FUNDS MANAGEMENT - A CASE STUDY OF KATTOOR SERVICE CO-OPERATIVE BANK LTD. NO. 426.

BY

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(2008-45-115)

PROJECT REPORT

Submitted in partial fulfillment of the requirement for the degree of Bachelor of Science (Hons.) in Co-operation and banking

FACULTY OF AGRICULTURE

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KERALA, INDIA

2012

DECLARATION

DECLARATION

I hereby declare that this project report entitled "**FUNDS MANAGEMENT A CASE STUDY OF KATTOOR SERVICECO-OPERATIVE BANK Ltd. No. 426.**" is a bonafide record of research work done by me during the course of project work and that it has not previously formed the basis for the award to me for any degree/ diploma, associate ship, fellowship or other similar title of any other university or society.

Vellanikkara
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CERTIFICATES

CERTIFICATE

Certified that this project report entitled **"FUNDS MANAGEMENT A CASE STUDY OF KATTOOR SERVICE CO-OPERATIVE BANK Ltd. No. 426."** is a record of project work done independently by Miss. NISA P VIDYASAGAR (2008-45-115) under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship or associateship to her.

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I would also use this opportunity to beg pardon to all those who have ever been hurt, knowingly or unknowingly by my words and deeds.

Needless to say, I solely am responsible for any errors, which may remain............

NISA P VIDYA SAGAR

Dedicated to my Beloved Paapa,
Amma & Unni

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DESIGN OF THE STUDY

1.1 INTRODUCTION

The history of the co-operative movement in India is about a century old. The movement was started in India with a view to encourage and promote thrift and mutual help for the development of persons of small means such as agriculturists, artisans, and other segment in the society. It also aimed at concentrating the efforts in releasing the exploited classes out of the clutches of the moneylenders.

A co-operative bank is financial entity, which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by the persons belonging to the same local or professional community or sharing a common interest.

Credit co-operatives are the oldest and most numerous of all the types of co-operatives in India. The co-operative credit institutions in the country may be broadly classified into urban credit co-operatives and rural credit co-operatives. The urban credit co-operatives are also popularly known as Urban Co-operative Banks. The rural credit co-operatives may be further divided into short-term credit co-operatives and long-term credit co-operatives. At the central level (district level) District Central Co-operative Banks (DCCB) function as a link between primary societies and State Co-operative Apex Banks (SCB). It may be mentioned that DCCB and SCB are the federal co-operatives and thus the objective is to serve the member co-operatives.

As against three-tier structure of short-term credit co-operatives, the long-term co-operative credit structure has two tiers in many states with Primary Co-operative Agriculture and Rural Development Banks (PCARDB) at the primary level and State Co-operative Agriculture and Rural Development Bank at the state level. However, some states in the country have unitary structure with state level co-operative operating with through their own branches and in one state an integrated structure prevails. Interestingly, under the Banking Regulation Act 1949, only State Co-operative Apex Banks, District Central Co-operative Banks, and select Urban Credit Co-operatives are qualified to be called as banks in the co-operative sector.

Primary Agricultural Credit Societies are the foundation of the co-operative credit structure and form the foundation of the larger number of co-operative institutions in India. Most of these societies have been organized mainly to provide the credit facilities, to inculcate thrift and economy among the members. The most important source of funds of Primary Agricultural Credit Society is its member deposits. Borrowings constitute the most another important source of its working capital. The improved performance of PACS in Kerala with respect to their counter parts in the rest of the country is remarkable.

The economic development emerging out of liberalization, globalization and WTO (World Trade Organization) has resulted in creation of very competitive environment. Due to this prevailing environment of competition, the role of public sector is on decline and private sector is emerging as very strong. More and more MNCs (Multinational Companies) replacing the domestic enterprises. In rural financing sector, also multinational banks like ICICI etc. are making greater in-roads. In addition to that, Government of India is stressing nationalized banks to make greater penetration into rural areas. As such, rural credit and banking has remained no more monopolistic domain of cooperatives. Therefore, co-operatives have no option but to compete with these highly professionalized institutions in providing rural credit to the farmers.

The Co-operative credit institutions till now have played a key role in meeting growing agricultural & non-agricultural needs of rural India. No doubt, the quantum of credit planning from these institutions has increased, but the performance of these institutions has been deteriorating drastically. Hence there is a need for revolutionary and practical reforms, which could restructure the entire co-operative banking .Technology has made tremendous impact on entire banking sector, which has thrown new challenges, due to which co-operative banks are constantly exposed to competition and risk management. Therefore, they need a combination of new technologies and better processes of credit and risk appraisal, treasury management, product diversification, internal control and external regulation along with infusion of professionalism.

In the present business environment, the co-operative banks should be backed by democratization, depoliticisation and decentralization so as to make them competitive. Thus, there is urgent need for transformation in the mindset, identity, business operations, governance and systems & procedures, which will definitely boost the morale of co-operative banks to face environmental challenges , to face challenges of globalization and privatisation.The process of economic reforms began in India during 90s and the co-operative banking though being the integral part of the financial system of the country, was kept insulated from the effects of these reforms. Realizing that a healthy financial system being the pre-requisite for the success of globalization process, Government of India initiated several steps to reform the financial system by appointing Narasimhan Committee and implementing its recommendations. Nevertheless, the cooperative banking was left out of the gambit of this process. However, the financial discipline such as the recommendation of Basel Committee on Bank Supervision, prudential norms, NPA norms Capital Adequacy norms etc. were expected to be complied with on par with other commercial banks. In case of cooperative banking system also attempts were made for its reform by appointing Kapoor Committee, Vikhe Patil Committee, Vyas Committee Vaidyanathan committee but no serious attempts were made to implement the recommendations of these committees. Keeping in view, the distinct nature of cooperative banking, it is the need of the hour to assess the regulatory, structural, operational and financial requirements to restore their growth and development on sound lines in the competitive business environment.

1.2 HISTORY OF CO-OPERATIVES IN KERALA

The British East India Company miserably exploited India by absorbing all her resources during pre-independent period. After independence, earnest steps were taken to make her healthy in every respect. It was generally admitted by the Architects of India that co-operatives can act as an effective media for the socio-economic reconstruction of the country. Hence attempts were made by the Planning Commission to develop the co-operative movement as a self reliant one by augmenting the resources through mobilization of savings in urban and rural areas, promoting integrated rural development by strengthening the links between credit, supply of inputs, processing, marketing and distribution of essential commodities and developing of weaker sections of the community.

The growth of Co-operative movement in Kerala was insignificant during pre-independent era. During that period, only 1669 co-operatives were functioning in the state with a total working capital of ₹ 92.21 lakhs. The membership and paid up share capital were ₹ 2.05 and ₹ 31.79 lakhs respectively. Credit and non-credit operations during the period were also nominal. Loan disbursed during the year 1946 was ₹ 10.62 lakhs only. Performance in the area of Consumer, Marketing etc. were also not remarkable when compared to the exquisite achievements during the succeeding years.

Before the formation of State of Kerala, Co-operatives under the area were administered by the Travancore Co-operative Societies Act V of 1112(M.E.), Cochin Co-operative Societies Act XXVI of 1113(M.E.) and Madras Co-operative Societies Act 1932. After the integration of Travancore and Cochin, Travancore-Cochin Co-operative Societies Act 1951 came into force with effect from 1.9.1952. After the formation of Kerala State, the Kerala Co-operative Societies Act of 1969 came into force with effect from15.5.1969 in order to enact a uniform law on co-operation applicable throughout the State. Consequent on the introduction of Kerala Co-operative Societies Act 1969, societies with unlimited liability ceased to exist and societies with limited liability came into existence. Thereafter Government of Kerala passed the Kerala Co-operative

(Amendment) Act 1999, which came into force with effect from 1.1.2000. Providing of membership to local body institutions, Deposit guarantee scheme in Primary Agricultural Credit Societies, Consortium Lending Scheme, Co-operative Development and Welfare Fund, Independent Election Commission, Separate Audit Wing and Vigilance Wing, and Co-operative Examination Board are the new provisions made in the Amendment Act.

1.3 STATEMENT OF THE PROBLEM

The co-operative banks are financial intermediaries only by partially. The sources of their funds are central or state government, RBI and NABARD, other co-operative institutions, owned funds and deposits and debentures. It is interesting to note that intra-sectoral flow of funds much greater in co-operative banks than commercial banks. Inter-bank deposits, borrowings, and credit form a significant part of assets and liabilities of co-operative banks. This means that intra sectoral competition is absent and intra-sectoral integration is higher for cooperative banks. The co-operatives are preferred instruments of socio-economic development. Their contribution in the national economy of the country is quite significant. Credit and Banking Co-operatives are integral part of the financial system of the country. Co-operative Banking Structure, which is now a century old, has a unique position in the rural credit delivery system of India. Having made significant strides in the field of rural credit through its short and the long-term structures, it continues to play a crucial role in dispensation of credit for agriculture and rural development.

PACS is the foundation of the co-operative credit system on which the super structure of the short-term co- operative credit system is built. It is the PACS which has a direct interface with individual farmers, provides short term and medium term credit, supplies agricultural inputs, distributes consumer articles and arranges for marketing of produce of its members through a co-operative marketing society.

Kattoor service co-operative bank offers a wide variety of services in our area. The bank provides number of diversified services to its members and non members. It also works for the welfare of the community through various schemes formulated and implemented effectively. For all of these operations funds are to be needed. It is very interesting to know how these funds are managed by the bank. Effective funds management is needed to undertake all these activities effectively.

Funds management is an effective tool for reducing the risks. Reduction of risk will lead to increase the profitability. Through proper management of funds, the bank can increase its profitability. Hence, the present study is designed to analyses the pattern of funds management in Kattoor service co-operative bank.

1.4 OBJECTIVES OF THE STUDY

To analyse the efficiency in funds management of Kattoor Service Co-operative Bank Ltd.

1.5 METHODOLOGY OF THE STUDY

The study is confined to Kattoor service co-operative bank ltd. Thrissur. The study is based on the secondary data collected from the annual reports, books, and accounts of the bank for the period from 1998-99 to 2007-08. The examination of the pattern of Funds management of the bank is done by means of ratio analysis. The following variables were used for the study

- Share capital
- Reserves and deposits
- Borrowings
- Investments in fixed assets
- Loans and advances
- Interest received
- Interest paid
- Non interest expenses
- Non interest income

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

1. EFFICIENCY IN MOBILISATION OF FUNDS

- **Owned fund to working capital ratio**

$$\text{Owned fund to working Capital} = \frac{\text{Owned Fund}}{\text{Working Capital}} \times 100$$

Owned fund= share capital + reserves

Working capital = [share capital + reserves + deposits +borrowings - investments in fixed assets]

- **Borrowed fund to working capital ratio**

$$\text{Borrowed Fund to Working Capital Ratio} = \frac{\text{Borrowed Fund}}{\text{Working Capital}} \times 100$$

Borrowed funds = deposits + borrowings

Working capital = [share capital + reserves + deposits + borrowings - investments in fixed assets]

- **Deposits to working capital**

$$\text{Deposits to Working Capital Ratio} = \frac{\text{Deposits}}{\text{Working Capital}} \times 100$$

Deposits are the deposits received by the bank

Working capital = [share capital + reserves + deposits + borrowings - investments in fixed assets]

- **Deposits to borrowed funds ratio**

$$\text{Deposits to Borrowed Funds Ratio} = \frac{\text{Deposits}}{\text{Borrowed Funds}} \text{x} 100$$

Deposits are the deposits received by the bank

Borrowed funds = deposits + borrowings

- **Owned funds to borrowed funds ratio**

$$\text{Owned Funds to Borrowed Funds Ratio} = \frac{\text{Owned Funds}}{\text{Borrowed Funds}} \text{x} 100$$

Owned fund= share capital + reserves

Borrowed funds = deposits + borrowings

2. EFFICIENCY IN DEPLOYMENT IF FUNDS

- **Credit to deposits ratio**

$$\text{Credit to Deposits Ratio} = \frac{\text{Credit}}{\text{Deposits}} \text{x} 100$$

Credits are loans and advances given by the bank

Deposits are the deposits received by the banks

- **Credit to working capital ratio**

$$\text{Credit to Working Capital Ratio} = \frac{\text{Credit}}{\text{Working Capital}} \text{x} 100$$

Credits are loans and advances given by the bank

Working capital = [share capital + reserves + deposits + borrowings - investments in fixed assets]

- **Credit to owned funds ratio**

$$\text{Credit to Owned Ratio} = \frac{\text{Credit}}{\text{Owned Funds}} \text{x} 100$$

Credits are loans and advances given by the bank

Owned fund= share capital + reserves

- **Credits to borrowed funds ratio**

$$\text{Credit to Borrowed} = \frac{\text{Credit}}{\text{Borrowed Funds}} \text{x} 100$$

Credits are loans and advances given by the bank

Borrowed funds = deposits + borrowings

- **Credits to total funds ratio**

$$\text{Credit to Total Funds} = \frac{\text{Credit}}{\text{Total Funds}} \text{x} 100$$

Credits are loans and advances given by the bank

Total funds = owned funds + borrowed funds

3. EFFICIENCY IN OPERATION

- **Spread ratio**

$$\text{Spread Ratio} = \frac{\text{Interest received} - \text{Interest paid}}{\text{Total Funds}} \text{ x } 100$$

Interest received is the amount received as interest on lending

Interest paid is the amount paid as interest on deposits

Total funds = owned funds + borrowed funds

- **Burden ratio**

$$\text{Burden Ratio} = \frac{\text{Noninterest expenses} - \text{Noninterest income}}{\text{Total Funds}} \text{ x } 100$$

Non interest expenses includes contingency expenses and establishment expenses

Non interest income is the miscellaneous income of the bank

Total funds = owned funds + borrowed funds

- **Profitability ratio**

  Profitability Ratio = Spread Ratio − Burden Ratio

1.6 SCOPE OF THE STUDY

The of study of funds management tries to evaluate the effectiveness in the mobilization and deployment of funds and helps to examine the trend and pattern in the sources and uses of the funds thus the study will helps the bank to increase its profitability by minimizing the cost through proper management of its fund.

1.7 LIMITATIONS OF THE STUDY

The study is confined to only one bank and hence the conclusions drawn cannot be generalized as such. The study is limited to the last 10 years for which the audit work was completed.

1.8 SCHEME OF THE STUDY

The study has been presented in five chapters

I. Design of the study
II. Organization profile of the bank
III. Analysis of fund management practices of the bank
IV. Examination of the trend and pattern in the sources and uses of funds
V. Summary of findings and conclusions

1.9 REVIEW OF LITERATURE

Chelleni and Meena (2000), on the analysis of working of a central co-operative bank in Gujarat states that the banks should take advantage of the interest free funds in NABARD for establishment of Technical Monitoring and Evaluation (TME)cell and computerization of bank operations by recruiting new qualified and experienced staff.

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

Goyal and Sathnam (2002) pointed out in their study of over dues on the co-operatives that the higher rate of over dues is not a healthy sign for the viability and hence the strength of the institutions. The society should streamline the recovery drive to improve the viability of the society across the district and regions.

Prasad (2002) pointed in his study of recovery performance of PACS in west Godavari says that the successful functioning of PACS is important for the agricultural development. Indication of flow of credit is a characteristics feature of their effective functioning. These societies are vital agencies to reserve host problems in agricultural economic status of weaker sections of people in particular. A quite interesting and debatable feature of these societies is that the volume of over dues has increased along with quantum of credit.

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

Singh and Singh (2006) estimates that, in a banking institution, the most important function is the management of the funds. The efficiency with which the funds are managed is reflected through the financial margin of the bank, which, in turn, is influenced by many factors. The ratio of own funds to working funds, the ratio of low cost deposits to total deposits, the ratio of over dues to total loans, the ratio of recovery to demand, the ratio of agriculture loan to total loan and the credit to deposit ratio are some of the factors which are identified for the present study. The ratio of own funds to working funds and the ratio of recovery to demand are observed to be having significant influence on financial margin, whereas the ratio of over dues to total loans is having a negative one. A high use of own funds and timely recovery of previous loans, as a source for funding further loans by the bank, help the financial margin in a positive way.

Vinayakamoorthy (2006) reviewed that in a developing country like India with large deficits in terms of quality responsibility of providing co-operative credit. The need of the laws in co-operative sector in the era of liberalized economy is to seize every opportunity available to it. Thus the future vision of co-operative movement parameters relating to promoting of excellence improvement of operational efficiency and strengthening of financial resources.

Basak (2007) while analyzing the performance of Urban Co-operative Bank in West Bengal says that the ability of a bank in serving as an active channel of credit is largely determined by its recovery of loans. Other wise there will be stagnation in the recovery of loans. The main reason for this is the mounting overdue which are clogging in the process of credit recycling. Although the primary objective of a co-operative bank is service and the profit motive is incidental, the return in capital that is dividend is ceiled, so that the bulk of profit used for strengthening owned resources

Ravichandran and Mayilaswami (2007) in their rehabilitation to weak PACS says that the perpetuity of the PACS depend s on the regular recycling of funds. The recycling will take place if the recoveries come back to the banks in time frame fixed for their recovery. The proper way out is not only enhancing the quantum of the credit of the co-operative but make them borrower friendly to make the recovery process so effective

Murugesan (2007) in is performance indicators of PACS says that a co-operative society is a complex business mechanism combining economic and social aspects at the same time an attempt to measure the performances of co-operatives should be comprehensive to include economic and social dimension

Nanda (2007) in his study of issues relating to credit co-operatives highlighted that the first and foremost issue bothering credit co-operatives is its resources. According to him the percentage of recoveries to demand at the SCB and DCB or PACS are not sustainable and the co-operatives face interface in recovery of their dues.

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

Zakir (2007) in his attempt to study the "Relative Performance Of Service Co operative Banking In Kerala" printout that State C operative Bank(SCB) In Kerala Mobilize 46% of all India's deposit and lend only 18% of all India loan amount. The major portion of its funds is kept idle. The mounting of surplus funds to be the major cause for failure of SCB.

Ramu (2008) analyzed that the co-operative will not able to face the competition in the changing economic environment. This fear is largely unfounded. First they have already a head long advantage in terms of their reach. Secondly their areas of business private entrepreneurial co-operatives shy away from investing. All the banks have to face the competition from their counter parts but they are able to earn profit fr4om inception, to mobilize more deposits from their members and non members.

Mohan (2008) in his study concluded that the success of banks largely depends upon the management of funds. The fund management in co-operative banks requires circulation for achieving higher productivity and profitability. Cost reduction in mobilizing resources and yield increases in deployment of funds are to be ensured.

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

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

Ganesan (2009) In his over view on the Primary Agricultural Credit Societies In India concluded that PACS form an important part of the short term credit structure .PACSs directly interfaces with farmers, provide short term and medium term credit. The viability of PACSs is essential for the development of our country.

Solo and Sanjay (2009) in their article about the analytical study of Nagaland state co-operative bank says that the positive operational of any concern is very important which measures efficiency of a business enterprise. Profitability is a barometer for measuring efficiency and economic prosperity of an enterprise and it is essential for fulfilling social goal. Accumulating profit enable a business to face any risk and helps for self financing. But in the context of co-operative banks, profit is necessary but at the same time financial, service to the people is the first priority.

Pujari, *et al.* (2009) in their evaluation of performance of PACS of Karnataka state found out that the increase in deposits and decline in borrowings indicates that better performance of PACS but at the same time manifold increase in over dues is not healthy sign foe co-operatives

Subbaiah, *et al.* (2009) raveled in the study that deposits are the basic raw material for the banks and deposit mobilization is a challenge to the entire bank. Bank deposits not only provide the resources for the investments and increasing employment, but also serve as a means of easing in inflationary pressure by fostering the savings habits among the people..

Suresh and Mohan (2010) in their performance appraisal of the PCARDBs say that the PCARDBs must develop agency arrangement with the co-operative banks in all the district and state to get the country wide network. This will facilitate them to provide effective ancillary services will provide float funds for PCARDBs

Zakir and Natarajan (2010) pointed out about the situational need for the modern banking practices for co-operatives because of the tough competition with commercial banks and new generation banks. In order to get a reasonable profit and compete in this environment they have to utilize their resources effectively.

Rao (2011) in his study of growth of co-operative movement in Maharashtra says that the PACS need to provide quality services and improve their image so as to attract deposits. Further, there is a need for improving recovery performance of credit co-operatives and also follow sound business principles.

ORGANIZATIONAL PROFILE
OF KATTOOR SERVICE
CO-OPERATIVE BANK LTD.

CHAPTER II

ORGANISATONAL PROFILE

KATTOOR SEVICE CO-OPERATIVE BANK LTD.NO.426

2.1 HISTORY

The Kattoor Service co-operative bank Ltd NO.426 started functioning on 01-07-1939 and registered as a Primary Agricultural Co-operative Bank under Kerala Co-operative Societies Act 1969 on 21-3-1972. Area of operation of the bank is Kattoor Gramapanchayath and Manavalassery village in Karalam Panchayath with its head office situated at Kattoor, Thrissur District. From a humble beginning, the Bank has made great progress with in short term and is at par with some of the major banks in the area.

2.2. PRESENT SITUATION OF THE BANK

The bank has upgraded as a special grade bank from year 2006-07. The bank has 5 branches .The bank implements all the available modern banking facilities to help its customers at the maximum. A lot of thrust is given by the Bank in providing its customers with maximum facilities. Already the Bank provides a good number of interesting deposit schemes and loan plans. Core banking is also being implemented to provide better facilities to the customers. The bank offers a full fledged range of services and has facility for Demand Drafts from places all over India. Their interest rates on deposits and advances are amongst the most competitive in India. Today, they have a choice of helpful and lucrative deposit schemes to suit the needs of customers both in the short term as well as long term. These schemes aim at providing loans for purchase or construction of residential premises, repair/renovation of house property, purchase of car, seeking higher education and for purchase of household and consumer durables including various type of micro loans.

Office of the Registrar of Co-operative Societies, Government of Kerala, and Trivandrum is the Apex Body in Kerala, which controls and monitors the co-operative sector in the State of Kerala. The Thrissur District Co-operative bank is the financial supporter for this Bank. The office of the registrar issues circulars from time to time which are to be implemented and followed in the Co-operative sector. It also decides the rates of interest for deposits and advances, types of deposits and advances, Recovery of loans, Security measures, Guidelines for staff etc. KSCB (Kattoor Service Co-operative Bank) being in the co-o operative sector is following the directions given by the Apex Body.

2.3 OBJECTIVES OF THE SOCIETY

The society works on the following objectives:

- To promote thrift self help among the members.
- To receive current and savings deposit from the members.
- To own and procure seeds fertilizers pesticides and other implements needed for the members and to procure or own resources needed for cottage industries and house hold purposes.
- To undertake the sale of the produces through marketing co-operatives or through any other means for the sake of the members.
- To plan and implement agricultural schemes for the members.
- To give necessary help for the members for developing new varieties of seeds.
- To make necessary arrangements to the members (individual or group) for the preparation of organic and compound fertilizers with in the area of operation of the bank.
- To own and hire modern agricultural implements for the members.
- To undertake agency services for the sale of seeds, fertilizers and agricultural implements.
- To own assets needed for the working of the society.
- In special situations with the consent of the registrar the bank has to undertake the activities for agricultural development such as irrigation and land protection for the sake of the members.

- To run kuries for the members.
- To give long term, short term and medium term loans needed to the members.
- To borrow cash from government or individuals needed for the objectives.
- To undertake all other activities needed to fulfill the above objectives.

2.4 AREA OF OPERATION

Area of operation of the bank is Kattoor Gramapanchayath, Manavalassery village of Karalam Panchayath with its head office situated at Kattoor along with the following branches;

- Main branch – Kattoor
- Thanissery branch
- Karanchira branch
- Ponjanam branch
- Morning and evening counter- Kattoor (works for 12 hours).

The data collected regarding the membership, share capital. Reserves, deposits, loans and advances .working capital, net profit or loss of Kattoor Service Co-operative bank for a period of 10 years is shown into the following table.

Table 2.1 Detailed data of the bank for the period of 10 years (1997-98 to 2007-08)

ar	Member ship	Total share capital (In ₹ lakhs)	Reserves (In ₹ lakhs)	Deposits (In ₹ Lakhs)	Borrowin gs (In ₹ lakhs)	Loans and advances (In ₹ lakhs)	Working Capital (In₹ lakhs)	Net profit/loss (In ₹ lakhs)
8-99	9710	19.55	25.68	275.71	285.57	215.33	320.08	-3517652.64
9-00	10605	27.41	43.17	400.44	36.86	332.35	457.69	-2336390.89
0-01	12036	31.42	45.35	652.99	81.72	2575.24	752.35	-1042071.65
1-02	13512	33.79	53.12	1162.52	51.77	806.21	1235.74	38364.06
2-03	14488	34.28	19.47	1563.20	71.13	1026.27	1627.99	168326.11
3-04	15449	34.80	14.72	1811.98	9.26	1180.60	1819.08	2177122.47
4-05	13524	40.04	5.21	2127.23	180.39	1569.99	2400.23	115989.34
5-06	12296	44.40	5.38	2489.79	175.39	1961.65	2595.38	2776294.82
6-07	10593	49.20	9.55	2720.74	500.89	1326.44	3322.77	5168001.13
7-08	12910	54.73	17.30	3621.90	461.22	3159.04	3980.94	2440200.58

Source: Audited Reports of the bank from 1998-99 to 2007-08

2.5 MEMEBERSHIP

Any person who has attained the age of 18 and has resident or having a landed property in the area of operation of the bank and who is of sound mind can become a member of the bank each individual should take minimum of one share of ₹10/-. Each member should pay 25 paisa for each share as admission fee.

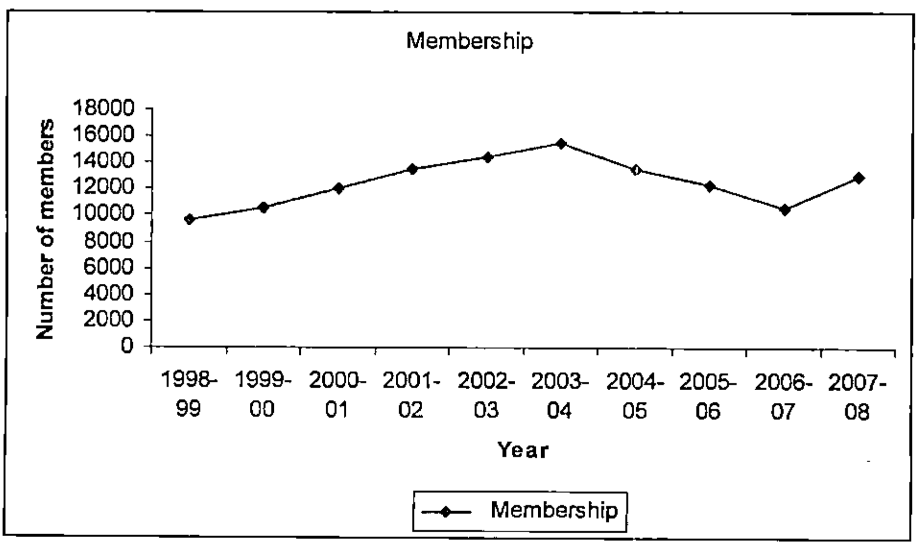
There are three classes of membership in Kattoor service co-operative bank A, B, D there is no C class membership, in the earlier days they have c class membership but now it has not given by the bank.

Table 2.2 Types of membership in Kattoor Service Co-operative Bank

Class	Members	Value of the share
A	Individuals	200000 shares of face value ₹ 50 each
B	State government or financing bank	90000 shares of face value ₹ 50 each.
D	SHG	500 shares of face value ₹ 100 each

Source: Audited Reports of the bank from 1998-99 to 2007-08

Fig 2.1 Membership position of Kattoor service co-operative bank Ltd.



2.6 MANAGEMENT

The general body is the supreme authority. The management of the bank is vested with the board of directors. The organizational chart of the bank is as the following;

General body

⇩

Board of directors

⇩

President

⇩

Secretary

⇩

Assistant Secretary

⇩

Internal auditor

⇩

Branch manager

⇩

Accountant

⇩

Senior clerk

⇩

Junior clerk

⇩

Typist

⇩

Attender

⇩

Peon

⇩

Watchman

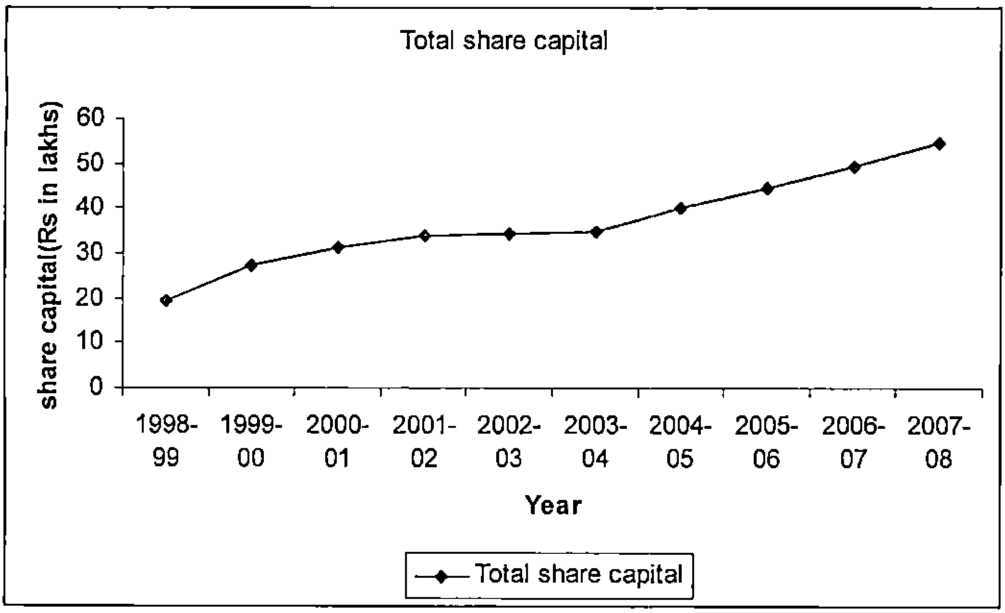
2.7 SOURCES OF FUNDS

The funds of the bank comprises of owned funds and borrowed funds. Owned funds includes total paid up share capital, reserve funds, and undistributed profit. Borrowed funds consist of various types of deposits and other borrowings from Thrissur district Co-operative Bank (TDCB) and other institutions

2.7.1 Share capital

The paid up share capital is an important component in sources of funds of the bank. All the members of the bank contribute to the share capital. As on 31st march 2008 the Kattoor service co-operative bank has a total share capital of ₹ 5473322.62/-. The table shows the share capital position of the bank for the period under study.

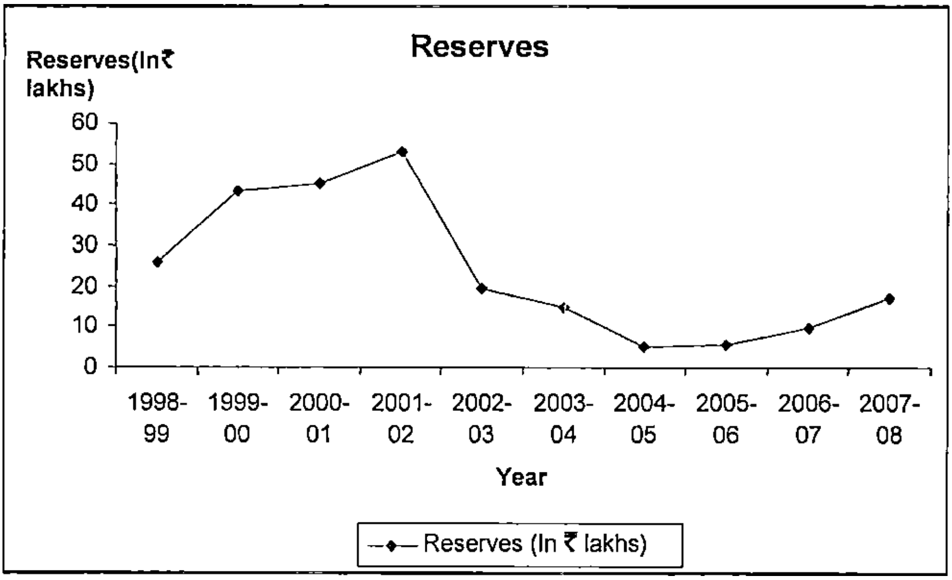
Fig 2.2 Share capital of Kattoor service co-operative bank Ltd.



2.7.2 Reserve funds

The bank should kept not less than 25% of the profit as reserve fund. The table shows reserve fund position of Kattoor service co-operative bank ltd. For the period under study.

Fig 2.3 Reserve funds of Kattoor service co-operative bank Ltd.



2.7.3 Borrowed funds

Borrowed funds constitute the deposits and other borrowings of the bank.

2.7.3.1 Deposits

The major part of borrowed funds of the bank constitutes the deposits of the bank. The bank maintains different types of deposits. Deposits are accepted from both members and non-members. Different type's deposits of the bank are as follows

- Fixed deposits
- Savings bank deposits
- Recurring deposits
- Roshini deposits
- Thrift deposits
- Surabhi deposits

❖ Special savings bank member deposits

Fixed Deposits: Fixed deposits are deposits at which a fixed amount is deposited by the customer for a fixed period of times. The interest rates for the fixed deposits are higher when compared to the other types of deposits.

Savings bank deposits: Savings bank deposits are the deposits made by the customers to meet their small means. They can be withdrawn at any time, but carries only small rate of interest.

Recurring deposits: It is an account for which the account holder has to pay a fixed amount to the bank every month ₹ 5 or its mutiple. There will be different period of 12,24,36,48,60,72,84,or 96 .The interest rate of this type of account is more than savings bank account.

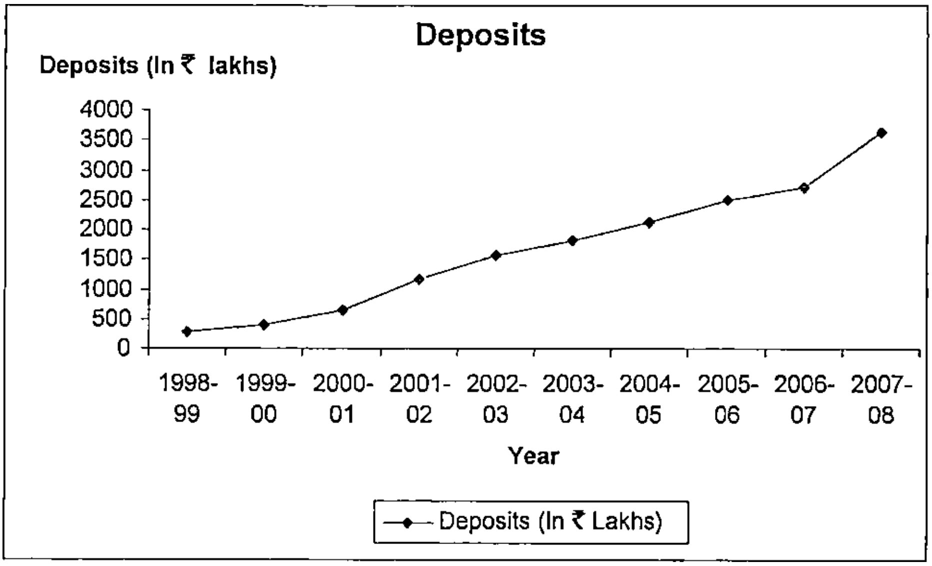
Roshini deposits: It is a daily deposit scheme of the bank for which the members can make deposits of ₹ 0.25,0.50 or its mutiple for a period of one years,and 3 years.

Thrift Deposits: Thrift deposits are accounts whose principal purpose is to provide an interest-bearing outlet for customer savings. Thrift deposits provide a place for customers to store liquid purchasing power at interest until needed.

Surabhi Deposits: It is a special type of deposit provided by the bank for which its the deposit amount doubles in 7 years.

Special savings bank member deposits : It is a type of account for which the account holder should not keep a minimum balance amount in his account, it is a zero balance account. In the case of other savings bank account the customer has to keep a minimum balance of ₹ 100.

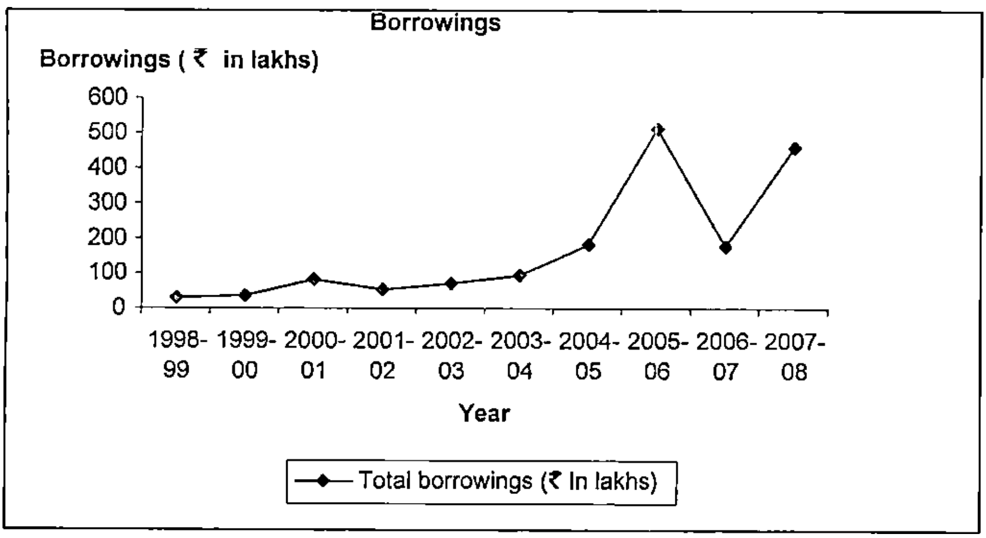
Fig 2.4 Deposits of Kattoor service co-operative bank Ltd.



2.7.3.2 Borrowings

The bank can borrow funds from members or non –members or from government or other institutions with the prior approval of registrar and financing bank. Borrowed funds constitute an important source of funds for the bank. The table shows the borrowings of the bank during the year under study.

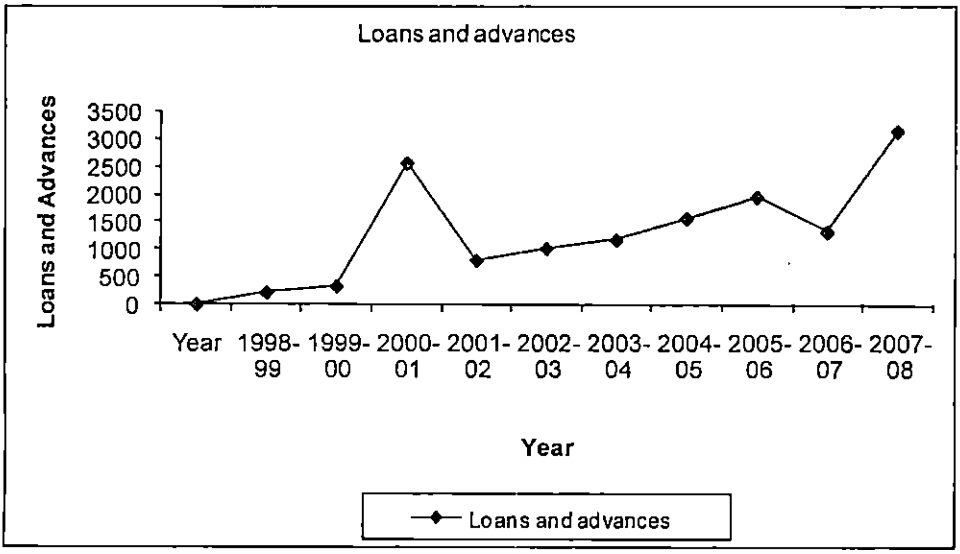
Fig.2.5 Borrowings of Kattoor service co-operative bank Ltd.



2.8 LOANS AND ADVANCES

The bank provides loans and advances to its members. The bank can grant loans and advances only after the approval of the board of directors. The bank provides short term and medium term loans to its members at a reasonable rate of interest.

Fig.2.6 Loans and Advances of Kattoor service co-operative bank Ltd.



2.9 PROJECTS UNDERTAKEN BY THE BANK

Kattoor Co-operative Bank partners and organizes with government and non-government organizations across country that works with different communities in the area.

2.9.1 Haritha Gramam Project

In this scheme the bank will issue interest free loans to farmers for cultivating paddy and also sponsor padasekharam (Agricultural Padavu Societies) it also supplies seeds, Fertilizers, Pesticides, and Equipments Crop Harvester Machine and collects paddy from the farmers and make payment to the farmers on next day. Approximately 500000 Kg paddy collected from farmers under this scheme during the year 2007-08. By this way all farmers are very interested to cultivate paddy and resulted in cultivation of uncultivated paddy fields in several years.

2.9.2 Copra Procurement

In this the bank will collects copra from nearby Panchayat and deposit that in NAFED.

2.9.3 Coconut procurement

For NAFED the Bank will collect coconut at the market rate from near by panchayat. By using copra dryers it will make copra from the procured coconut. It will procure huge quantity coconut and made copra which deposits in NAFED. Bank had taken a copra mill on lease basis, to find a permanent solution for problems of farmers in the marketing of coconut.

2.9.4 Neethi Readymade shirt

It is aimed to provide employment to rural stitching people. The bank has a readymade shirt stitching center which produces readymade shirts.

2.9.5 Ksheera Dhara Scheme.

This is a scheme for Motivating Milk production and cow rearing, in this scheme the bank is also aimed to give 500 milky cows to women farmers. The bank will collect milk on better rate for the chilling plant run by the bank.

2.9.6 Vasthramithra Scheme

It is a credit facility implemented in Neethi Textiles for availing interest free credit to its staff for purchasing textiles in festival season.

2.9.7 Seminar / Workshop

The bank organizes various seminars and workshops for the farmers in order to familiarize them with the modern technologies in farming, animal husbandry etc.

2.10 NON- BANKING ACTIVITIES

The bank has providing many utility services to the community in its area of operation. The bank is undertaking much business and trading activities to serve the community with its quality products at reasonable price.

2.10.1 Nanma Consumer Store

The bank had started nanma consumer store in order to provide the consumer goods at very less price. Almost all types of consumer goods are selling in the store. The prices of the products are sensible when compared to other shops in that area.

2.10.2 Neethi Medicals

Two neethi medical stores are working in Kattoor which provide its consumers medicines at discounted rate when compared to the private medical stores.

2.10.3 Neethi Clinical Laboratory

The bank had started three clinical laboratories. Two laboratories are working at Irinjalakuda and one is at Kattoor itself. Blood checkups and other check up are done in the laboratory at reasonable rate.

2.10.4 Neethi Opticals

In order to provide high quality frames lenses etc at reasonable prices the bank had started Neethi opticals. The bank had four optical shops. One is working at bank tower and trade center Kattoor, one is working inside the co-operative hospital building Irinjalakuda from 1-05-2008. Near Irinjalakuda government boys high school one of the shop is working from 31-03-2011. The bank had one shop working at Tana Irinjalakuda

2.10.5 Neethi Photostat

The bank had three Photostat shops which takes photo copies at reasonable rate when compared to the rival shops in the area.

2.10.6 Neethi Textiles

A Neethi textile is working at the bank tower and trade center. Textiles are given at 4% discount on its tag price. The bank is providing loan under vasthramithra scheme for its employees in order to purchase textiles from the shop during the festival season.

2.10.7 Neethi Cement Depot

Neethi cement depot is started inorder to provide cements at a subsidized rate. It is working at Kattoor itself.

2.10.8 Neethi Manure & Pesticides

High quality manures and pesticides are provided to the farmers of the area at a subsidized rate. Manures and fertilizers are also distributed through Haritha Gramam project.

2.10.9 Neethi Gas

Neethi gas depot is working under the bank. It is easy for the customers to avail Neethi gas service because of less formality.

2.10.10 Neethi Stitching Center

Neethi stitching center is working on bank tower and trade center. Stitching of gents, ladies and kids wears are done here by experienced tailors.

2.10.11 Neethi Ready-made Shirts.

Neethi ready-made stitching center is aimed to provide employment to rural people. The stitching center is producing ready-made shirt in the brand name 'coperator '.

2.10.12 Neethi Foot wares

Exclusive shop for wide variety of foot weares of good quality at reasonable rate. Neethi foot wares is working in bank tower and trade center, Kattoor.

2.10.13 Neethi Ladies choice & Gift House

Variety of gift items and ladies items are available in the shop. The shop has huge space and good window displays. Cosmetics items and other items are available at lower than Maximum Retail Price.

2.10.14 Neethi Shehnaz High-tech Beauty parlour

A beauty parlour with all types of modern facilities and fully air conditioned one. Parlour has separate room for different activities like pedicure, manicure, facialing, hair cutting, hair straightening, hair spa, etc. Beauty parlour is working on the second floor of the bank tower and trade center.

2.10.15 Neethi Mobiles

Mobiles of all popular companies are available in the shop. Mobile recharging is also done in the shop. The shop started working on bank tower and trade center from 26-10-2010 onwards.

2.10.16 Neethi Hardwares

All types of hardware materials and paints are made available in the shop. It is working in katoor.

2.10.17 Neethi Bakers

Neethi bakers started working on bank tower and trade center from 16-03-2011 onwards. Different kinds of sweet snacks, ice creams, cool drinks, etc. are made available in the shop.

2.11 CONCLUSION

The Kattoor service co-operative bank Ltd. No.426 was registered on 1st July 1939.The bank is performing well by providing good quality services to its members. The bank has upgraded as a special grade from 2006-07. The bank has five branches. The total share capital of the bank as per the year 2007-08 was ₹ 54.73 lakhs . the share capital of the bank shows a considerable growth when compare to the year 2006-07. during the year 2006-07 it was ₹ 49.20.The deposits of the bank also shows a tremendus growth. During the begenning of the study period that is during the year 1998-99 the deposits were ₹ 275.71 lakhs and during the year 2007-08 it is ₹ 3621.90. The growth of share capital and deposits itself shows the trust of the public towards the bank.as in the case of deposits the borrowings of the bnk also shows a high growth during the study periods. Diring the year 1998-99 the borrowings of the bank was ₹ 285.57 and during the year 2007-08 the borrowings of the bank were increased to ₹ 461.22 which in not a good sign for the bank.

Even though the bank has faced losses in its early years now it is performing well, through its diversified activities such as consumer stores, textile shops ,optical, medical laboratory ,mobile shops, beauty parlor, hardware shop, foot wares etc.. The well-diversified activities performed by the bank are a good model for all co- operatives in the state. The bank is also undertaking different schemes for the welfare of the community.

ANALYSIS OF FUNDS MANAGEMENT PRACTICES OF KATTOOR SERVICE CO-OPERATIVE BANK LTD.

CHAPTER III

FUNDS MANAGEMENT OF KATTOOR SERVICE CO-OPERATIVE BANK LTD.

In simple terms funds management means the management of the cash flow of a financial institution. Funds occupy an important place in the modern economy. It means management of net funds available for investment and external funds purchased from other banks. Funds management attempts to match the cash flow needs of a bank against maturity schedules of its deposits as loan demand increases or decreases. Funds management is more of a Treasury function than Asset-Liability Management, which deals mainly with control of *interest rate risk* and *liquidity risk,* and the pricing of loans in specific periods.

This chapter analyzes the funds management of the bank through ratio analysis. Ratios are used to express the mathematical relationship between two variables. The analysis of funds management practices of KSCB is done through the ratio analysis.

3.1 ANALYSIS OF EFFICIENCY IN MOBILIZATION OF FUNDS

Adequate funds are required for an organization for it efficient and effective functioning. Following ratios are used for the analysis.

1. Owned Funds to Working Capital Ratio.

2. Borrowed Funds to Working Capital Ratio

3. Deposits to Working Capital Ratio

4. Deposits to Borrowed Funds Ratio

5. Owned funds to Borrowed Funds Ratio.

3.1.1. Owned Funds to Working Capital Ratio

The ratio of owned funds to working capital indicates the share of owned funds in the working capital. The Ratio is calculated using the following formula.

$$\text{Owned fund to working Capital} = \frac{\text{Owned Fund}}{\text{Working Capital}} \times 100$$

Owned Funds = Share Capital + Reserves

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

Table 3.1 Ratio of Owned Funds to Working Capital of KSCB Ltd.

(In ₹ lakhs)

Year	Owned funds	Working Capital	Ratio
1998-99	45.24	320.08	14.13
1999-00	70.58	457.69	15.42
2000-01	76.77	752.35	10.20
2001-02	86.91	1235.74	7.03
2002-03	53.76	1627.99	3.30
2003-04	49.53	1819.08	2.72
2004-05	45.25	2400.23	1.88
2005-06	49.79	2595.38	1.91
2006-07	58.75	3322.77	1.76
2007-08	72.03	3980.94	1.80

Source: Audited Reports of the bank from 1998-99 to 2007-08

Fig 3.1 Ratio of Owned Funds to Working Capital of KSCB Ltd.

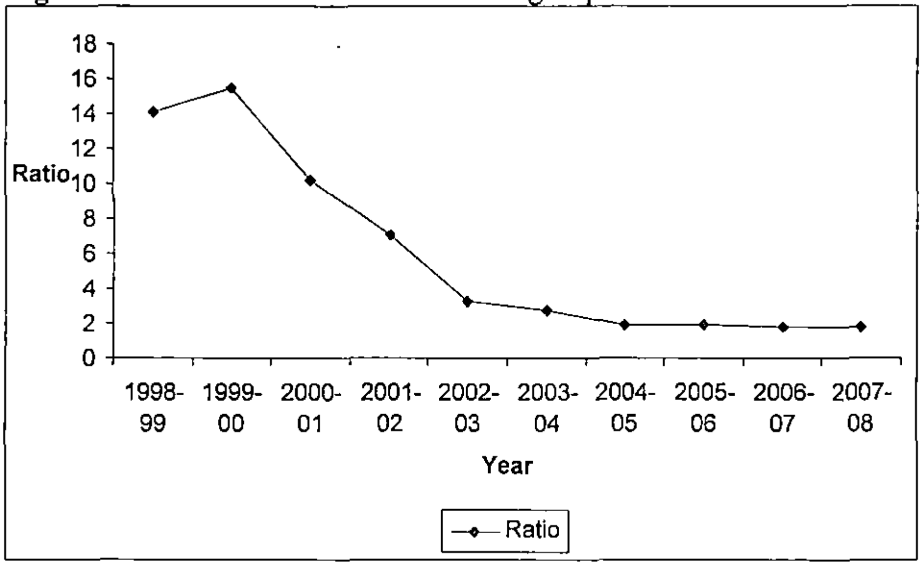


Table 3.1 shows the ratio of owned funds to working capital of Kattoor service co-operative bank for the period 1998-2008.The share of owned funds to working capital is declining over the years. This is not a good sign. The Bank has to increase its own fund by increasing its membership and improving its performance thereby producing greater provision towards reserves.

3.1.2. Borrowed Funds to Working Capital Ratio

The borrowed funds of the bank include deposits and borrowings from DCB and government. The working capital of the bank includes share capital, reserves, deposits and borrowings. The ratio is worked out using the following formula.

$$\text{Borrowed Fund to Working Capital Ratio} = \frac{\text{Borrowed Fund}}{\text{Working Capital}} \times 100$$

Borrowed Funds = Deposit + Borrowings

Working Capital = (Share Capital + Reserves + Deposits + borrowings –

Investment in Fixed Assets)

Table 3.2 Ratio of Borrowed Funds to Working Capital of KSCB Ltd. (In ₹ lakhs)

Year	Borrowed funds	Working Capital	Ratio
1998-99	561.29	320.08	175.35
1999-00	437.30	457.69	95.54
2000-01	734.71	752.35	97.65
2001-02	1214.29	1235.74	98.26
2002-03	1634.33	1627.99	100.38
2003-04	1821.25	1819.08	100.11
2004-05	2307.63	2400.23	96.14
2005-06	2665.18	2595.38	102.68
2006-07	3221.64	3322.77	96.95
2007-08	4083.13	3980.94	102.56

Source: Audited Reports of the bank from 1998-99 to 2007-08

Fig 3.2 Ratio of Borrowed Funds to Working Capital of KSCB Ltd.

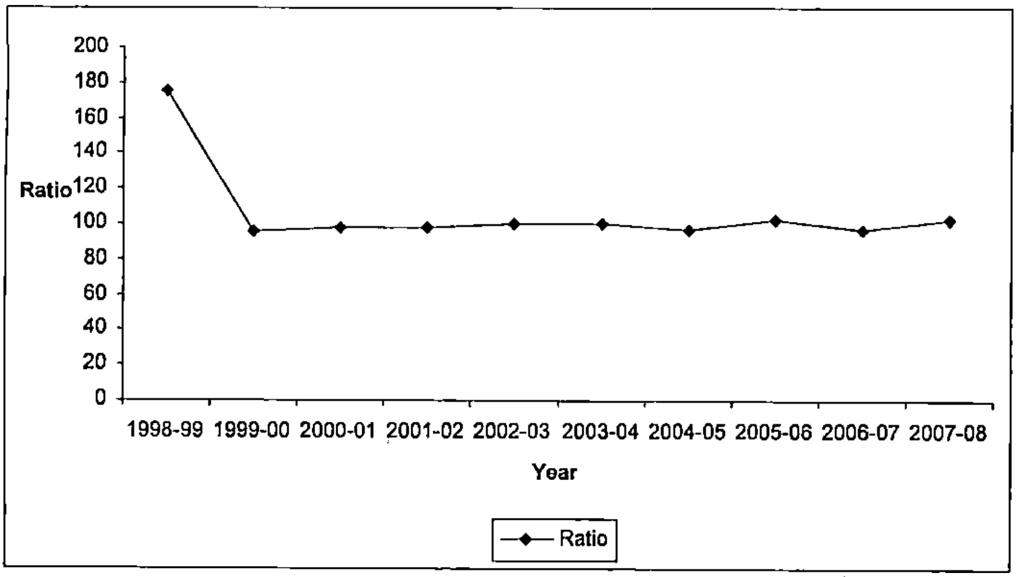


Table 3.2 shows that the borrowed funds to working capital of the bank. The highest ratio is recorded during the year 1998-99. The lowest ratio is recorded during the year 1999-2000.

3.1.3. Deposits to Working Capital Ratio

This ratio indicates the share of deposits in working capital. The major portion of working capital is constituted by the deposits .A higher ratio of deposits to the working capital is always preferable. A higher ratio of deposits to working capital indicates that the bank has the ability to mobilize the deposits from the public as well as its members. Deposits constitute a major source of fund for the bank. The ratio is calculated by using the formula:

$$\text{Deposits to Working Capital Ratio} = \frac{\text{Deposits}}{\text{Working Capital}} \times 100$$

Deposits are the Deposits received by the bank

Working Capital = (Share Capital + Reserves + Deposits + borrowings –

Investment in Fixed Assets)

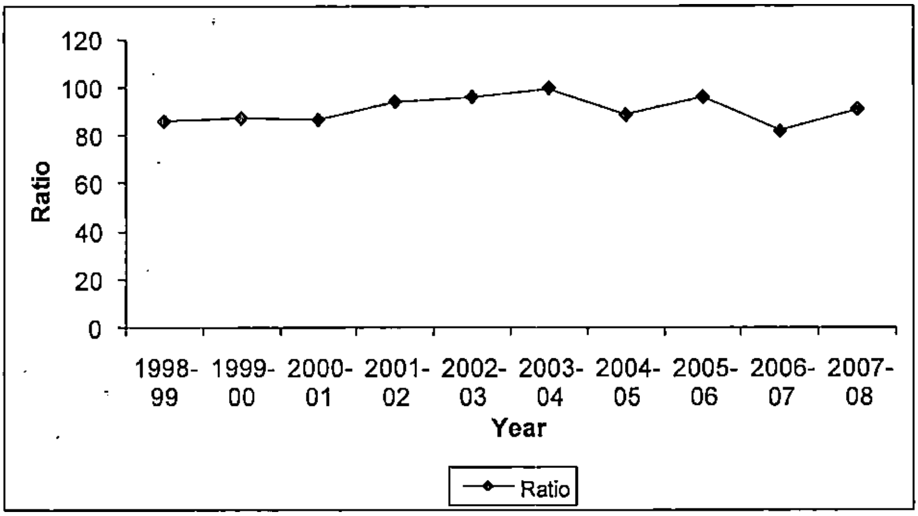
Table 3.3 Ratio of Deposits to Working Capital of KSCB Ltd.

(In ₹ lakhs)

Year	Deposits	Working Capital	Ratio
1998-99	275.71	320.08	86.13
1999-00	400.44	457.69	87.49
2000-01	652.99	752.35	86.79
2001-02	1162.52	1235.74	94.07
2002-03	1563.20	1627.99	96.02
2003-04	1811.98	1819.08	99.60
2004-05	2127.23	2400.23	88.62
2005-06	2489.79	2595.38	95.93
2006-07	2720.74	3322.77	81.88
2007-08	3621.90	3980.94	90.98

Source: Audited Reports of the bank from 1998-99 to 2007-08

Fig 3.3 Ratio of Deposits to Working Capital of KSCB Ltd.



The ratio of deposits to working capital shows a fluctuating trend but the ratio increased from 86.01369 in 1998-99 to 90.9811 in 2007-2008. The share of deposits in working capital has been increasing over the years in spite of certain variations.

3.1.4 Deposits to Borrowed Funds Ratio

This ratio indicates the share of deposits in borrowed funds, as the borrowed funds constitute the deposits and other borrowings. Higher ratio of deposits when compared to other borrowings of the bank is a good indication so higher ratio is always preferable. Higher ratio shows the efficiency of the bank in mobilizing the local borrowings. The ratio is calculated by using the following formula:

$$\text{Deposits to Borrowed Funds Ratio} = \frac{\text{Deposits}}{\text{Borrowed Funds}} \times 100$$

Deposits are the deposits received by the bank

Borrowed Funds = Deposits + Borrowings

Table 3.4 Ratio Deposits to Borrowed funds of KSCB

(In ₹ lakhs)

Year	Deposits	Borrowed funds	Ratio
1998-99	275.71	561.29	49.12
1999-00	400.44	437.30	91.57
2000-01	652.99	734.71	88.87
2001-02	1162.52	1214.29	95.73
2002-03	1563.20	1634.33	95.64
2003-04	1811.98	1821.25	99.49
2004-05	2127.23	2307.63	92.18
2005-06	2489.79	2665.18	93.41
2006-07	2720.74	3221.64	84.45
2007-08	3621.90	4083.132	88.70

Source: Audited Reports of the KSCB from 1998-99 to 2007-08

Fig 3.4 Ratio Deposits to Borrowed funds of KSCB Ltd.

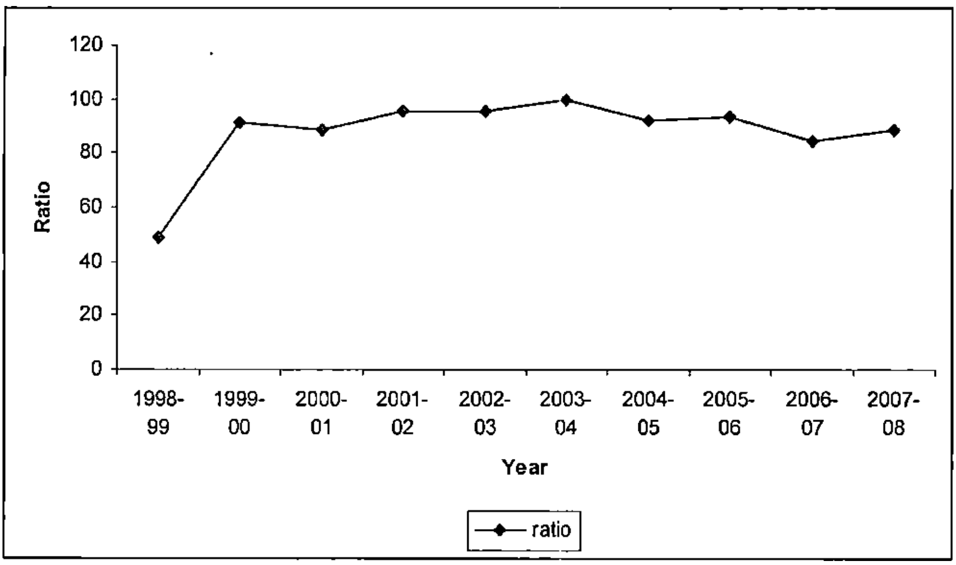


Table 3.1 shows the deposits to borrowed funds ratio of Kattoor service co-operative bank for the period 1998-99 to 2007-2008. As per the table the ratio shows a fluctuating trend during the year. The higher ratio is recorded during the year 2003-04 (99.49). Although higher proportion of deposits is deemed as a sign of self reliance, it certainly raises the average cost of funds.

3.1.5. Owned funds to Borrowed Funds Ratio

It represents the ratio of owned funds to borrowed funds. The optimum contribution of debt equity varies according to the type of organization. As far as PACS are concerned owned fund have 2 components viz., share capital and reserves. Also debts of PACS include outside borrowings and deposits.

$$\text{Owned Funds to Borrowed Funds Ratio} = \frac{\text{Owned Funds}}{\text{Borrowed Funds}} \times 100$$

Owned Funds = Share Capital + Reserves

Borrowed Funds = Deposits + Borrowings

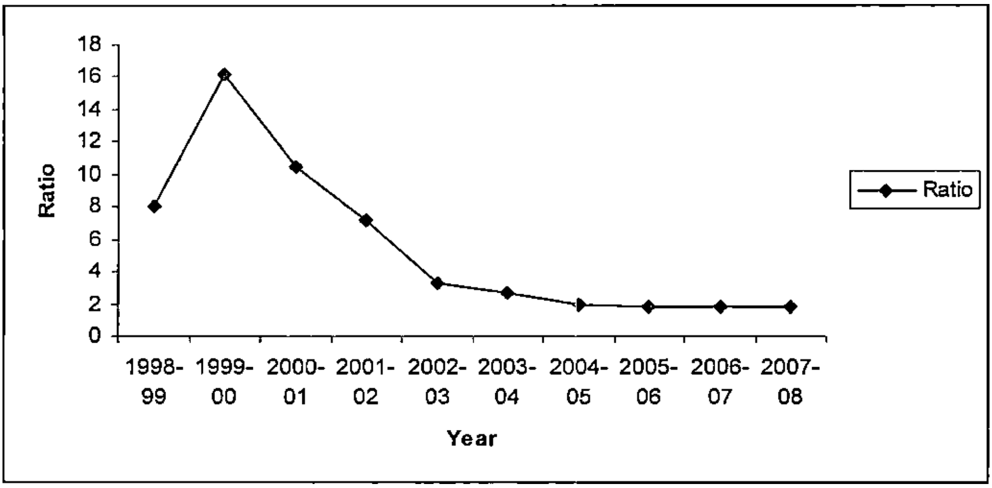
Table 3.5 Ratio of Owned Funds to Borrowed Funds of KSCB Ltd.

(In ₹ lakhs)

Year	Owned funds	Borrowe d funds	Ratio
1998-99	45.24	561.29	8.05
1999-00	70.58	437.30	16.14
2000-01	76.77	734.71	10.44
2001-02	86.91	1214.29	7.15
2002-03	53.76	1634.33	3.28
2003-04	49.53	1821.25	2.71
2004-05	45.25	2307.63	1.96
2005-06	49.79	2665.18	1.86
2006-07	58.75	3221.64	1.82
2007-08	72.03	4083.13	1.76

Source: Audited Reports of the KSCB Ltd from 1998-99 to 2007-08

Fig 3.5 Ratio of Owned Funds to Borrowed Funds of KSCB Ltd.



The ratio shows a fluctuating trend. The highest ratio is recorded during the year 1999-2000. Lower ratio is not a good sign. The bank has to reduce its borrowed funds and thereby reduce its cost of capital.

3.2 EFFICIENCY IN DEPLOYMENT OF FUNDS

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

3.2.1 Credit to Deposits Ratio

$$\text{Credit to Deposits Ratio} = \frac{\text{Credit}}{\text{Deposits}} \times 100$$

Credits are the loans and advances given by the bank

Deposits are the deposits received by the bank

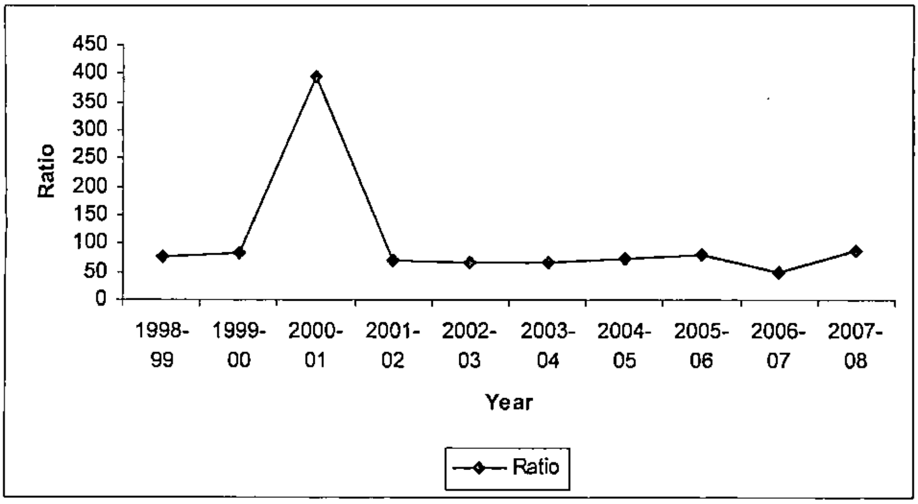
Table 3.6 Credit to Deposits Ratio of KSCB Ltd.

(In ₹ lakhs)

Year	Credit	Deposits	Ratio
1998-99	215.33	275.71	78.10
1999-00	332.35	400.44	82.99
2000-01	2575.24	652.99	394.37
2001-02	806.21	1162.52	69.35
2002-03	1026.27	1563.20	65.65
2003-04	1180.60	1811.98	65.15
2004-05	1569.99	2127.23	73.80
2005-06	1961.65	2489.79	78.78
2006-07	1326.44	2720.74	48.75
2007-08	3159.04	3621.90	87.22

Source: Audited Reports of the KSCB from 1998-99 to 2007-

Fig 3.6 Credit to Deposits Ratio of KSCB Ltd.



The table shows the credit to deposits ratio of the bank for 10 years. A higher a ratio is always preferred because a higher ratio indicates that larger portion of deposits are given as loans and advances by the bank. The higher ratio is recorded in the year 2000-01.

3.2.2 Credit to Working Capital Ratio

$$\text{Credit to Working Capital Ratio} = \frac{\text{Credit}}{\text{Working Capital}} \times 100$$

Credits are the loans and advances given by the bank.

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

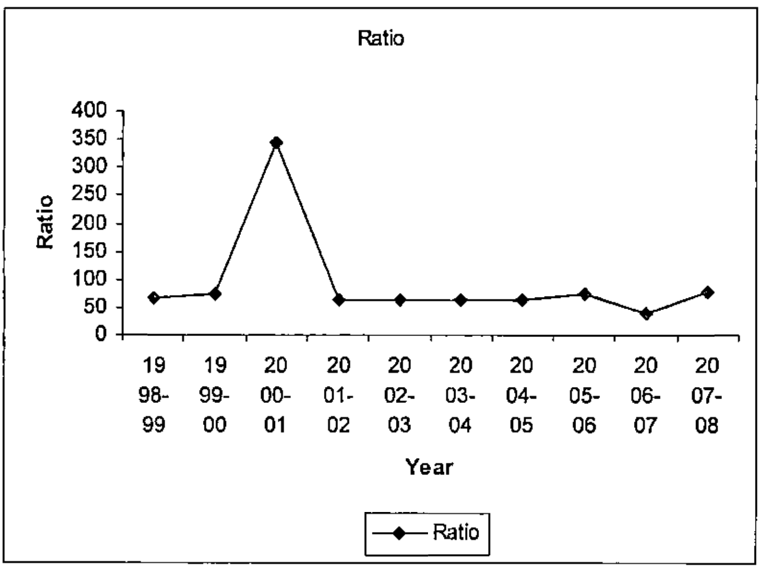
Table 3.7 Credit to Working Capital Ratio of KSCB Ltd.

(In ₹ lakhs)

Year	Credit	Working Capital	Ratio
1998-99	215.33	320.08	67.27
1999-00	332.35	457.69	72.61
2000-01	2575.24	752.35	342.29
2001-02	806.21	1235.74	65.24
2002-03	1026.27	1627.99	63.03
2003-04	1180.60	1819.08	64.90
2004-05	1569.99	2400.23	65.41
2005-06	1961.65	2595.38	75.58
2006-07	1326.44	3322.77	39.91
2007-08	3159.04	3980.94	79.35

Source: Audited Reports of the KSCB Ltd from 1998-99 to 2007-08

Fig 3.7 Credit to Working Capital Ratio of KSCB Ltd.



The table reveals the ratio from the year 1997-98 to 2007-08. The ratio shows a fluctuating trend .The growth rate of credit has increased over the years. It can be seen from the table that there is much increase in the working capital for providing credit. The highest ratio is recorded in the year 2000-01.

3.2.3 Credit to Owned Funds Ratio

$$\text{Credit to Owned Ratio} = \frac{\text{Credit}}{\text{Owned Funds}} \times 100$$

Credits are the loans and advances given by the bank.

Owned Funds = Share Capital + Reserves

Table 3.8 Credit to owned Funds Ratio of KSCB Ltd.

(In ₹ lakhs)

Year	Credit	Owned funds	Ratio
1998-99	215.33	45.24	475.98
1999-00	332.35	70.58	470.83
2000-01	2575.24	76.77	3354.28
2001-02	806.21	86.91	927.58
2002-03	1026.27	53.76	1908.88
2003-04	1180.60	49.53	2383.32
2004-05	1569.99	45.25	3469.14
2005-06	1961.65	49.79	3939.69
2006-07	1326.44	58.75	2257.66
2007-08	3159.04	72.03	4385.33

Source: Audited Reports of the bank from 1998-99 to 2007-08

Fig 3.8 Credit to owned Funds Ratio of KSCB Ltd.

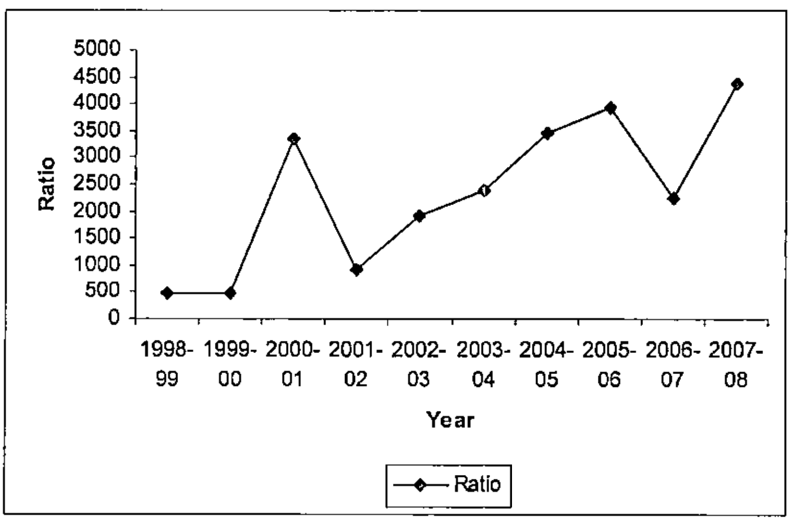


Table3.8. Deals with the credit to owned funds ratio for 10 years. The lowest ratio is recorded in the year 1999-00 (470.8389) and the highest ratio is recorded in the year

2007-08 (4385.339).A highest ratio is always preferable because it increases the profitability.

3.2.2 Credit to Borrowed Funds Ratio

$$\text{Credit to Borrowed} = \frac{\text{Credit}}{\text{Borrowed Funds}} \times 100$$

Credits are the loans and advances given by the bank.

Borrowed Funds = Deposits + Borrowings

Table 3.9 Ratio of Credit to Borrowed Funds of KSCB Ltd.

(In ₹ lakhs)

Year	Credit	Borrowed funds	Ratio
1998-99	215.33	561.29	38.36
1999-00	332.35	437.30	76.00
2000-01	2575.24	734.71	350.50
2001-02	806.21	1214.29	66.39
2002-03	1026.27	1634.33	62.79
2003-04	1180.60	1821.25	64.82
2004-05	1569.99	2307.63	68.03
2005-06	1961.65	2665.18	73.60
2006-07	1326.44	3221.64	41.17
2007-08	3159.04	4083.13	77.36

Source: Audited Reports of the bank from 1998-99 to 2007-08

Fig 3.9 Ratio of Credit to Borrowed Funds of KSCB Ltd.

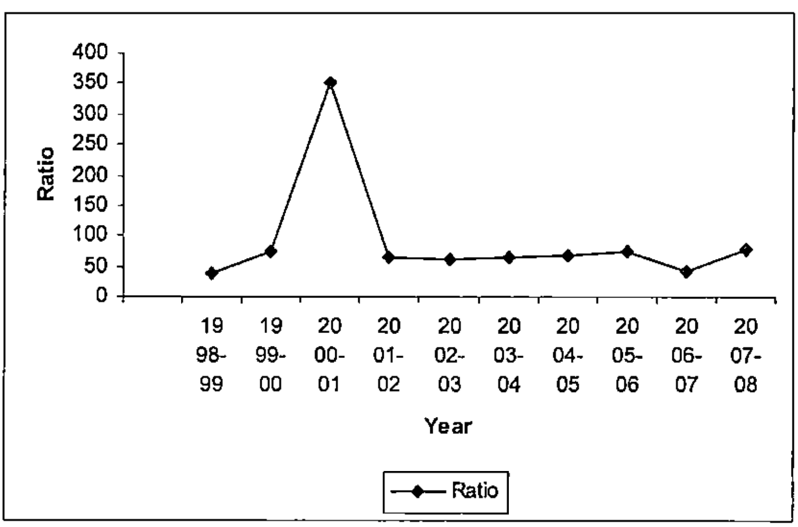


Table 3.9 shows the credit to borrowed funds from 1997-98 to 2007-08. A fluctuating trend of ratios can be seen from the table. There was high increase in the borrowed funds of the bank in some years. The highest ratio is recorded in the year 2000-01 and the lowest ratio is recorded in the year 2005-06.

3.2.3 Credit to total Funds Ratio

Credit to total funds ratio shows the efficiency of the bank in utilizing its fund by giving credit to the targeted growth. The optimization of this ratio helps the bank to

increase its profitability. The ratio is calculated by using the following formula:-

$$\text{Credit to Total Funds} = \frac{\text{Credit}}{\text{Total Funds}} \times 100$$

Credits are the loans and advances given by the bank.

Total Funds = Owned Funds + Borrowed Funds

Table 3.10 Ratio of credit to total funds of KSCB Ltd.

(In ₹ lakhs)

Year	Credit	Total Funds	Ratio
1998-99	215.33	606.53	35.50
1999-00	332.35	507.88	65.43
2000-01	2575.24	811.48	317.35
2001-02	806.21	1301.2	61.95
2002-03	1026.27	1688.09	60.79
2003-04	1180.60	1870.78	63.10
2004-05	1569.99	2352.88	66.72
2005-06	1961.65	2714.97	72.25
2006-07	1326.44	3280.39	40.43
2007-08	3159.04	4155.16	35.50

Source: Audited Reports of the bank from 1998-99 to 2007-08

Fig 3.10 Ratio of credit to total funds of KSCB Ltd.

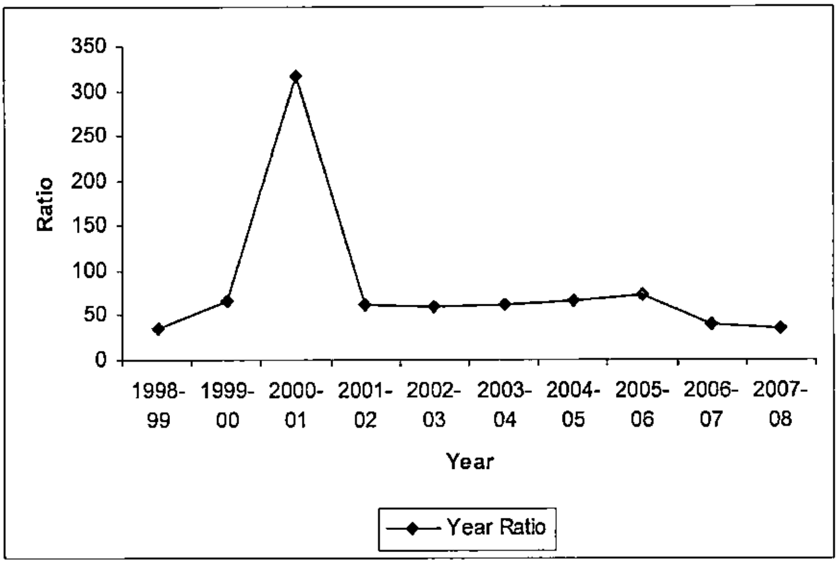


Table 3.10 gives the ratio of credit to total funds for 10 years. The ratio shows a fluctuating trend. A highest ratio is recorded in the year 2003-04.it indicates that during that year the bank has kept major portion of their funds for loans and advances.

3.3 EFFICENCY IN OPERATION

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

3.3.1 Spread Ratio

Spread ratio is the difference between interest received by the bank and interest paid by the bank. This ratio directly indicates the profitability of the bank. Higher ratio is preferable because it becomes higher only when the interest received on loans are more than the interest paid on the loans. The following formula is used to calculate the spread ratio:-

$$\text{Spread Ratio} = \frac{\text{Interest received} - \text{Interest paid}}{\text{Total Funds}} \text{ x } 100$$

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

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

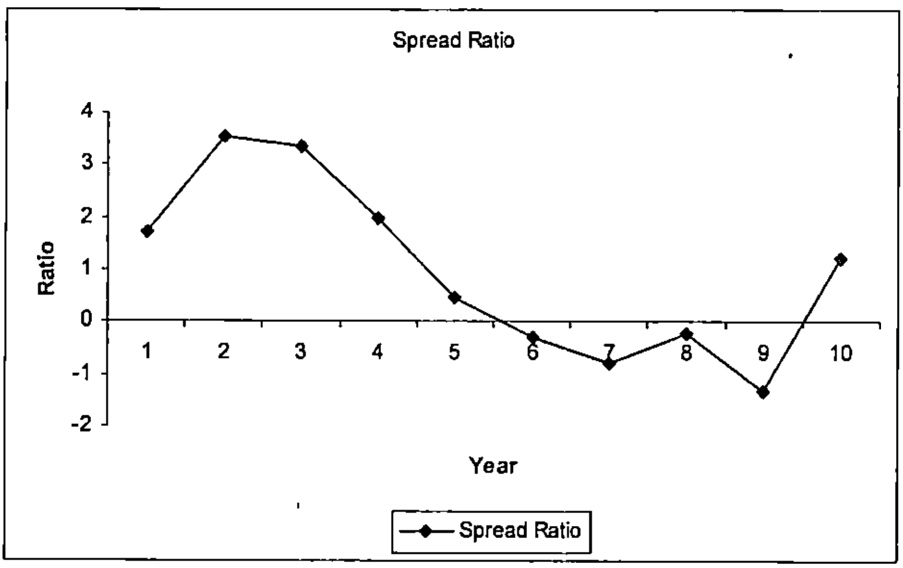
Table 3.11 Spread Ratio of KSCB Ltd.

(In ₹ lakhs)

Year	Interest Received	Interest Paid	Total Funds	Spread Ratio
1998-99	35.97	25.43	606.53	1.74
1999-00	45.42	27.37	507.88	3.56
2000-01	76.52	49.33	811.48	3.35
2001-02	103.86	77.89	1301.2	2
2002-03	120.21	112.66	1688.09	0.45
2003-04	130.08	134.86	1870.78	-0.3
2004-05	179.30	198.20	2352.88	-0.8
2005-06	228.33	233.34	2714.97	-0.2
2006-07	252.98	295.03	3280.39	-1.3
2007-08	374.83	323.28	4155.16	1.24

Source: Audited Reports of the bank from 1998-99 to 2007-08

Fig 3.11 Spread Ratio of KSCB from1998-99 to 2007-08



From the table 3.11 it is clear that spread ratio has increased from1.74 in the year 1998-99 to 3.56 in 1999-00. Even though it has increased in the year 2007-08 it had showed a negative trend during some years, which indicates that interest paid, is higher than the interest received. The highest ratio is recorded in the year 1999-00.

1.3.1 Burden Ratio

Burden ratio shows the difference between non-interest expenditure and non-interest income. The low value of the ratio is preferable the bank has to reduce the ratio by increasing non-interest income. The burden ratio is calculated using the following formula:-

$$\text{Burden Ratio} = \frac{\text{Noninterest expenses} - \text{Noninterest income}}{\text{Total Funds}} \times 100$$

Non interest expenses includes contingency expenses and establishment expenses of the bank.

Non interest income is the miscellaneous income of the bank

Table 3.12 Burden Ratio of KSCB Ltd.

(In ₹ lakhs)

Year	Non interest expenses	Non interest income	Total Funds	Burden Ratio
1998-99	27.42	8.99	606.53	3.03
1999-00	7.04	12.80	507.88	-1.13
2000-01	15.20	15.32	811.48	-0.01
2001-02	22.13	32.10	1301.2	-0.77
2002-03	20.40	52.48	1688.09	-1.9
2003-04	27.42	75.11	1870.78	-2.55
2004-05	34.38	127.30	2352.88	-3.95
2005-06	36.60	83.69	2714.97	-1.73
2006-07	40.43	91.54	3280.39	-1.56
2007-08	264.39	83.27	4155.16	4.35

Source: Audited Reports of the bank from 1998-99 to 2007-08

Fig 3.12 Burden Ratio of KSCB Ltd.

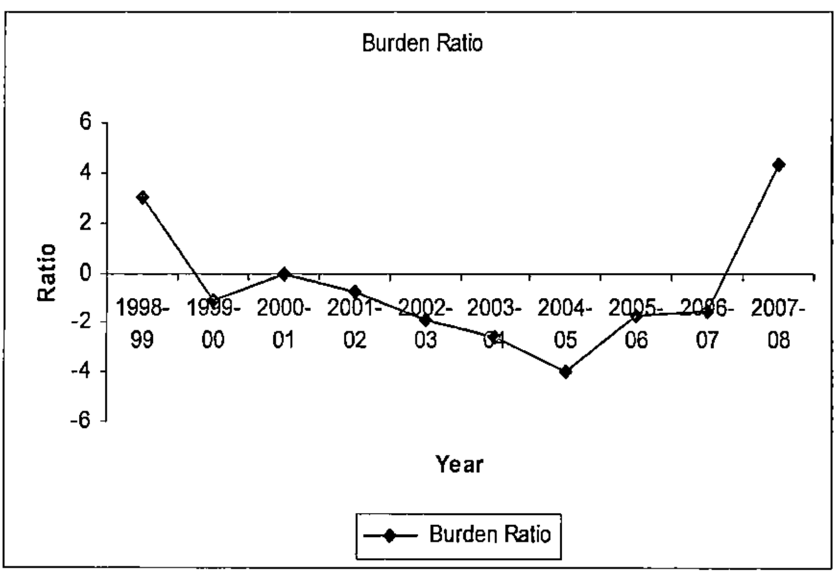


Table 3.12 shows the burden ratio of the bank. Except in the years 1998-99 and 2007-08 the ratio shows a negative trend. The lowest ratio is recorded in the year 2004-05 (3.95). This is not favorable to the bank.

3.3.1 Profitability Ratio

Profitability ratio is an indication of the efficiency with which the operations of the bank is carried on. Poor operation performance may indicate poor profit. Profitability ratio may calculate by using the following formula:-

$$\text{Profitability ratio} = \text{Spread Ratio} - \text{Burden Ratio}$$

Table 3.13 Profitability ratio of KSCB from1998-99 to 2007-08
(In ₹ lakhs)

Year	Spread Ratio	Burden Ratio	Profitability Ratio
1998-99	1.74	3.03	-1.29
1999-00	3.56	-1.13	4.69
2000-01	3.35	-0.01	3.36
2001-02	2	-0.77	2.77
2002-03	0.45	-1.9	2.35
2003-04	-0.3	-2.55	2.25
2004-05	-0.8	-3.95	3.15
2005-06	-0.2	-1.73	1.53
2006-07	-1.3	-1.56	0.26
2007-08	1.24	4.35	-3.11

Source: Audited Reports of the bank from 1998-99 to 2007-08

Fig 3.13 Profitability ratio of KSCB Ltd.

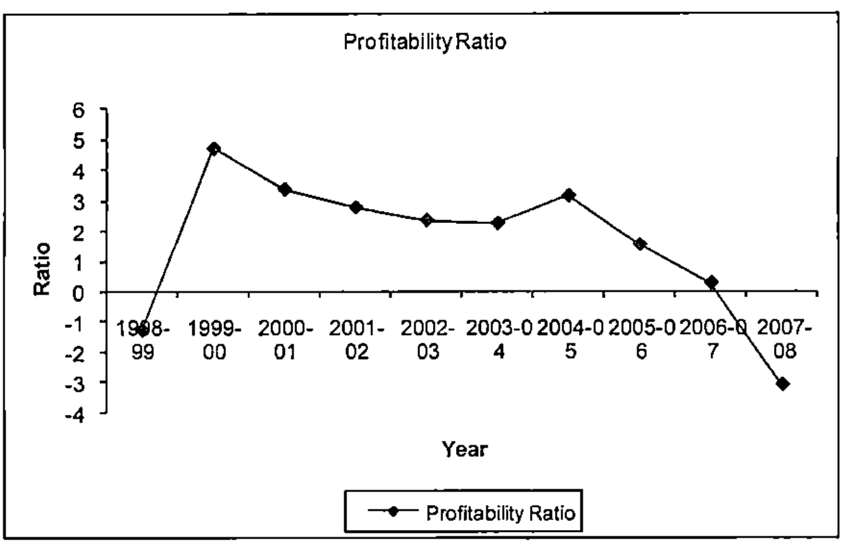


Table shows the profitability ratio of the bank for the period of 10 years from 1998-99 to 2007-08.The ratio shows a fluctuating trend. Bank faces huge losses during some years but during the last year under study (2007-08), it can be understand from the table that the bank recovers all the losses and the ratio has increased, this is a good sign for the bank.

3.4 CONCLUSION

The study was conducted in Kattoor service co-operative Bank with the objective of analyzes the funds management practices of the bank. The ratios that analyzed show a clear picture of the bank. The membership and the share capital growth of the bank show an appreciable trend. The growth of owned funds was also substantial. The borrowings of the bank show a high growth during some years, which is not a good sign. Therefore, the bank has to take obligatory steps in order to reduce its interest burden.

SUMMARY OF FINDINGS AND CONCLUSIONS

CHAPTER IV

SUMMARY OF FINDINGS AND CONCLUSION

The present study entitled Fund Management a case study of Kattoor service co-operative bank Ltd no. 476 has undertaken for the period of 1998-99 to 2007-08. The bank started functioning on 01-07-1939.The case study was undertaken with the objective of analyzing the fund management o of Kattoor service co-operative bank. For the purpose of analysis, the secondary data was taken for a period of 10 years. The performance analysis was done with the help of ratios showing the efficiency of mobilization, efficiency in deployment and efficiency in operation.

4.1 FINDINGS OF THE STUDY

- The memberships of the bank increased during the last 10 years. During the year1998-99, the membership was 9710 and in the year, 2007-08 the membership was 12910.

- The share capital if the bank shows a mounting trend. The share capital of ₹19.55 lakhs during the year 1998-99 to ₹ 54.73 lakhs during the year 2007-08.

- The reserves of the bank show a falling trend. During the year 1998-99, the reserve was ₹ 25.68 lakhs but in the year it has decreased to ₹ 17.30 lakhs.

- The deposits of the bank increased enormously. During the year 2007-08, the deposits increased to ₹ 3621.90 lakhs from ₹ 275.71 lakhs.

- Borrowings of the bank shows an upward trend during the year 1998-99 the borrowings was only ₹ 285.5786 and during the year the borrowings showed a boost to ₹ 461.22 However, in the year 2003-04 the borrowings were only ₹ 9.26 lakhs

- The credit provided by the bank shows a remarkable increase from ₹ 215.33 lakhs (1998-99) to ₹ 3159.04 lakhs (2007-08). This shows the efficiency of the bank in the deployment of its funds.

- The bank has been working in profit from the year 2001-02 to the year 2007-08.

- The ratio of owned funds to working capital shows that the share of owned funds to working capital is waning over the years. The ratio shows a fluctuating trend. It meant that only lesser portion of owned funds is used in the working capital.

- Borrowed funds to working capital ratio of the bank show a variable trend. The ratio shows a fluctuating trend during some years except in the year 2002-03 and 2003-04. Highest ratio shows that borrowed funds constitute the major portion of the working capital.

- The deposit to working capital ratio of the bank shows a fluctuating trend. The ratio shows a rising trend. This shows that deposits have a foremost role in the working capital of the bank.

- The ratio of deposits to borrowed funds of the bank shows that the deposits constitute a major portion of the borrowed funds. The ratio has increased from 49.12 percent (1998-99) to 88.70 percent during the year 2007-08.

- Owned fund to borrowed funds ratio shows an irregular trend. During the last period under study (2007-08), the ratio shows a low variation (15.6185 percent). During the year 1998-99, the ratio was 8.05 percent.

- Credit to deposit ratio of the bank shows an increasing trend. During the year, 1998-99 the ratio recorded was 78.10 percent and in the year 2007-08, the ratio recorded was 87.22 percent. An escalating trend in the ratio shows that the bank is capably utilizing its funds for giving loans and advances.

- Credit to working capital ratio of the bank shows a fluctuating trend. The ratio shows an increasing trend except in the year 2006-07 (39.91 percent).An increase in the ratio of credit to working capital shows that the competence of the management to convert working capital to loans and advances.

- The ratio of Credit to owned funds shows a magnificent increase over the study period. Except the year 2001-02, the ratio shows a high increase. The ratio during the year 1998-99 was 475.98 percent and the ratio during the year 2007-08 was 4385.33 percent. This is favorable to the bank because it increases the profitability of the bank.

- Credit to borrowed funds ratio of the bank shows a fluctuating trend. High fluctuations between the ratios are shown in some years. The management should try to maintain a high ratio of credit to borrowed funds. A lower ratio means high interest burden to the bank.

- Credit to total funds ratio of the bank shows a fluctuating trend. This shows that the bank is utilizing majority of its funds for providing loans and advances that forms the major objective the society.

- Spread ratio shows positive sign except from the year 2003-04 to 2006-07 (4 years). During the year 2007-08, the ratio shows a positive trend which means that the bank recovers from the interest burden that is; the interest received is higher than the interest paid.

- Burden ratio of the bank is showing a negative trend in all the years except in the year 1998-99. This means that the non-interest expenses of the bank is lower than the non-interest income. Decline in the burden will increase the profitability of the bank.

- Profitability ratio of the bank was not in a contented position over some years. The spread and burden position of the bank have high influence on its profitability.

4.2 CONCLUSION

The present study revealed that the Kattoor service co-operative bank has not effectively utilized the funds mobilized by it. The management of the bank has to take effective steps to improve the funds management more remuneratively

Even though the deposits of the bank has increased tremendously the Capital base of the bank has not expanded widely. The borrowings of the bank shows an increasing trend this in no at a all good sign as this will increase interest burden of the bank. The bank has not having a proper plan for management of its resources proficiently. The efficiency of the bank in the mobilization of the funds is palpable. The bank should try to maintain the proper management of its funds through diverse management techniques.

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FUNDS MANAGEMENT - A CASE STUDY OF KATTOOR SERVICE CO-OPERATIVE BANK LTD. NO. 426.

BY

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(2008-45-115)

ABSTRACT OF THE PROJECT REPORT

Submitted in partial fulfillment of the
requirement for the degree of
Bachelor of Science (Hons.) in Co-operation and banking

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ABSTRACT

The study ***"Funds Management – a case study of Kattoor Service Co-operative Bank Ltd."*** was under taken to analyze the funds management in Kattoor service co-operative bank(KSCB). Ratio analysis covering efficiency in mobilization, deployment of funds and operational efficiency were employed for studying the funds management practices. The ratios were worked out based on secondary data collected from audited annual reports of the bank.

The study revealed that the bank has not effectively utilized the funds mobilized by it. The management of the bank has to take effective steps to improve the funds management more remuneratively. Even though the deposits of the bank have increased tremendously the Capital base of the bank has not expanded widely. The borrowings of the bank shows an increasing trend this in no at a all good sign as this will increase interest burden of the bank. The bank has not having a proper plan for management of its resources proficiently. The efficiency of the bank in the mobilization of the funds is palpable. The bank should try to maintain the proper management of its funds through diverse management techniques.

APPENDIX

APPENDIX I

Year	Deposits	Borrowings	Borrowed funds	Owned funds	Borrowed funds	Total Funds
1998-99	275.7149	285.5786	285.5786	45.24	285.5786	330.8186
1999-00	400.4435	36.8600	36.8600	70.5886	36.8600	107.4486
2000-01	652.9982	81.7215	81.7215	76.7748	81.7215	158.4963
2001-02	1162.5200	51.7742	51.7742	86.9156	51.7742	138.6898
2002-03	1563.2070	71.1313	71.1313	53.7631	71.1313	124.8944
2003-04	1811.9890	9.2640	9.2640	49.5361	9.2640	58.8001
2004-05	2127.2390	180.3996	180.3996	45.2559	180.3996	225.6555
2005-06	2489.7960	17539.5200	17539.5200	49.7921	17539.5200	17589.3121
2006-07	2720.7490	510.8922	510.8922	58.7531	510.8922	569.6453
2007-08	3621.907	461.2245	461.2245	72.0365	461.2245	533.2610

NOTE:

Borrowed Funds =Borrowings + Deposits

Total Funds = Owned Funds + Borrowed Funds

APPENDIX II

Year	Contingency expenses	Establishment expenses	Non interest expenses	Non interest income	Interest Received	Interest Paid
1998-99	10.8411676	16.58344	27.42461	8.9974	35.9704	25.4385
1999-00	3.8347821	3.209775	7.044557	12.8029	45.4287	27.3707
2000-01	6.63781	8.57155	15.20936	15.3239	76.5294	49.3319
2001-02	7.2856815	14.84635	22.13203	32.1022	103.8626	77.8967
2002-03	8.0109415	12.39054	20.40148	52.4855	120.2121	112.6652
2003-04	10.8411676	16.58344	27.42461	75.1192	130.0812	134.8628
2004-05	13.1447741	21.24188	34.38665	127.3004	179.3078	198.2049
2005-06	17.0491966	19.55747	36.60667	83.6935	228.3363	233.3497
2006-07	19.2150832	21.2245	40.43958	91.5446	252.9874	295.0322
2007-08	233.7337879	30.65825	264.392	83.2741	374.8330	323.2801

NOTE

Non interest income =contingency expenses + establishment expenses

Non interest income is the miscellaneous income of the bank