CHAPTER - IV

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

4.1 SOURCES OF WORKING CAPITAL

4.2 APPLICATION OF WORKING CAPITAL

4.3 ANALYSIS OF WORKING CAPITAL

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PRESENTATIN, ANALYSIS AND INTERPRETATION OF DATA

In the following chapter the researcher has concentrated on sources of working capital, application of working capital and analysis of working capital with the help of the financial statements i.e. balance sheet and profit and loss account for the five years. Each item is considered in detail. The norms given by the RBI or NABARD are considered in the item wise analysis and in each item different aspects are considered. The intention is to make the study of working capital in detail. The researcher has given statistical data relating with working capital in various tables. But the major findings and suggestions are made in the last chapter number five Findings and Suggestions.

The study of working capital may be studied by following three important ways.

4.1 Sources of Working Capital.

4.2 Application of Working Capital.

4.3 Analysis of Working Capital.

4.1 SOURCES OF WORKING CAPITAL :-

The success of any financial institution depends upon its resource mobilization, its deployment strategies of credit and its recovery performance. Mobilization of resource improves the financial strength of DCCBs and develops the habit of thrift and savings among the members of the bank. In this chapter, an attempt is made to evaluate the performance of the bank in

respect of mobilization of internal (owned funds) and external (borrowed funds) financial resources. The evaluation is made in terms of the extent of adherence to the guidelines of the Apex institutions. The details pertaining to different sources of finance, collection of share capital, growth in reserve fund and other reserves, mobilization of deposits, funds raised from apex financing institutions in the form of borrowings and other sources. The borrowed funds are liabilities to the bank and repayable after a stipulated period along with interest.

In this first part of the chapter an attempt is made to analyze the sources of working capital of SDCCB. Working Capital is the total capital employed by the bank and it consists of mainly following important variables.

1) Owned Funds – a) Share Capital b) Reserves and Other Funds.

2) Borrowed Funds – a) Deposits b) Borrowings.

3) Other Liabilities.

4.1.1 Owned Funds -

The owned funds of the bank comprise paid up share capital and reserves and other funds. For a sound financial position demands that owned funds of the bank must adequate. The owned funds are permanent source of finance to the bank. It is mostly cost free or cheap source of finance to bank except the dividend on the shares. An owned fund forms the basis of security for external debt. Based on this, the lenders and investors are induced to invest the money by the way of deposits in the bank. Thus

performance of management of about each of these aspects evaluated hereunder.

The Credit to Risk Asset Ratio (CRAR) is a new concept related with the owned funds of the bank. This new concept is applicable as per RBI guidelines from 1992. It is applicable presently to commercial bank and not to DCCB. But in the future as per the recommendations of the Vaidhnathan Committee this CRAR should be apply to DCCB in near future and the CRAR of DCCB should be 7 %.

a) Share Capital –

Share capital forms an integral part of owned funds. Share capital is the important factor for the volume of business and serving as guiding principle in determining the credit limits to borrow funds. The share capital of the bank is contributed by the individual members, Government and affiliated societies. An individual members and the affiliated societies or the bank has an obligation to purchase at least one share of the PACS or DCCBs or Apex bank to enjoy the right of membership.

The performance of share capital of SDCCB may be studied by following four important ways.

i) Growth of Memberships

ii) Growth of Share Capital

iii) Growth of Share Capital by Sources.

iv) Mobilization of Share Capital

i) Growth of Memberships –

The following T.No.4.1 shows the growth of the membership of the SDCCB.

Table No. 4.1

Growth of Membership

Year	Govt.	Individuals	Societies	Total	Annual Growth (%)
2001-02	1	364	3401	3766	nil
2002-03	1	363	3524	3888	3.24
2003-04	1	363	3626	3990	2.62
2004-05	1	363	3700	4064	1.85
2005-06	1	363	3769	4133	1.70

Sources : Annual reports of the bank 2001-02 to 2005-06

The above T.No.4.1 indicates that the share capital of the bank is contributed by the individuals, Government and affiliated societies. Government made its entry by contributing the share capital of the bank and such continuous members of the bank. The table also indicates that the membership of the bank is increasing every year expect the Government and individuals. The individuals are dropped from the membership with the amendment in the Maharashtra Co-operative Societies Act 1960.

The table reveals that the percentage of annual growth of membership is decreasing every year constantly.

ii) Growth of Share Capital :

The share capital of the bank is contributed by the individuals, Governments and affiliated societies. The following T.No.4.2 shows the growth of share capital and the percentage of share capital to working capital.

Table No. 4.2

Growth of Share Capital

(Rupees in lakhs)

Year	Total Share Capital	Annual Growth	Working Capital	Percentage of Share Capital to working Capital
2001-02	3586.80	Nil	127828.38	2.81
2002-03	4153.86	16%	140489.32	2.96
2003-04	4406.87	6%	142791.94	3.09
2004-05	4569.98	4%	154215.45	2.96
2005-06	4706.31	3%	171610.22	2.74
Average				**2.91**

Sources : 1) Annual reports of the bank 2001-02 to 2005-06

2) Appendix No. I, Table No.5..4 : Computation of Working Capital

The above T.No.4.2 shows that the share capital of the bank over the years went up from Rs 3586.80 lakhs to Rs. 4706.31 lakhs by the end of the year 2006. The table reveals that the annual growth of the share capital is reducing every year constantly. The annual growth was 16% in 2002-03 and which was declined up to 3% in 2005-06.

The ratio of total share capital to working capital varies between 2.74 to 3.09 and average being 2.91. Thus percentage of share capital to working capital is reducing as compared to the

previous years. The reason for such decrease in the percentage of share capital to working capital is increase in the other variables of the working capital.

iii) Growth of Share Capital by Sources :

The another way of examining the growth of share capital is to classify them according to their sources. There are generally six important classes of share capital for the bank. These are individuals, Government, PACS, co-operative sugar factories, UCBs and other affiliated co-operative societies. The DCCB generally gives large amount of loans to PACS and sugar co-operatives in the district. At the time of giving loans to affiliated societies the DCCB generally deduct the share capital amount. The rate of deduction of share capital is generally 5% to 10% of the loan amount. The following T.No.4.3 presents different sources of share capital for the bank.

Table No. 4.3

Growth of Share Capital by sources

(Rupees in lakhs)

Year	Government	Individuals	PACS	Sugar Co-operatives	UCBs	Other Societies	Total
2001-02	41.00(1.41)	0.34 (0.01)	2342.26 (65. 30)	400.09 (11.15)	102.07(2.85)	701.04 (19.55)	3586.80
2002-03	41.00 (0.98)	0.34 (0.01)	2801.89 (67.45)	418.95 (10.09)	106.81 (2.57)	784.87 (18.90)	4153.86
2003-04	41.00 (0.93)	0.34 (0.01)	2969.16 (67.38)	495.72 (11.25)	107.85 (2.44)	792.80 (17.99)	4406.87
2004-05	41.00 (0.90)	0.34 (0.01)	3126.55(68.41)	497.31 (10.88)	107.86 (2.36)	796.92(17.44)	4569.98
2005-06	41.00 (0.87)	0.34 (0.01)	3266.21 (69.40)	504.57(10.72)	115.86 (2.46)	778.33 (16.54)	4706.31
Average	**0.96**	**0.01**	**67.71**	**10.81**	**2.52**	**17.99**	

Sources : Annual Reports of the bank 2001-02 to 2005-06

Note: Figures in parentheses indicted percentage to total share capital.

The data in the above T.No.4.3 indicates that the average proportion of Government, PACS, sugar co-operatives, UCBs and other societies is 1:68:11:2:18. Thus the contribution through various sources to share capital indicates that the percentage contribution of sugar co-operatives factories and UCBs are very negligible as compared to the contribution of PACS. The most of the share capital of the Bank is from the PACS.

iv) Mobilization of Share Capital :

The efficiency in mobilization of adequate share capital by the management of the bank is evaluated in terms of practices in collection of share capital. Though the higher authorities has instructed that the DCCBs to collects share capital at the rate of 1% to 10% of loan amount. The average percentage is taken as 5% of loans amount for the study. The following T.No.4.4 shows the performance of the management in collection of share capital.

Table No. 4.4

Performance in Mobilization of Share Capital

(Rupees in lakhs)

Year	Share Capital Collected (a)	Loans out standing (b)	5% of Loans (c)	Deficit in Collection Share Capital (d=c-b)	Percentage of Share Capital Collected to Loans (e=a/b)
2001-02	3586.80	96306.55	4815.32	1228.52	3.72
2002-03	4153.86	106041.78	5302.09	1148.23	3.92
2003-04	4406.87	106268.59	5313.43	906.56	4.15
2004-05	4569.98	93039.92	4652.00	82.02	4.91
2005-06	4706.31	100372.60	5018.63	312.32	4.69

Sources : Annual reports of the bank 2001-02 to 2005-06.

Note: Loans amount calculated based on the data obtained from annual reports (i.e. total loans minus advances against Inward Bills Purchased.)

The above T.No.4.4 shows the data on share capital, loans, deficit collection of share capital and percentage of share capital collected to loans is fluctuating in nature. The percentage varies between 3.72 to 4.91. Thus the percentage of share capital to loans is below 5%.

b) Reserve Funds and Other Provisions :

A strong reserve funds important not merely from the point of view of members confidence but also that of creditors points of view. In other words, it is the mirror which reflects the financial soundness of the business. Following are the important objectives in creating the reserve funds.

To meet the unforeseen losses.

To give financial strength.

To fortify outside confidence.

In this connection Eleanor Hough has remarked that "more important from the point of view of members security is an adequate reserve fund" (Eleanor Hough, M. The Co-operative Movement in India, London Oxford University Press, Ely House, 1966 page number 72).

Trends in Reserves:

The following T.No.4.5 presents the information about cumulative growth of different reserves and growth in percentage share of each of the components in total reserves during the period of study. All the reserves except the reserve fund, provision for bad and doubtful debts and other provision, and overdue interest provision are groped under other reserves.

Table No. 4.5

Growth in Components of Reserve Funds and Other Provisions

(Rupees in lakhs)

Year	Total Reserves	Reserve Fund	% to Total Reserves	RBDD & other Provision	% to Total Reserves	OIP	% to Total Reserves	Other Reserves	% to Total Reserves	Working capital	% to Total Reserves
1	2	3	4	5	6	7	8	9	10	11	12
2001-02	9485.54 (100.00)	841.13 (100.00)	8.87	2757.41 (100.00)	29.07	4296.01 (100.00)	45.29	1590.99 (100.00)	16.77	127828.38	7.42
2002-03	12362.31 (130.33)	1121.49 (133.33)	9.07	3157.41 (114.51)	25.54	6281.61 (146.22)	52.82	1801.80 (113.25)	14.57	140489.32	8.80
2003-04	16202.93 (170.82)	1325.10 (157.54)	8.18	3997.41 (144.97)	24.67	8909.52 (207.39)	54.99	1970.90 (123.88)	12.16	142791.94	11.34
2004-05	18254.45 (192.45)	1350.50 (160.56)	7.40	5026.68 (182.30)	27.54	9635.98 (224.30)	52.79	2241.29 (140.87)	12.27	154215.45	11.84
2005-06	19660.22 (207.27)	1355.27 (161.12)	6.89	6700.14 (243.00)	34.08	9337.35 (217.35)	47.50	2267.46 (142.52)	11.53	171610.22	11.46
Average			**7.89**		**28.49**		**50.62**		**13.00**		**10.31**

Source : 1) Annual reports of the bank 2001-02 to 2005-06

2) Appendix No. I, Table No. 5.4 : Computation of Working Capital.

Note : Figures in bracket indicate percentage of increase over base year 2001-02.

The above T.No.4.5 reveals that there was 2 times increase in total reserves during the period under study. The growth in reserve fund, RBDD, OIP and other reserves is 1.50 times, 2.50 times, 2 times and 1.50 times respectively. Since it can be observed that there is significant increase in total reserves not because of substantial increase in the reserve fund but because of addition of amount to RBDD and OIP.

The percentage of reserve fund to total reserves has reducing constantly. In same way the percentage of other reserves to total reserves has reducing constantly. As against there has been substantial increase in the percentage share of RBDD and OIP. The average percentage share of reserve fund, RBDD, OIP and other reserves is 8:28:51:13, Therefore, it cant said that due to substantial contribution to RBDD and OIP the percentage share of reserve fund and other reserve has come down during the period of study.

The table indicates that the percentage of reserve fund and other provisions to working capital varies between 7.42 to 11.84 and average being 10.31.

As per the general rule, the central bank has to create a reserve fund to the tune of 25% out of profit and not the same amount has to be invested in the apex bank. In practice, the SDCCB has fulfilled the rules by investing the reserve fund amount. Therefore most of the reserve funds of the bank have been invested in the form of deposits with MSC Bank, leaving a negligible additional resource. Except

for the purpose of higher borrowing power and maintenance of liquidity no additional resources are available to the bank.

Increased in the RBDD and OIP in fact shows the weak financial position of the bank. Thus it can be observed that the growth in reserve fund has not contributed any additional resources. Most of the reserves are book adjustments and do not provide any additional source of finance to the bank.

4.1.2 Borrowed Funds :

Another distinguishing feature of the working capital of the bank is borrowed funds. It includes mainly two important items that is deposits from the affiliated societies and public and borrowings from the apex institutions, such as SCB and NABARD. The management has to pay attention on mobilization of deposits as it has to develop the habit of savings among the public. The borrowings involve interest cost, they should be used cautiously. The following aspect deals with the evaluation of managerial efforts in mobilization of external resources.

a) Deposits :

An important function of any DCCB is to raise funds for financing the activities of its affiliated societies. Deposit mobilization is one of the means to raise such funds.

Deposits form a part of working capital of the bank and working capital decides the volume of business. Hence DCCB must raise deposits to be self-reliant and self sufficient. Nakkirans of the view that, "the deposits is an important indicator of the success and efficiency of the credit agency" (Nakkiran S.

Agriculture Finance and Rural Banking in India – An Evaluation ; Coimbatore, Rainbow Publications, 1980 P 293)

Higher deposits will be enabling the DCCB to reduce its reliance on external borrowings. Therefore, DCCB should attract more deposits, Eleanger Hough opined that – " The public confidence is reflected in the volume of deposits". (Choubey B.N., Principles and Practices of Co-operative Banking In India, Ashish Publishing House, Bombay 1968). To have more deposits for the DCCB, the Rural Credit Survey Committee has expressed the view that, "PACS's should be encouraged to deposit their funds in the DCCB."

A DCCB is primarily the rural based bank. Hence it can better to mobilize the small savings of rural masses. It is expected that surplus income generated in the farm sector is successfully tapped; there is every possibility of such savings used for unproductive purposes. Thus by collecting the small savings and using the same for the economic development, particularly to the rural economy is expected. Thus in some cases, the cost of borrowings from the apex body exceeds the cost of deposits, it will be more economical for the bank to raise funds by means of deposits. Deposit mobilization will be governed by following three broad ways.

Quality and range of services.

Network of branches.

Rate of return.

Deposit mobilization of SDCCB is done mainly through following important types, Current Account Deposits, Saving Bank

Deposits, Recurring Deposits, Fixed Deposits, Reserve Fund Deposits of Co-operative societies, Bad debts Reserves of Co-operative Societies, Middle Class Pension Deposits Scheme etc.

Since most of the DCCBS have strive for mobilization of adequate deposits, because it strengthens the resource efficiency and develops the habit of banking, thrift and saving among the rural peoples. Here it is proposed to study the trends in aggregate source-wise and type-wise deposits and average deposits to assess the performance of the bank in mobilization of deposits. The results are supplemented with the opinions of bank officers. The performance of the SDCCB deposit mobilization may be studied by following ways.

i) Growth of deposits

ii) Source wise deposit position

iii) Distribution of deposits by classes

iv) Deposit working capital relationship

v) Margin of Safety for Depositors

vi) Gross Credit-Deposit Ratio (GCD Ratio)

i) Growth of deposits:

The growth of deposit is anlyzed by the following T.No.4.6

Table No. 4.6
Growth of Deposits

(Rupees in lakhs)

Year	Deposits	Increase	Annual Growth Rate (%)
2001-02	84138.88	-----	-----
2002-03	94747.81	10608.93	12.61
2003-04	100455.10	5707.29	6.02
2004-05	111636.19	11181.09	11.13
2005-06	123206.89	11570.70	10.36

Sources : Annual Reports of the bank 2001-02 to 2005-06.

The above T.No.4.6 shows the deposits of SDCCB and their annual growth rate percentage. The deposits of the bank are increased every year. The annual growth rate of the bank has not remained constant and it has varied between 6.02% to 12.61 %. The lowest annual growth rate is 6.02 % in the year 2003 -04 and the highest annual growth rate is 12.61% in the year 2002-03. The amount of deposits was Rs. 84138.88 lakhs in the year 2001-02 and increase up to Rs. 123206.89 lakhs. The increase in the deposits is more than nearly 1.50 times. It is shows that deposit mobilization is fairly good and moving upward trend every year. **But at the same time as a general practice the annual growth rate of deposits should be 15% for the year as compared to the previous year.** The bank has not maintained the said annual growth rate of 15%. The last five years are adverse in

co-operative sector with reference to mobilization of deposits.

ii) **Source Wise Deposit Position of the bank :**

For DCCBS mainly there are two important sources of deposits, which are comes from the affiliated societies are compulsory in nature and the deposits from public and institutions are voluntary in nature. All the registered co-operative societies in the district are required to keep their deposits and their reserve funds with their respective DCCB. A major portion of deposits of the banks comes from its affiliated societies. Mobilization of such deposits needs least efforts of the management. However the deposits from the public required highest efficiency of the management to mobilize the such deposits.

Hence the growth in the source-wise deposits indicates the ability of the managements. An attempt is made to assess the trends in source-wise deposits. The following T.No.4.7 presents the source-wise deposits along with the percentage growth.

Table No. 4.7

Distribution of Deposit by Source wise

(Rupees In lakhs)

Year	Total Deposits	Co-operative Societies	Growth in %	Individual Public	Growth in %
2001-02	84138.88	36876.95 (43.83)	nil	47261.93 (56.17)	nil
2002-03	94747.81	40735.24 (42.99)	10.46	54012.57 (57.01)	14.28
2003-04	100455.10	41071.90 (40.89)	0.83	59383.20 (59.11)	9.94
2004-05	111636.19	46246.50 (41.43)	12.60	65389.69 (58.57)	10.11
2005-06	123206.89	44570.59 (36.18)	(-) 3.62	78636.30 (63.82)	20.25
Average		**40.74**		**59.26**	

Sources : Annual reports of the bank 2001-02 to 2005-06
Note : Figures in brackets indicate percentage to Total Deposits.

The above T.No.4.7 indicates that the deposits which comes form the individual was minimum 56.17% in the year 2001-02 and maximum 63.82% in the year 2004-05 of the total deposits. The average percentage is being 59.26 % of total deposits. On the other side the percentage of deposit contributed by the affiliated societies varies between 36.18% and 43.83% of the total deposits and average percentage being worked out to be 40.74%. Thus with regard to performance of in composition of total deposits, the table reveals that the percentage share of individual deposits always showed higher share compared to percentage share of deposits from societies.

A close observation into the societies deposit shows that there has been a 1.20–fold increase in the period under study. The year-wise percentage growth of deposits varied between (-) 3.66 to 12.60 with regard to mobilization of deposits from individuals, it reveals that there has been an 1.50-fold increase during the period under study. The year wise percentage growth individual deposits varied between 9.94 to 20.25. Thus it has been revealed that there has been a tremendous growth in the individual deposits in the 2005-2006.

It is also observed that percentage of the individual deposits to total deposits is increased but at the same time the percentage of affiliated societies to total deposits is reducing year by year excluding in the year 2004-05. The reason for decreasing the percentage of contribution of affiliated societies to total deposits is due to the new policy of RBI regarding the Urban Co-operative Banks. According to Banking Regulation Act 1949 section 24, all the primary Urban Co-operative Banks is required to maintain minimum 25% as liquid assets of the Net Demand and Time Liabilities and is to invest in the Government securities. According to this new policy of RBI the deposits of SDCCB are reducing. The UCBs have withdrawn Rs. 110 crores form the SDCCB in the year 2006-07. Therefore the SDCCB has to make efforts to tap the large portion of deposits from public and other affiliated co-operative societies in the district.

iii) Distribution of Deposits by Classes:

Another way of examining the growth of deposits is to classify them according to their nature. There are generally three important kinds of deposits in the bank. Which are Fixed Deposits, Saving Bank Deposits and Current Account Deposits.

Fixed deposits being the safest form of deposits. It can be utilized in the business of bank for a definite period. Hence more fixed deposits make the bank financial stable and increase the volume of business. The rate of interest offered by the bank on such deposits is more as compared to saving bank deposits. Therefore such deposits carrying more costs.

The saving deposits are small in nature. Normally in such accounts withdrawals are neither frequent nor huge in amount. Therefore a small amount of fluid resources can meet the demand, leaving more amounts for banking operation to the bank. The rate of interest offered by bank on such deposits is lower as compared to fixed deposits. The DCCBs is rural based, it is better to mobilize small savings from the weaker sections of the rural and urban public through saving bank deposits.

Deposits of the current accounts are current in nature the bank must fully covered by liquated resources. Such current account deposits are not more useful for the bank. But it is cost free source of finance to the bank. Such deposits are interest free.

The bank evolved certain special schemes like, Pigmy deposits, Recurring deposits, Farmers pension schemes, Middle class pension scheme, Dam Duppat and Dam Tippat etc. For the purpose of study, all these types of deposits are grouped in to the three broad heads that is, Current Account Deposits, Saving Bank Deposits and Fixed Deposits. To Study the performance of the bank in mobilization of different deposits is studying by the following table.

The following T.No.4.8 presents the percentage growth and percentage of each type of deposits to total deposits.

Table No. 4.8

Distribution of Deposits by Classes

(Rupees in lakhs)

Year	Current Deposits	Growth in %	Saving Deposits	Growth in %	Fixed Deposits	Growth In %	Total Deposits
2001-02	9002.07 (10.70)	nil	16185.00 (19.24)	nil	58951.81 (70.06)	nil	84138.88
2002-03	10396.12 (10.97)	15.49	17778.16 (18.76)	9.84	66573.53 (70.27)	12.93	94747.81
2003-04	11265.11 (11.21)	8.36	18034.23 (17.95)	1.44	71155.76 (70.84)	6.88	100455.10
2004-05	11435.48 (10.24)	1.51	21642.57 (19.39)	20.00	78558.14 (70.37)	10.40	111636.19
2005-06	15002.56 (12.18)	31.20	31331.73 (25.43)	44.76	76872.60 (62.39)	(-)2.15	123206.89
Average	**11.11%**		**20.41**		**68.48%**		

Note : Figures in the brackets indicate percentage of each type of deposits to total deposits.

Sources : Annual Reports of the bank 2001-02 to 2005-06.

The above T.No.4.8 indicates that there is an increase in current deposits from Rs. 9002.07 lakhs to Rs. 15002.56 lakhs recording an increase of about 1.50 – times. The year-wise percentage growth of current deposits varies between 1.51 to 31.20. The growth rate was higher during 2005-06.

Similarly, there has been increase in saving bank deposits from Rs. 16185.00 lakhs to Rs. 31331.73 lakhas recording an increase of about 2-times. The year-wise growth in percentage varies between 1.44 to 44.76. The growth rate is higher during the year 2005-06.

Similarly, fixed deposits have been increase from Rs. 58951.81 lakhs to Rs. 76872.60 lakhs recording an increase about 1.30- times. The year-wise percentage growth of fixed deposits varies between (-) 2.15 to 12.93. The growth of fixed deposits was higher during year 2001-2002.

The average proportion of current deposits, Saving bank deposits and fixed deposits is 11:20:69 respectively. On the year 2001-02 the proportion of current deposits, saving bank deposits and fixed deposits was 11:19:70 respectively. During the year 2005-06 the said proportion was 12:26:62. Thus during the year 2005-06 the proportion of current deposits and saving bank deposits had increased and at the same time the proportion of fixed deposits had reduced. It indicates that during the year 2005-06 the proportion of fixed deposits had decreased and that of saving bank deposits and current deposits had increased.

As per the NABARD guidelines the standard proportion of current deposits, saving bank deposits and fixed deposits to total deposits should be 15: 35 : 50 . It indicates that the portion of Current deposits to total deposits should be 15%, the portion of saving bank deposits to total deposits should 35% and that of the proportion of fixed deposits to total deposits should be 50%. The said standard proportion of deposits is not maintained by the Sangli DCC Bank.

Thus it is concluded that there has been substantial growth in different types of deposits. The portion of fixed deposits to total deposits shows a higher share of percentage during the period of study. It is observed that the proportion of fixed deposits is higher due to the amount of reserve funds of the PACS are included in the fixed deposits. This reserve funds deposits generally are made for long term period.

iv) Deposits Working Capital Relationship. :

Deposit is the one of the most important variables in the working capital. More mobilization of deposits increase the working capital and it leads to expand the volume of business. The another way for analyzing the performance of deposit mobilization is to study the relationship between the deposits and working capital, through deposit as a percentage of working capital.

The following T.No.4.9 presents the data on deposits, working capital and percentage of deposits to working capital. **As a general practice the ratio should be 70%.**

Table No. 4.9

Contribution of Deposits to Working Capital

(Rupees In lakhs)

Year	Total Deposits	Working Capital	Percentage of Deposits to Working Capital
2001-02	84138.88	127828.38	65.82
2002-03	94747.81	140489.32	67.44
2003-04	100455.10	142791.94	70.35
2004-05	111636.19	154215.45	72.39
2005-06	123206.89	171610.22	71.79
Average			**69.77**

Source : 1) Annual Report of the bank 2001-02 to 2005-06,

2) Appendix No. I, Table No.5.4:Computation of Working Capital.

The T.No.4.9 indicates that the deposit as a percentage to working capital was minimum 65.82% in the year 2001-02. Where as during the year 2004-05 the percentage of deposits to working capital was maximum 72.39%. The average percentage being 69.77%. Which indicates deposits forms large portion of working capital of the bank. The table indicates that the percentage of deposits to working capital is increase every year steadily. The percentage was 65.82% in the year 2001-02, which is increased up to 72.39% in the year 2004-05. But at the next year 2005-06 the percentage of deposits to working capital is declined up to 71.79%. It is observed that in the portion of working capital the other

variables of working capital were increased in the year 2005-06. In short the position of deposits to working capital shows the average position during the study.

v) Margin of Safety for Depositors :

Another way of studying deposits is to find out the relationship between deposits and owned funds of the bank. The owned funds of the bank includes paid up share capital and free reserves (less provisions), credit balance in profit and loss account less accumulated losses if any. Deposit is the borrowed capital that should be returned after maturity. For the sound financial position owned funds of the bank should be more and increasing trend. The ratio of owned funds to deposits indicates the margin of safety for the depositors. The ratio is worked out as under.

Owned funds to Deposits = Owned funds / Deposits

Table No. 4.10

Relationship of Owned Funds to Deposits

(Rupees in lakhs)

Year	Owned Funds	Deposits	Ratio (%)
2001-02	6403.36	84138.88	0.08
2002-03	7407.63	94747.81	0.08
2003-04	7790.48	100455.10	0.08
2004-05	6826.66	111636.19	0.06
2005-06	6541.40	123206.89	0.05
Average			**0.07**

Sources : 1) Annual reports of the bank 2001-02 to 2005-06

2) Appendix No. I, Table No. 5.3 : Computation of Owned Funds.

Owned Funds to Deposits relationship is presented in the above T.No.4.10. The ratio of owned funds to deposits reveals that the number of times the total deposits of the bank is covered by its owned funds. It is indicated that the ratio of owned funds to deposits is average 0.07. It is observed from the above table that in all the years the ratio is less than **1** which shows that the deposits of the SDDCB has not been fully covered by its owned funds. **As a general practice the ratio should be 5%.** It may concluded that the margin of safety available for depositors of the bank was very less. The ratio also indicates that the deposits, the bank does not have adequate owned funds. Thus the margin of safety of the depositors does not reflect a satisfactory position.

vi) Gross Credit Deposit Ratio (CD-Ratio) :

One of the most important dimensions of studying deposits is to find out the relationships between deposit and credit (Loans and Advances). The DCCBs collecting deposits for the purpose of lending to affiliated societies in the district. An increase in deposits allow the bank to lend more money to its affiliated societies in the district. The CD-Ratio indicates that the performance and efficiency of the bank with regard to its deposits mobilization and credit distribution. Thus CD- Ratio is used as a measuring tool for judging the efficiency of the bank with regarding to profitability, liquidity and solvency. The ratio is worked out as under.

Gross Credit Deposit Ratio = Credit / Deposit

Table No. 4.11

Gross Credit Deposit Ratio

(Rupees in lakhs)

Year	* Credit	Deposit	CD-Ratio
2001-02	96306.54	84138.88	114.46
2002-03	106041.79	94747.81	111.92
2003-04	106268.59	100455.10	105.79
2004-05	93039.92	111636.19	83.34
2005-06	100372.60	123206.89	81.47
Average			**97.64**

Source : Annual report of the bank 2001-02 to 2005-06.

(* Calculation of Credit based on the data obtained from annual reports of the bank that is total Loans and Advances Less Inland Bill Purchased)

The above T.No.4.11 shows the Credits, Deposits and their respective ratios. The lower CD-Ratio which indicates that the deposits of the bank is more than its credit made by the bank and higher CD-Ratio which indicates the deposits of the bank is lower than its credit made by the bank. The CD- Ratio of the bank varies between 81.47 to 114.46 and average being 97.64. The said CD-Ratio of the bank fluctuating in nature and it is decreasing every year. **According to NABARD guidelines the Gross CD-Ratio should be 90% to 110%.** The table also reveals that the CD-Ratio was higher in the year 2001-02, 2002-03 and 2003-04 and it was lower in the year 2004-05 and 2005-06. Thus it is observed that the growth of the deposits is commensurate with the growth of loans and advances.

b) Borrowings :

Another important source of finance for the DCCB's is by the way of borrowings from apex institution. It is an important function of DCCB's to borrow funds as and when the internal sources of finance is not sufficient to carry out the banking business. The amount of borrowings depends upon the deployment of funds and its repayment performance. Generally the DCCBs borrowed Short Term and Medium Term funds from SCB or NABARD. The borrowing of DCCBs are generally limited to 12 times of the aggregate paid up share capital plus reserve funds (Owned Funds) or such other enhanced limit as may be permitted by the Registrar of the co-operatives from time to time.

The researcher has studied the borrowings by three broad ways.

i) Growth in Borrowings.

ii) Period-wise classification of Borrowings.

iii) Performance regarding the adequacy of Borrowings.

i) Growth in Borrowings and Borrowings to Working Capital :

The following T.No.4.12 presents the relationship of borrowings to working capital and the growth of the borrowings.

Table No. 4.12
Growth in Borrowings

(Rupees in lakhs)

Year	Borrowings	Growth	Working Capital	Percentage of Borrowing to Working Capital
2001-02	25993.33	100	127828.38	20.33
2002-03	24891.10	95.76	140489.32	17.72
2003-04	17938.22	69.01	142791.94	12.56
2004-05	15021.90	57.79	154215.45	9.74
2005-06	17935.21	69.00	171610.22	10.45
Average				**13.81**

Source : 1) Annual reports of the bank 2001-02 to 2005-06.

2) Appendix No. I, T. No. 5.4: Computation of Working Capital.

The above T.No.4.12 shows that the borrowings of the bank decreased in last five years. The table indicates that the ratio of borrowings to Working Capital of the bank fluctuate between 9.74 to 20.33% in the year 2001-02 and 2004-05 respectively. The average ratio of borrowings to working capital is being 13.81% in the last five years. The highest ratio which indicates that the bank is borrowed more money for financing loans and advances to its affiliated Societies in the district. Borrowings is also made when the owned funds or deposits of the bank is not adequate. The ratio also indicates that the highest ratio means more dependence on outside funds. And the lowest ratio indicates that is less dependence of outside funds. The ratio of SDCCB is

reducing in nature, because in last five years Cane crop in the district was totally destroyed due to drought and flood condition. Therefore it adversely affects the functioning of co-operative sugar factories in the district. So demand for loans from the sugar factories was reduced. Therefore the ratio of borrowings to working capital of the bank was reduced in last five years.

In short "the management of credit is more flexible and effective if the co-operative credit institutions depends less on borrowed resources". (Shrinivasan, Co-operative Management Perspective, The Tamilnadu Journal of Co-operation, page No. 7 vol,71 1984.)

ii) Period-Wise Classification of Borrowings :

The bank has availing borrowings from higher financing agencies in the form of short term borrowings repayable within one year, medium term borrowings repayable with 3 to 5 years and long term borrowing repayable after expiry of 5 years period. In order to know the relative importance and the preference of the management in the financial operations of the bank, information about term-wise borrowings and percentage share of each of the components in total borrowings during the period of study is presented in the following T.No.4.13.

Table No.4.13

Period-Wise Classification of Borrowings.

(Rupees in lakhs)

Year	Total Borrowings	Short Term Borrowings	Medium Term Borrowings	Long Term Borrowings
2001-02	25993.33	12096.07 (46.53)	5086.64 (19.57)	8810.62 (33.90)
2002-03	24891.10	6652.93 (26.73)	8237.54 (33.09)	10000.63 (40.18)
2003-04	17938.22	3522.88 (19.64)	5993.74 (33.41)	8421.60 (46.95)
2004-05	15021.90	207.55 (1.39)	7531.09 (50.13)	7283.26 (48.48)
2005-06	17935.21	1310.19 (7.31)	7181.58 (40.04)	9443.44 (52.65)
Average Percentage		**23.37**	**33.44**	**43.19**

Sources : Annual reports of the bank 2001-02 to 2005-06.

Note : Figures in bracket shows percentage to total borrowings.

The T.No.4.13 reveals that there has been about 11 times decrease in short term borrowings indicating substantial decrease during the period under study. The percentage share of short term borrowing has decreased from 46.53 to 7.31 indicated the decreasing trends in the proportion of short term borrowing to total borrowings.

Similarly there has been continuously growth in medium term borrowings showing an increase of 1.40-fold during the period of study. The percentage share of medium term

borrowings to total borrowings has increased from 19.57 to 40.04 indicating the increasing trends in the proportion of medium term borrowings to total borrowings.

Similarly there was increase in long term borrowings during the period of study. The percentage share of long term borrowings has increased from 33.90 to 52.65.

Since the average proportion of short term, medium term and long term borrowings to total borrowings is 23:34:43. Thus the bank has slowly shifted its reliance on medium term and long term borrowings from short term borrowings. It is observed that the bank converted its short term borrowings into the medium term borrowings due to adverse conditions in the last five years.

iii) Performance Regarding Adequacy of Borrowings :

The performance regarding the adequacy of borrowings can be examined with the help of extent of utilization of borrowing power. The maximum borrowing power of the bank is 12 times of its owned funds (i.e. paid up share capital plus reserve fund plus building fund.) The following T.No.4.14 gives the information about maximum borrowings power, actual amounts borrowed and percentage of borrowed amounts to borrowing power during the period under study.

Table No. 4.14

Utilization of Borrowings Power

(Rupees in lakhs)

Year	* Owned Funds	Borrowing Power	Actual Borrowing	Actual Borrowings in Percentage
2001-02	4698.93	56387.16	25993.33	46.10
2002-03	5556.35	66676.20	24891.10	37.33
2003-04	6017.97	72215.64	17938.22	24.84
2004-05	6213.88	74566.56	15021.90	20.15
2005-06	6354.98	76259.76	17935.21	23.52
Average				**29.41**

Source : Annual reports of the bank 2001-02 to 2005-06.

Note : * Owned funds figures are computed from the data available from the annual reports of the bank. Owned funds include the paid up share capital plus reserve fund and building fund.

The above T.No.4.14 reveals that there is decrease of about ½ times in borrowings during the period under study. The percentage of actual borrowings power to maximum borrowing power varies between 20.15 to 46.10 during the period under study. It indicates that the bank could utilize only 30% of its borrowing power over a period of time.

Since it signifies cautious utilization of efficient power, it has taken place not on account of efficient financial planning of the bank but because of non-adherence to the recovery

discipline and decrease in demands for loans from co-operative sugar factories in the district.

4.1.3 Other Liabilities :

The term Other Liabilities is used to describe such obligations, which are paid within one year and which are paid out of assets. This type of obligation may be the sources of working capital for the organization for a short period. It includes cost free funds such as remittances by way of DD,TT,MT, Interest payable, Staff Provident Funds, Sundry Creditors, Credit Balance of the Branch Adjustments, Outstanding Expenses, Declared Dividend, Suspense entries etc. and Credit Balance in Profit and Loss account always cost free. The following table shows the relationship of other liabilities and working capital of the SDCCB.

Table No. 4.15

Position of Other Liabilities to Working Capital

(Rupees in lakhs)

Year	Other Sources	Working Capital	Percentage of other Liabilities to Working Capital
2001-02	4623.83	127828.38	3.62
2002-03	4334.24	140489.32	3.08
2003-04	3788.82	142791.94	2.65
2004-05	4732.93	154215.45	3.06
2005-06	6101.59	171610.22	3.56
Average			**3.20**

Source: 1) Appendix No. I, No. 5.4: Computation of Working Capital

2) Annual reports of the bank 2001-02 to 2005-06.

The above T.No.4.15 indicates that other sources as percentage to working capital was minimum 2.65% in the year 2003-04. Where as during the year 2001-02 the percentage of other sources to working capital was maximum 3.62%. and the average being 3.20%. The table reveals that the percentage of other sources to working capital is reducing trend.

4.1.4 Composition of Working Capital at a Glance :

Working capital is the total capital employed by the bank. It includes Paid Up Share Capital, Reserves and Other Funds, Deposits, Borrowings and Other Sources. It is proposed to present the trends in working capital and relative importance of the each of the components of working capital.

The RBI has using "Working Capital" as entire liabilities side of the balance sheet excluding the contra items which are in the nature of off-setting each other and accumulated losses. (M. Srinivas, Organization and Management of Co- operative Bank, Printwell Publishers, Jaipur 1990, P.No. 123.)

The practice of SDCCB revealed that the functional meaning of working capital is total of any one side of the balance sheet less contra items. For the purpose of this study the working capital is taken as the "total of any one side of the balance sheet less contra items."

The following T.No.4.16 presents the information about cumulative total of components of working capital, percentage share of each of the components in the total working capital and percentage growth in working capital during the period under the study. It also indicates the performance of management in

mobilization of working capital during the period under study .**As a general practice the ratio of share capital, reserve funds and other provisions, deposits, borrowings and other liabilities the percentage should be 5 : 10 :70 :10 : 5 respectively of the total working capital.**

Table No. 4.16

Sources of Working Capital at a Glance

(Rupees in lakhs)

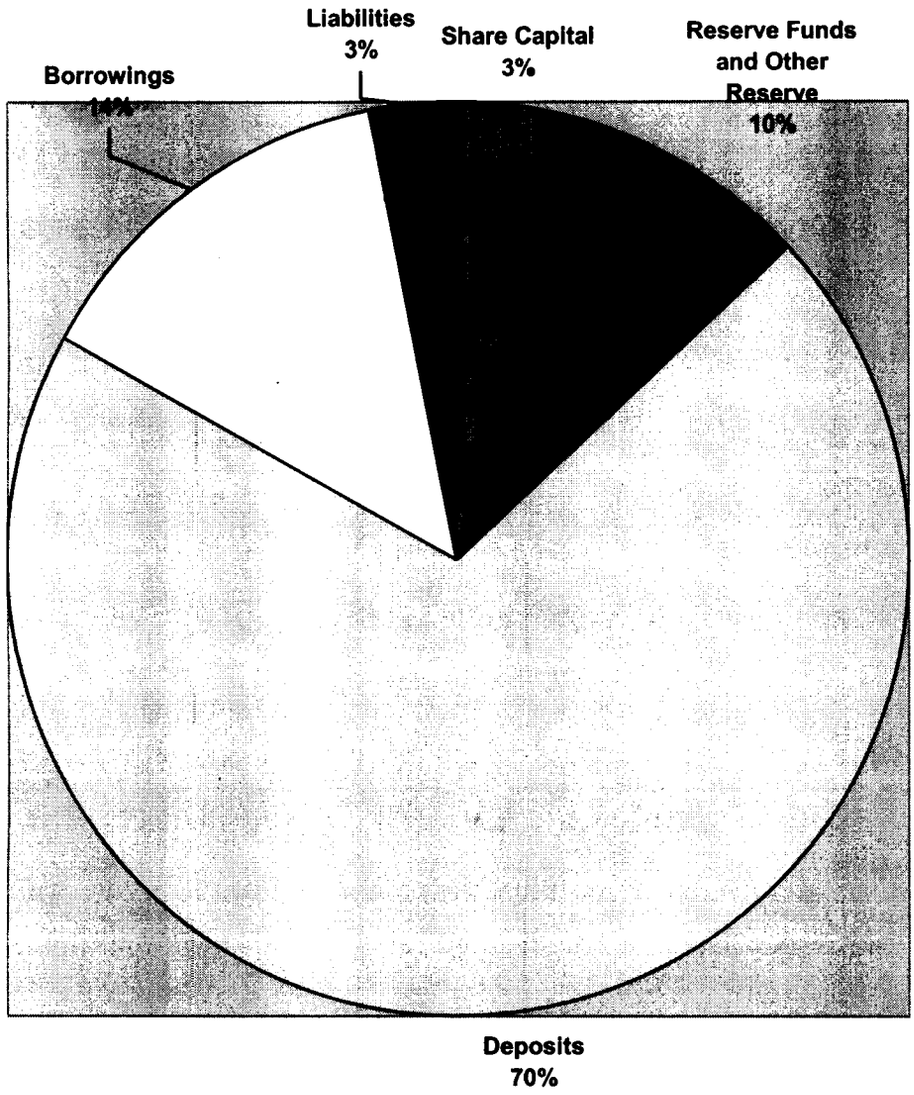
Year	Share Capital	Reserves Fundand Other Reserves	Deposits	Borrowings	Other Liabilities	Working Capital	Percentage Growth Rate
2001-02	3586.80 (2.81)	9485.54 (7.42)	84138.88 (65.82)	25993.33 (20.33)	4623.83 (3.62)	127828.38	Nil
2002-03	4153.86 (2.97)	12362.31 (8.80)	94747.81 (67.44)	24891.10 (17.71)	4334.24 (3.08)	140489.32	9.90
2003-04	4406.87 (3.09)	16202.93 (11.35)	100455.10 (70.35)	17938.22 (12.56)	3788.82 (2.65)	142791.94	1.64
2004-05	4569.98 (2.96)	18254.45 (11.84)	111636.19 (72.40)	15021.90 (9.74)	4732.93 (3.06)	154215.45	8.00
2005-06	4706.31 (2.74)	19660.22 (11.46)	123206.89 (71.79)	17935.21 (10.45)	6101.59 (3.56)	171610.22	11.28
Average	**2.91**	**10.31**	**69.77**	**13.81**	**3.20**		

Note : Figures in brackets indicates percentage of each components of working capital sources.

Sources : 1) Annual reports of the bank from 2001-02 to 2005-06.

2) Appendix No. I, Table No. 5.4 : Computation of Working Capital.

Chart No. 4.1 : Sources of Working Capital at a Glance



The above T.No.4.16 and Chart No.4.1 presents data on source-wise classification of the working capital. The working capital of the bank shows a steady and significant rise. It was Rs. 127828.38 lakhs in the year 2001-02 and rose to Rs. 171610.22 lakhs by the end of the year 2005-06, indicating about 1.50 – times increase. The year-wise percentage growth varied between 1.64 and 11.28 during period under study. Highest growth rate had been recorded in the year 2005-06, due to increase in deposits and reserves of the bank.

The percentage share of share capital, reserves, deposits, borrowing and other sources to working capital varied between 2.74 to 3.09, 7.42 to 11.84, 65.82 to 72.40, 9.74 to 20.33 and 2.65 to 3.62 respectively. Similarly the average proportion of share capital, reserves, deposits, borrowings, and other sources is 3 : 10 : 70 : 14 : 3 . Thus the composition indicates that the percentage share of borrowed capital (deposits and borrowings) is much higher than that of the owned capital (share capital and reserves). Hence the bank owned resources constitute a meager percentage of the total working capital. This, beyond suggest that the bank is leaning heavily on outside sources for its working capital.

According to RBI guidelines regarding prudential norms the average growth rate of working capital should be 15%. The said growth rate of 15% is not maintained by the bank. With the interview of the officers of the bank it is revealed that the mobilization of resources become more difficult due to competition form the financial institutions such as commercial banks, post office saving bank, national small saving organizations and insurance companies on one side and the adverse natural calamities on the other, have made the task of resource mobilization of SDCCB more difficult.

In brief, the above discussion is related with sources of working capital. In the next part of the chapter the researcher has made detail analysis regarding the application of working capital.

4.2 APPLICATION OF WORKING CAPITAL :

In the preceding chapter the researcher has already explained that funds required by a bank can be raised either through the owned funds that is paid up share capital, reserves, other funds and borrowed funds that is deposits, borrowings and other liabilities. The bank has to maintain a proper mix of both the types of funds in a manner that both the cost and risk are minimized.

The finance executives are concerned with the financing as well as investment decisions. The financing decision is related with the determination of the amount of owned and borrowed funds required and the sources from which the finance is to be raised. The investment decision or application of funds involves a careful consideration of various factors like profitability, safety, liquidity and solvency. The following second part of the chapter deals with the application of working capital.

The working capital is concerned with managing the assets, liabilities and inter relationship which exist between them. Working capital is the total capital employed by the bank and the basic components of working capital applications are : Cash, Investment, Loans and Advances, Fixed Assets and Other Assets. In the following discussion each components in application of working capital is considered in detail.

4.2.1 Cash :

Cash is important current asset for the operation of business. It is the responsibility of the finance executives to manage available cash properly. The term cash includes, hard cash and

everything which can be converted into cash within no time. The balance laying in apex bank treated as a part of cash.

Cash is the life-blood for business activity. The demand deposits of the banks constitute an important segment of total money supply. Sufficient cash holdings to meet the deposits withdrawals and the fresh demand for loans and advances are very essential not only to protect the integrity and solvency of the banks but also for maintaining the confidence of the public in banking system. Thus all the branches of the bank are required to maintain sufficient amount of cash to meet their day-to-day requirements. It is, however also true that excess holdings of cash at the branch level result in the lowering the profits of the bank as well as the branch concerned.

Motives for Holding cash :

A distinguishing feature of cash as an asset, irrespective of the organization in which it is held, is that it does not earn any substantial return for the business. In spite of this fact cash is held by the organization with the following motives.

i) Cash transaction helps to meet the day-to-day obligations.

ii) Precautionary motive is to contingencies.

iii) Speculative motive is to take benefit from favorable market conditions.

Objectives of Cash Management :

There are two basic objectives of cash management.

i) To meet the cash disbursement needs as per the payment schedule.

ii) To minimize the amount locked up as cash balances.

As a matter of fact both the objectives are mutually contradictory and, therefore, it is a challenging task for the finance manager to reconcile them and to have the best in this process.

Cash Management Basic Problems :

Cash management involves the following four basic problems. i) Controlling levels of cash. ii) Controlling inflows of cash. iii) Controlling outflows of cash. iv) Optimum investment of surplus cash

Cash in non yielding assets. Idle cash will considerably add to interest burden. If the surplus cash is lent, the bank will avoid the loss of not having invested the money and earn a profit. The bank has to ensure that the branch managers keep cash in their vaults within the limits prescribed by the head office. They are also required to ensure that the limits prescribed by the head office.

The important function of finance executives is to provide adequate cash to all segments of the bank. They have to also ensure that no funds are blocked in idle cash since this will involve cost in terms of interest to the business. A sound cash management scheme therefore maintain the balance between the twin objectives of liquidity and cost.

The performance of cash position of SDCCB may be studied by following two ways, that is position of cash to working capital and cash reserve ratio.

a) Position of Cash to Working Capital :

To achieve the objectives of maximum profitability consistence with liquidity the bank has to tap the cash resources to the fullest extents.

As per Banking Regulation Act 1949 (as applicable to Co-operative Banks) DCCBs were expected to maintain not less than 3% of Net Demand and Time Liabilities (DTL) as a Cash Reserve Ratio (CRR), of the last Friday of the proceeding forthright with RBI/SBI/SCB. Therefore DCCBs has to maintain minimum 3% CRR in the form of cash in hand and cash with apex banks for day to day banking operations.

The following T.No.4.17 shows the position of cash to working capital of the SDCCB.

Table No. 4.17

Position of Cash to Working Capital

(Rupees in Lakhs)

Year	Cash	Working Capital	Percentage of Cash to Working Capital
2001-02	3439.71	127828.38	2.69
2002-03	3824.73	140489.32	2.72
2003-04	5390.27	142791.94	3.77
2004-05	4344.45	154215.45	2.82
2005-06	4785.75	171610.22	2.96
Average			**2.96**

Source : 1) Appendix No. I, Table No. 5.4 : Computation of Working Capital

2) Annual reports of the bank 2001-02 to 2005-06.

The table indicates that the percentage of cash to working capital varies between 2.69% to 3.77% and average being 2.96. The table reveals that the bank has maintained nearly 3% of cash in position to working capital excluding in the year 2003-04. Thus the table indicates that the bank has maintained cash balance cautiously.

b) Cash Reserve Ratio :

It is not sufficient to analyses the position of working capital and cash, it will be better to know the CRR and the cash maintained by the bank.

It is not sound for the bank to lend all the cash with it. According to RBI norms minimum 3% amount of DTL should be kept as a CRR. The RBI can increase the said 3% of CRR amount up to 15% for co-operative banks. The bank can be kept CRR with them in cash or it can be kept with RBI/SBI/SCB. Banks are required to send periodic returns to RBI about the maintenance of CRR. If CRR is not maintained, RBI has power to impose penalty over the defaulting bank. In the said five years period bank has maintained the standard CRR of 3% The following T.No.4.18 gives the detail of CRR.

Table No. 4.18

Position of Cash Reserve Ratio

(Figures in to Percentag)

Year	Standard Percentage	Minimum Percentage in the year	Maximum Percentage in the year	Average Percentage
2001-02	3	3.02	4.89	3.38
2002-03	3	3.05	4.58	3.55
2003-04	3	3.06	6.25	3.58
2004-05	3	3.13	4.65	3.57
2005-06	3	3.01	4.52	3.42

Source : CRR Register of the bank from 2001-02 to 2005-06.

The above T.No.4.18 shows that the maximum CRR was highest 6.25 in the year 2003-04. Similarly average CRR was highest 3.58 in the year 2003-04. The table indicates that bank has maintained the CRR very cautiously excluding in the year 2003-04. The table show that the bank has not exceeds the percentage of average CRR above 3.60.

4.2.2 Investments :

The finance executives are concerned with financing as well as investment decisions. Financing decisions relate to determination of the amount of finance required and the sources from which such finance is to be raised. Similarly the investment decision is important decision.

Nearly 20% of employable funds are invested in approved or gilt aged securities. This investment has the "Liquidity" character as they are saleable in times of need. The investment will be in the form of Government securities, Semi-Government securities,

securities of well established industries and trading company. It is safe and profitable to invest in such securities as they bring interest and they are Government securities.

As the bank has satisfied the SLR and if it has surplus funds, it will be invested in approved securities as stated above. The bank investment consist of :

i) Treasury bills

ii) Government securities

iii) Semi-Government Securities

iv) Securities of public utilities

v) Corporate Securities.

Before purchasing the investments stated above, banks consider some factors and these factors are called principles. These principles are.

i) Safety of the investments.

ii) The investment should be capable of having ready market for them or convertibility of securities into cash.

iii) Adequate rate of return or yield on investment.

iv) The price of securities purchased by bank should be stable.

v) Besides the above duration of the security (long term and short term) and tax liability on investments which also act as a guiding factor.

Generally speaking the investments in DCCBs are classified into SLR investment and non SLR investment. All the funds in the banks cannot advanced. A portion of funds is required to meet the

liquidity purpose. Liquidity is an important principle of any banking institutions. "Liquidity means the ability of bank to produce cash on demand." Every bank has to maintain liquidity which is a statutory obligation. Moreover non payment of depositors amount as and when they demanded may be disturb the credit standing of the banks. Taking the importance of liquidity in DCCBs, the RBI has prescribed certain guidelines to be observed by the DCCBs. Under Section 24 of the Banking Regulation Act 1949 (as applicable to co-operative banks) every DCCBs has to keep 25% of TDL (Time and Demand Liabilities) as liquid assets. Liquid asset as an asset which can be converted into cash at a very short period of time and without loss. Thus because this legal requirement, employable funds in the earning assets are substantially reduced. The lending pattern also depends upon the type of funds bank receive. If bank has more Time Deposits (fixed deposits), which the bank can employ more funds in earning assets. If the Demand Deposits are more (Current accounts , Saving Bank account) they employ less in earning assets. In view of such importance, management of liquidity position of the bank is to be analyses here. The investment position of SDCCB can be studied by two ways that is, position of investment to working capital and excess liquidity ratio maintained by the bank over the required limit.

a) Position of Investment to Working Capital :

As studied earlier every DCCBs has to maintain the liquidity in the form of investment in the approved and other securities. Out of total employable funds bank maintain liquidity in the form of SLR investment and the remaining idle amount of the bank is invested in the non SLR investment. It is necessary to study

the position of bank investment to working capital. **As per the general practice the ratio of investment to working capital should be 15%.** The following T.No.4.19 shows the position of bank SLR-investment, non SLR-investment, total investment and working capital.

Table No. 4.19

Position of Investment to Working Capital

(Rupees in lakhs)

Year	SLR Invest.	Non SLR Invest.	Total Invest.	Working Capital	Percentage of Investment To Working Capital
2001-02	2811.84 (93.58)	1564.70 (6.42)	24376.54	127828.38	19.07
2002-03	23690.47 (90.87)	2381.08 (9.13)	26071.55	140489.32	18.56
2003-04	23872.14 (90.48)	2512.96 (9.52)	26385.10	142791.94	18.48
2004-05	47003.27 (94.85)	2551.46 (5.15)	49554.73	154215.45	32.13
2005-06	50931.22 (88.48)	6632.08 (11.52)	57563.30	171610.22	33.54
Average	**91.50**	**8.50**			**24.96**

Note : Figures in bracket shows the percentage to total investment .

Source : 1) SLR Register of the bank from 2001-02 to 2005-06.

2) Appendix No. I, T.No.5.4: Computation of Working Capital.

The above T.No.4.19 indicates that the SLR-investments of the bank are increasing every year constantly and average being 91.50 to total investments. Similarly the Non-SLR-Investment of the bank are increasing every year excluding the year 2004-05 and average being 8.50 to total investments. It is found that the total investments are increasing every year steadily.

The above table indicates that the position of investment to working capital. This shows that the investments are increasing every year constantly and average being 24.96% to total working

capital. It means the percentage of total investments to working capital was increased nearly 50% in the last five years. Similarly the percentage of Non-SLR Investments was increased nearly 50% in the last five years. Thus it is observed that bank keeping huge idle funds in the investments in the last two years under the period of study.

b) Excess Liquidity Ratio maintained by the bank over the required limit :

The other side of the investment is studied by analyzing the excess amount of liquid assets kept by the bank over the statutory limit. The purpose is to find out how much of liquid assets is kept idle by the bank. The relevant data on this is presented in the following T.No.4.20.

Table No. 4.20

Position of Statutory Liquidity Ratio

(Figures into percentage)

Years	Standard Percentage	Minimum percentage in the year	Maximum Percentage in the year	Average Percentage in the year
2001-02	25	25.49	30.20	27.44
2002-03	25	26.61	30.86	28.14
2003-04	25	26.04	30.77	28.10
2004-05	25	27.69	50.57	35.45
2005-06	25	38.49	52.91	45.16

Source : Liquidity register of the bank 2001-02 to 2005-06.

An analysis of the data in the above T.No.4.20 makes it clear that the bank has kept much more liquid assets over the standard

requirement. The maximum SLR was 52.91% in the year 2005-06 and minimum 30.20% in the year 2001-02 and average SLR being maximum 45.16% in the year 2005-06 and minimum 27.44% in the 2001-02. The average SLR was increasing year by year it was 27.44% in the year 2001-02 and it was increased up to 45.16% in the year 2005-06. This was increase nearly 50% in the last five years. Thus a substantial amount of liquid assets is being kept idle by the bank which could have been used otherwise. Keeping of excess liquid ratio is not a advisable because it puts a bad effects on the profitability of the bank. It is painful to note that keeping of more liquid resources has become a regular feature of the bank.

The present researchers' interaction with the officials of the bank reveals that the following reasons for keeping the more liquid resources.

i) It requires much time to borrowing the funds from higher agencies and distributing the same to affiliated societies in the district.

ii) It requires much time to collection of funds from societies and its onward transfer to SCB, is also reason to maintain excess liquidity resources.

iii) The another reason for excess liquidity resources is that the demand from co-operative sugar factories for advances was totally declined in the last five years due to drought condition and lokari mava on the cane crop in the district. SDCCB take refinance from MSC Bank to give the loans and advances to co-operative sugar factories, such excess funds has put by the bank in the SLR and non SLR investments.

Thus it is understood that excess retention of liquid resources is at times, unavoidable, yet such excess should be avoided as per as possible in order to use the resources of the bank in an effective manner.

4.2.3 Loans and Advances :

Banking is defined as Borrowing for purpose of lending. One of the primary function of the bank is "Lending". This activity is taken up by the bank with the objectives of making profit. The bank cannot keep the borrowed funds idle. In fact it is collected with primary object to lending for productive purpose and making a profit out of the interest received and paid. As observed from the past experience, the employment of funds is not an easy task. Banks have to strike a balance between profitability and the expected social objectives of the country.

The rate of return on lending's depends upon the following important factors.

i) Interest rate policy adopted by the bank board of directors.

ii) Prime Lending Rate of the bank and that of other banks which creates competition.

iii) Level of statutory obligation by way of CRR and SLR affecting loanable funds available with the bank and thereby supply side of credit.

iv) Bank rate declared by Reserve Bank of India from time to time.

v) Extent of the funds available with the bank.

vi) Demand for credit from the common people and primaries.

Principle of Good Lending :

Lending money to different kinds of borrowers is one of the important function of the bank. Lending is risky business. Majority of banks funds are employed in the form of loans and advances. These loans and advances gives return to the bank in the form of interest income. To do this business of lending successfully and profitability a banker has to follow certain principles, these are :

i) **Liquidity** – Liquidity means the ready convertibility of loans and advances into cash to meet the customers demand across the counter.

ii) **Profitability** – Means earning profits on the assets acquired.

iii) **Safety** – Care should be taken to ensure that the funds advanced are not subject to any risk of being cost.

iv) **Diversification** – The banker has to see that loans and advances are spread to different categories.

v) **Purpose** – Loans must be provided to productive purpose.

vi) **Security** – The security expected by a banker from the borrower to cover a bank advance must be adequate, readily marketable, easy to handle and free from any encumbrance.

vii) Nature and location of business.

viii) Borrower character, capacity, standing and means.

ix) National and state government o objective for rural and economic development.

Type of Advances :

The nearly 50% of the funds are employed in earning assets. The lending or placement of funds may be by way of Fund based and Non fund based facility. The fund based credit facilities are extended in any one of the following type : Cash credit, over drafts, Loans and advances, Discounting of Bills etc.

Non fund based credit facilities are extended in any one of the following manner Inland/Import Letter of Credit, Bank Guarantee, it is generally given to the sugar co-operative factories in the district.

Nature of Financial Advances of DCCBs:

The DCCB has meaningful existence only when it is capable of meeting the credit needs of its affiliated co-operative societies. The DCCB being the leader of co-operative movement in district, it is main responsibility of DCCB to provide financial assistance to the members of its affiliated co-operative societies. Therefore the management of SDCCB lending activities has been examined here under.

A DCCB advances loans for agriculture as well as non agriculture purposes. The purpose of agriculture loan is not only to increase production but also to save farmers from the clutches of money lenders and indigenous bankers, who charges high rate of interest on advances.

Short term loan extending between 12 to 18 months are advanced to the agriculturists mainly for cropping purposes. The non agriculture short term loans include consumption loans, loan for procurement of agriculture produce etc. For example, crop loan, lift irrigation system, cash credit, fruit garden and SGSY.

Medium term loans (3 to 5 years) are provided to agriculture purpose such as, allied agriculture activities, besides providing employment, supplement the income of the agriculturists, the medium term non agriculture loans are provided for the purpose of industry, service and business and these loans are provided for consumption purpose.

Long term loans extending between 5 to 15 years are provided to purchaser of costly machinery and for land development. The long term non agriculture loans are generally advanced to weaver's co-operative societies, co-operative spinning mills, co-operative sugar factories and housing co-operative societies etc.

The performance of SDCCB with respect to its loans and advances can be studied by taking into account following aspects.

a) Trends of loans and advances.

b) Term wise classification of loans and advances.

c) Classification of loans and advances according to their nature (Agriculture and Non-agriculture).

d) Classification of non agriculture loans and advances according to their nature.

e) Loans and advances to working capital relationship.

f) Net Credit Deposit Ratio.

a) Trends of Loans and Advances :

One of the primary function of DCCB is lending. This activity is taken up by the DCCB with the objectives of earning. The growth Loans and Advance of SDCCB is analyzed by the following table.

Table No .4.21

Annual Growth of Loans and Advances

(Rupees in Lakhs)

Year	Loans and Advances	Increase (+) / Decrease (-)	Annual Growth Rate (%)
2001-02	96896.96	---	---
2002-03	107263.27	+ 10366.31	+ 10.70
2003-04	107817.17	+ 553.90	+ 0.52
2004-05	95409.27	- 12407.90	- 11.51
2005-06	104423.51	+ 9014.24	+ 9.45

Source : Annual Reports of the bank 2001-02 to 2005-06.

The above T.No.4.21 presents relevant data on the loans and advances made by the bank and annual growth rate of loans and advances. It is observed that loans of the bank was fluctuating in nature. It was increased in the year 2002-03 and decreased in the year 2004 -05 and again increased in the year 2005 – 06. The table also indicates that the annual growth rate of the bank has not remained constant and it has varied

between (-) 11.51 in the year 2004 -05 and (+) 10.70 in the year 2002 -03. Thus it is observed that the loans and advances made by the bank was decreased in last five years.

b) Term Wise Classification of Loans and advances:

As explained earlier, that loans and advances made by the DCCB can be classified under three important heads – short term , medium term and long term. A DCCB should advance more short term loans and medium term loans because this activity not only ensure effective circulating of working capital but also helps to increase in agriculture production. The long term finance is not the objective of the DCCB. Thus an attempt is made here to study the proportion of bank loans and advances under different categories according to the period of loans. For this the following T.No.4.22 present the relevant data.

Table No. 4. 22
Distribution of Term Wise Loans and Advances

(Rupees in Lakhs)

Year	Short Term	Medium Term	Long Term	Total Loans and Advances
2001-02	71065.73 (73.34)	15068.31 (15.55)	10762.92 (11.11)	96896.96
2002-03	70129.55 (65.38)	25436.68 (23.72)	11697.04 (10.90)	107263.27
2003-04	65548.01 (60.80)	31000.80 (28.75)	11268.36 (10.45)	107817.17
2004-05	44931.68 (47.09)	41317.10 (43.31)	9160.49 (9.60)	95409.27
2005-06	53690.19 (51.42)	42189.49 (40.40)	8543.83 (8.18)	104423.51
Average	**59.66**	**30.29**	**10.05**	

Sources : Annual reports of the bank 2001-02 to 2005-06.
Note : Figures into brackets indicate percentage of total loans and advances.

The above T.No.4.22 indicates that the short term loans and long term loans are decreased and the medium term loans are increased in the five years period. The average distribution of term wise loans and advances of short term, medium term and long term is 60 : 30 : 10. The table indicates that the distribution of loans and advances in the year 2001-02 was 73 : 16 : 11 respectively. During the year 2005-06 the distribution of short term, medium term and long term loans had reduced to 52 : 40 : 8. It is observed that the distribution of short term loans was decreased and distribution of medium term was increased to total loans and advances. The reason for such reduction is, the SDCCB converted the short term loans into medium term loans in last five years. The reason for Medium Term Conversion (MTC) is that the production of agricultural sector in the district is reduced due to the draught and flood conditions. Due to this percentage of NPA is increased and profitability is reduced.

c) Classification of Loans and Advances according to their Nature :

The DCCBs established mainly to provide finance to agricultural sector in the district. And is supposed to divert most of its resources for the said purpose. Similarly the DCCBs provides non agriculture finance to allied activities related to agriculture sector. The following T.No.4.23 shows the percentage share of loans and advances by agriculture and non agriculture sector.

Table No. 4.23
Distribution of Loans and Advances by Agriculture and Non Agriculture

(Rupees in Lakhs)

Year	Agriculture Loans and Advances	Non- Agriculture Loans and Advances	Total Loans and Advances
2001-02	34477.76 (35.58)	62419.20 (64.42)	96896.96
2002-03	42382.43 (39.51)	64880.84 (60.49)	107263.27
2003-04	45224.05 (41.95)	62593.12 (58.05)	107817.17
2004-05	46438.42 (48.67)	48970.85 (51.33)	95409.27
2005-06	48096.49 (46.06)	56327.02 (53.94)	104423.51
Average	**42.32**	**57.68**	

Source : Annual reports of the bank 2001-02 to 2005-06.
Note : Figures in brackets indicates percentage to total loans and advances.

The above T.No.4.23 indicates that the non agriculture loans and advances are decreased and agriculture loans and advances are increased. The average percentage distribution of agriculture and non agriculture loans and advances to total advances is 42:58. The said average position was 36 : 64 in the year 2001-02 and that was 46 : 54 in the year 2005-06. It is indicates that the loans advances made by SDCCB towards agriculture advances is increased and advances to non agriculture is decreased. The reduction in the non agriculture loans and advances is due to reduction in the demand from the co-operative sugar factories for loans and advances. It is observed that the SDCCB given more loans and advances to non agriculture purpose as compared to the agriculture purpose. The main reason for such diversification of credit

business to non agriculture sector is, even though agriculture credit is the priority item of DCCBs should not be only confining its loaning business to the agriculture alone. It has to finance societies like Weavers, Marketing, Consumers, Housing, Sugar factories and Employees. Financing to these societies on a large scale not only increase the business but also adds to the profitability of the bank (with the interview of the higher authority of loan department it is observed that the rate of interest on non agriculture credit is slightly more than the agriculture sector loans and advances).

d) Classification of Non Agriculture Loans and Advances according to their Nature.

The primary objective of the DCCB is to utilize there resources mainly for agriculture purpose. The agriculture loans are generally given for the short term crop loan and medium term loan for lift irrigation, fruit garden and allied agriculture activities. Even though agricultural credit is the priority, a DCCB should not be given loans to the agriculture sector only. It has to finance societies like, Processing, Marketing, Consumers, Housing and Employees, financing these societies not only increases the business but also adds to the profitability of the bank. The following T.No.4.24 presents the classification of non agriculture loans and advances by their nature of the SDCCB.

Table No. 4.24

Classification of Non Agriculture Loans and Advances by their Nature

(Rupees in Lakhs)

Year	Sugar Factories	UCBs	Credit Co-op. Societies	Industrial Societies	Direct Finance (individuals)	* Others Societies	Total Non Agri. Advances
2001-02	39658.86 (63.54)	2345.33 (3.75)	2631.69 (4.22)	1491.72 (2.39)	3421.15 (5.48)	12870.45 (20.62)	62419.20
2002-03	42027.56 (64.78)	587.60 (0.90)	2568.33 (3.96)	1822.84 (2.81)	4668.18 (7.20)	13206.33 (20.35)	64880.84
2003-04	37908.57 (60.56)	238.79 (0.38)	2365.97 (3.78)	1949.13 (3.11)	5261.11 (8.41)	14869.55 (23.76)	62593.12
2004-05	22421.01 (45.78)	1841.86 (3.76)	2249.03 (4.59)	1880.89 (3.84)	5069.51 (10.35)	15508.55 (31.68)	48970.85
2005-06	28877.78 (51.27)	877.51 (1.56)	2040.52 (3.62)	1881.15 (3.34)	4824.34 (8.56)	17825.72 (31.65)	56327.02
Average	**57.89**	**2.00**	**4.02**	**3.06**	**7.87**	**25.16**	

Note : Figures in brackets indicates percentage to total loans and advances.

Sources : Annual reports of the bank 2001-02 to 2005-06

(* Other society's advances included the inward Bills purchased, Spinning mills, Weavers, Marketing, Lift irrigation, Milk Societies and employees of the bank.)

Another way of examining the non agriculture loans and advances is to classify them according to their nature. An attempt is made to study the proportion of these non agriculture loans and advances in the above T.No. 4.24. The table shows the distribution of non agriculture loans and advancers and their respective ratios to the total loans and advances made by the SDCCB.

The table indicates that the loans and advances given to co-operative sugar factories, UCBs and co-operative credit societies has decreased and at the same time the loans and advances given to industrial societies, direct finance to individuals and other societies has increased under the period of study. The loans and advances given to UCBs, co-operative credit societies, industrial societies is meager percentage as compared to total loans and advances made by the bank.

The average proportion of sugar factories, UCBs, co-operative credit societies, industrial societies, direct finance and other loans and advances was 58 : 2 : 4 : 3 : 8 : 25 respectively. Among the average proportion of advances the percentage of co-operative sugar factories advances is high and similarly the proportion of other society's advances is also more.

Moreover it is observed that the contribution of Inward Bills purchased transaction is high in the other society's advances. IBPs is the short term type advance in which the bank credits the amount of bill to the drawers account before the realization

of the bill and thus lends him its own funds. The bill purchased by the bank, therefore, shown in its balance sheet as a part of loans andadvances. The IBPs is not given much returns to the bank.

Moreover the table reveals that the loans and advances made by the bank to co-operative sugar factories is decreased in the last five years. The percentage of sugar factories loans and advances to total loans and advances was 63.54 in the year 2001-02 and it was increased up to 64.78 and then the said percentage is reduced up 45.78 in the year 2004 -05. It is observe that in the last five years the demand for loans from co-operative sugar factories is reduced due to the draught and flood conditions in the district. The cane crop is also reduced due to the lokari mava. Thus loans and advances made to co-operative sugar factories is very important earning assets of the bank. With the interview of the higher authority of the loans department it is observe that, for recovery of these loans and advances the bank requires make least efforts and there is adequate recovery.

e) Loans and Advances to Working Capital Relationship:

Loans and advances made by the bank is one of the most important components in the working capital of the bank. Lending on large scale is not only increased the banking business but also increased profitability of the bank. Lending made by the bank is one of the most important earnings assets. More financing activity of the bank increases the employment of funds which relatively expands the business of the bank. Hence another way of evaluating the performance of loans and

advances is to study the relationship between loans and advances to working capital. The following T.No.4.25 presents the relevant data of loans and advances and working capital relationship. **As a general practice the ratio of loans and advances to working capital should be 75%.**

Table No. 4.25
Position of Loans and Advances to Working Capital

(Rupees in Lakhs)

Year	Total Loans and Advances	Working Capital	Percentage of Loans and Advances to Working Capital
2001-02	96896.96	127828.38	75.80
2002-03	107263.27	140489.32	76.35
2003-04	107817.17	142791.94	75.51
2004-05	95409.27	154215.45	61.87
2005-06	104423.51	171610.22	60.85
Average			**69.45**

Sources : 1) Appendix No. I, T. No.5.4: Computation of Working Capital.
2) Annual reports of the bank 2001-02 to 2005-06

The T.No.4.25 indicates that the percentage of loans and advances to working capital is reducing constantly. The percentage of loans and advances to working capital varies between 60.85 to 76.35 and average being 69.45. It is observed that in the portion of working capital other variables are increased. At the same time SDCCB kept more funds in the form of investment. In short, the average percentage is calculated to 69.45, which indicates that the bank has not maintained a standard ratio of 75%.

f) Net Credit Deposit Ratio (CD-Ratio):

Another way of studying the loans and advances is to find out the relationship of deposit and credit (loans and advances). The DCCBs is collecting deposits for the purpose of lending to its affiliated societies and other individuals in the district. So, an increase in deposits allows the bank to lend more money to its affiliated societies in the district. The Net CD-Ratio shows the performance and efficiency of the bank with regard to its deposit mobilization and advances. Thus Net CD-Ratio is used as measuring tool form judging the efficiency of the bank.

According to NABARD'S Guidelines the Net CD-Ratio should be 72%. For calculation of Net CD-Ratio the amount of credit is calculated by deducting the Borrowings amount from the loans and advances. According to Banking Regulation Act 1949 every co-operative bank should maintain constant 28% as liquid resources of Net Time and Demand Liabilities. Because bank has to maintain constant 3% as a CRR according to Section 18 and 25% SLR according to Section 24. It will be difficult to bank to maintain the liquidity if the bank gives loans and advances beyond this standard ratio (72%). The bank has to take borrowings from apex institutions (MSC/NABARD) to given loans beyond this standard ratio. Therefore the amount of borrowings is deducted from the loans and advances. The ratio is work out as under:

$$\text{Net CD-Ratio} = \frac{\text{Credit (Loans and Advances – Borrowings)}}{\text{Deposits}} \times 100$$

Table No. 4.26

Net Credit – Deposit Ratio

(Rupees in Lakhs)

Year	Loans and Advances (a)	Borrowings (b)	Credit (c=a-b)	Deposits (d)	CD-Ratio c/d(%)
2001-02	96896.96	25993.33	70903.63	84138.88	84.27
2002-03	107263.27	24891.10	82372.17	94747.81	86.94
2003-04	107817.17	17938.22	89878.95	100455.10	89.47
2004-05	95409.27	15021.90	80387.37	111636.19	72.01
2005-06	104423.51	17935.21	86488.30	123206.89	70.20
Average					**79.74**

Sources : Annual reports of the bank 2001-02 to 2005-06

The above T.No.4.26 shows that the credit, deposit and their respective ratios of the bank. The lowest CD-Ratio which indicates that the deposits of the bank is more than its credit made and higher CD-Ratio indicates that the credit is more than deposits of the bank. The CD-Ratio of the bank varies between 70.20 to 89.47 and average being 79.74. It is observed that the highest CD-Ratio indicates that the bank taking borrowings to give loans and advances and lowest CD-Ratio indicates that the bank keeping more funds in the form of investment. Thus it will be beneficial to the bank to maintain the standard Net CD-Ratio of 72%. The bank can not maintain the standard ratio for the year 2005-06 due to

adverse natural calamities. This totally affected the cropping pattern in the district.

4.2.4 Fixed Assets :

These assets have two characteristics, are acquired for use over relatively long periods for carrying on the operations of the organization and they are not mean for resale. The fixed assets includes the Land, Building, Furniture and Fixtures and Machinery etc.

The fixed assets do not gives any return to the bank. Among assets proportion of fixed assets should be kept very low to improve profitability of the bank .

4.2.5 Other Assets :

It includes suspense entries, income accrued but not received and other receivables. These assets also do not give any returns to the bank. Among total assets the proportion of other assets which do not give return to the bank, such assets should be kept very low with a view to improve profitability of the bank.

4.2.6 Composition of Working Capital at a Glance :

Working capital is the total capital employed by the bank. This consists of owned funds invest able, deposits and borrowings is expected to grow every year, as the bank business grows. Such funds are collected by DCCBs used for various business purposes, such as to keep cash and make investment to maintain the liquidity, to give loans and advance to earn interest and maintain the fixed assets to carry the business transaction. **As a general practice the percentage of cash, investments, loans and advances, Fixed assets and other assets should**

be 3 : 15 : 75 : 2 : 5 respectively to the total working capital. The following T.No.4.27 and Chart No.4.2 presents the data on application of working capital made by SDDCB.

Table No. 4.27

Application of Working Capital at a Glance

(Rupees in Lakhs)

Year	Cash	Investments	Loans and Advances	Fixed Assets	Other Assets	Working Capital	Percentage Growth Rate
2001-02	3439.71 (2.69)	24376.54 (19.07)	96896.96 (75.80)	775.39 (0.61)	2339.78 (1.83)	127828.38	Nil
2002-03	3824.73 (2.72)	26071.55 (18.56)	107263.27 (76.35)	524.50 (0.37)	2805.27 (2.00)	140489.32	9.90
2003-04	5390.27 (3.77)	26385.10 (18.48)	107817.17 (75.51)	443.28 (0.31)	2756.12 (1.93)	142791.94	1.64
2004-05	4344.45 (2.82)	49554.73 (32.13)	95409.27 (61.87)	691.46 (0.45)	4215.54 (2.73)	154215.45	8.00
2005-06	4785.73 (2.79)	57563.30 (33.54)	104423.51 (60.85)	583.06 (0.34)	4254.62 (2.48)	171610.22	11.28
Average	**2.96**	**24.96**	**69.45**	**0.41**	**2.22**		

Note : Figures in brackets indicates percentage to Working Capital.

Source : 1) Appendix No.I, Table No. 5.4 : Computation of Working Capital.

2)Annual reports of the bank 2001-02 to 2005-06.

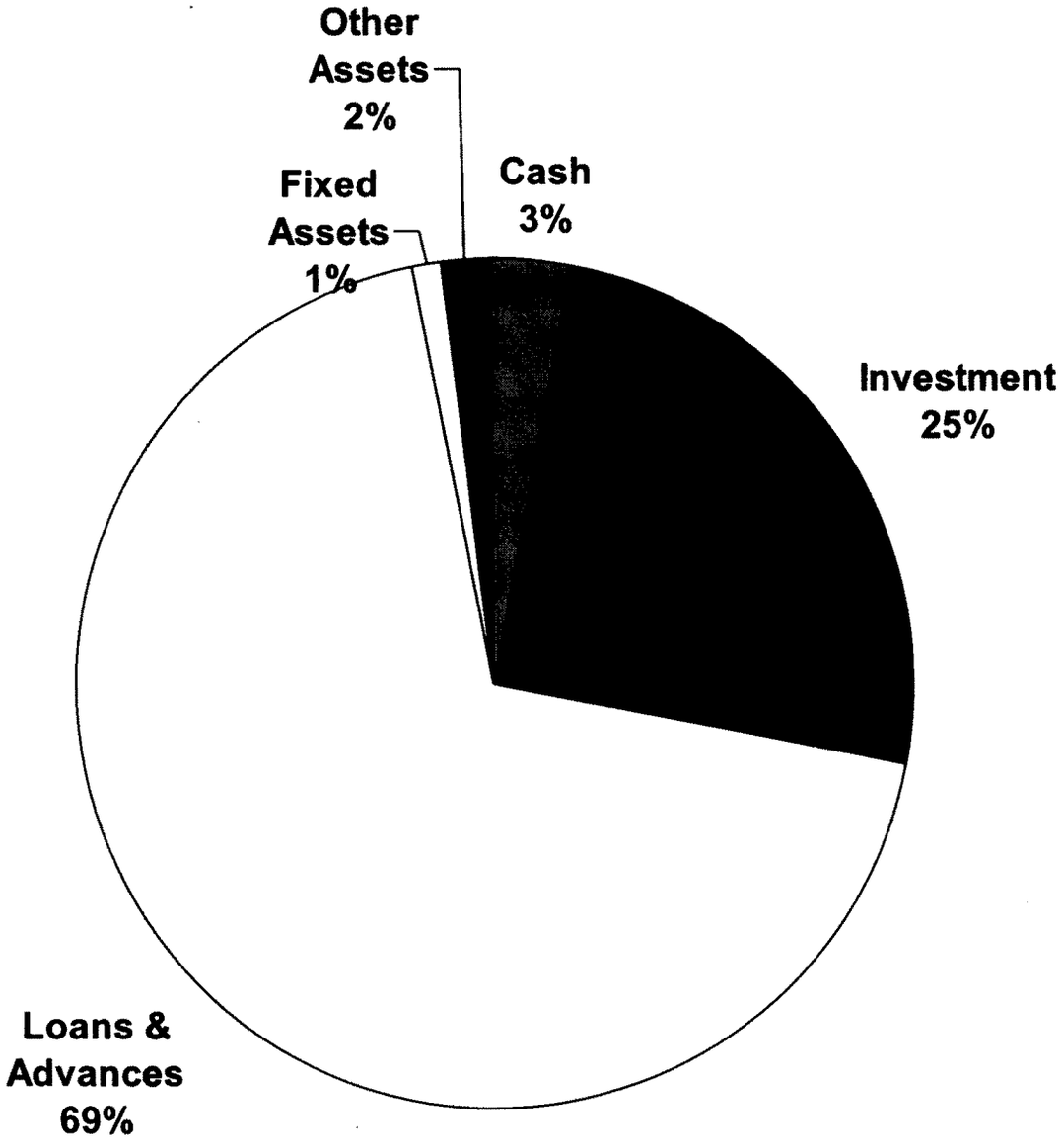


Chart No.4.2 : Application of Working Capita at a Glance

The basic components of working capital are cash, investments, Loans and Advances, Fixed Assets and Other Assets. Working capital is therefore, concerned with managing all the above constitutes. The distribution of working capital helps to know the application of funds made by the bank. The data in the T.No.4.27 and Chart No.4.2 presents the application of working capital by SDCCB. The table indicates that the average proportion of Cash, Investment, Loans and advances, Fixed

assets and Other assets is 3 : 25 : 69 : 1 : 2 respectively to the total working capital. A component analysis of working capital shows that on average the proportion of investments and Loans and advances is the largest to the total working capital.

The table reveals that the percentage of cash to working capital is increased in the last five years. It is not beneficial to bank to keep more cash in hand and at bank as ideal. The investment of the bank has been increasing every year constantly and at the same time the loans and advance of the bank reducing every year. It means the bank diverts more funds into investments. The interview with the officers of the SDCCB reveals that the bank has taken borrowings from MSC Bank to give loans to co-operative sugar factories in the district. But at the same time the demand for loans from co-operative sugar factories is reduced due to the drought and flood conditions and lokari mava on cane crops. The cane crops in the district was totally destroyed in the last five years. Thus it is not desirable to bank to keep more funds into investments which gives lower returns as compared to loans. It is time for bank to concentrate more on new loan policy and portfolio management. In short bank is using borrowed funds to make huge investments.

According to RBI guidelines regarding prudential norms the average annual growth rate of working capital should be 15%. The said growth rate of 15% is not maintained by the bank. With the interview of the higher authority of the bank, it is found that the mobilization of resources has become increasingly crucial due to competition for the financial institutions such as Commercial Banks, Post Office Saving

Bank, National Small Saving Organizations and Insurance Companies on one had and the adverse natural calamities on the other, have made the task of resource mobilization to SDCCB more difficult. Therefore, the SDCCB can not maintain the average annual growth rate of 15% in application of working capital.

4.2.7 Problem of Overdues :

Success of the bank, largely depends on the willingness of officers as well as borrowers in repaying the loans. In nutshell, good recovery is an efficiency indicator which discloses effectiveness of management regarding the funds management. Thus Better recovery is Better lending.

Performance of DCCBs can not be judged on the basis of loans and advances. Besides, heavy overdues affects the bank capacity to repay the dues of higher financing agencies and thus bank cannot issue fresh loans. It makes adverse effect on rural economic development and fails to achieve the objectives of the bank. Overdues, if steadily increase the entire loaning structure gets diluted. Thus, an attempt is made to analyses the magnitude of overdues of SDCCB and to what extent it has been able to tackle this problem.

a) Growth of Overdues :

The prompt recovery of loans is one of the essential functions of the efficiency of the bank operation. An attempt has been made to probe into the existing overdues problems. Data on overdues, presented in the following T.No.4.28

Table No. 4.28

Growth of Overdues

(Rupees in Lakhs)

Year	Overdues	Annual Growth (%)	Cumulative Percentage growth
2001-02	9304.13	nil	100
2002-03	12953.69	39	139.23
2003-04	22482.76	74	241.64
2004-05	22362.07	-1	240.34
2005-06	25432.92	13.73	273.35

Sources : Appendix No. I, Table No.5.11 : Classification of Overdues.

The above T.No.4.28 indicates that the overdues of the bank is increasing every year constantly. The annual growth percentage during the year 2002-03 and 2003-04 worked out to be 39 and 74 respectively. The annual growth rate of overdue varies between (-)13.74 to 74. Total overdues of the bank are as on 2005-06 comes to Rs. 25432.92 lakhs. This suggests that out of Working capital of (Rs.171610.22 lakhs) Rs. 25432.92 lakhs has been tied up in the form of overdues, preventing the recycling of funds. In other words, nearly 15% of the working capital of the bank has been blocked and such high degree of overdues giving a real challenge to the management of the bank.

b) Overdues to Loans and Advances relationship :

Study of the relationship between advances and overdues is taken up here to know how much of the advances tied up in the form of overdues. For this purpose, the ratio of overdues to advances is calculated.

Table No. 4.29

Overdues to Loans and Advances

(Rupees in Lakhs)

Years	Agriculture Overdues (a)	Agriculture Loans (b)	Ratio (%) (c=a/b)	Non Agriculture Overdues (d).	Non Agriculture Loans (e)	Ratio (%) (f=d/e)
2001-02	1212.64 (100.00)	34477.76	3.52	8091.49 (100.00)	62419.20	12.96
2002-03	1420.86 (117.17)	42382.43	3.35	11532.83 (142.53)	64880.84	17.78
2003-04	6966.23 (574.47)	45224.05	15.40	15516.53 (191.76)	62593.12	24.79
2004-05	4649.80 (383.44)	46438.42	10.01	17712.27 (218.90)	48970.85	36.17
2005-06	6928.15 (571.33)	48096.49	14.40	18504.77 (228.69)	56327.02	32.85
Average			**9.78**			**24.17**

Note : Figures into brackets indicate percentage of increase over base year.

Sources : 1) Appendix No.I, Table No.5.11 : Classification of Overdues.

2) Annual Reports of the bank 2001-02 to 2005-06.

The above T.No.4.29 indicates that the agriculture overdues of the bank had increased from Rs. 1212.64 lakhs in 2001-02 to Rs. 6928.15 lakhs in 2005-06, recording about of 6- times increase. Similarly the non agriculture overdues of the bank was increased form Rs. 8091.49 lakhs in 2001-02 to Rs. 18504.77 lakhs in 2005-06, recording about 2 – times increase. Thus the trends of increasing agriculture overdues are more a compared to non agriculture overdues.

The table reveals that the non agriculture overdue is high as compared to the agriculture overdue. By the end of the years 2005-06 approximately 24.36% of the advances made have been tied up in the form of overdues which necessitates a call for a immediate action.

c) Overdues to Owned Funds :

The bank has to repay the money to its depositors and giving loans and advances to its members and borrowers. Therefore the owned funds of the bank should be adequate. Hence it is suggested that overdues are to be made good from owned funds of the bank in the event of such overdues becoming bad debt. Thus there is a reason to study the relationship between the owned funds and overdues of the bank.

The ratio of overdues to owned funds signifies the extent of owned funds blocked up in overdue loans of the bank. The ratio is calculating by applying the following formula.

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

The greater is the ratio the lesser is the recovery efficiency of the bank and loss of business, profits and service to the loanees.

Table No. 4 . 30

Overdues to Owned Funds

(Rupees in Lakhs)

Year	Overdues	Owned Funds	Ratio (%)
2001-02	9304.13	6403.36	145.30
2002-03	12953.69	7407.63	174.87
2003-04	22482.76	7790.48	288.59
2004-05	22362.07	6826.66	327.58
2005-06	25432.92	6541.40	388.80
Average			**264.62**

Sources : 1) Appendix No.I, Table No. 5.3 : Computation of Owned Funds.

2) Table No. 5.11 : Classification of Overdues.

The above T.No.4.30 reveals that the ratio has increased from 145.30 to 388.80 indicting the inadequate owned funds to absorb the overdues loans. During the period under the study overdues has increased by 3 times, where as owned funds have same. Thus it can be inferred that overdues have increased at a faster rate than the owned funds as the such the owned funds are insufficient to absorb the mounting overdues.

A close observation of the trend of ratio reveals that whenever overdues amounts are lower due to better performance in recovery of loans the ratio of overdues of owned funds is low.

Thus it speaks of the low solvency position of the bank. Which calls for more concentration on the recovery of advances.

In short, the above discussion the researcher has given detailed statistical data with explanation about the application of working capital of the bank. The important variables of working capital applications are cash, investments, loans and advances, fixed assets and other assets and problem of overdues has been studied in detail. At the next part of the chapter the researcher has made the analysis of working capital with the help of ratio analysis technique and break even analysis.

4.3 ANALYSIS OF WORKING CAPITAL:

In the earlier discussion the researcher has concentrate sources and application of working capital. In the following third part of the chapter the researcher has made the analysis of working capital.

A study of causes of changes in the uses and sources of working capital is necessary to observe that whether working capital is serving the purpose for which it has been created or not. The analysis of working capital can be made either through :

i) Ratio Analysis

ii) Fund flow Analysis

iii) Budgetary Analysis

Ratio analysis is the most commonly used technique, which deals particularly with each and every aspect of working capital analysis. It is generally stated that the ratio analysis provides, guides and clues especially in sporting trends towards better or poorer performance and in finding out significant deviation for any average or relatively applicable standard.

In this technique, for each aspect of analysis certain ratios are computed and then results are compared with the standards ratio or industry average. Thus, financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account.

Objectives of working capital analysis :

1) To observe how far bank has maintain different adequate levels of working capital as per the expectations.
2) Working capital analysis helps to raise required working capital amount from various sources with least efforts and cost.
3) Working capital analysis leads to maximum utilization of resources, therefore it leads to maximum return to the owners.
4) On the basis of working capital analysis corrective steps can be taken to remove the weak areas in working capital management. Therefore it helps to firm to improve sound financial position.
5) Working capital analysis helps to disclose areas for improvement. It reveals areas of high cost and low income areas and make suggestions.
6) It aims at a study of trends in working capital.

The most important ratios that can be used in analyzing the various aspects of working capital position of a firm are appended below with explanation. In the following discussion various types of ratios discussed related to capital adequacy, composition of deposits and borrowings, assets composition, asset quality, solvency position and profitability with the help of explanation, tables, ratios and interpretation.

4.3.1 Capital Adequacy Ratio :

Owned Funds to Working Capital:

This ratio shows the share of owned funds to the total working capital employed by the bank. It indicates the strength of the institution. Higher the ratio is better for the institution. A high ratio indicates the fact that the bank will incur low risk. **As a general practice the ratio should be 15%.** The ratio is computed by dividing the owned funds by the working capital of the bank. The ratio is work out as under :

$$\text{Owned Funds to Working Capital} = \frac{\text{Owned Funds}}{\text{Working Capital}} \times 100$$

Table No. 4 . 31

Owned Funds to Working Capital Ratio

(Rupees in Lakhs)

Year	Owned Funds	Working Capital	Ratio (%)
2001-02	6403.36	127828.38	5.00
2002-03	7407.63	140489.32	5.27
2003-04	7790.48	142791.94	5.46
2004-05	6826.66	154215.45	4.43
2005-06	6541.40	171610.22	3.81
Average			**4.75**

Sources : 1) Appendix No I, T.No. 5.3: Computation of Owned Funds.

2) Appendix No.I, T.No.5.4 : Computation of Working Capital.

The above T.No.4.31 shows the relationship of the owned funds to working capital of the bank. The table indicates that the ratio of the bank is fluctuating in nature. In the year 2001-02 the ratio was 5.00 and which was increased uo to 5.46 in the year 2003-04 then the ratio was decreased up to 3.81 in the year 2005-06. The ratio varies between 3.81 and 5.46 and average being 4.75. It is observed that in all the years the ratio is less than 5%. It may conclude that the owned funds of the bank does not reflect the satisfactory position. Thus there is a huge gap between the standard ratio and actual ratio.

It is observed that the position of share capital and reserve funds among the owned funds does not show the satisfactory position. Hence the ratio of capital adequacy is below the standard.

4.3.2 Composition of Deposits and Borrowings :

a) Current and Saving Bank Deposits to total Deposits:

Deposits are the most important source of funds for a bank. Bank almost completely rely on deposits for funds. The survival of the bank is based on the quantum of deposit held by its manner in which deposits are managed. The ratio of current and saving bank deposits to total deposits indicates the proportion of low cost deposits in the total deposits. Higher the ratio better it is for the bank. This would help in keeping down the financial cost. **As per the NABARD guidelines the ratio should be 50%.** The ratio is computed by dividing the current and saving deposits by the total deposits of the bank. The ratio is work out as under :

$$\text{Current and Saving Deposits To Total Deposits} = \frac{\text{Current and Saving Deposits}}{\text{Total Deposits}} \times 100$$

Table No. 4 . 32

Position of Current and Saving Deposits to Total Deposits

(Rupees in Lakhs)

Year	Current and Saving Deposits	Total Deposits	Ratio (%)
2001-02	25187.07	84138.88	29.94
2002-03	28174.28	97747.81	29.74
2003-04	29299.34	100455.10	29.17
2004-05	33078.05	111636.19	29.63
2005-06	46334.29	123206.89	37.61
Average			**31.52**

Sources : Annual Reports of the bank 2001-02 to 2005-06.

The T.No.4.32 indicates that the ratio of the bank is fluctuating in nature. It was reduced for the first three years and increased in last two years. The ratio varies between 29.17 to 37.61 and average being 31.52. The standard ratio of current and saving deposits to total deposits is 15% and 35% respectively i.e. 50%. It is observed that the contribution of fixed deposits is more as compared to current and saving deposits. Hence the ratio is below the standard. Thus higher ratio is expected.

b) Fixed Deposits to Total Deposits :

Deposits are the important source of the funds for the bank. Deposit management consist of the activities involved in obtaining funds from the depositors. The public deposits mobilized by the

bank should be managed well. The ratio of fixed deposits to total deposits indicates the proportion of high cost deposits in the total deposits. Higher ratio indicates higher cost of funds. **As per the NABARD guidelines the standard ratio of fixed deposits to total deposits should be 50%.** Thus bank should maintain proper mix of low and high cost deposits. The ratio is computed by dividing the fixed deposits by the total deposits of the bank. The ratio is work out as under :

$$\text{Fixed Deposits to Total Deposits} = \frac{\text{Fixed Deposits}}{\text{Total Deposits}} \times 100$$

Table No. 4 . 33

Position of Fixed Deposits to Total Deposits

(Rupees in Lakhs)

Year	Fixed Deposits	Total Deposits	Ratio (%)
2001-02	58951.81	84138.88	70.06
2002-03	66573.53	94747.81	70.27
2003-04	71155.76	100455.10	70.84
2004-05	78558.14	111636.19	70.37
2005-06	76872.60	123206.89	62.39
Average			**68.48**

Sources : Annual reports of the bank 2001-02 to 2005-06

The T.No.4.33 indicates that the ratio of the bank varies between 62.39 to 70.84 and average being 68.48.The higher ratio indicates the stability of the deposit base of the bank but cost is high. It is found that the deposits of the PACS reserve funds are invested in the fixed deposits. Therefore the ratio of

fixed deposits to total deposits is more than the standard ratio. Thus lower ratio is expected.

c) Borrowings to Working Funds:

It is a normal feature of DCCB to borrow funds as and when the internal sources are not sufficient. The DCCB has been borrowing from the SCB/NABARD. The ratio of borrowings to owned funds indicates the dependency level of the institution on outside support for doing its business. If the bank borrowings largely comprised of high cost borrowings, higher the ratio, higher will be cost of funds. **As a general practice the ratio should be 15%.** The ratio is computed by dividing total borrowing amount by the working funds of bank. The ratio is worked out as under :

$$\text{Borrowings to Working Funds} = \frac{\text{Borrowings}}{\text{Working Funds}} \times 100$$

Table No.4.34

Position of Borrowings to Working Funds

(Rupees in Lakhs)

Year	Borrowings	Working Funds	Ratio (%)
2001 -02	25993.33	122128.34	21.28
2002 -03	24891.10	132828.94	18.74
2003 -04	17938.22	132569.41	13.53
2004 -05	15021.90	141709.18	10.70
2005 -06	17935.21	158995.46	11.28
Average			**14.79**

Sources: 1) Appendix No.I, Table No . 5.6: Computation of Working Funds
2) Annual reports of the bank 2001–02 to 2005–06

The T.No.4.34 indicates the ratio of the bank has been reducing every year excluding the year 2005 -06. The ratio varies between 10.60 to 21.28 and average being 14.79. The table reveals that the bank has taken more borrowing in the year 2001-02 and 2002-03 respectively. Thus the above ratio shows the average position of the bank regarding the borrowings to working funds.

d) Financial Involvement:

The financial involvement indicates the extent of meeting the loans out of its non borrowings resources that is from owned funds, deposits and other liabilities. It is calculated by dividing the total borrowings by the total loans made by the bank. The ratio is worked out as under:

$$\text{Financial Involvement Ratio} = \frac{\text{Borrowings}}{\text{Loans and Advances}} \times 100$$

More the amount of financial involvement higher the efficiency of the management. It indicates the efficiency in utilizing the funds generated internally by showing lesser dependence on external borrowings from apex agencies. Thus lower the ratio better it is.

Table No. 4.35

Financial Involvement Ratio

(Rupees in Lakhs)

Year	Borrowings	Loans and Advances	Ratio (%)
2001 -02	25993.33	96896.96	26.83
2002 -03	24891.10	107263.27	23.21
2003 -04	17938.22	107817.17	16.64
2004 – 05	15021.90	95409.27	15.75
2005-06	17935.21	104423.51	17.18
Average			**19.89**

Sources: Annual reports of bank 2001 -02 to 2005 -06

The above T.No.4.35 reveals that the financial involvement ratio of the bank reduced from 26.83 to 17.18 indicating reducing trend. The ratio was higher during the year 2001-02 and 2002-03. The ratio varies between 15.75 to 26.83 and average being 19.89. Higher ratio indicates the more dependence on outside funds (borrowings) and vice-versa. The above ratio shows the declining trends. Thus it is good sign to the bank.

e) The Ratio of Financial Involvement to Non–Borrowing Resources:

The ratio of financial involvement to non – borrowing resources signifies the extent of meeting finical involvement out of non borrowing funds (owned funds and deposits only). Since the bank has to maintain a minimum of liquid resources to the extent of 28% of Demand and Time liabilities, it can

invest to the extent of 72 % of non borrowing resources in the form of loans and advance. The ratio which is nearer to 72% indicates efficient utilization of non borrowing resources. **As per the NABARD guidelines the ratio of financial involvement to non –borrowing resources should be 72%.** The following T.No.4.36 presents the ratio of financial involvement to non borrowing resources. The ratio is computed by dividing the involvement amount (loans – Borrowings) by non-borrowing resources (owned funds and deposits). The ratio is work out as under:

$$\text{Financial Involvement to Non-Borrowings Resources} = \frac{\text{(Loans and Advances – Borrowings)}}{\text{(Owned Funds + Deposits)}} \times 100$$

Table No. 4 .36

The Ratio of Financial Involvement to Non-Borrowings Resources

(Rupees in lakhs)

Year	Loans and Advances (a)	Borrowings (b)	Involvement (c=a-b)	Owned Funds (d)	Deposits (e)	Non-Borrowings Resources (f=d+e)	Ratio (%) (c/f)
2001 -02	96896.96	25993.33	70903.63	6403.36	84138.88	90542.24	78.31
2002 -03	107263.27	24891.10	82372.17	7407.63	94747.81	102155.44	80.63
2003 -04	107817.17	17938.22	89878.95	7790.48	100455.10	108245.58	83.03
2004 -05	95409.27	15021.90	80387.37	6826.66	111636.19	118462.85	67.86
2005 -06	104423.51	17935.21	86488.30	6541.40	123206.89	129748.29	66.66
Average							**74.67**

Sources: 1) Appendix No.I, Table No . 5.3: Computation of Owned Funds

2) Annual reports of the bank 2001–02 to 2005–06

The above T.No.4.36 indicates that ratio varies between 66.66 to 83.03 and average being 74.67. The ratio had gradually increased in first three years. Subsequently, it had gone down to 66.66 in 2005-06. This is also evident from the fact that excess liquid resources are maintained rather than optimum level. It can be revealed that the bank failed to invest its non borrowings resources fruitfully to the extent of optimum level that is 72%. It is found that the demand for loans from the sugar factories is declined due to adverse natural calamites in the last two years. Therefore the bank invests its idle funds in the MSC Bank. This is situation adversely affect the profitability of the bank.

4.3.3 Assets Composition:

a) Cash and Bank balances to Total Demand Liabilities (TDL)

The most liquid assets of a bank is cash held with itself or with RBI or other banks in current accounts. It is therefore considered as the first line of defense. Since the bank keeps sufficient cash reserve to meet the requirements of the depositors. Generally the bank cannot keep large amount in cash, because it will affect profitability. By experience, bank knows how much is to be kept as a cash reserve. The ratio of cash balance to TDL indicates the cash management of the bank. TDL is sum total of balance in current deposits, 25% of saving bank deposits, matured but not paid fixed deposits and other short term liabilities which are to be paid in a very short period. The ratio is computed by dividing the cash balance by the TDL. The ratio is worked out as under:

$$\text{Cash Balance to TDL} = \frac{\text{Cash Balance}}{\text{Total Demand Liabilities}} \times 100.$$

Table No.4.37

Cash Balance to Total Demand Liabilities

(Rupees in lakhs.)

Year	Cash Balances	Total Demand Liabilities	Ratios (%)
2001 -02	3439.71	13677.73	25.15
2002 -03	3824.73	17037.11	22.45
2003 -04	5390.27	17261.31	31.23
2004 -05	4344.45	18689.64	23.25
2005 -06	4785.73	27498.96	17.40
Average			**23.13**

Sources : 1) Appendix No.I, T.No.5.9 Classification of Demand and Time Liabilities.

2) Annual reports of the bank 2001-02 to 2005-06.

The above T.No.4.37 indicates that the ratio of the bank is fluctuating in nature. The ratio varies between 17.40 to 31.23 and average being 23.13. It is observed that the SDCCB maintained the cash balance cautiously excluding the year 2003-04.

b) Total Investment to Total Demand Liabilities:

The investment represents the money invested in Government securities, gold and gilt edged securities. The securities also enjoy the characteristic of liquidity. As explained earlier the TDL is the liability of the bank that is paid in a very short period. The ratio of total investment to TDL indicates the tendency of the bank for taking the risk free earnings. Higher the ratio, higher is the tendency of the bank for going for risk free earnings. **As a general practice the ratio should be 150%.** The ratio is

computed by dividing the total investment by the TDL of the bank. The ratio is work out as under:

$$\text{Total Investment to TDL} = \frac{\text{Total Investment}}{\text{Total Demand Liabilities}} \times 100$$

Table No. 4.38

Total Investment to Total Demand Liabilities

(Rupees in lakhs)

Year	Total Investment	Total Demand Liabilities	Ratios (%)
2001 -02	24376.54	13677.73	178.22
2002 -03	26071.55	17037.11	153.03
2003 -04	26385.10	17261.31	152.86
2004 -05	49554.73	18689.64	265.15
2005 -06	57563.30	27498.96	209.33
Average			**195.35**

Sources : 1) Appendix No.I Table No.5.9 : Classification of Time and Demand Liabilities.

2) Annual reports of the bank 2001-02 to 2005-06.

The above T.No.4.39 indicates that the ratio of the bank is increasing trends. The ratio varies between 152.86 to 265.15 and average being 193.35. It is observed that the SDCCB keeps more investments as compared to its TDL. It is observed that the demand for loans from individual and institutional borrowers decreased dues to adverse natural calamities in the last five years. Therefore the bank invests its ideal funds in the form of investment in apex institutions. Thus the bank has not taken any risk to earn adequate return on the funds.

c) High Yielding Loans & Advance to Total Loans Advances:

The primary object of loan management is to earn income by serving the credit needs of the borrowers. Even though the agriculture credit is primary objective. The DCCB should provide agriculture finance along with the non agriculture finance such as co-operative sugar factories, UCBs, co-operative credit societies, industrial, weavers, marketing, consumer and employees societies. The interview with the executives of loan department of the SDCCB, it is reveals that interest chargeable on loans for non agriculture purpose is more as compared to agriculture loans.

High yielding advances means non-agriculture loans and advances. The ratio indicates the extent of high value loans and advances in the total loan portfolio. Higher the ratio better will be the earning ability of the bank. The ratio is computed by dividing high yielding advances by the total advances outstanding. The ratio is worked out as under.

$$\text{High Yielding Loans and Advances to total Loans and Advances} = \frac{\text{High Yielding Loans and Advances}}{\text{Total Loans and Advances}} \times 100$$

Table No. 4.39

Position of High Yielding Loans and Advance to Total Loans and Advances

(Rupees in lakhs)

Year	High Yielding Loans and Advances	Total Loans and Advances	Ratio (%)
2001-02	60523.95	96896.96	62.46
2002-03	61715.69	107263.27	57.54
2003-04	59054.58	107817.17	54.77
2004-05	44507.32	95409.27	46.65
2005-06	50265.62	104423.51	48.14
Average			**53.94**

Sources: Annual Report of the bank 2001-02 to 2005-06

(Note: Among non agriculture advances the amount of liquidation societies Loans and IBPs are excluded from the total non agriculture advances.)

The above T.No.4.39 indicates that the ratio of the bank is reducing every Year excluding the year 2005-06.The ratio varies between 46.65 to 62.46 and average being 53.94. It is observed that the demand for loans from sugar factories is totally declined due to natural calamities. Therefore the ratio shows the reducing trends during the period under study .Thus higher ratio is expected.

d) Non Earning Assets to Working Capital :

Non earning assets refer to cash, current account balances with apex bank, interest receivable, fixed assets, other receivable and accumulated losses if any. The ratio indicates the proportion of non earning assets to working capital of the bank. Higher the ratio, lower will be earning ability of the bank. Normally bank should attempt to maintain non earning assets at the minimum

level. The ratio is computed by dividing the non earning assets by the working capital of the bank. The ratio is work out as under :

$$\text{Non Earning Assets to Working Capital} = \frac{\text{Non Earning Assets}}{\text{Working Capital}} \times 100$$

Table No. 4.40

Ratio of Non Earning Assets to Working Capital

(Rupees in lakhs)

Year	Non Earning Assets	Working Capital	Ratio (%)
2001-02	6554.88	127828.38	5.13
2002-03	7154.49	140489.32	5.09
2003-04	8589.67	142791.94	6.02
2004-05	9251.45	154215.45	6.00
2005-06	9623.41	171610.22	5.61
Average			**5.59**

Sources : 1) Appendix No.I, T. No.5.4: Computation of Working Capital
2) Annual Report of the bank 2001-02 to 2005-06.

The above T.No.4.40 indicates that the ratio of the bank has increased in last two years as compared to previous years. The ratio varies between 5.09 to 6.02 and average being 5.59. For all the year the ratio is nearly 6%. It may be concluded that the bank functioning on sound lines regarding the non earning assets.

4.3.4 Assets Quality :

a) Gross Non Performing Assets (NPAs) :

An asset was classified as non performing on based on the criteria of non recovery of installment or interest within the

stipulated time. Subjective factors such as health of the borrower, potential of recovery, perception about the activity etc. are not given consideration. Thus income recognition of NPA should be on the basis of record of recovery but should not be on actual basis.

A NPA causes two fold impact on the profitability of a bank on one had, the bank ceases to earn interest on this assets and thus is deprived of its legitimate income from the asset. On the other hand, the bank is required to make provisions for this assets, depending on the classification or category of the assets and value of securities, if any. This makes a further affect in the profitability of the bank.

The term NPAs is defined as a credit facility or advance whose:

i) Interest and or installment of principal amount remain overdue for a period of more than 180 days in respect of term loan.

ii) The account remain out of order for a period of more than 180 days in respect of an overdraft or cash credit.

iii) The bill remains overdue for a period of more than 180 days in case of bills purchased and discounted.

iv) Interest and or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agriculture purposes.

v) Any amount to be received remain overdue for a period of more than 180 days in respect of other accounts.

Gross NPA means the total NPAs amount computed from the different loans and advances by the NPA department of the bank. The Gross NPA ratio indicates the degree of non earning assets in the balance sheet. It indicates the proportion of gross

NPAs in the gross advances of the bank. Higher the ratio, lower the earning capacity of the bank and vice-versa. **According to the NABARD guidelines the standard ratio should be 10%.** The ratio is computed by dividing the gross NPA by the gross loans and advances of the bank. The ratio is work out as under :

$$\text{Gross NPAs} = \frac{\text{Gross NPAs}}{\text{Gross Loans and Advances}} \times 100$$

Table No. 4.41

Position of Gross NPAs

(Ruppes in lakhs)

Year	Gross NPAs	Gross Loans and Advances	Ratio (%)
2001-02	5308.08	96896.96	5.48
2002-03	7704.24	107263.27	7.18
2003-04	10963.89	107817.17	10.17
2004-05	13718.80	95409.27	14.38
2005-06	23345.32	104423.51	22.36
Average			**11.93**

Sources : 1) Appendix No.I, Table No. 5. 7 : Position of NPAs and Provisions.
2) Annual Report of the bank 2001-02 to 2005-06.

The above T.No.4.41 indicates that the ratio of the bank is increasing every year constantly. The ratio varies between 5.48 to 22.36 and average being 11.93 . It is observed that the ratio of the bank was 5.48 in the year 2001-02 and which was increased up to 22.36. The discussion with the senior officers of the SDCCB reveals that the NPAs of the bank is increasing due to the lower

recovery and increasing the overdues of the bank. Thus NPAs is seriously affecting the bank profitability.

b) Net Non Performing Assets :

Another way of examining the assets quality is the by way of Net NPAs ratio. The net NPA means the gross NPA minus provisions made on such NPAs. The ratio indicates the proportion of net NPAs in the net advances of the bank. It also indicates the extent of poor quality loans. **According to the NABARD guidelines the standard ratio should be 5%.** Higher the ratio lower is the earning capacity of the bank and vice-versa. The ratio is computed by dividing the Net NPAs by the Net Loans and Advances of the bank. The ratio is work out as under :

$$\text{Net NPAs} = \frac{\text{Gross NPAs} - \text{NPAs Provisions}}{\text{Gross Loans and Advances} - \text{Total Provision}} \times 100$$

Table No. 4.42

Position of Net NPAs

(Rupees in Lakhs)

Year	Net NPAs	*Net Loans and Advances	Ratio (%)
2001-02	2550.67	89843.54	2.84
2002-03	4546.83	97824.25	4.65
2003-04	6966.48	94910.24	7.34
2004-05	8511.39	80565.88	10.56
2005-06	16464.45	88205.29	18.67
Average			**8.65**

Sources : 1) Appendix No.I, Table No. 5. 7 : Position of NPAs and Provisions
2) Annual Report of the bank 2001—05 to 2005-06.

* Note : Net advances is work out as : Gross loans and advances less total provisions made.

The above T.No.4.42 indicates that the ratio of the bank is increasing constantly. The ratio varies between 2.84 to 18.67 and average being 8.65. Hence lower the ratio better the earning capacity of the bank and vice-versa. The standard ratio is 5% and average ratio of the bank is 8.65%. The table indicates that the ratio was below the standard for first two year and then it is increased up to 18.67. Thus the NPA is seriously affecting the profitability and earnings capacity of the bank.

c) Net Non Performing Assets to Total Equity :

The ratio of net NPAs to total equity indicates the equity cover for NPAs. If the ratio is greater than equity, it means bank is providing NPA finance out of its interest paying liabilities. This sort of funding pattern would adversely affect the profitability of the bank. The ratio is computed by dividing the net NPAs by the owned funds of the bank. The ratio is work out as under :

$$\text{Net NPAs to Equity} = \frac{\text{Net NPAs}}{\text{Owned Funds}} \times 100$$

Table No. 4.43

Position of Net NPAs to Equity

(Rupees in lakhs)

Year	Net NPAs	Owned Funds	Ratio (%)
2001-02	2550.67	6403.36	39.83
2002-03	4546.83	7407.63	61.38
2003-04	6966.48	7790.48	89.42
2004-05	8511.39	6826.66	124.68
2005-06	16464.45	6541.40	251.70
Average			**111.64**

Sources : 1) Appendix No.I, Table No. 5. 3 : Computation of Owned Funds

2) Appendix No.I, Table No. 5.7 : Position of NPAs and Provisions.

The above T.No.4.43 indicates that the ratio of the bank is increasing every year constantly. The ratio varies between 39.83 to 251.70 and average being 111.64. Thus the bank has to face serious problem in future if the bank has not controlled the NPAs. The NPA percentage has been very high since 2004-05. The minimum expectation is that the net NPA amount should be less than total equity.

4.3.5 Solvency Position :

Solvency position of the bank can be judged by two way. First short term solvency and second is long term solvency.

Short term financial soundness means the ability of the bank to meet its short term liabilities without disturbing the day-to-day operations.

On the other hand, the long term creditors and shareholders are concerned with long term solvency position of the bank.

a) Short Term Solvency :

The most important and all over accepted indicator of short term solvency position is the current ratio or liquidity ratio. That is the ratio of current assets to current liabilities. This ratio speaks of the capacity of the bank to meets its short term obligations. It is calculated by setting the current assets against the current liabilities. The current assets of the bank under study includes cash in hand and at bank, short term investments, short term loans and advances, interest receivables and other current assets. On the other hand short term deposits, short term borrowings, branch adjustments (credit balance) interest payable and other current liabilities. **The current ratio of 2:1 (current assets twice of current liabilities) or more is considered to be satisfactory.** The higher the current ratio, the greater the margin of safety and vice-versa. As most of the current assets of a DCCBs are short term loans and advances providing to its members and borrowers, the quick recovery of which is doubtful and a major portion of its current liabilities are public deposits and borrowings from apex institutions which are to be repaid in time, a higher current ratio may be recommended for it. The ratio is worked out as under:

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

Table No. 4.44

Current Ratio

(Rupees in Lakhs)

Year	Current Assets	Current Liabilities	Ratio (%)
2001-02	96532.77	63238.72	1.53:1
2002-03	98305.65	59929.91	1.64:1
2003-04	95305.35	52297.19	1.82:1
2004-05	97211.03	61826.46	1.57:1
2005-06	109784.64	79420.96	1.38:1
Average			**1.57:1**

Sources : Appendix No.I, T.No.5.8 : Computation of Current Assets and Current Liabilities.

The above T.No.4.44 indicates that the ratio of the bank is fluctuating in nature. The ratio varies between 1.38:1 to 1.82:1 and average being 1.57:1. The bank has not been able to maintain the standard ratio of 2:1. The average ratio is 1.57:1. Thus the short term solvency position of the bank has shown average position. It is better if the bank improved the ratio from 1.50:1 to 2:1.

b) Long Term Solvency Position :

The most widely used leverage ratio is the Debt-Equity ratio i.e. the ratio of debt to equity. This speaks of the capacity of the bank to meet its dept obligation of medium and long term nature even from out of its own capital. Borrowed (Debt) of the bank consists of deposits and borrowings, where as share capital and free reserves are called owned funds (equity) of the bank. The ratio shows the extent to which debt financing has been used in an organization. It tells us the proportion of outsides claims and

owners claims. **As a conventional a ratio of 1:1 is considered to be an ideal ratio**. A higher ratio conveys that the claims of the outsiders are greater than those of owners and vice-versa. The ratio is computed by dividing the Debt by the Equity. The ratio is work out as under:

$$\text{Dept-Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} \times 100$$

Table No.4.45

Debt-Equity Ratio

(Rupees in Lakhs

Year	Borrowed Funds	Owned funds	Ratios (%)
2001-02	110132.21	6403.36	17.20:1
2002-03	119638.91	7407.63	16.15:1
2003-04	118393.32	7790.48	15.20:1
2004-05	126658.09	6826.66	18.55:1
2005-06	141142.10	6541.40	21.58:1
Averge			**17.61:1**

Source :1) Appendix No.I, Table No.5.3 : Computation of Owned Funds.

2) Annual reports of the bank 2001-02 to 2005-06.

The above T.No.4.45 presents the borrowed funds, owned funds of the bank and their respective ratios. The table reflects a very deplorable picture. The ratio varies between 15.20:1 to 21.58:1 and average being 17.61:1. The average ratio is work out to be 17.61:1. It means the borrowed funds is 17.61 time of owned funds. Thus the debt is more as compared to the equity. In short, the bank is more depending upon outside funds for the banking business.

4.3.6 Profitability Ratios :

Profit is the result of the effective utilization of working capital and control of cost of management over a period of time.

The profitability ratios depend on, income received from loans and advances, interest paid on deposits and borrowings, cost of management and non interest income.

In the following third part of the chapter, the researcher has considered ten ratios and the analysis made of the profitability of the bank during five years period. On the basis of this analysis the researcher has made an attempt to suggest major for improving the profitability of the bank.

a) Return on Funds as a percentage to Working Capital:

Return on funds functions of the bank shows the total income of the bank, that is derived from the service rendered by it. The main source of operating revenue of a bank includes interest on loans and interest or dividend on investments. Working capital is the total capital employed by the bank. Return on funds ratio indicates the proportion of interest income on loans and investments to working capital of the bank. Higher the ratio better is the profitability of the bank and vice-versa. The ratio is computed by dividing the return on funds by the working capital of the bank. The ratio is worked out as under.

$$\text{Return on Funds to Working Capital} = \frac{\text{Return on Funds}}{\text{Working Capital}} \times 100$$

Table No.4.46

Return on Funds as a Percentage to Working Capital

(Rupees in Lakhs)

Year	Return On Funds	Working Capital	Ratio (%)
2001-02	12996.99	127828.38	10.17
2002-03	14418.12	140489.32	10.26
2003-04	13871.87	142791.94	9.71
2004-05	11148.56	154215.45	7.23
2005-06	12444.32	171610.22	7.25
Average			**8.80**

Source :1) Appendix No.I, Table No.5.1: Classification of Interest Received..

2) Appendix No.I, T.No.5.4 : Computation of Working capital.

The above T.No.4.46 indicates that the ratio of the bank is reducing every year excluding the year 2002-03.The ratio of the bank varies between 7.23 to 10.26 and average being 8.80.Thus higher ratio is excepted.

It is observed that the return on funds is reduced in the last five years due to decrease in the rate of interest on investments and non recovery of interest amount from the borrowers due to natural calamities in the district for the last five years. Subsequently the working capital amount is increased and return on funds is decreased in the five years period.

b) Cost of Funds as a Percentage to Working Capital :

Cost function shows the total expenses incurred on producing any service rendered by it. The main items of expenses of a bank are interest paid on deposits and borrowing .As

explained earlier, the working capital is nothing but the total capital employed by the bank. The cost of funds to working capital ratio indicates the proportion of interest cost on the borrowed funds to the working capital of the bank. Lower the ratio better is the profitability of the bank and vice-versa. The ratio is computed by dividing the interest paid on deposits and borrowings by the working capital of the bank.

The ratio is work out as under:

$$\text{Cost of Funds to Working Capital} = \frac{\text{Cost of Funds}}{\text{Working Capital}} \times 100$$

Table No.4.47

Cost of Funds as a Percentage to Working Capital .

(Rupees in Lakhs)

Year	Cost of Funds	Working Capital	Ratio (%)
2001-02	9140.51	127828.38	7.15
2002-03	10489.17	140489.32	7.47
2003-04	9988.11	142791.94	7.00
2004-05	8861.75	154215.45	5.75
2005-06	8482.41	171610.22	4.94
Average			**6.37**

Sources : 1) Appendix No.I, Table No.5.2 Classification of Interest Paid.

2) Appendix No.1 Table No.5.4 Computation of Working Capital.

The above T.No.4.47 indicates that ratio of the bank is reducing every year excluding the year 2002-03 .The ratio of the bank varies between 4.94 to 7.47 and average being 6.37.Thus lower ratio is expected.

It is observed that the interest rate is reduced in the said period and the working capital amount is increased. Due to this the cost of funds as a percentage to working capital is reduced from 7.15 to 5.75. Thus the reducing percentage is favorable to the bank.

c) Net Interest Income Ratio (Financial Margin/Spread):

The spread is also known as Net Interest Income or Net Interest Margin Ratio. Net Interest Margin is one of the indicators of a banks profitability, which is defined as the total interest earned minus total interest paid. The magnitude of the income of a bank depends upon total interest received and total interest paid. The effective management will try to increase the margin between two. The goal of the co-operative banking is not mean the maximization of profit but to make the development of rural economy. This ratio indicates the proportion of interest income utilized for meeting the interest cost. It also indicates the spread available the bank to meet the other cost. Higher the ratio better is the performance of the bank and vice-verse. The spread is difference between the cost of funds to working capital and return on funds to working capital.

The ratio is work out as under :

Spread = (Return on Funds to Working Capital – Cost of Funds to Working Capital)

Table No. 4.48

Net Interest Income (Financial Margin/Spread) Ratio

(Figures into percentage)

Year	Return of Funds (a)	Cost of Funds (b)	Spread (%) (c=a-b)
2001-02	10.17	7.15	3.02
2002-03	10.26	7.47	2.79
2003-04	9.71	7.00	2.71
2004-05	7.23	5.75	1.48
2005-06	7.25	4.94	2.31
Average	**8.80**	**6.37**	**2.43**

Sources : 1) Table No. 4.46 : Return on Funds to Working Capital

2) Table No. 4.47. : Cost of Funds to Working Capital.

The above T.No.4.48 indicates the ratio of the bank is reducing every year excluding the year 2005-06. The ratio varies between 1.48 to 3.02 and average being 2.43. Thus higher ratio is expected.

It is observed that the return on funds to working capital is reduced in the last five years due to decrease in the rate of interest on investments and non recovery of interest amount from the borrowers due to adverse natural calamities in the district for the last five years. Therefore the net interest income ratio is reducing.

d) Non Interest Income as Percentage to Working Capital :

Commission, Exchange, Brokerage and other income are important sources of bank earnings. Which are charged by bank for service rendered by it. This ratio is computed by dividing the non interest income by working capital. This ratio indicates the

proportion of income from non-fund business. Higher the ratio better the profitability of the bank and vice-versa. The ratio is work out as under :

$$\text{NII to Working Capital} = \frac{\text{Non interest Income (NII)}}{\text{Working Capital}} \times 100$$

Table No. 4.49

Non Interest Income as a percentage to Working Capital

(Rupees In Lakhs)

Year	Non Interest Income	Working Capital	Ratio (%)
2001-02	357.71	127828.38	0.28
2002-03	392.34	140489.32	0.28
2003-04	293.38	142791.94	0.21
2004-05	274.41	154215.45	0.18
2005-06	213.75	171610.22	0.12
Average			**0.21**

Sources : 1) T. No.I, Table No.5.4 : Computation of Working Capital
2) Annual reports of the bank 2001-02 to 2005-06.

The above T.No.4.49 indicates that the ratio is reducing every year constantly. The ratio varies between 0.12 to 0.28 and average being 0.21. Thus higher ratio is expected.

Recently all the banks are increasing there income by different ways. One way is to increase the other income. It is observe that the percentage of non interest income is reducing. It is expected that the bank should find out different sources to increase its, such as bancassurance scheme.

e) Cost of Management to Working Capital:

Cost function shows the total expenses incurred on producing any service rendered by the bank. Cost of management is sum total of salaries, allowances, bonus paid to bank staff, establishment expenses incurred on rent, electricity, telephone bill, postage and stationary etc. Since the cost of management is an important variable which affects the profit. The ratio indicates the transaction cost of bank to working capital. Lower the ratio better is the profitability of the bank and vice-versa. **As per the NABARD guideline the standard ratio should be 2.50%.**The cost of management is compared to working capital with the help of following ratio. The ratio is worked out as under:

$$\text{Cost of Management to Working Capital} = \frac{\text{Cost of Management}}{\text{Working Capital}} \times 100$$

Table No. 4.50
Cost of Management as a Percentage to Working Capital

(Rupees in Lakhs)

Year	Transaction Cost	Working Capital	Ratio (%)
2001-02	2942.73	127828.38	2.30
2002-03	3089.69	140489.32	2.20
2003-04	3224.52	142791.94	2.26
2004-05	2686.31	154215.45	1.74
2005-06	2954.67	171610.22	1.72
Average			**2.02**

Source: 1) Appendix No.I, Table No .5.4: Computation of Working Capital .
2) Annual reports of the bank 2001-02 to 2005-06

The above T.No.4.50 indicates that the ratio is reducing every year constantly. The ratio varies between 1.72 to 2.30 and average being 2.02.The analysis shows that the SDCCB has been functioning on sound lines. Thus cost of management of the bank

has been within the conventional limit of 2.50% of the working capital.

f) Risk Cost as a Percentage to Working Capital:

As the bank provides loans and advances to its customers and members, which are risky prone. Some of the loans may become bad on account of natural calamities which are beyond the control of the bank or lack of financial discipline among the borrowers. Risk cost, includes bad anddoubtful debts reserve (Provision made on sub standard, doubtful and loss assets) and (Interest income due from the borrower but not paid by them) and (provision on standard assets made by the bank) in term of RBI guidelines. Lower the ratio better the profitability of the bank and vice-versa. The ratio is worked out as under.

Risk Cost as Percentage to Working Capital =

$$\frac{\text{Provision on Bad and Doubtful Debts + Provision on standard assets}}{\text{Working Capital}} \times 100$$

Table No. 4.51

Risk Cost as a Percentage to Working Capital

(Ruppes in lakhs)

Year	Bad and Doubtful Debts and Standard Assets Provision	Working Capital	Ratio (%)
2001-02	225.00	127828.38	0.18
2002-03	400.00	140489.32	0.28
2003-04	840.00	142791.94	0.59
2004-05	1210.00	154215.45	0.78
2005-06	1673.46	171610.22	0.98
Average			**0.59**

Source : 1) Appendix No.I,Table No.5.4 : Computation of Working Capital .
2) Annual reports of the bank 2001-02 to 2005-06.

The above T.No.4.51 shows that the ratio of the bank is increasing every year constantly. The table indicates that the ratio varies between 0.18 to 0.98 and average being 0.59. Thus lower ratio is expected. It is observed that the NPA are increasing heavily during the period under study.

g) Net Margin Ratio :

The measurement of net income of a co-operative bank is important like other business organizations. The co-operative banks income is the result of two function i.e. the Revenue function and Cost function. Revenue function shows the total income of the co-operative bank that is derived from the services rendered by it. Cost function shows the total expenses incurred on producing any service rendered by it. The total net income is the excess of total revenue over the expenditure incurred in connection with the operations of the bank.

The net margin ratio indicates the proportion of interest income and non interest income for meeting the interest cost. It indicates the spread available to the bank to meet the cost of management and risk cost, Higher the ratio better is the profitability of the bank and vice-versa. The percentage of net margin is worked out as under:

Net Margin = (Spread + Non Interest Income as a Percentage to Working Capital) – (Cost of Management as a Percentage to Working Capital + Risk cost as a Percentage to Working Capital).

Table No. 4.52

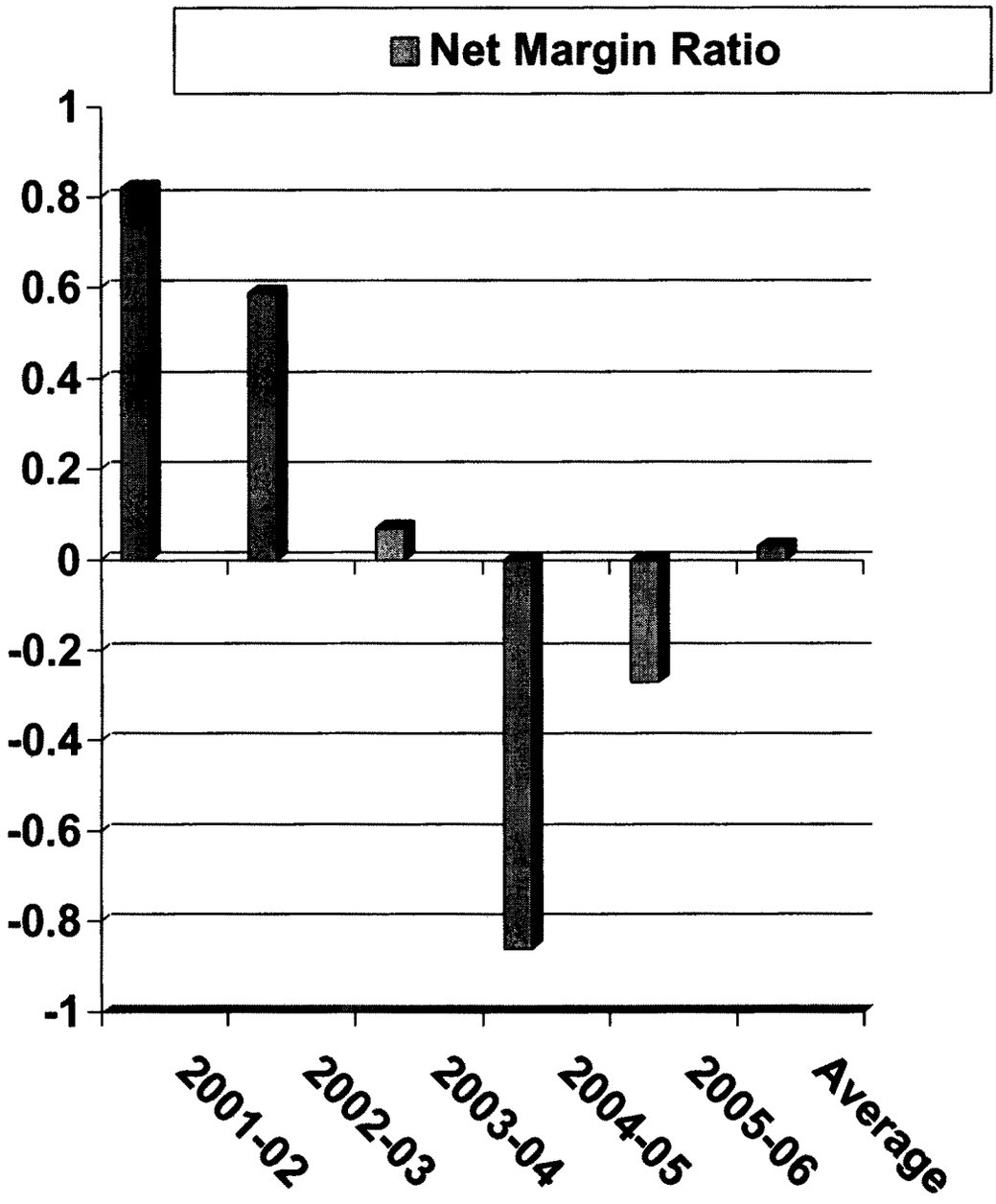
Net Margin Ratio

(Figures in percentage)

Year	Spread (a)	NII (b)	Net Income to Working Capital (c = a+ b)	COM (d)	Risk Cost (d)	Total Cost (f =d+e)	Ratio (g =c-f)
2001-02	3.02	0.28	3.30	2.30	0.18	2.48	0.82
2002-03	2.79	0.28	3.07	2.20	0.28	2.48	0.59
2003-04	2.71	0.21	2.92	2.26	0.59	2.85	0.07
2004-05	1.48	0.18	1.66	1.74	0.78	2.52	0.86(-)
2005-06	2.31	0.12	2.43	1.72	0.98	2.70	0.27 (-)
Average	**2.43**	**0.21**	**2.64**	**2.02**	**0.59**	**2.61**	**0.03**

Source : 1) Table No.4.48. : Net interest income ratio (spared).
2) Table No. 4.49 : Non interest income to working capital.
3) Table No. 4.50. : Cost of management to working capital.
4) Table No. 4.51 : Risk cost to working capital.

Chart No.4.3 : Net Margin Ratio



The T.No.4.52 and Chart No.4.3 indicates that the net margin ratio of the bank reducing very year constantly and it was gone minus percentage. The ratio varies between (-) 0.86 to 0.82 and average being 0.03. Out of five years for two years the ratio is unfavorable and in last year it is almost nil. Thus higher ratio is expected.

It is observed that the risk cost of the bank increasing heavily. This adversely affects the net margin ratio of the bank. Hence the profitability of the bank adversely affected due to the heavy risk cost.

h) Total Interest Cost To Total Interest Income ratio :

The another way analyzing the profitability of the bank is to study the interest paid including interest due but not paid on deposits and borrowings to total interest. This ratio indicates the proportion of interest income utilized for meeting interest cost. It also indicates the spread available to the bank to meet the cost of management and other cost. Lower the ratio batter is the profitability of the bank. The ratio is computed by dividing the total interest paid including interest due but not paid by the interest income. It is worked out as under:

$$\text{Interest Cost to Interest Income} = \frac{\text{Total Interest Paid + Interest Payable}}{\text{Interest Income}} \times 100$$

Table No. 4.53

Total Interest Cost to Interest Income Ratio

(Rupees in lakhs)

Year	Total Interest Paid (a)	Interest Payable (b)	Total Interest Cost (c=a+b)	Interest Income (d)	Ratio (%) (e=c/d)
2001-02	9140.51	1821.66	10962.17	12996.99	84.34
2002-03	10489.17	1700.08	12189.25	14418.12	84.54
2003-04	9988.11	1695.46	11683.57	13871.87	84.22
2004-05	8861.75	2286.26	11148.01	11148.56	99.99
2005-06	8482.41	2497.33	10979.74	12444.32	88.23
Average					**87.80**

Sources : 1) Appendix No.I, Table No. 5.1. : Classification of Interest received.
2) Appendix No.I,. T.No. 5.2. : Classification of interest paid.
3) Annual reports of the bank 2001-02 to 2005-06.

The above T.No.4.53 indicates that the ratio of total interest cost to total interest income is increased in the last two years. The ratio varies between 84.22 to 99.99 and average being 87.80. In the year 2004-2005 out of total interest received 99.99 interests is to be paid due to this profit is reduced and the bank is earn loss. Very high ratio would indicate serious problem in the bank as to asset liability mismatches. Thus lower ratio is expected.

i) Cost of Funds to Total Expenditure Ratio:

Total cost function shows the total expenses made by the bank. The main items of expenses in the bank are interest payments, cost of management and other current operating expenses .The cost of funds includes the interest paid on deposits and borrowings. The ratio indicates the proportion of interest cost to total cost .A high level of interest cost indicates a poor level of

internal recourses position and heavy dependence on outside recourses. The ratio is computed by diving the interest cost by the total cost of the bank .The ratio is worked out as under:

$$\text{Cost of Funds to Total Expenditure} = \frac{\text{Interest Cost}}{\text{Total Expenditure}} \times 100$$

Table No. 4.54

Cost of Funds to Total Expenditure Ratio

(Rupees in lakhs)

Year	Cost of Funds	Total Expenditure	Ratio (%)
2001-02	9140.51	12083.24	75.65
2002-03	10489.17	13578.86	77.25
2003-04	9988.11	13212.63	75.60
2004-05	8861.75	11548.06	76.74
2005-06	8482.41	11437.08	74.17
Average			**75.92**

Sources:1) Appendix No.I , T.No..5.2: Classification of Interest Paid.

2) Annual reports of the bank 2001-02 to 2005-06.

The above T.No.4.54 indicates that the ratio of the bank varies between 74.17 to 77.25 and average being 75.92. It reveals that the bank heavily depends on outside resources for its business. Thus lower ratio is expected.

j) Return on Working Capital :

The ratio of net profit to working capital is relevant indicator of profitability of the bank. In bank return on share capital, return on owned funds and distribution of dividend on share capital ratio is less important ratios compare to net profit to working capital ratio.

The performance of the bank is examined in terms of return on working capital. The ratio indicates the margin of profitability available to the bank. It indicates to what extent the working capital of the bank has been effectively utilized. The ratio is computed by dividing the net profit by the working capital of the bank. The ratio is worked out as under :

$$\text{Return on Working Capital} = \frac{\text{Net Profit}}{\text{Working Capital}} \times 100$$

Table No. 4.55

Return on Working Capital

(Rupees in Lakhs)

Year	Net Profit	Working Capital	Ratio (%)
2001-02	866.46	127828.38	0.68
2002-03	781.60	140489.32	0.56
2003-04	87.62	142791.94	0.06
2004-05	Nil	154215.45	Nil
2005-06	Nil	171610.22	Nil

Sources : 1) Appendix No.I, Table No. 5.4 : Computation of Working Capital.
2) Appendix No.I, Table No. 5.5 : Computation of Profitability of the bank.

The above T.No.4.55 indicates that the bank has made no profit in the last two years, hence there is no return. The rate of return varies between 0.06% to 0.68% . There is by and large continuous growth in the working capital of the bank. But profitability is reducing in amount as well as in percentage. The table reveals that percentage of profit to working capital is less

than one percent. The loss incurred by the bank in the year 2004-05 is due to increase in the non performing assets of the bank. Thus, in spite of the increase in the volume of business the profitability of the bank is continuous to remain weak in last three years.

4.3.7 Break Even Analysis :

a) Break Even Point to Output :

Having the banking sector as an industry, the analytical tools which have been used to industries to assess the profitability and efficiency are used in banking sector also. Break Even point (BEP) is one such technique which is principally concerned with Cost Volume Profit Analysis (CVP)

The Break Even Analysis (BEA) established relationship between revenues and costs with respect to volume. The BEP may be defined, as that part of sales volume at which total revenues are equal to total costs. It is no profit and no loss point. It is the point where profits begging by wiping up the losses.

BEP is supported by the essential points i.e. 1) Total Costs 2) Total Revenue 3) Total output.

The total cost includes the interest to be paid on deposits and borrowings and the management costs. The interest paid is called the Variable Cost because, it is positively associated with the volume of inputs (Deposits + Borrowings) The management cost is know as fixed cost because, the cost does not change along with the volume of business. The total Revenues includes the interest to be received and other non interest income. The interest to be received is the principal source of income of the bank

to pay off the cost of inputs. The Total Output includes the Loans and the Investment made by the bank.

The management can use the BEP for finding out the safety margin, fixing up of the interest rate, profit planning etc. In other words the management can use this analysis to Funds Management and taking the decision.

The BEP can be work out as with the following formula.

BEP = FC/CR

CR = AR-VC

Where i) FC- Fixed cost ii) VC- Variable Cost iii) CR- Contribution ratio iv) TR-Total Revenue v) OP-Output (Loans and Investments) vi) AR-Average revenue.

AR = TR/OP

VC Per Unit = VC/OP

Table No.4 .56 : Break Even Point to Output Ratio

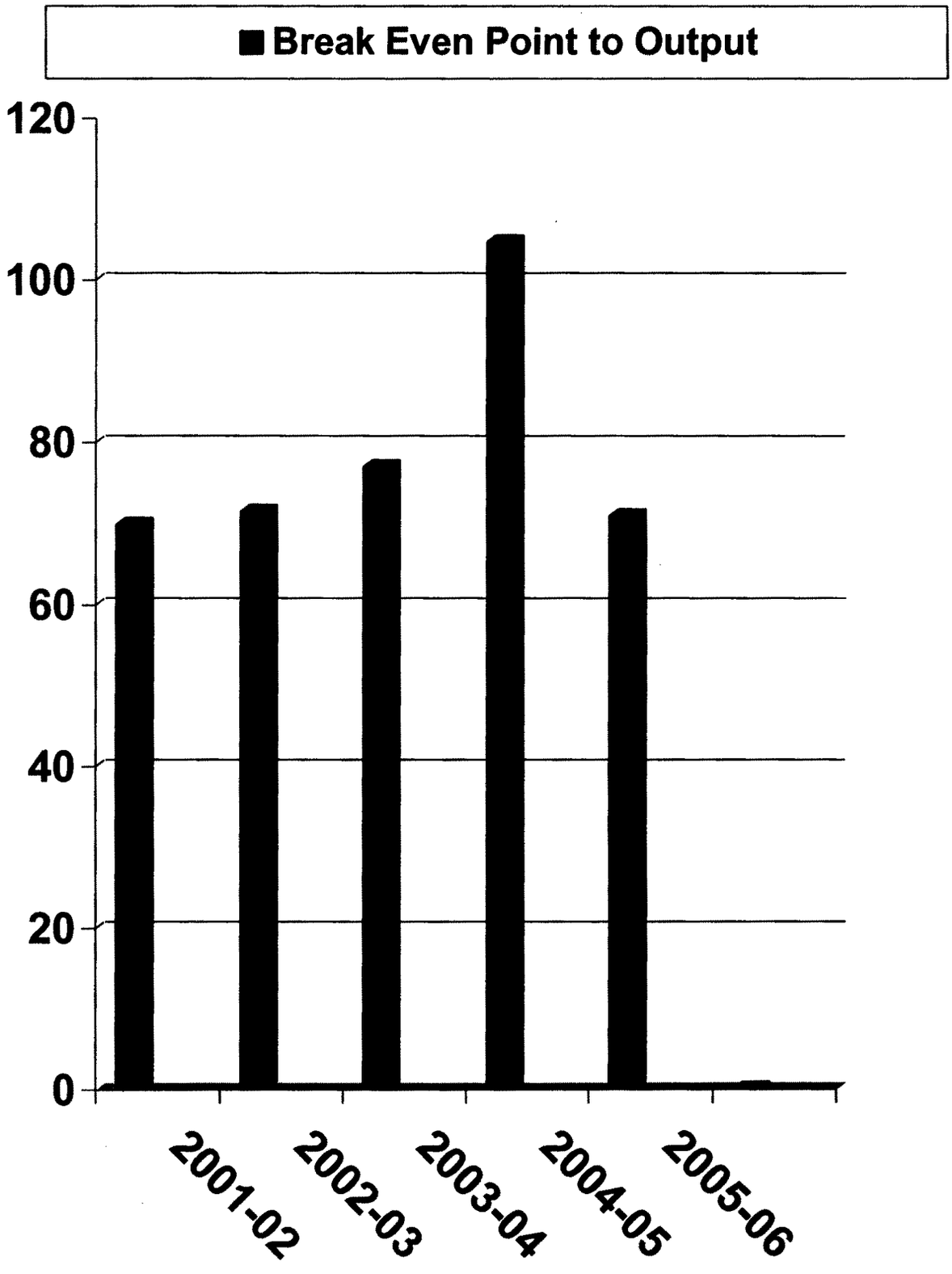
(Rupees in Lakhs)

Year	Output (a)	BEP (b)	CR (c)	Percentage of BEP to Output (d=b/a)
2001-02	121273.50	84804.90	0.0347	69.93
2002-03	133334.82	95360.80	0.0324	71.52
2003-04	134202.27	103350.00	0.0312	77.02
2004-05	**144964.00**	**151768.93**	**0.0177**	**104.69**
2005-06	161986.81	114967.70	0.0257	70.97

Source : 1) Appendix No.I, T.No. 5.10 : Computation of BEP.

2) Annual reports of the bank 2001-02 to 2005-06.

Chart No.4.4 : Break Even Point to Output Ratio



The above T.No.4.56 and Chart No.4.4 indicates that the BEP to total output was increased from 69.93 in 2001-02 to 104.69 in 2004-05. Subsequently the ratio was decreased up to 70.97 in 2005-06. This indicates that the bank earned adequate profit in first two years. In the year 2001-02 the BEP was minimum because bank eared highest profit in that year. But in the last two years bank earn net loss. It is observed that in the last two years 2004-05 and 2005-06 the bank kept higher idle funds in the form of investments. A low level BEP is the result of high contribution ratio which shows the higher profitability.

b) Break Even to Working Capital:

In the earlier BEA the researcher presents the data on the BEP according to cost accounting concept. Now using the same concept of BEP the following data is presented with addition of Risk Cost, which is not considered in the above BEP. Hence the Financial Margin (Contribution Ratio) is taken as percentage to working capital. This will give a very clear picture of working capital with the help of Break Even Analysis. The BEP is worked out as under:

$$BEP = \frac{\text{COM in amounts + Risk Cost in amount – NII}}{\text{Financial Margin}} \text{ X100}$$

i) **Cost of Management** – COM is sum total of salaries, allowances, bonus paid to bank staff pulls establishment expenses incurred by on rent, electricity, telephone bill, postage and stationary etc.

ii) **Risk Cost** – It includes provisions made on Bad and Doubtful Debts plus standard assets provisions.

iii) **Non Interest Income (NII)** – It includes commission, exchange, brokerage, which is charred by bank for service rendered by it.

iv) **Financial Margin** – It is difference between the return on Funds as a percentage to working capital and cost of Funds as a percentage to working capital.

Table No. 4.57

Break Even Point to Working Capital Ratio

(Rupees in Lakhs)

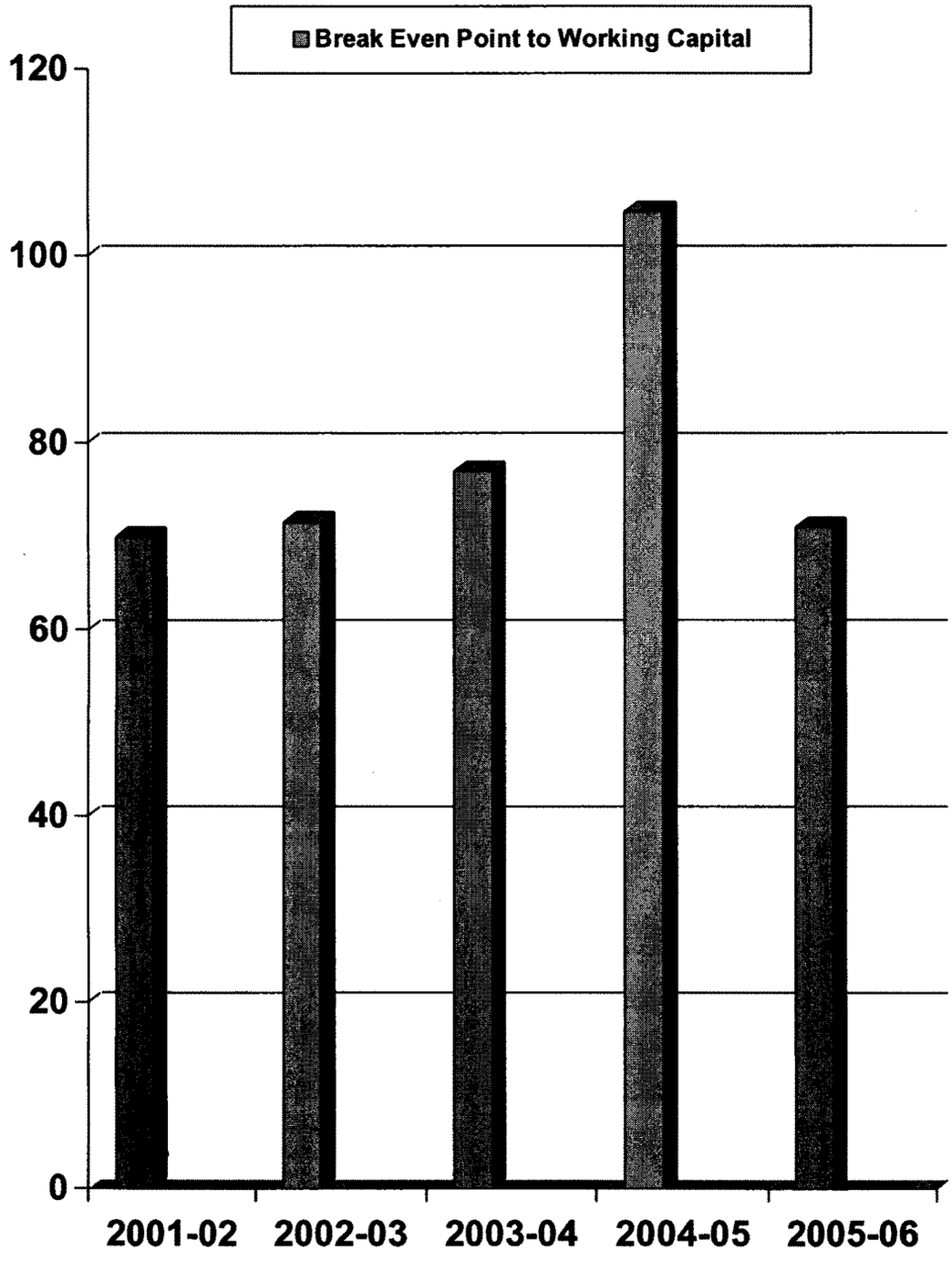
Year	COM (a)	Risk Cost (b)	NII (c)	Total Cost (d=a+b-c)	Fanatical Margin (e)	BEP (f=d/e)	Working Capital (g)	Percentage of BEP to Working Capital
2001-02	2942.73	225.00	357.71	2810.02	3.02	93047.02	127828.38	72.79
2002-03	3089.69	400.00	392.34	3097.35	2.79	111016.13	140489.32	79.02
2003-04	3224.52	840.00	293.38	3771.14	2.71	139156.46	142791.94	97.45
2004-05	2686.31	1210.00	274.41	3621.90	1.48	244722.97	154215.45	**158.69**
2005-06	2954.67	1673.46	213.75	4414.38	2.31	191098.70	171610.22	111.36

Sources : 1) Table No. 4.48 Financial Margin.

2) Appendix No.I, , Table No.. 5.4 Computation of Working Capital.

3) Appendix No.I. 5.5. : Computation of Profitability of the bank.

Chart No. 4.5. : Break Even Point to Working Capital Ratio



The above T.No.4.57 and Chart No.4.5 indicates that the BEP level had increased from Rs. 93047.02 lakhs in 2001-02 to Rs. 244722.97 lakhs in 2005-06 subsequently decreased up to Rs. 191098.70 lakhs in 2005-06. This indicates that the bank had eared adequate profit in the first two years (2001-02 and 2002-03).

In the year 2001-02 the BEP to working capital ratio is minimum (72.79) because bank had earned highest profits in that year. But in the next year 2003-04 the BEP to working capital ratio was nearly 100% (97.45) therefore the bank had earned the nominal profit in that year. Subsequently in the last two year 2004-05 and 2005-06 the BEP to working capital ratio was increased up to 158.69 and 111.36 respectively, indicating bank earned net loss. It may be concluded that the bank earned adequate profit in the first two years and in the last two years the bank earned a net loss.

It is observed that the profitability of the bank is reducing due to the decrease in the financial margin and increase in the risk cost. It may be concluded that the interest income of the bank is decreasing and the provision made on NPAs is increasing. Thus the NPA is seriously affecting profitability of the bank.

It is found that the statistical department of the bank calculated the BEP on the basis of output every year and the data is presented to the apex institutions and higher authority of the bank. The report of the BEP is sent to higher authority with comments. The researcher observes that the higher authority of the bank gives less stress on corrective measures.
