CHAPTER - V

FINDINGS AND SUGGESTIONS

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In the earlier chapter researcher had made details study of working capital. The study is made regarding the sources of working capital, application of working capital and analysis of working capital. In this following chapter concentration is made on findings and suggestions in two parts. By considering the objectives and hypothesis of the study.

5.1 Major Findings and Observations

5.2 Suggestions to the SDCCB.

5.1 MAJOR FINDINGS AND OBSERVATIONS :

On the basis of data presentations, interpretation, analysis and the finding of the study are as follows.

5.1.1 Share Capital :

a) The study reveals that the membership of the bank consists of Government, individual members and affiliated societies. It is found that the membership of the SDCCB is increasing constantly except the Government and individuals. The individuals are dropped from the membership with the amendment in the Maharashtra Co-operative Societies Act 1960. (Reference : T.No.4.1 : Growth of Membership).

   Moreover the study reveals that the bank has not able to make all the co-operatives societies working in the district as a member of the bank. The data in the Appendix No. I, T.No.5.12 shows that only 66% of the societies are members of the bank.

(Reference : Appendix No. I, T.No.5.12 : Performance of affiliated societies to total co-operatives societies in the district).

b) There has been substantial progress in term of share capital of the bank. But at the same time the annual growth rate of the share capital is reducing every year. It is found that the percentage of share capital to working capital is 3% in all the years. (Reference : T.No.4.2 : Growth of Share Capital).

c) With regard to compositions of each of the sources of the share capital, it can be observed that the share capital contribution by the PACS and other affiliated societies shows a higher share compared to share capital contributions by the Government, individuals, co-operative sugar factories and UCBs. The contribution of Government and individuals share capital to total share capital of the bank remain unchanged, during the period of study. Share capital from co-operative sugar factories and UBCs does not show an optimistic picture. Thus most of the share capital of the bank contributed by the PACS. (Reference Table No. 4.3 : Growth of Share Capital by Sources).

d) It is found that the actual collection of share capital has been less than 5% of the loans. This can be said that the management allowed certain borrowers to avail credit facility without payment of 5% borrowings as a share capital. (Reference T. No. 4. 4. : Performance in Mobilization of Share Capital)

5.1.2 Reserve Fund and Other Reserves :

The study of records of the bank reveals that the bank has maintained as many as 14 types of reserves – 6 types of reserves maintained under statutory obligation and 8 types of reserves maintained as per the needs of normal routines. The statutory reserves includes reserve funds, agriculture stabilization fund, building fund, dividend equalization fund, special bad debt fund and reserves for bad and doubtful debts. Non statutory reserves refers to investment depreciation fund, Government share capital redemption fund, relief fund, draught fund, charity fund, rehabilitation of weak PACS fund , agriculture development fund and provision for standard assets.

It is found that there has been substantial growth in reserves during the period under study, they have not created additional funds to the bank to meet its business operations. As most of the amounts of reserve fund were invested in MSC Bank. However, reserves are useful to show better liquidity position of the bank.

It is observed that considerable increase in growth of reserves, the practice reveals that they have not contributed adequate additional resources to the bank due to the following reason.

The bank has following unique method of maintaining overdue interest provision (OIP). It has been transferring overdue interest receivable from overdue interest accounts by charging to profit and loss account. The implication of this practice understatement of net profit and decreased contribution for statutory reserve.

The increased in the RBDD and OIP in fact shows that 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. (Reference T.No.4.5: Growth in components of reserve funds and other provisions)

5.1.3 Capital Adequacy :

The ratio of owned funds to working capital indicates the strengths of the institution. It is found that the ratio was below the standard ratio of 15% in all the years. Hence it is concluded that the owned funds of the bank does not reflect the satisfactory position during the period under study. (Reference T No.4.31: Owned Funds to Working Capital).

5.1.4 Deposits :

It is found that during the period under study the bank operates many types of deposits – saving, current and fixed deposits. Moreover some special types of fixed deposits are kept by the bank they are recurring deposits, security deposits of the bank staff, reserve fund deposits of the affiliated societies, dam duppat, dam tippat, farmers pension scheme, middle class pension scheme etc.

a) It is found that the total deposits of the bank had increased from Rs.84138.88 lakhs in 2001-02 to Rs. 123206.89 lakhs in 2005-06. The percentage had increased in total deposits in 2002-03 is 12.61 % which was declined up to 10.36% in 2005-06. Bank is facing cut throat competition from other banks, financial institutions and non banking companies.

An evaluation of the bank in the deposit mobilization fund that the deposits of the bank have been rising but not constantly. At the same time, as a standard provided by the NABARD the annual growth rate of deposits should be 15 % as compare to the previous year. The highest growth rate was found in the year 2002-04. Since the bank has not maintained the standard annual growth rate of 15% (Reference T.No.4.6 : Growth of Deposits)

b) A major portion of the deposits of the bank comes from its individual customers. The deposits from affiliated societies, mobilization of such deposits needs least efforts of the bank management which does not show an encouraging picture. The reason for decreasing the proportion of affiliated society's deposits to total deposits is due to the new policy of RBI regarding the UCBs. According to Banking Regulation Act 1949 section 24, the primary UCBs required to maintain minimum 25% as liquid assets of the Net demand and Time Liabilities is to invested in Government securities. According to this new policy the UCBs has withdrawn Rs.110 cores from the bank. (Reference T. No.4.7 : Distribution of Deposit by Source Wise)

c) It is found that there has been substantial growth in different types of deposits. The average proportion of current account deposits, saving bank deposits and fixed deposits of the bank is found to be 11:20:69. As per the NABARD guidelines the standard should be 15:35:50. The share of high cost deposits is found to be average 69% , which is more than standard ratio of

50%. The said standard proportion of deposits is not maintained by the bank. Since the proportion of fixed deposits to total deposits indicate a higher share of percentage during the period under study. These fixed deposits are bearing high interest cost as compared to current and saving bank deposits. Thus it is observed that the high cost deposits were more as compare to the low cost deposits, which increase the cost of deposits and resulting the decrease in profits of the bank during the period under study.

It is observed that among the fixed deposits the proportion of PACS reserve funds deposits was more. Therefore the bank has not maintained the standard ratio of 50 %. (Reference T. No.4.8 : Distribution of Deposits by Classes, T.No.4.32 : Position of Current and Saving Deposits to Total Deposit and T. No.4.33 : Position of Fixed Deposits to Total Deposits.)

d) Among the deposits working capital relationship it is found that the nearly 70% of the working capital of the bank comes in the from of total deposits. Further the growth of deposits is as per with the growth of working capital. Since the proportion of deposits to working capital shows a satisfactory position. (Reference Table No. 4.9 Contribution of Deposit to Working Capital)

e) It is found that the margin of safety available for depositors of the bank is very less. The margin of safety for the depositors does not reflect a satisfactory position. But the bank has given due attention for the implementation of Deposit Insurance Scheme. The interview with the officials of the bank, reveals that the bank regularly pays the premium of Deposit Insurance and Credit Guarantee Corporation of India. This helps to the bank to mobilize more resources by the way of deposits. The deposits of the bank is fully secured up to Rs.100000/- (Reference T.No.4.10 : Relationship of Owned Funds to Deposits)

f) It is found that the Gross Credit – Deposit Ratio (GCDR) of the bank was higher in former (two years) and lower in later (two years) during the period under study. The ratio was subsequently decreased in the year 2004-05 and 2005-06, which indicates the deposits is more than the credit made by the bank. This results increase in idle funds. The deposits are bearing the interest cost and which is not desirable to the bank to keep the funds idle. This advisably affects the return on funds.

The standard Gross Credit-Deposit Ratio is 90% to 110%. The ratio was more than standard in 2001-02 and 2002-03 indicates the ineffective performance of the management in attaining adequate deposits. And the ratio was below the standard in 2004-05 and 2005-06 indicates the ineffective performance of the bank to chanalize the funds in a profitable way. (Reference Table No. 4.11: Gross Credit Deposits Ratio)

Thus it is concluded that there has been substantial growth in different types of deposits. Since the proportion of high cost deposits (fixed deposits) to total deposits shows a higher percentage during the period under the study.

5.1.5 Borrowings :

a) It is found that the bank is borrowing form MSC Bank as per the requirements. The bank is taking short term, medium term and long term borrowings for providing loans to affiliated societies in the district. It is observe that the borrowings from the apex agencies are reducing trend during the period under study.

It is found that there has been a sûbstantial decrease in the percentage share of borrowings to working capital under study. The standard ratio is 15%. The ratio was more than standard in the former (two years) and lower in the later (two years) during the period under study (Reference: T.No.4.12: Growth in Borrowings)

It is observed that the ratio of borrowings to working funds is reducing constantly during the period under study. This indicates good sign to the bank. The standard ratio of borrowings to working capital should be 15%. It is found that the ratio showing the satisfactory position excluding the year 2001-02. (Reference T. No.4.34 : Position of borrowings to working funds)

b) With regard to term-wise classification of borrowings the average proportion of short term, medium term and long term borrowings are 23 : 34: 43:. The bank has solvency shifted its reliance from short term to medium term and log term borrowings. It is observed that bank is converting its short term loans into medium term due to poor recovery of loans and advances. (Reference: T. No. 4.13 : Period-wise Classification of Borrowings).

c) It is found that the performance regarding the adequacy of borrowings power the bank utilizes only 30% of its borrowing power over a period of time. Since there has been decrease in utilization of borrowing power during the period under study, the bank has failed to utilize 100% of its borrowing power. This is not due to efficient financial planning of the bank but because of the low demand for the loans from co-operative sugar factories in the district. (Reference: T.No..4.14 : Utilization of Borrowing Power).

d) The ratio of financial involvement was higher in the year 2001-02 and lower in the remaining years under study. It is found that the average ratio was 20% in all the years under the study. This indicates the 20% of the loans made by the bank by taking the borrowings from apex institutions. It reveals the poor financial planning of the bank. (Reference: T. No. 4.35 : Financial Involvement Ratio)

e) It is found that the ratio of financial involvement (loans and advances minus borrowings) to non borrowing resources (owned funds plus deposits) was more than standard ratio in the year 2001-02, 2002-03 and 2003-04. This indicates ineffective performance of the bank in mobilizing adequate deposits. And the ratio was below the standard in the year 2004-05 and 2005-06 indicates the ineffectiveness performance of the bank to use the funds in the profitable manner. Thus it can be observed that the bank failed to invest its non borrowing resources fruitfully to the extent of optimum level. (Reference: T. No. 4.36 Ratio of Financial Involvement to non Borrowing Resources.)

5.1.6 Other Liabilities :

It is found that the percentage of other sources of working capital is 3% during the period under study. (Reference: T.No. 4.15: Position of Other Liabilities to Working Capital).

5.1.7 Sources of Working Capital at a Glance :

It is found that working capital of the bank has showed a continuous and steady rise. It was increased about 1.50- fold during the period under study. The owned funds (share capital and reserves) of the bank constitute a meager percentage (i.e. 3% and 10%) This indicates that the bank is leaning heavily on outside sources for its working capital. Thus the borrowed funds (deposits and borrowings) have constitute a major share in working capital compared to its owned funds. The annual growth rate of working capital was also lower as compared to the standard annual growth rate of 15% (Reference T.No. 4.16 : Sources of Working Capital at a Glance)

With the interview of the officers of the bank it is appeared that the rule of the SDCCBs in mobilization of resource has become increasingly crucial due to acute competition from the financial institutions such as commercial banks, post office saving bank, National Small Savings Organization etc. Further due to competition from institutions such as chit funds and financers on one side and the seasonal nature of agriculture requirements on the other, have made the task of resource mobilization to SDCCB more difficult.

5.1.8 Cash :

It is found that the bank had maintained 3% as cash to working capital. The bank have never maintained deficit in Cash Reserve Ratio. It is found that the bank has maintained cash balances to total demand liabilities very cautiously. Thus the bank has maintained the cash and Cash Reserve Ratio very cautiously during the period under study. (Reference: T.No. 4.17 : Position of Cash to Working Capital, T.No. 4.18, Position of CRR and T.No. 4.37 : Cash Balance to Total Demand Liabilities).

5.1.9 Investments :

It is found that the investments of the bank were increased 2.50-folds during the period under study. The proportion of investment to working capital is also increased constantly. The proportion of SLR investment was increase nearly 2-fold. Since it is observed that the bank is keeping huge idle amounts in the form investments in the last two years (2004-05 and 2005-06) under study. (Reference T.No. 4.19 : Position of Investment to Working Capital)

The liquidity ratio of the bank has been increased steadily, every year, nearly 1.50-fold increase in the SLR of the bank. Since the bank has failed to maintain SLR below the optimum level and always maintained surplus which is are an indicator of poor and traditional planning in the financial operation of the bank. Keeping of excess liquid ratio is not a advisable because it puts a bad effects on the profitability of the bank. Thus a substitution amount of liquid assets is being kept idle by the bank which could have been used otherwise (Reference: T.No 4.20. Position of Statutory Liquidity Ratio).

During interaction with the officials of the bank, revealed that the following reasons for keeping the more liquid resources.

i) It requires much times to borrow funds from higher financing agencies and distribute the same to the affiliated societies in the district.

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

iii) The another reason is reducing demand for loan from co-operative sugar factories is due to draught, flood conditions and lokari-mava on cane crop in the district. The bank takes borrowings from MSC Bank to provide loans to co-operative sugar factories. Therefore such excess funds are put by the bank in the SLR and Non-SLR investments.

It is also found that the ratio of total investment to total demand liabilities was 178.22 in 2001-02 and went up to 265.15 in 2004-05 and subsequently decreased up to 209.33 in 2005-06, record a 2-fold increase during the period under study. Since bank keeping more investments as compared to total demand liabilities. This reveals that the bank has not taken any risk to earn adequate return on the borrowed funds. (Reference T.No. 4.38 : Total Investments to Total Demand Liabilities)

Thus it can be concluded that the bank failed to maintain investments, below the optimum level which is an indication for poor management planning in the financial operation of the bank.

5.1.10 Loans and Advances :

a) It is observed that total loans and advances of bank was increased from 96896.96 lakhs in 2001-02 to Rs. 104423.51 lakhs in 2005-06. The amount of loans and advances granted is increasing at a decreasing rate. Moreover it is found that the bank advances- short term, medium term and long term loans for agriculture and non-agriculture purposes, for the first two years loans and advances made by the bank has increased and the maximum growth rate is observed during the year 2002-03 and 2003-04. Subsequently the loans and advances decreased during the period under study. (Reference: T.No..4.21 : Annual Growth of Loans and Advances)

b) The average proportion of short term, medium term and long term loans and advances is 60 :30:10. The short term loans are mainly issued for cropping purposes and for co-operative sugar factories. Medium term loans are also showed increased, due to conversion facility of short term loans into medium term loans. The interaction with the officials of the bank reveals that the bank converts its short term loans into medium term loans due to the draught and flood conditions which seriously affect the cropping pattern and agriculture allied activities in the district. (Reference: T. No. 4.22: Distribution of Term-wise Loans and Advances.)

c) Of the agriculture and non-agriculture loans and advances, the non-agriculture loans and advances accounts for major share in former and the agriculture advances account for major share in the later during the period under study. Which shows the proportion of agriculture are increased and non-agriculture loans and advances are decreased. (Reference: T.No. 4.23: Distribution of Loans and Advances by Agriculture and Non-agriculture.)

d) It is found that among the non-agriculture loans and advances the percentage share of co-operative sugar factories shown always a higher proportion to total non-agriculture loans and advances made by the bank. The proportion of co-operative sugar factories was 64% in the year 2001-02 and declined up to 51% during the remaining period under study. It indicates that the high yielding loans and advances shows reducing trends. The interest income earned from the co-operative sugar factories is a major part of interest income to the bank. Thus the profitability of the bank adversely affected. It is found that nearly 15 co-operative sugar factories are in the district, but only 5 co-operative sugar factories are taking the loans from the SDCCB. Since it is a major part of business to the SDCCB. Thus it is said that the loaning policies of the bank towards non agriculture loans and advances does not shows a satisfactory positions. (Reference: T.No.4.24: Classification of Non-agriculture Loans and Advances by their Nature and T. No. 4.39 : Position of High Yielding Loans and Advances to Total Loans and Advances).

e) The percentage share of loans and advances to working capital was increased from 75.80 in 2001-02 to 76.35 in 2002-03, subsequently decreased up to 60.85. This indicates the proportion of loans had reduced during the period under study. Since the working capital of the bank increased and at the same time the loans and advances made by the bank had decreased, this indicates the weak loaning policy of the bank. (Reference: T.No.4.25 Position of Loans and Advances to Working Capital)

f) It is found that the bank never maintained the standard Net Credit-Deposit Ratio(72%) excluding the year 2004-05. The ratio was more than standard in the year 2001-02, 2002-03 and 20030-04 indicates ineffectiveness of the bank regarding mobilization of deposits and bank taking borrowings to make loans and advances. The ratio was below the standard in the year 2005-06 indicates the ineffective management regarding the channelization of funds in a profitable manner. This reveals the poor financial ability of the bank. Thus the growth of deposits is not commensurate with the growth of loans and advances in former and bank keeping idle funds in the investment in later during the period under study. (Reference: T.No 4.26. : Net Credit Deposit Ratio.)

Moreover the bank has made loans and advances under various poverty alleviation programs such as interrelated Rural development Program, Svarna Jayanti Gramin Svayanav Rojagar Yojana and Self Help Group. Finance under these schemes shows an encouraging during the period under study.

5.1.11 Fixed Assets and Other Assets :

It is found that the bank keeps the fixed assets and other assets cautiously during the period under study. The average proportion of other assets to working capital was 2% in all the years. Similarly the non earning assets (like cash, current account balances with the apex bank, interest receivable, fixed assets, other receivables etc.) are also kept cautiously in all the years during the period under study. (Reference: T.No.4.40: Non Earning Assets to Working Capital)

5.1.12 Application of Working Capital at a Glance :

It is found that the proportion of cash, investments, loans, fixed assets and other assets was 3 : 25 : 69 : 1: 2 respectively to the total working capital. A components analysis of working capital shows that on an average the proportion of investment and loans is the largest to the total working capital. Since the proportion of working capital indicates the percentage share of investment is increased every year and at the time same the percentage share of loans made by the bank is reducing every year during the period under study. Hence the bank divert more funds into investment. The interaction with the officials of the bank has reveals that the bank has taken borrowing from MSC bank to give loans and advances to co-operative sugar factories in the district. But at the same time the demand for loans from co-operative sugar factories was declined due to draught, flood conditions and lokari mava on sugar cane. This is seriously affecting the functioning of co-operative sugar factories. Thus the bank using borrowed funds to make huge investment during the period under study. (Reference: T.No.4.27: Application of Working Capital at a Glance)

5.1.13 Problem of Overdues :

a) It is found that overdues of the bank are heavily increasing every year. The total overdues was Rs.9304.13 lakhs in 2001-02 and increase up to Rs.25432.92 lakhs in 2005-06, recording a growth of 3 times. It is observed that out of working capital of Rs. 171610.22 lakhs, Rs. 2432.92 lakhs has been tied up in the form of overdues in the year 2005-06. This preventing the recycling of funds. Thus nearly 15% of the working capital of the bank has been blocked in the form of overdues. (Reference: T.No. 4.28 : Growth of Overdues).

b) It is found that in overdues loans and advances relationship the agriculture overdues of the bank is 6 fold increase, similarly the non agriculture overdues of the bank had 2 fold increased during the period under study. Thus growth of increasing agriculture overdues is more as compared to non agriculture overdues.

The trends of increasing agriculture overdues were more as compared to non- agriculture overdues. Hence the percentage share of non-agriculture overdues in amounts was more as compared to agriculture overdues.

It is also found that the increase in overdues was much higher than the increase in the loans during the period under study. Thus by the end of the year 2005-06 about 25% of the loans and advances made have been tied up in the form of overdues, which necessitated a call for a immediate action. (Reference: T. No.4.29 : Overdue to Loans and Advances).

c) The ratio of overdues to owned funds was increased constantly every year, which indicates inadequate owned funds to absorb the overdues loans. The overdues have gone up by about 3 times, whereas owned funds have decreased. It reveals that the recovery efficiency of the bank is less. This calls for concentration on the recovery of overdues loans and advances.

It is observed that the overdues have increased at a faster rate than the owned funds, as such the owned funds are insufficient to absorb the mounting overdues. The rate of increase in overdues is higher as compared to the rate of increase in loans. This indicated prevailing poor performance in recovery of loans and advances (Reference: 4.30 : Overdues to Owned Funds).

5.1.14 Causes of Overdues :

From the analysis of overdues it has been established that the magnitude of overdues of the bank has been mounting day by day. An attempt has been made by the researcher to know the difficulties which were faced by the SDCCB in recovery of the dues from the borrowers by interviewing and personal discussion with the staff of the bank.

a) **Delay in Credit :** Some time bank is not providing loans in time to the borrowers. Credit delayed means credit denied. Advances of loans is of no use to the cultivators in case the agriculture loans. Naturally it is used for unproductive purpose. Thus, delayed credit, funds are channelized in wrong directions. This creates the problem of overdues.

b) **Slow disposal of legal cases**: The reasons for such delay in disposal of legal cases are many, such as defaulters with small amounts, delay in legal procedure, pressure on management and unfavorable agriculture situation. The important reason is, the defaulters make part payment immediately and do not pay the balance till the bank demands again.

c) **Over and Under Financing**: During the interaction with bank authority, the researcher has observed that the bank provides loans under various Government programmers such as SGSY IRDP. That the district authorities direct the bank to disburse certain amount of loans and advances in stipulated times. This leads to under financing or over financing.

d) **Political Interference:** Political intervention at the time of disbursement and collection of loans has also been responsible for increasing overdues. Politicians often make popular statements in the public meetings which affect overdues.

e) **Lack of Rational Approach:** The DCCB have not developed a rational approach in the sense that review of loaning policies and procedures, scientific approach and economic viability regarding repayment capacity of the borrowers.

f) **No Effective Supervision:** A test check of the officers of the bank is required to examine whether the PACS have followed the policies laid down by the bank as well as NABARD which aims strengthening farm economy. The post loans sanctions supervision is expected by the NABARD. The adequate inspectors are appointed by the bank as per the NABARD guidelines. The inspection is not done as per the expectation. Thus for the effective utilization of loans amount their should be effective supervision before and after the sanctioning of the loans and advances.

g) **Social Approach:** Some time the bank makes loans and advances with the social approach. Such loans and advances are used for unproductive purpose and it leads to overdues. The few examples are, the SDCCB sanctioned fodder loan and water purchase loan at the time of the drought conditions in the district. Similarly bank also sanctioned the loans to Nirmal Gram Yojna.

h) **Natural Calamities:** The another reason for increasing the huge overdues of the SDCCB is due to the drought and flood conditions in the district for the last five years. During the year 2002, 2003 and 2004 the drought conditions seriously affected the cane crop and fruit gardens in the district. Moreover in the last two years the flood conditions and lokari mava totally destroyed the cane crop in the district. It also affects the functioning of sugar co-operatives in the district. These conditions lead to overdues.

In short above are the causes of the increasing overdues.

5.1.15 Asset Quality :

Following are the some of major findings with regarding to asset quality i.e. the quality of the loans and advances of the bank.

a) It is found that the Non performing Assets (NPA) cause two fold impact on the profitability of the bank. On the one hand, the bank ceases to earn interest on this asset. On the other hand, the bank is required to make provision for this asset. This makes a further dent in the profitability of the bank.

The gross NPA of the bank has been increasing steadily every year. The standard ratio of gross NPA is 10%. Since the gross

NPA of the bank was below the standard ratio in 2001-02 and 2002-03 indicating that the bank effectiveness regarding the recovery of loans and advances. Similarly the ratio was higher than standard ratio in 2003-04 and 2005-06 indicating that the bank ineffectiveness regarding the recovery of loans and management of overdues. Thus the bank is seriously facing the problem of low recovery, increasing overdues and increasing NPA. (Reference : T.No. 4.41 : Position of Gross NPAs)

b) The Net NPA ratio of the bank was below the standard (5%) in 2001-02 and 2002-03 indicating that the bank maintaining quality of assets and effectiveness regarding the recovery of loans and overdues management. Similarly the ratio was more than standard in the next three years. This indicating bank failed to maintain quality of assets and ineffectiveness regarding the recovery and overdue management. It is found that the ratio of the bank increase constantly. Thus the NPA is seriously affecting profitability and earning capacity of the bank. This necessitates a call for immediate action. (Reference: T.No.4.42 : Position of Net NPAs)

c) It is fund that the bank is not in position to bear the NPAs out of its owned funds. Since the bank has to face serious problem in future if the NPAs are not control. Thus, it speaks of the low solvency position of the bank which calls for more concentrations of the recovery of overdues. (Reference: T.No.4.43 : Net NPAs to Total Equity)

It is also observed that as there was draught and flood conditions in some regions the agriculture loans were not recovered in time and also the bank had to advance them further loans and the NPAs are increased.

5.1.16 Reasons for NPAs :

The discussion with the officials of the bank, are found that the following general reasons are responsible for increasing NPAs

a) **Willful Default** : There is willful default on the part of the borrowers who had taken the loan in fraudulent ways with the intention of appropriation. It is common practice that influential persons have been defaulting willfully. They did not pay, when they were in a poison to pay. The bank did not recover, when they were in a position to recover. The borrowers from non agriculture sector are biggest defaulters.

b) **Non viable units finances :** The bank financed non viable units with the convenience of the official also. In fact the entire project profile was prepared with a view to obtaining financing and then to siphon of funds to create private benami assets which bank cannot impound in case of default. It is observed more in the non agriculture loans and advances.

c) **Funds for expansion :** There is diversion of funds for expansion, modernization, setting up new projects for which the bank was not willing to provide finance. Some times the funds are not utilized for the same purpose for which the loans are sanctioned. It is generally happened in case of non agriculture loans and advances.

d) **Delay in repayment :** There is a delay in repayment of loan amount due to less loan gestation period.

e) **Natural calamities :** Various natural calamities like earth quick, floods, draught and storm etc. Also caused for NPAs.

f) **Political interface :** Loans ware sanctioned under political directions rather than on the strength of economic and financial viability. The loan melas were organized to please the vote bank. The politicians also interfered in the recovery process.

g) **Targeted lending :** The specific targets were fixed to ensure flow of credit into neglected areas like agriculture and small scale industries. This ultimately burdened the bank with NPAs.

h) **Tendency to hide :** There has been strong tendency on the part of bank and officials to hide weaknesses, so as to present that they are doing well.

i) **Lack of monitoring :** Monitoring of the credit become very essential. The information was collected as a routine matter. No serious scrutiny or follow up actions were taken. The supervision become weak due to administrative purposes such as officers went on long leave and no other officers looked after the work to be performed by him.

j) **Miscellaneous reasons :** The bank sometimes grants loans to the parties without any detailed information. The bank seeks guarantee while granting normal loan beyond specific amount. The bank has maintained proper credit accounts and takes all possible measures to arrest the growth of NPAs. The bank also makes provisions as per the norms so as to minimize the losses.

5.1.17 Solvency Position :

a) The bank has not able to maintain the standard ratio of 2:1, in case of current ratio (Short term Solvency). The average ratio of the bank is work out to be 1.57 : 1. Thus the short term solvency position of the bank has shown average position. (Reference: T.No.4.44 : Current Ratio)

b) It is found that the debt equity ratio showed a considerable increase on account of increase of borrowed funds. It indicates more reliance on borrowings as compared to owned funds. Thus the cushion available for the creditors is miserable and the long term financial position of the bank is embracing. Such highly unfavorable debt equity ratio has the following far reaching consequences.

i) It acts as a constraint to further borrowings.

ii) Heavy indebt ness results in creditors undue pressure affects on functioning of management and independent business judgments.

iii) More and more dependence on outsiders compel the bank to be guided by their restrictive terms and conditions.

iv) In the year of low profitability or no profit, it puts sever strain on the management. (Reference: T. No.4.45 : Debt-Equity Ratio)

The short term solvency position of the bank is average and long term solvency position is not satisfactory. Thus it is need of the hour, to take necessary steps to increase the owned funds and control on borrowings of the bank.

5.1.18 Profitability :

Profit is the result of the effective utilization of capital and control of cost of management over a period of time. Earning of sufficient profit is essential to sustain the operations of the business to be able to obtain the funds from the investors for expansion and to contribute towards social overheads for the welfare of the society. (I. M. Pandy, Financial Management, Vikas Publishing House Pvt. Ltd. New Delhi). So an evaluation of the profitability of the bank under study is attempted here which will indicate the overall efficiency of the bank.

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

The ratio shows the decreasing trends. The ratio was 10.17 in 2001-02 and went down up to 7.25 in 2005-06 during the period under study. Hence the ratio of return on funds to working capital has been decreasing continuously indicating the low earning capacity of the bank. The working capital increased by 1.35-times, whereas return of funds has decreased. Thus the interest income of the bank was reduced due to decrease in the rate of interest on loans and advances and investments. (Reference: T.No.4.46 : Return on Funds as Percentage to Working Capital).

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

It is found that the ratio of cost of funds as a percentage to working capital shows the reducing trends during the period under study. It reveals that the reduction in the cost of funds to working capital is a good sign to the bank. (Reference: T.No.4.47 : Cost of Funds as a percentage to Working Capital).

c) **Financial Margin :**

The financial margin is also known as Spread or Net Interest Income or Net Interest Margin. It is one of the indicators of the bank profitability. The financial margin of the bank is reducing constantly. The low financial margin indicates inadequate interest income of the bank. The return on funds reduced up to 2.92%, whereas cost of funds reduced up to 2.21%. The decreasing trends of return of funds higher than the cost of funds. Thus the profitability of the bank is reducing due to low return on funds.(Reference: T. No.4.48 : Net Interest Income Ratio)

d) **Non Interest Income to Working Capital :**

The non interest income as a percentage to working capital of the bank is reducing during the period under study. The ratio of NII to working capital has decreased continuously indicating inadequate NII. The working capital has gone up 1.30-times, whereas NII of the bank is very low, this indicates unsatisfactory position of the bank regarding the NII. The sources of NII are limited. In competitive market it is essential to increase the sources by which NII will increase.(Reference: T. No. 4.49 : NII as Percentage to Working Capital)

e) **COM to Working Capital :**

The COM to working capital ratio shows the reducing trends. The standard ratio of COM to working capital should be 2.50 %. The average ratio of the bank is work out to be 2.02%, indicating the bank is functioning on sound lines regarding the COM. The COM of the bank has been within the conventional limit of 2.50% of the working capital, indicating the good sign. Thus the bank is functioning on sound lines in respect of COM to working capital (Reference T.No.4.50: COM as a percentage to Working Capital)

f) Risk Cost to Working Capital :

Risk cost is the cost born by the bank on provision for Bad and Doubtful Debts and provision made on standard, sub-standard, doubtful and loss assets. The ratio of risk cost to working capital indicates increasing trends every year. The ratio was 0.18 in 2001-02 and increased up to 0.98 in 2005-06. Recording a growth of five times during the period under study. Which indicating the risk cost of the bank increased heavily. It is also observed that the reason for increasing risk cost are due to the draught and flood conditions, which adversely affects the production of agriculture sector and leads to decrease in recovery and increase in Non performing assets. Thus the risk cost seriously affecting the profitability of the bank. (Reference T.No.4.51 : Risk Cost as a Percentage to Working Capital).

g) Net Margin :

It is found that the net margin ratio of the bank has been reducing every year continuously and also it goes up to minus percentage during the period under study. The ratio was 0.82 in 2001-02 and went down up to -0.86, indicating the margin of the bank was totally reduced. It is found that the spread (financial margin) and non interest income of the bank was reduced, whereas risk cost of the bank was increased 5.50-times, indicating the net margin of the bank was seriously affected due to the provision made by the bank on Bad and Doubtful Debts and Overdue Interest Provision. Thus the non performing asset is seriously affecting the profitability of the bank. Hence bank should concentrate on NPA Management. (Reference: T.No. 4.52 : Net Margin Ratio)

h) Total Interest Cost to Total Income Ratio :

It is observed that the ratio has been increasing constantly every year. The highest ratio was recorded in the year 2004-05 i.e. nearly 100%. This indicates the serious matter in the bank assets liability mismatches. Hence the bank is not managing the asset liability management system effectively. The bank will face serious problem in near future regarding the asset liability mismatch. This call for a immediate action. The details regarding the assets liability management is given in detail in the appendix No.I Asset Liability Management. (Reference: T.No. 4.53 : Total Interest Cost to Total Income Ratio)

i) Cost of Funds to Total Expenditure :

It is found that the average ratio was 76% in all the years during the period under study. It is revealed that the bank is heavily depending on outsider's funds for banking business. It is observed that the owned funds of the bank are less as compared to borrowed funds. Therefore the ratio is high. Thus it is suggested that the bank should increase its owned funds by adopting various measures such as to increase the share capital base. (Reference T.No. 4.54 : Cost of Funds to Total Expenditure Ratio).

j) Return on Working Capital :

Net profit to working capital is a more relevant indicator of profitability, rather than return on share capital, return on owned funds and distribution of dividend on share capital.

In the year 2001-02, 2002-03 and 2003-04 bank earned net profit of Rs. 866.46 lakhs, 781.60 lakhs and 87.62 lakhs respectively. But in the year 2004-05 and 2005-06 bank made a net a loss of Rs.1335.11 lakhs and Rs. 187.64 lakhs respectively indicating the weak financial and operational performance of the bank.

It is found that the return on working capital ratio has come down, indicating ineffective performance of the bank and ineffective utilization of working capital. The ratio is reducing every year and in last two years the bank has not made profit during the period under study. Since the working capital have gone up by 1.30 times, whereas return has decreased. This indicates there was increase in volume of business and the profitability of the bank continuous to remain weak in last three years during the period under study. Thus bank cannot earn satisfactory return on working capital due to decrease in financial margin and increase in the NPA during the period under study. (Reference: T.No.4.55: Return on Working Capital).

5.1.19 Break Even Point to Output:

BEP highlight the overall operational efficiency of the bank. It is found that the BEP output level has increased from Rs. 84804.90 lakhs in 2001-02 to Rs. 103350.00 lakhs in 2003-04.

The actual output level is more than the BEP output level in all the years indicating some margin of safety except in the year 2004-05, in which BEP output level was more than the actual output level, which indicating the loss. Similarly in the year 2005-06 the actual output level was much more than the BEP output level. Which indicates bank invested more funds in the low return investments.

The percentage of BEP output level to actual output level has increased from 69.93 in 2001-02 to 104.69 in 2004-05, indicating the declining in the margin of safety and during the year 2005-06 the percentage BEP to output had come down to 70.97.

Thus the BEP reveals that the bank eared adequate profit in the first two years and bank earned net loss in last two years. Since the bank funds management does not shows the satisfactory performance. The traditional management regarding the overall funds management seriously affects the earning capacity of the bank. (Reference :T. No.4.56 : BEP to Output).

5.1.20 Break Even Point to Working Capital :

Practically it is found that the ratio of BEP to Working Capital is reducing. The ratio of BEP to Working Capital has decreased continuously indicating inadequate margin of safety. The risk cost has increased 7 times and financial margin was decreased 1.30 times. This indicates the risk cost is seriously affecting the profitability of the bank and reducing financial margin adversely affects the earning capacity of the bank. (Reference: T.No. 4.57 : BEP to Working Capital)

In short, the break even analysis indicating declining tendency of profitability of the bank due to poor financial planning, inadequate recovery of overdues and increasing NPA.

In brief, these are the major findings and observations regarding working capital of SDCCB on the basis of analysis made in the chapter No. IV.

Thus out of two hypothesis mentioned in the chapter number one. The Hypothesis number one is proved. This is as follows.

Profitability is reducing because of low recovery, increasing overdues, increasing Non Performing Assets and Traditional Funds Management.

Hypothesis number two is partially valid. The earnings of the bank is going down because of the excess borrowings from the MSC Bank, which is specially taken for refinance to the co-operative sugar factories in the Sangli district. Even though the banks borrowings have decreased during the period under study, the demand for loans from co-operative sugar factories was decreased. Thus refinance taken from MSC Bank was not managed fruitfully; it was put idle in the form of investment.

5.2 SUGGESTIONS :

The researcher has made suggestions on the basis of analysis of data, interactions with the bank officers and findings. These suggestions are made for improving financial and operational efficiency of the bank.

These suggestions are made with the intention to overcome the deficiencies and strengthened the functioning of the bank. The researchers feel that inefficient mobilization and utilization of working capital of the bank has become the root of all other deficiencies.

The financial sector reforms in terms of deregulation of interest rates, capital adequacy norms, internationally accepted prudential accounting norms for income recognition, assets classification and provisioning on NPAs, entry of new private and foreign banks, reducing Government stake in equity of banks etc. have changed the character of banking. For all round development in the working of the bank, it is suggested that its management has to be improved first. For this trained adequate manpower is required. This trained manpower will handle effectively the various banking functions such as resource mobilization, sound financing, effective collection of overdues and management of NPA etc. The above strategy will lead definitely to better utilization of working capital. The researcher after careful analyzing offer a few suggestions hereunder. If these suggestions implemented, can find solutions to many of the problem faced by the bank.

5.2.1 Share Capital :

For mobilization of adequate share capital, it is suggested that the confidence of the members in co-operatives should be sustained with the help of declaration of yearly dividends and close supervision regarding the deduction of share capital at the disbursement of loans to borrowers.

Co-operative societies are the pillars on which the DCCBs rests. Therefore the major portion of share capital of the bank should flow from its affiliated societies. There is need to enhance the share capital contributed by societies. To ride over the situation, it is necessary to organize more societies and to bring the unaffiliated societies operating in the district, into in its fold.

Since with the amendment in Maharashtra Co-operative Societies Act 1960, individuals are dropped from membership with the object to make the DCCBs purely federal body of co-operative societies. The experts are suggested that if individual membership is provided and the depositors become the members of the bank, the confidence of the investors will develop and these members assist to the management of the bank. Therefore, it is high time for the bank to induct individuals as a members. For this purpose, necessary amendment may be made in its by-laws with the permission of Registrar of Co-operative Societies and the State Government.

5.2.2 Deposits :

In the light of preceding findings and observation it is suggested that, creation of special deposit mobilization cell should be given top priority. For the purpose, adequate training should be given to the bank staff.

The special campaigns like deposit mobilization fortnights should be organized at least once in a year to mobilized, adequate current and saving deposits from the rural area of the bank. Moreover an action plans should be prepared for those centers where there is adequate potential for deposit mobilization, to improve the low cost deposits.

Bank should endeavor to maintain the Gross Credit-Deposit ratio below the 100% and Net Credit–Deposit ratio up to 72%.

Adequate propagandas should be made with the help of the various publicity schemes and gives information about various deposit schemes and facilities available in the bank and advantages associated with each type of deposits. Adequate training should be given imparted to banking staff for providing efficient customer service and bank should provide facilities like safe deposit lockers and other facilities like gold mortgage etc. in rural areas.

The elected representatives of all the affiliated societies should be encourage to deposits their funds with the bank and give prompt and quick services to these affiliated societies.

The members of the board should maintain wide spread contact with the public and mobilize adequate deposits by all means. It should contact all the local institutions heads, all affiliated societies, well knows industrialist and other public in the district and persuade them for depositing their funds with the bank.

To face the increasing competition from Financial Institutions, such as Post Office, Chit Funds and Financers. For this the researcher make strong recommendation for mobilization of rural based low cost deposits. The SDCCB should establish Mini Kisan Bank (MKB) on the basis of Kolhapur District Central Co-operative Bank. The detailed information is given about the MKB in the Appendix Number - II.

In short, it is suggested that the bank should take certain concrete steps like, establishment of deposit mobilization cell, identification of potential investors, admission as a individual members, fixation of deposit mobilization targets, adequate publicity through proper media, motivating the staff involved in this task etc. Moreover the Government should direct local bodies, semi-Government institutions and education institutions to deposit their funds with the DCCB. Thus the bank should increase mobilization of deposits on its own rather than depending upon deposits of any other affiliated societies.

5.2.3 Borrowings :

Borrowings from higher financing agencies such as NABARD or MSC Bank constitute major share in the financial resource of the bank. Borrowings involve higher interest cost as compared to deposits interest. The SDCCB should be utilized borrowing fruitfully which is taken from MSC Bank, to earn adequate return. Thus bank should try to take borrowings as minimum as possible.

The bank has taken borrowings to lend to the co-operative sugar factories in the district. Before taking the borrowing from MSC Bank the bank should make detailed plan on the basis of past experience and continuous follow up the plan in the light of the natural calamities and production of sugar cane crop, which directly affect the functioning of co-operative sugar factories. In order to use borrowings efficiently, it is suggested that adequate training should be given to the concerted staff working in the loans and account departments to enable them to follow the plan properly.

5.2.4 Investments :

In preceding chapters it was observed that the bank maintained adequate liquidity but fails to earn adequate profitability on investments. Therefore it is suggested that, the bank has to make investment in Government securities. It brings regular income to the bank along with security. These investments are also liquid and can be converted into cash at the option of the bank. The prices of these securities are also stable and there is no possibility of any loss from them.

Moreover in order to improve the returns on funds deployed, recently UCBs have been allowed to invest 10% of their deposits in the bonds and equity of public sector undertakings. Such as IDBI, IFCI, ICICI, EXIM Bank, NABARD, NHB, SIDBI,UTI, GICI, LIC etc. Scheduled UCBs are allowed to invest in commercial papers (CPs) or certificate of deposits (CDs) of high rated corporate and notified financial institutions. These avenues of investment are subject to certain conditions. It is suggested that SDCCB should invest in CPs and CDs of high rated corporate and notified financial institutions by considering the guidelines of RBI/NABARD.

The bank needs to evolve suitable strategy for management of their investments to maximize returns. The bank should have an investment policy and an investment cell managed by experts. This investment cell should take into account composition of funds, maturity pattern of assets and liabilities, availability of money market instrument, exposure limits and assistance of an efficient monitoring and control mechanism to ensure most productive and risk free funds management.

In short, it is suggested that the bank should established the portfolio management cell under the supervision of CEO of the bank. The liquidity and solvency is the primary objectives of the bank and income is the secondary objective of the bank. The bank cannot achieve the secondary objective at the cost of the primary objective. For this proper help of portfolio management is required.

5.2.5 Loans and Advances :

The profit making activity of DCCBs is providing loans to its member societies and its customers. The primary objective of loan management is to earn income by serving the credit needs of the community. For better utilization of working capital, it is suggested that the bank should design its effective loan policy and give direction to the loans department. It is responsibility to top management to formulate and implement the bank loan policy with the help of outside experts in the different fields such as economist, agriculture experts and industrialist. In deciding the loan policy the view of the NABARD / RBI should be considered.

The bank never maintained the standard Net Credit-Deposit Ratio excluding the year 2004-05. This reveals that the bank keeps idle funds in the form of investments. In loaning operation of the bank the percentage share of co-operative sugar factories is declined during the period under study. It is observed that nearly

15 co-operative sugar factories are in the district out of which only 4 to 5 co-operative sugar factories are taking the loan facility of the bank. Therefore, it is suggested that the confidence of the co-operative sugar factories should be sustained with the help of the giving various facilities like distribution of sugar cane bills of farmer members of co-operative sugar factories effectively through all the branches working in the district and fund transfers at different centers with minimum time and cost. The important suggestion is to provide loans to co-operative sugar factories with differential rate of interest and to bring the unaffiliated co-operative sugar factories in the district in to the bank folds.

The supplying timely credit to agriculturists is also important part of the loaning policy of the bank. Untimely credit distribution encourages to agriculturists to use such loans and advances for unproductive purposes and thus creates a problem at the time of recovery. Hence. credit should be supplied in time. To ensure timely supply of credit limit statements of the PACS should be disposed quickly and the same should be instructed to the societies.

The credit being a scarce commodity needs to be effectively managed. Simple lending is not enough. Pre-loan sanction and post loan sanction supervision is expected. It helps in timely recovery and control over the NPAs. Personal contact between the borrower and the supervision is highly required right from the beginning till the money is recovered. Specific target of recovery should be set for each supervisor.

There should be an effective link between credit and marketing primary societies. This link of credit societies and marketing societies is beneficial to the borrowers and the bank. The bank has implemented such linkages only in respect of co-operative sugar factories. These linkages should be extended among the remaining different types of co-operative societies.

5.2.6 Effective Overdues Management :

The efficiency of the bank depends on prompt recovery of loan. All India Rural Credit Review Committee has clarified that the causes and effects for poor performance of the DCCB in recovery. If the members are defaulted to the primary societies, the latter cannot honor its obligation to the DCCB. Once the primary societies overdues to the DCCB, the societies cannot obtain fresh loans. In this circumstance the regular members who repay the loan in time cannot get fresh loan. Unless the loans are repaid punctually, co-operation is an illusion both financially and educationally.

Recovery of loans and advances is important for each financial institution. For prompt and punctual repayment of loans continuous and effective supervision is essential. The researcher has made the following suggestions to improve the management of overdues of the bank.

a) Effective Supervision :

Supervision should start before granting of loans to assess the need, purpose and gravity of borrowings. For this purpose, supervisors are to be trained, guided and advised strictly by the top officials of the bank. This step will enable the bank to improve its collection position.

b) Linking Credit with Marketing:

The linkage of credit with marketing has been the mutual advantages to both the borrowers and the bank. Hence implementation of this system will surely minimize the quantum of overdues.

c) Investigation of overdues:

Overdues should be regularly investigated branch wise, to identify the willful defaulters. Strong action should be taken against such willful defaulters. At the same time non willful defaulters should be allowed to pay on installment basis.

d) Speedy Disposal of Legal Cases:

Specific step should be taken to dispose of the old and pending cases like Lok Adalat. Similar body may be setup in the co-operative sector to dispose of the pending cases quickly.

e) Co-operative Education:

Recovery of dues is a problem to be solved with the effective recovery policy. Hence it is suggested that the management of bank should increase co-operative education among borrowers or people is need. This education will help the self discipline among the borrowers. Moreover education is expected to the administration officers, loan section, recovery section, political leaders and public in general.

f) Launching of Recovery Campaign :

The DCCB should launch a planned recovery campaign well before the due of recovery of advances. Branch wise target should be fixed and be constantly reviewed.

g) Other Measures :

Recovery is a important factor either for the success or failure of the bank. The bank should take other remedial measures such as for better recovery the provision of incentives, rebate in interest to regular borrowers, one time settlement, directed involvement of the board members in recovery, board members should concentrate on the willful defaulters, direct contact of the societies with these borrowers, adequate and timely credit, purpose oriented finance etc. Bank should provide not only the production loans but also consumption loans as the village Savkar provides. The scheme of Crop Loan Insurance should be introduced in order to safeguard the farmers against crop failure.

'In short the proper diagnosis of overdues should be made by the bank branch wise and identify the willful defaulters. Special recovery campaign should be launched, a time bound planned programmed should be chalked out. Moreover to improve collection position, the bank should give more attention towards collection of the principal sum rather than the interest.

5.2.7 Suggestions to improving the Profitability of the bank :

The researcher has made the following suggestions for improving the profitability. These suggestions are made on the basis of the interviews of concerning department officers of the bank and on the observation of the researcher.

With introduction of international Capital Adequacy Norms along with Income Recognition, Assets Classification and Provisioning Norms, the concept of profit has been changed.

Optimum profit is expected. This optimum profit is possible when all the available resources are put to optimum use. Profit is inevitable for SURVIVAL, GORWTH and PROSPERITY of a person . A DCCB is not exception for this.

In banking industry, **Profit = Total Spread – Total Burden**

Moreover, Spread and Burden can be further explained with the following points.

Spread = Total Interest earned – Total Interest paid

Burden = (Total Manpower expenses + Total Operation expenses) minus (Total non interest income)

The researcher has made following suggestions to increase the profitability of the bank.

a) Assets Liability Management (ALM)

ALM is a system to manage the assets and liabilities of a bank. It aims at achieving maximum returns while maintaining the adequate liquidity at all times. ALM involves assessment of various types of risks and altering the assets-liabilities mix. By suitable restructuring of the composition and mix of assets and liabilities, it is possible to manage higher spread (interest margin or financial margin) and to sustain profits against interest rate volatility. ALM is a tool to control gap between sensitive assets and sensitive liabilities and it helps in improving the crucial spread. (The details regarding the ALM is given in the Appendix No. II)

b) Maintaining the Capital Adequacy Norms :

It is suggested for the bank to adopt the international standard for capital adequacy requirements for operation and survival of the bank. By effective use and employment of assets available with a bank. It can play within the statutory limits and increase maximum profits.

c) Monitoring of the Assets Quality :

Assets quality can be maintained or increased by taking various measures to comply with the Income Recognition; Assets Classification and Provisioning Norms prescribed by RBI. The following three strategy suggested to the bank to increase income and thereby profit such as :

i) Concert steps should be taken to handle the NPAs.

ii) Preventing turning of existing standard assets into sub standard assets and further down.

iii) Keeping the NPA level as below as possible by continues monitoring though instruments like Credit Audit, Quarterly Loan Review Mechanism, Half yearly review and Annual review. All these above interlinked factors helps to improved the profitability of the bank

d) Providing Standard Services to the Customers :

The bank has to retain and enhance its market share by understanding and accepting the advanced technology, coping with increased customer expectations, development of new products and services, training to human resources towards qualitative productivity, understanding the dimensions of service quality etc. All these above factors have to be considered while working out the strategies for marketing and increasing profitability. The role of bank in such a global scenario is to effectively convert threat into an opportunity.

e) Effective Management of Disintermediation Process:

In the period of Liberalization, Privatization and Globalization environment the borrower and depositors found other cheaper and better alternative sources of borrowing and investing their funds. The moving of the borrower and depositors to alternative sources from bank is known as the process of disintermediation.

Thus bank should start to restores the some measures to come out of the practical situation of disintermediation like, widening the depositors' base, diversifying the deposit products and borrowing segment, more efforts for increasing profits by offering different types of fee based services. The bank should change the traditional mindset and change the old-age norms and procedures, changing the style and formats and documentation, improving decision making skills, changing the historical mind-set of the staff, becoming market oriented, customer focused, profit conscious etc. All these above efforts will help bank to improve the profitability.

f) Managing the Effects of Liberalization :

With the liberalization process the banking sector open for competition, diversifying of banking and financial activities, variations of interest rates etc. Hence there is a need of long term view in planning their profit strategies to overcome the challenges of liberalization. It will include planning of balance sheet with analysis of its strength and weaknesses and finding out the avenues for more income based activities. Moreover in the ear of liberalization, customer should be given almost importance.

g) Getting maximum benefit from Deregulation :

Deregulation means offering freedom to the bank to determine its interest rates on deposits and advances. Bank balance sheet will affected by continues change in interest rates and maturity period of assets and liabilities. It would affect on yield, cost and maturity period of the assets and liabilities. To handle such situation, the bank has to be very particular while sanctioning credit proposals and mobilizing deposits and be conscious of the cost of the funds, future capacity of investing excess funds, interest earning etc. This will make the bank in adjusting their mix of assets and liabilities along with changes in interest rates and maturity period.

h) Managing the Competition through better Management :

In Sangli district there is a keen competition in the banking sector. This banking sector includes public, private, UCBs and non banking financial companies. Survival of the bank is a first challenge and second challenge is stability. In competition the bank strategy should be to provide different types of services as per the needs and convenience of the customers. Such as retail service, market publicity, offering quality, safety, speedy in service. Bank should cover all these for attracting customers and better management of business affairs.

i) Technology Up gradation:

The banking sector is changed from traditional banking to technological banking. In the deregulated environment, technology will be the key to reducing transaction costs, offering customized products and managing risks.

Bank can easily generate various Management Information System (MIS) reports and be helpful in quick decision making. Bank can undertake sensitive analysis with the help of computers at time which is a major tool for strategic profit planning. Bank will be in a position to mange both the sides of balance-sheet based upon the reports generated by computers. It will be cost effective device and will contribute significantly to the total bank management.

MIS is important in banking sector. In the MIS data are collected, processed and transferred to the top management for decision making centers. Thus it leads to increase the efficiency of the decision makers. Under increasing complex conditions every management must cautiously designed by which the information can be readily available when required. Judging the significance of MIS, necessary steps may therefore, be made by the bank to have separate cell to compile, process and analyze the data so that timely supply of information to top management. The SDCCB has already established the Computer Section, but it has been not developed MIS. Therefore it is suggested that the bank should develop MIS with the help of the banking industry experts.

j) Proper planning of Off-Balance-sheet items:

The role of off-balance–sheet item becoming more important as they contribute more to the non interest income. The profitability of the bank may be increase by taking efforts on the non fund based and fee based items like bank guarantee, letter of credit, traditional bills, investment in related activates etc.

In brief, the bank may increase profitability with the help of the above suggestions.

5.2.8 General suggestions towards strategy for bank internal restructuring:

Since the inception of financial sector reforms, a major transformation has taken place in the financing of banking industry, especially to co-operative credit structure. The emphasis on income recognition, asset classification and provisioning norms has put more pressure on the profitability of co-operative credit structure. Interest rate deregulation of deposits and advances had further increased competition form private sector banks, financial sector and non banking financial companies in urban, semi-urban and rural area. The researcher suggests to the SDCCB to restructure the overall financial and operational efficiency of the bank through the following measure restructuring process.

The first and foremost part of restructuring of bank is to prepare a Strength, Weaknesses, and Opportunities and Threats Analysis of their performance and then evolve a strategy based action programmed in order to further concentrating on bank strengths, overcoming weaknesses, exploiting opportunities and protecting against threats

a) **Improving the Spread:**

It necessary to reduce cost to the maximum extent possible level to ensure that the bank is able to maintain a adequate spread. Improving the deposit mix with higher proportion of low cost deposits is the best way to control the interest cost. Similarly, borrowings form apex institutions is to take as per the requirements of the needs. Further non salary, non interest expenses should be controlled. Capital expenditure rather than those for technological up gradation should be subject to absolutely essential. Unutilized or under-utilized premises and other assets should be sold or rented out to augment income. Loss making branches should be merged with other nearest branch in the district. In Competitive Interest rate Environments, it may not be possible to increase interest income in a big Way. Therefore the bank may look for non interest income or fee based income to compensate for the loss of interest income. Another new area of fee based income business to bank is bancassurance. The recently deregulated insurance sector which may be increased the fee based income of the bank. In recently the Kotak Lifes ties up with Murshidabad Co-operative Bank. The Kotak Mahindara Old Mutual life Insurances have signed a referral Bancassurance partnership deal with Murshidabad D.C.C. Bank. This partnership enable Murshidabad D.C.C. Bank to get the fee based income and provide quality services to its customers in semi-urban and rural area. Similarly, the Aviva Life ties up with Surat D.C.C. Bank and Sabarkantha D.C.C Bank under its "Aviva Shakar" programmed. Therefore it is suggested that the SDDCB should start to distribute the insurance products to its customers through bancassurance. For detail regarding the Bancassurance is given the Appendix No. II.

b) Tackling Non Performing Assets :

NPAs are seriously affecting the profitability of the bank. On the one hand, no income on such accounts can be recognized and on the other hand, certain amount of provision has to be made from the profits, depending on the assets classification and availability of security. This has double impact on the profitability, no interest on such dead assets and need to maintain capital on risk weighted asset. Profits of the bank were affected by the sudden introduction of the concept of NPAs and income recognition.

Since the NPAs have eroded current profits of the bank. The bank have lead to reduction in interest income and increase in provisions and have restricted the recycling of funds leading to various assets liability mismatches. Besides this it take lead to erosion in their capital base and reduction in their competitiveness.

In the circumstances, the recovery of NPAs is important. The problem of tackling NPAs has two important aspects one of them is recovery of NPAs and other is avoidance of slippage. The slippage is more important and it calls for improved credit assessment and credit processes. While recovery of NPA can be tackled to some extent through compromise settlements, filling of cases in Debt Recovery Tribunal, conduct of Recovery Camps etc. Slippage can be avoided through proper training to staff members in credit skills and through proper monitoring and collection processes.

Some of the steps to tackle the problem of NPAs are as follows:

i) Intensive analysis and proper evaluation of loan demand proposal should be done while sanctioning the loan. Reason for demand, tenure, loan amount, required documents for loan proposal should be assessed and evaluated properly.

ii) The pledge for the loan should be adequate, if inadequate pledge is accepted may create problem in recovery. The pledge property should be enrolled at the office of property sale purchase register so that the debtor cannot sale the mortgaged property.

iii) Loan must be sanctioned and provide within the limit of repaying capacity of the loan account holder. Loan should be provided to the borrower at the right time and need. Because after the fulfillment of the need the loan is the excess burden on the borrower.

iv) Building an effective credit appraisal system within the bank and bringing professionalism in appraisal.

v) Monitoring of assets is an ongoing basis with intelligence on the industry in case of non–agriculture loans.

vi) The bank must avoid providing loans to the members having previous dues or bad debts. By this way the bank would avoid the losses.

vii) The bank while granting loan to the new concerns must check all the financial records with the help of various financial techniques such as ratio analysis and the ability of the client to repay the loan in case of non agriculture loans and advances. If the bank finds doubtful them it must avoid the providing the loans and advances. Even the bank must enquiry fully about the guarantor also.

viii) As the bank main customers are the PACS, it should give timely visits to these societies and go through their financial records, hence that they would take some strict action against the clients of the societies who have not repaid the loan.

ix) The bank should send notices as early as possible to the borrowers who make default in payment of first installment itself.

x) The bank should made continuous market survey in order to assess the trade cycle.

xi) Building a sound and realizable information base through networking

xii) While providing loan to account holder Know Your Customer (KYC) formula should be followed strictly.

xiii) Setting NPA management as the organization goal and ensuring that the spirit spread all through the origination.

xiv) Eliminating the fear psychosis and creating a climate of confidence among the bank personal through proper motivation and creating healthy environment based on trust and confidence.

xv) Motivating employees and giving adequate training in the field of recovery mechanism.

xvi) Bank should develop proper risk forecasting techniques, which should enable them to check generation of fresh NPAs.

xvii) More than recovery of NPAs checking of further slippage of standard assets into NPAs is very important in tackling the NPAs.

xviii) Lok Adlatas have been set up for recovery of dues in accounts falling in the doubtful and loss category, by way of compromise settlements. This mechanism has however, proved to be quite effective for speedy justice and recovery of small loans.

xix) Debt Recovery Tribunal has been set up in the country during the last half a decade. Since it is also a major way to recover the NPAs.

xx) One time settlement scheme was launched in May 1999 and it also enable the bank to cover the NPAs quickly and steadily .This scheme is also useful to the bank towards the effective management of NPAs.

xxi) As the bank suffers maximum losses from the industrial loans and the amount of loans sanctioned to these industries were very high, at the same time these loans gives maximum returns as compare to agriculture loans and advances. Therefore the bank must appoint representatives in such industries to attend their board meetings, so as to know their financial position as well as strategies to reach their destination.

xxii) The NPA problem should be solved with the help of Assets Reconstruction Company India Limited.(Details about ARC is given in the Appendix No. II)

The above strategies and actions if implemented may help in reduction of NPAs of the bank.

c) Innovation:

It is necessary to stay ahead, constantly upgrade the products and create new markets. There is a need to develop innovative methods to reduce cost and provide cheaper and quality products and services at reasonable prices. This will lead to better profitability of the bank.

d) Managing Effects of Competition:

Bank apart from competing with each other, is facing competition from Post Officers, Financial Institutions, Non Banking Financial Companies etc. Deregulation of interest rates has increased the intensity of competition. The SDCCB must strictly follow the principle of co-operation, such as development of co-operation among the co-operation. The DCCB is the leader of the co-operative movement in the district; therefore, each and every activity of the co-operation in the district should be go through the DCCB.

e) Human Resources Management:

It is basically deals with finding the right people, placing them in a right Job, training and developing them for better performance, sustaining their motivation though proper and timely rewards or recognition so that the employer and the employees can achieve their objectives in all the field of managing the bank effectively and efficiently.

Moverover suitable training programmers require to be organized for top officers of the different departments of the bank to create awareness about the management of NPAs, Profitability consciousness, Planned business development etc. Since regular staff meetings at least twice a year should be organized in order to involve all employees in business development and to build team sprit at all levels of the bank. The SDCCB should sent more employees in various training institutions frequently.

f) **Retaining Customer Loyalty:**

Retaining customer loyalty is one of the important assets as customer is the king. The bank has two challenges one is to retain existing customers and second to get a new customers. Bank should satisfy both the types of customers. A satisfied customer will be a good ambassador to the bank and facilitate growth and new business. As the DCCB is the leader of co-operative movement the bank should give better services to its institutional customers such as PACS, Co-operative Sugar Factories, Co-operative Spinning mills, Dairy co-operatives, UCBs, Credit Co-operative societies and other co-operative societies affiliated with bank and rural and semi urban customers.

g) **Implementation of Management by Objective Principle:**

It is observed that the bank functioning on traditional banking operations. The bank should consider the principle of

Management by Objectives and to fix standards at each level and compare it with the actual performance. It fixes objectives through participation and allows freedom to achieve the objectives. Hence it is become an important tool in modern management. But it is surprising to note that mobilization of resources and deployment of funds and recovery of advances the bank has not set any satisfactory standards. As standards gives a purposive direction to human activities. Thus it is high time to bank to think on the modern management tool of management by objectives.

The above strategies, if implemented and motivated closely will ensure the early restructuring of the bank.

In short, the bank has to function as real leaders of the co-operative movement. This can be facilitated only in an environment, which is free from political interference and Governmental control.

Thus to conclude, the place of DCCB is of a vital importance in the short term co-operative credit structure. They form an important link between the SCB at the top levels and the Primary Societies at base level. Working capital is nothing but the total capital employed by the bank. The funds raised by the bank through various sources should be utilized fruitfully to earn a adequate return. Therefore, for the bright future of the SDCCB, the bank has to take rapid actions towards the mobilization of low cost rural based deposits, to increase own sources of funds, better financial and operational activities in loaning and investment policy, efficient management of Non Performing Assets, overdues and in professionalizing the management. Moreover the SDCCB has to make a detailed plan with the help of the break even analysis and same should be followed for the future financial planning. Lastly the PACS should be recognized and converted into Mini Kisan Bank (on the basis of the Kolhapur D.C.C. Bank) in order to make them economically viable unit. Ultimately this leads to better functioning of SDCCB.
