

A STUDY ON PROFITABILITY AND A LIQUIDITY POSITION OF DISTRICT COOPERTIVE BANK LTD. KASARGOD

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ABSTRACT

A bank is a financial intermediaries that accepts deposits and lending money to the public. India is an agricultural country and it creates trailblazer of World's stupendous cooperative movement in the world. This paper explores the Financial Performance, Liquidity and Profitability ratio analysis, importance of District Co - operative banks in Kasaragod. The present study is based on secondary data. The main objective of the study is to evaluate the performance, and studies the present financial position of the District cooperative Bank Kasaragod. The Indian banking business is one of the antediluvian businesses in the world. Banking has grown with the changing culture of people in India. Its growth was slow under the early private owners. But after nationalization, the growth was tremendous, as Indian banking system could provide its outlets for every 15000 people of the Nation's with the thickest population. Co - operative movement in Indian banking was started with the objective of providing finance to the agriculturists and the rural people in order to relieve them from the clutches of the usurious money lenders and pawn brokers. District Central Cooperative bank is a central level cooperative bank which is working under the guidance of Registrar of Kerala cooperative society. (Act of 1964). The RBI is providing necessary instructions, rules, and regulations regarding statutory liquidity ratio, Cash reserve ratio, to the registrar of cooperative societies. " District Cooperative Bank" means a central cooperative society having jurisdiction over one revenue district and having as its members Primary Agricultural Credit Societies and Urban co - operative Bank, and the principal object of which is to be raise funds to be lent to its members , including nominal or associate members; "Registrar means the Registrar of Co - operative Societies appointed under sub - section (1) of section 3 and includes any person on whom all or any of the powers of the Registrar under this Act are conferred. District level cooperative bank plays a key role in the field of agricultural loan, non - agricultural loan for the urban and rural development of the society. There is no culture without agriculture. The district cooperative bank act as a liaison between state cooperative bank (Apex) and Primary Agricultural cooperative societies. The District Cooperative Bank plays vital role to finance the credit needs of different types of cooperatives in the district .They collect money from Apex level society. At present the main problems faced by district level society is the problems of overdue, non - performing asset, overdue issues and other problems. Therefore it is necessary to study financial ratios of District Level Cooperative Bank. This research paper is Attempt to analyses the profitability and liquidity financial ratio of District Cooperative Bank Kasaragod Heard Quarters in the year 2007, 2008, 2019. So the different financial ratio is followed in the present study. This study is based on secondary data. The liquidity and profitability position of the bank was found to be satisfactory.

Keywords: Ratio Analysis, Net profit Ratio, Current Ratio, Quick Ratio, Share Capital

1.1. INTRODUCTION

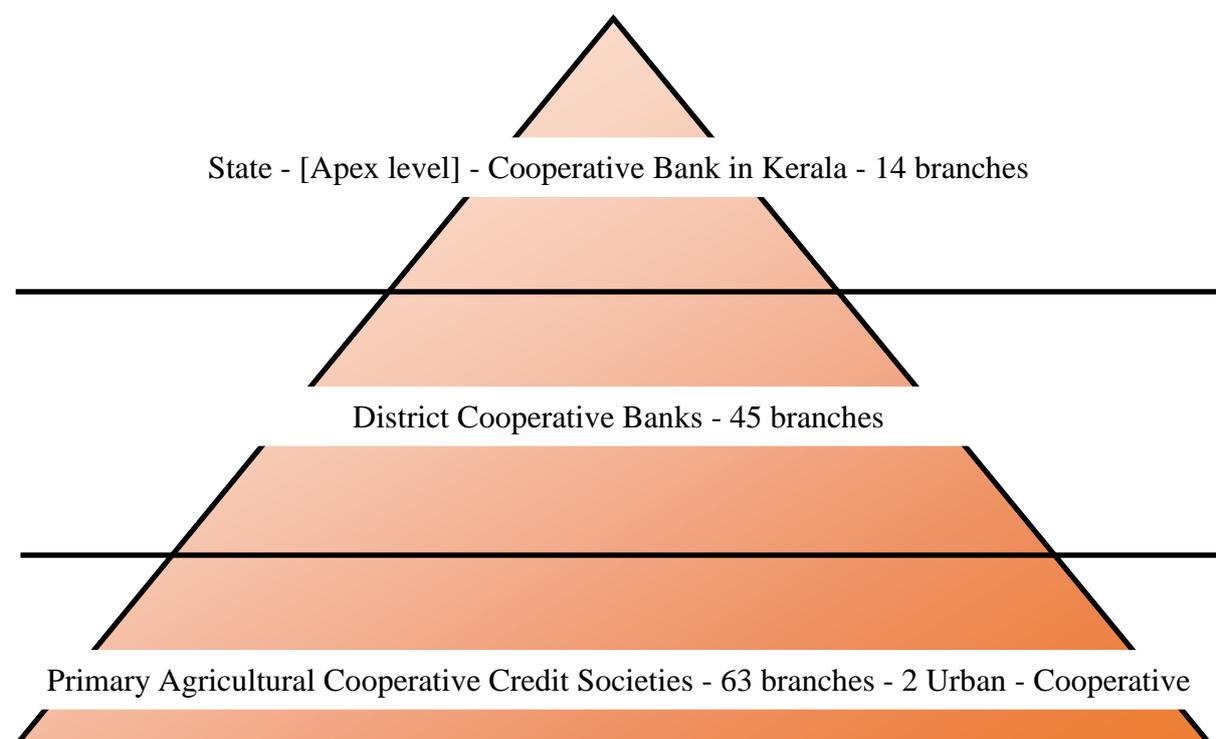
The District Cooperative Bank Kasaragod occupies a position of center under three tier structure of cooperative bank. District Cooperative Bank is popularly known as DCC

Bank. The district cooperative Bank has plays very important role for in agricultural financing and credit for members. The DCCBs (District Central Co - Operative Banks), as the name suggests, has an area of operation covering a single district. In any district, the banking system would comprise Commercial Banks, Regional Rural Banks, Co - operative Banks and other agencies like SFC, MFIs, Non Formal Credit institutions and Non - Banking Credit agencies. Among the various banking systems, the DCCBs are providing unique services to the poor people especially the rural poor. They form an integral part of short, medium and long - term cooperative credit delivery system and play strategic role. They provide a connecting link between the small, scattered primaries in a district and the State Co - operative Bank (SCB) at the state level. The introduction of the cooperative credit societies Act India - 1904 for providing credit to farmers marked the beginning of the institutionalization of cooperative banking system in India. Prior to this act society was formed under the companies Act of 1882. The Act of 1904 was replaced to overcome the problems of creditors and introduced the cooperative societies Act of 1912. Under this act, the loan and deposits facilities are given to members and non –members. The first central cooperative bank at district level. After independence AD. Gorwala has suggested on central cooperative bank for each district.

1.2. STRUCTURE OF COOPERTIVE BANK KERALA

The structure of the cooperative societies of Kerala includes three layers such as State Level Cooperative Bank, District level Cooperative bank, and Primary level Cooperative bank. The total Apex level Banks or Ste cooperative banks is 14, total district cooperative banks are 45 and total primary level cooperative bank is 63.

Figure.1.1. Structure of Cooperative Bank Kerala



1.3. HISTORY OF COOPERTIVE SOCIEITES IN KERALA

The British East India Company squeezed all our natural resources and exploited our nation during pre - ermined period days. After we got freedom our visionary leaders stated to take earnest steps to make our economy healthy in every aspect. The great architects of our nation had an understanding that cooperative movement can play a major role in the reconstruction of our economy. Hence attempts were made by the planning commission to develop the cooperative movement and the mobilization of resources and savings in urban and rural areas. The growth of cooperative movement in Kerala was in significant during pre - determined era. Only 1669 cooperative were functioning in the state with a total authorized capital of Rs: 92.21 lacks. The membership and paid up share capital were Rs. 2.05 and Rs. 31.79 lacks respectively.

Cooperative institution in this region before the formation of state of Kerala, cooperatives under the area were administrated by the Travancore Cooperative Societies Act V of 1112 (ME), Cochin cooperative societies Act XXVI of 1113 (ME) and Madras Cooperative Societies Act 1932, After the integration of Travancore and Cochin, Travancore –Cochin Cooperative Societies Act 1951 came in to force with effect from 1.9.1952. After the formation of Kerala cooperative Societies Act of 1969 came in to force with effect from 15.5.1969. In order to enact a uniform law in cooperation applicable throughout the state. There are 110 section and 201 rules of Kerala Cooperative Society Act in Kerala.

1.4. REVIEW OF LITERATURE

A number of studies have been done to the analysis of different ratios of co - operative banking sector in India .Some of the main studies selected for review have been discussed below.

Ramachandran (1992), in his paper title, “profit planning as a management tool for increasing the profitability of the cooperative banking sector. He says there are some reasons for the poor performance of banking performance such as high establishment cost, sick units, NPAS, improper planning and decision making. He suggested the following measures to redress the said problem above.

- Professional well experienced management
- To provide proper training
- Better Fund management
- Optimum utilisation of available resources
- Diversification and expansion
- Management of NPA

- To provide proper training to management and staff of the bank.

Natarajanital. (1980) calculated quick ratio, profitability and a long - term solvency ratios to evaluate the financial ratios and financial performance of the consumer's cooperative stores in Andrapradesh. The study revealed that the liquidity position was not satisfactory .The current ratio was compared with ideal ratio - 2;1 and also the liquid ratio compares with ideal ratio 1:1 shows poor performance.

Sony and Saluja (2013), they study is based on the financial ratio of D.C.C bank in Rajnandgon The different ratios such as profitability, efficiency, and solvency are taken in to consideration in order to understand and analyse the financial position of the bank . It is found that the liquidity, solvency and profitability ratios are satisfactory.

Deepak (2004) evaluated the financial viability of the Primary Agricultural Cooperative Societies (PACS) in Kolhapur district, Maharashtra, India, using the data covering seven years after (1992 - 98) and seven years before (1985 - 91) the economic reforms.

1.5. OBJECTIVE OF STUDY

- To know the liquidity position of District Cooperative Bank Kasaragod
- To Know the Profitability position of the District Cooperative Bank Kasaragod.
- To offer suggestions based on the findings of the study.

1.6. CONTRIBUTIONS OF D.C.B KASARGOD IN IMPLEMENTATION OF GOVERNMENT SCHEMES

The District Cooperative Bank Kasaragod has actively participating in implementing various government schemes of rural and agricultural development. Some of these are: -

- Farmers club: The bank has been taken keen efforts to establish farmers club - 26 clubs established.
- Improvement of self - help Group: The bank improves women self - help group - 863 self - help group improved.
- Interest Subsidiary Scheme: The farmers get benefit of interest subsidy by state and central government - 42739 farmers benefited during the year.

1.7. HYPOTHESIS OF STUDY

District Cooperative Bank Kasaragod is an important bank of Kasaragod as far as its role in agriculture credit finance and rural credit development of Kasaragod and various Panchayat and taluk level is concerned. The financial management of the bank is effective.

1.8. PROBLEM OF STUDY

- First and foremost problem of the research work is analysis of financial ratios such as liquidity ratios and profitability ratio.
- Frequent number of visit was made to District Cooperative Bank Kasaragod to collect data.
- Requirements knowledge of various accounting terminology, assumptions, principles and knowledge of balance sheet and various types of ratio.

1.9. SCOPE AND LIMITATION

- The information's is collected from District Cooperative bank Kasaragod only.
- The study covers only profitability ratio and liquidity. It is not include other ratios such as turnover ratio, gearing ratio, dividend ratio, Earning per share, Shareholders ratio.
- The findings may not always be relevant to their district in the state or country level.
- This study is limited to three year's time period.
- This study is based only on secondary data and it is collected from published annual reports of District Cooperative Bank Kasaragod.
- The present study is limited to only on Kasaragod District Cooperative Bank.

1.10. AREA OF STUDY

The study is based on the financial ratios of District Cooperative Bank Kasaragod. Therefore this study covers the consolidated study of various district level bank and primary level cooperative bank.

1.11. PERIOD OF STUDY

For collection of the secondary data on financial ratios of the District Level Cooperative bank Kasaragod. Three years i.e. from 2015 - 2016, 2016 - 2017, 2017 - 2018, 2018 - 2019 were taken of the reference period.

1.12. RESEARCH METHODOLOY

The financial ratios of the District Cooperative Bank Kasaragod have been analysed with the help of different parameters. Different financial ratios, techniques, and principles are employed. Ratio Analysis was undertaken with a view to studying financial performance of a banking organisation. The financial ratio represents the relationship between two accounting

figures expressed in mathematically. The ratios are regards as the test of earning capacity, financial soundness and operating efficiency of a banking organisation. The Ratios relating to liquidity, solvency, strengthen; profitability and efficiency of the bank have been employed.

1.13. METHODS OF DATA COLLECTION

The present study is based on secondary data which is collected, assembled and calculated from the annual reports of the District Cooperative Bank Kasaragod. Other information's are collected from different journals, magazines, text book, conference proceeding's, seminars and website.

1.14. INTREPRETATIONS OF DATA

The financial statements (secondary data) are to be tabulated for the purpose of analysing and interpreted the collected data, summary has been drawn.

1.15. PROFILE OF BANK

The Kasaragod District Cooperative Bank had started functioning from 1st October 1986 with its head office at Kasaragod extended by 7 branches catering to the credit need of the people in the District. Banking business was started carried out by a total of 63 employees. At present the bank is placed in a comfortable zone of unique product while comparing to competitors. It is the hard work and great effort of each and every staff in organisation .The District Cooperative Bank Ltd Kasaragod established and registered on 08 / 07 / 1986 (Registration No - 4367) as a central financing agency of PACS with the purpose of supporting farmers agricultural and up - liftment of urban and rural people.

1.16. OBJECTIVE OF THE BANK

- To collect the deposit from Apex banks, NABARD, and from public and provide funds for the purpose of lending.
 - To provide necessary instructions, guidance, supervision and control of the working of affiliated societies in a district.
- To meet the short term and medium term financial credit requirements of affiliated member societies.
- To provide necessary guidance, customer services, settlement of compliance etc.

1.17. SHARE CAPITAL OF THE BANK

The share capital of the company refers to capital which is raised by bank by issuing shares. The share capital is a part of shares. The district cooperative bank is issuing shares to various its affiliated societies and members. The bank is providing dividend to its shareholders. The people those who are purchasing the shares of the bank is called shareholders. The bank is providing a consistent to its shareholders.

Table.1.1. Share Capital of the Bank

1. Authorised Capital		
a) 50,000 A Class Share of Rs 10000 / - each	50,00,00,000.00	
b) 50,000 B Class Share of Rs 10000 / - each	50,00,00,000.00	
c) 2000000 C Class Share of Rs 100 / - each	20,00,00,000.00	
d) 40000 D Class Share of Rs 5000 / - each	20,00,00,000.00	1,40 00,00,000.00 / -
2. Subscribed Capital		
a) 21902 A Class Share of Rs 10000 / - each	21,90,20,000.00	
b) 7129 B Class Share of Rs 10000 / - each	7,12,90,000.00	
c) 656571 C Class Share of Rs 100 / - each	6,56,57,100.00	
d) 8490 D Class Share of Rs 5000 / - each	4,24,50,000.00	39,84,17,100.00 / -

1.18. FINACIAL RATIO ANALYSIS OF THE BANK

Ratios are important tool to analysis the performance of banking organisations. Financial ratios are regarded as a test of earning capacity, financial soundness, and operating efficiency of a banking organisation. This helps managers to take decisions to know the profitability, financial position and operating efficiency of an enterprise. The District cooperative bank is using various types of ratios such as liquidity ratios. Activity ratios, Solvency ratios, Profitability ratios. Since my topic is to analysis the profitability and liquidity ratios of District cooperative Bank Kasaragod.

A. Liquidity Ratio: The term liquidity refers to the ability of the banks or a company to meet its current liabilities. This ratio assesses the capacity of the firm to repay its short term liabilities. The important liquidity ratios are current ratio and quick ratio.

- **Current Ratio:** Current ratio expresses the relationship between the current assets and current liabilities of a firm for a particular period. The main objective computing this ratio is to measure the ability of the firm to meet its short term liability. This ratio is calculated as under:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liability}}$$

- Current assets are those assets which can be converted into cash within a short period of time. It should not go more than one year. **FOR INSTANCE:** Cash in hand, Cash at bank, Trade Receivable, Short term investment, stock, prepaid expenses.
- Current liabilities are those liabilities which are expected to be paid within year. **FOR INSTANCE:** Trade payable, Bank overdraft, Provision for tax, outstanding expenses.

B. Liquid Ratio / Quick Ratio / Acid Test Ratio: This ratio establishes the relationship between quick assets and current assets. Quick ratio is another ratio to test the short - term solvency of the concern. The main purpose of this ratio is to measure the ability of the firm to pay its current liabilities. For the purpose of calculating this ratio, stock and prepaid expenses are not taken into account as these may not be converted into cash in a very short period.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Stock}}{\text{Current Liability}}$$

Since the cooperative bank does not have stock so it is quite difficult to calculate it.

- **Profitability Ratio:** The main objective every banking and business organisation is to increase profitability of the firm. It is necessary for the survival and growth of the business enterprises. It is earned with the amount of investment in the business. This is necessary to know every banks and company whether we are running a profitable manner or not. There are four types profitability ratios are using to assess the performance and efficiency of the earning profit. These ratios are helpful for the management to take remedial measures if there is a declining trend. a) **Gross Profit Ratio:** It express the relationship of gross profit to sales from operation. It is computed as:

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}}$$

* *Note: Bank does not calculating the gross profit)*

- **Net Profit Ratio:** It expresses the relationship between net profit and Revenue from operations. It is computed as:

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Revenue from Operations}}$$

1.19. KEY FINANCIAL PARAMETERS / INDICATORS OF BANK FOR THE YEAR

Table.1.2. Key Parameters and Indicates of Bank for the year 2016 to 2017, 2017 to 2018, 2018 to 2019 - District Cooperative Bank Kasaragod

Key Financial parameters	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Current Assets	17202626145.63	18818552179	2040889161.2	20989802415.79
Current Liabilities	16207189277.53	17992327556.46	19369471897.55	19870449401.53
Total Assets	33353050287.69	19116413454.92	20616360803.89	21238189403.19
Loan Advances	8910788221.35	11514124692.73	12908752925.86	13515685886.21
Deposit	15282969326.99	15792928001.69	16387304038.91	17980533209.50
Sales	1405848741.48	1626360553.98	1622710918.72	1691903757.47
Fixed Assets	24445444.09	20964054.89	19560121.89	15558010.07
Net Profit	22653163.20	16858705.17	37475528.00	42810842.20

1.20. FINANCIAL RATIOS OF THE BANK

The ratios relating to liquidity and profitability of the bank have been analysed and computed, the ratios presented in table 1 to 4.

Table.1.3. Table 2 shows Profitability Ratios of Kasaragod District Cooperative Bank

Year	Net Profit Ratio
2015 - 2016	2.7
2016 - 2017	1.03
2017 - 2018	2.3
2018 - 2019	2.53

The ratio was positive but it is slightly decreased year by year. As the table reveals, the year 2018 - 2019 registered the highest (2.53). The ratio was lowest in 2016 - 2017 (1.03). This indicated that the profit level was very low relation to total assets of the bank.

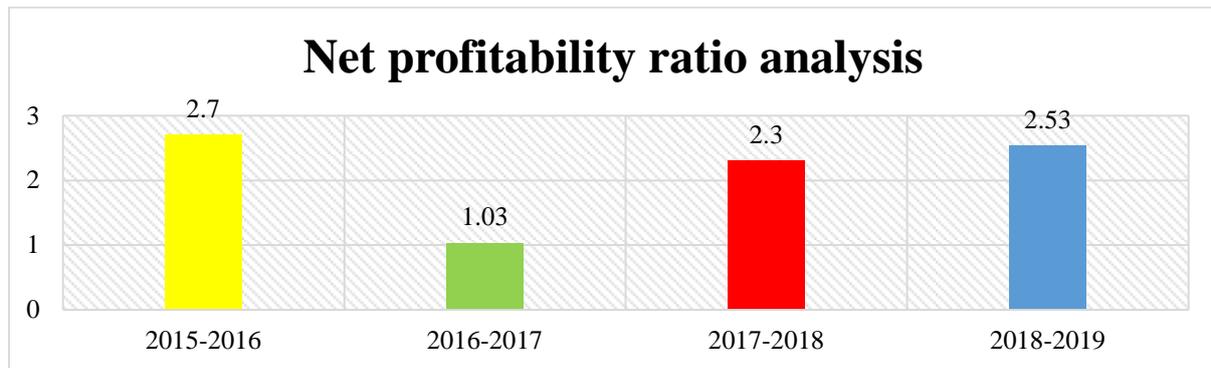
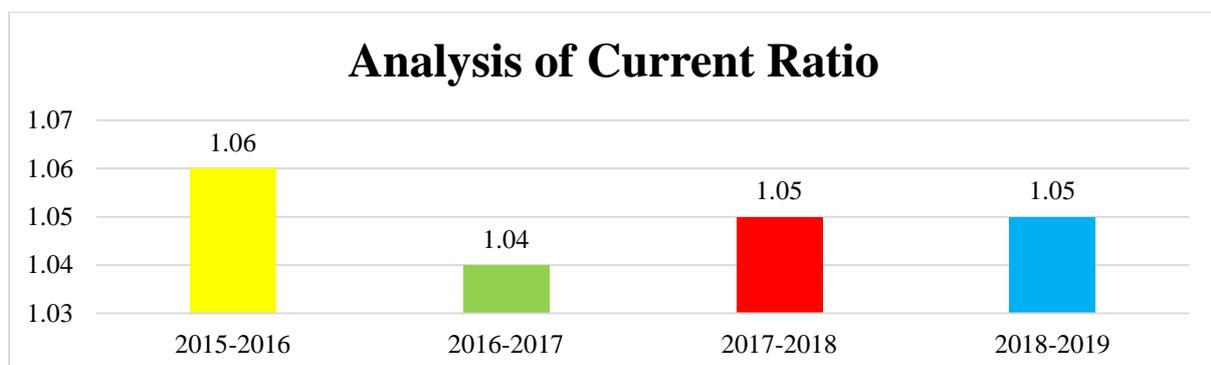


Table.1.4. Table 3 Shows Liquidity Ratio of Kasaragod District Cooperative Bank

Year	Current Ratio
2015 - 2016	1.06
2016 - 2017	1.04
2017 - 2018	1.05
2018 - 2019	1.05



In accordance with the objectives of the study, the data collected from reports and records were analysed and interpreted. Financial ratios explain the ultimate financial position of the bank. For this purpose, financial ratios were worked out and presented in Table 1 to Table 4 which are discussed here and the results of the study are presented as under.

Liquidity ratios were computed to measure the ability of the bank to meet its short term obligations out of its own Short term resources. Liquidity ratios were worked out to study financial soundness of the bank. The results for liquidity ratios are presented in Table3

The current ratio has been regarded as an important barometer of the liquidity position of any banking and business organisation .The current ratio was found to be more than one for all the periods, and fluctuated over the years. The ideal current ratio is 2:1.The ratio was highest for the year 2015 - 2016and lowest for the year 2016 - 2017. As this ratio actually shows just satisfactory trend it could be concluded that the bank had maintain a reasonable level of the liquidity position, had sufficient current assets to meet the current liabilities. The Liquidity ratio is good since the cooperative bank does not have stock but still it is keeping a moderate level of performance.

1.21. FINDINGS

- The net worth position of the bank was positive. Net capital ratio was positive for all the years and indicated that the assets of the bank were employed efficiently and effectively and it is sufficient to cover its liabilities.
- The net profit to total assets ratio was positive and increased year by year and indicated that the profit level was very low relation to total assets of the bank. The net profit to net worth ratio indicated that the overall performance was low; profit level was very low relation to net worth of the bank. The net profit to fixed assets ratio was positive for all the years, and shows a progressive trend over the study period.
- The current ratio was found to be more than one for all the periods, and fluctuated over the years. As this ratio actually shows satisfactory trend it could be concluded that the bank had maintain a reasonable level of the liquidity position. Liquid Assets to Total Assets Ratio indicates that the bank has been efficiently managing the liquid assets. The credit deposit ratio indicated that the bank had taken positive steps for mobilizing deposit.

1.22. SUGGESTIONS OR RECOMMENDATIONS FOR IMPROVEMENTS OF THE BANK

- To conduct management audit and the bank is doing only administrative audit and accounting audit.
- There is a tough competition in the market while comparing to various nationalised and private banks. So always a threat for cooperative bank in a banking sector.

- The primary cooperative societies are appointing people through political back ground without proper experience and knowledge. So kindly make sure appointing highly qualified professionals in primary level.
- 50 % of the primary level staffs are promoted to District Cooperative Bank without following proper recruitment policy.
- Auditing of the bank should be done by professionally qualified Chartered Accountant since it is done by departmental auditing the quality is deteriorating.
- Labour productivity improvement measures to be taken by providing Proper training and skill based on new banking technology and systems.
- Profit planning and cost control measures should be improved to overcome the nationalised banks and reduce the merging central banks and state cooperative banks.
- To promote more customer service.
- Market development strategies for mobilisations of savings.
- The funds of the banks should be effectively managed.
- Bifurcation of DCB's should be on the sole criterion of viability (not on political considerations)
- Business hours and days should be change to face competition from nationalised banks.
- The DCC Kasaragod should drop a scientific method to recover over dues and must maintain up to date records on daily basis.
- To make new policies on to reduce high interest on loan .The nationalised banks are highly occupies with various types of business loan, housing loan, education loan with reasonable rates of interest.

1.23. CONCLUSION

The District Cooperative Bank Ltd. Kasaragod had been maintained a reasonable level of profitability and liquidity position. The financial position of the bank analysed by different ratio's and technique and it is found that the position of profitability, liquidity are satisfactory .Ratio result are keeping consistent level of performance throughout in every year. In short we can say DCB Kasaragod provides assistance to rural people with justice. The Government of Kerala awarded DCC bank Kasaragod for exercise service and contribution in cooperative movement for the year 2009. The bank is received audit certificate from Smt: Sushama,T., Joint Director / Concurrent Auditor from 13.06.2018, Sri. Muhammad Noushad, Joint Registrar (In charge of Joint Director) from 01.08.2018 to 11.09.2018, Smt. SumakumariAmma, Joint Director From 12.09.2018 to 30.11.2018 , Smt .

Jancy K.P., Joint Director (In Charge) From 01.12.2018 to 06.12.2018 and Sri. Joseph M.D. Joint Director / Concurrent Auditor From 07.12.2018 to till date is passed.

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