

## Workings of Select Urban Co-Operative Banks in Tamilnadu- With Reference to Profitability Analysis



Commerce

KEYWORDS :

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### ABSTRACT

*Urban Co-operative Banks (UCBs) were established in India in order to extend the banking services to economically backward people also. Now UCBs are rendering banking services almost in all part of the country. As on 31st March, 2014 there are 1589 UCBs are functioning in India, in Tamilnadu there are 129 UCBs are rendering banking services to the people. An efficient financial management of a bank will reflect in its profit earning. Both efficient management of funds and assets of a bank will lead to earn more profit. Not only the above, other aspects such as spread, burden also will have its impact on profit earning of a bank, hence it is essential to study profitability of a bank. The study found growth in net profit for all selected UCBs over the study period*

### Introduction

Banks are the backbone of economic development. It helps the economy in capital formation by way of channelizing the savings of the people towards industrialization, which pave for economic development in many ways namely employment opportunities, large scale production, increasing standard of livings of the people and so on. Co-operative is the voluntary association of persons who are economically backward for assisting themselves to overcome the economic barriers. Initially cooperative banks were established in Europe during 19th and earlier of 20th century. Latter co-operative banks were established in many countries of the world. Urban Co-operative Banks (UCBs) were established in India in order to extend the banking services to economically backward people also. Now UCBs are rendering banking services almost in all part of the country. As on 31st March, 2014 there are 1589 UCBs are functioning in India, in Tamilnadu there are 129 UCBs are rendering banking services to the people [http://rbidocs.rbi.org.in]. Economically backward people such as poor and middle class income group of people are members in UCBs and the banks are making way to channelize the savings of those people towards capital formation. UCBs are also helping the small industries. As per the reports of Reserve Bank of India majority of their lending are provided to small scale industries, it helps the economy in creating and encouraging small entrepreneurs and creating new entrepreneurs and which reduces unemployment problem of the economy. It indicates importance of survival of UCBs, UCBs may survive only when it earns continuous profit otherwise it will be struggling in doing banking business and it may affect economy also. Hence it is necessary to study the profitability of UCBs. This paper has made an attempt in this aspect.

### Review of Literature

Jai Krishnan Chandel (2012) in their study found poor performance of DCCBs in Haryana and it caused by improper investment, improper capital structure, inadequate cash balance and lack of innovative banking products. Seema Sant and Chaudhari PT (2012) found a significant change in trend was noticed at the onset of the global financial crisis in 2007, reaching its peak during 2008-2009 in UCBs in Mumbai. This resulted in falling profitability, less liquidity and deteriorating credit quality in the Indian Banking sector. Amit Basak (2012) found that the operational efficiency was unsatisfactory and characterised by low profitability, ever growing non-performing assets (NPA) and relatively low capital base of Urban Co-Operative Banks of West Bengal.

### Statement of the Problem

An efficient financial management of a bank will reflect in its profit earning. Both efficient management of funds and assets of a bank will lead to earn more profit. Not only the above, other

er aspects such as spread, burden also will have its impact on profit earning of a bank, hence it is essential to study profitability of a bank. So, the paper has included an objective of analyzing profitability of the selected UCBs.

### Objective of the Study

The study has been made with the following objective.

- To study the profitability of selected UCBs in Tamilnadu.

### Methodology

There are 129 UCBs in Tamilnadu and the districts of Nagapattinam District, Tiruvarur District, Cuddalore District and Villupuram District were selected and one UCB each were selected from each district. The UCBs from Sirkali, Chidambara, Tiruvarur and Villupuram were selected for the study. The study has been undertaken for the period of ten years from 2003-04 to 2012-13. It required secondary in the form of financial reports, which were collected from the respective UCBs for the above study period.

### Results and Interpretation

#### Net Profit and Its Change over Previous Year

Net profit is the common indicator to measure the overall performance of any type of business. This section of the research work analysis the amount of net profit of the select UCBs and their change over previous year for the study period of ten years from 2003-04 to 2012-13. Table 1 gives the above results for the selected UCBs.

Table -1  
Net Profit and its Percentage Change over Previous Year

Year	Sirkali UCB Rs.	% Change	CDM UCB Rs.	% Change	Tiruvarur UCB Rs.	% Change	VPM UCB Rs.	% Change
2003-04	34,50,378		18,24,128		26,14,953		34,25,781	
2004-05	30,70,900	-11.00	6,15,472	-66.26	16,68,296	-36.20	36,93,966	7.83
2005-06	21,00,244	-31.61	6,62,247	7.60	11,63,983	-30.23	40,57,953	9.85
2006-07	19,63,431	-6.51	5,23,921	-20.89	11,83,193	1.65	42,11,402	3.78
2007-08	20,37,779	3.79	9,83,171	87.66	11,90,436	0.61	42,99,256	2.09
2008-09	24,51,436	20.30	6,96,348	-29.17	14,23,895	19.61	50,54,782	17.57
2009-10	17,89,763	-26.99	13,77,495	97.82	30,94,820	117.35	52,54,978	3.96
2010-11	31,13,792	73.98	15,49,543	12.49	34,02,690	9.95	54,53,068	3.77
2011-12	35,28,834	13.33	21,05,776	35.90	37,58,537	10.46	1,68,79,589	209.54
2012-13	36,56,964	3.63	21,60,320	2.59	40,25,164	7.09	82,58,176	-51.08
Mean	27,16,352		12,49,842		23,52,597		60,58,895	
SD	7,22,882		6,36,801		11,52,690		40,41,250	
CV	26.61		50.95		49.00		66.70	
CAGR	0.58		1.71		4.41		9.20	

Source: Computed from Annual Reports

Table 1 indicates that net profit of Sirkali UCB increased over

the study period at very minimum rate. Net profit of the UCB increased from Rs.34,50,378 in 2003-04 to Rs.36,56,964 in 2012-13. The mean value of net profit of this UCB was Rs.27,16,352, the calculated values of standard deviation and co-efficient of variation were Rs.7,22,882 and 26.61 per cent respectively and these results showed that there were minimum deviation of net profit from its mean value over the study period. The results of CAGR of net profit of this UCB stood at 0.58 per cent and it showed very low growth in net profit by the UCB over the study period. The results of percentage change of the net profit over the previous year indicated that net profit of the Sirkali UCB decreased over the previous year from 2004-05 to 2006-07, the rate of decrease was found high during 2005-06 at 31.61 per cent and decrease in net profit was found during 2009-10 also at the rate of 27 per cent. During other years the net profit of Sirkali UCB increased over the previous year and the rate of increase was found substantial during 2010-11 at 73.98. These results showed fluctuation in earning net profit by Sirkali UCB.

It was also seen from Table 1 that net profit of Chidambaram UCB was also increased over the study period at very lower rate. Net profit of the UCB increased from Rs.18,24,128 in 2003-04 to Rs.21,60,320 in 2012-13. The mean value of net profit of this UCB was Rs.12,49,842. A moderate level of deviation was identified in net profit of Chidambaram UCB over the study period as shown by the results of standard deviation of Rs.6,36,801 and co-efficient of variation of 50.95 per cent. The results of CAGR of net profit of this UCB was very low at 1.71 per cent and it showed very low growth in net profit by the UCB over the study period. Net profit of the UCB was found high during 2003-04 and during the next year a major fall was found and it accounted 66.26 per cent decrease over the previous year and the net profit increased little during 2005-06 and again it decreased over the previous year by 20.89 per cent. During 2007-08 net profit of the UCB increased rapidly at 87.66 per cent, it decreased sharply during 2008-09 at 29.17 per cent and there was a major increase during the next year at the rate of 97.82 per cent and during the following years the net profit of Chidambaram UCB was increasing. These results showed major downfalls in net profit in some years and the reasons should be identified and to be rectified in order to obtain uniform growth.

Table 1 reports that net profit of Tiruvarur UCB was highly fluctuating over the study period. Net profit of the UCB increased from Rs.26,14,953 in 2003-04 to Rs.40,25,164 in 2012-13. The mean value of net profit of this UCB stood at Rs.23,52,597. A moderate level of deviation was identified in net profit of Tiruvarur UCB as shown by the results of standard deviation of Rs.11,52,690 and co-efficient of variation of 49 per cent. The results of CAGR of net profit of this UCB stood at 4.41 per cent and it showed a nominal growth in net profit by the UCB over the study period. Net profit of Tiruvarur UCB was high during 2003-04, it decreased over the previous year sharply during the following two years at the rates of 36.20 per cent and 30.23 per cent respectively and during the next two consecutive years net profit of the UCB increased at a very lower rate. The net profit of Tiruvarur UCB met a decrease at a rate of 19.61 per cent during 2008-09, during 2009-10 substantial increase was identified at the rate of 117.35 per cent over the previous year and during the subsequent years the net profit of the UCB increased at nominal rates.

Net profit of Villupuram UCB was constantly increasing over the study period. Net profit of the UCB increased from Rs.34,25,781 in 2003-04 to Rs.82,58,176 in 2012-13. The mean, standard deviation and co-efficient of variation of net profit of this UCB stood at Rs.60,58,895, Rs.40,41,250 and 66.70 per cent respectively and these results showed a wide deviation in net profit of Villupuram UCB from its mean value over the study period. The results of CAGR of 9.20 per cent indicated substantial growth in net profit

by the UCB over the study period. Net profit of Villupuram was increasing over the previous years during all the years of the study period except during 2012-13, but the rate of increase was highly fluctuating. Very high rate of increase was identified during 2011-12 at 209.54 per cent and it decreased at a high rate during 2012-13 at 51.08 per cent.

#### Net Profit to Total assets

ROA is defined as net profit divided by average total assets. This ratio measures a banks profit per currency unit of assets. This is the main indicator of profitability used in international comparisons and it is one among the guidelines of RBI for balance sheet analysis of banks. The return on assets of different selected UC banks is shown in the Table 2.

**Table – 2**  
**Net Profit to Total assets Ratio**  
Percentage

Year	Sirkali UCB	Chidambaram UCB	Tiruvarur UCB	Villupuram UCB
2003-04	1.18	0.86	1.07	0.51
2004-05	1.06	0.30	0.70	0.55
2005-06	0.78	0.31	0.50	0.60
2006-07	0.71	0.24	0.47	0.61
2007-08	0.65	0.37	0.41	0.62
2008-09	0.66	0.23	0.41	0.69
2009-10	0.45	0.39	0.82	0.67
2010-11	0.72	0.39	0.79	0.63
2011-12	0.73	0.47	0.74	1.86
2012-13	0.65	0.40	0.67	0.82
Mean	0.759	0.396	0.658	0.756

Source: Computed from Annual Reports

Table 2 showed that the net profit to total assets ratio Sirkali UCB ranged from 0.45 to 1.18 per cent during the study period. The results also showed that the net profit to total assets of the Sirkali UCB was high during the initial period (2003-04) of the study and it started to decrease from 2003-04 (1.18 per cent) to 2009-10 (0.45 per cent). However, since 2010-11 the situation has changed for the better. In the year 2010-11 the return on assets said to 0.72 per cent but in the following year was 0.73 per cent but again it decreased in 2012-13. The average return for the entire period is 0.759 per cent, which compares very unfavorably with market of interest. Out of ten years the ratio was more than average only in three years.

In case of Chidambaram UCB net profit and total assets ratio was high during 2003-04 (0.86 per cent) and it was very less during 2008-09 (0.23 per cent). The average for net profit and total assets ratio was 0.396 per cent. One peculiar feature is that in the years 2003-04 for most of the net profit ratios of the banks was higher. It could be seen fluctuating trend in this ratio. Chidambaram UCB' net profit and total assets ratio was ranged from 0.23 to 0.86 per cent during the study period. The proportion of net profit in total income of Chidambaram UCB was less than one per cent in all years of the study period. Out of ten years the ratio was more than average only in five years. It registered decreasing trend upto year 2008-09

In case of Tiruvarur UCB, the net profit to total assets ratio was high 1.07 per cent in 2003-04. However, since 2004-05 the situation has changed for the decline. In the year 2009-10 the return on assets of Tiruvarur UCB said to 0.82 per cent but in the following years, there was seen decline tenancy. The average for

net profit and total assets ratio was 0.658 per cent. Out of ten years the ratio was more than average in six years. During the years 2007-08 and 2008-09 the ratio was same and also least among the study period.

The net profit to total asset ratio of Villupuram UCB was found very less (0.51 per cent) in the initial period of the study and there was gradual increase up to 0.69 per cent in 2008-09. In the next two years 2009-10 and 2010-11 the ratio shown decline, but during 2011-12 it turned to increase. The proportionate of net profit to total assets had significantly fluctuated between 0.51 to 1.86 per cent during the study period. The average for net profit and total assets ratio was 0.756 per cent. Out of ten years the ratio was more than average only in two years.

### Conclusion

The study has been undertaken with four selected UCBs in Tamilnadu for the study period of ten years from 2003-04 to 2012-13. The study found that net profit of all the selected UCBs increased over the study period, but Villupuram UCB increased at a higher rate than other selected UCBs, whereas the growth of net profit of Sirkali UCB was found very low during the study period. The results of return on investment showed that the mean value of net profit to total assets ratio of Sirkali and Villupuram UCB was better as compared to other selected UCBs. Over the study period the average net profit to total assets ratio of Sirkali and Villupuram UCB stood at 0.759 and 0.756 per cent respectively. Chidambaram UCB had less mean ratio (0.396 per cent).

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