A STUDY ON FINANCIAL PERFORMANCE OF THALORE SERVICE CO-OPERATIVE BANK LTD NO. 435

By

ASWATHY VASUKUTTAN

(2007-05-118)

PROJECT REPORT

Submitted in partial fulfillment of the requirement for the degree of

Bachelor of Science (Hons.) in Co-operation & Banking

Faculty of Agriculture

COLLEGE OF CO-OPERATION, BANKING & MANAGEMENT

KERALA AGRICULTURAL UNIVERSITY

VELLANIKKARA, THRISSUR- 680 656

2011

Declaration

DECLARATION

I hereby declare that this project report entitled **"A STUDY ON FINANCIAL PERFORMANCE OF THALORE SERVICE CO-OPERATIVE BANK (TSCB) LTD NO. 435"** is a bonafide record of research work done by me during the course of project work and that it has not previously formed the basis for the award to me for any degree / diploma, associateship, fellowship or other similar title of any other University or Society.

Vellanikkara
27/6/2011

Aswathy

Aswathy Vasukuttan

(2007-05-118)

Certificates

CERTIFICATE

Certified that this project report entitled **"A STUDY ON FINANCIAL PERFORMANCE OF THALORE SERVICE CO-OPERATIVE BANK (TSCB) LTD NO. 435"** is a record of research work done independently by Ms. ASWATHY VASUKUTTAN, (2007-05-118) 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.

Shri. JACOB THOMAS. M

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Needless to say, I alone am accountable for any imperfections which may remain.

ASWATHY VASUKUTTAN

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DESIGN OF STUDY

Introduction

Co-operative is a form of voluntary organization formed to eradicate poverty and economic distress. Co-operation as an instrument for removing inequalities in distribution of wealth has proved very effective. The surplus earned by societies is distributed among all the members not on the basis of capital invested by them but on the basis of service availed by them. The co operative credit system in the country is structured into separate arms for short term and long term credit. In Kerala, the credit needs of all sectors are largely met by the organized sectors consisting of co operatives and commercial banks. The short term and medium term credit structure comprises of three tier system with State Co- operative Bank(SCB) at state level ,District Co-operative Bank(DCB) at the district level ,and Primary Agricultural Credit Society(PACS) at the grass root level. In co-operative sector long term loans are channelised through Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) and its network.

Co-operative banks are mutual society formed, composed and governed by working people themselves, for encouraging regular saving and granting small loans on easy terms of interest and repayment. Hentry Wolff defined co-operative banking as, "an agency which is in a position to deal with man on his own terms, accepting the security he has and without drawing the protection of the rich". Co-operative banks are organized voluntarily by people who could save their money with the bank. The primary motive of a co-operative bank is to encourage savings.

A service co-operative is a co-operative that render services rather than provide commodities for their members on service association. In other words, service co-operative can be designed as a voluntary form of organization organized on co-operative principle in such a way as to provide this member every kind of services they might need in their production activity.

Financial Performance analysis is the process of evaluating the relationship between different types of financial statement to obtain a better understanding of firm's position.

Statement of problem

The Thalore Service Co-operative Bank (TSCB) was formed in 26-6-1940 as a self help group and in 5-6-1967, registered as a co-operative society. The area of operation of the society includes entire NenmenikkaraGramaPanchayath (15wards) and 3 wards of ThrikkurGramaPanchayath.Ithas three branches situated at Pazhayi, Thrikkur and Manali.

The profitability of PACS depends on the judicious management of their funds and resources. The income generating factors of PACS are the loans, advances and investment and the cost determining factors include deposits and borrowing cost of funds mobilized have to be met out of the income generated from the deployment of fund.

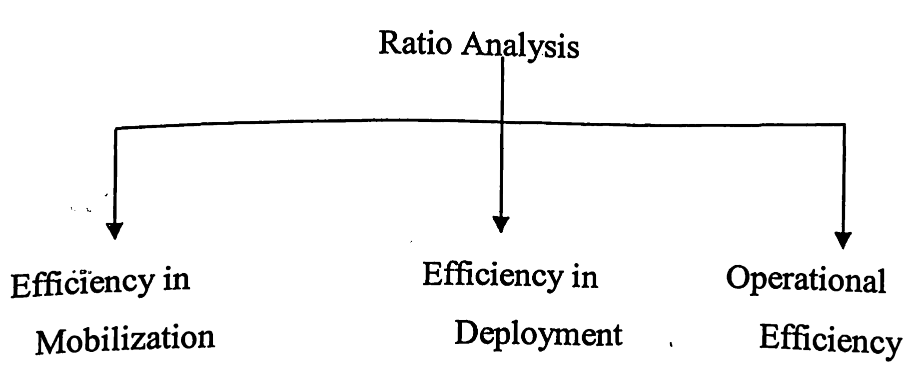
The present study is design to examine financial performance of Thalore Service Co-operative Bank Ltd No: 435 and examine the degree of profitability of the bank.

Objectives of the study

The objective of the study is to examine financial performance of Thalore Service Co-operative Bank Ltd No: 435.

Methodology

The study is based on secondary data and study period is 20 years from 1989-90 to 2008-09 of TSCB. The performance analysis has been done with the help of different ratios showing efficiency in mobilization, efficiency in deployment, efficiency in operation.



- ***Efficiency in Mobilization***

1. **Borrowed fund to working capital ratio**

$$\left(\frac{\text{Borrowed fund}}{\text{Working capital}}\right) X\ 100$$

Borrowed fund includes deposits and borrowings.

Working capital = Current assets- Current liabilities.

2. **Owned fund to borrowed fund ratio**

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

Owned fund = (Share capital + Reserves)

Borrowed fund includes deposits and borrowings.

3. **Deposit to Working Capital ratio**

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

Deposits are deposits received by the bank.

Working capital = Current assets – Current liabilities.

- *Efficiency in Deployment*

4. Credit to Deposit ratio

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

Credits are the loans and advances given by the bank.

Deposits are the deposits received by the bank.

5. Credit to owned fund ratio

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

Credits are the loans and advances given by the bank

Owned fund = (share capital + Reserves)

6. Credit to working capital ratio

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

Credits are the loans and advances given by the bank.

Working capital = Current assets – Current liabilities

- ***Efficiency in operation***

7. **Net profit to Interest received ratio:**

$$\left[\frac{\text{Net profit/loss}}{\text{Interest Received}}\right] \text{X } 100$$

Net profit is the profit of the bank. Interest received is the amount received as interest on loans and advances

8. **Net profit to Working capital ratio**

$$\left(\frac{\text{Net profit}}{\text{Working capital}}\right) \text{X } 100$$

Net profit is the profit of the bank.

Working capital = Current assets- Current liabilities.

9. **Interest paid to Interest received ratio**

$$\left(\frac{\text{Interest paid}}{\text{Interest received}}\right) \text{X } 100$$

Interest paid is the amount paid as interest on deposits.

Interest received is the amount received as interest onlending.

10. **Interest paid to Deposit ratio**

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

Interest is the amount paid as interest on deposits.

Deposits are the deposits received by the bank.

11. **Interest received to Loans and Advances ratio**

$$\left(\frac{\text{Interest Received}}{\text{Loans and advances}} \right) \text{X } 100$$

Loans and advances are the amount given by the bank.

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

12. **Spread ratio**

$$\left(\frac{\text{Interest received} - \text{interest paid}}{\text{Working capital}} \right) \text{X } 100$$

Interest received is the amount received as interest on lending.

Interest paid is the amount paid as interest on deposits.

13. **Burden ratio**

$$\left(\frac{\text{Non interest expenses} - \text{Non interest income}}{\text{Working capital}} \right) \text{X } 100$$

Non interest expenses include manpower expenses, administrative expenses, provisions and other expenses

Non interest income includes commission and miscellaneous income.

14. **Profitability ratio**

(Spread ratio – Burden ratio)

Observations to be made

- Share capital.
- Deposits.
- Borrowings.
- Reserves.
- Loans and advances.
- Owned fund.
- Working capital.
- Borrowed funds.
- Over dues.
- Loans outstanding.
- Interest income.
- Interest expenses.
- Non-interest income.
- Non-interest expense.

Scope of the study

The present study will help to understand the financial position of Thalore Service Co-operative Bank Ltd No: 435.

Limitations

- The study is limited to TSCB hence; the conclusion drawn can not be generalized.
- The present study formed as a part of the Graduate programme. Hence it has all limitations of time, money and other resources

Scheme of the study

The study is presented in four chapters. The first chapter presents the design of the study. Second chapter gives the organizational profile of the bank. The third chapter examines the financial performance of the bank. The last chapter highlights the summary of findings and conclusions of the study.

REVIEW OF LITERATURE

Subhash (1991) opined that the interest allowed on deposits and charged on advances is too small to increase and the profitability of the bank and therefore it is advisable to increase the margin between lending and borrowing to increase bank profitability.

A study conducted by Shanavas (1991) in a selected Service Co-operative Bank showed that the declining profitability of the bank is a combined result of increasing interest paid ratio, low increase in interest earned ratio, insufficient non-interest income necessity of maintaining increased amount of reserves due to meriting overdue arising out of bank's inability to collect the principal and interest an time etc.

Kanvinde (1991) in the effort to study the strategic issues and profitability of the bank opened that the major factor responsible for the declining profitability of bank was the increasing proportion of the fund locked up in CRR and SLR.

Amardeep *et al.* (1992) examined the profitability of co-operative banks. The study concludes that the bank has a low profitability during the period. To improve this situation, the bank has to adopt proper profit planning and attempt to solve it in that perspective. Moreover the banks should also make continuous search for profitable avenues of business in addition to its existing areas.

Patil (1993) in his study started that the co-operative system has very well settled in India. He further remarked that effectiveness of Agricultural Co-operative Credit system depends upon the performance of grass root level organizations. The destiny of PACS depends upon their ability to provide better services at cheaper cost to the farmers than their competitors.

Krishna Rao (1994) in his study 'Role of Co-operative Banks in Financing Agricultural Credits' found that capital was one of the factors constraining development in developing countries. Agricultural credit was considered as an economic ladder helping in the upliftment of poor peasantry

Kumar and Singh (1995) revealed that even though there is no alternative democratic management of co-operative banks, democratic leaders of the co-operative banks are required to be trained in banking practices, human relations and management principles for smooth functioning of the co-operative banks.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Zakir and Natarajan (2009) pointed that there is a situational need to go in for modern banking practices for employees in co-operatives which are experiencing tough competition with commercial banks, new generation banks and within the co-operative fold itself. It is essential to efficiently utilize their workforce to the maximum in order to get a reasonable profit and survive in this competitive environment.

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

Profile of the Organisation

CHAPTER 2

ORGANISATIONAL PROFILE OF THALORE SERVICE CO-OPERATIVE BANK LTD NO: 435.

GENISIS

The ThaloreService Co-operative Bank (TSCB) was formed in 26/6/1940 as a self help group and in 5/6/1967, registered as a co-operative society and in 1974 as a co-operative bank. The area of operation of bank includes the entire Nenmanikkara gramapanchayath (15 wards) and three wards of Thrikkurgramapanchayath. It has three branches situated at Pazhayi, Thrikkur and Manali.

OBJECTIVES

- To promote mutual help, self help and co-operation among member and facilitate programmes for this purpose.
- Provide short term, medium term and long term loans to members.
- Provide marketing facilities for the sale of agriculture produce by farmer members through different marketing societies.
- Provide seeds, fertilizers, equipments, pesticides etc. for agriculture purpose.
- Formulate programmes for increasing agriculture production among members.
- To collect and keep the products on behalf of members in owned or hired godown.
- To help members for the production of high yielding varieties of seeds.
- To provide modern equipments for farmers on hire basis.
- To provide loans against pledge of gold.
- Provide housing loans and other type of loans to members.
- To sell seeds, chemicals, agricultural tools etc. as an agent.
- To help members to prepare biochemical's to substitute chemical fertilizers.
- To equip banking facilities for the members and others.
- To undertake any other activities for the fulfillment of the above objectives.

Table 2.1 Detailed data of TSCB for 20 years.

(₹ in lakhs)

Years	No. of members	Share capital	Deposits	Loans and advances	Borrowings	Reserves	Working capital	Net profit/loss
1989-90	8021 (100)	7.40 (100)	92.60 (100)	108.10 (100)	49.19	7.78 (100)	144.40 (100)	-4.3
1990-91	8387 (104.5630)	8.50 (114.8648)	90.50 (97.7321)	114.30 (105.7354)	64.20	9.05 (116.3239)	161.81 (112.0567)	-1.72
1991-92	8569 (106.8320)	9.55 (129.0540)	112.80 (124.6409)	118.80 (109.8797)	53.73	9.82 (126.2210)	174.75 (121.0180)	-1.9
1992-93	9082 (113.2277)	11.40 (154.0540)	148.20 (131.3830)	130.40 (120.6290)	42.28	2.72 (34.9614)	197.17 (136.5443)	-4.21
1993-94	9631 120.0723)	14.70 (198.6486)	202.40 (136.5722)	168.60 (155.9296)	36.77	1.28 (16.4524)	249.19 (172.5692)	-1.57
1994-95	9907 (123.5132)	18.30 (247.2972)	269.50 (133.1522)	232.30 (214.8843)	39.82	4.28 (55.0128)	324.95 (225.0346)	5.92
1995-96	10453 (130.3204)	22.30 (301.3513)	344.50 (127.8293)	296.00 (273.7927)	37.36	5.94 (76.3496)	399.65 (276.7659)	-0.97
1996-97	10307 128.5001)	26.20 (354.0540)	438.20 (127.1988)	348.30 (322.1554)	21.48	17.70 (227.5064)	480.12 (332.4930)	-6.55
1997-98	10440 130.1583)	30.40 (410.8108)	508.50 (116.0429)	410.90 (380.0740)	36.64	21.11 (271.3367)	569.14 (394.1412)	3.57
1998-99	11153 139.0475)	38.75 (523.64865)	679.40 (133.6087)	528.80 (489.1396)	27.65	25.56 (328.5347)	736.33 (509.9238)	-2.05
1999-00	11556 (144.0718)	51.95 (702.0270)	830.61 (122.2549)	742.90 (687.2710)	59.84	34.64 (445.2442)	940.32 (651.1911)	41.92
2000-01	11757 (146.5777)	62.95 (850.6756)	1015.40 (122.2490)	898.40 (831.0360)	26.52	37.34 (479.9485)	1096.53 (759.3698)	-23.11
2001-02	11869 (147.9740)	71.60 (967.5675)	1290.10 (127.0534)	1057.00 (977.6965)	00.57	42.29 (543.5732)	1339.04 (927.3130)	14.8
2002-03	12134 (151.2778)	83.75 (1131.7567)	1519.30 (117.7661)	1275.00 (1179.4172)	0	50.55 (649.7429)	1586.17 (1098.4556)	64.84
2003-04	13793 171.9611)	89.50 (1209.4594)	1685.10 (110.9129)	1658.00 (1533.6910)	53.40	61.90 (795.6298)	1810.74 (1253.9750)	93.1
2004-05	14704 (183.3187)	89.50 (1209.4594)	2043.50 (121.2688)	2053.00 (1898.9084)	07.35	84.47 (1085.7385)	2101.75 (1455.5050)	110.5
2005-06	15137 (188.7171)	89.60 (1210.8108)	2449.20 (119.8532)	2278.00 (2107.4745)	0	86.98 (1117.9948)	2544.34 (1762.0080)	24.68
2006-07	15547 193.8286)	90.40 (1221.6216)	2849.20 (116.3319)	2626.00 (2429.5097)	0	103.91 (1335.6041)	2957.77 (2048.3171)	10.58
2007-08	15860 (197.7309)	93.70 (1266.2162)	3668.20 (128.7449)	3212.00 (2971.3228)	15.00	170.71 (2194.2159)	3822.51 (2647.1675)	95.52
2008-09	16232 (202.3687)	104.10 (1406.2162)	4967.70 (135.4261)	4439.00 (4106.0314)	0	183.93 (2364.1388)	5073.72 (3513.6565)	60.77

Source: Audited annual reports

MEMBERSHIP

Membership of the bank is limited to the persons residing within the area of operation of the bank and those who attained 18 years above are eligible to get membership. There are four types of members in the society; namely A-class members, B-class members, C-class members and D-class members. At present the bank do not have B class share. Membership position of the bank from 1989-90 to 2008-09 are shown in the Table 2.1. It could be observed that the membership of the bank is increasing year by year, which show an increasing trend.

SHARE CAPITAL

Share capital is one of the important elements in the owned fund. All the members should have a contribution towards the membership of the society. The authorized share capital of the bank is Rs.1.5 crores as on 31/3/2010 ,which consist of 16568 A class shares of Rs.10, 13268 C class shares of Rs.5 and 133 D class shares pf Rs.100.At present the bank do not have B class share. The share capital of the bank from 1989-90 to 2008-09 are shown in Table 2.1. We understood that the share capital of the bank show an increasing trend during the period of 1989-90 to 2008-09.

DEPOSITS

Deposits are accepted both from members and non-members of the bank. The major types of deposits accepted by the bank are current deposit, saving deposit, recurring deposit and fixed deposit. The deposit position of the bank from 1989-90 to 2008-09 are shown in the Table 2.1. From the table we conclude that the deposits of the bank are increased during these 20 years from 1989-90 to 2008-09.

BORROWINGS

The District Co-operative Bank is the main source of borrowing of the Thalore Service Co-operative Bank. The borrowings of the bank from 1989-90 to 2008-09 are shown in the Table 2.1. The borrowings of the bank are in decreasing trend. In the year 1990-91 the bank has highest borrowings and in the years 2002-03, 2005-06, 2006-07 and 2008-09 the bank have no borrowings.

LOANS AND ADVANCES

The bank issues different types of loans viz short term loans, medium term loans, long term loans, crop loans, ordinary loans etc to members with the prior approval of the Board meeting.

a) Short term agricultural loans

Short term agricultural loans are given only to farmers members. In the beginning of every co-operative year, production plan is prepared by the Board of Directors of each crop per acre. Credit limit is also prepared for different types of farming depending upon the expenditure, land owned, expected production, repayment capacity etc .Each members should give two personal securities for any cash settlement. Loans will be issued to farmers in kind as far as possible.

b) Medium term loans

Medium term loans are given for purchasing livestock, building houses, purchasing land, building sheds, irrigation etc. The repayment is usually made within five years.

c) Crop loan

Crop loans are given short term, medium term and long term basis. This should be issued in the form of equipments, fertilizers, seeds, pesticides etc.

d) Gold loan

The loans are issued only to members of the bank on the basis of gold.

e) Ordinary loan

These loans are issued for the purpose of meeting the non-agricultural needs of the member and the repayment has to be made within 60 months from the issue of loans. The total loan and advances given by the bank are shown in the Table 2.1. From this Table 2.1 we observe that the loans and advances given by the bank are increasing from 1989-90 to 2008-09.

RESERVES

The reserves are kept by the bank to meet unforeseen contingencies that might occur in the future. Reserve fund, agriculture and establishment fund, building fund, common good fund and other reserves etc. constitute the reserve fund of the bank. The reserves are kept according to the norms laid down in the co-operative societies Act. The total reserve of the bank from 1989-90 to 2008-09 are shown in the Table 2.1. From the Table we conclude that from 1989-90 to 1994-95 reserves of the bank show a decreasing nature but 1995 onwards the reserves of the bank show an increasing trend, it indirectly indicate that profit was increasing.

WORKING CAPITAL

Working capital is the amount which used to meet the day-to-day operations of the bank. The working capital of the bank from 1989-90 to 2008-09 are shown in the Table 2.1. It shows that the working capital of the bank is increasing year by year.

NET PROFIT OR NET LOSS

Net profit or loss position of the bank will reveal its performance i.e., whether the bank running in profit or loss. The net profit of the bank will be distributed on the following basis:

a) Reserve fund: Not less than 15% of the net profit will be transferred to the Reserve fund.

b) Co-operative Education fund: 5% of the net profit will be transferred to the co-operative education fund.

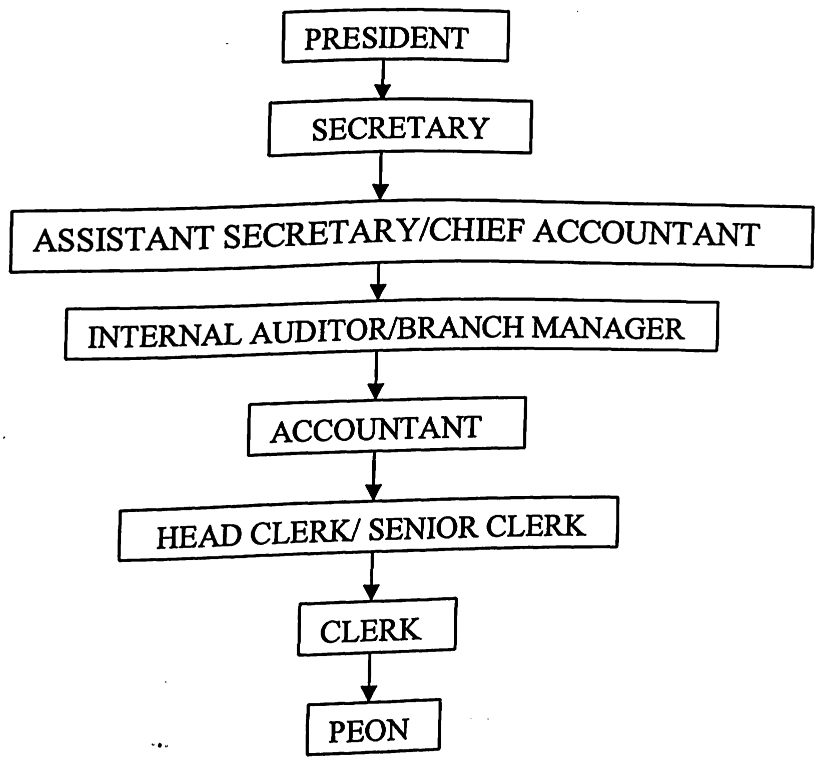
c) Rest of the amount will be distributed to:

- Bad debt fund.
- Dividend fund.
- Building fund.
- Common good fund: not more than 10%.
- Bonus fund.
- Death fund.
- Investment fluctuation fund.
- Any other reserve recommended by RBI.

Table 2.1 show the net profit or loss position of TSCB. From these we can understand that the bank was running in loss in the years 1989-90, 1990-91, 1991-92, 1992-93,1993-94, 1995-96, 1996-97, 1998-99 and 2000-01 but from 2001 onwards the bank earns profit.

MANAGEMENT AND ADMINISTRATION

The General body is the supreme authority and it delegate their administrative functions to the Board of Directors (BOD) .The BOD includes nine members. It should include one female and a SC/ST member. The general body will conduct once in every year. Main agenda of the general body is performance evaluation, audit objection, fixation of dividend, budget presentation and its approval. Decisions are informed to members through notice board of the bank, branches and through news papers. Election will be conducted every five years. President is the head of BOD. The Board is assigned with the functions of day-to-day affairs and sanctioning of the loans. Secretary has the main role of conducting day-to-day business.



Financial Analysis of Thalore Service Co-operative Bank

CHAPTER 3

FINANCIAL PERFORMANCE OF THALORE SERVICE CO-OPERATIVE BANK LTD NO: 435

Financial performance is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items in balance sheet and profit and loss account. There are various methods and techniques used in the financial analysis.

For the purpose of this study ratio analysis is used to find out the financial performance. The data related to financial ratios are taken from receipt and disbursement statement, profit and loss account and balance sheet of the bank. Data for the period of 1989-90 to 2008-09 were collected and comparison made over the years. The following ratios are worked out to know the financial performance of Thalore Service Co-operative Bank.

3.1 EFFICIENCY IN MOBILISATION

Efficiency in mobilization is of great importance; mobilization of fund having a leading role in building financial structure. There are number of ratios to check the efficiency in mobilization and following ratios are taken for the purpose of study viz.,

a) Borrowed funds to working capital ratio.
b) Owned funds to borrowed funds ratio.
c) Deposits to working capital ratio.

3.1 a) Borrowed funds to working capital ratio

Borrowed funds consist of money borrowed from apex institution and deposits of the members. The ratio shows the proportion of borrowed funds to working capital. A higher ratio is indicative of higher share of borrowed funds in the working capital. A smaller ratio indicates the dominance of owned funds in the working capital. The borrowed fund would affect cost and unless the bank ensures profitable deployment of such funds, the bank may have to suffer losses. The ratio was calculated by using the formula:

Borrowed funds to working capital ratio =

$$\left[\frac{\textit{Borrowed Fund}}{\textit{Working Capital}} \right] \text{X } 100$$

Borrowed fund include deposits and borrowings.

Working Capital = Current assets - Current liabilities

Table 3.1(a). Borrowed fund to Working capital ratio of TSCB for 20 years.

(₹ in lakhs)

Years	Deposits	Borrowings	Borrowed Fund (B F)	Working Capital (W C)	B F to W C Ratio
1989-90	92.60	49.19	141.79	144.40	98.19
1990-91	90.50	64.20	154.70	161.81	95.60
1991-92	112.80	53.73	166.53	174.75	95.29
1992-93	148.20	42.28	190.48	197.17	96.60
1993-94	202.40	36.77	239.17	249.19	95.97
1994-95	269.50	39.82	309.32	324.95	95.19
1995-96	344.50	37.36	381.86	399.65	95.54
1996-97	438.20	21.48	459.68	480.12	95.74
1997-98	508.50	36.64	545.14	569.14	95.78
1998-99	679.40	27.65	707.05	736.33	96.02
1999-00	830.60	59.84	890.44	940.32	94.69
2000-01	1015.40	26.52	1041.92	1096.53	95.01
2001-02	1290.10	00.57	1290.67	1339.04	96.38
2002-03	1519.30	0	1519.30	1586.17	95.78
2003-04	1685.10	53.40	1738.50	1810.74	96.01
2004-05	2043.50	07.35	2050.85	2101.75	97.57
2005-06	2449.20	0	2449.20	2544.34	96.26
2006-07	2849.20	0	2849.20	2957.77	96.32
2007-08	3668.20	15.00	3683.20	3822.51	96.35
2008-09	4967.70	0	4967.70	5073.72	97.91

Source: Audited annual report

Table 3.1(a) gives the ratio of Borrowed funds to Working capital ratio of TSCB from 1989-90 to 2008-09. Above table showed a fluctuating trend during the period of 20 years. It implies that borrowed fund constitute a major share of the working capital of the bank. As the share of borrowed fund increase in the working capital, the interest expense of the bank will also increase. So a lesser ratio is always good for the bank. At the same time,lower ratio indicates the inability of the bank to mobilize deposits

3.1 (b) Owned funds to Borrowed funds ratio:

This ratio show whether the bank depends more on owned funds or borrowed funds. Higher ratios indicate the increased share of owned funds in the functioning of the bank. Owned fund includes share capital and reserves. Borrowed fund includes deposits and borrowings. **Owned fund to borrowed fund ratio**

$$= \left[\frac{\textit{Owned Funds}}{\textit{Borrowed Funds}} \right] \times 100$$

Table 3.1(b). Owned funds to Borrowed funds ratio of TSCB for 20 years

(₹ in lakhs)

Year	Share Capital	Reserves	Owned Fund(O F)	Borrowed Fund(B F)	O F to B F ratio
1989-90	7.40	7.78	15.18	141.79	10.70
1990-91	8.50	9.05	17.55	154.70	11.34
1991-92	9.55	9.82	19.37	166.53	11.63
1992-93	11.40	2.72	14.12	190.48	7.41
1993-94	14.70	1.28	15.98	239.17	6.68
1994-95	18.30	4.28	22.58	309.32	7.29
1995-96	22.30	5.94	28.24	381.86	7.39
1996-97	26.20	17.70	43.90	459.68	9.55
1997-98	30.40	21.11	51.51	545.14	9.44
1998-99	38.75	25.56	64.31	707.05	9.09
1999-00	51.95	34.64	86.59	890.44	9.72
2000-01	62.95	37.34	100.29	1041.92	9.62
2001-02	71.60	42.29	113.89	1290.67	8.82
2002-03	83.75	50.55	134.30	1519.30	8.83
2003-04	89.50	61.90	151.40	1738.50	8.70
2004-05	89.50	84.47	173.97	2050.85	8.48
2005-06	89.60	86.98	176.58	2449.20	7.20
2006-07	90.40	103.91	194.31	2849.20	6.81
2007-08	93.70	170.71	264.41	3683.20	7.17
2008-09	104.06	183.93	287.99	4967.70	5.79

Source: Audited Annual Reports.

Table 3.1(b) gives the ratio of Owned funds to Borrowed funds of TSCB from

1989-90 to 2008-09. As per the table the ratios show fluctuating trend. The decline in the ratio was because of the lower rate of growth of owned funds. This may not be concern for the banking institutions which was efficient in deployment of funds.

3.1(c) Deposits to working capital ratio

A higher deposits to working capital ratio is an indication of higher share of deposits in the working capital. It also implies the efficiency of the bank in deposit mobilization and at the same time imposes certain additional responsibility on the bank to ensure deployment of fund in profitable channels. The ratio is calculated by using the formula.

Deposits to working capital ratio:

$$\left[\frac{\textit{Deposits}}{\textit{Working Capital}} \right] \text{X } 100$$

Table 3.1(c). Deposit to Working capital ratio of TSCB for 20 years.

(₹in lakhs)

Years	Deposits	Working Capital (W C)	Deposit to W C Ratio
1989-90	92.60	144.40	64.12
1990-91	90.50	161.81	55.92
1991-92	112.80	174.75	64.54
1992-93	148.20	197.17	75.16
1993-94	202.40	249.19	81.22
1994-95	269.50	324.95	82.93
1995-96	344.50	399.65	86.20
1996-97	438.20	480.12	91.26
1997-98	508.50	569.14	89.34
1998-99	679.40	736.33	92.26
1999-00	830.60	940.32	88.33
2000-01	1015.40	1096.53	92.60
2001-02	1290.10	1339.04	96.34
2002-03	1519.30	1586.17	95.78
2003-04	1685.10	1810.74	93.06
2004-05	2043.50	2101.75	97.22
2005-06	2449.20	2544.34	96.26
2006-07	2849.20	2957.77	96.32
2007-08	3668.20	3822.51	95.96
2008-09	4967.70	5073.72	97.91

Source: Audited Annual Reports.

Table 3.1(c) gives the ratio of Deposits to Working capital of TSCB for a period of 20 years from1989-90 to 2008-09. From the table we understood that the ratio showed an increasing trend during the study period. A higher deposit to working capital ratio indicates higher share of deposits in working capital. It also implies the efficiency of the bank in deposit mobilization and at the same time imposes certain additional responsibility on the bank to ensure deployment of funds in profitable channels.

3.2 EFFICIENCY IN DEPLOYMENT OF FUND

Funds deployment is an important function as far as co-operative are concerned. Efficiency in deployment is equally important as efficiency in mobilization. The long-term existence of co-operatives depends up on the effective deployment of funds mobilized. The following ratios are considered for analyzing the efficiency in deployment.

a) Credit to deposit ratio.
b) Credit to working capital ratio.
c) Credit to owned funds ratio.

3.2 (a) Credit to deposits ratio.

Since the deposits are mobilized for the purpose of giving credit, the relationship with those who is much relevant. The credit-deposit ratio shows the efficiency of the bank in successfully rid of the high cost sources. A higher ratio implies higher efficiency in the deployment of funds by the bank. The ratio is calculated by using the formula.

Credit to deposits ratio

$$= \left[\frac{Credit}{Deposits} \right] X\ 100$$

Credits are the loans and advances given by the bank. Deposits are the deposits mobilized by the bank.

Table 3.2(a). Credit to Deposits ratio of TSCB for 20 years.

(₹in lakhs)

Years	Deposits	Credit	Credit to Deposit Ratio
1989-90	92.60	108.10	116.73
1990-91	90.50	114.30	126.29
1991-92	112.80	118.78	105.30
1992-93	148.20	130.40	87.98
1993-94	202.40	168.56	83.28
1994-95	269.50	232.29	86.19
1995-96	344.50	295.97	85.91
1996-97	438.20	348.25	79.47
1997-98	508.50	410.86	80.79
1998-99	679.40	528.76	77.82
1999-00	830.60	742.94	89.44
2000-01	1015.40	898.35	88.47
2001-02	1290.10	1056.89	81.92
2002-03	1519.30	1274.95	83.91
2003-04	1685.10	1657.92	98.38
2004-05	2043.50	2052.72	100.45
2005-06	2449.20	2278.18	93.01
2006-07	2849.20	2626.30	92.17
2007-08	3668.20	3212.00	87.56
2008-09	4967.70	4438.62	89.34

Source: Audited annual reports

Table 3.2(a) gives the ratio of Credit to deposits of TSCB for a period of 20 years from1989-90 to 2008-09. The ratio shows Decreasing trend. The highest ratio was 126.2 percent in the year 1990-91 and lowest ratio was 77.8 percent in the year 1998-99. Decrease in the Credit deposit ratio is not a good sign. So the bank should take care to fix the target for deployment in proportion to the deposits mobilization targets.

3.2 (b) Credit to Working capital ratio.

Credit to working capital ratio is one of the indicators of the efficiency in managing the funds of the bank. The ratio shows the relationship between the deployment in loans and advances with the available funds. Therefore higher the ratio higher will be the efficiency in managing the funds. The formula applied for the calculation of ratio is

Credit to working capital ratio

$$= \left[\frac{\textit{Credit}}{\textit{Working Capital}} \right] \text{X 100}$$

Table 3.2(b). Credit to Working capital ratio of TSCB for 20 years.

(₹ in lakhs)

Years	Credit	Working Capital (W C)	Credit to W C ratio(%)
1989-90	108.10	144.40	74.86
1990-91	114.30	161.81	70.63
1991-92	118.78	174.75	67.97
1992-93	130.40	197.17	66.13
1993-94	168.56	249.19	67.64
1994-95	232.29	324.95	71.48
1995-96	295.97	399.65	74.05
1996-97	348.25	480.12	72.53
1997-98	410.86	569.14	72.18
1998-99	528.76	736.33	71.81
1999-00	742.94	940.32	79.00
2000-01	898.35	1096.53	81.92
2001-02	1056.89	1339.04	78.92
2002-03	1274.95	1586.17	80.37
2003-04	1657.92	1810.74	91.56
2004-05	2052.72	2101.75	97.66
2005-06	2278.18	2544.34	89.53
2006-07	2626.30	2957.77	88.79
2007-08	3212.00	3822.51	84.02
2008-09	4438.62	5073.72	87.48

Source: Audited annual reports.

Table 3.2(b) gives the ratio of Credit to Working capital of TSCB for a period of 20 years from1989-90 to 2008-09. Till 2004-05 the ratio shows an increasing trend and in the year 2004-05 it was highest i.e. 97.66 percent. In 2005-06 to 2007-08 the ratio was declined but in 2008-09 it again shows an increasing trend. If deployment of credit is lagging, naturally affect the interest earning capacity of the bank. So, the bank has to increase the amount of loan disbursed to increase the interest income.

3.2 (c) Credit to Owned funds ratio.

The credit to owned funds ratio measures the capacity of the bank to convert owned fund to credit. A higher ratio is a positive indication to the efficiency in deployment of funds. The ratio was calculated by using the formula.

Credit to owned fund ratio

$$= \left[\frac{\textit{Credit}}{\textit{Owned Funds}} \right] \text{X } 100$$

Table 3.2(c). Credit to Owned funds ratio of TSCB for 20 years.

(₹in lakhs)

Years	Share Capital	Reserves	Owned Funds (O F)	Credit	Credit to O F ratio(%)
1989-90	7.40	7.78	15.18	108.10	712.12
1990-91	8.50	9.05	17.55	114.30	651.28
1991-92	9.55	9.82	19.37	118.78	613.21
1992-93	11.40	2.72	14.12	130.40	923.51
1993-94	14.70	1.28	15.98	168.56	1054.81
1994-95	18.30	4.28	22.58	232.29	1028.74
1995-96	22.30	5.94	28.24	295.97	1048.05
1996-97	26.20	17.70	43.90	348.25	793.28
1997-98	30.40	21.11	51.51	410.86	797.63
1998-99	38.75	25.56	64.31	528.76	822.20
1999-00	51.95	34.64	86.59	742.94	857.99
2000-01	62.95	37.34	100.29	898.35	895.75
2001-02	71.60	42.29	113.89	1056.89	927.99
2002-03	83.75	50.55	134.30	1274.95	949.32
2003-04	89.50	61.90	151.40	1657.92	1095.05
2004-05	89.50	84.47	173.97	2052.72	1179.92
2005-06	89.60	86.98	176.58	2278.18	1290.16
2006-07	90.40	103.91	194.31	2626.3	1351.60
2007-08	93.70	170.71	264.41	3212.00	1214.78
2008-09	104.06	183.93	287.99	4438.62	1541.24

Source: Audited annual reports.

Table 3.2(c) indicates that the Credit to Owned funds ratio is fluctuating during the study period. As the ratio is very high, it can be inferred that the efficiency in the credit creation capacity of the bank with respect to owned funds is also high. During the study period the highest ratio is 1541.24 in the year 2008-09. Thus the bank should take necessary steps to improve the fund deployment.

3.3 EFFICIENCY IN OPERATION.

Even though the co-operatives are service oriented a reasonable profit is also needed for their existence and growth. Hence an analysis of the profitability of bank is equally important to mobilization and deployment. To find out operational efficiency the following ratios are used.

a) Net profit to interest received ratio.
b) Net profit to working capital.
c) Interest paid to interest received ratio.
d) Interest paid to deposit ratio.
e) Interest received to loans and advances ratio.
f) Spread ratio.
g) Burden ratio.
h) Profitability ratio.

3.3 (a) Net profit to Interest received ratio

Net profit and interest received by the bank are always directly related. Once the interest received increases the profitability also increases and vice versa. The interest received on loans and advances and investment is one of the major sources of income of the bank. The ratio was calculated by using the formula.

Net profit to Interest received ratio:

$$= \left[\frac{\textit{Net profit/loss}}{\textit{Interest Received}} \right] \text{X } 100$$

Interest paid is the amount paid as interest on deposits. Borrowed fund include deposits and borrowings.

Table 3.3(a).Net profit to Interest received ratio of TSCB for 20 years.

(₹in lakhs)

Years	Net Profit	Interest received	Net profit to Interest received ratio
1989-90	-4.30	11.69	-36.78
1990-91	-1.72	16.70	-10.29
1991-92	-1.90	16.80	-11.30
1992-93	-4.21	21.66	-19.43
1993-94	-1.57	25.80	-6.08
1994-95	5.92	33.78	17.52
1995-96	-0.97	42.55	-2.27
1996-97	-6.55	49.95	-13.11
1997-98	3.57	44.50	8.02
1998-99	-2.05	69.30	-2.95
1999-00	41.92	123.17	34.03
2000-01	-23.11	112.63	-20.51
2001-02	14.80	139.52	10.60
2002-03	64.84	156.41	41.45
2003-04	93.10	192.79	48.29
2004-05	110.50	238.84	46.26
2005-06	24.68	247.71	9.96
2006-07	10.58	299.70	3.53
2007-08	95.52	346.23	27.58
2008-09	60.77	456.71	13.30

Source: Audited annual reports

Table 3.3(a) shows the Net profit to Interest received ratio of TSCB for a period of 20 years from 1989-90 to 2008-09.From the table, the ratio shows fluctuating trend. In certain years the ratio was negative because of loss incurred by the bank. The highest ratio was 48.29 percent in the year 2003-04 and the lowest ratio was -36.78 percent in the year 1989-90.

3.3 (b) Net profit to Working capital ratio

The ratio net profit to working capital represents banks efficiency in making higher returns out of the working capital. The net profit should be adequate enough to provide optimum returns on the working capital. Higher the Net profit to working capital ratio indicates the efficiency of working capital to make higher profit during the period. The ratio was calculated by using the formula

Net profit to working capital ratio

$$= \left[\frac{\textit{Net Profit}}{\textit{Working Capital}} \right] \text{X } 100$$

Table 3.3(b). Net profit to Working capital ratio of TSCB for 20 years.

(₹in lakhs)

Years	Net Profit	Working capital (W C)	Net profit to W C ratio
1989-90	-4.30	144.40	-2.97
1990-91	-1.72	161.81	-1.06
1991-92	-1.90	174.75	-1.08
1992-93	-4.21	197.17	-2.13
1993-94	-1.57	249.19	-0.63
1994-95	5.92	324.95	1.82
1995-96	-0.97	399.65	-0.24
1996-97	-6.55	480.12	-1.36
1997-98	3.57	569.14	0.62
1998-99	-2.05	736.33	-0.27
1999-00	41.92	940.32	4.45
2000-01	-23.11	1096.53	-2.10
2001-02	14.80	1339.04	1.10
2002-03	64.84	1586.17	4.08
2003-04	93.10	1810.74	5.14
2004-05	110.50	2101.75	5.25
2005-06	24.68	2544.34	0.96
2006-07	10.58	2957.77	0.35
2007-08	95.52	3822.51	2.49
2008-09	60.77	5073.72	1.19

Source: Audited annual reports

Table 3.3(b) exhibit the ratio of Net profit to Working capital of the bank for a period of 20 years from 1989-90 to 2008-09. The ratio wasfluctuating trend. The highest ratio is during the year 2004-05 that was 5.25 percent and the lowest ratio was during the year 1989-90 with -2.97 percent. High ratio is a good sign of healthy performance of the bank.

3.3 (c) Interest paid to Interest received ratio

The bank makes profit mainly on account of the difference in interest paid on deposits and borrowings and that charged on loans and advances. This shows the extent of operational income of the bank. An increased ratio over a number of years indicates decrease in the profitability. The ratio was calculated by using the formula.

Interest paid to interest received ratio

$$= \left[\frac{\textit{Interest Paid}}{\textit{Interest Received}} \right] \times 100$$

Interest paid is the amount paid as interest on deposits. Interest received is the amount received as interest on lending

Table 3.3(c). Interest paid to Interest received ratio of TSCB for 20 years.

(₹ in lakhs)

Years	Interest received	Interest paid	Interest paid to Interest received ratio (%)
1989-90	11.69	12.40	106.07
1990-91	16.70	17.21	103.05
1991-92	16.80	13.94	82.97
1992-93	21.66	19.33	89.24
1993-94	25.80	22.00	85.27
1994-95	33.78	25.64	75.90
1995-96	42.55	37.80	88.83
1996-97	49.95	47.21	94.51
1997-98	44.50	37.12	83.41
1998-99	69.30	64.35	92.85
1999-00	123.17	75.72	61.47
2000-01	112.63	116.24	103.20
2001-02	139.52	114.09	81.77
2002-03	156.41	139.63	89.27
2003-04	192.79	144.24	74.81
2004-05	238.84	165.79	69.41
2005-06	247.71	178.59	72.09
2006-07	299.70	243.77	81.33
2007-08	346.23	283.14	81.77
2008-09	456.71	402.88	88.21

Source: Audited annual reports.

Table 3.3(c) shows the ratio of Interest paid to Interest received by the bank for a period of 20 years from 1989-90 to 2008-09. The ratio shows fluctuating trend. The highest ratio was during the year 1989-90 that is 106.07 percent and lowest ratio is during the year 1999-00 that is 61.47 percent. High ratio leads to decrease in profitability.

3.3(d) Interest paid to Deposit ratio

The term interest paid includes interest paid and payable. One of the main expenditure of the bank is the interest paid on deposits. There is an inverse relationship between interest paid and profitability that is when interest paid increases, profitability decreases and vice versa. But to attract depositors the bank has to pay a reasonable rate of interest on deposits.

Interest paid to Deposits ratio

$$= \left[\frac{\textit{Interest Paid}}{\textit{Deposits}} \right] \quad X\,100$$

Interest paid is the amount paid as interest on deposits. Deposits include all types of deposits received by the bank.

Table 3.3(d).Interest paid to Deposit ratio of TSCB for 20 years.

(₹ in lakhs)

Years	Interest paid	Deposits	Interest paid to Deposit Ratio
1989-90	12.40	92.60	13.39
1990-91	17.21	90.50	19.01
1991-92	13.94	112.80	12.35
1992-93	19.33	148.20	13.04
1993-94	22.00	202.40	10.86
1994-95	25.64	269.50	9.51
1995-96	37.80	344.50	10.97
1996-97	47.21	438.20	10.77
1997-98	37.12	508.5	7.29
1998-99	64.35	679.40	9.47
1999-00	75.72	830.60	9.11
2000-01	116.24	1015.40	11.44
2001-02	114.09	1290.10	8.84
2002-03	139.63	1519.30	9.19
2003-04	144.24	1685.10	8.55
2004-05	165.79	2043.50	8.11
2005-06	178.59	2449.20	7.29
2006-07	243.77	2849.20	8.55
2007-08	283.14	3668.20	7.718
2008-09	402.88	4967.70	8.10

Source: Audited annual reports.

Table 3.3(d) exhibit the ratio of Interest paid to Deposits of the bank for a period of 20 years from1989-90 to 2008-09. The ratio shows decreasing trend. The highest ratio was during the year 1990-91 i.e. 19.01 percent and lowest ratio was during the year2005-06 i.e. 7.29 percent. A high ratio will affect the profitability of the bank adversely. Therefore lower ratio is good for the bank.

3.3 (e) Interest received to Loans and Advances ratio.

The term interests received include interest received and accrued. One of the main incomes of the bank is the interest received on loans and advances. There is a direct relationship between interest received and profitability that is when interest received increases, profitability of the bank increases and vice versa.

Interest received to loans and advances ratio

$$= \left[\frac{\textit{Interest Received}}{\textit{Loans and Advances}} \right] \times 100$$

Interest received is the amount received as interest on lending. Loans and advances include all types of loans granted.

Table 3.3(e). Interest received to Loans and Advances ratio of TSCB for 20 years.

(₹ in lakhs)

Years	Interest received	Loans and advances	Interest received to Loans& Advances ratio (%)
1989-90	11.69	108.10	10.81
1990-91	16.70	114.30	14.61
1991-92	16.80	118.78	14.14
1992-93	21.66	130.40	16.61
1993-94	25.80	168.56	15.30
1994-95	33.78	232.29	14.54
1995-96	42.55	295.97	14.37
1996-97	49.95	348.25	14.34
1997-98	44.50	410.86	10.83
1998-99	69.30	528.76	13.10
1999-00	123.17	742.94	16.57
2000-01	112.63	898.35	12.53
2001-02	139.52	1056.89	13.20
2002-03	156.41	1274.95	12.26
2003-04	192.79	1657.92	11.62
2004-05	238.84	2052.72	11.63
2005-06	247.71	2278.18	10.87
2006-07	299.70	2626.30	11.41
2007-08	346.23	3212.00	10.77
2008-09	456.71	4438.62	10.28

Source: Audited annual reports.

Table 3.3(e) shows the ratio of Interest received to Loans and advances of TSCB fora period of 20 years from1989-90to 2008-09. The ratio showed a decreasing trend. The highest ratio was during the year 1992-93 that is 16.61 percent and lowest ratio was during the year 2008-09 that is 10.28 percent.

3.3 (f) Spread ratio

Spread is the difference between interest received and interest paid and which is used by the bank forits operational expenses. Higher spread ratio indicates higher profit and vice versa. Major source of interest income are interest earned fromloans and advances. Interest paid is the expenses paid by the bank on the deposits and borrowings. It is actually the cost of funds. Interest received is the amount received and receivable as interest on lending. Interest paid is the amount paid and payable as interest on borrowings. Total fund is thetotal of owned fund and borrowed fund.

Spread ratio

$$= \left[\frac{\text{Interest Received} - \text{Interest Paid}}{\text{Working Capital}} \right] \times 100$$

Table 3.3(f). Spread ratio of TSCB for 20 years

(₹ in lakhs)

Years	Interest received	Interest paid	Spread	Working capital (W C)	Spread ratio
1989-90	11.69	12.40	-0.71	144.40	-0.49
1990-91	16.70	17.21	-0.51	161.81	-0.31
1991-92	16.80	13.94	2.86	174.75	1.63
1992-93	21.66	19.33	2.33	197.17	1.18
1993-94	25.80	22.00	3.80	249.19	1.52
1994-95	33.78	25.64	8.14	324.95	2.50
1995-96	42.55	37.80	4.75	399.65	1.18
1996-97	49.95	47.21	2.74	480.12	0.57
1997-98	44.50	37.12	7.38	569.14	1.29
1998-99	69.30	64.35	4.95	736.33	0.67
1999-00	123.17	75.72	47.45	940.32	5.04
2000-01	112.63	116.24	-3.61	1096.53	-0.32
2001-02	139.52	114.09	25.43	1339.04	1.89
2002-03	156.41	139.63	16.78	1586.17	1.05
2003-04	192.79	144.24	48.55	1810.74	2.68
2004-05	238.84	165.79	73.05	2101.75	3.47
2005-06	247.71	178.59	69.12	2544.34	2.71
2006-07	299.70	243.77	55.93	2957.77	1.89
2007-08	346.23	283.14	63.09	3822.51	1.65
2008-09	456.71	402.88	53.83	5073.72	1.06

Source: Audited annual reports

Table 3.3(f) exhibits the Spread ratio of TSCB for a period of 20 years from 1989-90 to2008-09. The declining trend in the credit deposit ratio is the main reason for low spread ratio. The low spread ratio is due to low level of net interest income obtained by the bank. The decrease in the spread ratio is unfavorable as far as profitability is concerned. So, the bank should increase its net interest income thereby boosting the spread level.

3.3(g).Burden ratio.

Burden ratio is the proportion of non-burden to working capital of the bank. Although the banks constantly try to increase their non interest income and reduce its non interest expenses, the latter usually exceeds the former such that the difference is labeled as banks burden. Reducing burden will improve the profitability of the bank. Non interest expenses include manpower expenses, administrative expenses, provisions and other expenses. Non interest income includes commission and miscellaneous income.

Burden ratio

$$= \left[\frac{\textit{Non InterestExpenses} - \textit{Non InterestIncome}}{\textit{Wokking Capital}} \right] \text{X } 100$$

Table 3.3(g). Burden ratio of TSCB for 20 years.

(₹ in lakhs)

Years	Non-interest expense	Non-interest income	Burden	Working Capital (W C)	Burden Ratio
1989-90	4.95	1.36	3.59	144.40	2.48
1990-91	5.68	4.47	1.21	161.81	0.74
1991-92	6.20	1.44	4.76	174.75	2.72
1992-93	9.48	2.94	6.54	197.17	3.31
1993-94	10.05	4.68	5.37	249.19	2.15
1994-95	10.38	8.16	2.22	324.95	0.68
1995-96	14.31	8.59	5.72	399.65	1.43
1996-97	14.58	5.29	9.29	480.12	1.93
1997-98	12.02	8.21	3.81	569.14	0.66
1998-99	17.21	10.21	7.00	736.33	0.95
1999-00	18.40	12.87	5.53	940.32	0.58
2000-01	29.96	10.46	19.50	1096.53	1.77
2001-02	29.60	18.97	10.63	1339.04	0.79
2002-03	29.95	78.01	-48.06	1586.17	-3.02
2003-04	36.95	81.50	-44.55	1810.74	-2.46
2004-05	29.50	66.95	-37.45	2101.75	-1.78
2005-06	53.72	9.28	44.44	2544.34	1.74
2006-07	56.64	11.29	45.35	2957.77	1.53
2007-08	63.38	95.81	-32.43	3822.51	-0.84
2008-09	48.98	55.92	-6.94	5073.72	-0.13

Source: Audited annual reports.

Table 3.3(g) exhibits the Burden ratio of TSCB for a period of 20 year from 1989-90 to 2008-09.From the table it is understood that the ratio showed a decreasing trend during the study period. A lower ratio is always favorable for the bank. Maintaining a lower burden by the bank is good for increasing the efficiency in its operations.

3.3(h).Profitability ratio.

Profitability ratio expressed in absolute terms indicates whether the banks operations are satisfactory or not. It is the final figures of analysis. It is necessary to relate profit and working funds for analyzing operational efficiency and there by profitability of the bank.

Profitability ratio = ***(Spread Ratio - Burden Ratio)***

Table 3.3(h). Profitability ratio of TSCB for 20 years.

(₹ in lakhs)

Years	Spread ratio	Burden Ratio	Profitability
1989-90	-0.49	2.48	-2.97
1990-91	-0.31	0.74	-1.06
1991-92	1.63	2.72	-1.08
1992-93	1.18	3.31	-2.13
1993-94	1.52	2.15	-0.63
1994-95	2.50	0.68	1.82
1995-96	1.18	1.43	-0.24
1996-97	0.57	1.93	-1.36
1997-98	1.29	0.66	0.62
1998-99	0.67	0.95	-0.27
1999-00	5.04	0.58	4.45
2000-01	-0.32	1.77	-2.10
2001-02	1.89	0.79	1.10
2002-03	1.05	-3.02	4.08
2003-04	2.68	-2.46	5.14
2004-05	3.47	-1.78	5.25
2005-06	2.71	1.74	0.97
2006-07	1.89	1.53	0.35
2007-08	1.65	-0.84	2.49
2008-09	1.06	-0.13	1.19

Source: Audited annual reports.

Table 3.3(h) shows the Profitability ratio of TSCB from 1989-90 to 2008-09. The profitability ratio was found negative in nine years i.e. from 1989-90, 1990-91, 1991-92, 1992-93, 1993-94, 1995-96, 1996-97, 1998-99 and 2000-01. This is because in those years the bank suffered loss. The ratio shows fluctuating trend. The higher spread ratio results in high profitability ratio.

Conclusion

The analysis of the financial performance of Thalore Service Cooperative Bank reveals that the efficiency shown by the Bank in deposit mobilization, deployment of funds and in operations was appreciable. The study revealed that all most all the ratios were favorable to the bank. Not only the membership and owned fund but also the deposits of the bank were increased during the study period. It implies the bank's efficiency in mobilizing the fund. And the borrowing of the bank decreased year by year it means that lesser use of borrowed fund by the bank. The bank was efficient in deployment of fund also. The profitability of the bank was fluctuating during the study period because of fluctuation inspreadratio and decrease in burden ratio.

Summary of Findings & Conclusion

CHAPTER 4
SUMMARY OF FINDINGS AND CONCLUSION

The study entitled "Financial performance of Thalore Service Co-operative Bank Ltd No.435" was taken up with the objective to examine the financial performance of Thalore Service Co-operative Bank for the period of 20 years from1989-90 to 2008-09. For the purpose of analysis, secondary data collected. In this study, the financial performance of the bank was examined in three chapters. The first chapter gives the design discussing the relevance and importance of analyzing the financial performance of the Primary Agricultural Credit Societies. The second chapter gives an introduction about the institution and in third chapter analyses the financial performance of the bank.

The study on the financial performance of TSCB was undertaken with the objective of analyzing its financial performance. For the purpose of analysis, the secondary data were collected. The performance analysis has been done with the help of different ratios showing efficiency in mobilization, efficiency in deployment and efficiency in operations.

Findings of the Study

The summary of findings drawn out of the study is as follows:-

1. The Share capital, Deposits, Credit, Reserves and Working capital of TSCB showed tremendous increase during the whole period of study.
2. The borrowings of the bank show a declining trend during the study period.
3. Till 2003-04 the bank had incurred net loss. From 2004-05 onwards the bank began to make profit.

Efficiency in Mobilization

From the study, it is clear that,

1. Borrowed funds to working capital ratio show fluctuating trend during the study period.

2. Owned funds to borrowed funds ratio show fluctuating trend during the study period.

3. Deposits to working capital ratio of the bank show increasing trend. It indicates that the share of deposits in working capital of the bank is increasing. It implies that the banks efficiency in mobilization of deposits.

Therefore, through out the study period we can see that the bank has efficiently managed to mobilize fund.

Efficiency in Deployment

1. Credit to Deposit ratio showed increasing trend during the study period. Increase in loans and advances leads to increase in credit deposit ratio.
2. Credit to working capital ratio shows increasing trend over the 20 years
3. Credit to own funds ratio showed fluctuating trend. This ratio indicates the bank's capacity to convert owned fund in to credit

The study reveals that TSCB properly deployed the fund that they mobilized.

Efficiency in operation

1. Net profit to Interest received ratio fluctuating during the study period.
2. Net profit to Working capital ratio shows fluctuating trend. The ratio indicates the bank's efficiency in making higher returns out of working capital.
3. Interest paid to interest received ratio shows fluctuating trend over the 20 years.
4. Interest paid to Deposits ratio shows decreasing trend during the study period. It implies that the interest paid by the bank on deposits was declining. Decrease in interest paid to deposit ratio is good for bank.
5. Interest received to Loans and Advances ratio decreased over the 20 years.
6. Spread ratio of the bank shows an excellent mark of banks efficiency; the banks spread ratio is decreasing.
7. Burden ratio shows decreasing trend over the study period. The ratio decreased because of decrease in non-interest income.
8. Profitability ratio shows fluctuating trend. The ratio shows negative values in nine years.This is because of high burden ratio and low spread ratio.

The profitability of the bank was increased during the study period. So it is clear that TSCB was efficient in its operation.

Conclusion

From the analysis it can be concluded that the efficiency of the bank in mobilizing the resources was effective. From this study it is clear that the membership position of the bank was increasing year by year. The study revealed that the share capital, deposits, working capital and reserves of the bank was increasing trend. It shows the efficiency of the bank in mobilizing fund. It can be found that the borrowings of the bank was decreasing trend during the reference period. It implies that the dependence of the bank on apex institution were very low. It is clear from the study that the bank was efficient in deployment of the fundas credit disbursement of the bank has increasing trend. It reveals that the bank was efficient in its operations also. The spread ratio is showing decreasing result due to low level of net interest income obtained by the bank which affects the profitability of the bank and the burden ratio shows deceasing during the study period.. The profitability ratio of the bank was found negative nine years because in those years the bank suffered loss.

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A STUDY ON FINANCIAL PERFORMANCE OF THALORE SERVICE CO-OPERATIVE BANK LTD NO. 435

By

ASWATHY VASUKUTTAN

(2007-05-118)

ABSTRACT OF PROJECT REPORT

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requirement for the degree of

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Faculty of Agriculture

COLLEGE OF CO-OPERATION, BANKING & MANAGEMENT

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ABSTRACT

The study entitled financial performance of Thalore Service Co-operative Bank was conducted with a view to evaluate the financial performance of TSCB.

The analysis is based on the secondary data collected from the audited annual reports for the period 1989-90 to 2008-09. The details such as share capital, borrowings, deposits, loans and advances, working capital and net profit were collected from various reports of the bank. The collected data were analyzed by using selected financial ratios. The ratios that measure the efficiency in mobilization, efficiency in deployment and efficiency in operation were used for the purpose of the study.

The Financial performance of the bank revealed that the bank's performance was satisfactory during the study period and it has a strong financial base. Mobilization of fund by the bank was satisfactory. The bank is efficient in deployment of fund also.

Appendix

APPENDIX

Fig 1.Membership position of TSCB for 20 years.

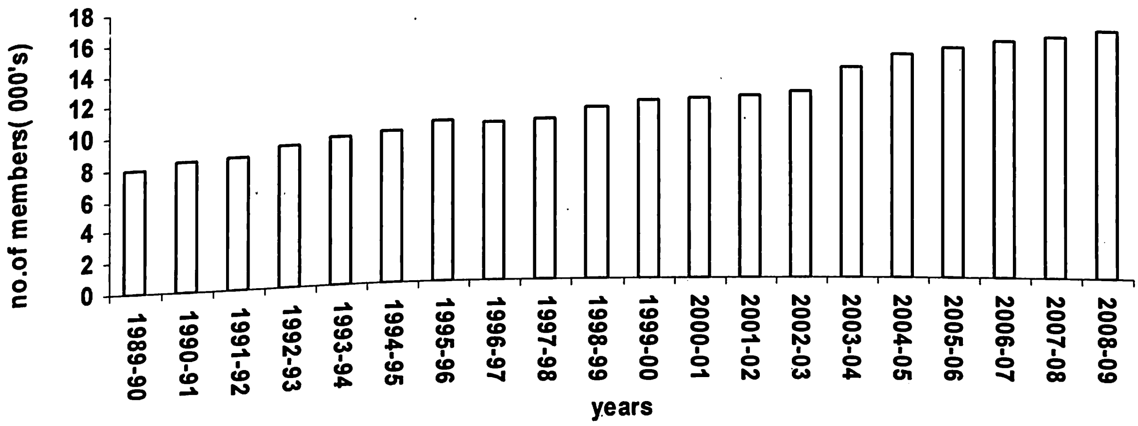

Fig 2. Share capital of TSCB for 20 years.

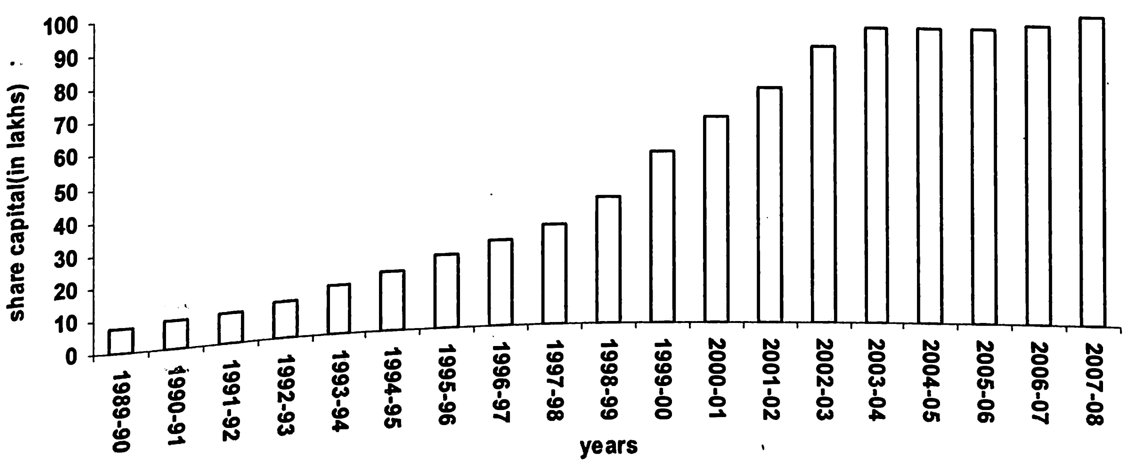

Fig 3. Deposit of TSCB for 20 years.

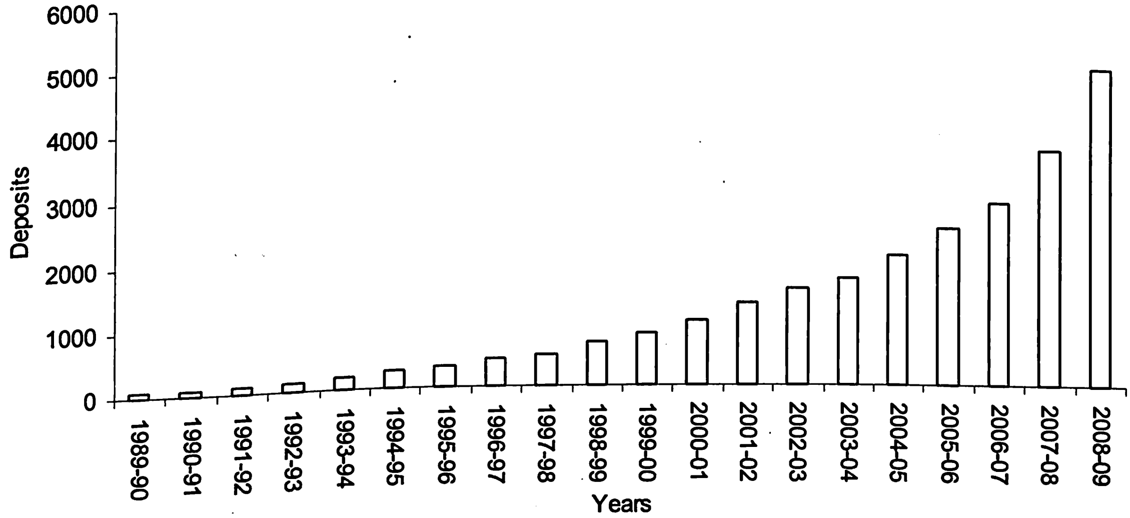

Fig 4.Loans and Advances of TSCB for 20 years

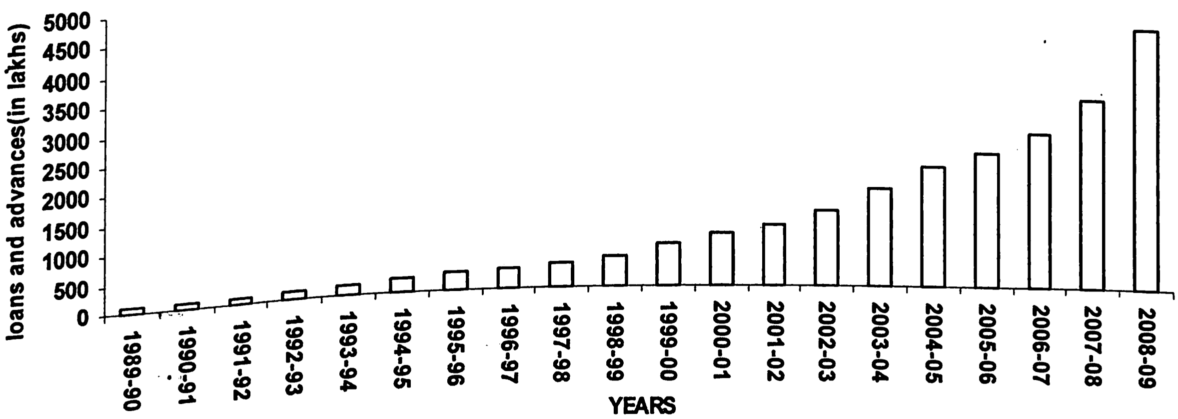

Fig 5. Borrowings of TSCB for 20 years.

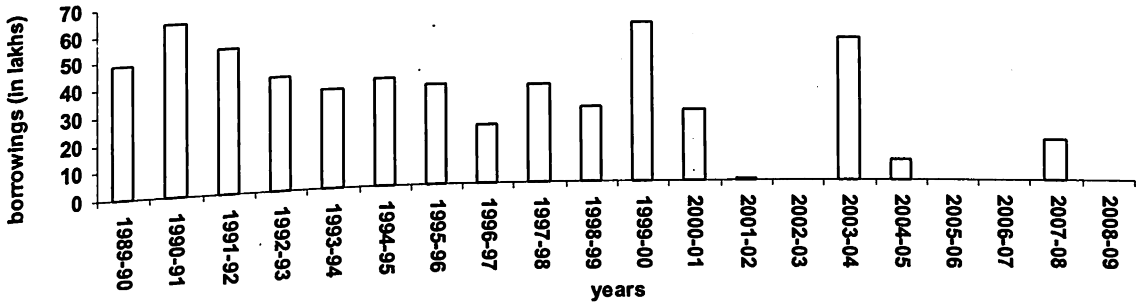

Fig.6. Reserves of TSCB for 20 years.

Fig 7. Working Capital of TSCB for 20 years.

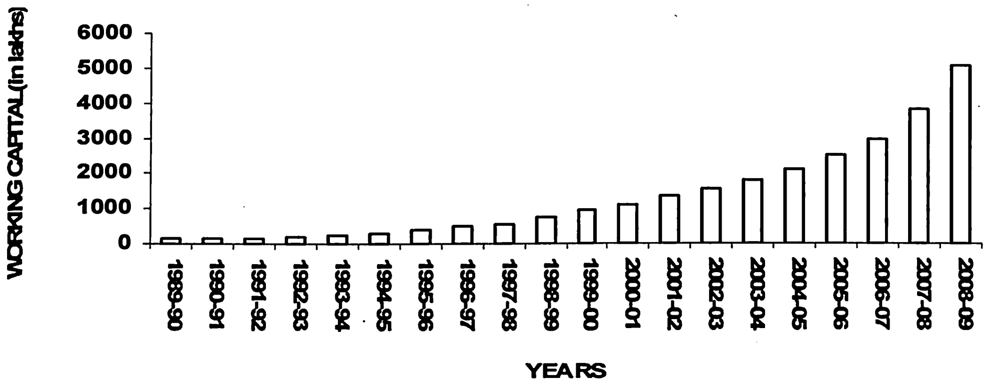

Fig 8. Net profit/ loss of TSCB for 20 years.

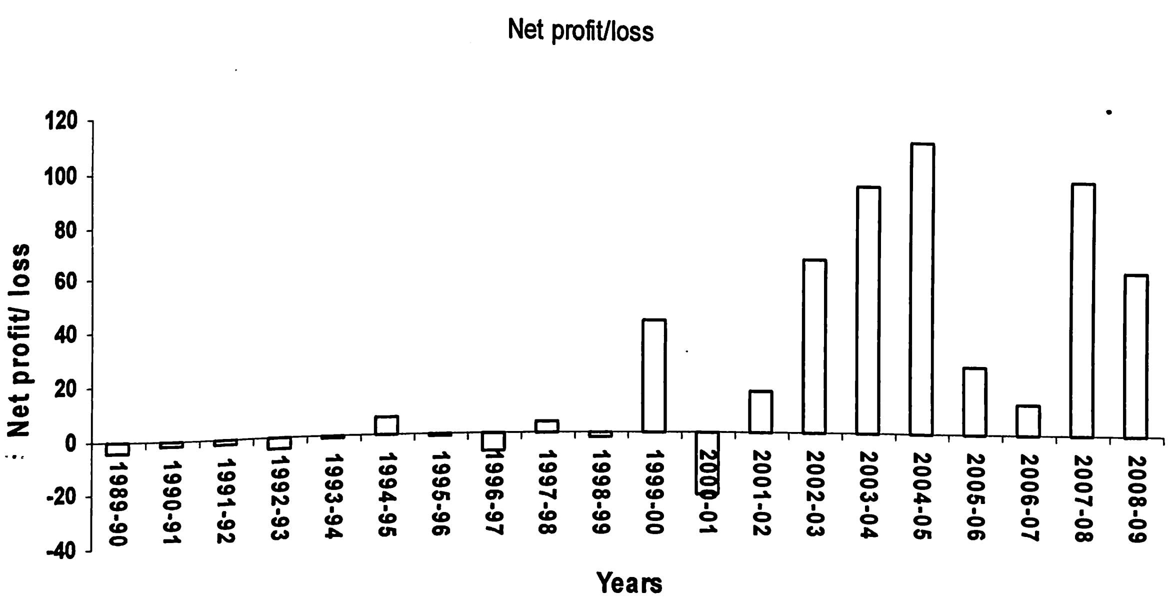

Fig 9. Borrowed fund to Working capital ratio of TSCB for 20 years.

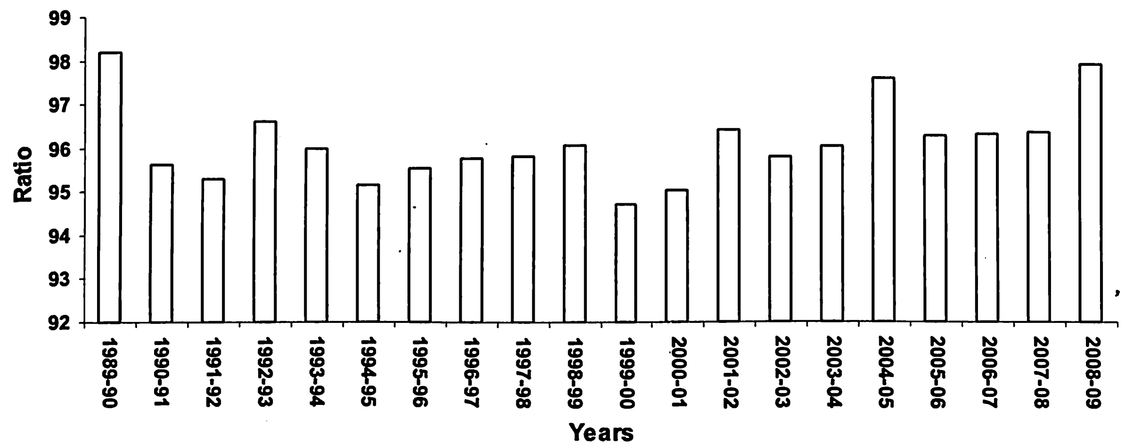

Fig 10. Owned fund to Borrowed fund ratio of TSCB for 20 years.

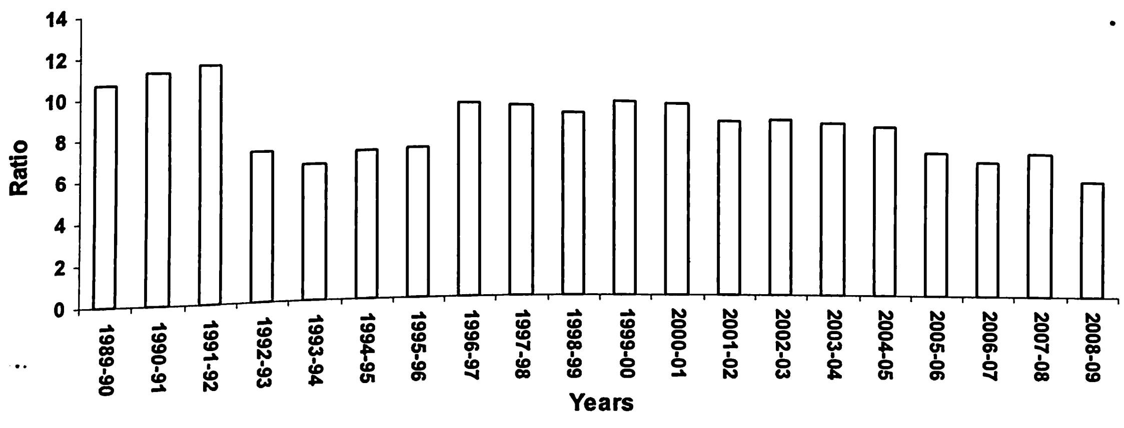

Fig 11. Deposit to Working capital ratio of TSCB for 20years.

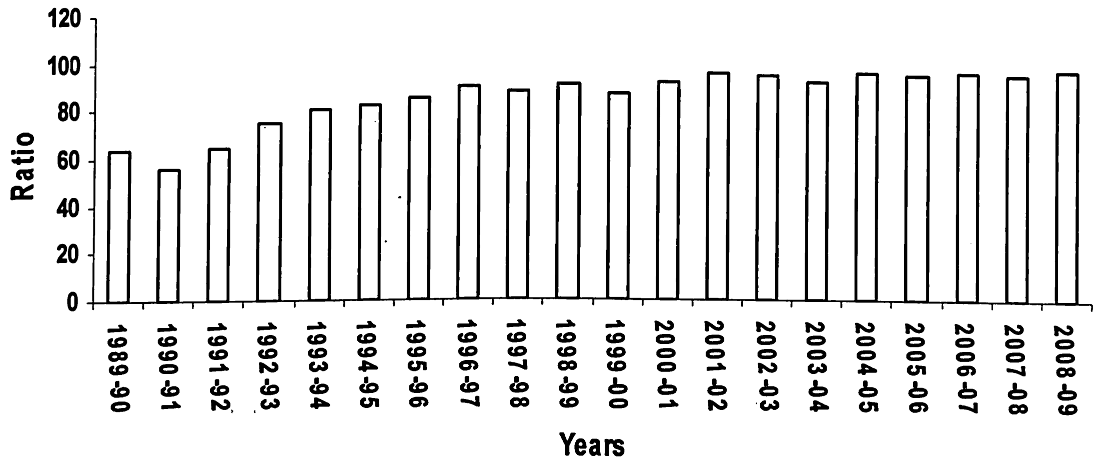

Fig 12. Credit to Deposit ratio of TSCB for 20 years

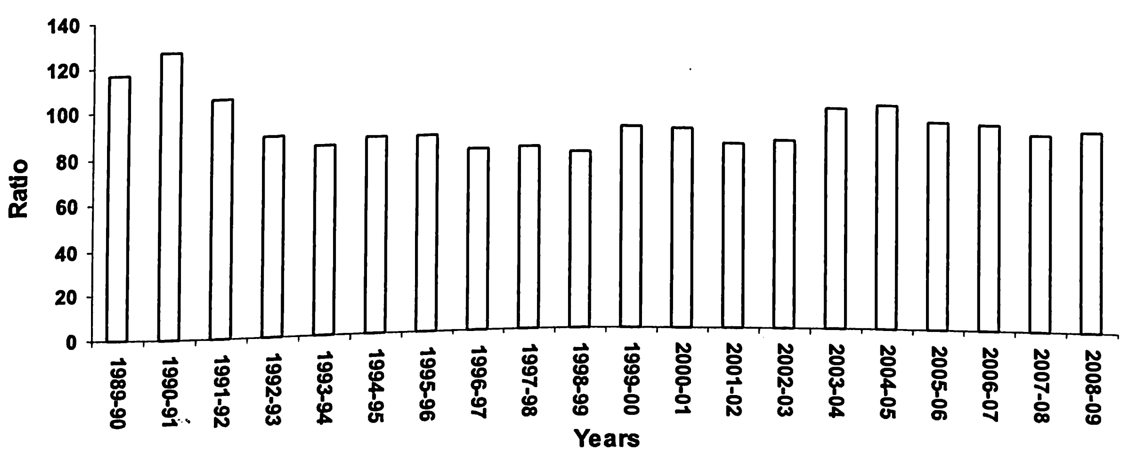

Fig 13. Credit to Working capital ratio of TSCB for 20 years

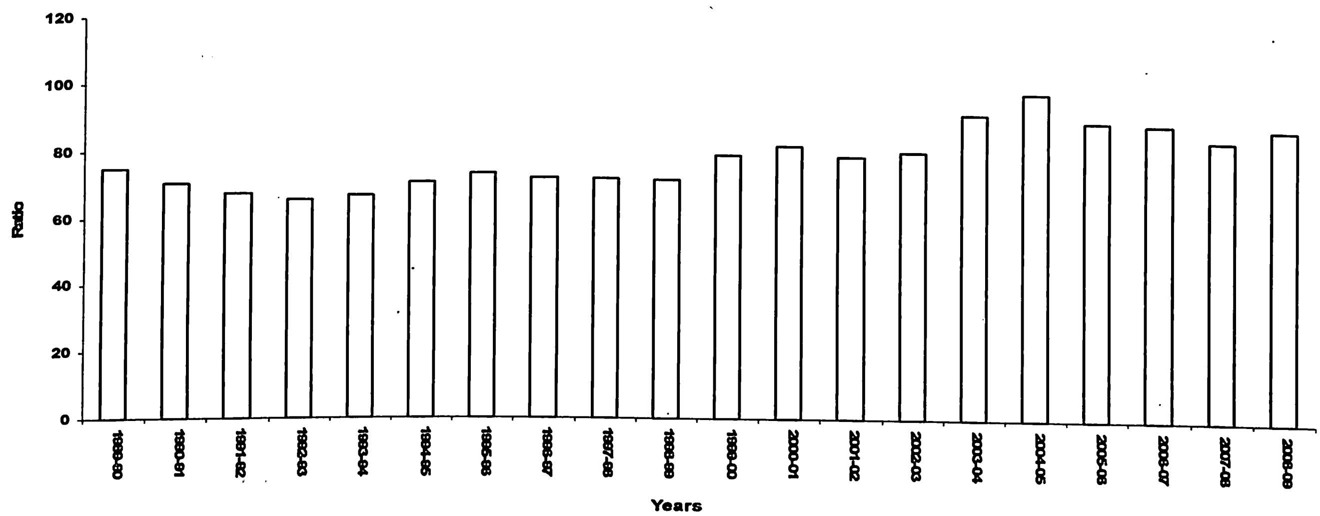

Fig 14. Credit to Owned fund ratio of TSCB for 20 years.

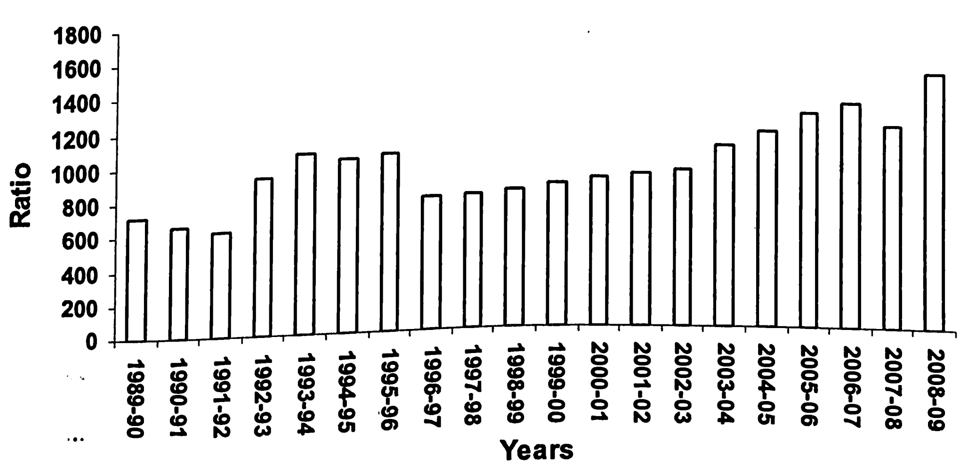

Fig 15. Net profit to Interest received ratio of TSCB for 20 years.

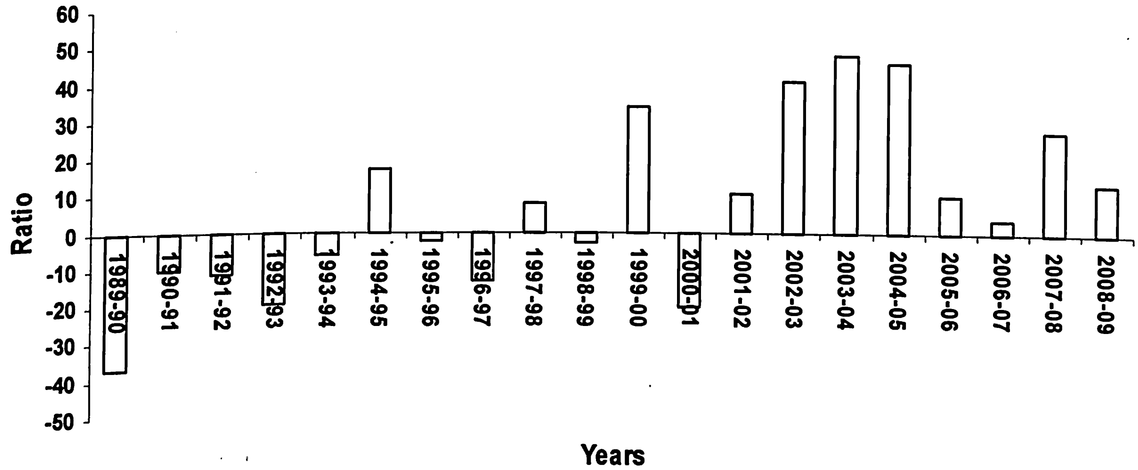

Fig 16. Net profit to Working capital ratio of TSCB for 20 years.

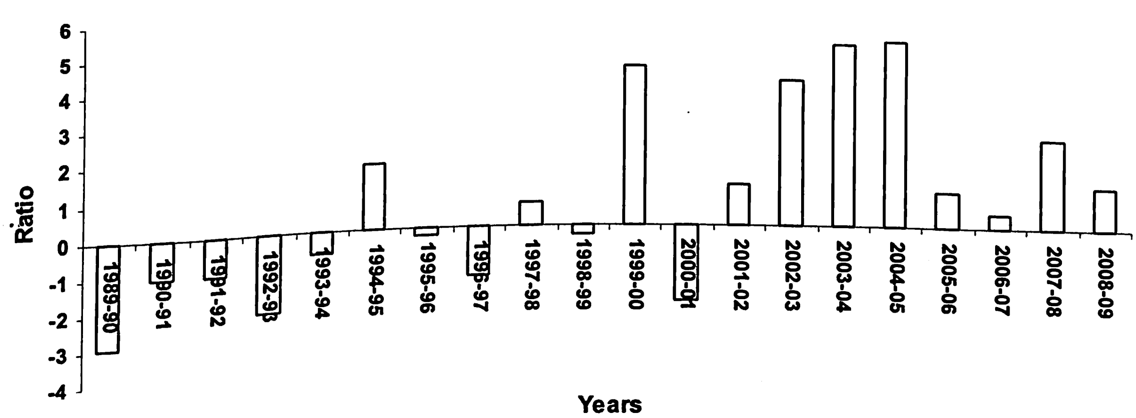

Fig 17. Interest paid to Interest received ratio of TSCB for 20 years.

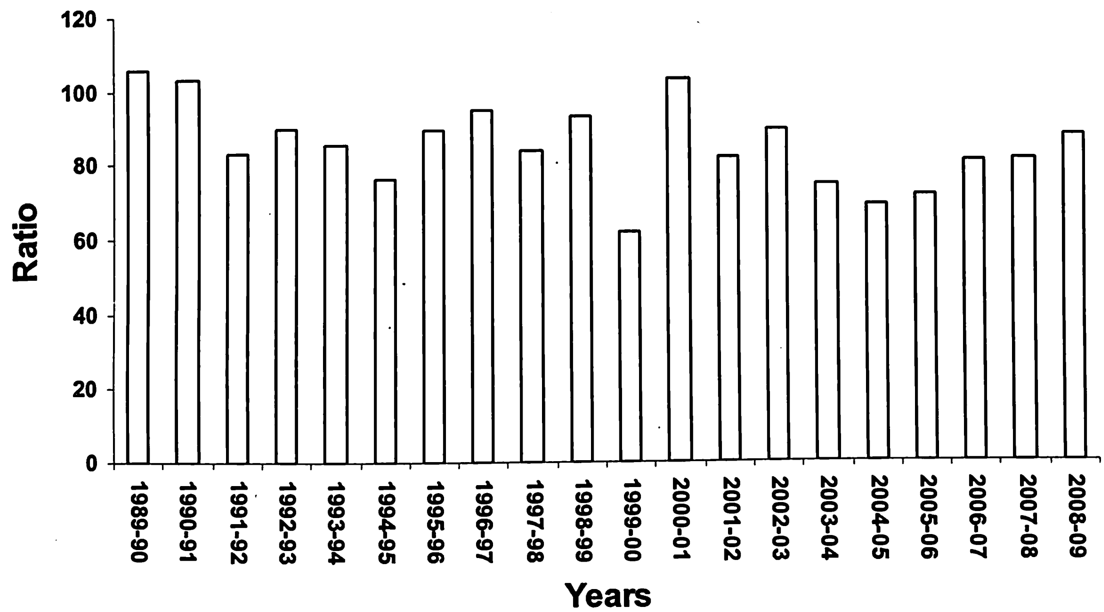

Fig 18. Interest paid to Deposit ratio of TSCB for 20 years.

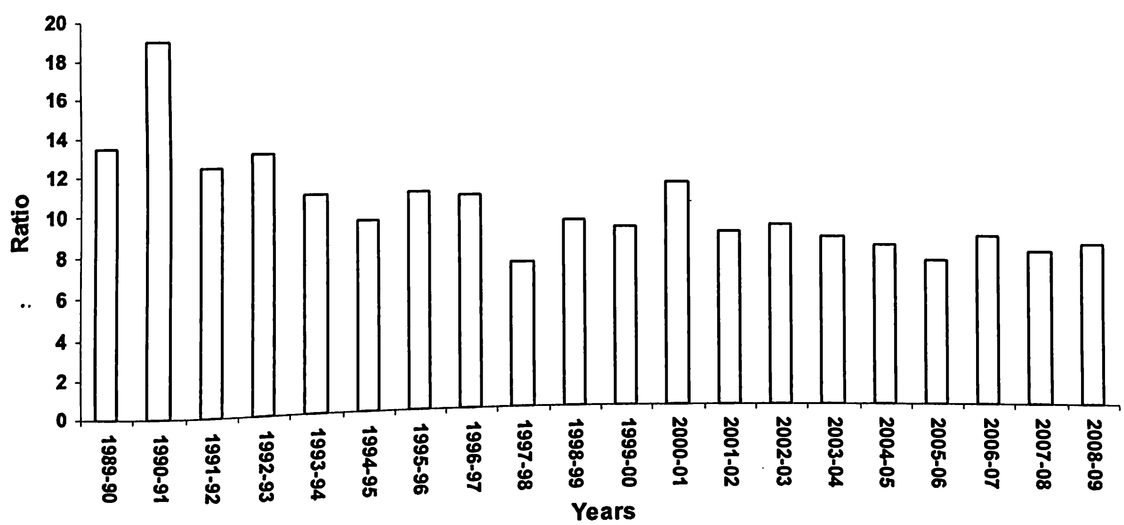

Fig 19. Interest received to Loans and advances ratio of TSCB for 20 years.

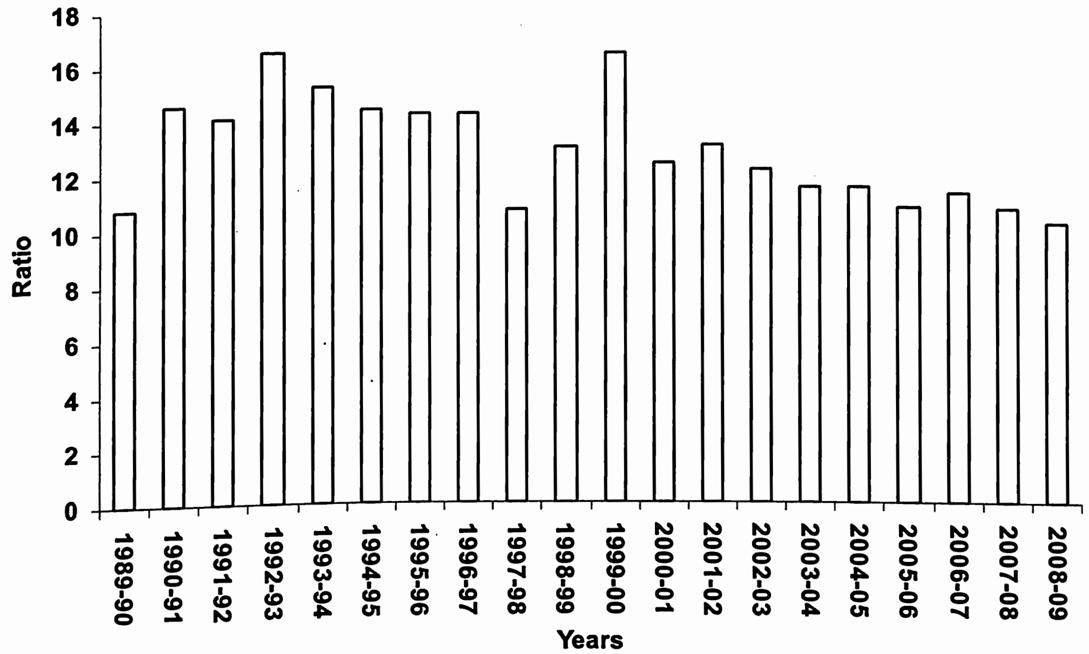

Fig 20. Spread ratio of TSCB for 20 years.

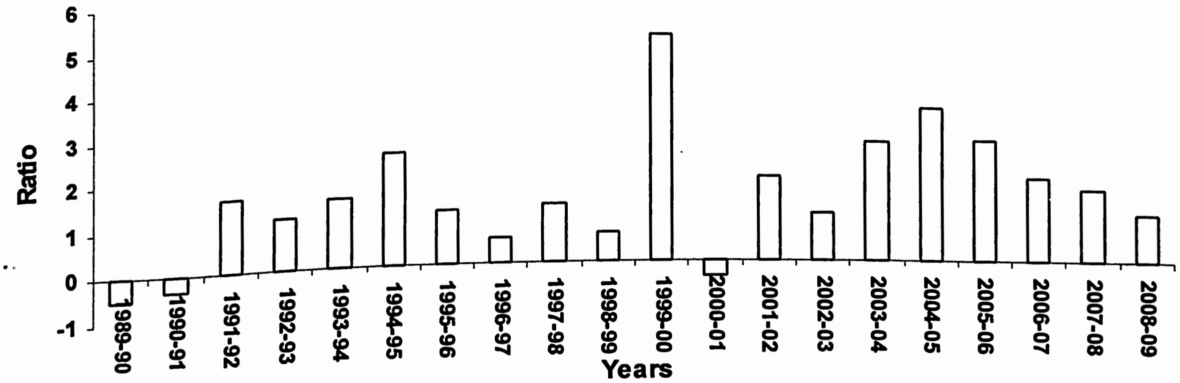

Fig 21. Burden ratio of TSCB for 20 years.

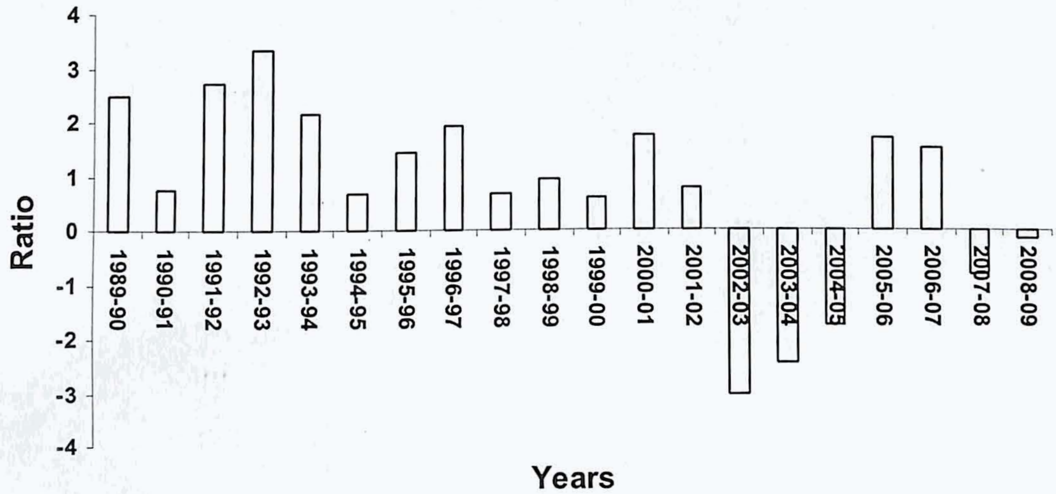

Fig 22. Profitability ratio of TSCB for 20 years