VOL. 53 NO. 1

JULY, 2015

Price : Rs. 60/-

INDIAN COOPERATIVE REVIEW

IN THIS ISSUE

NATIONAL COOPERATIVE UNION OF INDIA

3, Siri Institutional Area, August Kranti Marg, Hauz Khas, New Delhi - 110016

A Case Study of Thiroor Service Cooperative Bank

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ABSTRACT

Cooperatives in Kerala are well developed and highly democratic in nature. The main objective of primary agricultural credit cooperative societies is to provide agricultural credit, supply inputs such as fertilizers and arrange for the sale of agricultural produce. However, consequent upon the decreasing trend in agricultural operations due to uneconomic holdings, high cost of labour and low return, agricultural lending has comedown terribly to less than 10 percent of total lending. Under these circumstances, the researchers felt the need to conduct a case study of Thiroor Service Cooperative Bank with the objective of analyzing its business performance. The study found that both the growth of membership and share capital is not in line with the increase in volume of business of the bank. Significant growth in deposits clearly indicates the confidence bestowed by the depositors on the bank in the region. The bank which was started primarily for the purpose of lending to agriculture is not in a position to fulfil its objectives. Moreover, credit to deposit ratio (CD ratio) shows a fluctuating trend and reflects the bank's inability to lend its lendable resources for the potential borrowers of the region. Hence, the selected bank should invariably professionalise its management.

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The authors would like to express their sense of gratitude to Dr.A.M.Jose, Dr.R.Sendilkumar, Ms. Misha Davis and their students.

Key words: Democracy, Agricultural Credit, Credit to Deposit Ratio, Lendable Resources, Professionalization,

Background and Justification

The state of Kerala is entirely different from other states in India. The unique 'Kerala Model of Development' resulted in the highest 'Human Development Index' in the country. Kerala has achieved the highest literacy rate, universal heath care, and effective public distribution system ensuring availability of food grains to the downtrodden. The state achieved cent percent financial inclusion. Kerala is known for its significant level of labour migration and depends mainly on repatriation. The state has successfully implemented decentralized democratic governance at all levels. Plantation crops and service sector play a pivotal role in the state economy. However, development in agriculture and industries shows a dismal picture.

Cooperatives in Kerala are well developed and highly democratic in nature. In addition to the traditional credit cooperatives, cooperatives are also performing better in the fields of healthcare, education, housing, labour contract, Fisheries and milk, coir and consumer. The cooperative credit structure in Kerala is mainly classified in to two viz., short-term credit structure and long-term credit structure. The three tiers short-term cooperative credit structure consists of the Kerala State Cooperative Bank (KSCB), 14 District Cooperative Banks (DCB) and the 1573 Primary Agricultural Cooperatives Societies (PACS). The long-term cooperative credit structure consists of Kerala State Cooperative Agriculture and Rural Development Bank (KSCARDB) and the 63 primary cooperative agriculture and rural development banks. In addition to these, 95 urban cooperative banks, 1041 employees credit cooperatives and 134 non-agricultural credit cooperatives are in operation.

The main objective of primary agricultural credit cooperative societies is to provide agricultural credit, supply inputs such as fertilizers and arrange for the sale of agricultural produce. However, consequent upon the decreasing trend in agricultural operations due to uneconomic holdings, high cost of labour and low return, agricultural lending has come down terribly to less than 10 percent of total lending. Nevertheless, they are in a position to mobilize more deposits and lend it to many other purposes. The PACS in Kerala are also successfully running consumer stores. Moreover, PACS in Kerala are operating like banks with almost all banking facilities.

Due to the following factors, PACS in Kerala are entirely different from other state credit cooperatives:

1. They manage to mobilize significant level of deposits. The people of Kerala have faith in the cooperative movement.

2. Many PACS need not borrow from district cooperative banks for lending to their member farmers.

3. Thought the PACS were started for lending short term credit to the farming community, there are no takers and virtually, agricultural lending has come down terribly.

4. The Prakash Bakshi committee recommendation to transform the PACS as business correspondents of DCBs is vehemently opposed by the Kerala credit cooperative movement and later on it was dropped. But the threat looms around the movement to bring it under the RBI regulations.

Under these circumstances, the researchers felt the need to conduct studies to understand the changing frame of the PACS in Kerala. This case study is one among them and forms a part of a major work being carried out in the department.

Objective of the Study

The objective of the study is to analyze the business performance of Thiroor Service Cooperative Bank.

Methodology

For the purpose of the study, the authors used secondary data for ten years (from 2003-04 to 2012-13) sourced from the annual reports of Thiroor Service Cooperative Bank. The variables considered for the study are membership, share capital, deposits, agricultural lending, accumulated loss, and non-performing assets. Moreover, the authors had detailed discussion with the Board of Directors and employees of the bank with results of analysis. That has helped the authors to identify the real cause for the bank's poor performance. However, in this paper, only core performance indicators of the bank have been used and explained.

Findings of the Study

The Thiroor Service Cooperative Bank Ltd. was registered on 28th July 1957 and started functioning from 15th September, 1957 at Thiroor, Kolazhy Panchayat, Thrissur district, Kerala. As on 31st March 2013, the bank has four branches, two extension counters, two Neethi Medical Stores (Fair Price Medical Store) and three fertilizer stores. The area of operation of the bank extends to 12 villages in and around Thiroor. The bank was started with the objective of providing agricultural loans to the farmers, mobilizing rural savings and supply of agricultural inputs.

Table 1

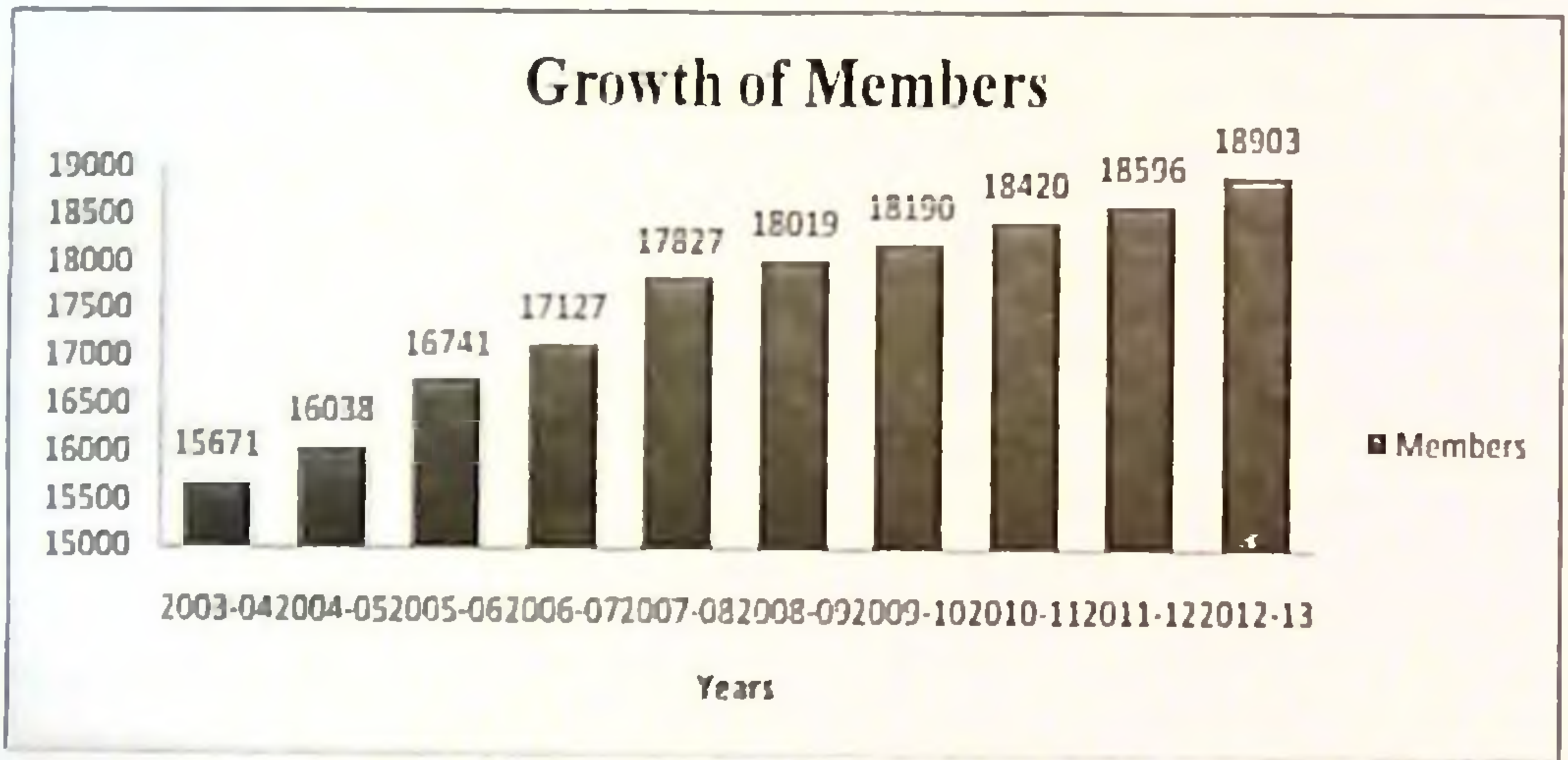
Selected Performances Indicators of Thiroor Service Cooperative Bank

(Rupees In Lakhs)

Year	Members	Share Capital	Deposit	Credit	Agri. Loans	Accumu-lated loss	NPA	CD Ratio	Percentage of Agriculture Loans	Percent age of NPA
2003-2004	15671	142.58	3006.97	2879.39	281.80	-78.88	51.53	95.78	9.79	1.78
2004-2005	16038	145.78	3907.66	3096.64	427.52	-27.72	83.60	79.24	13.80	2.69
2005-2006	16741	144.15	4986.10	3555.42	719.88	-269.94	58.60	71.30	20.25	1.64
2006-2007	17127	145.35	5724.90	3347.53	127.87	-293.45	65.97	58.47	3.82	1.97
2007-2008	17827	151.92	6863.85	3584.89	24.50	-506.04	129.52	52.22	0.68	3.61
2008-2009	18019	161.36	8318.54	7010.03	19.84	-504.57	128.33	84.26	0.28	1.83
2009-2010	18130	171.28	10211.42	7887.32	23.64	-396.77	133.41	77.24	0.30	1.69
2010-2011	18420	177.28	11765.36	8076.43	32.10	-484.43	163.12	68.64	0.40	2.01
2011-2012	18596	177.28	11017.46	8888.39	27.19	-34.08	181.08	80.67	0.30	2.03
2012-2013	18903	181.82	14561.05	6073.3	26.23	-394.48	261.36	41.70	0.43	4.30
Growth Rate	1.89	2.46	17.09	7.75	-21.13	17.46	17.63	-7.98	-26.84	9.22

Source: Compiled from the Annual Reports of Thiroor Service Co-operative Bank.

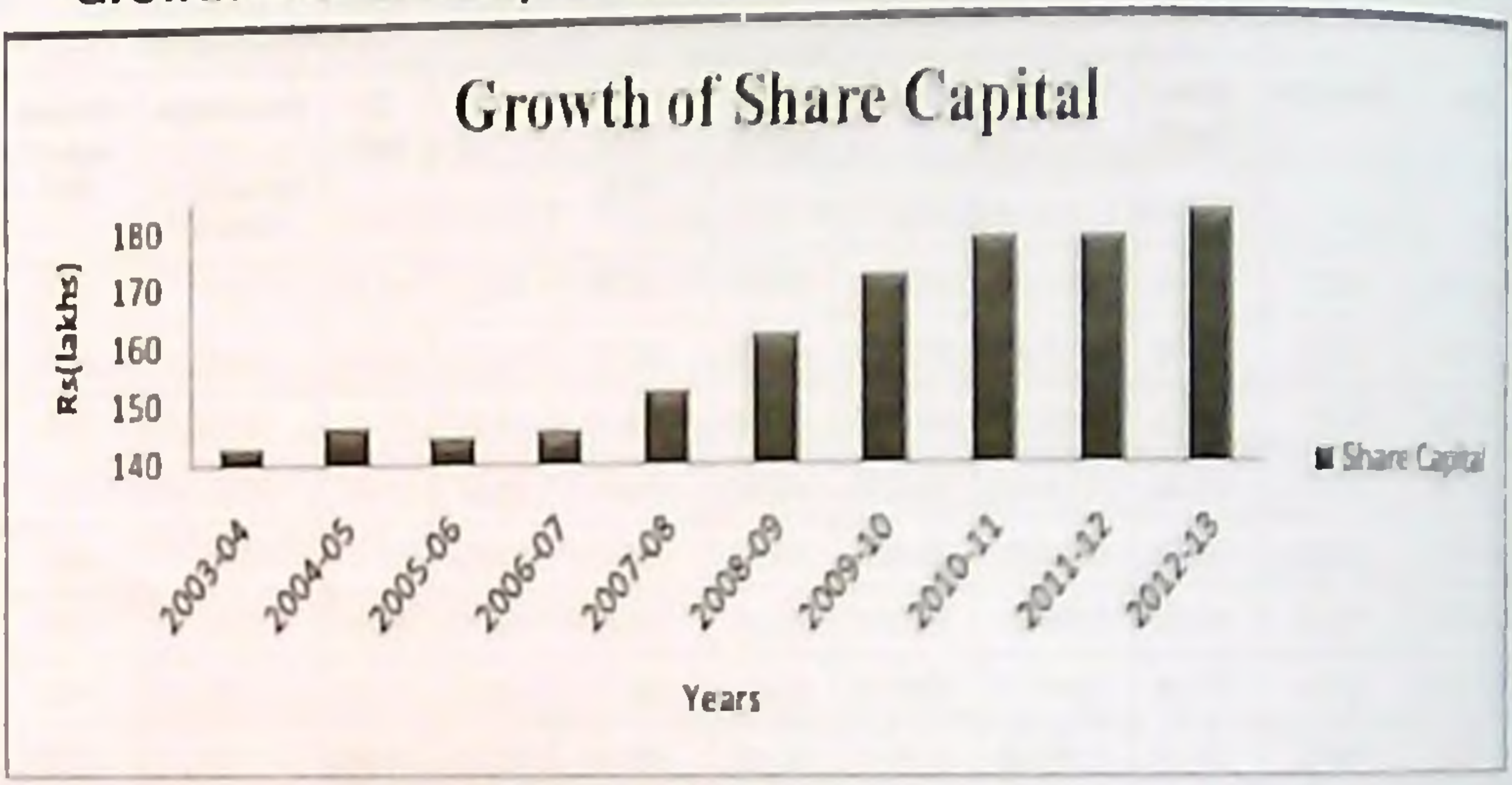
Figure 1 :
Growth of Membership in Thiroor Service Co-operative Bank



The bank admits eligible individuals as **A** class members, state government as **B** class members, self-help groups and farmers' clubs as **D** class members. For the purpose of standing as surety to the borrowers and borrow gold loans individuals are admitted as **C** class nominal members.

Figure 1 speaks about the growth of membership in the bank from 2003-04 to 2012-13. Further, the Figure 2 reveals the growth of membership

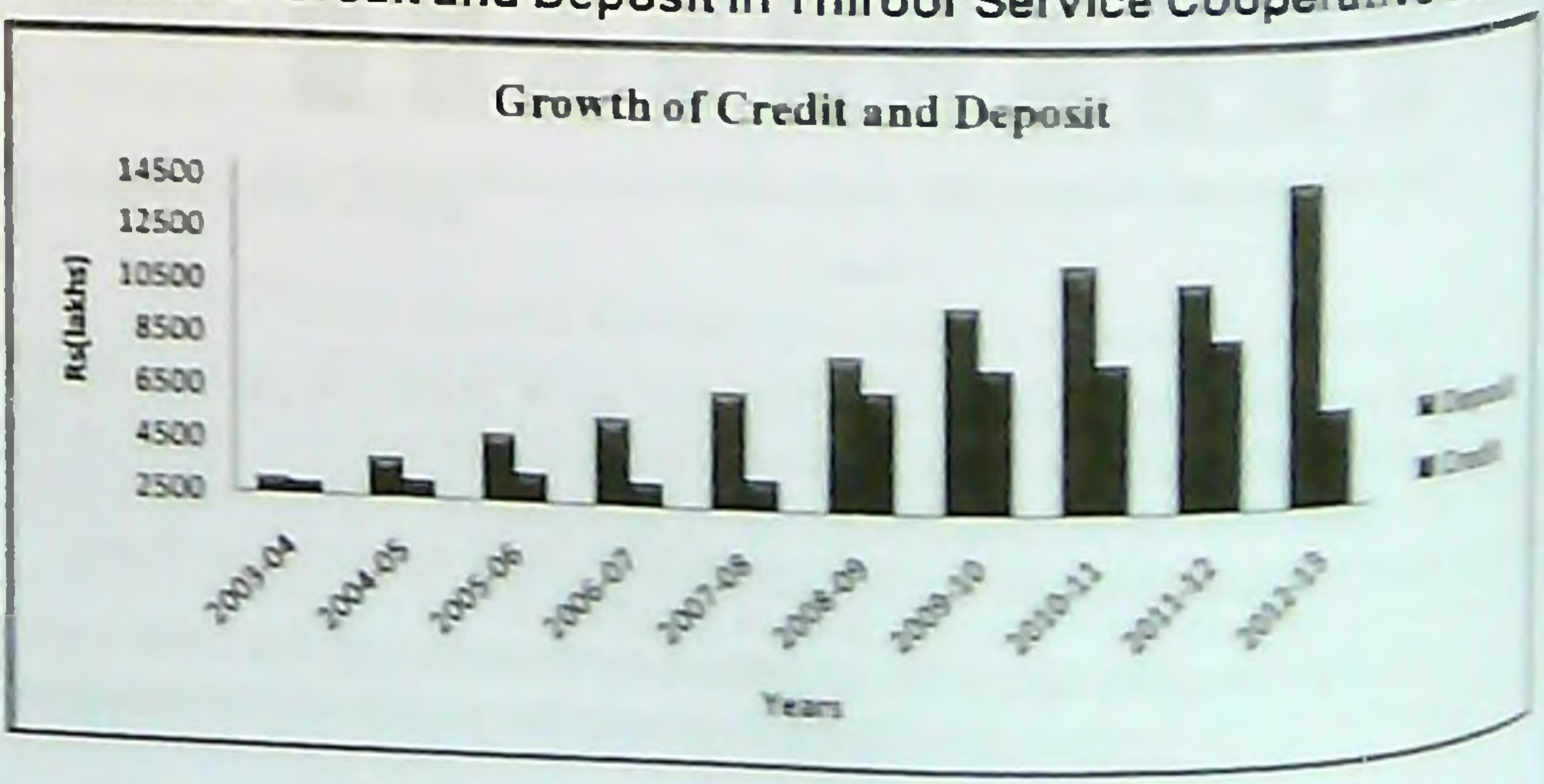
Figure 2:
Growth of Share Capital in Thiroor Service Co-operative Bank



for the study period. Both the growth of membership and share capital is not in line with the increase in volume of business of the bank. This phenomenon clearly reflects the restrictive policy of the bank in admitting new members. It's due to the fact that the cooperatives in Kerala are influenced by political parties. It also reflects in the weak share capital position, in turn it will affect the target set by the banking industry of achieving Capital to Risk (weighted Asset Ratio (CRAR).

The sources of finance for the bank are share capital, reserves, deposits, borrowings, grants and aids. The bank borrowed negligibly. The major source of finance to the bank is deposits. The bank mobilises deposits of all type viz., fixed deposits, recurring deposits, savings bank deposits and current deposits. Figure 3 depicts the growth of credit and deposit in Thiroor Service Co-operative Bank.

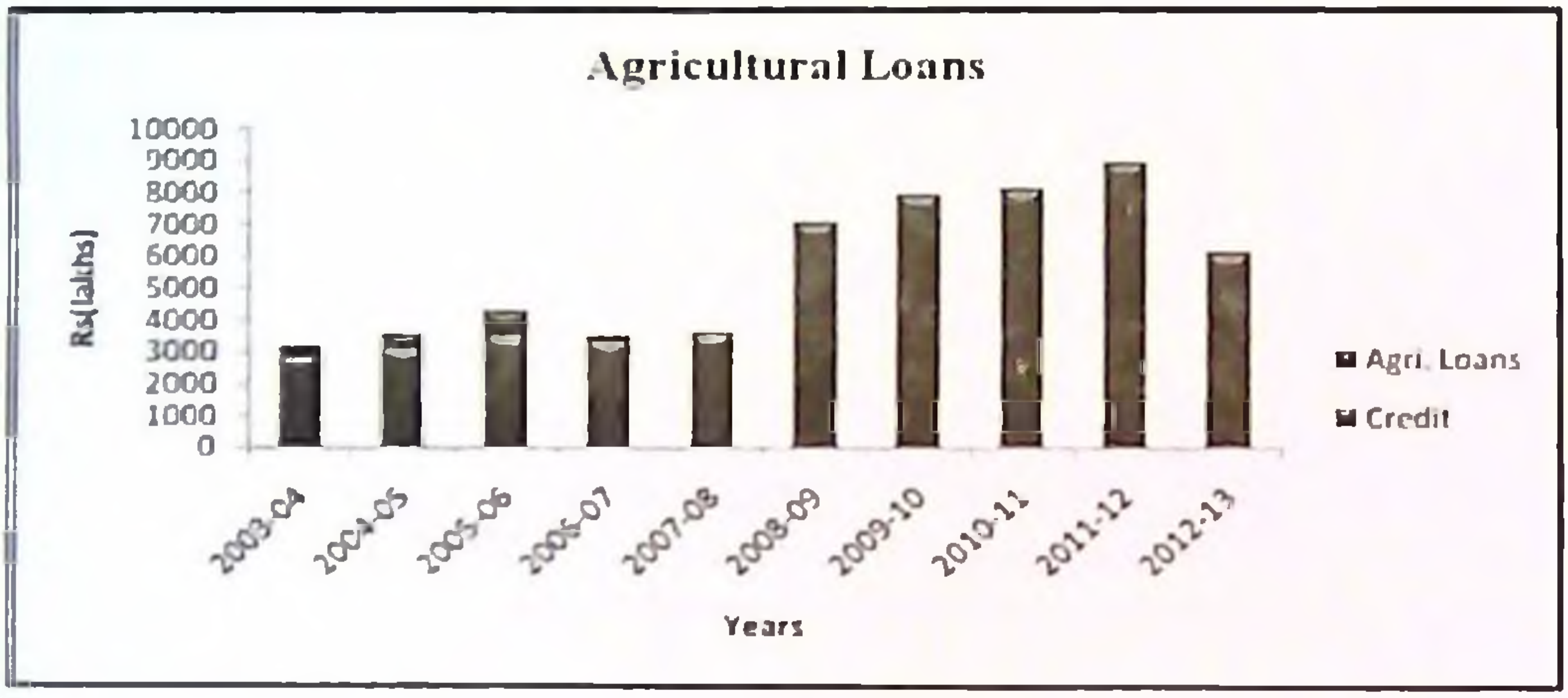
Figure 3:
Growth of Credit and Deposit in Thiroor Service Cooperative Bank



The total deposit of the bank was only Rs.3005.98 lakhs in the year 2003-2004. But it has increased significantly to the tune of Rs.14561.05 lakhs in the year 2012-2013 with the growth rate of 17.09 percent. It clearly indicates the confidence bestowed by the depositors on the bank in the region. However, deposit mix analysis of the bank (not shown in this paper) reveals that the fixed deposits contributes around 87 percentage of total deposits, which means the cost of capital is on the higher side.

The success of banking revolves around the profitable disbursement of funds. Normally disbursement of fund is determined by the objectives such as purpose, yield and risk. Thiroor Service Cooperative Bank loan portfolio includes both short term loans and medium term loans. Short term loans can further be classified into agricultural loans and gold loans, medium term loans include personal loans and for other agro based purposes. Credit disbursed by the bank during the year 2003-2004 was Rs.2879 lakhs and it has increased to Rs.6073 lakhs in the year 2012-2013 with the growth rate of 7.75 percent. Hence, the important performance indicator of the bank namely CD ratio shows abysmally poor performance.

Figure 4:
Growth in Credit and Agricultural loans in Thiroor Service Cooperative Bank

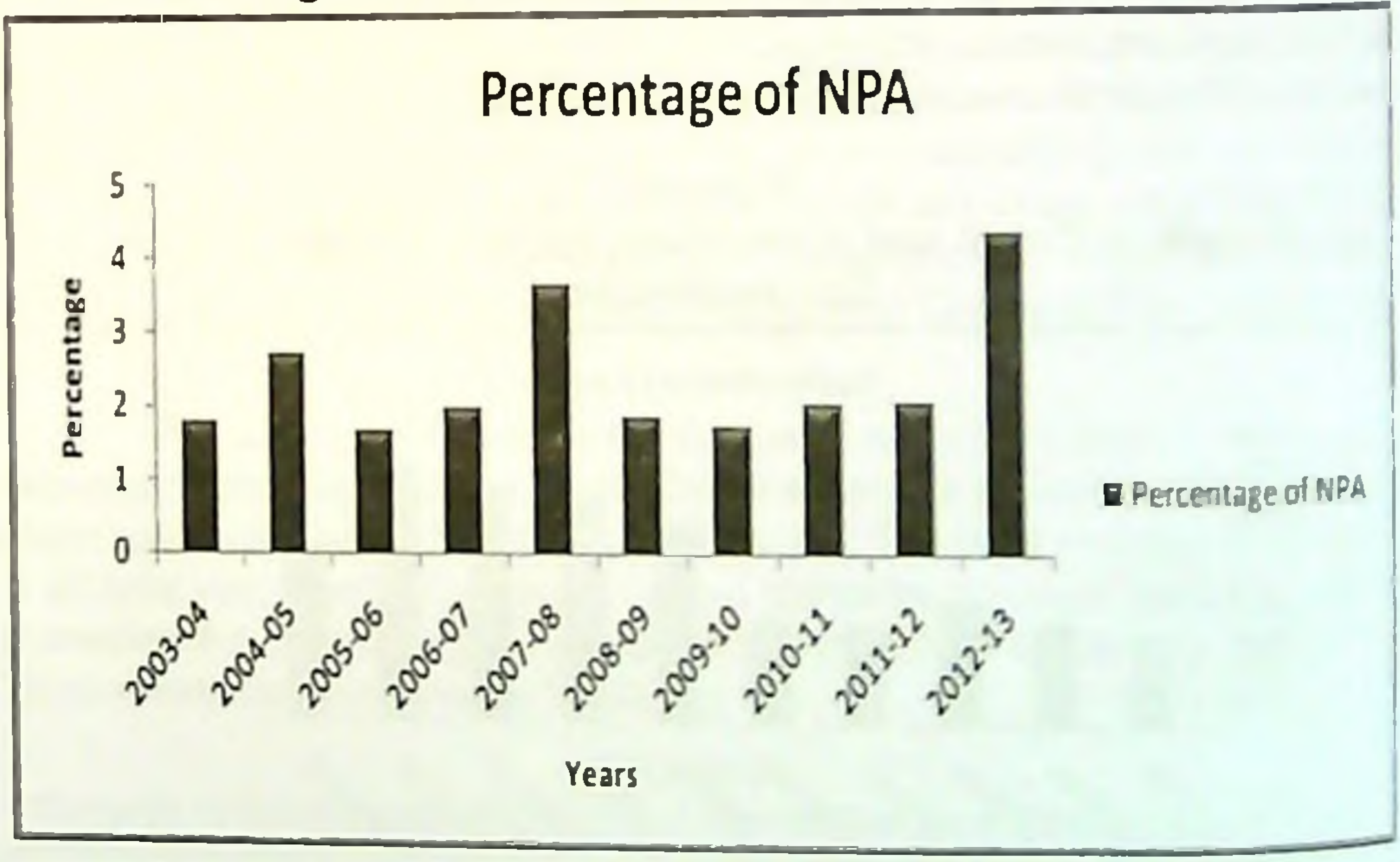


The bank lends very limited short term loans to the farmers since the demand for agricultural credit is declining drastically. The bank which was started primarily for the purpose of lending to agriculture is not in a position to fulfil its objectives (Figure4). That is the reason why the committees appointed by RBI particularly Prakash Bakshi questions its relevance and existence. Major portion of loans goes to pledge loan (Jewel loans) and it is the safest loan portfolio of the bank. Individual loans also contribute significantly to the interest income of the bank. As stated earlier, the credit to deposit ratio (CD ratio) shows a fluctuating trend and reflects the bank's inability to lend its lendable resources for the potential borrowers of the region. It affects the profitability of the bank and needs professional intervention for effective fund management.

The other important variable taken into consideration for this case study was Percentage of NPA. Figure 5 indicates the percentage of Non-Performing Assets (NPA). Though it was all along less than 5 percent, the fluctuating trend clearly indicates the poor recovery mechanism of the bank.

The reasons for NPA was analysed by many studies in the university and identified mainly wilful default as the major cause. The wilful defaulters are farmers and weaker sections of the community and they are infected with dependency syndrome. Politically motivated loan waiver schemes in the Indian economic history made them so and needs strong policy interventions by the government.

Figure 5:
Percentage of NPA in Thiroor Service Co-operative Bank



Further, the authors extracted from the major study some relevant variables for this current paper namely manpower expenses, spread, Burden and profitability ratio. The summary of the findings are given below:

1. Manpower expenses are not increasing significantly. But the total expense has increased abnormally between 2007-2008 and 2012-2013. It shows that the management expends more and needs cost cutting measures.

2. Spread is the difference between interest received and interest paid. During the last three years of our study period, shockingly the figures show a negative trend. It further endorses that there is a need for effective deployment of funds.

3. Burden indicates the difference between non-interest income and non-interest expenses. Unfortunately, burden also reveals negative trend. Hence, the bank should strive for decreasing the non-interest expenses and increasing the non-interest income.

4. Eventually the profitability ratio of the bank i.e. profit to total funds has also shows negatively.

All the above factors contribute significantly to the loss of the bank. The accumulated loss was Rs.78.88 lakhs in the year 2003-04 and it has increased to Rs.394.48 lakhs. This is a bad symptom of the bank and demands strong intervention.

Conclusion

The question before the service cooperative banks is that they should redefine their functions. Either they should upgrade themselves as banks in real terms or lend more than 30% to agricultural farmers as stated by Prakash Bakshi. The trend in Kerala is that the demand for agricultural credit has come down. Chances of increasing such lending portfolio are also not possible at this juncture. Hence, the PACS/Service Cooperative Banks in Kerala should invariably operate as full fledged banks under the regulation of RBI. Though there is no regulation currently existing for such transformation, it is high time to think about reforms like amalgamation of small PACS/service cooperative banks into viable cooperative banks. It could be achieved only if the service cooperative banks effectively upgrade themselves to adopt prudential norms of RBI. So, the selected bank should increase membership, share capital, low cost deposits, and non-interest income, and CD ratio, decrease expenses and above all appoint professionals as employees and co-opt professionals as board members.

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