

173651

**PROFITABILITY OF FARMERS SERVICE CO-
OPERATIVE BANKS IN MUKUNDAPURAM
TALUK OF THRISSUR DISTRICT :
AN INTER BANK COMPARISON**

BY

**NAZEEMA P.J.
(2002-05-16)**



PROJECT REPORT

Submitted in partial fulfilment of the
requirement for the degree of

BACHELOR OF SCIENCE IN CO-OPERATION & BANKING

Faculty of Agriculture

**COLLEGE OF CO-OPERATION, BANKING & MANAGEMENT
KERALA AGRICULTURAL UNIVERSITY
VELLANIKKARA, THRISSUR-680 656
KERALA, INDIA**

2007

Declaration

DECLARATION

I hereby declare that this Project report entitled “**Profitability of Farmers Service Co-operative Banks in Mukundapuram Taluk of Thrissur District : An Interbank Comparison**” is a record of 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, feloowship or other similar title of any other university or society.

Vellanikkara

4-05-07

Nazeema
NAZEEMA P.J.

(02-05-16)

Certificates

CERTIFICATE

Certified that this project report entitled “**Profitability of Farmers Service Co-operative Banks in Mukundapuram Taluk of Thrissur District : An Interbank Comparison**” is a record of the Project work done independently by Miss NAZEEMA P.J. (2002-05-16) 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.

Vellanikkara

4-05-07

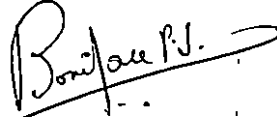


Shri. Jacob Thomas M.
Assistant Professor (Sel.Gr.)
College of Co-operation, Banking & Management
Kerala Agricultural University
Vellanikkara.

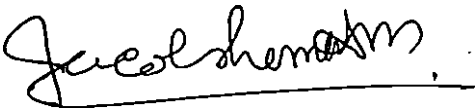


CERTIFICATE

We, undersigned members of the VIVA-VOCE Board of Miss. Nazeema P.J., a candidate for the degree of B.Sc. (Co-operation and Banking) agree that the Project Report entitled “PROFITABILITY OF FARMERS SERVICE CO-OPERATIVE BANKS IN MUKUNDAPURAM TALUK OF THRISSUR DISTRICT: AN INTER BANK COMPARISON” may be submitted in partial fulfilment of the requirement for the degree.



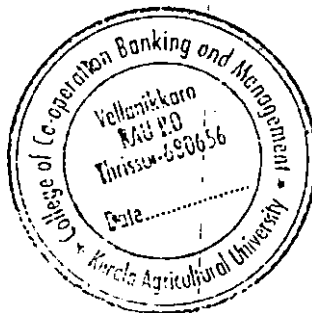
Sri. P.J. Boniface
Assistant Professor
Dept. of Development Economics
College of Co-operation, Banking and Management
K.A.U. Vellanikkara
(Chairman)



Shri. M. Jacob Thomas
Assistant Professor (Sel. Gr.)
College of Co-operation, Banking
and Management, K.A.U. Vellanikkara
(Guide)



Smt. K. Sunanda
Assistant Professor
Dept. of Development Economics
College of Co-operation, Banking
and Management, K.A.U. Vellanikkara
(Examiner)



Acknowledgement

ACKNOWLEDGEMENT

I consider it as a moment of great delight to express my gratitude to all those who have lend me a helping hand, directly or indirectly, in the completion of the work. I have no hesitation to declare that the outcome of the present project is the culmination of the collective wisdom and encouragement of a group of elites to whom I owe its credibility. However I will be failing in my duty if I do not endorse a few.

It is with great pleasure and respect that I express my sincere gratitude to my guide Shri.Jacob Thomas, Assistant Professor (Sl. Gr.) for his whole hearted support during the course of preparation of the project without which the present work would not have materialized.

I express my sincere thanks to my advisor Dr.K.A.Suresh, Associate Professor for his invariable helps and guidance throughout my days in the college.

I would like to place on record my articulate thanks to Dr.P.Shahuna, Sri.Philip Sabu, Dr.A.Sukumaran, Dr.M.A.Lizy for their constant effort and support to conduct Work Experience Programme in the most efficient manner. With great respect I express my heartfelt thanks to Dr.M.Mohandas, former Associate Dean and Dr.U. Ramachandran, Associate Dean for their encouragement, guidance and help through my academic career in CCBM.

Also, I would like to express my sincere thanks to Sri.Philip Sabu, Assistant Professor and Shri.M. Mohanan, Assistant Professor (Sl. Gr.) for help me to clear the doubts with regard to my project work.

I am highly obliged to Shri.P.J.Boniface, Chairman of the Viva Board and Smt.K.A.Sunanda, Examiner of Viva Board for being sincere enough to my project work with valuable suggestions.

Remembered with gratitude and heartfelt thanks, all the faculty members of the CCBM family for their help through out my academic career.

My profound gratitude to the officials of Kodakara Farmer Service Co-operative Bank, Kuttikad Farmers Service Co-operative Bank for their kind co-operation extended by them inspite of their busy schedule. Also I am much obliged to Mr.Paulose, Managing Director, Kuttikad Farmers Service Co-operative Bank, whom I have been fortunate enough to meet and interact during the course of my project work.

I reckon with love and affection, the support extended to me by Sonu, Ela and Divyasree's families during the course of my project work.

I extent my deep gratitude to Mr.Sathyan, Librarian and the other staff of the library for their helps for the reference of books and journals related to this project work.

I wish to express my thanks to all my 'seniors' and 'juniors' of the CCBM family especially Altia, Hilda, Ajithamole, Bibin Chettan, Misha Chechi, Shijith Chettan, Divya, Ayisha, Nimmy, Neethu for their unforgettable affection and support for my academic and personal pursuits.

"One friend in life is much, two are many and three are hardly possible" I extent my hearty love and gratitude my Haritham 2002 Batch especially hostellers - Ragi, Deepthi, Sanika, Vijitha, Smitha, Sajitha, Shani, Manju, Aswathy, Sonu, Ela,

Tintu, Krishnapriya and Divyasree for their invaluable love, co-operation and helps throughout my days in CCBM.

Last but not least I reckon with love the virtuous support given to me by my parents, the constant encouragement of whom has always been a source of aspiration for me throughout my life.

NAZEEMA, P.J.

Dedicated to

*My Loving Parents
and Beloved Brother*

Contents

CONTENTS

Chapter No.	Title	Page No.
1	DESIGN OF THE STUDY	1-20
1.1	Introduction	1
1.2	Statement of the problem	2
1.3	Objectives of the study	3
1.4	Methodology	3
1.4.1	Materials and Methods	4
1.5	Scope of the study	11
1.6	Practical utility of the study	11
1.7	Limitation of the study	11
1.8	Plan of the report	11
1.9	Review of literature	12
2	FARMERS SERVICE SOCIETIES- AN OVERVIEW	21-26
2.1	Introduction	21
2.2	Co-operative Credit Structure	22
2.3	Farmers Service Societies (FSS)	22
2.4	Concept of Farmers Service Society	23
2.5	Objectives of Farmers Service Societies	24
2.6	Farmers Service Societies in India	24
2.7	Farmers Service Societies in Kerala	25
3	PROFILE OF SELECTED FARMERS SERVICE CO-OPERATIVE BANKS	27-35
3.1	Kodakara Farmers Service Co-operative Bank Ltd.No.761	27

Chapter No.	Title	Page No.
3.2	Kuttikad Farmers Service Co-operative Bank Ltd.No.572	31
4	ANALYSIS ON INTER-BANK VARIABILITY OF PROFIT	36-54
4.1.	Coefficient of variation	36
4.1.1	Management of Interest Items	38
4.1.2	Management of Non Interest Items	39
4.1.3	Management of Human Resources	41
4.1.4	Management of Finance	42
4.1.5	Management of Liquidity	43
4.1.6	Management of Spread	45
4.1.7	Management of Burden	45
4.1.8	Management of Profitability	46
4.2	Identification of Significant Factors that Affecting Profitability	47
4.2.1	Interest Items	50
4.2.2	Non Interest Items	50
4.2.3	Financial Management Items	51
4.2.4	Asset liability Composition	52
4.2.5	Items of Human Resource Management	53
4.2.6	Main Variables	53
5	SUMMARY OF FINDINGS AND CONCLUSIONS	55-59
5.1	Findings	56
5.1.1	Management of Interest Items	56
5.1.2	Management of Human Resources	56

Chapter No.	Title	Page No.
5.1.3	Management of Finance	57
5.1.4	Management of Liquidity	57
5.1.5	Management of Spread	57
5.1.6	Management of Burden	57
5.1.7	Management of Profitability	58
5.2	Indication of Study on Factors Affecting Profitability	58
5.2.1	Interest Items	58
5.2.2	Non Interest Items	58
5.2.3	Financial Management Items	58
5.2.4	Asset Liability Composition	58
5.2.5	Items of Human Resource Management	59
5.2.6	Main Variables	59
5.3	Suggestions	59
5.3.1	Kuttikad Farmers Service Co-operative Bank Ltd.No.572	59
5.3.2	Kodakara Farmers Service Co-operative Bank Ltd.No.761	59
	Conclusion	60
	BIBLIOGRAPHY	
	APPENDICES	
	ABSTRACT	

List of Tables

LIST OF TABLES

Table No.	Title	Page No.
1.1	The derived variables combined with description and affects	10
2.1	A preview of Farmers Service Co-operative Banks in Kerala	26
3.1	Membership position of the Kodakara Farmers Service Co-operative Banks from 1994-95 to 2003-04	28
3.2	Total credit issued by Kodakara Farmers Service Co-operative Banks from 1994-95 to 2004-05	30
3.3	Membership position of the Kuttikad Farmers Service Co-operative Banks from 1994-95 to 2004-05	32
3.4	Total deposit of Kuttikad Farmers Service Co-operative Banks from 1994-95 to 2004-05	34
3.5	Total loans and advances of Kuttikad Farmers Service Co-operative Banks from 1994-95 to 2004-05	34
4.1	Mean and coefficient of variation of selected variables	37
4.2	Correlation of variables with Net profit	49

Design of the Study

CHAPTER – 1

DESIGN OF THE STUDY

1.1 Introduction

Agriculture development is an integrated part of the overall economic development. With the break through in farm technology, the capital requirements of the farmers have increased considerably. Availability of adequate, timely and cheap credit to the agriculturists and its proper use is an essential condition for the healthy functioning of the agricultural economy. The importance of a co-operative form of organization arises in this context.

After the Nationalisation of the commercial banks in 1969 the official policy was to use the co-operative system as the best suited channel for institutional credit to agriculture. In our country Primary Agricultural Credit Society (PACS) covers 90 per cent of the villages and accounts for major part of the total agricultural credit.

The co-operative structure in the country is predominantly characterized by its weak financial base, uneconomic scale of operations, poor coverage and existence of a large number of dormant societies. The National Commission on Agriculture (NCA) in 1970 therefore thought that efforts could be made to bring together small uneconomic societies and revive non-functionary societies by amalgamating them with economically viable large sized societies. Such societies can increase the benefit of large scale operations and also offer integrated facilities.

The commission therefore recommended in its interim report on credit services in 1971. The formation of Farmers Service Societies (FSS). The study group

headed by Mr. T.A. Pai in 1974 also recommended fully the idea of FSS as a viable multipurpose institutions. Accordingly FSS were launched in various states on a pilot basis in the year 1974.

1.2 Statement of the problem

Farmers Service Co-operative Banks plays an important role in effective flow of agricultural credit. These banks are considered to be an ideal institutional agency to provide the requirements of farmers by providing integrated credit services. Growth of these institutions are of important for the development of agriculture. In Kerala there are 37 FSCB out of which 9 FSCB are in Thrissur District. As a consequence of globalization, liberalization and privatization all sectors are becoming mutually competitive. The institutions like co-operative find it difficult to survive in this competition because of their outdated strategies. As a consequence of this, the financial performance and popular support are coming down. The main objective of co-operative bank is to work for the social, ethical and economic upliftment of its members and earning of profit is only subsidiary to it. However, an efficiency managed bank must generate reasonable profit, in order to remain viable and to ensure a moderate growth rate. For any business enterprise profitability is a sign of operational efficiency. An evaluation of the performance of the banks of macro and micro level based on the decomposition model will give a true picture about the profitability and productivity of the concerned banks. In this back drop of the present study attempts to compare and analyse the profitability of Farmers Service Co-operative Banks in Mukundapuram Taluk of Thrissur District with the following objectives.

1.3 Objectives of the study

The objective of the study are

1. To evaluate the inter bank variability of Farmers Service Co-operative Banks in Mukundapuram Taluk by the decomposition of operating profit.
2. To determine the factors affecting profitability of the banks.

1.4 Methodology

Globalisation and Liberalisation have posed challenges to banks and financial institutions. As a result, the conventional banking skills used have become redundant. Moreover banking sector reforms have brought in a Plethora of changes in the recent years. Prudential norms of capital adequacy, asset classification, income recognition and provisioning have made banking to get down to the basis of any business, viz., productivity and profitability. In the seventies and eighties profit was dirty word and it was deposit, the raw material for banks that had piled up thoughtlessly. Fortunately this trend has given way to profit consciousness. It has therefore been felt that the definition of productivity and profitability need to reconceptualised in order to reflect the changing environment.

Chatterjee (1998) remarked that the old measurement of profitability which relied on the ratio of business generated (sum of deposit and advances) to the number of employees was becoming irrelevant because the era of development banks had ended. In this context a new model is, decomposition model is necessary for measuring the performance of banks. The focus of this chapter is to explain the concepts and to detail the methodology adopted for analyzing the performance of banks.

1.4.1 Materials and Methods

The proposed model is an extension of the model developed by Varde and Singh (1981). Secondary data in the form of annual reports and audit report are collected from the head office of the selected Farmers Service Co-operative Banks. These data are used for further analysis and interpretations. The published data of the period 1995-2005 are considered for the study. The decomposition rule adopted are based on accounting definitions and identities. Each of the variables involved in the identities is estimated for 10 years to study the changing pattern of profitability of Farmers Service Co-operative banks of Mukundapuram Taluk. The methodology undertaken for study of first objective is ratio analysis. To determine the factors affecting profitability coefficient of correlation is used and for analyzing the level of significance t-test is also employed.

The main items of observations are as follows:

1. Net profit
2. Spread
3. Burden
4. Interest income
5. Interest expenses
6. Non interest income
7. Non interest expenses
8. Per employee staff cost
9. Staff productivity
10. Man power expenses
11. Return on advances
12. Return on investment
13. Cost of deposits
14. Cost of borrowings

14. Ratio of advances to working fund
15. Ratio of investment to working fund
16. Ratio of deposit to working fund
17. C/D ratio (Credit/Deposit ratio)
18. NPA (Non Performing Asset)

The performance of a bank can be measured by a number of indicators viz. profitability, financial management, liquidity, productivity and growth. Of these indicators profitability is the most important and reliable one as it gives a broad indication of the capability of a bank to increase earnings. Moreover it takes into account all the other parameters viz., financial management, liquidity, productivity and growth.

The traditional approach to the bank profitability comparisons stick on descriptive details and hence neglecting the small components of profitability, which have got significant impacts on the macro variables like spread, burden etc. Profit is the outcome of sequential procedures which can be traced back to earnings and expenditure patterns, asset-liability management, staff deployment and technological upgradations etc. These facts made the study of sub processes of profitability much more relevant and even inevitable.

The viability of the banks depends largely on the adequacy of profits and profitability. Profits in banking terms refers to excess of interest spread over burden, whereas a profitability is a ratio of net earnings to the total fund used. Profitability in the banking parlance denotes the efficiency with which a bank deploys its total resources to optimize its net profits and thus serve as an index to the degree of asset utilization and managerial effectiveness.

Bank profitability can be measured in several ways. They are:

1. Ratio of profits earned (net income after tax) to the capital invested
2. Ratio of profits to bank assets
3. Ratio of profits to income (rate of return on income)
4. Rate of return on deposits
5. Net profit as percentage of working fund, and
6. The operating profit to working fund

Profitability De- composition Model (Das, 1999).

The decomposition rules adopted here are based on certain accounting definitions and identities. Besides it is necessary to define some of the variables used for the model. The main variables are:

1. Working fund (WF): Total liabilities minus bill for collection and acceptance (as per contra items)
2. Spread (Net interest margin): Interest earned minus interest paid
3. Burden: Non interest expenses minus non interest income
4. Net profit: Total income less total expenditure. Profitability is expressed as a ratio of net profit to working fund. The decomposition is done in three phases.

Phase – I

$$\begin{aligned}
 P &= \text{profitability} \\
 &= (\text{operating profit}) / (\text{working fund}) \\
 &= OP / WF \\
 &= (\text{Total income} - \text{Total expenditure}) / WF \\
 &= (\text{Interest income} + \text{Non interest income}) - (\text{Interest expenses} + \text{Non interest expenses}) / WF \\
 &= (\text{Spread} - \text{Burden}) / WF
 \end{aligned}$$

$$= \text{Spread} / \text{WF} - \text{Burden} / \text{WF}$$

$$= \alpha - \beta$$

Phase – II

$$\alpha = \text{Spread} / \text{WF}$$

$$= (\text{Interest income} / \text{WF}) - (\text{Interest expense} / \text{WF})$$

$$= r - k$$

$$\beta = \text{Burden} / \text{WF}$$

$$= (\text{Non interest expense} / \text{WF}) - (\text{Non interest income} / \text{WF})$$

$$= (\text{Wage bill} + \text{other non interest expenses}) / \text{WF} - \text{Non interest income} / \text{WF}$$

$$= \text{Wage bill} / \text{WF} + \text{other non interest expense} / \text{WF} - \text{Non interest income} / \text{WF}$$

$$= M + O - C$$

The spread (α) can further be decomposed as:

$$\alpha = \text{Spread} / \text{WF}$$

$$= \{(\text{Interest income} / \text{WF}) - (\text{Interest expense} / \text{WF})\}$$

$$= \text{Interest income on (advances + investment)} - \text{Interest paid on (Deposit + Borrowings)} / \text{WF}$$

It can be further de-composed as:

$$= \{(\text{Interest income on advances}) / \text{WF} + (\text{Interest income on investment}) / \text{WF} - (\text{Interest paid on deposit}) / \text{WF} - (\text{Interest paid on borrowings}) / \text{WF}\}$$

$$= \{(\text{Interest income on advances} / \text{Advances}) \times (\text{Advances} / \text{WF}) + \{(\text{Interest income on investment}) / \text{Investment}\} \times (\text{Investment} / \text{WF}) - \{(\text{Interest paid on deposit} / \text{deposits}) \times (\text{Deposit} / \text{WF}) - \{(\text{Interest paid on borrowings}) / \text{Borrowings}\} \times (\text{Borrowings} / \text{WF})\}$$

$$= W_1 \lambda_1 + W_2 \lambda_2 = W_3 \delta_1 - W_4 \delta_2 \text{ where}$$

$$\delta_1 = (\text{interest paid on deposits}) / \text{Deposit i.e., cost of deposits}$$

$$\lambda_1 = \text{Interest income on advances} / \text{advances i.e., return on advances}$$

$$\lambda_2 = \text{Interest income on investment} / \text{investment i.e., return in investment}$$

$$\delta_2 = \text{Interest paid on borrowings} / \text{borrowing i.e., cost of borrowings}$$

$$W_1 = \text{Advances} / \text{WF i.e., weight attached to return on advances}$$

$W_2 =$ Investment / WF i.e., weight attached to return on investment

$W_3 =$ Deposit / WF i.e., weight attached to cost of deposits

$W_4 =$ Borrowings / WF i.e., weight attached to cost of borrowings

Phase – III

$m =$ Wage bill / working fund

$=$ (wage bill / Total manpower) / (WF / Total manpower)

$= m_1 / m_2$

Where $m_1 =$ Wage bill / Total manpower

$m_2 =$ WF / Total manpower

It follows that m_1 is an indicator of per employee establishment expenses and m_2 is an indicator of staff productivity.

The analytical frame work include the following identities.

$$P = \alpha - \beta \dots\dots\dots(1)$$

$$\alpha = \gamma - k \dots\dots\dots(2)$$

$$\beta = m + o - c \dots\dots\dots(3)$$

$$m = m_1 / m_2 \dots\dots\dots(4)$$

$$\alpha = W_1 \lambda_1 + W_2 \lambda_2 - W_3 \delta_1 - W_4 \delta_2 \dots\dots\dots(5)$$

Taking together 'P' can be written as

$$P = (W_1 \lambda_1 + W_2 \lambda_2 - W_3 \delta_1 - W_4 \delta_2) - (m + o - c) \dots\dots\dots(6)$$

Note:

1. The variables such as m_1 and m_2 are indicated as the ratio of man power.
2. The variables namely λ_1 , λ_2 , δ_1 and δ_2 are indicated as ratio to Advances, Investments, Deposits and Borrowings respectively.

The above explained De-composition model is simplified and shown in the chart below.

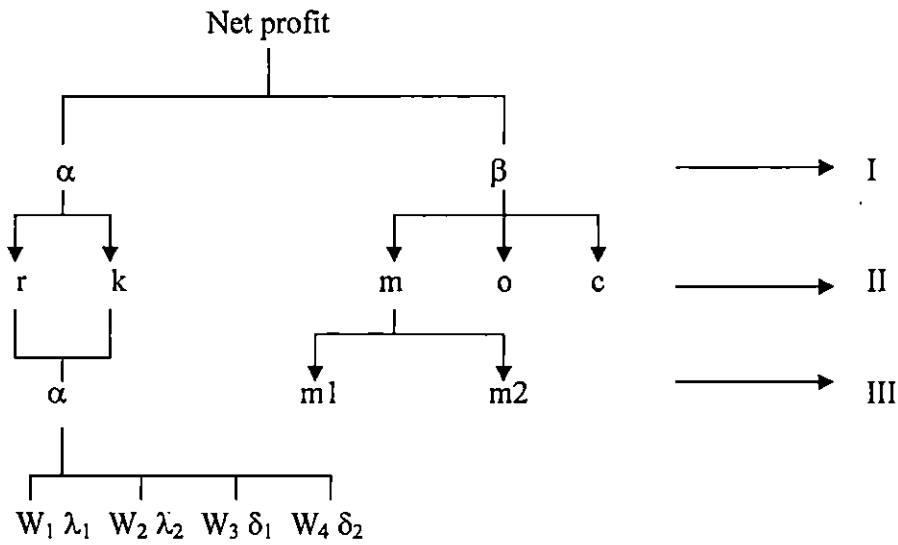


Table 1.1 The derived variables combined with description and effects are shown below:

Variables	Description of variables	Favour profit when	Area of indication
P	Net profit	Increases	Profitability
α	Spread	Increases	Spread
β	Burden	Decreases	Burden
γ	Interest income	Increases	Management of interest items
K	Interest expenses	Decreases	
O	Other non-interest expenses	Decreases	Management of Non interest items
C	Non Interest income	Increases	
M	Wage bill	Decreases	Management of Human resources
M_1	Per employee staff cost	Decreases	
M_2	Staff productivity	Increases	
λ_1	Return on advances	Increases	Financial Management
λ_2	Return on investment	Increases	
δ_1	Cost of deposit	Decreases	
W_1	Ratio of advances to WF		Management of liquidity
W_2	Ratio of investment to WF		
W_3	Ratio of deposit to WF		
W_4	Ratio of borrowings to WF		
α	Spread on normal banking business	Increases	Management of spread
$W_1 \lambda_1 +$			
$W_2 \lambda_2 -$			
$W_3 \delta_1 -$			
$W_4 \delta_2$			

Details of derived variables along with mean, standard deviation and coefficient of variation during the year from 1994-95 to 2004-05 will be computed.

1.5 Scope of the study

The study is confined to two Farmers Service Co-operative Banks namely Kodakara Farmers Service Co-operative Bank and Kuttikad Farmers Service Co-operative Bank. The study is restricted to the profitability comparison and impact of factors determining profitability.

1.6 Practical Utility of the study

The study helps the co-operative banks to

1. Locate the sub processes of the pattern of profitability where the weakness exists
2. Identify the factors determining profitability
3. Know the position of each in any sub-processes when compared to others

1.7 Limitation of the study

The present study formed apart of the graduate programme and hence it has all limitations of time, money and other resources. These constraints, restricted the selection of only two FSCBS.

1. The findings of the study are susceptible to the reliability of the secondary data
2. Accurate manpower cannot be arrived due to the unavailability of monthly figures of employees.

1.8 Plan of the Report

- 1) Design of the Study
- 2) Farmers Service Societies - An overview
- 3) Organisational Profile
- 4) Analysis
- 5) Summary of Findings and Conclusions

1.9 Review of literature

Sukumaran and Shaheena (1991) in their study on spread, burden and profitability showed that lack of effective management of spread and burden led to unfavourable trends in profitability. It was found that the increase in burden ratio could be attributed to the increase in non-interest expenditure ratio.

The study conducted by Shanavas (1991) in Malapuram Service Co-operative Bank found that declining profitability of the bank was due to low increase in interest earned ratio, insufficient non-interest income and necessity of maintaining increased amount of reserves due to mounting overdues. It was recommended that the management efficiency be enhanced in order to increase the profitability of the bank.

According to the study conducted by Robert (1993) covering six private sector banks. SBI and other associates and other Nationalized banks, he proved that private sector banks were more efficient than Nationalized banks. According to him, the factors responsible were higher interest spread as percentage of total earnings and favourable brand mix of private commercial banks. Favourable interest spread was due to proper administration of advances in the form of timely granting of loans, monitoring of advances and low cost deposits in the form of larger share of saving and current deposits.

Rangaswamy and Aagar (1995) he conducted the study to analyse the profitability performance among the co-operative sugar mills in Tamil Nadu one of the important factors used for measuring the efficiency of an organisation is the profit earned by it. The efficiency of the co-operative sugar mills in Tamil Nadu has been analysed in terms of profit earned by them. This is a consus study of all the co-

operative sugar mills during the period under study. The study is mainly based on secondary data. The major findings of the study are Ambur and Slem Co-operative Sugar Mills are the only two co-operative sugar mills in Tamil Nadu that have earned profits during the entire period under study.

Satyamurthy (1996) clarified the concepts of profit, profitability and productivity applicable to the banking industry. It was observed that overall profitability and productivity performance of a bank is the resultant effect of both 'economic efficiency' and 'operational efficiency'. He opined that attempts should be made to improve the spread performance through better funds and cash management recycling of funds, exploring new awareness for increasing non-fund business income and above all cost effectiveness and control.

Baby (1997) his attempt is made to study the operational efficiency of urban co-operative banks in Thrissur District, Kerala. Of six urban banks in the district, three banks were selected for detailed study on the basis of volume of business and geographical location. The operational efficiency of resource management of the banks can be evaluated by analyzing the ratios related to profitability, liquidity and business efficiency. An overall analysis of the liquidity performance of the banks shows that although all banks are keeping excess liquid assets and liquid cash over and above the minimum requirements.

Nanjuda (1997) pointed that profitability and capital adequacy were closely linked and higher profitability normally accompanies higher risk weighted asset building up. The extensive risk asset build up would bring down the viability also.

Nanda (1999) expressed the views on the ratios of profitability. The important ratios such as gross profit ratio, operating profit ratio, return on investment ratio, return on proprietor's fund ratio, return on asset ratio were analysed and stressed that the bankers were not revenue officers and they should have looked into solvency and assess real profitability.

Pathrose (1999) described about the introduction of capital adequacy requirements and resultant paradigm shift in banking priorities and pointed out that the stringent NPA norms, provisioning requirements, volatile interest regime, shrinking spread and thinner margin were the reason for drain on the profitability banks. It was found proactive strategies in credit administration, asset liability management, risk management, technology upgradation, human resource management, treasury operations, cost control etc. were the possible remedies.

Sabbiah (1999) applied Mann-Whitney-Wilcoxon non parametric test to compare the growth rates of deposits and advances of commercial banks Virudhunagar District (Tamil Nadu) to what was achieved at the national level by the test as they were the test could be used to determine whether there was any significant difference between the population. Two independent samples, one from each population were used. The above specified test was used to determine whether or not the two populations were identical or there was no significant difference between the two populations. The test was appropriate whenever the sample sizes were less than or equal to 10.

Bhatia and Varma (1999) in their study on factors determining profitability of public sector banks in India revealed that profitability of the banks depends on

policy determined variables such as reserve requirements, directed credit programmes and other variable such as composition of deposits, establishment expense, spread and burden etc. They had used a multiple regression model for their study.

Kaveri (2001) made an interstate analysis on banking in North-Eastern Region. The study dealt with several aspects like Branch Expansion, Mobilisation of deposits, Credit development, per capital business, investment in Government sponsored schemes, loan to misguided youth, loan granted to State Government undertaking, recovery of non performing assets, etc. A comparison was made in all these aspects and finally the suggestions for improvement and remedial measures for the problem were also arrived.

Ballabh (2001) opined on the challenges before the Indian banking industry. In his view, deregulation and liberalization had opened up new opportunities for banks but at the same time the pressure of competition had lead to narrow spreads, shrinking margins and consolidation and restructuring. Increasingly, banks were focusing on core competencies, synergies, strength and shedding activities that were not remunerative. Also found views on the challenges like technology, greater customer orientation and management of nonperforming assets, impact of WTO.

Vidwans (2001) opined that the control over and reduction in non-performing assets of banks and financial institutions called for long term strategy to upgrdate financial discipline and sustained efforts to improve credit appraisal and credit monitoring skills. Proper compliance of various audit and inspection reports, expeditious rehabilitation of viable sick units, improved lending to agriculture etc. could also help to reduce the non performing assets level.

Jain (2002) made an attempt to study of net profit or net loss of all the 26 district central co-operative banks of Rajasthan for 1999-2001. The study revealed that out of 26 banks, 20 banks have shown improvement in 2000-2001 over 1999-2000 either by improving the amount of profit or by reducing the net loss or by converting them from loss making to profit earning banks. Remaining 6 banks have shown declining trend in their performance either by reducing their net profit or by going down in heavy losses.

Debasish (2002) viewed that performance of a bank can be measured by a number of indicators. Profitability is the most important and reliable indicator as it gives a broad indication of the capability of a bank to increase its earnings. The study focused on identify the most critical profitability ratios using a multivariate analysis technique called discriminant analysis. Discriminant analysis identified five variables ie., priority sector, advance to net advances, interest income to total assets, net interest spread to total assets, non-interest income to total assets and wage bills/total expenses among the 13 variables as the significant discriminations of bank profitability.

Fulbag Singh and Balwinder Singh (2003) viewed that the co-operative banking system has witnessed a sea change since the initiation of the financial sector in India from 1991-92. There has a comprehensive change as regard to the profitability position of the central co-operative banks with high business volume and those with for business volume have been tested separately. It could be conducted that as far as the profitability performance is concerned, the central co-operative banks of Punjab have performed well. The miscellaneous income, in comparison to the total income has been in lone profile in these banks. The switching over to high yield non farm

sector advances has helped to register a positive trend in financial margins in almost all the banks. .

Raikar (2003) he conducted the study to find out what is happening to the performance of the UCBs vis-a-via the other categories of banks as consequences of banking sector reforms and to evaluate the effect of increased marketing competition on the performance of UCB. And also to assess the future prospects for UCBs considering the recent changes regarding capital adequacy norms, provisioning for non-performing Assets, Minimum entry point norms, etc. The major findings of the study are the deposit growth rate is the highest among the UCBs as compared to the other categories of banks. The analysis shows that owned funds of the UCBs have growth much faster than all the categories of banks except NPSBs.

Govindarajan and Robindrosingh (2006) he conducted the study to analyse the profitability of Tamil Nadu State Co-operative Bank and also to study the factors affecting profitability of the bank. From the overall analysis of the profitability of the bank, it is observed that it is slowly declining year by year. So proper steps should be taken by the concerned quarters. Though co-operative banks are meant for several motive, they must also earn some profit for their existence.

REFERENCES

- Babu, C.V. (1997). Liquidity, profitability and business strength analysis of urban co-operative banks, *Indian Co-op. Rev.* **35**(1): 56-70
- Ballabh, R.J. (2001). The Indian Banking Industry: Challenges Ahead, *IBA bulletin* **23**(4&5): 8-10
- Bhatia, S. and Varma, S. (1999). Factors determining profitability of public sector banks in India. An application of multiple regression model, *Prajnan* **24**(4): 433-445
- Debasish, S.S. (2002). Prime Discriminators of Profitability in the Indian Commercial Banks, *Prajnan* **31**(4): 300-310
- Fulbag Singh and Balwinder Singh (2003). Profitability of the Central Co-operative Banks in Punjab - A decomposition analysis, *Indian Co-op. Rev.* **44**(1): 41-45
- Govindarajan, K. and Robindro Singh, N. (2006). Analysis of the profitability of the Tamil Nadu State Apex Co-operative Bank Ltd., *Indian Co-op. Rev.* **43**(4): 676-686
- Jain, B.K. (2002). Comparative study of net profit and profitability of District Central Co-operative Banks of Rajasthan, *Co-operative Perspective* **37**(2): 47-54
- Kaveri, V.S. (2001). Banking in Northeastern region: An interstate Analysis, *Prajnan* **29**(4): 327-341
- Nanda, K.C. (1999). Credit and banking, Response Books, New Delhi. 103-106
- Nanjuda, M.K. (1997). Profitability, capital adequacy and risk management in banks, *IBA Bulletin*, **14**(2): 18-20

- Pathrose, P.P. (1999). Banking for profits: A millennium solution, *Vinimaya* 20(2): 17-23
- Raikar, A.V. (2003). Growth, profitability and cost efficiency of urban co-operative banks in India - A comparative Analysis, *Indian Co-op. Rev.* 41(2): 103-114
- Rengaswamy, V. and Alagar, K. (1995). Analysis of profitability performance among the co-operative sugar mills in Tamil Nadu, *Indian Co-op. Rev.* 36(3): 223-226
- Robert, M. (1993). Efficiency of private sector banks in India. In: Vinayakan, R. (ed.). A PCCP into Private Sector Banks. Kaniska Publishers, New Delhi pp.88-90
- Satyamurthy, B. (1996). A study on interest spread management in commercial banks in India, *NIBM Working Paper* 2(1): 130
- Shanavas, K. (1991). Profitability of PACS - A case study of Malappuram Service Co-operative Bank Ltd. B.Sc.(C&B) Project Report, KAU, Thrissur (unpublished). p.79
- Subbiah, A. (1999). Application of Mann-Whitney-Wilcoxon Non Parametric tests to compare growth rates of deposits and advance of commercial banks in Virudhunagar District with the National Level, *Prajnan*, 27(2): 193-197
- Sukumaran, A. and Shaheena, P. (1991). Management of spread burden and profitability - A case study of Palakkad District Co-op. Bank, *Indian Co-op. Rev.* 29(1): 82-86
- Vidwans, H.P. (2001). Non-performing Advances - A disease or a symptom, *Vinimaya* 22(2): 18-21

*Farmers Service Societies -
An overview*

CHAPTER - 2

FARMERS SERVICE SOCIETIES - AN OVERVIEW

2.1 Introduction

Agriculture is the largest sector of the economic activity and has a significant role to play in the countries economic development by providing food and raw materials, employment to a very large proportion of population, capital for its own development and surplus for national economy. In India the vital role of agriculture arises out of the position of the agrarian sector in the overall economy of the country. Hence we have multi-agency network consisting of co-operative banks, commercial banks and regional rural banks for the distribution of credit to farmers.

Agriculture is contributing about 27 per cent of GDP, providing employment to 58 percent of the population (Source: Economic Review, October, 2004) and continues to be the backbone of Indian economy. Credit is one of the most important factors determining the pace and rate of agricultural development. Efficiency and effectiveness of the flow of credit for accelerating agricultural and rural development to a major extent depends on the delivery mechanism at the grass root level. Since the Farmers Service Societies (FSS) are considered to be an ideal institutional agency as it cater to all requirements of farmers by providing integrated credit and other services, the survival and growth of these institutions are of significance for the development of agricultural sector.

Co-operatives are a unique form of farmers organization and are prevalent in various countries of the world. In India, majority of the farmers are members of co-operative societies. The co-operative sector has immense potential for undertaking a number of rural development activities.

2.2 Co-operative Credit Structure

The co-operative credit is considered to be the most important of institutional credit in rural areas. The performance of co-operative sector was the best in the area of agricultural credit. There has been significant growth in the disbursement of agricultural credit since first five year plan.

Co-operative credit structure in India has two sectors viz., agricultural sector and non-agricultural sector. There are two wings in the agriculture sector (a) short terms and medium terms finance and (b) long term finance. The long term credit structure is two tier with Central Land Development Banks at state level and Primary Co-operative Agriculture and Rural Development Banks at village level.

In short term and medium term finance, we have state co-operative bank at the state level, central co-operative bank at the district levels and Primary Agricultural Credit Societies (PACS) at grass root level. In that, PACS plays an important role in the agricultural credit. PACS constitute the base of the co-operative credit structure of the country. In 2004-05 there are 139512 PACS in India with the membership of 137.047 millions (Source: NCUI.<http://ncui.nic.in/stathtm>). PACS include large sized Adivasi Multi Purpose Societies (LAMPS), Primary Agricultural Credit Societies (PACS) and Farmers Service Societies (FSS).

2.3 Farmers Service Societies (FSS)

Farmers service societies have been recommended by the National Commission on Agriculture (NCA) appointed in 1970 in its report in the circumstances of finding the central need for timely availability of a package of services along with technical guidance and services for storage, transportation, processing and marketing to small farmers and marginal farmers. As per the

recommendations of NCA in its interim report, the Government of India encouraged the formation of FSS on a pilot basis in various State Government was not convinced of their relevance under Kerala conditions. The Government held the view that the co-operative credit structure in the state was quite strong and stable.

The Government of Kerala was not very keen about FSS until the study group headed by Sri.T.A.Pai, the Union Cabinet Minister, recommended FSS as the most appropriate agency for rural development and the Draft Fifth Five Year Plan made a case for FSS. Thus on behalf of the state, the Kerala State Co-operative Bank concerned a conference of the Presidents and Chief Executives of the District Co-operative Banks and discussed all aspects of FSS and resolved to convert some of the selected viable PACS into FSS. At the first instance it was decided to convert 20 such societies. There were 17 and 18 FSS in Kerala in 1981-82 and 1982-83 respectively. In 1987 the number of FSS increased to 32. In 2002-03 the number of FSS increased to 37.

Unlike other states where in the FSSs are sponsored either by commercial and co-operative banks, FSS in Kerala are sponsored by co-operative banks only. The main function of FSS is to meet the credit requirements of its members. The FSS, provide mainly crop loans in order to assist agriculture. Another function is the supply of fertilizers, seeds, manures and equipments to its members. The FSSs undertake many other functions such as construction of wells, minor irrigation projects etc. for its members.

2.4 Concept of Farmers Service Society

FSSs are unique co-operative institutions for the development of small farmers. It is a registered co-operative body with bye-laws, with the features of area of operation covering a block with a population of 10,000. The societies undertake agro

based development and membership is given to all farmers and rural house holds. The FSSs are established with the objectives of providing a full package of services and technical guidance to needed farmers along with credit, creating a favourable condition for the flow of credit to weaker section and diversification of farm activities in an integrated manner.

2.5 Farmers Service Societies in India

A group headed by Shri.T.A.Pai, the Minister of Heavy Industries was constituted by Cabinet in 1974 to recommended the most appropriate institutional structure of credit needed by rural areas. This group has recommended that, only a viable multipurpose, professionally managed co-operative society can fulfill the requirements of credit needs of rural people. By the recommendation of the group, several viable primary Agricultural Credit Societies were converted into Farmers Service Societies. FSSs concentrate on small and marginal farmers.

The FSS are organized since 1974 and in that year there was 16 FSSs, the number of FSS raised to 311 in the year 1976, it again raised to 912 in 1978 and 1995-96 there were 2570 FSSs in India.

The Agriculture Credit Department of RBI undertook a study of 166 FSSs in 1977 and found that the performance of the societies was no better than primary societies and the recommendations of the National Commission on Agriculture had not been adhered to in their working. But now the viability of FSS has been increased.

2.6 Farmers Service Societies in Kerala

Almost all farmers are marginal in Kerala and hence the role of FSS in the development of farmers is much significant. At the time of the organization of FSS in

the year 1976 there were 10 FSSs in Kerala among which five societies were in Thrissur, 4 societies were in Kannur and one society in Kollam. After 4 years in 1980 the number increased to 17 and in the year 1987 there were 32 FSS and now there are 37 societies in our state in 2005. Even though the number of FSS are very less, all the FSSs are working well. Now there are 9 FSS functioning in Thrissur district.

Organisational Profile

CHAPTER – 3

PROFILE OF SELECTED FARMERS SERVICE CO-OPERATIVE BANKS

3.1 KODAKARA FARMERS SERVICE CO-OPERATIVE BANK Ltd.No.761 (KDFSCB)

3.1.1 Introduction

The Kodakara Farmers Service Co-operative Bank Ltd. No.761 was started in 1923 with 18 members. The share capital of the society was Rs.1000 divided into 500 shares of Rs.2 each. In 1958 the society was reformed with a new name as Kodakara Regional Agricultural Credit Society Ltd. with a view to give more importance to agriculture. At that time, the total number of members was 1097 and the share capital was Rs.14229. In 1961 the society was renamed as 'Kodakara Service Co-operative Society Ltd. No.122'.

In 1976 Government of Kerala proposed to convert 20 will functioning PACS into Farmers Service Societies and Kodakara Farmers Service Co-operative Bank Ltd. No. 761 was one among them. Accordingly the society was converted into Farmers Service Society on 1st January, 1977 with a membership of 3158 and a share capital of Rs.188630.

3.1.2 Area of Operation

The society covers the whole area of Kodakara Panchayat and 1st and 3rd wards of Mattathur Panchayat. The Kodakara Panchayat has an area of 38 sq. km. and a population of 50,000. The area of Mattathur Parichayat is only 7.5 sq. km. and a population of about 7,900.

3.1.3 Share Capital

The Registered Capital of the bank is Rs.60 lakh and is divided into 5 lakhs. Share of Rs.10 and 1000 shares of Rs.1000 each. There are different types of

shares namely 'A' class, 'B' class, 'C' and 'D' class. 'A' class membership is allowed to the people residing within the area of operation and the person should be able to enter into a contract. 'B' class membership is open to the State Government and to financing bank. 'C' class members are nominal members. 'D' class membership is to the SHG's.

3.1.4 Membership

Membership is given to the people residing in the area of operation and the person shall be above 18 years of age and able to enter into a contract. Each individual member should take minimum of one share worth Rs.10 and should not hold more than 1/5th of the issued share capital. A member can withdraw his membership only after 5 years of joining. Membership position of the society for the period of 10 years from 1994-95 to 2003-04 is given in Table.

Table.3.1 Membership position of the society from 1994-95 to 2003-04

Year	Membership	Growth Index
1994-95	7250	100.00
1995-96	7756	106.98
1996-97	8142	112.30
1997-98	8550	117.93
1998-99	9138	126.04
1999-00	9765	134.68
2000-01	10248	141.35
2001-02	10550	145.52
2002-03	10717	147.82
2003-04	11206	154.56

Source: Audited balance sheet of the KDFSCB

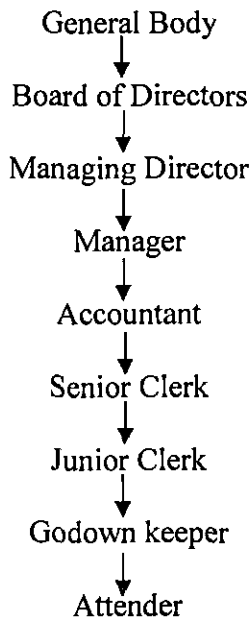
3.1.5 General Body

The General Body of the society is the supreme authority and meet once in a year. The quorum of the General Body is 75 members. The General Body meeting requires seven days notice. The General Body elect the Board of Directors of the society.

3.1.6 Management and Administration

The management of the society is vested with the Board to Directors. The term of the BOD was terminated and the management of the society was placed in the hands of an administrator appointed by the State Government. The assistant registrar of co-operative societies is the administrator of the society.

3.1.7 Organisational Structure



3.1.8 Loans and Advances

The society provides different loans such as medium term loan, long term loan, cash credit, gold loan etc. The bank provides loans and advances for agricultural purpose and consumption purpose.

Table3.2. Total credit issued by KFSCB from 1994-95 to 2003-04

Figures in lakhs

Year	Loans and Advances	Growth Index
1994-95	175.80	100.00
1995-96	226.47	128.82
1996-97	263.94	150.14
1997-98	257.07	146.23
1998-99	488.92	278.11
1999-00	713.74	405.99
2000-01	941.13	535.34
2001-02	1025.46	583.31
2002-03	1152.53	655.59
2003-04	1195.88	680.25

Source: Audited balance sheet of KDFSCB

3.1.9 Special activities of the bank

1. Farmers super market

The bank is running a super market, which is situated Kodakara. The bank collects the consumer goods directly from manufacturing units, other private agencies and distribute it to consumers. The supermarket provides credit facilities to member through consumer credit card which is issued by the bank.

2. Neethi Medical Store

Neethi is a programme by Kerala State Co-operative Consumers Federation Ltd. (CONSUMERFED). It is a term used to denote the fair price shoaps run by co-operatives. KFSCB has a Neethi Medical Store at Kodakara. The medicines are available at a reasonable rate.

3. Rubco Bed agency

Bank has the agency function of Rubco Beds. Through this function, the bank provides the Rubco Beds to consumers of reasonable rate and the bank get commission through the supply of beds.

4. Distribution of Neethi Gas

Kodakara Farmers Service Co-operative Bank distributes Liquid Petroleum Gas (LPG) for the people residing in the area of operation. The KFSCB bring LPG from CONSUMERFED, Gujarat and sell to the members for Rs.300 per 12 kg Cylinder. For taking gas connection each member has to pay Rs.5550 in addition to that the admission fee of Rs.5. For the purpose KFSCB provides credit with interest of 11% for a maximum period of 2 years.

3.2 KUTTIKAD FARMERS SERVICE CO-OPERATIVE BANK Ltd.No.572

The Kuttikad Farmers Service Co-operative Bank Ltd. No.572 was started in 1-6-1947 and started its functioning in 18-7-1947. The bank has two branches at Kuttichira and Mothirakkanny.

3.2.1 Area of operation

The Area of operation of the bank is limited to Kuttikad, Anthrakkampadam, Mothirakkanny, Valiapadam, Peelarmuzhi, Chattikkulam, Maramkode, Koorkamattam, Kundukuzhippadam, Pulinkara etc.

3.2.2 Share capital

The Authorised share capital of the bank consists of 7,00,000 'A' class share of Rs.10 each and 3000 'B' class shares of Rs.1000 each upto a maximum of Rs.100,00,000. 'A' class shares provided to members of above 18 years of age and 'B'

class shares mainly meant for State Government and financing bank. 'A' class shares provided in one or more installment as per the permission of director board. 'B' class shares can be withdrawn as per the agreement between the bank and the share holder or according to Sec. 24(A) of Kerala Co-operative Societies Act, 1969.

3.2.4 Membership

Membership is given to the people residing in the area of operation and the person shall be above 18 years of age and able to enter into a contract. Each individual member should take minimum of one share worth Rs.10 and should not hold more than 1/5th of the issued share capital.

Table.3.3. Membership position of the society from 1994-95 to 2004-05

Year	Membership	Growth Index
1994-95	8868	100.00
1995-96	8909	100.46
1996-97	9248	104.28
1997-98	9403	106.03
1998-99	10034	113.14
1999-00	10459	117.94
2000-01	10765	121.39
2001-02	11060	124.71
2002-03	11096	125.12
2003-04	11381	128.33
2004-05	10856	122.41

Source: Audited balance sheet of KTFSCB

3.2.5 General Body

The Annual General Body of the bank is conducted at least once in an year by the Director Board this power is also entrusted to the Representative General Body.

1. In addition to this Director Board can all a special General Body at any time for the conduction of business of the society.
2. This may be conducted as per the application in writing by 1/5th or more than 5 members or by the registrar or by the financing bank within one month.
3. Quorum of the General Body is 1/4th or 100 'A' class members which ever is less. But at least 2/3rd members present must be included in the list as per 15(1) of the by-law.

3.2.6 Management and Administration

Management of the society is vested upon director board comprising of 13 members. Their term of office is 5 years.

- a) The service of the board members is free except provisions of Kerala Co-operative Societies Act 1969. 10 'A' class share holders elected from different wards but at least 6 of these members must be included in the Sec.(1) of members list of these bank.

2 members of which one is an SC/ST member and other is women member.

- b) Ex office member (Managing Director) as per the provision 28 of the by-law.

3.2.7 Deposits

The major share of the working capital of the society is constituted by deposits. The society accepts deposits from its members and non members. It accepts fixed, savings, recurring and current deposits.

Table.3.4. Total deposit of Kuttikad Farmers Service Co-operative Bank from 1994-95 to 2004-05

(Rs. in lakhs)

Year	Deposit	Growth Index
1994-95	425.21	100.00
1995-96	463.12	102.56
1996-97	507.72	119.40
1997-98	565.24	132.93
1998-99	809.52	190.38
1999-00	1039.13	244.38
2000-01	1218.47	286.56
2001-02	1412.36	332.15
2002-03	1610.60	378.78
2003-04	1814.50	426.73
2004-05	1944.65	457.34

Source: Audited Balance sheet of KTFSCB

3.2.8 Loans and Advances

The society provides different loans such as medium term loan, long term loan, cash credit, gold loan etc. The bank provides loans and advances for agricultural purpose and consumption purpose.

Table.3.5. Total Loans and Advances of Kuttikad FSS from 1994-95 to 2004-05

Year	Loans and Advances	Growth Index
1994-95	390.10	100.00
1995-96	470.39	120.58
1996-97	507.41	130.08
1997-98	578.33	148.25
1998-99	668.87	171.46
1999-00	840.64	215.49
2000-01	1026.88	263.23
2001-02	1106.49	283.64
2002-03	1151.40	295.16
2003-04	1226.52	314.41
2004-05	1314.44	336.94

Source: Audited Balance sheet of KTFSCB

3.2.9 Special activities of the bank

Fertilizer depots at Kuttikad, Kuttichira, Mothirakanny etc., consumer stores at Kuttikad, Kuttichira etc., Neethi store, Neethi gas distribution, Kerala feeds distribution are being run under the control of this bank. Cloth store was stopped as per the decision of the last general body. In order to provide pure coconut oil to the consumer its being distributed through special stores through these stores high quality products are being distributed at optimum cost.

1. Monthly deposit scheme

The bank now has 21 number deposit schemes of Rs.13,76,000/- a number of schemes are being planned to start in the near by future.

2. Coconut processing centre

According to the last general body decision the new coconut processing centre under this bank was being inaugurated by Lonappan Nambadan MP. This centre having a capacity of processing 25000 coconuts per day is able to ensure high prices to the coconut farmers for their produce.

Analysis

CHAPTER - 4

ANALYSIS ON INTER-BANK VARIABILITY OF PROFIT

Financial Statement reflects the state of affairs of an organisation at a given point of time as well as its financial performance over a period. However, the accounting figures disclosed in the financial statement cannot be claimed as a true financial indicator of a firm's performance. Sometimes, it is alluring to picture the illusion figures in Balance sheet or income statement, but after a detailed analysis we may end up with dismal performance. Thus there is a need to analyse the financial statement by determining the relationship between two variables. This is ascertained by a technique called Ratio Analyses which express the numerical relationship between accounting figures. It is a powerful device to analyse and interpret the financial structure of a firm.

The variables arrived from the decomposition of net profit was made easier for analysis by computing the mean and coefficient of variation. The former explains the average ratio value of each variables to working fund of post reform period, i.e., 1995-2005. The later indicates the relative variability of variation of each variable from their mean value.

4.1 Coefficient of variation

Coefficient of variation (CV) is a relative measure of dispersion. This measure has great practical utility. A series in which CV is higher would have greater dispersion than the one in which it is lower and vice versa. This measure is most commonly used for a comparative study of the variability or consistency of two or more series. The series for which the coefficient of variation is less is considered to be more stable or consistent.

The analysis regarding the inter-bank variability of profitability among selected Farmers Service Co-operative Bank was done on the bases of the areas of profitability management indicated by the resultant.

The areas taken into consideration are as under:

1. Management of Interest items
2. Management of Non interest items
3. Management of Human Resources
4. Management of Finance
5. Management of Liquidity
6. Management of Spread
7. Management of Burden
8. Management of Profitability (net profit).

Table 4.1 Mean and coefficient variation of selected variables

Description	Variable	Banks	Mean	Coefficient of Variation (%)
Net profit	p	KT	-0.0244	513.390
		KD	0.039	398.45
Interest income	r	KT	1.259	30.4127
		KD	1.134	56.4575
Interest expenses	k	KT	1.244	35.0356
		KD	1.130	58.4324
Non interest expenses	o	KT	0.385	33.1557
		KD	0.230	35.3813
Non interest income	l	KT	0.400	40.1213
		KD	0.441	59.8365
Per employee staff cost	m ₁	KT	0.011	39.56
		KD	0.007	57.79
Staff productivity	m ₂	KT	1.835	34.850
		KD	1.440	44.097
Wage bill	m	KT	0.0059	16.3348
		KD	0.0050	51.0601
Return on advances	λ_1	KT	14.474	10.997
		KD	14.914	11.377

Description	Variable	Banks	Mean	Coefficient of Variation (%)
Return on investment	λ_2	KT	23.315	22.146
		KD	25.240	32.880
Cost of deposit	δ_1	KT	11.719	17.650
		KD	11.628	13.954
Cost of borrowings	δ_2	KT	10.997	14.145
		KD	12.372	12.890
Advances	w_1	KT	62.332	9.949
		KD	60.754	8.021
Investment	w_2	KT	23.315	22.146
		KD	25.248	32.883
Deposits	w_3	KT	75.849	13.132
		KD	77.098	3.968
Borrowings	w_4	KT	9.348	56.179
		KD	2.634	136.340
Spread	α	KT	0.015	584.78
		KD	0.004	4517.25
Burden	β	KT	-0.015	-386.5010
		KD	-0.211	-90.8462

KT- Kuttikad FSCB

KD- Kodakara FSCB

4.1.1 Management of interest items

The items (variables) which point to the area of profitability management of banks are (1) Interest income (r) and (2) Interest expenses (k). The banks will be able to contribute to their net profit either by increasing the interest income or decreasing the interest expenses of this area.

1. Interest Income (r)

The major sources of interest income of the Farmers Service Co-operative Banks were interest earned on loans and advances, interest on investments.

The KTFSCB has got the highest average of interest income @ of 1.259 and KDFSCB with the least of these i.e., 1.134. The KTFSCB recorded the least

variability of 30.4127 per cent and have secured to be more consistent. Highest variability in interest income was found for KDFSCB with 56.45 per cent.

2. Interest Expenses (k)

The major elements of interest expenses were interest on deposit and borrowings. The KTFSCB has got higher average expenditure on interest (k) of 1.244. The KDFSCB recorded the least average expenses of 1.13. The KTFSCB showed the least variability with 35.03 per cent, followed by KDFSCB has shown the highest variability of 58.43 per cent.

Inference

1. In the case of interest income, KTFSCB has shown highest average income and in the case of interest expenditure, KTFSCB has also shown highest interest expenditure.
2. Data indicate that the KDFSCB has got high variability in this area of profitability.

4.1.2 Management of Non-interest items

The variables which give indication to this area of profitability management of banks are (1) Non-interest expenses (o), (2) Non interest income (c). The banks can increase their profitability by reducing non-interest expenses or increasing the non-interest income.

1) Non interest expenses (o)

The major non interest expenses are rent, taxes, insurance charges, legal and other professional charges, postage,, telegrams and telephone charges, auditors

fees, stationery, printing and advertisement expenses, depreciation on and repairing of property, allowances paid to Directors and local committee members etc.

The KDFSCB has got least average of non interest expenses towards non interest items i.e., 0.23. The KTFSCB showed the highest expenditure average of 0.385. The KTFSCB was found most consistent in restricting the expenditure 33.15 per cent. The KDFSCB was seemed to be least consistent with 35.38 per cent.

2) Non interest income (c)

The major sources of non interest income of the Farmers Service Co-operative Banks were commission on services provided to customers, exchange and brokerage, donations, income from non banking assets and profit from sale of or dealing with such assets, other miscellaneous sources of income such as share transfer fee, dividend recovered and other receipts.

The average ratio was found higher for KDFSCB 0.441 and the KTFSCB was placed next to the former with a value of 0.4. The KTFSCB found least varied with the value of 40.1213 percent. The KDFSCB showed the least consistency with the value of 59.8365 percent.

Inference

The KDFSCB was found to be least average expenditure and highest average non interest income. But KTFSCB was found to have highest average expenditure and least average income. The KTFSCB showed highest consistency in non-interest expenditure and showed highest consistency in non-interest income.. The KDFSCB sowed least consistency in non-interest expenses and non-interest income.

4.1.3 Management of human resources

The variable which are included in this area of profitability of banks are (1) Per employee staff cost (m_1), (2) Staff productivity (m_2), (3) Wage bill ($m = m_1/m_2$). Among the above given variables, m_1 and m_2 are expressed as the ratio to manpower. For getting favourable changes in profit the banks have to reduce their wage bill. This can be achieved by increasing the staff productivity.

1) Per employee staff cost (m_1)

The KDFSCB can be noted with significantly least average ratio in per employee staff cost of 0.007. The KTFSCB had found highest value with 0.011. The KTFSCB has shown the least variability value of 39.56 per cent. The consistency was least for KDFSCB.

2) Staff productivity (m_2)

The KDFSCB has got the highest average of 14.914. The KTFSCB has least average of return on advance 14.474 as compared to another bank. But the KTFSCB has got highest consistency in maintaining their return on advances with 10.997 per cent in staff productivity (1.835). Staff productivity in KDFSCB disclosed the least figure of 1.44 which is due to lower staff number. The KTFSCB was noted by its highest consistency in staff productivity with least variability figure of 34.850 per cent. The KDFSCB revealed a higher variability of 57.68 per cent.

3) Wage bill (m)

The KDFSCB was placed in the safest position by the lowest average of 0.0050. The KTFSCB showed the highest average ratio of wage bill i.e., 0.0059. The KTFSCB has shown least variability of 16.3348 per cent. The KDFSCB revealed least consistency with 51.0601 per cent.

Inference

1. The KDFSCB was seemed to be well performing with their least per employee staff cost and least wage bill, but failed to maintain highest average in staff productivity. Besides, they were consistent in maintaining their wage bill.
2. KTFSCB was just opposite to KDFSCB. Their position was the lowest in all averages except in the case of staff productivity, but they were least consistent in maintaining their wage bill.

4.1.4 Management of finance

The variables which are pointing towards this area of profitability of banks are (1) Return on advances (λ_1), (2) Return on investment (λ_2), (3) Cost of borrowings (s_2), (4) Cost of deposits (s_1). For bringing favourable changes in profit, the banks can

- 1) Increase the return on advances
- 2) Increase the return on investment
- 3) Reduce the cost of deposits
- 4) Reduce the cost of borrowings

1. Return on advances (λ_1)

The KDFSCB has got the highest average of 14.914. The KTFSCB has least average of return on advance 14.474 as compared to another bank. But the KTFSCB has got highest consistency in maintaining their return on advances with 10.997 per cent and the least consistency was found in KDFSCB with 11.37 per cent.

2) Return on investment (λ_1)

In this case also KDFSCB showed highest average value i.e., 25.24 and the KTFSCB got least value, 23.31. But KTFSCB has got highest consistency in return on

investment with the least variability of 22.146 per cent and the least consistency was found in KDFSCB with 32.88 per cent.

3) Cost of deposits (δ_1)

KDFSCB recorded the lowest ratio of 11.628 and the KTFSCB showed the highest average cost of deposit 11.719. The KDFSCB showed the highest consistency with a lowest variability 13.95 per cent. The KTFSCB recorded the least consistency with 17.65 per cent.

4) Cost of borrowings (δ_2)

KTFSCB recorded the lowest ratio of 10.997 and KDFSCB showed the highest average in cost of borrowings of 12.37. The KDFSCB was found most consistent in restricting the cost of borrowings at 12.89 per cent. The KTFSCB recorded the least consistency with 14.14 per cent.

Inference

1. KDFSCB has got highest average in return on advances and return on investments.
2. The KTFSCB has got least average in return on advances and return on investments and they recorded lowest ratio of cost of borrowings.
3. The KDFSCB recorded the lowest cost of deposits and KTFSCB recorded highest in the case of favouring profitability.

4.1.5 Management of liquidity

The variables which were considered in this area of profitability of banks are (1) advances (w_1), (2) investments (w_2), (3) deposits (w_3) and (4) borrowings (w_4). The area of profitability gives thrust on the asset-liability composition of the bank.

1) Advances (w_1)

The KTFSCB achieved the highest average advance to working fund ratio of 62.332. The KDFSCB shows the lowest average of 60.754. The KDFSCB itself shows highest consistency in their advance to working fund with 8.02 per cent. The KTFSCB shown the least consistency with highest variability of 9.94 per cent

2) Investment (w_2)

KDFSCB has shown highest average investment to working fund ratio of 25.248. The KTFSCB shows the lowest average of 23.315. The KDFSCB was highly consistent in their investment to working fund with 22.22 per cent. The KTFSCB has shown the least consistency with highest variability of 32.88 per cent.

3) Deposits (w_3)

The KDFSCB has got highest average in this variable of 77.098 and KTFSCB showed the least of 75.849. The KDFSCB itself showed the highest consistency with lowest variability of 3.96 per cent. The KTFSCB has shown the least consistency with highest variability of 13.132 per cent.

4) Borrowings (w_4)

The highest average in borrowings to working fund ratio was obtained by KTFSCB (9.348). The KDFSCB showed the least average ratio of 2.634. The Borrowings to working fund ratio of KTFSCB showed highest consistency with low variability of 56.17 per cent. The KDFSCB has shown high variability with 136.34 per cent.

Inference

1. All the two banks were found to be more interested towards advances than the investment.

2. The main sources of funds of the two banks were deposits than borrowings.
3. The KDFSCB had showed consistency in deposits but they were least consistent in borrowings.
4. The KTFSCB had showed highest average in advances and they were least consistent in maintaining their advances.

4.1.6 Management of spread

Bank efficiency is typically characterized by the level of net interest margin (or spread), commonly measured as the difference between interest income and interest expense, normalized by total assets.

The KTFSCB shows the highest average ratio of spread i.e., 0.105. The KDFSCB has recorded the lowest value of average i.e., 0.004. The KTFSCB showed the highest consistency in managing the spread with a least variability of 584.78. The KDFSCB showed the least consistency with 4517.25.

Inference

1. The KTFSCB shows the highest average ratio of spread i.e., 0.015 and they also shows the highest consistency in managing the spread with a least variability of 584.78.
2. The spread of the KDFSCB shows the lowest average ratio i.e., 0.004 and they also shows the least consistency with 4517.25.

4.1.7 Management of Burden

Burden is essentially the operating expenses net of non interest income.

The KDFSCB has got lowest burden of -0.211. The Burden was highest for KTFSCB -0.015. KTFSCB showed highest consistency inspite of high burden. The variability was highest for KDFSCB.

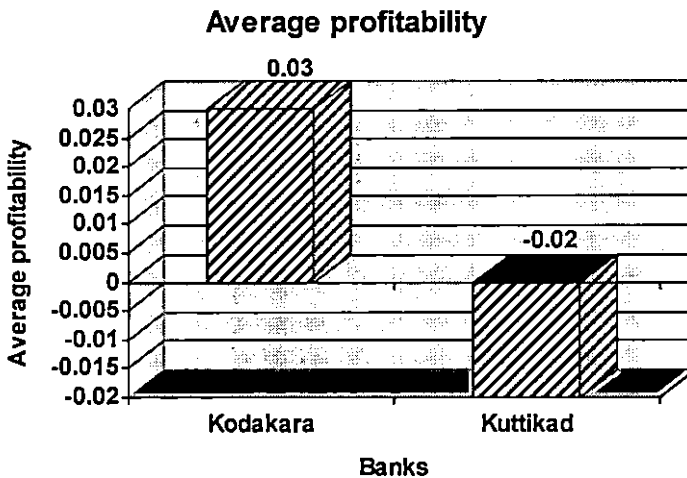
Inference

1. The KDFSCB showed low average ratio of burden i.e., -0.211 compared to KTFSCB i.e., -0.015.
2. The KTFSCB shows highest average ratio of Burden i.e., -0.015 compared to other. Besides they maintained highest consistency in their Burden.
3. The KDFSCB shows lowest average ratio of Burden i.e., -0.211, they maintained lowest consistency in their burden.

4.1.8 Management of Profitability

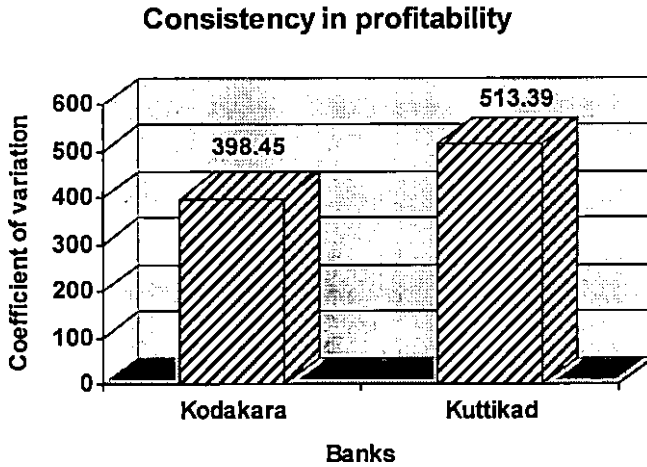
After the decomposition of net profit and the analysis of the sub-processes, the final position of the average profitability and consistency are as under.

1) Average profitability



The KDFSCB has shown the highest average profitability of 0.039. The KTFSCB was with an average -0.0244.

2) Consistency in profitability



The KDFSCB was found to be the most consistent bank in the case of profitability with the least variability coefficient of 398.45 percent. The KTFSCB shows the highest variability of 513.39 percent.

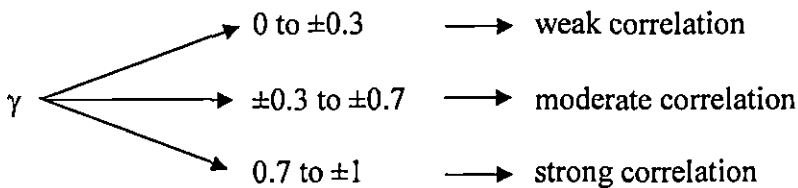
4.2 Identification of significant factors that affecting profitability

Correlation analysis is also undertaken for determining the factors that are influencing the pattern of profitability of banks. The term correlation refers to the relationship between two variables. The two variables are correlated if the change in one variable results in a corresponding change in the other variable. The extent of degree of relationship between these two variables are measured using the correlation coefficient.

Coefficient of correlation is a pure number lying between -1 and +1, when changes in the two variables is such that with an increase in the value one, the value of other increases in a fixed proportion, correlation is said to be perfect. Perfect correlation may be positive or negative. Coefficient of correlation is +1 for perfect

positive correlation and -1 for perfect negative correlation. If changes in the value of one variable are not associated with changes in the value of the other variable, there will be no correlation. When there is no correlation the coefficient of correlation is zero.

In between perfect correlation and no correlation there may be limited degree of correlation. Limited degree of correlation may also be positive or negative. Limited degree of correlation may be termed as high, moderate or low. For limited degree of correlation the coefficient of correlation lies between 0 and 1 numerically.



Correlation analysis contributes to the understanding of economic behaviour aids in locating the critically important variable on which others depend, may reveal to the economist the connection by which disturbances spread and suggest to him the paths through which stabilizing forces may be come effective.

Here, correlation coefficient of each variable with the net profit to working fund was computed for the detailed analysis of identifying the factors affecting the profitability of banks. T-test is also employed for the analysis of the level of significance. It is computed as

$$t_{n-2} = \frac{\gamma \sqrt{n-2}}{\sqrt{1-\gamma^2}}$$

where

γ = coefficient of correlation
 n' = sample size

If the calculated value of 't' is higher than the table value at (n-2) degree of freedom it can be inferred that there is significant correlation between the two variables.

Table 4.2. Correlation of variables with net profit

Description	Variable	Banks	Coefficient of Variation (%)
Net profit	p	KT KD	1 1
Interest income	r	KT KD	-0.5693 0.9112**
Interest expenses	k	KT KD	-0.5634 0.8350**
Non interest income	c	KT KD	-0.4347 0.8221**
Non interest expense	o	KT KD	-0.5705 0.9014**
Per employee staff cost	m_1	KT KD	-0.5253 0.8759**
Staff productivity	m_2	KT KD	-0.2619 0.9556**
Wage bill	m	KT KD	-0.7302 0.3069
Return on advances	λ_1	KT KD	-0.0537 -0.0317
Return on investment	λ_2	KT KD	-0.0544 0.6714*
Cost of deposit	δ_1	KT KD	0.2502 -0.4809
Cost of borrowed fund	δ_2	KT KD	0.2502 -0.4809
Advances	w_1	KT KD	-0.1836 -0.2213
Investment	w_2	KT KD	-0.0544 0.6714*
Deposits	w_3	KT KD	0.5854 -0.5958
Borrowings	w_4	KT KD	0.5692 -0.6751
Spread	α	KT KD	0.3139 0.1773
Burden	β	KT KD	-0.0527 -0.7491

* Significant at 5% level; ** Significant at 1% level

4.2.1 Interest items

1) Interest income

The KTFSCB showed negative correlation but these score not significant and KDFSCB showed high positive correlation and it is very significant and strong.

2) Interest expenses

The interest expenses of KTFSCB is having not significant correlation with net profit and KDFSCB showed high positive correlation.

Indication

The insignificant level of correlation of the interest expense implies that the interest income is the major factor which attributes to the profit.

4.2.2 Non interest items

1) Non interest expenses

The non interest expense is not significant for KTFSCB and it is highly significant for KDFSCB.

2) Non interest income

This is another important factor which affects the profit favourably. The non interest income is not significant for KTFSCB and it is highly significant for KDFSCB.

Indication

1. Both non interest expenses and income are not significant for KTFSCB shows that its operating profit is constituted by spread.
2. Both non interest expense and income are highly significant for KDFSCB.

4.2.3 Financial management item

1) Return on advances

This is an item of interest income which increases the profit. The KTFSCB and KDFSCB is having negative correlation. Return on advances is significantly affecting the profit of the KTFSCB and KDFSCB.

2) Return on investment

The KTFSCB shows negative correlation and KDFSCB is significant in the case of Return on investment.

3) Cost of deposits

Deposits are the liabilities of the bank for which they want to pay interest otherwise known as cost of deposits. Thus it is an expense which adversely affect the profit. Hence it is negatively correlated with profit for KDFSCB cost of deposit is insignificant for KTFSCB.

4) Cost of borrowings

Borrowing is a component of the working capital of the bank. This is an external fund and hence the bank want to pay interest. The KDFSCB shows negative correlation. The KTFSCB and KDFSCB is not significant.

Indication

1. Return on advances and return on investments are the items of interest income. The return on advances is not significant for both the banks, but the return on investment is not significant in the case of KTFSCB and significant for KDFSCB.
2. Cost of deposits and cost of borrowings are the major items of interest expense of the banks. The cost of deposits and cost of borrowings are not significant for KTFSCB and KDFSCB.

4.2.4 Asset liability composition

1) Advances

This is an asset to the bank for which they can earn interest which increase interest income and thereby profit. All the banks are having not significant on the operating profit.

2) Investments

Investment in financial assets will also helps the banks in earning income which favourably affect the spread and there by the profit. The KTFSCB is not significant in the case of investments and KDFSCB is significant in the case of investment.

3) Deposits

This is an item which incurs cost and by decreases the spread and profit. The KTFSCB and KDFSCB are not significant in the case of deposits.

4) Borrowings

This is a component of working capital which increases the cost of funds and thereby adversely affecting the profit of the bank. It is not significant for KTFSCB and KDFSCB.

Indication

Deposits and Borrowings are the liabilities of the bank, advances and investments are the assets of the bank KTFSCB and KDFSCB.

1. Advance are not significant on the profit of all the banks.
2. Investment has significant on profit of KDFSCB and not significant for KTFSCB.
3. The deposit of two banks are having not significant effect on profitability.
4. Borrowings of KTFSCB and KDFSCB has not significant effect on its profitability.

4.2.5 Items of Human Resource Management

1) Per employee staff cost

This is an expense item which reduces the profit. It is not significant for KTFSCB and it is highly significant for KDFSCB.

2) Staff productivity

The staff productivity of KTFSCB is poor and it is negatively affecting its profit in an insignificant manner. The KDFSCB is having high positive correlation which indicate strongest level of significance.

3) Wage bill

The KTFSCB showed negative correlation and it is not significant. This is an expense item. Because as expense increases the profit decreases and the KDFSCB shows positive correlation and it is also not significant.

Indication

1. Significant level of staff productivity of KDFSCB is indicating the efficiency of their employees in improving the overall performance of the bank.
2. Per employee staff cost is highly significant in the case of KDFSCB.
3. In the case of wage bill except KDFSCB the another bank having negative correlation. The indication of this variable that as it is an item of non interest expense it increases the burden and thereby reduces the profitability.

4.2.6 Main variables

1) Spread

Spread which is a function of interest item has great influence on the profit of the bank. Spread is positively correlated to the profit which implies that as spread

increases the profit is also increasing. The KTFSCB and KDFSCB showed positive correlation but these are not significant.

2) Burden

Burden is a function of non interest items. It is having negative correlation with profit which means as burden increases the profit decreases. The KTFSCB and KDFSB showed negative correlation and these are not significant also.

Indication

1. Both spread and burden have great influence on the operating profit. In the case of spread KTFSCB and KDFSCB showed positive correlation but these are not significant.
2. In the case of burden both of the banks are showed negative correlation and these are not significant also.



*Summary of Findings,
Suggestions and Conclusions*

CHAPTER - 5

FINDINGS, SUGGESTIONS AND CONCLUSIONS

The banking sector reforms introduced in the early 1990's with the objective of stimulating competition and strengthening banking operations have changed the banking environment. It has introduced competition in their protected environment and has in turn made them aware of the need of improving their profitability and their overall efficiency.

In recent years, especially after the deregulation of financial sector initiated in 1991-92, the profitability of the banking system has been critically assessed. Balance sheet information has become more transparent and thus the inter-bank and industry level comparison may truly highlight the asset-liability management of one bank across banks operating in the industry. Such analysis can help the banks for comparison and indicate the areas which need immediate attention. Hence, a study about the profitability of Farmers Service Co-operative Banks in Mukundapuram Taluk of Thrissur District was taken up with the following objectives.

1. To evaluate the inter-bank variability of profit of Farmers Service Co-operative Banks (FSCB) in Mukundapuram Taluk of Thrissur District.
2. To determine the factors affecting profitability of the Farmers Service Co-operative Banks.

The study was conducted in two Farmers Service Co-operative Banks in Mukundapuram Taluk of Thrissur District, viz., Kodakara Farmers Service Co-operative Bank (KDFSCB) and Kuttikad Farmers Service Co-operative Bank

(KTFSCB), for a decade from 1995-96 to 2004-05. The methodology used for the analysis of the present study is the decomposition model proposed by Das (1999).

5.1 Findings

The important findings emerging from the application of the decomposition model are as follows:

5.1.1 Management of Interest items

Interest income and interest expenses are the major items which affect the profit of the banks. It is advisable to have highest interest income of lowest interest expense for the bank. Here the KTFSCB has got the highest average income and KDFSCB has got the lowest average income. The KTFSCB was showed the highest average expenses and KDFSCB showed the lowest average expenses. But the KDFSCB exhibited highest variability in both items with lowest averages.

5.1.2 Management of Non interest items

Profit of the banks are also greatly affected by the non interest items. The banks can increase their profit by reducing non interest expenses or increasing the non interest income. The non interest expenses are highest for KTFSCB and lowest for KDFSCB. Even though, KDFSCB is earning the highest non interest income. It has got least consistency in managing its non interest income as compared to KTFSCB. This is not a good trend.

5.1.3 Management of Human Resources

KDFSCB seemed to be well performing with their least per employee staff cost by wage bill but failed to maintain highest average in staff productivity. The KDFSCB consistent in maintaining their wage bill compared to KTFSCB but least in

the case of other two. The KRFSCB showed highest average in staff productivity and lowest in others two. But they had shown high consistency in staff productivity and per employee staff cost.

5.1.4 Management of Finance

Management of finance include the management of return on advances and investment and the cost of deposit and borrowings. For getting favourable change in the profit of the banks have to increase the return on advances and investment and to decrease the cost of deposit and borrowings. The KDFSCB has got the highest return on advances and investment but with highest variability whereas the KTFSCB exhibit highest consistency. Expenses on cost of deposit is lowest for KDFSCB. The cost of borrowings is lowest for KTFSCB. The KDFSCB has got highest consistency of maintaining cost of deposit and borrowings.

5.1.5 Management of Liquidity

Deposit constitute a major portion of the borrowed funds and it is highest for KDFSCB with high consistency. Among the two banks KTFSCB had heavy borrowings. Both the banks are found to be more interested towards advances than investment. The KTFSCB has showed highest average advances with least variability.

5.1.6 Management of Spread

The spread ratio of KTFSCB showed highest average with highest consistency and the KDFSCB showed lowest average with least consistency.

5.1.7 Management of Burden

The Burden ratio of KTFSCB showed highest average with highest consistency and the KDFSCB showed lowest average with least consistency.

5.1.8 Management of Profitability

The KDFSCB has got highest average of operating profit with least variability and KTFSCB showed lowest average with highest variability.

5.2 Indication of study on factors affecting profitability

5.2.1 Interest items

The interest items have highly significant for KDFSCB and it is not significant for KTFSCB.

5.2.2 Non interest items

The non interest item have highly significant for KDFSCB and it is not significant for KTFSCB.

5.2.3 Financial management items

The KDFSCB showed strong level of significance for return on investment and it is not significant in the case of return on advances. The KTFSCB have not significant for both items. The cost of deposit is lowest for KDFSCB and highest for KTFSCB and the cost of borrowings is highest for KDFSCB and lowest for KTFSCB. But these two items are not significant in the case of both the banks. These two items increases the interest expenses which reduces the spread which inturn reduces the profit of the bank.

5.2.4 Asset Liability Composition

Deposits and borrowings are the liabilities of the bank, advances and investments are the assets of the bank. Advances are insignificantly affecting the profit of both the banks. The deposits, borrowings are also insignificantly affecting the profit of both the banks. But the investment is highly significant for KDFSCB it is not significant for KTFSCB.

5.2.5 Items of Human Resource Management

Per employee staff cost is an expense item which reduce the profit. The staff productivity and per employee staff cost are highly significant for KDFSCB and they are not significant for KTFSCB. The KDFSCB showed positive correlation in the case of wage bill and KTFSCB was showed negative correlation in the case of wage bill. The indication of this variable is that as it is an item of non interest expense it increases the burden and there by reduces the profitability.

5.2.6 Main variables

Both spread and burden have great influence on the operating profit. The spread and the burden are not significant in the case of both the banks.

5.3 Suggestions

5.3.1 Kuttikad Farmers Service Co-operative Bank Ltd. No:572

- a) High burden should be reduced

Options: 1) increase the non interest income

- b) The bank should reduce their per employee staff cost and wage bill
 c) The bank should increase their return on advances and return on investment
 d) They have to reduce their cost of deposit

Options: 1) concentrate on low cost deposits

- e) The bank should reduce their non performing asset
 f) The bank should increase their volume of business

5.3.2 The Kodakara Farmers Service Co-operative Bank Ltd. No:761

- a) Spread to be increased

Options: 1) Increase the interest income

2) Concentrate on low cost deposits

- b) The bank should increase their staff productivity
- c) Reduce their cost of borrowings
- d) Increase their credit deposit ratio.

Conclusion

Based on the decomposition model, the study has attempted to assess the inter bank variability of profit of Farmers Service Co-operative Banks in Mukundapuram Taluk of Thrissur District. The analysis has revealed that Kodakara Farmers Service Co-operative Bank (KDFSCB) is a well performing bank with comparative higher consistency in profit, average profitability and high return on advances and investment inspite of below par performance in certain indicators. The bank realizes human resources as a vital factor and gives at most significance for its development. The analysis revealed that the banks with lowest burden could achieve highest profitability and banks with high burden recorded lowest profitability. Banks are suffering from high burden levels which is the root cause of their low profitability. The Kuttikad Farmers Service Co-operative Bank (KTFSCB) has got highest burden which retard its profit to a great extent.

Bibliography

BIBLIOGRAPHY

- Babu, C.V. (1997). Liquidity, Profitability and business strength analysis of urban Co-operative Bank, *Indian Co-op. Rev.* **35**(1): 56-70
- Ballabho, R.J. (2001). The Indian Banking Industry: Challenges Ahead, *IBA Bulletin* **23**(4&5): 8-10
- Bhagavadi Prasad (2002). "Co-operative Banking in India". *The Co-operator* **22**(3): 418-421
- Bhatia, S. and Varma, S. (1999). Factors determining profitability of public sector banks in India. An application of multiple regression models. *Prajnan.* **27**(4): 433-445
- Chatterjee, S.D. (1998). "Productivity of Nationalised Banks: A measurement linking profitability". *IBA Bull.* **20**(2): 39-41
- Das, Abhiman (1999). "Profitability of public sector bank: A decomposition Model". Reserve Bank of India, *Occational Paper.* **20**(1): 55-81
- Das, Abhiman (2000). "Technical, allocative and scale Efficiency of Public Sector Banks in India", Reserve Bank of India. Occasional Paper **18**(2&3): 279-301
- Debash, S.S. (2002): Prime Discriminators of profitability in the Indian Commercial Bank, *Prajnan* **31**(4): 300-310
- Fulbag Singh and Bolwinder Singh (2003). Profitability of the Central Co-operative Banks in Punjab - A decomposition analysis. *Indian Co-op. Rev.* **44**(1): 41-45
- Gary, I.K. (1996). Improving productivity or profitability in the bank, *SBT monthly Rev.* **35**(12): 642 - 652

- IBM Financial Services (2004). "Report on promoting productivity in banks, *IBM Bull. Special Issue*, 26(1): 99-127
- Jain, B.K. (2002). "Comparative Study of net profit and profitability of District Central Co-operative Banks of Rajasthan", *Co-operative Perspective*. 37(2): 47-54
- Kaveri, V.S. (2001). "Banking in Northwestern Region: An Inter State Analysis", *Prajnan* 29(4): 327-341
- Masthan, D., Narayanaswamy, R. (2000). "Financial Analysis of Chittoor Co-operative Town Bank", *Co-operative Perspective*. 35(3): 87-93
- Satyamurthy, B. (1996). A study on Interest Spread Management in Commercial Banks in India, *NIBM Working Paper* 2(1): 130
- Vidwans, H.P. (2001). Non-performing Advances - A disease or symptom, *Vinimaya* 22(2): 18-21
- Varde, V.S. and Singh, S.P. (1981). Profitability: Intco Bank Comparison, *Prajnan*, 10(2): 151-167

**PROFITABILITY OF FARMERS SERVICE CO-
OPERATIVE BANKS IN MUKUNDAPURAM
TALUK OF THRISSUR DISTRICT :
AN INTER BANK COMPARISON**

BY

**NAZEEMA P.J.
(2002-05-16)**

ABSTRACT OF THE PROJECT REPORT

**Submitted in partial fulfilment of the
requirement for the degree of**

BACHELOR OF SCIENCE IN CO-OPERATION & BANKING

Faculty of Agriculture

**COLLEGE OF CO-OPERATION, BANKING & MANAGEMENT
KERALA AGRICULTURAL UNIVERSITY
VELLANIKKARA, THRISSUR-680 656
KERALA, INDIA**

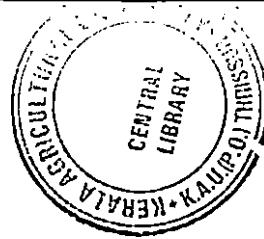
2007

ABSTRACT

The study entitled "Profitability of Farmers Service Co-operative Banks in Mukundapuram Taluk of Thrissur District - An Inter Bank Comparison" was undertaken with the objective of evariating the inter bank variability of profitability of Farmers Service Co-operative Banks (FSCBs) in Mukundapuram Taluk of Thrissur District and determining the factors affecting profitability of the Farmers Service Co-operative Banks. The study was conducted in two Farmers Service Co-operative Banks in Mukundapuram, Taluk, viz., Kodakara Farmers Service Co-operative Bank (KDFSCB), Kuttikad Farmers Service Co-operative Bank (KTFSCB), for a decade from 1995-1996 to 2004-2005. The study was based on the secondary data collected from the annual reports and audit reports maintained by the banks. The methodology used for the analysis of the present study is the decomposition model proposed by Das (1999). For finding the inter bank variability of profitability of banks, coefficient of variation is used and correlation coefficient is computed for the detailed analysis of identifying the factors affecting the profitability of banks.

The analysis has revealed that Kodakara Farmers Service Co-operative Bank (KDFSCB) is a well performing bank with comparative higher consistency in profit average profitability and high return on advances and investment inspite of below par performance in certain indicators. The bank realizes human resources as a vital factor and gives at most significance for its development. The analysis revealed that the banks with lowest burden could achieve highest profitability and banks with high burden recorded lowest profitability. Banks are suffering from high burden levels which is the root cause of their low profitability. The Kuttikad Farmers Service Co-operative Bank (KRFSCB) has got highest burden which retard its profit to a great extent.

Appendix



Appendix-I. Data of variables of Decomposition

(Rs. in crores)

Variables	Banks	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Interest income	KT	0.73	0.86	0.73	1.09	1.21	1.53	1.65	1.6	1.62	1.57
	KD	0.34	0.45	0.37	0.58	1.08	1.53	1.69	1.87	1.63	1.8
Interest expenses	KT	0.67	0.77	0.64	1.02	1.28	1.4	1.61	1.71	1.69	1.65
	KD	0.34	0.43	0.34	0.64	1.16	1.2	1.46	1.89	1.97	1.87
Non-interest income	KT	0.2	0.22	0.21	0.3	0.41	0.43	0.47	0.56	0.57	0.63
	KD	0.13	0.13	0.14	0.31	0.41	0.48	0.56	0.67	0.87	0.71
Non-interest expenses excluding wage bill	KT	0.22	0.26	0.22	0.27	0.41	0.45	0.51	0.51	0.52	0.48
	KD	0.13	0.15	0.12	0.17	0.22	0.28	0.31	0.33	0.3	0.29
Working fund	KT	6.73	8.49	9.12	1.26	13.48	15.5	16.82	18.23	20.88	23.95
	KD	3.51	4	4.76	7.78	11.47	13.71	17.16	20.21	22.03	23.61
Interest income on advances	KT	15.53	16.93	12.62	16.31	14.40	14.91	14.91	13.90	13.21	11.94
	KD	15.04	17.11	14.39	11.86	15.14	16.25	16.48	16.23	13.64	12.96
Interest income on investment	KT	16.93	15.42	22.91	25.48	23.4	21.09	21.58	24.30	29.26	32.69
	KD	10.54	23.5	19.53	20.17	24.49	19.62	29.83	34.73	37.08	32.95
Interest expenditure on deposits	KT	14.47	15.18	11.28	12.06	12.31	11.49	11.40	10.62	9.31	8.48
	KD	13.87	14.28	9.11	10.92	12.59	11.31	10.91	12.01	11.35	9.89
Interest expenditure on borrowings	KT	12.78	13.5	9.62	11.9	11.14	11	11.3	10.89	9.58	8.26
	KD	13.25	14.19	9.65	12.59	14.81	12.01	12.11	12.98	11.91	10.22
Advances	KT	69.83	59.71	63.37	59.41	62.31	66.19	65.75	63.13	58.71	54.86
	KD	64.38	65.75	53.99	62.88	62.16	68.63	59.73	57	54.24	58.78
Investment	KT	16.93	15.42	22.91	25.48	23.44	21.09	21.58	24.30	29.26	32.69
	KD	10.54	23.5	19.53	20.17	24.49	19.62	29.83	34.73	37.08	32.95
Deposits	KT	68.79	59.71	62.17	71.84	77.07	78.58	83.94	88.31	86.87	81.16
	KD	69.80	75.25	78.36	75.32	80.29	77.38	77.97	77.83	78.75	80
Borrowings	KT	11.44	10.95	18.20	15.80	11.12	8.83	4.87	1.97	3.16	7.09
	KD	8.83	7.25	0.27	7.19	0.37	0.94	0.01	0.009	0.004	1.44