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FINANCIAL PERFORMANCE OF URBAN COOPERATIVE BANKS IN THANJAVUR DISTRICT – A STUDY

KEY WORDS: Urban Co-operative Banks, Financial Performance

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ABSTRACT

Today, UCBs are facing a tough challenge to deliver on high expectations in a fiercely competitive credit environment. Concern and skepticism are expressed on their credit worthiness and viability. Considering these facts, probing into the financial aspects of these institutions is significant. Hence, this study was undertaken to investigate into the financial performance of Urban Co-operative Banks in Thanjavur district, Tamilnadu to understand their performance in a highly competitive environment. The study revealed that urban cooperative banks in the study area have not performed well on all the parameters of financial performance. One bank performed best on one parameter, but worst on another which prove that the overall financial performance of the banks has not been quite good and all the banks have to make improvements on different fronts.

INTRODUCTION

Urban co-operative banks are those co-operative banks which do banking business in urban areas. Their functions are similar to those of commercial banks, but their organization is akin to those of co-operative society.

The term 'Urban Co-operative Bank' has not been uniformly defined. The different states have defined these banks differently. An urban co-operative bank normally confirms its operation to the municipal limits of a town. Nowadays, the urban co-operative Banks play a significant role in the national economy. They have achieved a remarkable success in various areas of co-operative Banking.

In the past, poor and backward class people were exploited by petty moneylenders to the extent that they were debt-bound all their lives with the opening of Co-operative Banks branches in rural areas. They have been able to back masses at grassroots level and by providing soft loans to farmers and small traders. The co-operative Bank has become a part of their life. These poor and backward people are now not only borrowing, but also depositing money in Co-operative banks.

REVIEW OF LITERATURE

Gaurav Kumar Gupta, et al (2013)[1] analyzed the financial performance of Urban Cooperative Bank (UCB) in Lakhimpur Kheri district of U.P. The results of the study showed that though the bank has shown reasonable growth in terms of advances and deposits, but it is felt that it could have done much better had it not followed an over cautious approach in lending policy and would have gone for required expansion.

Behera (2014)[2] carried out a study on the Corporate Governance in Urban Cooperative Banks: an Indian Perspective. The study revealed that the operational efficiency was unsatisfactory and characterized by low profitability, ever growing non-performing assets (NPA) and relatively low capital base in Urban Cooperative Banks. The researcher pointed out that one of the most disturbing features of this moment was that increasingly passing into the hands of nasty politicians, who misuses their position with undue interference.

Megha, et al (2015)[3] studied the progress of Urban Co-Operative Banks in Mewar Region of Rajasthan. The progress of UCBs in Mewar region has been analyzed based on a few selected parameters such as number of branches, membership base, share capital, net profit, deposit mobilization, loans and advances and working capital, which revealed that there has been a growth of UCBs in selected region over a period of five years, i.e., financial year 2009-10 to 2013-14.

Sunny Pandhre (2016)[4] analyzed the credit to deposit management of the co-operative banks in the State of Goa for the period of ten years. The study revealed that the growth in the number of branches has positive trend and the membership in co-operatives have been increasing. The capital and reserves have increased during the study period. The co-operative bank is maintaining 64 per cent C/D ratio for the year 2013-14. The bank has attained a Capital Adequacy ratio of 11.48 per cent as against 9 per cent prescribed by RBI. Fifty one percent of the total advances were given to priority sector during for the financial year 2013-14. The ban on mining activities in Goa since 2012 has affected the asset quality of bank resulting in deteriorating NPA position and overall profitability. The performance of the bank was found to be very good on all the parameters during the study period.

Sanjeevi (2017)[5] measured the operational and financial performance of Urban Cooperative Banks in India. The results of the study revealed that the urban co-operative bank's financial performance was similar level with scheduled banks and non-scheduled banks. Whereas, operational performance scheduled bank's performance were better as compared to non-scheduled banks during the study period.

Swati Raju (2018)[6] measured the efficiency in the conduct of core banking and off balance sheet activities for the period 2013-14 to 2015-16. The researcher estimated two models. Model A examines the efficiency in core banking activity and Model B for the off balance sheet activities. The finding of the study revealed that Urban Co-operative banks display a higher mean efficiency in core banking activities (Model A) as compared to the off-balance sheet activities (Model B). The difference in the mean efficiency obtained for Models A and B is much wider under the stochastic frontier analysis. The analysis of super efficiency pointed out that of the three banks efficient under Model A and five efficient banks under Model only one bank is common to both the models. The quartile analysis highlighted that 38.9 per cent of the UCBs were ranked in the lower two quartiles of efficiency. The Tobit regression model has identified deposits and loans disbursed as significant determinants of efficiency for both models.

STATEMENT OF THE PROBLEM

Urban Co-operative Banking is a key sector in the Indian Banking scene, which in the recent years has gone through a lot of turmoil. UCBs are operating in a hostile socioeconomic environment and mounting a coherent direct challenge to the mainstream banking is not easy. Market competition and the need to retain good clientele are affecting the Urban Co-operative Banks (UCBs) too. The commercial banks, with their ability to invest more in technology and offer better remuneration to attract skilled persons, are better off in fending competition. Therefore, the

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UCBs that are competing in the same space, especially in cities and towns, are also being aggressively targeted by these commercial banks and face tough competition. In this competitive environment UCBs have to be more effective and efficient to survive.

Today, UCBs are facing a tough challenge to deliver on high expectations in a fiercely competitive credit environment. Concern and skepticism are expressed on their credit worthiness and viability. Considering these facts, probing into the financial aspects of these institutions is significant. Hence, this study was undertaken to investigate into the financial performance of Urban Co-operative Banks in Thanjavur district, Tamilnadu to understand their performance in a highly competitive environment.

METHODOLOGY

The study is confined to the urban co-operative banks functioning in Thanjavur district. The primary objectives of urban co-operative banks are to promote the economic interests of urban classes particularly, the technicians, artisans, business people, small industrialists and people engaged in activities other than agriculture. Thanjavur district, known for agriculture and allied activities, is said to be industrially backward. Hence, the functioning of urban co-operative banks in agricultural district needs a special study. As such the district is purposively selected by the researcher. The relevant secondary data have been collected mainly through the annual reports of the sample banks.

SAMPLE SIZE

There are five Urban Co-operative Banks functioning in Thanjavur district viz., Nicholson Co-operative Town Bank Ltd., Karanthatangudi Urban Co-operative Bank, Papanasam Urban Co-operative Bank Ltd. Pattukottai Co-operative Urban Bank Ltd. and Kumbakonam Co-operative Urban bank. Two banks, namely Nicholson co-operative Town Bank Ltd., The Karanthatangudi urban co-operative bank is functioning in Thanjavur town, Therefore, one bank from Thanjavur town, namely Karanthatangudi urban co-operative bank is eliminated from the sample, because Nicholson Co-operative Town Bank Ltd., is older than the Karanthatangudi Urban Co-operative Bank. Hence, remaining four urban Co-operative Banks operating in the district are taken for the study to analyze the financial performance.

FINANCIAL PERFORMANCE OF SELECTED UCBs

The financial performance of selected UCBs is shown in the succeeding pages.

SOLVENCY ANALYSIS

The term 'solvency' refers to the ability of a concern to meet its long term obligations. The long term indebtedness of a firm includes debenture holders and financial institutions providing medium and long term loans. The long term creditors of a firm are primarily interested in knowing the firm's ability to pay regularly the interest on long term borrowings, repayment of the principal amount at the maturity and security of their loans.

Accordingly, long term solvency ratios indicate the firm's ability to meet the fixed interest and costs and repayment schedules associated with its long term borrowings. The following ratios have been used to determine the solvency position of the selected UCBs in the study area.

Debt-Equity Ratio

The debt – equity ratio is calculated to measure the relative claims of the outsiders and the owners (shareholders) against the firm's assets. This ratio is calculated to measure the extent to which debt financing has been used in a business. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. As a general rule, there should be an appropriate mix of owner's funds and outsiders' fund in financing firm's assets. In general, a low ratio (debt being low in comparison to shareholder's funds) is considered as favourable from the long term creditors' point of view because a proportion of owner's funds provide a larger margin of them. In the same way, a very low ratio is not considered satisfactory for the shareholders because it indicates that the firm is not able to use the low-cost outsiders' funds to magnify their earnings. The debt-equity ratio of the selected UCBs in the study area is shown in Table1.

TABLE 1
Debt-equity Ratio

Year	*Debt-Equity Ratio (in times)*							
	TUCB	Trend (%)	KUCB	Trend (%)	PUCB	Trend (%)	PABA UCB	*Trend (%)*
2008-09	22.39	100.00	09.65	100.00	06.56	100.00	10.24	*100.00*
2009-10	15.41	68.83	06.77	70.16	04.73	72.10	11.35	*110.84*
2010-11	10.93	48.82	06.11	63.32	05.56	84.76	11.01	*107.52*
2011-12	07.94	35.46	03.99	41.35	04.32	65.85	12.17	*118.85*
2012-13	06.61	29.52	03.43	35.54	03.23	49.24	06.98	*68.16*
2013-14	06.14	27.42	03.12	32.33	02.78	42.38	07.04	*68.75*
2014-15	07.22	32.25	03.89	40.32	03.49	53.20	08.64	*84.38*
2015-16	08.15	36.40	03.72	38.55	04.16	63.41	09.61	*93.85*
2016-17	09.46	42.25	04.05	41.97	04.12	62.80	10.35	*101.07*
2017-18	09.31	41.58	04.25	44.04	04.08	62.20	10.89	*106.35*
Mean	10.36	-	04.89	-	04.30	-	09.83	-
S.D	04.10	-	02.03	-	01.11	-	01.77	-
C.V (%)	*39.58*	-	*41.51*	-	*25.81*	-	*18.01*	-

Source: Compiled and calculated from annual reports
Where: **TUCB** = Thanjavur Nicholson Co-operative Town Bank Ltd., **KUCB** = Kumbakonam Co-operative Urban bank, **PUCB** = Pattukottai Co-operative Urban Bank Ltd and **PABAUCB** = Papanasam Urban Co-operative Bank Ltd.

It is understood from the Table 1 that the debt equity ratio of all the selected urban cooperative banks has declined considerably except Papanasam Urban Cooperative bank during the study period. In these three banks, long term creditors get a larger margin against banks' asset, but at the same time the banks have failed to utilize lower cost outsider's fund to magnify their earnings. Thanjavur and Kumbakonam Urban Co-operative banks have a high coefficient of variation of the debt equity ratio when compared to Pattukotai and Papanasam Urban cooperative banks. It shows that the debt equity ratio of the Thanjavur and Kumbakonam have a high volatility in nature as compared to Pattukottai and Papanasam Urban Cooperative banks.

In order to find out whether there is any significant difference between the debt equity ratios of the selected urban cooperative banks in the study area, a null hypothesis framed and tested with the help of ANOVA test.

Null hypothesis: UCBs in the study area maintain the same level of debt equity ratio

TABLE 2 ANNOVA TEST

	Sum of Squares	Df	Mean square	F	Result
Between groups	304.730	3	101.577	12.1336	*Significant***
Within groups	301.374	36	8.371		
Total	606.104	39			

** Significant at 5% and 1% level

The calculated F value is 12.13, which is greater than that of Table value at 5 per cent level (2.87) and 1 per cent level (4.38). Therefore, the null hypothesis is rejected. Hence, it can be concluded that the debt equity ratio of selected urban cooperative banks significantly differs.

Capital Gearing Ratio

The term 'capital gearing' is used to describe the relationship between equity share capital, including reserves and surplus to preference share capital and other fixed interest bearing loans. The capital gearing ratio is calculated to test the long term financial position of a firm.

If preference share capital and other fixed interest bearing loans exceed the equity share capital, including reserves, the firm is said to be highly geared. The firm is said to be low gear if preference share capital and other fixed interest-bearing loans are less than equity capital and reserve. A capital gearing ratio is a very important leverage ratio. Gearing should be kept in such a way that the company is able to maintain a steady rate of dividend. The high gearing ratio is not good for a new company or a company in which future earnings are uncertain. The capital gearing ratio of the selected UCBs is given in Table 3.

TABLE 3 CAPITAL GEARING RATIO

Year	*Capital Gearing Ratio (times)*							
	TUCB	Trend (%)	KUCB	Trend (%)	PUCB	Trend (%)	PABA UCB	*Trend (%)*
2008-09	0.06	100.00	0.12	100.00	0.20	100.00	0.09	*100.00*
2009-10	0.09	150.00	0.15	125.00	0.23	115.00	0.11	*122.22*
2010-11	0.12	200.00	0.20	166.67	0.20	100.00	0.12	*133.33*
2011-12	0.11	183.33	0.27	225.00	0.26	130.00	0.13	*144.44*
2012-13	0.18	300.00	0.31	258.33	0.34	170.00	0.15	*166.67*
2013-14	0.15	250.00	0.34	283.33	0.41	205.00	0.15	*166.67*
2014-15	0.16	266.70	0.31	258.33	0.33	165.00	0.13	*144.44*
2015-16	0.15	250.00	0.29	241.67	0.28	140.00	0.12	*133.33*
2016-17	0.13	216.67	0.26	216.67	0.27	135.00	0.10	*111.11*
2017-18	0.13	216.67	0.24	200.00	0.31	155.00	0.12	*133.33*
Mean	0.13	-	0.25	-	0.28	-	0.12	-
S.D	0.04	-	0.07	-	0.07	-	0.02	-
C.V (%)	*30.77*	-	*28.00*	-	*25.00*	-	*16.67*	-

Source: Compiled and calculated from annual reports

Table 3 shows that among the four selected urban cooperative banks, Thanjavur and Papanasam urban cooperative banks have a low average capital gearing ratio compared to Kumbakonam and Pattukottai urban cooperative banks. Thanjavur and Kumbakonam Urban cooperative banks have a high coefficient of variation when compared to Pattukottai and Papanasam urban cooperative banks. The Table further reveals that all the banks have a capital gearing ratio less than 1 time, which implies that all the banks have a low gearing ratio. It is necessary for urban cooperative banks because their future profitability is uncertain due to competitions between public and private sector banks in the study area.

Networth to fixed assets ratio

Networth of a bank consists of share capital and reserves and surplus of the bank. It is the part and parcel of the working funds, which is otherwise called as bank's owned funds. Higher networth helps the bank to have adequate solvency besides fulfilling the CAR norms prescribed by RBI. Low networth would exhibit the bank's weakness and the bank would suffer with inadequate capital to prove its solvency. In case of fixed assets, the funds are locked in either movable or immovable assets which are not easily converted into liquid funds. Thus, a high level of networth and low level of fixed assets would help the banks have a sound financial position and in such situations the networth to fixed assets ratio will be high. Banks, in general, possess less fixed assets to spare more funds for its business operations. Also, banks are expected to have a strong capital base with more equity. The netwroth to fixed assets ratio of the selected UCBs is shown in Table 4.

Table 4 Networth To Fixed Assets Ratio

Year	*Net worth to fixed assets ratio (%)*							
	TUCB	Trend (%)	KUCB	Trend (%)	PUCB	Trend (%)	PABA UCB	*Trend (%)*
2008-09	4.56	100.00	20.90	100.00	22.05	100.00	8.43	*100.00*
2009-10	6.66	146.05	23.11	110.57	26.27	119.14	10.65	*126.33*
2010-11	9.34	204.82	16.19	77.46	22.05	100.00	11.38	*134.99*
2011-12	11.44	250.88	32.45	155.26	68.59	311.07	15.39	*182.56*
2012-13	13.41	294.08	51.47	246.27	55.41	251.29	21.47	*254.69*
2013-14	12.32	270.18	64.08	306.60	57.58	261.13	23.25	*275.80*
2014-15	33.74	739.91	62.14	297.32	62.14	281.81	19.55	*231.91*
2015-16	27.49	602.85	37.94	181.53	68.11	308.89	26.60	*315.53*
2016-17	29.40	644.74	42.48	203.25	32.71	148.34	30.72	*357.30*
2017-18	21.11	462.94	20.66	98.85	46.87	212.56	28.47	*337.72*
Mean	16.95	-	37.14	-	46.18	-	19.59	-
S.D	10.26	-	17.57	-	18.84	-	7.88	-
C.V (%)	*60.53*	-	*47.31*	-	*40.80*	-	*40.22*	-

Source: Compiled and calculated from annual reports

Table 4 indicates that the analysis of the net worth to fixed asset ratio of the selected banks revealed that the Kumbanam and Pattukottai urban cooperative banks have maintained high net worth to fixed asset ratio as compared to Thanjavur and Papanasam urban cooperative banks during the study period. The high coefficient of variation of the ratio of the all the banks indicates the variable nature of the ratio.

LIQUIDITY

Liquidity is very important for any organization dealing with money. For a bank, liquidity is a crucial aspect which represents its ability to meet its financial obligations. It is of utmost importance for a bank to maintain the correct level of liquidity, which will otherwise lead to declined earnings. Banks have to take proper care in hedging liquidity risk, while at the same time ensure that a good percentage of funds are invested in higher return generating investments. So that banks can generate profit while at the same time provides liquidity to the depositors. Among a bank's assets, cash investments are the most liquid. A high liquidity ratio indicates that the bank is more affluent.

Liquid Assets to Total Assets

Liquid Assets include cash in hand, balance with the RBI, balance with other banks (both in India and abroad), and money at call and short notice. This ratio is arrived by dividing liquid assets by total assets. The proportion of liquid assets to total assets indicates the overall liquidity position of the bank. The ratio of liquid assets to total assets of the selected banks is revealed in Table 5.

Table 5 Liquid Assets To Total Assets

Year	Ratio (%)							
	TUCB	Trend (%)	KUCB	Trend (%)	PUCB	Trend (%)	PABA UCB	Trend (%)
2008-09	02.51	100.00	51.70	100.00	32.30	100.00	01.98	100.00
2009-10	03.10	123.51	45.28	87.58	35.45	109.75	02.82	142.42
2010-11	03.17	126.29	38.47	74.41	32.29	99.97	02.63	132.83
2011-12	02.50	99.60	24.20	46.81	40.68	125.94	02.72	137.37
2012-13	02.70	107.57	20.54	39.73	36.29	112.35	02.66	134.34
2013-14	04.35	173.31	20.71	40.05	31.32	96.96	03.78	190.91
2014-15	30.09	1198.80	31.02	60.00	32.13	99.47	02.49	125.76
2015-16	35.23	1403.59	31.94	61.78	40.54	125.51	03.01	152.02
2016-17	34.71	1382.87	5.50	10.64	34.71	107.46	02.89	145.96
2017-18	31.40	1250.99	6.76	13.07	02.99	09.26	17.42	879.80
Mean	14.98	-	27.61	-	31.87	-	04.24	-
S.D	15.47	-	15.18	-	10.69	-	04.65	-
C.V (%)	103.27	-	54.98	-	33.54	-	109.67	-

Source: Compiled and calculated from annual reports

It is understood from the Table 5 that Kumbakonam and Pattukkottai urban cooperative banks has the higher liquid assets to total assets ratio as compared to Thanjavur and Papanasam cooperative banks. All the selected urban banks have a high coefficient of variation; it indicates the variable nature of the ratio.

To find out whether there is any significant difference among the urban cooperative banks for maintaining the ratio of liquid assets to total assets, a null hypothesis is framed and tested with the help of ANOVA test.

Null hypothesis:
There is no significant difference among the urban cooperative banks for maintaining liquid assets to total assets ratio

TABLE 6 ANOVA TEST

	Sum of Squares	Df	Mean square	F	Result
Between groups	4720.338	3	1573.446	10.39	**Significant
Within groups	5449.426	36	151.373		
Total	10169.764	39			

** Significant at 5% and 1% level

The calculated F value is 10.39, which is greater than that of the table value at 5 per cent level (2.87) and 1 per cent level (4.38). Therefore, the null hypothesis is rejected. Hence, it can be concluded that there is a significant difference among the urban cooperative banks in the study area in maintaining liquid assets to total assets ratio.

Liquid Assets to Demand Deposits
This ratio measures the ability of a bank to meet the demand from demand deposits in a particular year. It is arrived at by dividing the liquid assets by total demand deposits.
The liquid assets include cash in hand, balance with the RBI, balance with other banks (both in India and abroad), and money at call and short notice. The ratio of liquid assets to demand deposits of the selected banks is shown in Table 7.

Table 7 Liquid Assets To Demand Deposits

Year	*Ratio(%)*							
	TUCB	Trend (%)	KUCB	Trend (%)	PUCB	Trend (%)	PABA UCB	*Trend (%)*
2008-09	36.02	100.00	17.11	100.00	572.23	100.00	02.95	*100.00*
2009-10	38.71	107.47	699.8	4090.01	544.22	95.11	03.05	*103.39*
2010-11	35.23	97.81	446.12	2607.36	558.47	97.60	03.47	*117.63*
2011-12	25.42	70.58	293.53	1715.55	614.06	107.31	02.68	*90.84*
2012-13	26.37	73.21	214.62	1254.35	425.43	74.35	02.43	*82.37*
2013-14	25.68	71.29	247.72	1447.81	318.38	55.64	03.41	*115.59*
2014-15	328.04	910.72	391.35	2287.26	266.08	46.49	02.62	*88.81*
2015-16	376.10	1044.14	419.51	2451.84	56.74	09.92	03.73	*126.44*
2016-17	405.62	1126.10	69.32	405.14	32.55	05.69	03.07	*104.07*
2017-18	354.91	985.31	65.84	384.80	21.22	03.71	01.24	*42.03*
Mean	165.21	-	286.49	-	340.94	-	02.87	-
S.D	174.05	-	210.85	-	237.60	-	0.70	-
C.V (%)	*105.35*	-	*73.60*	-	*69.69*	-	*24.39*	-

Source: Compiled and calculated from annual reports

Table 7 reveals that the analysis of liquid asset to demand deposits of the selected urban cooperative bank has revealed that the Pattukkottai Urban Cooperative has the highest mean value followed by Kumbakonam and Thanjavur Urban cooperative banks. The Papanasam Urban Cooperative Bank has the lowest value liquid assets to demand deposits ratio during the entire study period. Similarly, the liquid asset to demand deposits of Thanjavur, Kumbakonam and Pattukkottai urban banks have the highest value of coefficient variation, which indicates inconsistency of the ratio.

Liquid Assets to Total Deposits
This ratio measures the liquidity available to the depositors of a bank. Liquid assets include cash in hand, balance with the RBI, balance with other banks (both in India and abroad), and money at call and short notice. Total deposits include demand deposits, savings deposits, term deposits and deposits of other financial institutions. The ratio of liquid assets to total deposits of the selected bank is shown in Table 8.

TABLE 8 LIQUID ASSETS TO TOTAL DEPOSITS

Year	*Ratio (%)*							
	TUCB	Trend (%)	KUCB	Trend (%)	PUCB	Trend (%)	PABA UCB	*Trend (%)*
2008-09	03.45	100.00	59.55	100.00	43.58	100.00	02.57	*100.00*
2009-10	04.28	124.06	54.50	91.52	48.10	110.37	03.18	*123.74*
2010-11	04.10	118.84	44.85	75.31	49.13	112.74	03.35	*130.35*
2011-12	03.44	99.71	32.58	54.71	57.66	132.31	03.22	*125.29*
2012-13	03.66	106.09	28.80	48.36	54.24	124.46	03.19	*124.12*

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2013-14	03.14	91.01	29.62	49.74	48.26	110.74	04.54	*176.65*
2014-15	40.95	1186.96	41.20	69.19	47.75	109.57	02.96	*115.18*
2015-16	48.99	1420.00	43.74	73.45	58.31	133.80	03.52	*136.96*
2016-17	47.29	1370.72	07.30	12.26	50.16	115.09	03.32	*129.18*
2017-18	42.67	1236.81	06.85	11.50	4.24	09.73	19.67	*765.36*
Mean	20.20	-	34.90	-	46.14	-	04.95	-
S.D	21.44	-	17.73	-	15.44	-	05.20	-
C.V (%)	*106.14*	-	*50.80*	-	*33.46*	-	*105.05*	-

Source: Compiled and calculated from annual reports

Table 8 shows that the analysis of the liquid asset to total deposits of the selected urban cooperative banks reveals that Kumbakonam Urban Cooperative Bank has maintained highest liquid assets to total deposits ratio followed by the Pattukkottai and Thanjavour urban cooperative banks. The Papanasam Urban Cooperative Bank has a low liquid asset to total assets ratio during the entire study period. Likewise, the ratio of liquid asset to total assets of Thanjavur, Papanasam and Kumbakonam urban cooperative banks has a high variable nature during the study period.

EARNING QUALITY

Earning quality reflects the quality of a bank's profitability and its ability to earn consistently. The quality of earnings is a very important criterion that determines the ability of a bank to earn consistently going into the future. It basically determines the profitability of the bank. It also explains the sustainability and growth in earnings in the future. This parameter gains importance in the light of the argument that much of a bank's income is earned through non-core activities like investments, treasury operation, and corporate advisory service and so on. The following ratios try to assess the quality of income in terms of income generated by core activity income from lending operation.

Return on Capital Employed (Net Profit after Tax to Total Assets)

Return on capital employed ratio is considered to be the best measure of profitability in order to assess the overall performance of the business. It indicates how well the management has used the investment made by shareholders and creditors into the business. It is commonly used as a basis for various managerial decisions. As the primary objective of business is to earn profit, higher the return on capital employed, the more efficient the bank is using its funds. The ratio can be found for a number of years, so as to find a trend as to whether the profitability of the company is improving or otherwise. The return on capital employed ratio of the selected bank is shown in Table 9.

TABLE 9 : RETURN ON CAPITAL EMPLOYED

Year	***Return on Capital Employed (%)***							
	TUCB	**Trend (%)**	**KUCB**	**Trend (%)**	**PUCB**	**Trend (%)**	**PABA UCB**	***Trend (%)***
2008-09	0.41	100.00	01.11	100.00	01.04	100.00	01.38	*100.00*
2009-10	0.54	131.71	01.36	122.52	01.22	117.31	01.02	*73.91*
2010-11	0.55	134.15	01.46	131.53	01.36	130.77	01.45	*105.07*
2011-12	0.56	136.59	01.59	143.24	01.62	155.77	01.06	*76.81*
2012-13	0.66	160.98	01.63	146.85	0.86	82.69	0.88	*63.77*
2013-14	0.62	151.22	01.18	106.31	0.39	37.50	0.90	*65.22*
2014-15	0.40	97.56	01.03	92.79	0.89	85.58	0.43	*31.16*
2015-16	0.44	107.32	0.81	72.97	0.64	61.53	0.68	*49.28*
2016-17	0.39	95.12	0.74	66.67	01.74	167.31	0.69	*50.00*
2017-18	0.42	102.44	0.72	64.86	02.02	194.23	0.61	*44.20*
Mean	0.50	-	01.16	-	01.18	-	0.91	-
S.D	0.10	-	0.34	-	0.51	-	0.33	-
C.V(%)	*20.00*	-	*29.31*	-	*43.22*	-	*36.27*	-

Source: Complied and calculated from annual reports

Table 9 shows that among the four banks, Pattukkottai urban bank has the highest mean return on capital employed of 1.18 per cent, followed by the Kumbakonam Urban Cooperative Bank with a mean value of 1.16 per cent. The average return capital employed of Papanasam and Thanjavur urban cooperative bank was 0.91 per cent and 0.50 per cent during the study period. The mean return on capital employed has been very low in all the selected urban cooperative banks, which signifies that all the banks are deficient in utilizing the total investments made in fixed and current assets and leading to generation of lesser returns. The variation in these ratios has been the highest in Pattukkottai Urban Cooperative Bank (43.22 per cent).

Net Interest Margin (Interest margin to Total Assets)

Net interest margin (NIM) is a measure of the difference between the interest income generated by banks or other financial institutions and the amount of interest paid out to their lenders (for example, deposits), relative to the amount of their (interest-earning) assets. It is similar to the gross margin of non-financial companies.

It is usually expressed as a percentage of what the financial institution earns on loans in a time period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in that time period (the average earning assets).

Net interest margin is the difference between total interest income and total interest expenses. It shows that the management of these banks has been unable to control the spread between interest revenue and interest costs, which leads to increase in interest costs. The net interest margin of the bank is calculated by dividing the net interest margin by total assets of the bank. The net interest margin of the bank during the study period is shown in Table 10.

Table 10: Net Interest Margin

Year	***Net Interest Margin (%)***							
	TUCB	**Trend (%)**	**KUCB**	**Trend (%)**	**PUCB**	**Trend (%)**	**PABA UCB**	***Trend (%)***
2008-09	02.49	100.00	02.84	100.00	04.99	100.00	03.19	*100.00*
2009-10	03.44	138.15	03.88	136.62	04.21	84.37	03.46	*108.46*
2010-11	03.66	146.99	03.53	124.30	04.26	85.37	03.58	*112.23*
2011-12	03.45	138.55	03.99	140.49	04.29	85.97	03.51	*110.03*
2012-13	03.65	146.59	04.18	147.18	04.08	81.76	02.96	*92.79*
2013-14	03.01	120.88	04.33	152.46	05.15	103.21	03.52	*110.34*
2014-15	02.07	83.13	03.40	119.72	03.21	64.33	02.66	*83.39*
2015-16	03.07	123.29	02.79	98.24	03.02	60.52	02.85	*89.34*
2016-17	02.53	101.61	03.64	128.17	05.07	101.60	03.39	*106.27*
2017-18	02.93	117.67	03.21	113.03	04.07	81.56	02.68	*84.01*
Mean	03.03	-	03.58	-	04.24	-	03.18	-
S.D	0.54	-	0.53	-	0.72	-	0.36	-
C.V (%)	*17.82*	-	*14.80*	-	*16.98*	-	*11.32*	-

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Source: Compiled and calculated from annual reports

Table 10 shows that the average net interest margin highest in Pattukkotai urban cooperative bank (4.24 per cent) followed by Kumbakonam urban cooperative bank (3.58 per cent), the lowest in Thanjavur and Papanasam urban cooperative banks (3.03 and 3.18 per cent) which reflects that the ratio of core income (income from lending operations) to income producing assets has been very less throughout the study period. The net interest margin of the Thanjavur and Kumbakonam urban cooperative banks have increased to some extent, whereas Pattukkottai and Papanasam urban cooperative bank have been declined in 2018 as compared to 2009.

Net Interest Margin (Interest margin to Total Assets)

Net interest margin (NIM) is a measure of the difference between the interest income generated by banks or other financial institutions and the amount of interest paid out to their lenders (for example, deposits), relative to the amount of their (interest-earning) assets. It is similar to the gross margin of non-financial companies.

It is usually expressed as a percentage of what the financial institution earns on loans in a time period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in that time period (the average earning assets).

Net interest margin is the difference between total interest income and total interest expenses. It shows that the management of these banks has been unable to control the spread between interest revenue and interest costs, which leads to increase in interest costs. The net interest margin of the bank is calculated by dividing the net interest margin by total assets of the bank. The net interest margin of the bank during the study period is shown in Table 11.

Table 11:net Interest Margin

Year	*Net Interest Margin (%)*							
	TUCB	Trend (%)	KUCB	Trend (%)	PUCB	Trend (%)	PABA UCB	*Trend (%)*
2008-09	02.49	100.00	02.84	100.00	04.99	100.00	03.19	*100.00*
2009-10	03.44	138.15	03.88	136.62	04.21	84.37	03.46	*108.46*
2010-11	03.66	146.99	03.53	124.30	04.26	85.37	03.58	*112.23*
2011-12	03.45	138.55	03.99	140.49	04.29	85.97	03.51	*110.03*
2012-13	03.65	146.59	04.18	147.18	04.08	81.76	02.96	*92.79*
2013-14	03.01	120.88	04.33	152.46	05.15	103.21	03.52	*110.34*
2014-15	02.07	83.13	03.40	119.72	03.21	64.33	02.66	*83.39*
2015-16	03.07	123.29	02.79	98.24	03.02	60.52	02.85	*89.34*
2016-17	02.53	101.61	03.64	128.17	05.07	101.60	03.39	*106.27*
2017-18	02.93	117.67	03.21	113.03	04.07	81.56	02.68	*84.01*
Mean	03.03	-	03.58	-	04.24	-	03.18	-
S.D	0.54	-	0.53	-	0.72	-	0.36	-
C.V (%)	*17.82*	-	*14.80*	-	*16.98*	-	*11.32*	-

Source: Compiled and calculated from annual reports

Table 11 shows the average net interest margin has been the highest in Pattukkotai urban cooperative bank (4.24 per cent) followed by Kumbakonam urban cooperative bank (3.58 per cent), the lowest in Thanjavur and Papanasam urban cooperative banks (3.03 and 3.18 per cent) which reflects that the ratio of core income (income from lending operations) to income producing assets has been very less throughout the study period. The net interest margin of the Thanjavur and Kumbakonam urban cooperative banks have increased to some extent, whereas Pattukkottai and Papanasam urban cooperative bank have been declined in 2018 as compared to 2009.

Operating Profit to Average Working Funds Ratio

This ratio indicates how much a bank can earn from its operations net of the operating expenses for every rupee spent on working funds. This is arrived at by dividing the operating profit by average working funds. Average Working Funds (AWF) are the total resources (total assets or liabilities) employed by a bank. It is a daily average of total assets / liabilities during a year. The better utilization of funds will result in higher operating profit. Thus, this ratio will indicate how a bank has employed its working funds in generating profit. The operating profit to the average working funds ratio of the selected banks is shown in Table 12.

Table 12: Operating Profit To Average Working Funds Ratio

Year	*Operating Profit to Average Working Funds Ratio (%)*							
	TUCB	Trend (%)	KUCB	Trend (%)	PUCB	Trend (%)	PABA UCB	*Trend (%)*
2008-09	0.53	100.00	01.26	100.00	01.21	100.00	01.97	*100.00*
2009-10	0.83	156.60	01.51	119.84	01.36	112.40	01.14	*57.87*
2010-11	0.68	128.30	01.56	123.81	01.49	123.14	01.36	*69.04*
2011-12	0.69	130.19	01.76	139.68	01.79	147.93	01.22	*61.93*
2012-13	0.93	175.47	01.81	143.65	0.96	79.34	01.18	*59.90*
2013-14	0.89	167.92	01.79	142.06	0.51	42.15	01.23	*62.44*
2014-15	0.56	105.66	01.53	121.43	01.07	88.43	0.50	*25.39*
2015-16	0.99	186.79	0.99	78.57	01.13	93.39	01.01	*51.26*
2016-17	0.71	133.96	0.98	77.78	02.43	200.83	01.09	*55.33*
2017-18	0.84	158.49	0.84	66.67	02.32	191.74	0.87	*44.16*
Mean	0.77	-	1.40	-	01.43	-	01.16	-
S.D	0.16	-	0.36	-	0.60	-	0.37	-
C.V (%)	*20.78*	-	*25.71*	-	*41.96*	-	*31.90*	-

Source: Compiled and calculated from annual reports

The mean value of operating profit to average working fund ratio was very less in Thanjavur urban cooperative banks (0.77 per cent) due to lower returns during the study period. It has been the highest in Pattukkottai urban cooperative bank (1.43 per cent). The mean value of the ratio in Kumbakonam and Papanasam urban cooperative banks was 1.40 and 1.16 per cent. The trend indicates that the ratio has been increased to 158 per cent and 192 per cent during the year 2018 as compared to 2009 in Thanjavur and Pattukkotai urban cooperative banks whereas during the same period the ratio has been declined considerably in Kumbakonam and Papanasam urban cooperative banks. The deviation in ratios is the highest in Pattukkottai urban bank (41.96 per cent) followed by Papanasam urban cooperative bank (31.90 per cent).

Profit Margin

A ratio of profitability calculated as net income is divided by revenues, or net profits divided by sales. It measures how much out of every rupee of sales a bank actually keeps in earnings. Net profit margin is one of the most closely followed numbers in finance. Shareholders look at net profit margin closely because it shows how a good bank is at converting revenue into profits available for shareholders. Net profit margin is often used to compare banks within the same industry, in a process known as "margin analysis." Net profit margin is a percentage of sales, not an absolute number, so it can be extremely useful to compare net profit margins among a group of banks to see which are the most effective at converting sales into profits.

Table 13: Profit Margin

Year	Profit Margin (%)							
	TUCB	Trend (%)	KUCB	Trend (%)	PUCB	Trend (%)	PABA UCB	*Trend (%)*
2008-09	03.78	100.00	10.18	100.00	08.56	100.00	06.43	*100.00*
2009-10	04.54	120.11	11.41	112.08	10.15	118.57	07.77	*120.84*
2010-11	05.24	138.62	11.94	117.29	12.38	144.63	09.83	*152.88*
2011-12	0.09	161.11	14.27	140.18	17.79	207.83	10.58	*164.54*
2012-13	07.53	199.21	17.31	170.04	08.67	101.29	10.53	*163.76*
2013-14	07.68	203.17	12.62	123.97	04.00	46.73	10.74	*167.03*
2014-15	05.01	132.54	11.48	112.77	11.37	132.83	05.18	*80.56*
2015-16	04.87	128.84	9.10	89.39	07.58	88.55	07.37	*114.62*
2016-17	04.39	116.14	7.03	69.06	14.86	173.60	06.70	*104.20*
2017-18	04.32	114.29	7.21	70.83	18.47	215.77	06.77	*105.29*
Mean	05.35	-	11.26	-	11.38	-	08.19	-
S.D	01.34	-	03.13	-	04.60	-	02.05	-
C.V (%)	*25.05*	-	*27.80*	-	*40.42*	-	*25.03*	-

Source: Compiled and calculated from annual reports

Table 13 shows the profit margin of the selected urban cooperative banks in the study area. It is observed from the Table that the rate of profit margin has been very less in Thanjavur urban cooperative bank (5.35 per cent) due to lower returns. It has been highest in Pattukkottai (11.38 per cent) followed by Kumbakonam urban cooperative bank (11.26 per cent). The mean value of the profit margin of Papanasam urban cooperative bank was 8.19 per cent during the study period. It discloses that a very least part of the total income is available to the banks in the form of profits and the rest of the amount has been incurred on expenditure. The deviation in ratios is the highest in the Pattukkotai urban cooperative bank.

To find out whether there is any significant difference among the profit margin of selected urban cooperative banks in the study area, a null hypothesis is framed and tested with the help of ANOVA test.

Null hypothesis:

All the selected banks in the study area maintain a same level of profit margin ratio.

Table 14: Anova Test

	Sum of Squares	Df	Mean square	F	*Result*
Between groups	294.793	3	98.264	9.9473	***Significant*
Within groups	355.626	36	9.879		
Total	650.419	39			

** Significant at 5% and 1% level

The calculated F value is 9.95, which is greater than that of Table value at 5 per cent level (2.87) and 1 per cent level (4.38), therefore, the null hypothesis is rejected. Hence, it can be concluded that the profit margin of selected urban cooperative banks significantly differs.

CONCLUSION

The study revealed that urban cooperative banks in the study area have not performed well on all the parameters of the financial performance. One bank performed best on one parameter, but worst on another which prove that the overall financial performance of the banks has not been quite good and all the banks have to make improvements on different fronts.

Finally to conclude, the future of urban cooperative banks is challenging because of the competition from public sector banks and private sector banks. Public sector banks and private sector banks are concentrating on vertical and horizontal integration and expansion. The growth of urban cooperative banks depends on transparency in the control and operation, governance, customer-centric policies, technology upgradation and operational and financial performance.

The urban co-operative banking sector has come to occupy a formidable place in the Indian financial system. The Urban Cooperative Banks catering to the needs of the people of the weaker sections in the urban areas are a powerful means of financial empowerment and financial inclusion. Therefore, the financial health of the urban cooperative banks is of paramount importance to Indian economy. In spite of immense heterogeneity in assets, operation area, nature of operation; UCBs have immense potential to tackle externalities that inhibit a smooth credit flow at a local level. Therefore, the UCBs should learn from its past experience and adjust to new realities to improve their operational and financial performance.

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