

C H A P T E R - 4

MANAGEMENT OF FUNDS

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CHAPTER - 44.1 MANAGEMENT OF FUNDS :Meaning of funds :

In its narrow sense the term 'Funds' means only cash. It may be treated that cash & marketable securities together comprises of funds. The most common definition of funds is working capital or net current Assets. Now the broader approach is adopted for the interpretation of the term 'Funds' & that is all financial resources. The funds flow statement will indicate all changes in assets & liabilities of a business firm. This is the most useful interpretation of the term 'Funds', as the narrower definition such as cash or working capital have after lead to the omission from the statement of the effect of transactions which don't directly affect cash or working capital. e.g. The purchases of an asset in exchange of shares or bonds or exchange of an asset for assets. Therefore, this broader approach of the term 'Funds' as 'all financial resources' is accepted.

Concept of Funds Management :

The concept of funds mgt. as applicable to Banking Institution is ingrained in the very definition of Banking. According to Sec. 5 (b) of the Banking Regulation Act-1949, Banking is defined as a accepting of deposits or money from the public repayable on demands or otherwise for the

purpose of lending or investment. In as much as funds mobilised by way of deposits from individuals & institutions have to be repaid on prefixed due dates (i.e. in case of term deposits) or on demand (as in the case of demand liabilities composed of current & saving Bank deposits etc.) There should be a proper correlation between the due dates of the bank's deposit obligations & maturity pattern of its loan portfolio. A prudent banker has to ensure that his investments are safe, liquid & remunerative.

The Co-operative banker, in addition has to observe the social objective & social purpose which form the backbone of every Co-operative institution. A Co-operative banker is necessarily expected to play developmental role. This then forms the crux of the problems of funds management in a Co-operative Bank.

Definition :

"Funds management as the term indicates, is the ways and means of employing. The funds available to the management in the best interest of the organisation."

Source : Dr. Bhogappa & Kulkarni G.S. "working Cap. mgt. in D.C.C. Bank Ltd. Gulbarga, Karnataka State ! Indian Journal of Institute of economic Research, June-July (1990) Vol. 25, Page No.1.

Importance of funds Management :

Finance is the heart and soul of any business organisation. Co-operatives being business organisations are also required to manage their funds effectively success of any business depends upon the efficient management of funds.

The condition of modern business is changing every day. In such condition, the role of finance manager is very important. It is not the only duty of finance manager to collect the funds, but also to see it's effective utilisation in the business. Success of business depends upon the efficiency with which funds are managed economically and effectively. So functions of a financial manager extend to financial planning, funds raising, and administration of funds. He has to take the investment financing and the dividend decisions. An optimal combination of these three decisions maximise the value of the firm. The Investment decision is concerned with the effective utilisation of funds. A business firm requires funds for investing them in various fixed assets and current assets of the business. Before taking any final decision as regard to their procurement their relative profitability must be assessed. There are various techniques which help the financial manager in assessing the relative profitability of alternation investments such as Capital Budgeting. The financing decision involves the determination as to how the total funds required

by the firm will be made available through different sources.. A firm can't depend upon only one source of capital, hence a varied financial structure is required. But before using any particular source of capital their relative cost of capital, degree of risk, and control should be throughly examined by the Financial Manager. The Dividend Decision involves the proper management of earning is also vital for the success of the firm. It refers to the problem how much part of the earnings should be distributed among the shareholders by the way of dividend and how much should be retailed in the business for meeting the future needs of funds internally.

This the responsibility of the Finance Manager is no longer limited to the procurement of funds, but extends beyond it to ensure their maximum utilisation. Therefore the Finance Manager must be well acquainted with the problems, principles, practices and procedures involved in channelising funds investments in business and the planning for and controlling of the use of such funds.

The main purpose of any business enterprise is profit maximisation. In order to achieve this goal, the effective and efficient allocation of funds and Controlling their uses is a major task for the financial manager. Basically profit maximisation is the prime objective of the firm.

A District Central Co-operative Bank is the dealer of money which provides finance to the Co-operative Societies and credit for agricultural production to the farmers at a cheaper rate of interest and also serve as a media for collecting savings of the rural masses by mobilising the deposits. Therefore this bank is required to maintained a balance between funds-in-flow and funds-out-flow by earning reasonable surplus. The bank has also to manage its funds in such a way that it should not earn profit but also maintain its safely to survive safety the longer period, It has to ensure that funds are rotated in such a way that the fundamental purpose of the Bank is achieved and the Bank may discharge its social obligations in a better way.

**4.2 FUNDS MANAGEMENT IN RELATION TO THE OBJECTS OF**  
**D.D.C. BANKS:**

As we have discussed earlier the main objectives of a Central Co-op. Banks are to act as a central financing agency for primary credit societies at village level in the district & meet the short-term & medium-term credit requirements of agriculturists. At the same time being a federal body at the dist. level these banks have to look after the

credit requirement of non-agricultural co-operative organisation in the dist. for this purpose these banks have to mobilise the deposits & borrow from apex bank & R.B.I. Thus the goal of central co-op. Bank in general is to undertake the overall rural development through Co-op. organisations.

To obtain these goals of central Co-op. banks, the funds mgt. plays a very vital & imp. role. The manager of a Central Co-op. Bank should manage the funds in such a manner that the credit requirement in the area should not fall short-off & at the same time the funds collected from different sources should not be too much that there should not be the scope for further lendings.

Thus to manage the fund is nothing but to maintain equality between the supply & demand for money. It takes the form of either matching demand for funds with the available supply. Hence the manager of a central Co-op. Bank should mobilise the resources as per the requirement of the situation of utilise the same to meet the demand of financial needs in the district. But while doing so he has to analyse the existing situation & also the emerging trends. The real success of finance manager depends not so much on meeting the funds management problems of today but more on his ability to anticipate the requirements of tomorrow which he should be in a position to meet the same when they arise.

The Central co-op. Banks have been recognised as the most effective & suitable instrument for providing agricultural credit & thus these banks are the role financier to the Co-op. organisations in the dist. & as such these banks are required to maintain a balance between the funds inflow & funds outflow by earning an adequate surplus for their survival & growth.

Hence it is the task of the management to manage the funds which will ultimately prove beneficial to the realisation of the overall objectives & goals of the central co-op. Bank. Thus the finance manager should manage the funds by maintaining the solvency, liquidity, profitability & efficiency which in turn will result in growth & survival of a central Co-op. Bank.

Financial Sources of Central Co-operative Bank :

There are various sources from which finance can be raised. The sources may be internal & external. The liabilities side of the bal. sheet of a district central co-operative Bank will reveal the different types of sources for funds of a district central co-operative bank which comprises of viz. share capital from members & Govt. Reserves, borrowings from apex bank & RBI & different types of deposits.



4.3            SOURCES <sup>OF</sup> FOR FUNDS :

Chart - 5

Sources of Funds, of K.D.C.C. Bank

Permanent Funds	Medium Term Funds	Short Term Funds
1. Shares-Govt. Public.	1. Term Deposits 2. Medium term loan Borrowings	1. Borrowings from Apex Bank. 2. Demand deposits
2. Reserves		

Thus from the above, it is revealed that the sources of funds of D.C.C. is grouped as under :

A. Permanent Funds :

The permanent Fund constitute the owner's funds i.e. share cap. Reserves & Surpluses. Theses are permanent because the amount of these funds is not generally repayable except in case of closing down of business. These are also called as 'Internal Sources' of funds.

B. Medium Term funds :

These include borrowings from financial institutions like Bank & in case of Banking institutions like apex

or Reserve Bank & from term deposits accepted from different types of deposits. There are generally repayable after 3 to 5 yrs.

C. Short Term Funds :

These funds include partly short-term loans for working capital purposes & partly of current liabilities. It also comprises of borrowings from outside agencies e.g. Apex Bank such as crop loan, short term loans, cash credit, overdrafts & deposits like call deposits, current A/c deposits.

Out of the above mentioned funds, the medium term funds & short-term funds are generally made available from external sources therefore, these sources are called external sources of finance.

Important Elements of term Funds :

I. Low Cost of Deposits :

The funds required for lending will have to be mobilised at as cheap rate as possible. While taking about deposit mobilisation, following two points are necessary -

1. The adequacy of deposits with a view to meeting the full requirements of Advances.
2. The quality of deposits.

In the long run increasing deposits will lead to reduction in profits unfortunately co-op. Banks raise position of deposits by way of fixed deposits and cash certificates of long-run duration which tend to increase the cost of deposit. About 70 to 80% of total deposits are in the high interest bracket. But commercial Banks have 50% in current & saving Deposits.

#### II. Borrowings at concessional rate of Interest :

The Co-op. Bank raises funds by way of borrowing from higher financial agencies. RBI is providing re-finance for financial seasonal agricultural operations, marketing of crops, weavers financing, village industries etc. banks should get concessional finance for meeting their requirements of lendings.

#### III. Mobilisation of deposits than borrowing :

Banks will have to mobilise adequate quantum of resources for meeting other non-agricultural type of activities or to depend upon borrowings from Apex Bank

as R.B.I. doesn't provide re-finance for each type of Co-op. Bank the rate of borrowing from Apex bank above 11%, it would be beneficial to increase deposits rather than borrowings.

IV. Linking of Borrowings of D.C.C. Bank from R.B.I. with Deposit Mobilisation :

The R.B.I. is providing finance to D.C.C. Bank through Apex bank under pooled rate scheme. For this the condition of maintaining certain percentage of deposits is imposed. Weak Banks find difficulty in deposits & ultimately effect on borrowings.

**4.4      SHARE CAPITAL :**

The share capital of D.C.C. Banks are not generally repayable during the life time of the enterprise & hence used for meeting long-term requirements like fixed capital Requirements. In Co-operative organisations, shares are only of one kind and that is ordinary shares. These shares are subscribed by members of Govt. under the scheme of State participation. The face value of shares varies from Rs. 50 to Rs. 100.

In many Co-operative organisations share holding is linked with loans made available to members -

T a b l e N o. 1.1

Comparative position of Paid-up Share Capital of

'K.D.C.C. Bank Ltd., Kolhapur'

(Rs. in lakhs)

Sr.No.	Item	85-86	86-87	Years 87-88	88-89	89-90	% Rise over 1986
	<u>SHARE CAPITAL</u>						67.35
a	Society Co-op.	547.72	636.01	713.11	801.93	916.63	976.
b	Individual	.61	.60	.60	.60	.59	- 3.27
c	Govt.(State)	25.00	25.00	25.00	25.00	25.00	00 00
	Total	573.33	661.61	738.71	827.53	942.22	64.08

Source :- Annual Reports of K.D.C.C.

1. There is continuous rise in share capital of K.D.C.C. Bank. The total increase during the last 5 years is 64.08%
2. Even though there is a rise in total paid-up share capital, yet, Cap. contributed by the Govt. has remained constant, i.e. Rs. 25 lakhs. Bank has created a capital Redemption fund of Rs. 25 lakhs.
3. There is not noteable increase in individual share capital. The shares held by members are negligible, on the other hand the old individual membership of the bank has declined day by day. But only the increment is in Societies contribution towards share capital.
4. The main source of the share capital is member societies shares. It is increasing continuously. It comprises 67.35% of total share capital.

Dividend paid by the bank during the last 5 years is as under :

T a b l e - 1.2  
Dividend declared by K.D.C.C. Bank

Year	1985-86	1986-87	1987-88	1988-89	1989-90
Rate of Dividend	9%	9%	9%	9%	9%
Amount of Profit	82.08 lakhs	104.90 lakhs	165.77 lakhs	150.39 lakhs	145.88 lakhs
Amount of Divident	48.60 lakhs	55.35 lakhs	64.00 lakhs	70.25 lakhs	79.60 lakhs

Source :- Annual Reports of K.D.C.C. Bank.

The profit of the Bank is increased by 65.54% from the above figures it seems that the bank has declared a fair rate of dividend throughout the five years i.e. from 1986 to 1990 of-course bank has tried its best to declare the maximum rate of dividend. State Co-operative Societies Act has imposed the restrictions to declare the dividend above 12%. The dividend position shows the stable financial position of Bank.

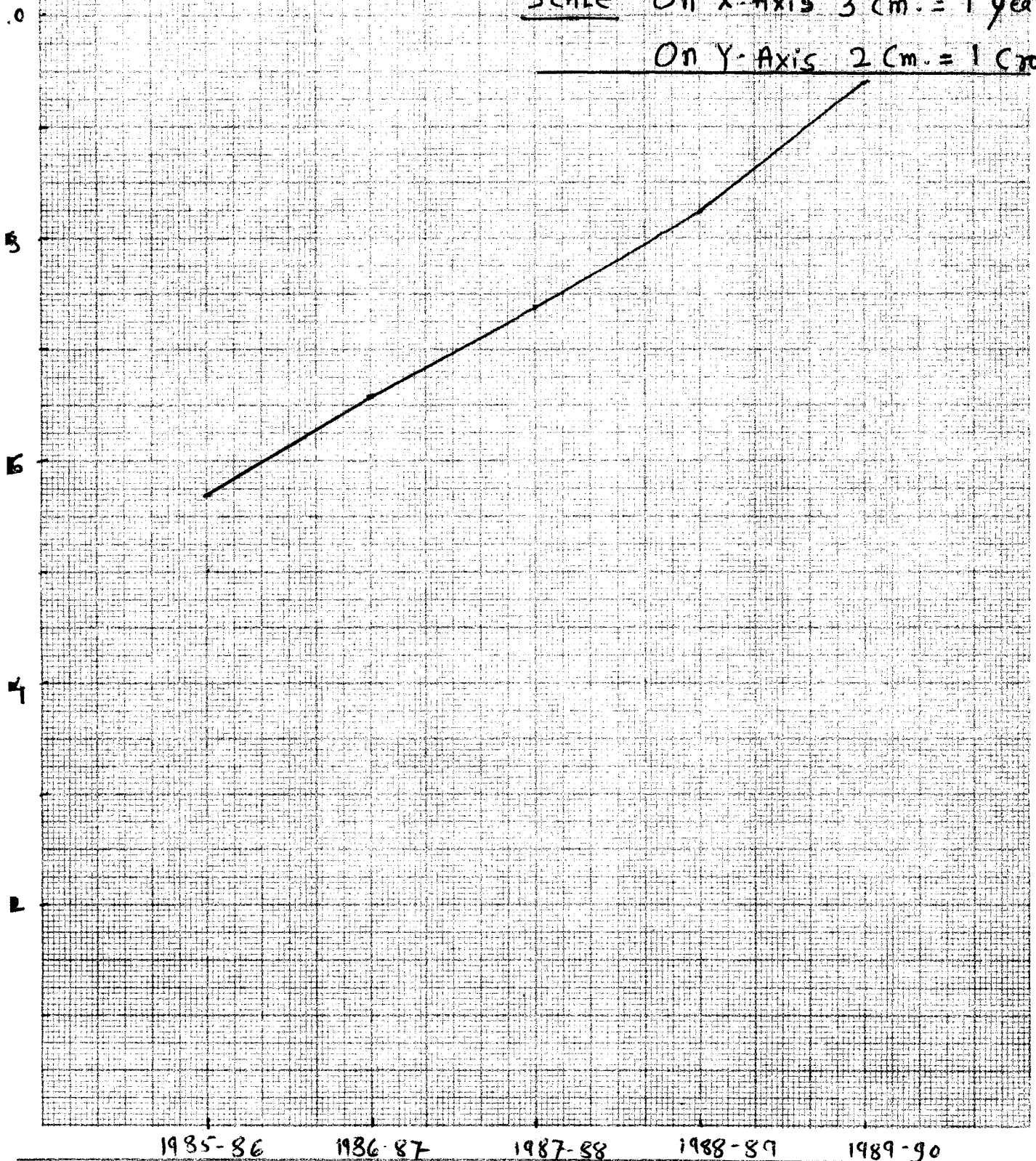
- GROWTH OF BANK'S SHARE CAPITAL -

TABLE - 1.1

GRAPH - 2

SCALE - On X-Axis 3 cm. = 1 year

On Y-Axis 2 cm. = 1 crore.



YEARS



#### 4.5 RESERVES :

The Reserve is the fund set aside to meet difficult situations in future. Thus reserve is nothing but 'Retained Profits'. The creation of Reserves out of profits is no doubt a sound policy for an organisation. There are different kinds of reserves for specific purposes depending upon the nature of organisation. Reserves can be used in business as long-term or medium-term resource of finance.

#### Types of Reserves :

##### A. Revenue Reserve :

Surplus that arises in the business activity by paying the expenditure out of the income earned is known as net revenue profit out of which dividend is declared & also reserves are also created.

##### B. Capital Reserves :

Capital profit is the effect of appreciation of financial Assets of an enterprise, & the reserve created out of this capital profit is known as capital Reserve.

#### Creation of Reserve :

The reserve is very economic source of finance as the organisation need not pay interest or dividend

for this. It reduces the portion of distributable surplus. In case of Co-operative organisation 25% portion of N.P. is to be set aside as Reserve Fund & 15% as Credit Stabilisation Fund. This is obligatory by law to District Central Co-operative Bank. The Govt. is using Co-operative organisation as an instrument for development of weaker section. Therefore it is expected that they should be financially sound & this is done through creation of different types of Reserves. While creating further reserves the following points are considered -

1. By creating further Res. the needs of finance in respect of growth & expansion should meet.
2. It should meet the unknown contingencies in future.
3. It should meet known liabilities of the future.

The K.D.C.C bank maintain three types of Res.

1. Statutory Res. Fund
2. Bad & Doubtful debt Res.
3. Other Reserves.

In spite of there, Agricultural Credit Stabilisation Fund is also maintained so that short-term loans for agricultural purposes could be converted into medium-term if repayment became difficult on account of famine, draught etc. and D.C.C. contributes 15% of their N.P. to this fund each year.

Table - 1.3

The Comparative Position of Reserves

Sr.No.	Particulars of Funds	(Rs. in Lakhs)				% Rise Over 1986	
		85-86	Years 86-87	87-88	88-89		
1.	Reserve Fund	214.46	234.23	281.14	323.35	362.68	69.11
2.	Agricultural Credit Stabilisation Fund	97.00	112.23	134.54	165.00	194.05	100.05
3.	Building Fund	56.60	56.60	60.34	91.05	106.64	88.40
4.	Dividend Equalisation Fund	5.47	10.00	20.00	67.00	67.00	1124.86
5.	Special Bad-debts Fund	2.73	2.73	2.73	2.73	2.73	--
6.	Bad and doubtful Debts Fund	225.86	227.38	286.88	348.69	348.42	54.26
7.	Investment Fluctuation Fund	3.00	3.00	3.00	3.00	3.00	--
8.	Share Capital Redemption Fund	7.50	10.00	20.00	25.00	25.00	233.33
9.	Development Fund	--	--	--	25.00	100.00	--
Total		612.62	657.17	808.63	1050.97	1155.52	88.61

Cont

OTHER RESERVES :

Sr.No.	Particulars of Funds	Years					% Rise Over 1986
		85-86	86-87	87-88	88-89	89-90	
A.	Charitable Fund	1.22	1.22	1.19	1.28	0.70	- 57
B.	Graduity Fund	.48	.47	3.00	1.49	1.90	295.8
C.	Milk Cattle Risk Fund	1.02	1.02	1.02	1.02	1.02	--
D.	Risk Fund for Cons. Credit	2.55	2.82	3.22	3.67	6.33	148.23
E.	Develop. Fund	2.00	2.16	2.66	3.13	3.37	68.5
F.	Guarantee Claims	.42	.50	.60	.68	.73	73.80
G.	Education study tour Fund	1.26	1.26	1.12	2.12	2.87	127.77 <sup>9</sup>
H.	Redem. Fund	.50	.50	.50	.50	.50	--
I.	Welfare Fund	.25	.25	.25	.25	.25	--
J.	Leadership Develop. Fund	--	.35	.85	1.34	1.73	394
K.	Harizan-Girijan Dev. Fund	--	--	.25	.50	1.00	400
L.	Vehicle Repair Fund	2.80	--	--	--	--	--
Total ....		12.5	10.55	14.66	15.98	20.4	63.2
Total ....		625.1	667.12	823.29	1073.95	1175.92	88.11

Source :- Annual Reports of K.D.C.C. Bank.

# GROWTH OF KDCC'S RESERVE FUNDS

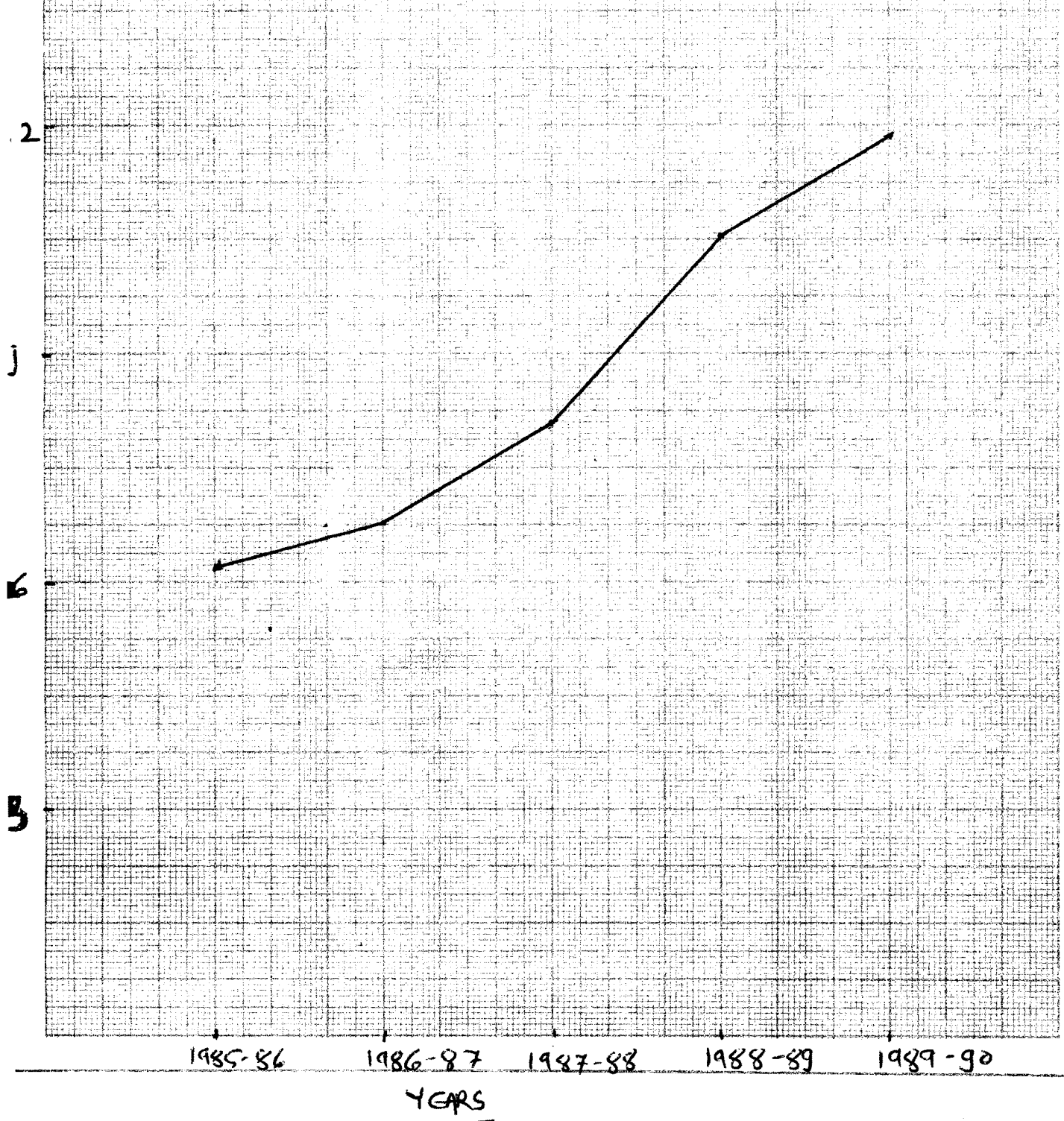
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TABLE - 1.3

GRAPH - 3

SCALE - ON X-AXIS 3 CM. = 1 YEAR

ON Y-AXIS 4 CM. = 3 CRORES.



1. There is a continuous rising trend in Reserves during last five years.
2. Average rise is about 17.62% . The total rise during the last five years is 88.11%.
3. This bank is making addition to its reserves every year & in the year 1990, it is more than share Capital also, by Rs. 287.79. It is no doubt a sign of sound and strong financial position of Bank.
4. The Bank has various types of Reserves such as Agriculture credit stabilisation, Building Reserve, Dividend equalisation Res., welfare fund, Charity Fund etc. Through these, the bank is able to under-take any sort of venture even of long period for the development of weaker section.
5. Each year bank keeps aside 25% of its profit to Reserve Fund which is compulsory by the Act. and 15% to Agricultural credit stabilisation Fund.

Owned Funds :-

Owned Funds really provide the base for deciding the extent of operations as the borrowing power of a co-operative Bank is fixed as a multiple of its owned Funds.

They constitute of -

- (a) Share capital contributed by the members.
- (b) Various reserves created out of the profits.

Table No. - 1.4

The Comparative Position of Owned Funds

(Rs. in lakhs)

Sr. No.	PARTICULARS	YEARS				% Rise Over 1986	
		85-86	86-87	87-88	88-89		
1.	Paid up Share Capital	573.33	661.61	738.71	827.53	942.22	64.34
2.	Reserves	625.11	671.50	823.26	1066.78	1230.01	96.76
	Total Owned Funds	1198.44	1333.11	1561.97	1894.31	2172.23	81.25

Source :- Annual Reports of K.D.C.C. Bank.



1. On a/c of increase in the amt. of share capital & Reserves, there is a continuous rising trend in owned funds during the last five years.
2. Average Rise per year is 194.75 Rs. lakhs.
3. The total rise during the last five years is of 81.25%.
4. The proportion of owned funds to its working capital Rs. 9.39% in 1990.

#### 4.6      DEPOSITS :

This is one of the imp. source of funds to meet the short-term, medium-term needs of D.C.C. Banks. A D.C.C. can accept the deposits from Co-operative societies & individuals. It also provides banking facilities through the branches all over the district & as such increases banking habits among the rural population. This mobilisation of rural saving is the most imp. function of the D.C.C. Bank. Generally the deposits accepted by the D.C.C. Banks are of the same type that have been usually accepted by the commercial or any other banks. Mainly the types of deposits are -

1. Current Account.
2. Saving Bank Account.
3. Fixed Deposits.
4. Deposits accepted under different types of attraction scheme.

There is no doubt that K.D.C.C. has played a very imp. role in mobilising the savings. This will be clear from the following table.

Table No. 1.5

The typewise classification Deposits

(Rs. in lakhs)

Sr. No.	Type of Deposit	Years				% Rise Over 1986	
		85-86	86-87	87-88	88-89		
1.	<u>FIXED</u>	6131.13	7433.11	8543.77	9905.44	12147.40	98.12
	(% to Total)	58.72	59.34	56.92	60.67	61.15	--
2.	<u>SAVING</u>	2114.91	2371.23	2790.39	2978.02	3817.12	80.48
	(% to Total)	20.25	18.93	18.59	18.25	19.21	--
3.	<u>CURRENT</u>	1680.34	2262.43	3266.72	2779.64	3212.50	91.18
	(% to Total)	16.09	18.06	21.76	17.03	16.17	--
4.	<u>CASH</u>	514.93	459.22	408.75	662.75	689.25	33.85
	(% to Total)	4.93	3.66	2.72	4.05	3.47	--
	<u>TOTAL</u>	10440.68	12525.99	15009.63	16325.85	19866.27	90.27

Source :- Annual Reports of K.D.C.C. Bank.

Conted. Table 1.5

Out of Total Deposits

(Rs. in lakhs)

Sr. No.	Type of Deposit	Years				% Rise Over 1986	
		85-86	86-87	87-88	88-89		
A.	<u>INDIVIDUAL &amp; OTHER</u>	3237	3888	4693	4857	5949.28	22624.28
	(% to Total)	31	31.03	31.26	29.75	29.94	30.50
B.	<u>SOCIETY</u>	7204	8638	10316	11469	3917	51544
	(% to Total)	69	68.97	68.74	70.25	70.06	69.50
							<u>74168.28</u>

1. The component of the Individual deposits is much more of the Society Deposit. As on 30-6-90 the Individual deposits comprises 29.94% of total deposits as against 70.06% of society deposits.
2. The Bank has played prominent role in mobilising the savings from rural and urban area.
3. Major portion of deposits is obtained in Fixed Deposits i.e. 61.15% in 1990 through which bank is able to manage the business from its own resources.
4. The total rise during the last five years is of Rs. 9425.59 lakhs. The rate of increase in deposits i.e 90.27% is very much satisfactory. The K.D.C.C. Bank has no doubt tried to mobilise the resources by way of deposits successfully. It shows its ability to collect a substantial source of funds for its loaning facilities or business.
5. The average increase in deposits p.a. is Rs. 18.06%
6. There is a continuous rise in all types of deposits and such deposits can be utilised for the development of weaker section by which efforts are made for balanced economic development. (Mainly Fixed and Saving Deposits show increment)

7. In order to tap deposits the K.D.C.C. has started opening branches also. By the end of 30-6-1990, the bank has 130 branches.
8. During the above period of 5 years, the number of branches increased at the rate of 21.10% whereas the rate of growth of deposits over the same period works out to 90.27%
9. Deposits contributed by other Co-op. Societies are more i.e. 80% in case of Fixed and Current Deposits. But in case of saving deposits individual contribution is 82.71%
10. There is no radical change in case of individual and society deposits.

## Table - 16

The Classification of fixed deposits

Year	Fixed Deposits	Individual		Central Co-op. Banks		Other Co-op. Banks		Over Previous Year	
		Amt.	% to total	Amt.	% to total	Amt.	% to total	In Rs-	In %
1985-86	6131.12	1143.33	16.65	10.00	.16	4877.78	81.19	1128.31	22.55
1986-87	7433.11	1333.92	17.95	10.00	.13	6089.19	81.92	1301.99	21.23
1987-88	8543.77	1686.81	19.74	10.00	.12	6846.95	80.14	1110.66	14.94
1988-89	9905.43	1730.68	17.47	15.00	.15	8159.75	82.38	1361.66	15.94
1989-90	12147.39	1907.15	15.70	15.00	.12	10225.25	84.18	2241.96	22.63

Source:- Annual reports of K.D.C.C. Bank.

It is seen from the above table that major portion of fixed deposits is contributed by other Co-operative societies which is 84% in 1989-90.

T a b l e - 1.7

The Classification of Saving Deposit

Year	Saving Deposits	Individual		Central Co-op.		Other Co-op.		Over Previous year	
		Amt.	% to total	Amt.	% to total	Amt.	% to total	In Rs.	In %
1985-86	2114.90	1758.42	83.18	--	--	356.48	16.86	416.42	24.51
1986-87	2371.22	2007.48	84.66	--	--	363.74	15.34	256.32	12.12
1987-88	2790.38	2342.65	83.95	--	--	447.73	16.04	419.16	17.68
1988-89	2978.02	2407.09	80.83	--	--	570.92	19.17	187.64	6.73
1989-90	3817.12	3157.29	82.71	--	--	659.83	17.29	839.10	28.17

Source :- Annual Reports of K.D.C.C. Bank.

In case of saving deposits the individual contribution is more i.e. near about 80% Central Co-op. Banks have not made any contribution at all.



Table - 1.8

The Classification of Current Deposits

Year	Current Deposits	Individual		Central Co-op. Bank		Other Co-op. Bank		Over Previous Year	
		Amt.	% to total	Amt.	% to total	Amt.	% to total	In Rs.	In %
1985-86	1680.33	335.69	19.98	6.95	.41	1337.68	79.62	140.46	9.15
1986-87	2262.42	546.28	24.15	11.78	.52	1704.36	75.34	582.09	34.63
1987-88	3266.71	663.90	20.32	4.64	.14	2598.17	79.52	1004.29	44.39
1988-89	2779.64	719.19	25.87	28.08	1.01	2032.36	73.10	487.07	14.90
1989-90	3212.50	884.84	27.55	28.57	.89	2299.08	71.57	432.86	15.57

Source :- Annual Reports of K.D.C.C. Bank.

In case of current deposits also cap. contributed by other co-operative comprises near about 70%

Table - 1.9Deposits Per Branch

Year	Total Deposits	No.of Branches	(Rs. in lakhs)	
			Av.per Branch	
1986	10441	109	104.41	
1987	12526	110	113.87	
1988	15010	112	134.02	
1989	16326	129	126.55	
1990	19866	132	150.5	

The average rate of deposits per branch is increased from 104.41 lakh Rs. to 150.5 lakhs Rs. in 1990.

# BANK'S GROWTH OF DEPOSITS

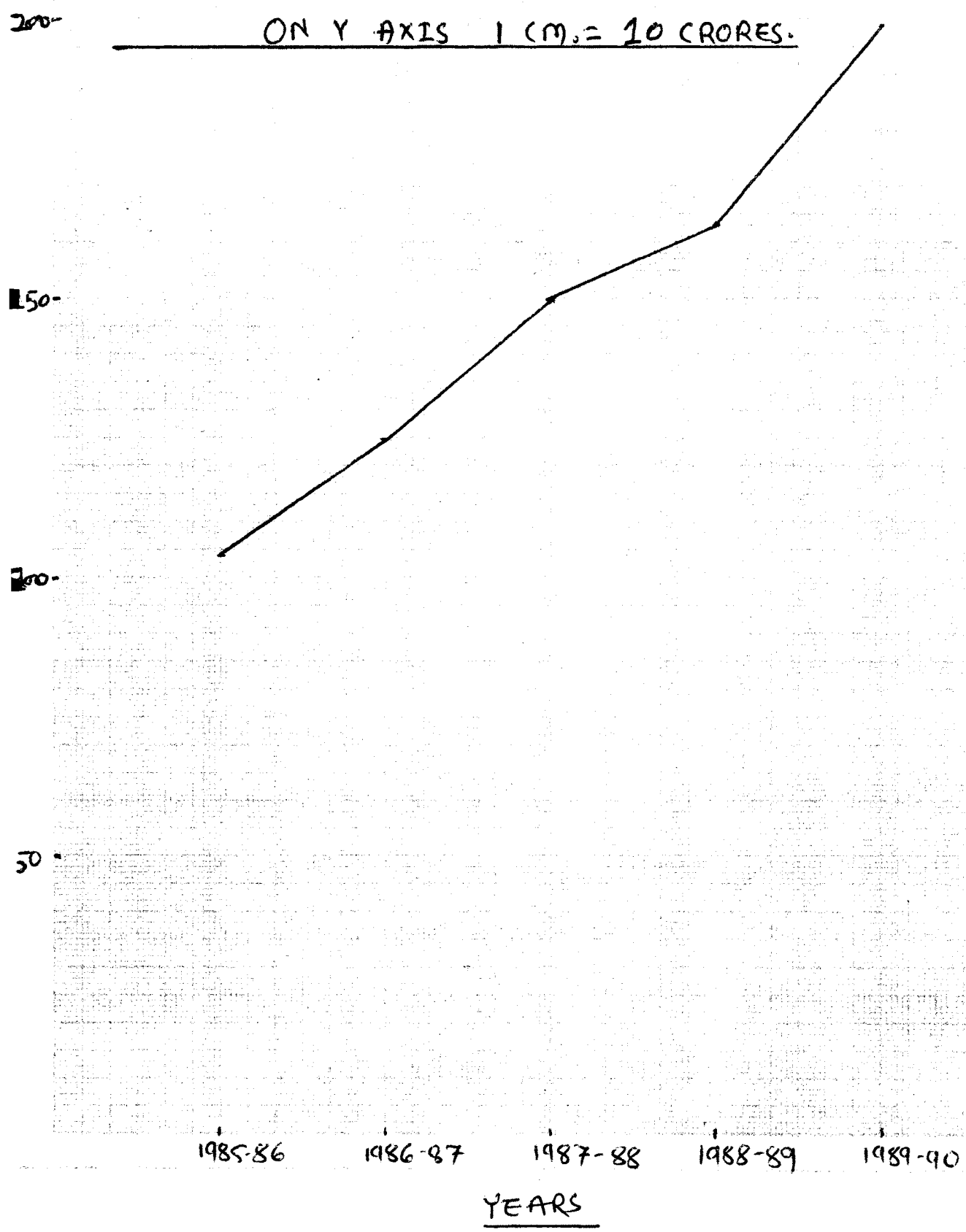
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TABLE - 1.5

GRAPH - 4

SCALE - ON X AXIS 3 CM. = 1 YEAR.

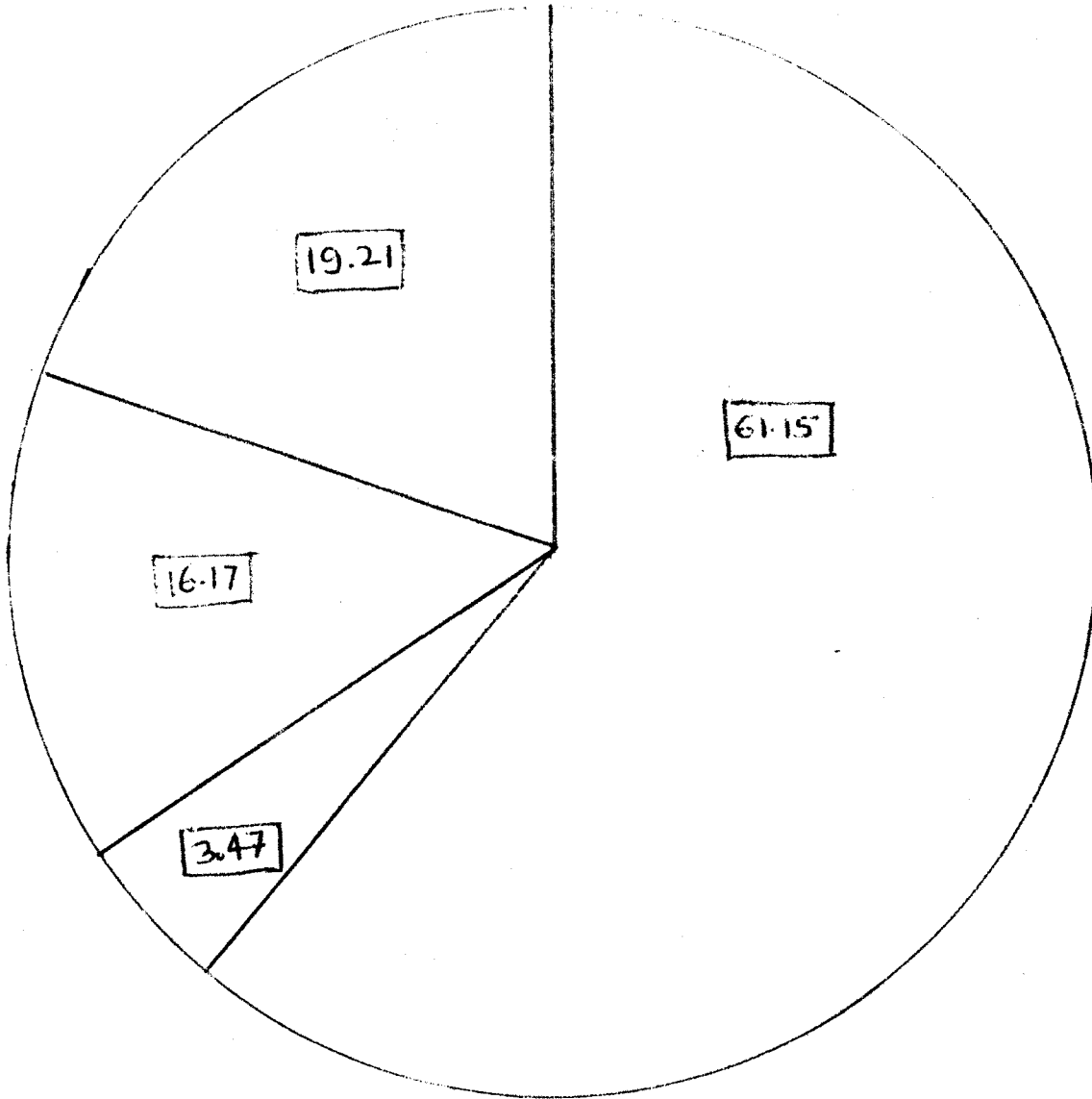
ON Y AXIS 1 CM. = 10 CRORES.



COMPOSITION OF DEPOSITS

GRAPH NO. 5

TABLE NO. 1.5



4.7      BORROWINGS :

One of the prominent source of funds for D.C.C. Banks is the borrowings from R.B.I. routed through the Apex Bank. The borrowing limit of these banks is generally linked with the owned funds. The funds from this source are used for meeting the agricultural credit needs in the district. The reserve Bank's facility to Apex Bank is made available at 3% below the Bank rate. The Apex Bank also charges a very low rate of interest.

Table - 1.10

## TABLE SHOWING ACTUAL BORROWINGS

(Rs. in lakhs)

Particulars	Years				
	1985-86	1986-87	1987-88	1988-89	1989-90
<u>From Apex Bank :</u>					
<u>I. SHORT-TERM LOANS</u>	66.09	94.41	624.01	450.00	690.93
<u>II. MEDIUM-TERM LOANS</u>					
A. M.T. Loan for Agriculture Purpose.	51.07	28.25	15.73	20.04	24.05
B. Under I.R.D.P. Scheme	13.84	7.61	77.61	225.65	293.44
C. Farm Mechanisation	14.73	21.94	12.08	8.04	5.36
D. Purchases of Shares of Sugar Factories	17.60	17.60	9.54	--	--
E. Automatic Refinance for Minor Irrigation Scheme	--	--	--	29.46	19.78
F. Refinance for Biogas	--	--	--	--	30.35
Total.....	97.24	75.65	114.82	283.2	372.98

Contd...Table - 1.10

(Rs. in lakhs)

Particulars	Years				
	1985-86	1986-87	1987-88	1988-89	1989-90
<u>III. LONG-TERM LOANS</u>					
For Lift Irrigation Scheme	43.47	37.03	30.12	19.37	14.83
For Construction of Godown	4.73	4.37	4.01	3.64	3.28
Sugar Repledge	--	--	--	--	--
Total.	48.20	41.40	34.13	23.01	18.11
Total I + II + III	211.53	211.21	772.96	756.2	1082.02

Source :- Annual Reports of K.D.C.C. Bank.

- 1) In the previous five years to come to meet increased demands from primaries, whether agricultural or industrial the bank may have to borrow from Apex Bank.
- 2) There is 411% increase in the aggregate borrowings during the last five years. Nearabout the short-term borrowings are increased by 10 times as compared to 1986, medium term by 4 times on the contrary long term borrowings show declining trend i.e. it is decreased by 62.42% during the last 5 years.
- 3) Out of total borrowings, borrowings from Apex bank constitutes major portion i.e. 63.77%. During the last 5 years borrowings from Apex Bank are increased by two times. Borrowings under I.R.D.P. scheme are increased by 4 times. Borrowings for Lift Irrigation Scheme & for construction of godown-show thoroughly a declining trend every year.



T a b l e - 1.12

Table showing the trend of the Medium -Term borrowings for Agricultural purpose

Year	M.T. Borrowing for Agricultural purpose	Total M.T. Borrowings	% to total	(Rs. in lakhs)	
				Increase/Decrease over 1985-86 Rs.	%
1985-86	51.07	97.24	52.51	--	--
1986-87	28.25	75.65	37.34	-22.82	44.68
1987-88	15.73	114.82	13.70	-35.34	69.20
1988-89	20.04	283.2	7.07	-31.03	60.75
1989-90	24.05	372.98	6.45	-27.02	52.90

Out of the total medium term loans given by the Bank loans for agricultural purpose contributes major portion. There is a continuous decrease in this loan.

The % to total loans have been decreased from 52.51% to 6.45% during the five years.

T a b l e - 1.11

Table showing the trend of borrowings from Apex Bank

(Rs. in lakhs)

Year	Borrowings from Apex Bank	Total Borrowing	% to total Borrowing	Increase or Decrease over 1985-86
				Rs. %
1985-86	66.09	211.53	31.28	--
1986-87	94.41	211.21	44.70	28.32
1987-88	624.01	772.96	80.72	577.92
1988-89	450.00	756.2	59.52	383.91
1989-90	690.93	1082.02	63.77	624.84
				945.43

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Of the total borrowing, borrowings from Apex Bank constitutes major portion. This portion has doubled as compared to the year 1985-86 (from 31.28% to 63.77%). There is nearabout 10 times increase in borrowings in 1989-90 as compared to 1985-86.

# BANK'S GROWTH IN BORROWINGS

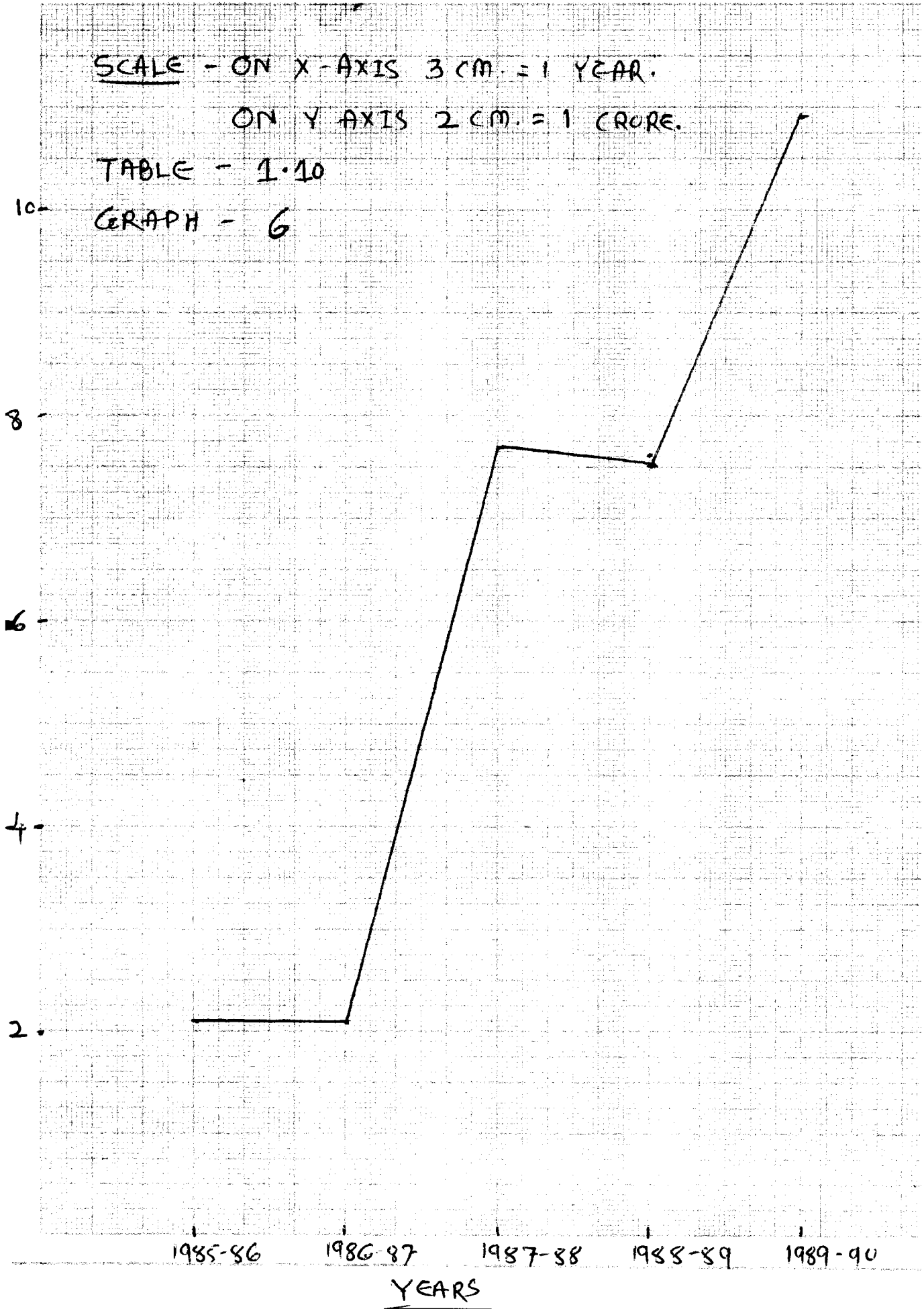
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SCALE - ON X-AXIS 3 CM. = 1 YEAR.

ON Y-AXIS 2 CM. = 1 CRORE.

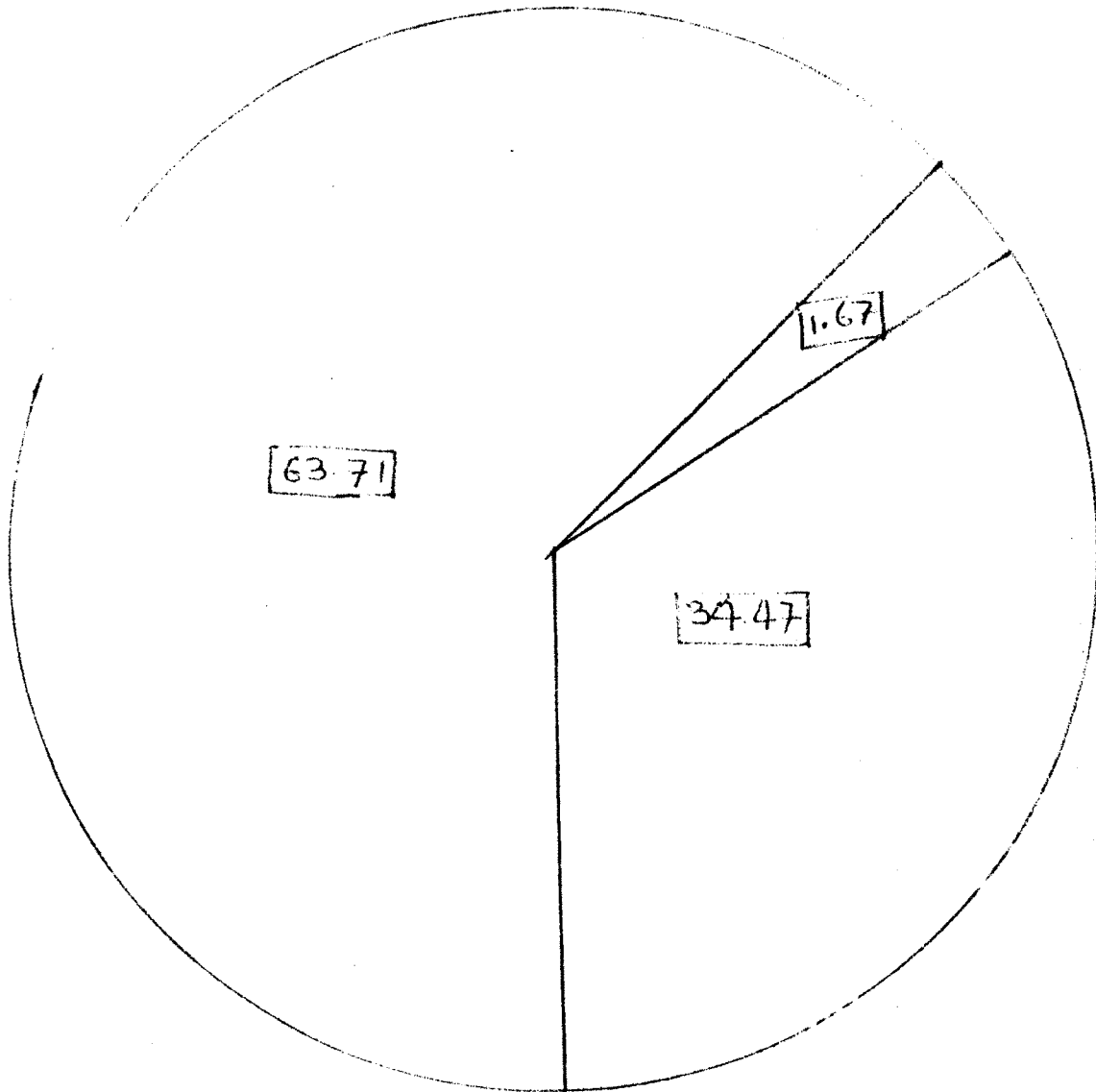
TABLE - 1.10

GRAPH - 6



COMPOSITION OF BORROWINGS.

GRAPH NO - 7 117  
TABLE NO - 1.8



**BORROWING POWER :**

As per Byelaws No.4, the bank may receive deposits & loans. The total amount of such liabilities shall not exceed 12 times, the total amount of its paid-up share capital, accumulated Reserve Fund & building fund minus accumulated losses except with the previous sanction of the Registrar & subject to such terms & conditions & for such period as may be laid down by him from time to time.

**Table - 1.13**  
**Table showing Reserve Borrowing Power as on 30th June, 1990**

(Rs. in lakhs)

Sr. No.	Particulars	Rs.
1.	<u>Borrowing Power as per bylaw</u>	
	12 times of the share capital	
	(Paid-up) plus Reserve fund,	
	Plus Building Fund less	
	accumulated losses, if any -	
	A. Paid-up share capital	942.22
	B. Reserve fund	362.68
	C. Building fund	106.64
	Total...	1411.54
	<u>Borrowing Power as per Bylaw -</u>	16938.48

Contd....Table-1.13

(Rs. in lakhs)

Sr. No.	Particulars	Rs.
2.	<u>Actual Borrowings</u>	
	A. Deposits	19866.27
	B. <u>Apex Bank</u>	
	1. Short-Term loans	690.93
	2. <u>Medium-Term loans</u>	
	Three-years	17.00
	Five years	7.05
	I.R.D.P. Scheme	293.44
	Agricultural tools	5.36
	Automatic Refinance for minor irrigation Scheme	19.78
	Refinance for Biogas	30.35
3.	<u>Reserve Borrowing Power (Sr.No. 1-2)</u>	
4.	<u>Borrowing in Excess of borrowing Power or Reserve borrowing Power</u>	
	3. <u>Long-Term loans</u>	
	Lift Irrigation Institution	14.83
	Godown Building	3.28
	S.B.I.	--
	State Govt.	--
	Total...	20948.29
	<u>Reserve Borrowing Power (Sr.1-2)</u>	4009.81
	Borrowings in excess of borrowing Power or Reserve Borrowing Powers.	

1. Actual Borrowings are exceeded by Rs. 4009.81 lakhs in the year 1990.
2. For improving the borrowing power, owned funds must be strengthened to meet the sufficient borrowing power.

#### 4.8      WORKING CAPITAL :

Working capital is the pointer to measure the progress of any bank. It indicates the turnover of the Bank. The following comparative figures give a clear & concise idea as to the Bank's position regarding the working capital.

Table - 1.14

Composition of Working Capital

(Rs. in lakhs)

Sr. No.	Particulars	Years				
		1985-86	1986-87	1987-88	1988-89	1989-90
1.	Share Capital	547.72	636.01	713.11	801.93	916.63
	% to total working capital	4.62	4.52	4.19	4.23	3.96
2.	Reserves	625.11	671.50	823.26	1066.78	1230.01
	% to total working capital	5.27	4.78	4.84	5.62	5.33
3.	Deposits	10441.30	12525.99	15009.63	16325.86	19866.27
	% to total working capital	88.09	89.19	88.31	86.15	86.02
4.	Borrowings	211.53	211.21	449.07	756.21	1082.01
	% to total working capital	2.02	1.51	3.66	4.00	4.49
Working capital or Total Financial Resources		11852.66	14044.71	16995.07	18950.78	23094.92

% Increase in working capital over 1985-86 - 99.49%



T a b l e - 1.15Growth of K.D.C.C. Bank's Working Capital

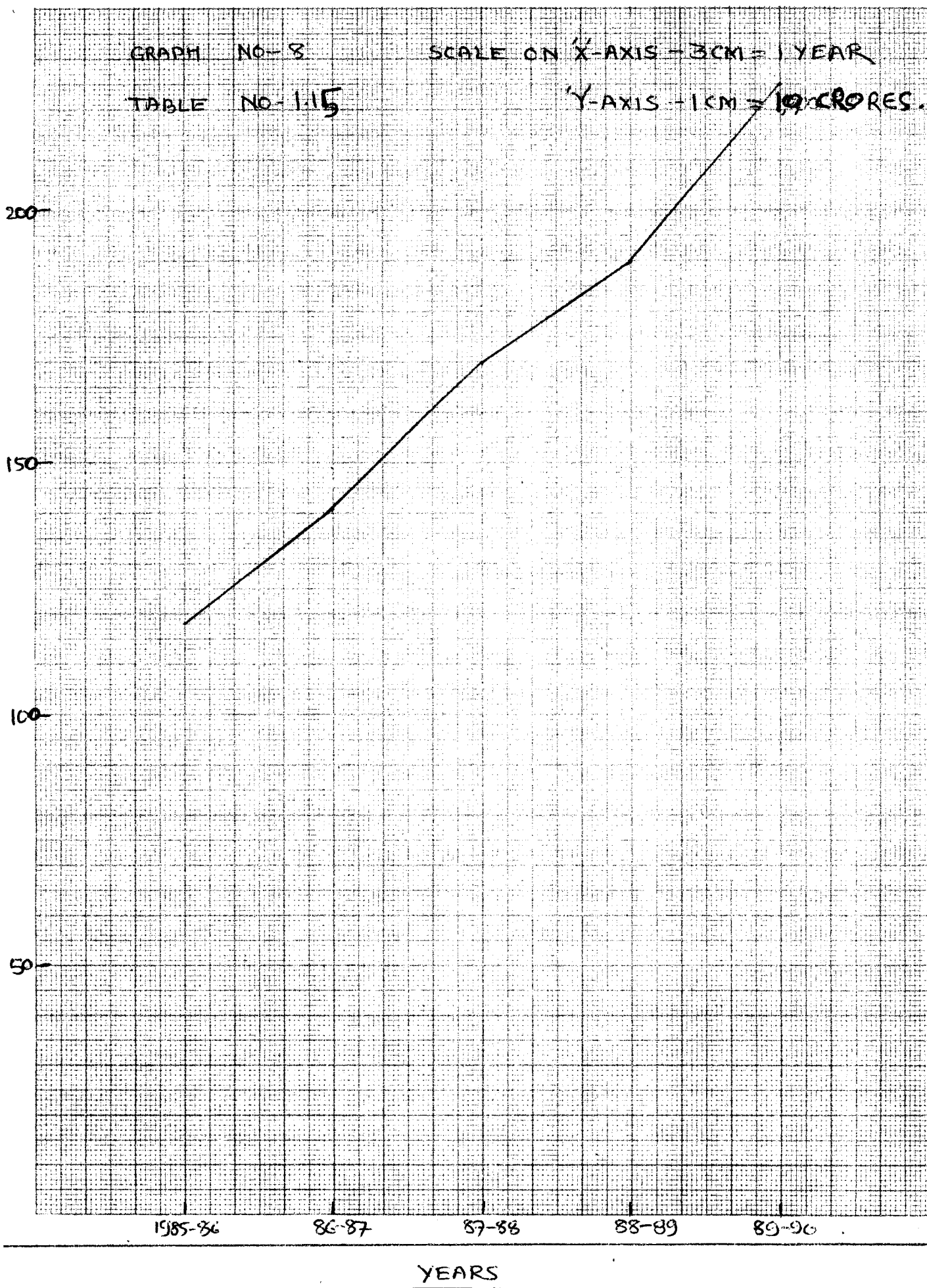
Sr. No.	Years	Working Cap.	Increase/Decrease Over the previous year	
			Rs.	%
1.	1985-86	11850	2015	28.63
2.	1986-87	14070	2220	18.73
3.	1987-88	17020	3050	21.67
4.	1988-89	18976	2956	17.36
5.	1989-90	23121	4145	21.84

Source :- Annual Reports of K.D.C.C. Bank.

1. The total financial resources of the bank during the last five years are increasing.
2. Working capital increased from Rs. 11850 to 23121. Rate of growth of working capital is about 99.50% during the five years.
3. Composition of working capital showed that 86% of it is contributed by deposits which is an impressive achievement.

BANKS' GROWTH OF WORKING CAPITAL

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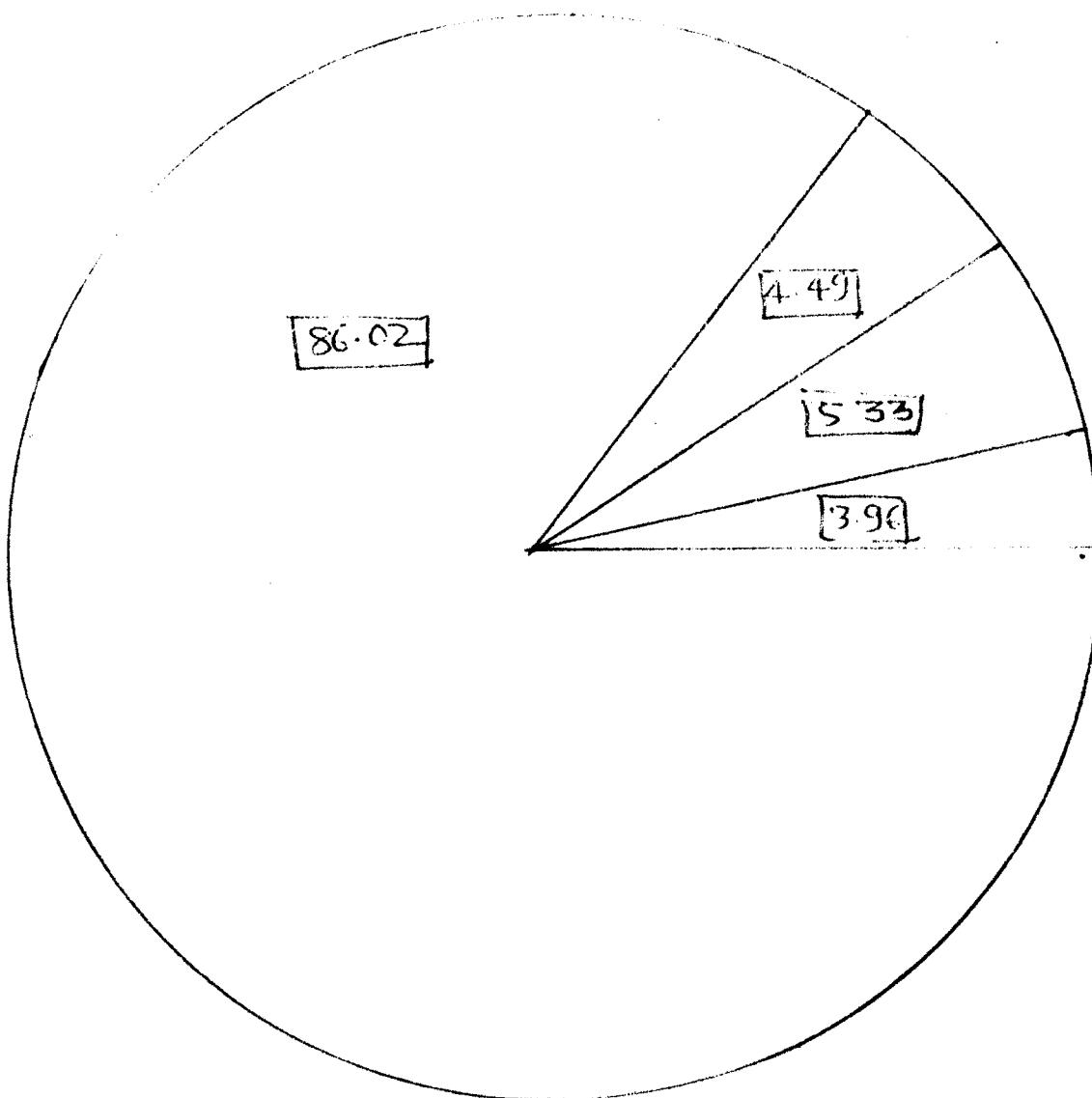
YEARS

COMPOSITION OF WORKING CAPITAL

GRAPH NO. 9

124

TABLE NO. 1-10



C H A P T E R - 4SECTION - B4.9      DEPLOYMENT AND USES OF FUNDS :

While maximising the profits, the average costs of deposits will have to be kept low. Bank should aim at increasing return on funds. A successful banker compromises between the conflicting interests of liquidity and profitability.

4.10      LOANS :

The Co-operative banking structure in our country is originated from rural economy & agricultural credit Co-operatives could be the base of the co-operative Banking. We have adopted 'three tier' structure of Co-operative credit & Banking. In this an agriculturist gets finance for his agricultural production through primary co-operative credit societies routed through D.C.C. Bank & D.C.C. Banks turn from Apex Bank of the state. Here we are interested in the uses of funds by D.C.C Bank in financing the affiliated Co-operative organisations in the district.

Table - 1.1

## Table showing the Loans issued by Purpose

(Rs. in Lakhs)

Particulars	Years				
	1985-86	19886-87	1987-88	1988-89	1989-90
<b>SHORT-TERM</b>					
Seasonal Agricul. Operations	2860.49	3193.65	3236.82	3967.26	4269.88
Madrketing Societies	34.38	65.42	59.57	75.85	101.50
Handloom Weavers	4.42	4.31	4.39	84.72	115.99
Fisheries	.28	.13	.11	.12	.11
Industrial Purpose	111.48	119.81	126.54	147.98	157.49
Processing	16.36	24.33	34.27	43.19	54.29
Urban Co-operatives	617.42	780.92	1100.00	1223.27	1178.79
Salary Earners Societies	1046.29	1517.37	1883.14	2159.10	2277.14
Consumers Co-operatives	156.01	148.54	134.38	131.68	138.55
Agricultural Service Societies	14.34	19.32	14.81	16.44	19.08

Table - 1.1 Contd.....

Particulars	(Rs. in lakhs)				
	1985-86	1986-87	Years 1987-88	1988-89	1989-90
Sugar Factories	949.56	1782.57	2358.07	2074.87	3573.16
Spinning Mills	276.46	401.80	506.74	522.62	601.39
Other Societies	19.72	74.91	108.78	89.45	135.11
Consumption Loans	91.01	83.92	82.74	103.40	118.40
Liquidation	40.10	45.06	63.75	62.79	62.38
Total.....	6098.36	8262.32	7914.11	10702.74	12803.26
% of short-Term Loans to Total Loan	82.09	82.74	83.67	82.81	80.97

Contd.....Table - 1.1

(Rs. in lakhs)

Particulars	Years				
	1985-86	1986-87	1987-88	1988-89	1989-90
<b>MEDIUM-TERM LOANS</b>					
Agricultural Service Societies	616.28	813.74	957.85	1414.09	1638.70
Marketing Societies	4.47	2.51	1.37	7.73	16.63
Industrial	28.75	16.41	16.93	21.45	24.74
Processing	25.93	26.73	44.08	46.80	40.74
Sugar factories	412.63	306.13	193.50	72.50	290.24
Consumer Societies	36.90	29.80	19.57	11.00	6.36
Other	35.54	72.86	127.51	141.67	131.56
Taluka Rural Artisan	17.48	21.64	16.14	15.95	82.38
Vehicle Loan to Staff	.94	2.38	2.50	2.90	3.53
Spinning Mills	--	224.27	238.11	136.54	172.78
For Purch. of Shares	--	--	--	--	4.59
Salary earners Societies	--	--	--	1.50	1.46
Urban Societies	--	--	--	.76	--
	1178.62	1516.47	1617.56	1746.89	2413.71

Contd.....Table - 1.1

Particulars	(Rs. in lakhs)				
	1985-86	1986-87	1987-88	1988-89	1989-90
<u>LONG-TERM LOANS</u>					
Water Supply Societies	77.30	113.75	168.24	358.78	474.35
Construction of Godowns	14.63	18.19	19.59	17.35	15.54
Housing Loan to Staff	59.25	74.32	89.67	95.26	100.62
I.R.D.P.	--	--	.98	2.47	6.30
TOTAL.....	151.18	206.26	278.48	473.86	596.83
% to Total Loan	7428.16	9985.05	11610.15	12923.49	15813.8
	2.03	2.06	2.40	3.67	3.77



1. There is nearabout two fold increase in the total loans & advances by the Bank as compared to the year 1985.
2. Most of the loans advanced are short-term. They constitute 80.97% to total loans. Percentage of medium-term loan is 15.26%. Long-term loans are very small in proportion i.e. only 3.77%.
3. There is not change in the proportion of short-term, medium-term & long term loans to total loan during the period under review.

T a b l e - 1.2

Table showing the trend of Short-term Seasonal Agricultural Operation Loan

(Rs. in lakhs)

Years	Seasonal Agri.Loan	Total Short-term Loan	% to total	Increase/Decrease Over Rs.	1985-86 %
1985-86	2860.49	6098.36	46.90	--	--
1986-87	3193.65	8262.32	38.65	333.16	11.64
1987-88	3236.82	9714.11	33.32	435.33	15.22
1988-89	3967.26	10702.74	37.07	1106.77	38.70
1989-90	4269.88	12803.26	33.35	1409.39	49.27

Seasonal Agricultural Operation Loan comprises nearabout 33% of the total short-term loans. During the

period under review seasonal agricultural loans are increased by 50%. Total short-term loans are doubled, therefore the percentage of seasonal agricultural operation loan to total short-term loans show declining trend i.e. from 46.90 in 1985-86 to 33.35% in 1989-90.

T a b l e - 1.3

Table Showing the trend of dist. of medium-term loans distributed for Agricultural Service Societies

(Rs. in lakhs)

Year	Loans to Agricul. Serv.Soc.	Total M.T. Loans	% to total	Increase/Decrease Over Rs.	1985-86 %
1985-86	616.28	1178.62	52.31	--	--
1986-87	813.74	1516.47	53.82	197.46	32.04
1987-88	957.85	1617.56	59.23	341.57	55.44
1988-89	1414.07	1746.89	81.00	797.81	129.51
1989-90	1638.70	2413.71	67.91	1022.42	165.97

Out of the total medium term loans, 67.91% of the loans are given to Agricultural Service Societies. There is 166% increase in these loans. The % of loans to agricultural service societies to total medium term loans moved from 52% to 67% in 1989-90.

# BANK'S GROWTH IN ADVANCING LOANS

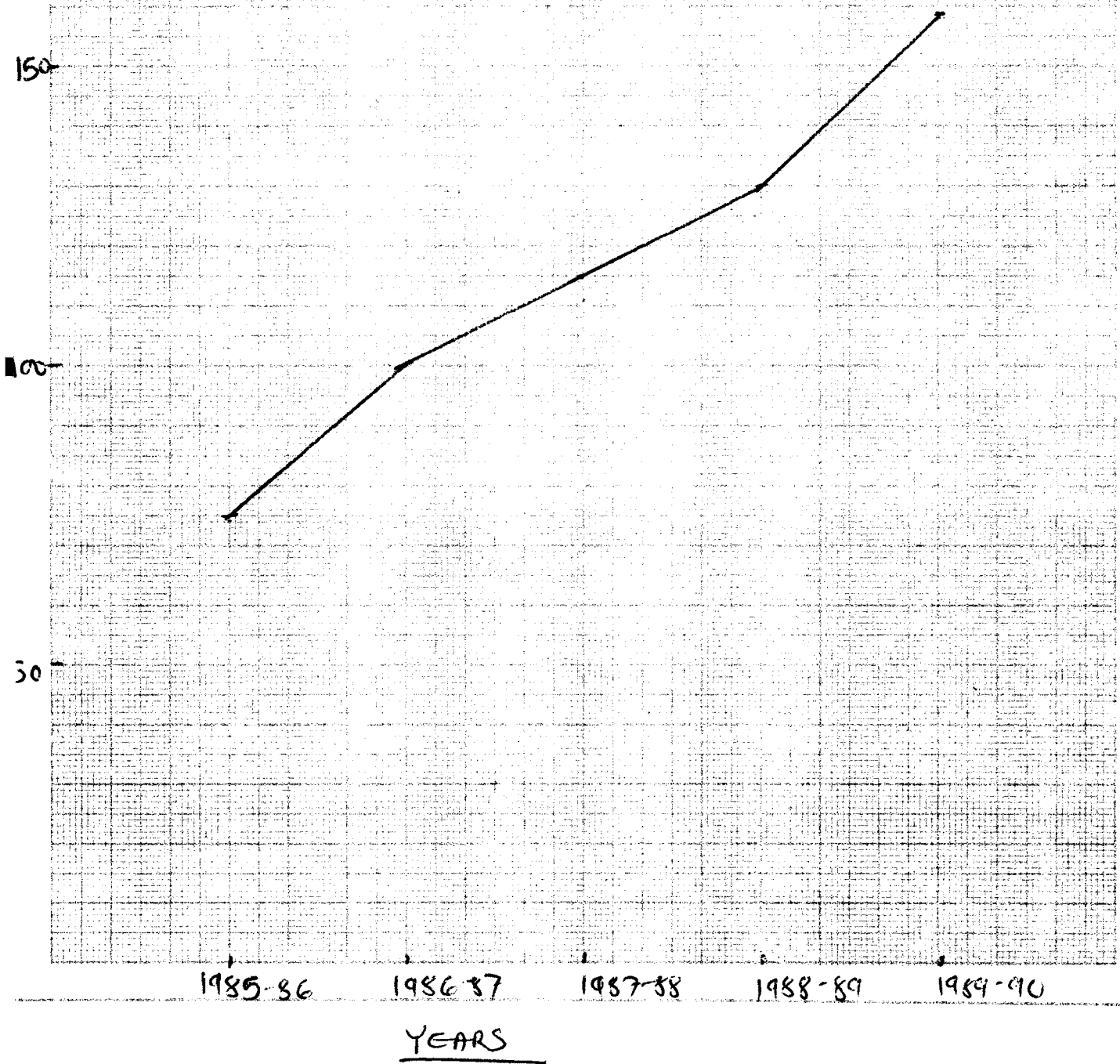
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TABLE - 1.1.

GRAPH - 10

SCALE - ON X-AXIS 3 CM = 1 YEAR

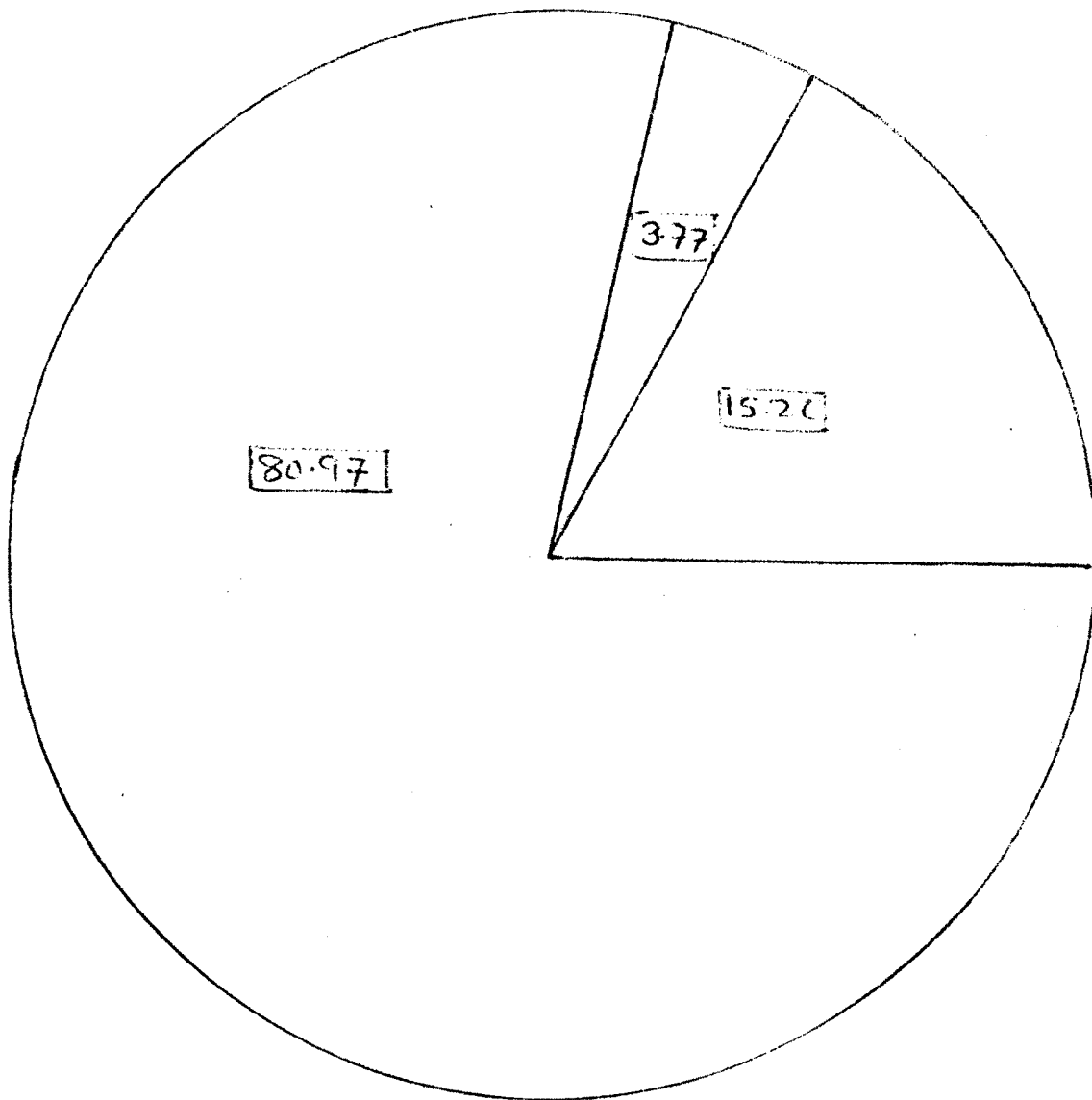
ON Y-AXIS 1 CM = 10 PER



COMPOSITION OF LOANS AND ADVANCES

GRAPH NO. II 133

TABLE NO. I.



4.11 INVESTMENTS :

Invest. shows an idea of earning capacity of the institution by way of interest and the degree of liquidities of its resources.

Table - 1.4K.D.C.C. BANK INVESTMENT PORTFOLIO

Sr. NO.	Items	Years				(Rs. in lakhs)
		1985-86	1986-87	1987-88	1988-89	
1.	Govt. Securities	1.68	1.68	1.68	1.68	1.68
	% to total	.06	.05	.03	.04	.03
2.	LDB Debentures	1.00	1.00	1.00	1.00	1.00
	% to total	.04	.03	.02	.02	.02
3.	Other Inst. Bonds & shares	1.76	1.76	1.76	2.01	2.51
	% to total	.06	.05	.03	.05	.04
4.	Co-op. Bank's shares	62.43	62.43	62.43	62.43	62.43
	% to total	2.20	1.77	1.18	1.46	1.06

Contd....Table - 1.4

(Rs. in lakhs)

Sr. No.	Items	Years				
		1985-86	1986-87	1987-88	1988-89	1989-90
5.	Fixed deposits with Apex Bank	2750.50	3099.50	3435.00	4137.00	5772.50
	% to total	97.33	87.90	70.87	96.95	97.82
6.	Nationalised Bank deposits	9.53	360.00	1350.00	--	--
	% to total	.33	10.20	25.60	--	--
7.	Other Govt. approved securities (Indira Vikar Patra)	--	--	20.00	63.00	63.00
	% to total	--	--	.38	1.07	1.07
		2826.9	3526.37	5274.37	4267.12	5901.62
	Working capital	11850	14070	17020	18976	23121
	% of total Invest. to W. capital	23.84	25.06	30.98	22.48	25.52

Source :- Annual Reports of K.D.C.C. Bank.

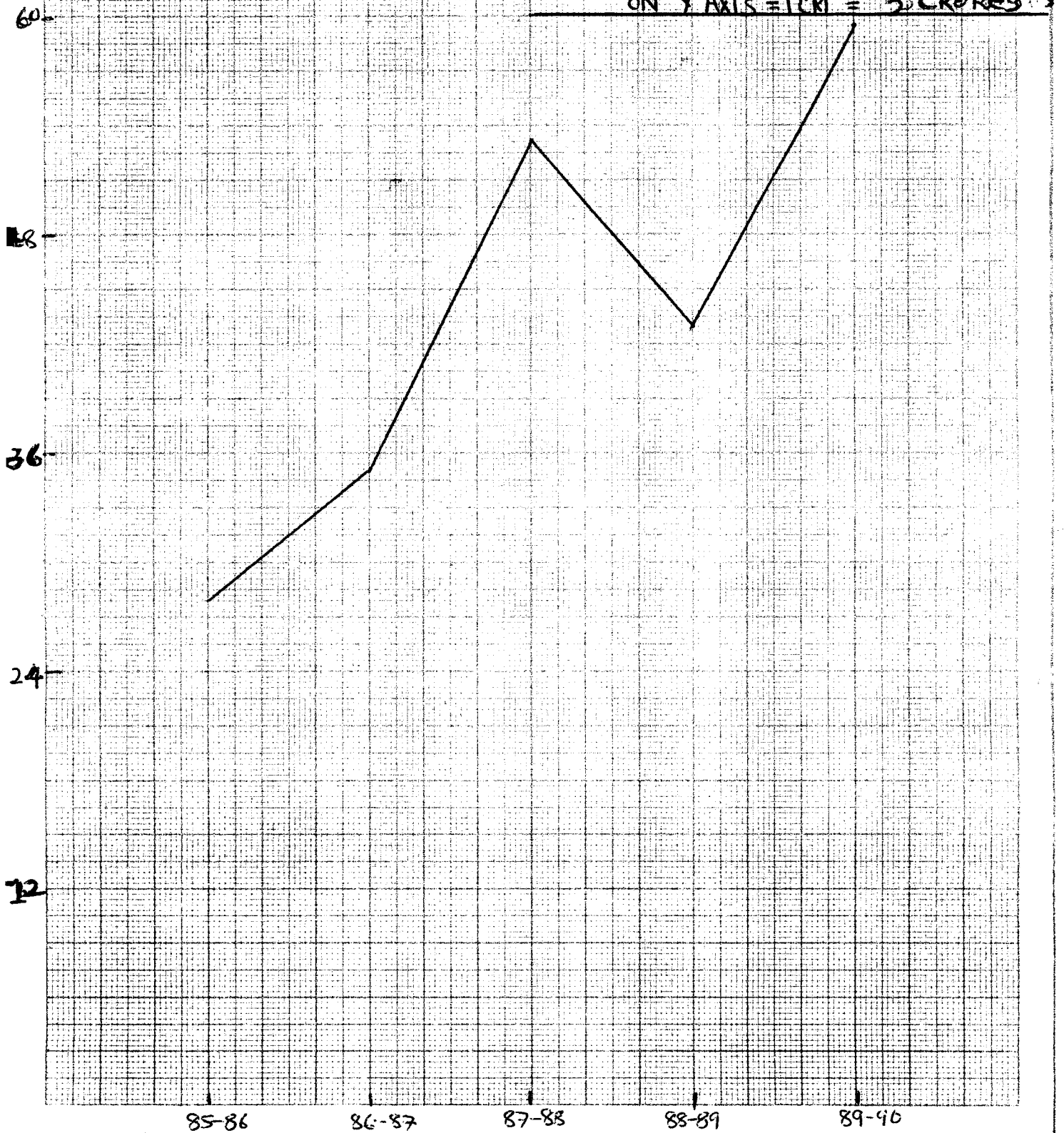
GROWTH OF BANKS INVESTMENTS

TABLE NO. 12

GRAPH - 12

SCALE: ON X' AXIS = 3CM = 1 YEAR

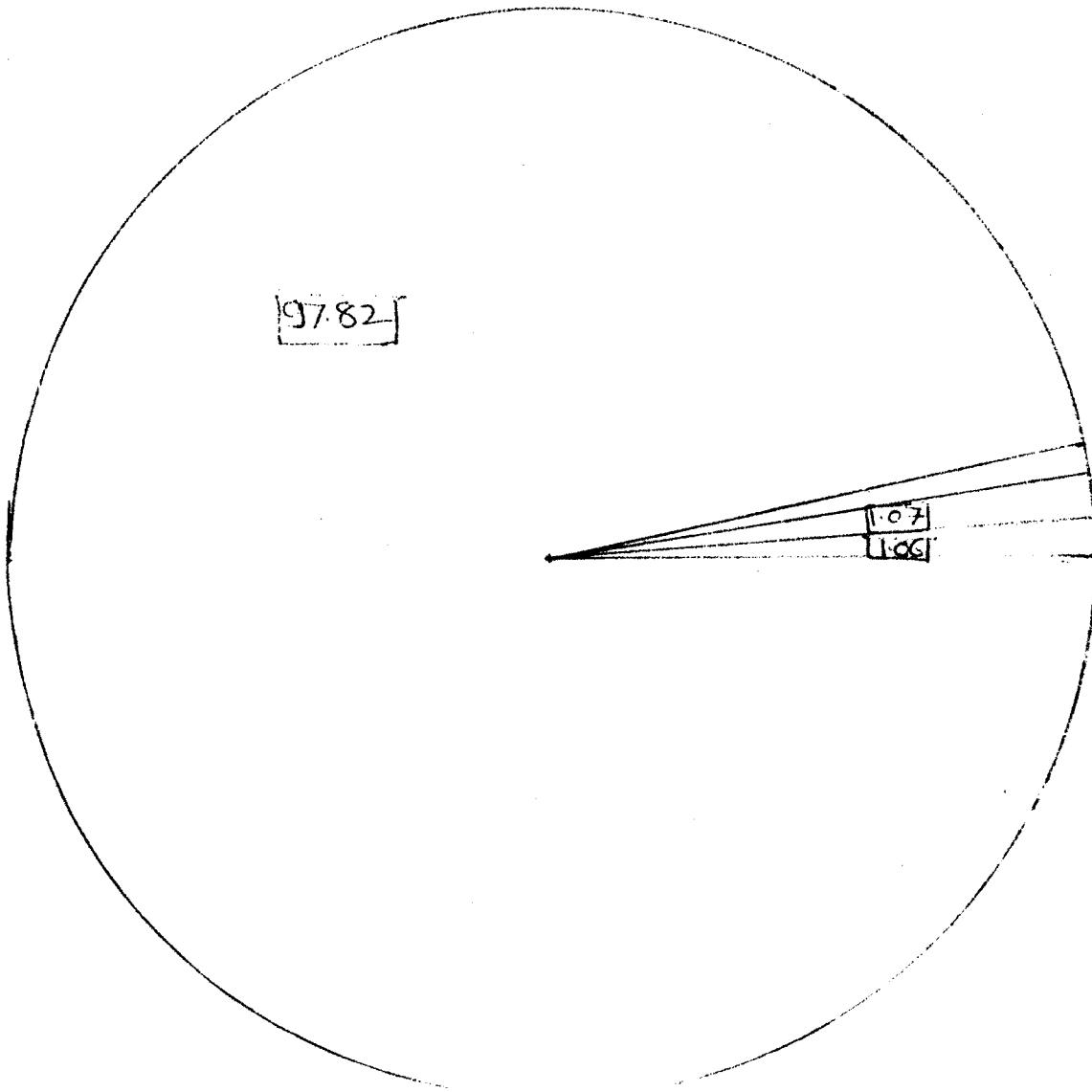
ON Y' AXIS = 1CM = 5 CRORES

YEARS

COMPOSITION OF INVESTMENTS

GRAPH NO-13

TABLE NO-12





1. Invest. in Govt. securities has remained constant but in the year 1990, they are decreased to .18 lakhs.
2. There is no increase or decrease in the Invest. in Land Development Bank debentures & shares of Co-op. Banks.
3. Main portion of Invest. is fixed deposits with Apex Bank. It constitutes 97.81% of total investment in 1990. Also the deposits with Apex Bank show increasing trend. During the last five years they are increased by two times.
4. During the period under review total invest. are increased by nearabout two times.
5. There is no radical change in the proportion of investments to working capital.

#### 4.12      FINANCIAL RATIOS :

The mgt. of funds can't be studied in isolation and therefore an attempt is made to study other variables affecting profitability of bank, with the help of ratio analysis.

i) Cash Reser Ratio :

Cash Reserve Ratio should be 3% to 6% of total demand and time liabilities.

The K.D.C.C. Bank has maintained this ratio satisfactorily & had never fallen below 3%.

ii) Liquid Assets Ratio :

As per norms fixed by R.B.I., this ratio should be 25% to 28% of total demand and time liabilities of the Bank.

The K.D.C.C. has maintained it's liquid ratio satisfactorily.

iii) Debt-Equity Ratio :

The debt-equity ratio for the banks is general 10:1, for Co-operatives it is 12%.

DEBT-EQUITY RATIO

	(Rs. in lakhs)				
	1986	1987	1988	1989	1990
1. Total Equity	1198	1333	1562	1894	2172
2. Total Debts (Dep.+Borr.)	10653	12637	15459	17082	20948
3. % of 1 to 2	10:1	10.5:1	10:1	11:1	10:1

Debt-equity ratio shows a little deviation from the norm.

iv) Loans and Advances Ratio :

The ratio of loans and Advances to deposits is 7:10 which could be treated as satisfactory.

RELATIONSHIP OF LOANS AND DEPOSITS

(Rs. in lakhs)

Particulars	1986	1987	1988	1989	1990
Loans and Advances	6292	7674	8340	10220	15674.82
Deposits	10440	12525	15010	16326	19866
Ratios	6.03:1	6.13:1	5.55:1	6.26:1	7.90:1

The Bank's utilisation of deposits ranges from 60% to 79%. It is quite satisfactory. The co-operative Banks are allowed to utilise 70% of deposits, 100% of borrowings and 75% of their owned funds for granting advanced.

The position of loans and advances vis-a-vis the deposits indicates that there was further scope for advances.

v) Cost of Management Ratio :

Here an attempt is made to analyse different items of costs incurred by the bank.

THE PARTICULARS OF COST OF MANAGEMENT

Sr. No.	Particulars	1986	1987	1988	1989	1990
1.	Staff salaries & Other	205.64	231.16	297.68	319.24	412.22
2.	Director's Fees & T.A.	1.23	1.44	1.68	2.02	2.44
3.	Rent, rates & Taxes	9.78	10.57	12.85	15.58	16.79
4.	Postage & Telephone	3.50	4.68	5.29	5.79	6.70
5.	Printing & Stationary	9.24	10.09	11.98	13.55	16.00
6.	Depreciation	9.47	9.11	7.82	20.58	9.11
7.	Other Expend- iture.	13.21	15.59	16.15	17.06	20.00
	Total	252.07	282.62	353.45	393.82	483.26

**COST OF MGT. VIS-A-VIS WORKING CAPITAL**

		(Rs. in lakhs)				
Sr. No.	Particulars	1986	1987	1988	1989	1990
1.	Cost of Management	252.07	282.62	353.45	393.82	483.26
2.	Working capital	11850	14070	17021	18976	23121
% of 1 to 2		2.13	2.01	2.08	2.08	2.09

The R.B.I. has set up a norm. that the management cost should be between 2% to 3% of the working capital. The comparative figures of mgt. cost and the working capital for the respective years under study revealed that the cost of mgt. is within the admissible limit of the R.B.I. norms.

**vi) PROFITABILITY TO WORKING CAPITAL RATIO**

		(Rs. in lakhs)				
Sr. No.	particulars	1986	1987	1988	1989	1990
1.	Net Profit	82.08	104.90	165.77	150.39	145.88
2.	Working capital	11849.97	14070.31	17020.67	18976.37	23120.51
3.	% of 1 to 2	.69	.75	.97	.79	.63

The N.P. yield of 1% of working capital is considered good. Bank has made efforts to achieve profitability within the regulations of R.B.I.

Table - 1.5

OPERATIONS OF K.D.C.C. BANK

Sr. No.	Ratio	1985-86	1986-87	1987-88	1988-89	1989-90	Norm.
1.	Debt-Equity Ratio	11:1	10.5:1	10:1	11:1	10:1	12:1
2.	Loan and Advance to deposits ratio	6.03:1	6.13:1	5.55:1	6.26:1	7.90:1	7:10
3.	Cost of Management ratio	2.13	2.01	2.08	2.08	2.09	2 to 3%
4.	Profitability to Working capital ratio	.69	.75	.97	.79	.63	1%

From the above table it is clear that almost all the financial ratios show satisfactory position of the Bank.