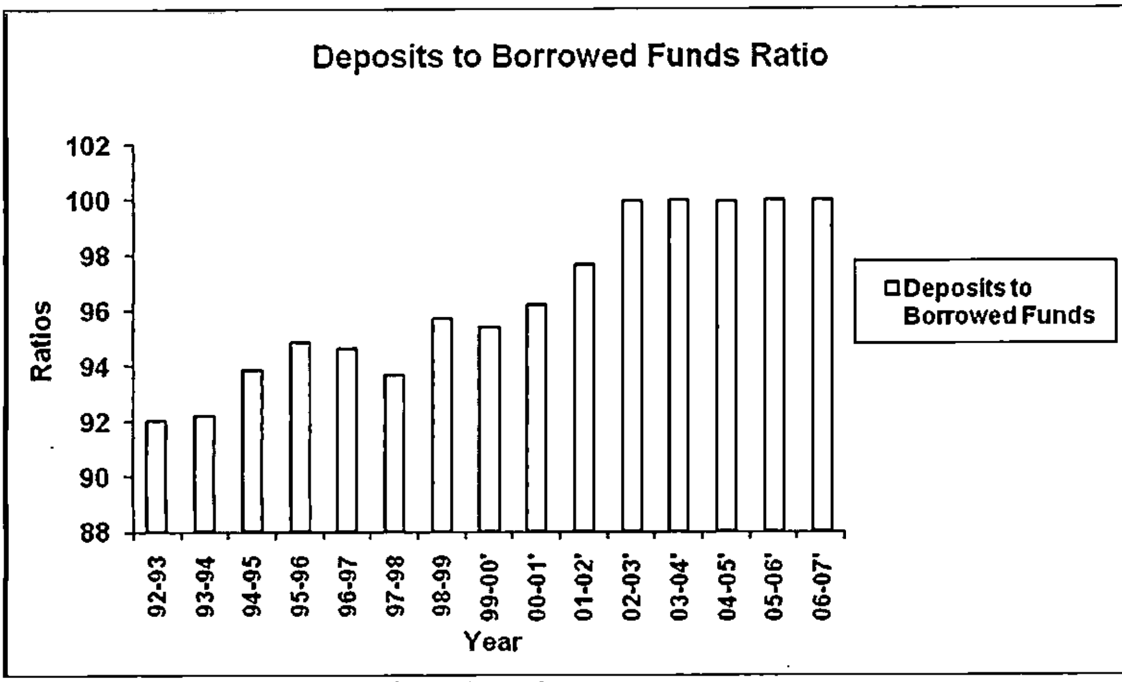

Fig 3.4 Deposits to Borrowed Funds Ratio

The table 3.4 highlights that the deposits to borrowed fund ratio for fifteen years from 1992-93 to 2006-07. The ratio shows an increasing trend. It indicates that major part of the borrowed funds are deposits not the borrowings. The share of deposits to borrowed funds was around 95 percent over the years.

3.1.5 Owned Funds to Borrowed Funds Ratio

This ratio shows whether the bank depends more on owned funds or borrowed funds. Higher ratio indicates the increased share of owned funds in the functioning of the bank. Owned funds include share capital and reserves. Borrowed funds include deposits and borrowings. The ratio can be expressed as:

$$\left(\frac{\text{Owned Funds}}{\text{Borrowed Funds}}\right) \text{X } 100$$

Owned Funds = Share Capital + Reserves

Borrowed Funds = Borrowings + Deposits

Table 3.5 Ratio of Owned Funds to Borrowed Funds of PSCB from 1992-93 to 2006-07

(Rs in lakhs)

Year	Owned funds	Borrowed funds	Ratio
1992-1993	15.7541	212.2087	7.4238
1993-1994	19.1895	269.5512	7.1191
1994-1995	19.5164	325.7966	5.9904
1995-1996	26.0183	333.2646	7.8071
1996-1997	27.5499	439.7647	6.2647
1997-1998	32.5906	523.2650	6.2283
1998-1999	39.0455	707.8769	5.5159
1999-2000	52.4048	969.6303	5.4046
2000-2001	77.5548	1168.4205	6.6376
2001-2002	143.1871	1461.8032	9.7952
2002-2003	106.7259	1686.3884	6.3287
2003-2004	112.9939	1879.3610	6.0124
2004-2005	141.2830	2215.0070	6.3784
2005-2006	153.6787	2638.5363	5.8244
2006-2007	210.2967	3289.6685	6.3926

Source: Audited Reports of PSCB Ltd No. 580 from 1992-93 to 2006-07

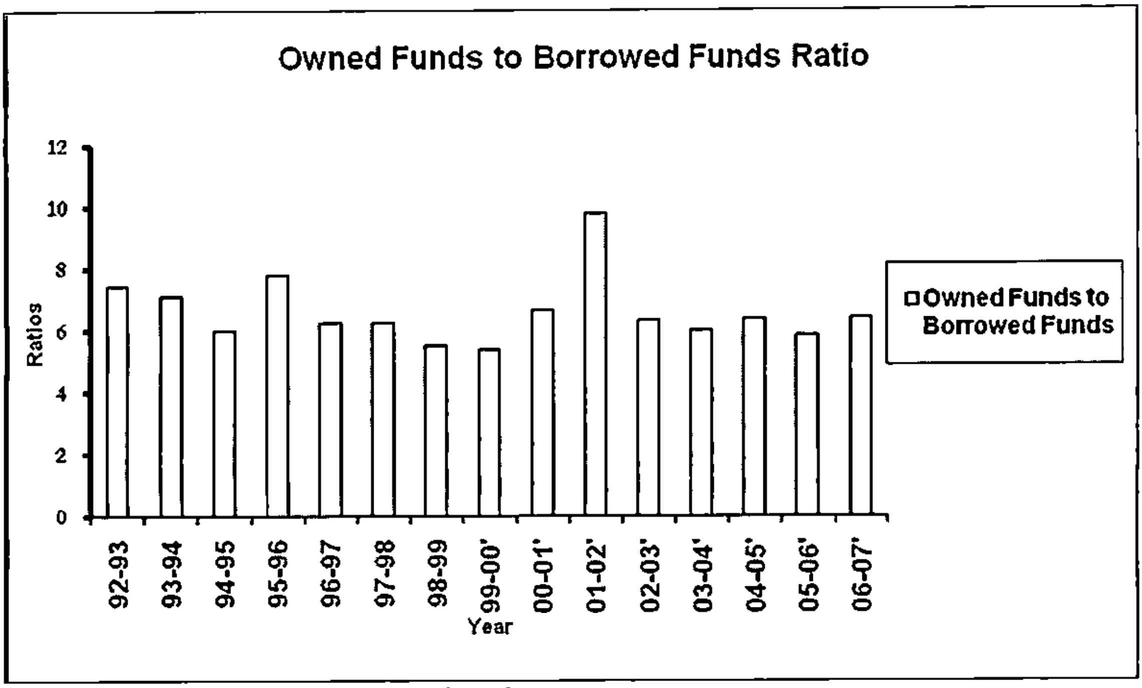

Fig 3.5 Owned Funds to Borrowed Ratio

Table 3.5 shows the Owned Funds to Borrowed Funds for fifteen years from 1992-93 to 2006-07. The ratio shows a fluctuating trend. In the period 2001-02 there was a highest ratio 9.7952. Ratio depicts the dominance of borrowed funds over owned funds.

3.2 Efficiency in Deployment

The funds collected by the banks through owned funds and borrowed funds are to be deployed in profitable avenues. The following ratios are used for analyzing the efficiency of deployment of funds.

1. Credit to Deposits Ratio
2. Credit to Working Capital Ratio
3. Credit to Owned Funds Ratio
4. Credit to Borrowed Funds Ratio
5. Credit to Total Funds Ratio

3.2.1 Credit to Deposits Ratio

Credit to Deposits Ratio indicates the ability of the bank to deploy credit out of the deposits mobilized. It is computed for knowing the performance of bank in converting the cost incurring funds into maximum interest earning assets. A major share of income of the bank is derived out of the income from loans and advances. At the same time a major share of expenditure of the bank constitutes interest expended on deposits. So it is very important from the point of interest margin. The ratio is expressed as:

$$\left(\frac{\text{Credit}}{\text{Deposits}}\right) \text{X } 100$$

Credits are the loans and advances given by the bank

Deposits are the deposits received by the bank

Table 3.6 Ratio of Credit to Deposits of PSCB from 1992-93 to 2006-07 (Rs in lakhs)

Year	Credit	Deposits	Ratio
1992-1993	133.8889	195.2717	68.5654
1993-1994	171.3333	248.4250	68.9678
1994-1995	173.8165	305.6386	56.8699
1995-1996	260.1302	315.9399	82.3353
1996-1997	303.9795	416.0462	73.0639
1997-1998	376.5919	489.9194	76.8681
1998-1999	484.7529	677.2575	71.5759
1999-2000	632.4482	924.6628	68.3977
2000-2001	824.7050	1123.5685	73.4005
2001-2002	933.1020	1426.9995	65.3891
2002-2003	1163.4562	1684.8139	69.0555
2003-2004	1366.2829	1878.3016	72.7403
2004-2005	1582.6027	2213.2472	71.5059
2005-2006	1825.5031	2637.4814	69.2139
2006-2007	2378.4712	3288.6508	72.3236

Source: Audited Reports of PSCB Ltd No. 580 from 1992-93 to 2006-07

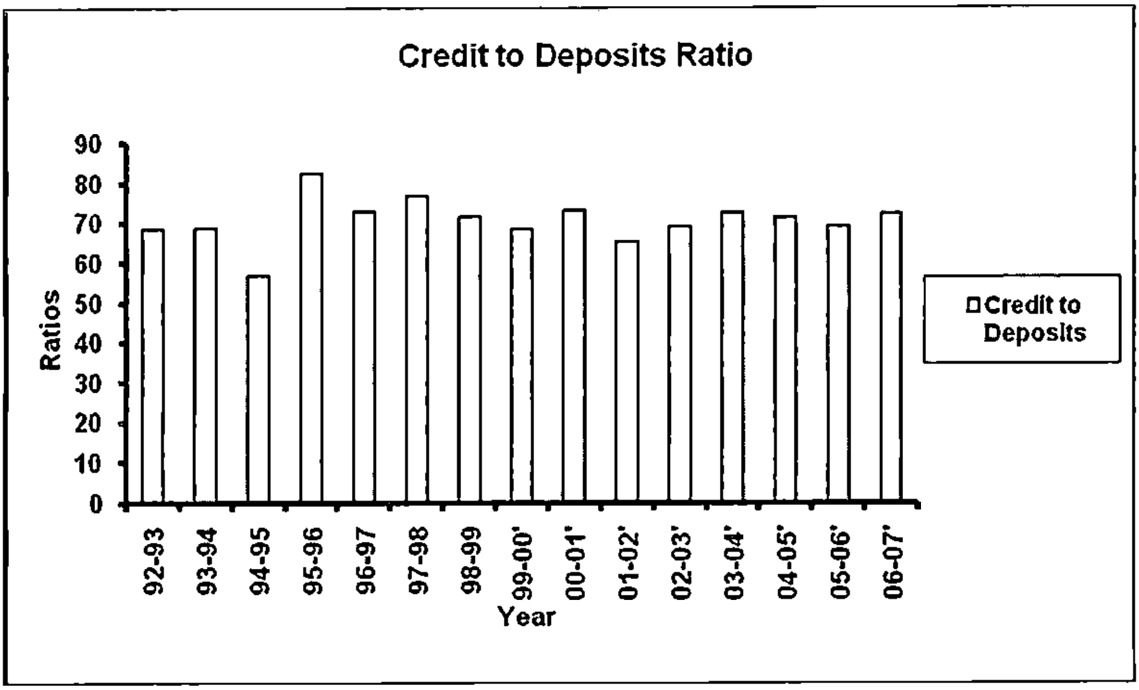

Fig 3.6 Credit to Deposits Ratio

From table 3.6 it can be seen that the ratio of Credit to Deposits for fifteen years. A higher CD Ratio indicates a larger portion of deposits are given as loans and advances which generating loans and advances to the bank. On the other hand a lower CD Ratio shows that only a small portion of deposits are used for giving loans and advances. So a higher CD Ratio is always preferred. The ratio shows a steady trend over the reference period. The highest ratio recorded in 1995-1996(82.3353) and the lowest ratio in the period 2001-2002(65.3891).

3.2.2 Credit to Working Capital Ratio

Giving loans and advances to its members and non members is one of the major functions of the bank. Credit to Working Capital Ratio is the quantitative measure of the loaning operation of the bank. This ratio indicates how much portion of working capital is used for giving loans and advances. This is a comprehensive ratio to study the efficiency of bank in managing the funds. Higher the ratio higher will be the efficiency in managing funds. Formula for the calculation of this ratio is:

$$\left(\frac{\text{Credit}}{\text{Working Capital}} \right) \times 100$$

Credits are the loans and advances given by the bank

Working Capital = (Share capital + Reserves + Deposits + Borrowings – Investment in Fixed Assets)

Table 3.7 Ratio of Credit to Working Capital of PSCB from 1992-93 to 2006-07 (Rs in lakhs)

Year	Credit	Working Capital	Ratio
1992-1993	133.8889	216.0481	61.9718
1993-1994	171.3333	266.3713	64.3212
1994-1995	173.8165	328.3287	52.9398
1995-1996	260.1302	336.6286	77.2751
1996-1997	303.9795	438.1198	69.3827
1997-1998	376.5919	521.4790	72.2161
1998-1999	484.7529	705.1008	68.7494
1999-2000	632.4482	960.2732	65.8613
2000-2001	824.7050	1161.4817	71.0046
2001-2002	933.1020	1467.5634	63.5817
2002-2003	1163.4562	1597.0087	72.8522
2003-2004	1366.2829	1754.4833	77.8738
2004-2005	1582.6027	2182.9151	72.4995
2005-2006	1825.5031	2631.0324	69.3835
2006-2007	2378.4712	3360.7636	70.7717

Source: Audited Reports of PSCB Ltd No. 580 from 1992-93 to 2006-07

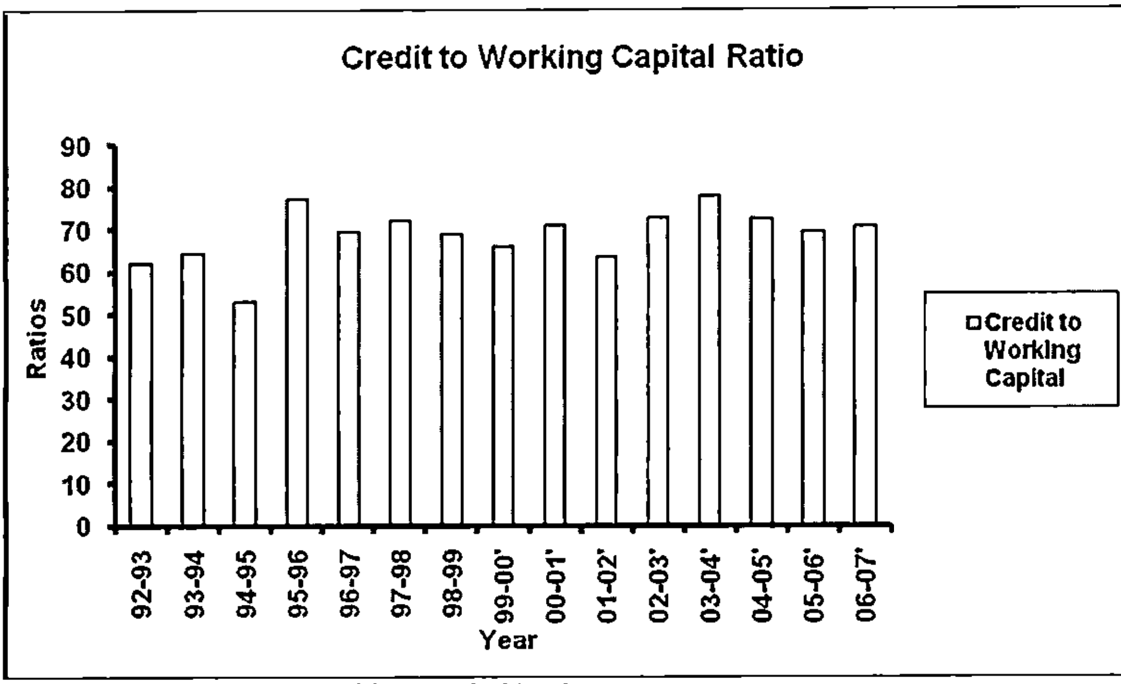

Fig 3.7 Credit to Working Capital Ratio

Table 3.7 reveals that the ratio from the year 1992-93 to 2006-07. The ratio shows a fluctuating trend. The highest ratio was recorded in the period 2003-04 (77.8738) and the lowest ratio was recorded in the year 1994-95 (52.9397). The growth rate of credit was increased over the years but there was no much increase in the use of working capital for providing loans and advances.

3.2.3 Credit to Owned Funds Ratio

Credit to Owned Funds Ratio indicates the measure of efficiency of the bank to convert the owned funds into loans and advances. Idle funds always adversely affect the profitability of the bank. So the management is always vigilant regarding the full utilization of resources. The expenditure for creating owned funds are comparatively lesser than borrowed funds. So a highest ratio is always preferable. The ratio is expressed as:

$$\left(\frac{\text{Credit}}{\text{Owned Funds}} \right) \text{X } 100$$

Credits are the loans and advances given by the bank

Owned Funds = Share capital + Reserves

Table 3.8 Ratio of Credit to owned Funds of PSCB from 1992-93 to 2006-07 (Rs in lakhs)

Year	Credit	Owned fund	Ratio
1992-1993	133.8889	15.7540	849.8724
1993-1994	171.3333	19.1895	892.8492
1994-1995	173.8165	19.5164	890.6176
1995-1996	260.1302	26.0183	999.7971
1996-1997	303.9795	27.5499	1103.3780
1997-1998	376.5919	32.5906	1155.5230
1998-1999	484.7529	39.0455	1241.5081
1999-2000	632.4482	52.4048	1206.8521
2000-2001	824.7050	77.5548	1063.3844
2001-2002	933.1020	143.1871	651.6662
2002-2003	1163.4562	106.7259	1090.1352
2003-2004	1366.2829	112.9939	1209.1659
2004-2005	1582.6027	141.283	1120.1654
2005-2006	1825.5031	153.6787	1187.8741
2006-2007	2378.4712	210.2967	1131.0070

Source: Audited Reports of PSCB Ltd No. 580 from 1992-93 to 2006-07

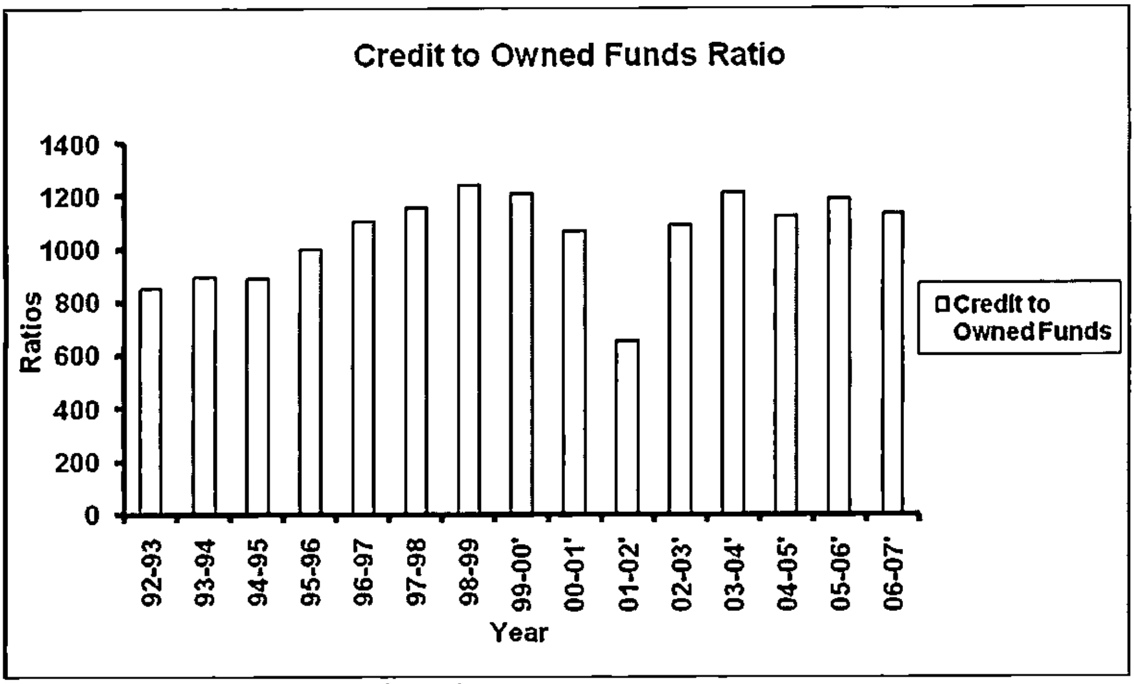

Fig 3.8 Credit to Owned Funds Ratio

Table 3.8 deals with the Credit to Owned Funds ratio for fifteen years. The ratio shows a fluctuating trend. The lowest ratio was recorded in the year 2001-02 (651.67) and the highest ratio in the period 1998-99 (1241.51). There was an increase in the usage of owned funds for deploying loans and advances.

3.2.4 Credit to Borrowed Funds Ratio

This ratio reveals the measure of the efficiency of the bank in converting the borrowed funds to loans and advances. A higher ratio indicates greater efficiency in the deployment of funds. The cost of the borrowed funds is the major expenditure of the bank. To compete with the expenditure, the bank should generate more income by deploying the borrowed funds into loans and advances. The ratio can be expressed as:

$$\left(\frac{\text{Credit}}{\text{Borrowed Funds}} \right) \text{X } 100$$

Credits are the loans and advances given by the bank

Borrowed Funds = Deposits + Borrowings

Table 3.9 Ratio of Credit to Borrowed Funds of PSCB from 1992-93 to 2006-07 (Rs in lakhs)

Year	Credit	Borrowed fund	Ratio
1992-1993	133.8889	212.2087	63.0930
1993-1994	171.3333	269.5512	63.5624
1994-1995	173.8165	325.7966	53.3512
1995-1996	260.1302	333.2646	78.0551
1996-1997	303.9795	439.7647	69.1232
1997-1998	376.5919	523.2650	71.9696
1998-1999	484.7529	707.8769	68.4798
1999-2000	632.4482	969.6303	65.2257
2000-2001	824.7050	1168.4205	70.5828
2001-2002	933.1020	1461.8032	63.8322
2002-2003	1163.4562	1686.3884	68.9910
2003-2004	1366.2829	1879.3610	72.6993
2004-2005	1582.6027	2215.0070	71.4491
2005-2006	1825.5031	2638.5363	69.1862
2006-2007	2378.4712	3289.6685	72.3012

Source: Audited Reports of PSCB Ltd No. 580 from 1992-93 to 2006-07

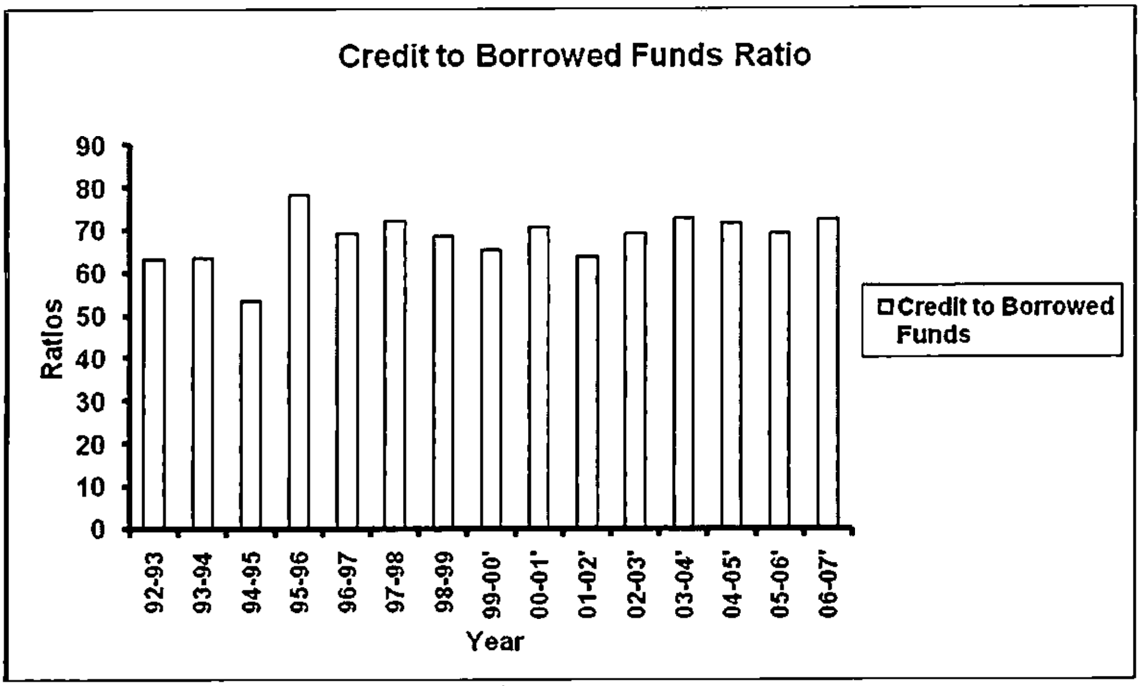

Fig 3.9 Credit to Borrowed Funds Ratio

Table 3.9 exhibits the ratio of credits to borrowed funds from 1992-93 to 2006-07. A fluctuating trend of ratio can be seen from the table. The borrowed fund of the bank was increased from year to year but there was no such increase in the credit to borrowed funds ratio. The highest ratio was showed in the year 1995-96 (78.0552) and the lowest was 63.0930 in the year 1992-93.

3.2.5 Credit to Total Funds Ratio

This ratio reflects the performance of the bank in utilizing the funds by providing loans to the target group. Optimization of the ratio not only helps the bank to achieve their objective of meeting the credit requirements of its target group, but also improves profitability. The ratio indicates the banks ability in deployment of funds. The ratio is calculated as:

$$\left(\frac{\text{Credit}}{\text{Total Funds}} \right) \text{X } 100$$

Credits are the loans and advances given by the bank

Total Funds = Owned Funds + Borrowed Funds

Table 3.10 Ratio of Credit to Total Funds of PSCB from 1992-93 to 2006-07 (Rs in lakhs)

Year	Credit	Total funds	Ratio
1992-1993	133.8889	227.9627	58.7328
1993-1994	171.3333	288.7407	59.3381
1994-1995	173.8165	345.3130	50.3359
1995-1996	260.1302	359.2829	72.4026
1996-1997	303.9795	467.3146	65.0481
1997-1998	376.5919	555.8556	67.7512
1998-1999	484.7529	746.9224	64.9012
1999-2000	632.4482	1022.0351	61.8813
2000-2001	824.7050	1245.9753	66.1895
2001-2002	933.1020	1604.9903	58.1375
2002-2003	1163.4562	1793.1143	64.8847
2003-2004	1366.2829	1992.3549	68.5763
2004-2005	1582.6027	2356.2900	67.1651
2005-2006	1825.5031	2792.2150	65.3783
2006-2007	2378.4712	3499.9652	67.9570

Source: Audited Reports of PSCB Ltd No. 580 from 1992-93 to 2006-07

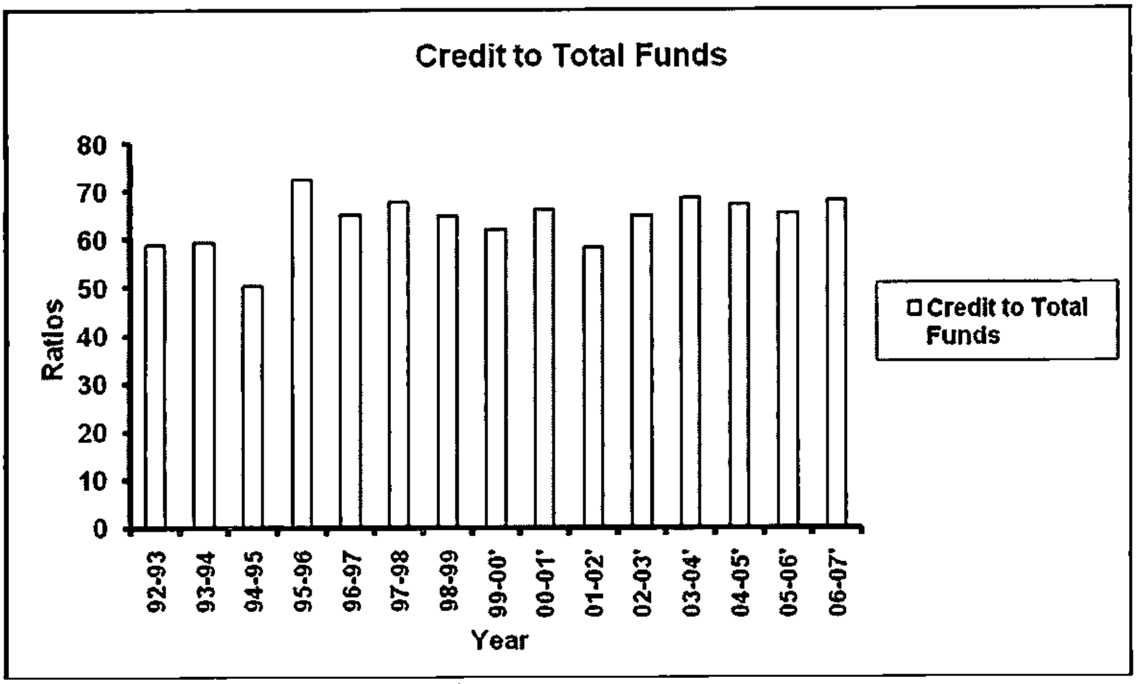

Fig 3.10 Credit to Total Funds Ratio

Table 3.10 gives the ratio of credit to borrowed funds for the fifteen years. It shows an increasing trend. In the year 1992-93 the ratio was 58.7328 percent and it was increased to 67.9570 in the year 2006-07. It indicates that the bank was kept major portion of their funds for loans and advances.

3.3 Efficiency in Operation

Operational efficiency of the bank depends upon the capacity to management of funds. The efficient mobilization and deployment leads to an organization into profitability. The operational efficiency can be analyzed through the following ratios

1. Spread Ratio
2. Burden Ratio
3. Profitability Ratio

3.3.1 Spread Ratio

Spread indicates the difference between interest income and interest expenditure. It plays an important role in the profitability of the bank, because it is directly related to profit. Higher ratio is preferable and it is possible only when the interest received on loans are more than the interest paid on deposits and borrowings. Spread can be expressed as spread to total funds of the bank. The formula is:

$$\left(\frac{\text{Interest Received} - \text{Interest Paid}}{\text{Total Funds}} \right) \text{X } 100$$

Interest received is the amount received as interest on loans and advances

Interest paid is the amount paid as interest on deposits and borrowings

Total Funds = Owned Funds + Borrowed Funds

Table 3.11 Spread Ratio of PSCB from 1992-93 to 2006-07 (Rs in lakhs)

Year	Interest received	Interest paid	Total fund	Ratio
1992-1993	23.3417	32.3489	227.9627	-3.9512
1993-1994	28.7872	28.1569	288.7407	0.2183
1994-1995	35.0613	29.1644	345.3130	1.7077
1995-1996	43.1725	30.4911	359.2829	3.5296
1996-1997	51.8474	35.1164	467.3146	3.5802
1997-1998	48.4292	41.1987	555.8556	1.3008
1998-1999	73.3117	49.8219	746.9224	3.1449
1999-2000	97.8167	51.5943	1022.0351	4.5226
2000-2001	122.4888	54.1962	1245.9753	5.4811
2001-2002	142.9259	59.7316	1604.9903	5.1835
2002-2003	152.2897	63.4918	1793.1143	4.9522
2003-2004	172.9477	68.4682	1992.3549	5.244
2004-2005	188.9428	70.1948	2356.2900	5.0396
2005-2006	209.0212	73.4536	2792.2150	4.8552
2006-2007	247.935	74.1844	3499.9652	4.9644

Source: Audited Reports of PSCB Ltd No. 580 from 1992-93 to 2006-07

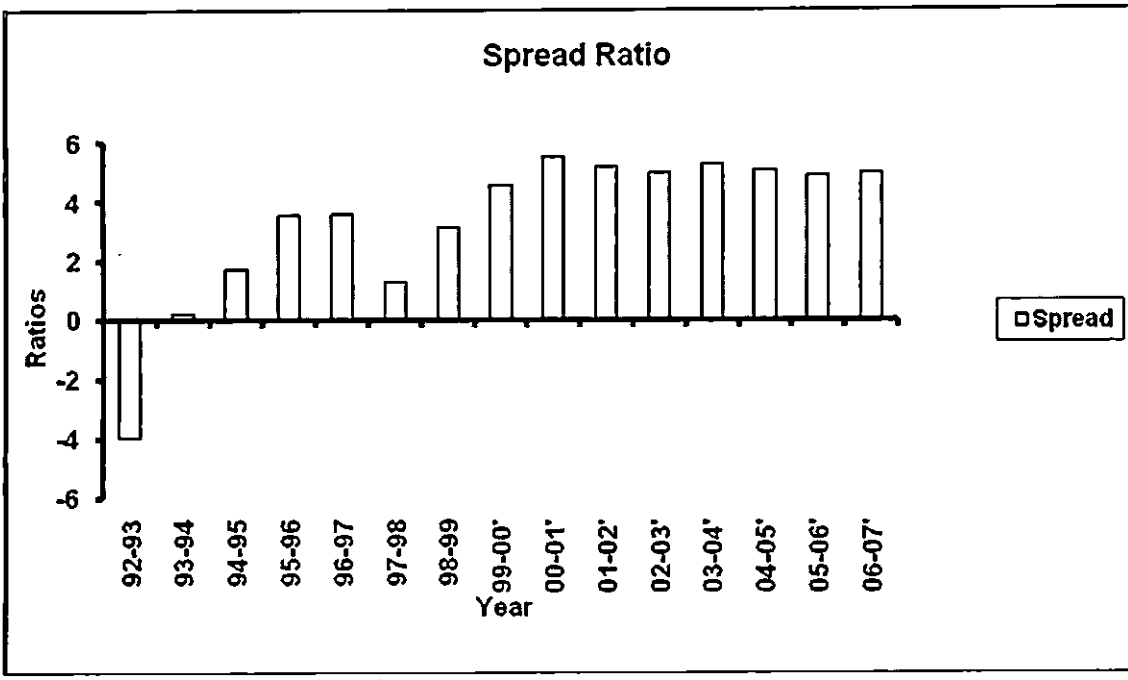

Fig 3.11 Spread Ratio

From Table 3.11 it is clear that spread ratio has an increase from -3.9512 in the year 1992-93 to 4.9644 in the year 2006-07. The highest ratio was showed in the year 2000-01 (5.4811). The picture rendered by the table is favourable. It indicates the profitability of the bank.

Burden Ratio

Burden ratio is also a measure of profitability. It indicates the difference between non interest expenditure and non interest income. The bank has to reduce this ratio and a low value of this ratio is preferred. It can be reduced by increasing the non interest income. The ratio is expressed as:

$$\left(\frac{\text{Non interest Expenses} - \text{Non interest Income}}{\text{Total Funds}} \right) \text{X } 100$$

Non interest expenses includes contingency expenses and establishment expenses

Non interest income is the miscellaneous income of the bank

Total Funds = Owned Funds+ Borrowed Funds

Table 3.12 Burden Ratio of PSCB from 1992-93 to 2006-07 (Rs in lakhs)

Year	Non interest expenses	Non interest income	Total fund	Ratio
1992-1993	7.3586	9.8666	227.9627	-1.1002
1993-1994	7.2248	12.4047	288.7407	-1.7940
1994-1995	8.0022	15.1953	345.3130	-2.0831
1995-1996	9.3442	17.1403	359.2829	-2.1699
1996-1997	10.0529	19.2370	467.3146	-1.9653
1997-1998	9.9280	15.0097	555.8556	-0.9142
1998-1999	13.9793	31.0590	746.9224	-2.2867
1999-2000	24.6675	47.5197	1022.0351	-2.2360
2000-2001	28.1941	65.9899	1245.9753	-3.0334
2001-2002	27.2409	83.7635	1604.9903	-3.5217
2002-2003	25.9648	97.2756	1793.1143	-3.9769
2003-2004	36.5484	99.6352	1992.3549	-3.1664
2004-2005	33.6088	106.9158	2356.2900	-3.1111
2005-2006	46.8482	94.4761	2792.2150	-1.7057
2006-2007	64.8814	142.3976	3499.9652	-2.2148

Source: Audited Reports of PSCB Ltd No. 580 from 1992-93 to 2006-07

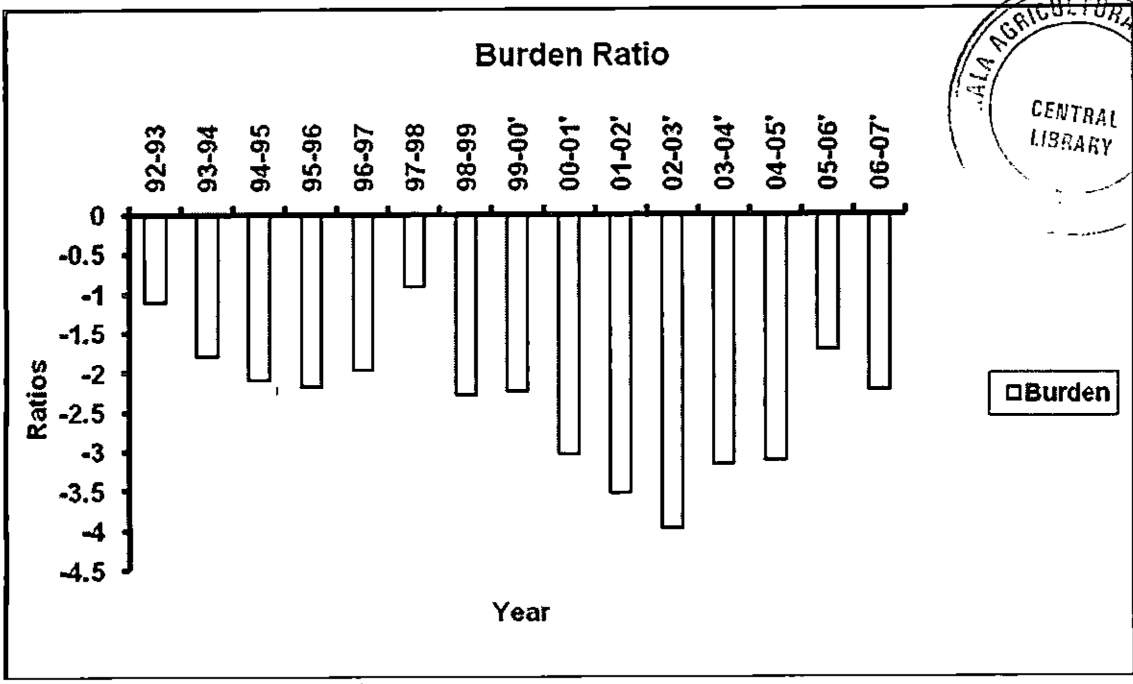

Fig 3.12 Burden Ratio

Table 3.12 depicts the burden ratio of the bank during the study period. Except last two years the burden ratio shows a declining trend. The lowest ratio depicted in the year 2002-03 (-3.98). This is favourable to the bank.

3.3.3 Profitability Ratio

The overall profitability is expressed in terms of spread and burden ratio. This ratio indicates the ability of the bank to generate profit. Higher the value of this ratio higher is the profitability of the bank. The formula for the ratio is:

Spread ratio – Burden ratio

Table 3.13 Profitability Ratio of PSCB from 1992-93 to 2006-07 (Rs in lakhs)

Year	Spread	Burden	Profitability
1992-1993	-3.9511	-1.1001	-2.8510
1993-1994	0.2182	-1.7939	2.0122
1994-1995	1.7076	-2.0830	3.7907
1995-1996	3.5296	-2.1699	5.6995
1996-1997	3.5802	-1.9652	5.5455
1997-1998	1.3007	-0.9142	2.2150
1998-1999	3.1448	-2.2866	5.4315
1999-2000	4.5225	-2.2359	6.7585
2000-2001	5.4810	-3.0334	8.5144
2001-2002	5.1834	-3.5216	8.7051
2002-2003	4.9521	-3.9769	8.9290
2003-2004	5.2440	-3.1664	8.4104
2004-2005	5.0396	-3.1111	8.1507
2005-2006	4.8551	-1.7057	6.5609
2006-2007	4.9643	-2.2147	7.1791

Source: Audited Reports of PSCB Ltd No. 580 from 1992-93 to 2006-07

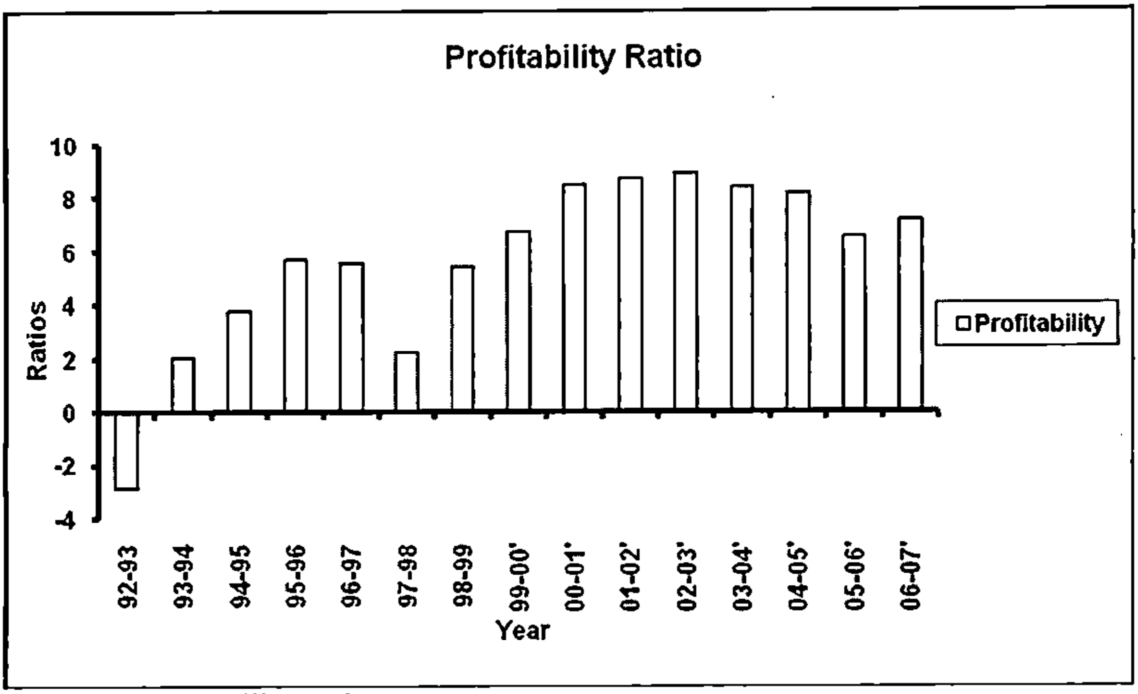

Fig 3.13 Profitability Ratio

Table 3.13 presents the profitability ratio of fifteen years from 1992-93 to 2006-07. The ratio shows an increasing trend. Up to the year 1999-2000 there was only slight change in the profitability, from that period a tremendous increase in the profit of the bank. There was a steady movement of profitability during next five years. It shows a favourable situation to the bank.

Conclusion

The study was conducted in Pudukad Service Co-operative Bank with the objective of analyze the fund management practices of the bank. The ratios show a clear picture of the bank which is appreciable. The owned funds are increased from year to year but the growth rate is not much appreciable. The credit deposit ratio increased with slight changes. So the bank should concentrate on the plans which reduce the interest cost and increase the spread.

Summary of findings & conclusion

CHAPTER 4

SUMMARY OF FINDINGS AND CONCLUSIONS

The present study entitled Fund Management- A study of Pudukad Service Co-operative Bank Ltd No.580 has been undertaken for the period 1992-93 to 2006-07.The Pudukad Service Co-operative Bank was registered on 20th January 1947. It started functioning on 14th February 1947.

The study was undertaken with the objective of analyzing the fund management practices of PSCB. For the purpose of analysis, the secondary data were collected for fifteen years. The performance analysis has been done with the help of different ratios showing efficiency in mobilization, efficiency in deployment and efficiency in operations.

4.1 Findings of the study

- The membership of the bank increasing over the last fifteen years. During the year 1992-93 the membership was 60678 and in the year 2006-07 the membership was 1144595.
- The share capital of the bank shows an increasing trend from Rs 7.0533 lakhs (1992-93) to Rs 58.2937 lakhs(2006-07).
- The reserve of the bank shows a increasing trend, it is because of the increase in the profit.
- The deposits of the bank show a tremendous increase. During the year 1992-93 it was Rs 195.2717 lakhs and in the year 2006-07 it was Rs 3288.6508.This shows the confidence of the public in the bank.

- Borrowings of the bank decreased from Rs 16.9370 lakhs in the year 1992-93 to Rs 1.0177 lakhs in the year 2006-07.This shows the efficiency in management to reduce the interest burden.
- The credit provided by the bank shows an increasing trend which shows the efficient deployment of funds.
- The study observed that the overdue of the bank has increased.
- The bank has been working in profit during the study period except in the year 1992-93.

Efficiency in Mobilization

- The Owned funds to Working capital ratio show a fluctuating and declining trend. It meant that a lesser portion of owned funds were used in working capital.
- Borrowed funds to working capital ratio show a fluctuating and increasing trend. It depicts that major portion of the working capital derived from the borrowed funds.
- Deposits to working capital ratio show a fluctuating trend. From 2002 to 2004 there was a record of highest ratio after that there was a decrease in the ratio. It meant that the amount used for working capital from deposits were low at that period.
- Deposits Borrowed funds ratio shows an increasing trend means major part of the borrowed funds were derived from the deposits. Stability can be seen from the period 2002-03 onwards because the borrowings of the bank reduced from that period.
- In the case of Owned funds to Borrowed funds ratio, highest ratio recorded in the year 2001-02 (9.7952) after that a decrease can be seen in the ratios. It shows the dominance of owned funds over borrowed funds.

Efficiency in Deployment

- Credit to Deposits ratio shows an increasing trend. It highlights the efficiency of the bank to convert the deposits into loans and advances. Lowest ratio recorded in the period 2001-02.
- Credit to Working capital ratio shows a fluctuating and increasing trend. It clears the management efficiency to convert working capital into loans and advances.
- Credit to Owned funds ratio increased. It helps to increase the profitability of the bank so it is favourable to the bank.
- There was no stability in the Credit to borrowed funds ratio. Management should take proper measures to increase the ratio; otherwise it leads to interest burden. Highest ratio recorded in the year 1995-96 (78.0551).
- Credit to total funds ratio shows an increasing trend which indicate that majority of funds of the bank used for providing loans and advances which is the major function of the bank.

Efficiency in Operation

- The spread ratio changed from negative sign to positive sign because the interest received by the bank is higher than interest paid. It shows the banks efficiency in lending operations. The ratio shows a fluctuating trend.
- Burden ratio shows a positive trend, means the noninterest expenses are lower than non interest income of the bank. Declining burden will improve the profitability of the bank.
- The profitability ratio shows an increasing trend. In the year 1992-93 it was negative because the spread of that year also negative.

CONCLUSION

The forgoing analysis showed the fund management practices of the bank. The ratio analysis shows the efficiency of the bank for mobilization, deployment and operational efficiency which is appreciable. From the study we can conclude that the loans and advances provided by the bank is high but it highly depended on borrowed funds which leading to reduce the spread margin. So the bank should concentrate on management techniques which reduce the problem of interest margin by increasing owned funds and to reduce the burden ratio for increasing the profitability.

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Appendix

Sl No	Year	Share capital	Reserves	Owned funds	Share capital	Reserves	Deposits	Borrowings	Investment in fixed assets	Working capital
1	1992-93	7.0533	8.7007	15.754	7.0533	8.7007	195.2717	16.937	11.915	216.0481
2	1993-94	8.4151	10.7744	19.1895	8.4151	10.7744	248.4250	21.126	22.369	266.3713
3	1994-95	10.0334	9.4830	19.5164	10.0334	9.4830	305.6386	20.1580	16.984	328.3287
4	1995-96	11.9839	14.0344	26.0183	11.9839	14.0344	315.9399	17.325	22.654	336.6286
5	1996-97	13.5341	14.0158	27.5499	13.5341	14.0158	416.0462	23.719	29.195	438.1198
6	1997-98	17.0217	15.5689	32.5906	17.0217	15.5689	489.9194	33.346	34.377	521.4790
7	1998-99	21.2467	17.7988	39.0455	21.2467	17.7988	677.2575	30.619	41.822	705.1008
8	1999-00	30.8165	21.5883	52.4048	30.8165	21.5883	924.6628	44.968	61.762	960.2732
9	2000-01	41.9209	35.6339	77.5548	41.9209	35.6339	1123.5685	44.8520	84.494	1161.4817
10	2001-02	51.5911	91.5960	143.1871	51.5911	91.5960	1427.000	34.804	137.43	1467.5634
11	2002-03	59.5061	47.2198	106.7259	59.5061	47.2198	1684.814	1.5745	196.11	1597.0087
12	2003-04	60.5044	52.4895	112.994	60.5044	52.4895	1878.302	1.0594	237.87	1754.4833
13	2004-05	59.2298	82.0532	141.283	59.2298	82.0532	2213.247	1.7598	173.37	2182.9151
14	2005-06	57.4109	96.2678	153.679	57.4109	96.2678	2637.481	1.0549	161.18	2631.0324
15	2006-07	58.2937	152.0030	210.297	58.2937	152.0030	3288.651	1.0177	139.2	3360.7636

NOTE:

Owned funds = Share capital + Reserves

Working capital = Share capital + Reserves + Deposits + Borrowings – Investments in fixed assets

Sl No	Year	Deposits	Borrowings	Borrowed funds	Owned funds	Borrowed funds	Total funds
1	1992-93	195.2717	16.937	212.2087	15.754	227.9627	243.7167
2	1993-94	248.4250	21.1262	269.5512	19.1895	288.7407	307.9302
3	1994-95	305.6386	20.1580	325.7966	19.5164	345.313	364.8294
4	1995-96	315.9399	17.3247	333.2646	26.0183	359.2829	385.3012
5	1996-97	416.0462	23.7185	439.7647	27.5499	467.3146	494.8645
6	1997-98	489.9194	33.3456	523.2650	32.5906	555.8556	588.4462
7	1998-99	677.2575	30.6194	707.8769	39.0455	746.9224	785.9679
8	1999-00	924.6628	44.9675	969.6303	52.4048	1022.0351	1074.4399
9	2000-01	1123.5685	44.8520	1168.4205	77.5548	1245.9753	1323.5301
10	2001-02	1427.000	34.8037	1461.8032	143.1871	1604.9903	1748.1774
11	2002-03	1684.8139	1.5745	1686.3884	106.7259	1793.1143	1899.8402
12	2003-04	1878.3016	1.0594	1879.3610	112.994	1992.3549	2105.3488
13	2004-05	2213.2472	1.7598	2215.0070	141.283	2356.2900	2497.5730
14	2005-06	2637.4814	1.0549	2638.5363	153.679	2792.2150	2945.8937
15	2006-07	3288.6508	1.0177	3289.6685	210.297	3499.9652	3710.2619

NOTE:

Borrowed funds = Borrowings + Deposits

Total funds = Owned funds + Borrowed funds

Sl No	Year	Contingency expenses	Establishment expenses	Non interest expenses	Miscellaneous income	Interest received	Interest paid
1	1992-93	5.4382	1.9204	7.3586	9.8666	23.3417	32.3489
2	1993-94	5.7532	1.4716	7.2248	12.4047	28.7872	28.1569
3	1994-95	6.4543	1.5479	8.0022	15.1953	35.0613	29.1644
4	1995-96	2.5158	6.8284	9.3442	17.1403	43.1725	30.4911
5	1996-97	2.6090	7.4439	10.0529	19.2370	51.8474	35.1164
6	1997-98	2.0139	7.9141	9.9280	15.0097	48.4292	41.1987
7	1998-99	3.5584	10.4209	13.9793	31.0590	73.3117	49.8219
8	1999-00	9.0183	15.6492	24.6675	47.5197	97.8167	51.5943
9	2000-01	8.4800	19.7141	28.1941	65.9899	122.4888	54.1962
10	2001-02	7.3857	19.8552	27.2409	83.7635	142.9259	59.7316
11	2002-03	7.6142	18.3506	25.9648	97.2756	152.2897	63.4918
12	2003-04	25.1366	11.4118	36.5484	99.6352	172.9477	68.4682
13	2004-05	8.9854	24.6234	33.6088	106.9158	188.9428	70.1948
14	2005-06	30.7310	16.1172	46.8482	94.4761	209.0212	73.4536
15	2006-07	30.0897	34.7917	64.8814	142.3976	247.9350	74.1844

NOTE:

Non interest expenses = Contingency expenses + Establishment expenses

Non interest income is the miscellaneous income of the bank

FUND MANAGEMENT
A STUDY OF PUDUKAD SERVICE
CO-OPERATIVE BANK LTD NO.580

BY

NEETHU T A

(2006 – 05 – 138)

ABSTRACT OF THE PROJECT REPORT

Submitted in partial fulfillment of the requirement for the degree of

Bachelor of Science in Co-operation and Banking

FACULTY OF AGRICULTURE

KERALA AGRICULTURAL UNIVERSITY

COLLEGE OF CO-OPERATION, BANKING & MANAGEMENT

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2010

ABSTRACT

The study "Fund management – A study of Pudukad Service Co-operative Bank Ltd No.580" was undertaken to analyze the fund management practices of Pudukad Service Co-operative Bank (PSCB). Ratio analysis covering efficiency in mobilization, deployment and operational efficiency were employed for studying the fund management practices. The ratios were worked out on the basis of secondary data collected from audited annual reports of the bank.

The study highlighted that the bank was able to attract more deposits during the study period. As a result the dependency of borrowed funds on working capital increased from year to year. But there was not much improvement in the deployment of funds. Only a slight improvement depicted from the study. So the bank should concentrate on the efficient deployment of funds otherwise it adversely affect the spread margin. The bank should take care to increase the non interest income for improvement of profitability.