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CHAPTER-IV

FINANCIAL APPRAISAL OF SHIKSHAN SEVAK SAHAKARI SOCIETY LTD., SANGLI

4 INTRODUCTION

In the previous chapter, the profile of Shikshan Sevak Sahakari Society Ltd., Sangli is presented with the help of historical development, organization chart, branch expansion, etc. In this chapter the Financial State of Affairs will be studied on the basis of financial appraisal relating to the various financial attributes like, Membership, share capital, deposits, reserves, loans & advances, working capital, profit, investment, total income and dividends etc. And comparative balance sheet, income statement and break even analysis.

Financial statement indicates the operating results and financial position of a concern; therefore, by analyzing and interpreting these statements performance can be appraised. For this purpose analysis of financial statements is made. Financial statement analysis is a preliminary step towards the final evaluation of the results drawn by the analyst or management accountant. Appraisal or evaluation of such results is made thereafter by management. Financial statement analysis is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial position of the concern. "The appraisal or analysis of financial statements spotlights the significant facts and relationships concerning management performance, corporate efficiency, financial strength and weakness and creditworthiness that would have otherwise been buried in a maze of detail." According to Metoalf and Titard, "Analysis of financial statements is a process of evaluating relationship between component parts of financial statement to obtain a better understanding of a firm's position and performance."

Under the topic, to judge the financial performance of the society the financial data for the 10 years are considered and comparative study of the 10 years will be done on the basis of financial parameters.

4.1 AN APPRAISAL OF FUNDS MANAGEMENT

Management of funds is the art of raising resources and utilizing them in the most efficient and profitable manner for smooth running of the business. Funds management assumes great significance in all types of business organizations as a sound policy of raising and utilizing resources contributes to their profitability in a great measure. Funds management is of utmost importance in banks whose business is to deal in funds.

A. OBJECTIVE OF FUNDS MANAGEMENT

The objective of funds management (1) in a bank could be said to be to maximize profits by raising resources at minimum cost and lending/investing them in a manner consistent with the principles of safety, liquidity and profitability. As the banks are dealing with depositor's money, they have to avoid undue risk in utilizing funds. Liquidity and profitability are conflicting concepts. Too much liquidity affects profitability. At the same time inadequate liquidity may doubt in the mind of deposits regarding the bank's ability to pay its depositors as and when their claims accrue. The banks have, therefore, to strike a golden mean between liquidity and profitability while lending/investing their resources.

The Reserve Bank of India controls the entire banking sector with a view to protecting the interest of depositors and to discharge its responsibilities in the matter of monetary stability, development of banking on sound lines a channelising bank credit to finance legitimate purpose according to national priorities. The banks have to comply with various directives/regulations and guidelines issued by RBI from time to time.

B. GENERAL PRINCIPLES OF FUNDS MANAGEMENT

i. To ensure that funds are not remained idle. Adopt a judicious investment policy.

ii. Dispose of low earning investments and invest in high yielding investment.

iii. Average investments should show an increasing trend.

iv. The performance budgeting exercise of the bank should include a well thought out plan for mobilization and deployment of resources.

v. The bank should make an ongoing review of its funds position, loans and advances and investment.

On the cases of financial management, bank management of the UCBs has to consider the management of funds in-flow. Generally sources of finance of Urban Co-operative Banks are broadly divided into two i.e. 1) Internal Sources and 2) External Sources

4.1.1 INFLOW OF FUNDS

INTERNAL SOURCES OF FINANCE (OF SOCIETY)

1. MEMBERSHIP

In the internal source of finance of the society, member's contribution occupies important place. It is a continuous source of finance of the society. Membership of the society is restricted to the members in the education field. The Bye-laws of the society states that the teacher in secondary, higher secondary and college level including the non-teaching staff i.e. office superintendent, clerks, lab assistance and peons etc. are the members of the society. The membership position of the society for the study period is as follows.

TABLE NO.4.1

GROWTH OF MEMBERSHIP

Co-operative Year	Membership	Annual Growth	% of Average Annual Growth	Actual Growth	% of Actual Growth
1997-1998	3171	100.00	7.44	-	-
1998-1999	3554	112.07	8.34	383	12.07
1999-2000	3799	119.80	8.92	245	06.89
2000-2001	3968	125.13	9.32	169	04.44
2001-2002	4183	131.91	9.82	215	05.41
2002-2003	4345	137.02	10.20	162	03.87
2003-2004	4652	146.70	10.92	307	07.06
2004-2005	4804	151.49	11.28	152	03.26
2005-2006	4923	155.25	11.56	119	02.4
2006-2007	5175	163.19	12.15	252	05.11

Source: Annual reports.

DIAGRAM NO.4.1

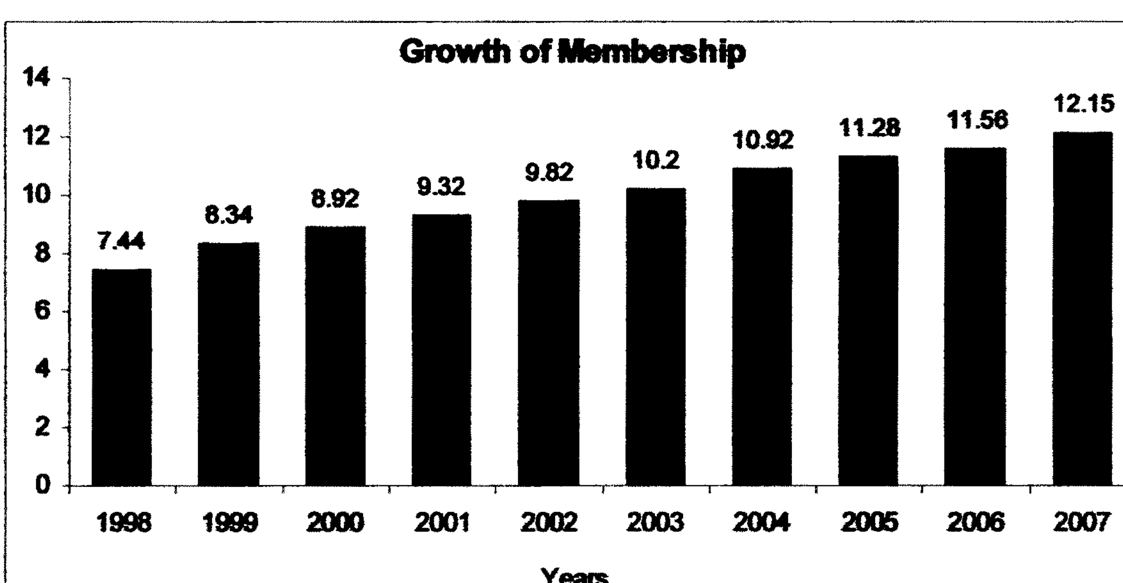

Table and bar diagram no. 4.1 indicates the growth in membership of the society for the study period, where bar diagram is constructed on the basis of percentage of average annual growth. It suggests that from the first year to last year there is gradual growth in membership of the society. The percentage of first year to last year shows that there is maximum increase in membership. As regards actual growth of the membership, it shows fluctuations to a great extent. Growth in membership indicates the increase in the deposits as well as increase in loan disbursement. It is results into increase in turnover of the society.

2. SHARE CAPITAL

Share capital is a source of funds [2] for which there is no fixed cost. Dividend may be paid provided there are distributable profits and the bank board has discretion in deciding the rate of dividend. Share capital gives an international strength to the bank. The maximum borrowing power (including deposits) is linked to its owned funds (share capital + reserves). Thus, the ability of the bank to raise funds from external sources also depends on its owned funds. The system of linking borrowing of membership to their share holding prevalent in the Co-operative credit institutions facilitates augmentation of share capital. The Reserve Bank of India has prescribed the rates for linking of share holding to borrowings in the case of Urban Co-operative Banks as (i) 5% of the borrowings if such borrowings are on unsecured basis and (ii) $2^1/_2$ % of the borrowings in the case of secured borrowings.

TABLE NO.4.2

GROWTH OF SHARE CAPITAL

(Rs. in lakhs)

Co-operative Year	Share Capital	Annual Growth	% of Avr. Annual Growth	Actual Growth	% of Actual Growth
1997-1998	252.72	100.00	4.24	-	-
1998-1999	300.67	118.97	5.04	47.95	18.97
1999-2000	365.47	144.61	6.13	64.80	21.55
2000-2001	434.00	171.73	7.28	68.53	18.75
2001-2002	518.66	205.23	8.70	84.66	19.51
2002-2003	623.21	246.60	10.45	104.55	20.16
2003-2004	723.14	286.14	12.13	99.93	16.03
2004-2005	819.92	324.44	13.75	96.78	13.38
2005-2006	910.92	360.45	15.28	91.00	11.10
2006-2007	1012.85	400.78	16.99	101.93	11.19

Source: Annual reports.

DIAGRAM NO.4.2

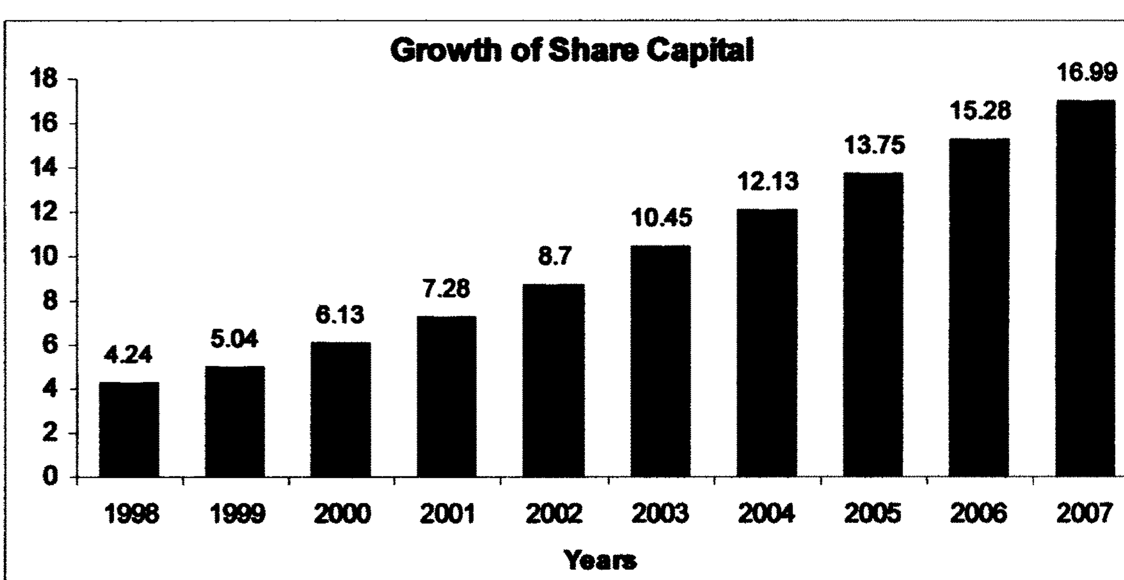

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Table and bar diagram no. 4.2 depicts the position of share capital of the society for the study period. There is continuous growth in share capital due to increase in membership and increase in share contribution. The share capital in the last year is increased 4 times in comparison with the share capital in the first year. As regards actual growth in share capital there is increase in the 3rd year, and decrease in the 4th year. Afterwards it shows fluctuations. In the last 2 years it is decreased to some extent. On the basis of financial performance the position of share capital is not up to the mark.

3. RESERVES FUND

In view of the advantages of owned funds indicated above, the salary earners society should consistently follow a policy aimed at augmenting reserves. Apart from statutory reserves, which have to be invested outside the bank's business, the society should create other reserves out of profit. The particular of the reserve created by the society on different heads for the study period is as follows:

TABLE NO. 4.3

GROWTH OF RESERVE FUND

(Rs. in lakhs)

Co-operative Year	Reserve Fund	Annual Growth	% of Avr. Annual Growth	Actual Growth	% of Actual Growth
1997-1998	68.71	100.00	2.69	-	-
1998-1999	87.62	129.40	3.49	19.91	29.40
1999-2000	106.80	157.73	4.25	19.18	21.89
2000-2001	119.17	176.00	4.74	12.37	11.58
2001-2002	141.00	208.24	5.61	21.83	18.32
2002-2003	362.04	534.69	14.41	221.04	158.76
2003-2004	385.94	569.99	15.36	23.90	6.60
2004-2005	359.09	530.34	14.29	-26.85	-6.95
2005-2006	411.48	607.71	16.37	52.39	14.58
2006-2007	472.21	697.40	18.79	60.73	14.76

Source: Annual reports.

DIAGRAM NO.4.3

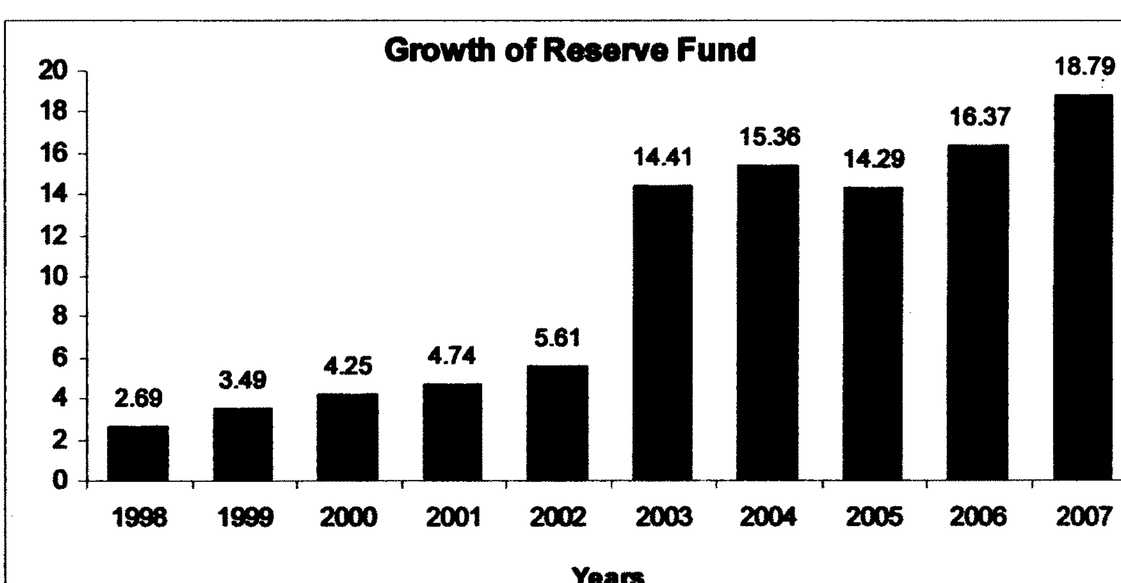


Table and bar diagram no. 4.3 presents the reserves created by the society on different heads for the study period. Initially in the 1st four years the growth of reserve is very slow. From the year 2003 the society created maximum amount of reserve. In the last year the percentage of reserve is 19.28% it is comparatively very high. On the basis of percentage of actual growth the position of reserve shows great fluctuation. In the year 2004-05 it shows negative growth and in the last 2 years it shows satisfactory position.

4. DEPOSITS

Deposits are a major source of funds for society. Credit Co-operative society have been allowed to pay higher interest rates on deposits than those offered by other banks and the higher growth rate in their deposits can be attributed to a great extent to this factor. The average cost of deposits is always lower than the cost of borrowings. Hence, the society should always strive hard to augment their deposits. The society should also frame schemes to suit different types of depositors. Prompt and efficient service with a smile goes a long way in helping the deposit mobilization.

In the category of external sources of finance, deposits constitute the main component. Deposits are the mainstay of a credit co-operative society and they constitute its lifeblood.

The banking business largely depends upon the deposits collected by the credit co-operative society. The growth & development of the credit co-operative society depends upon capacity of the credit co-operative society in collection of deposits. The profitability, loan disbursement & stability of the credit co-operative society depend on deposits. In the following table the trend in collection of the deposits of the credit co-operative society under study is given.

TABLE NO. 4.4

GROWTH OF DEPOSITS

(Rs. in lakhs)

Co-operative Year	Deposits	Annual Growth 4676.38	% of Average Annual Growth	Actual Growth	% of Actual Growth
1997-1998	522.88	100.00	2.13	-	-
1998-1999	702.06	134.27	2.87	179.18	34.27
1999-2000	1080.13	206.57	4.42	378.07	53.85
2000-2001	1665.65	318.55	6.81	585.52	54.21
2001-2002	2127.28	406.84	8.70	461.63	27.71
2002-2003	2784.02	532.44	11.39	656.74	30.87
2003-2004	3171.54	606.55	12.97	387.52	13.92
2004-2005	3831.59	732.79	15.67	660.05	20.81
2005-2006	4184.63	800.30	17.11	353.04	9.21
2006-2007	4382.36	838.12	17.92	197.73	4.73

Source: Annual reports.

DIAGRAM NO. 4.4

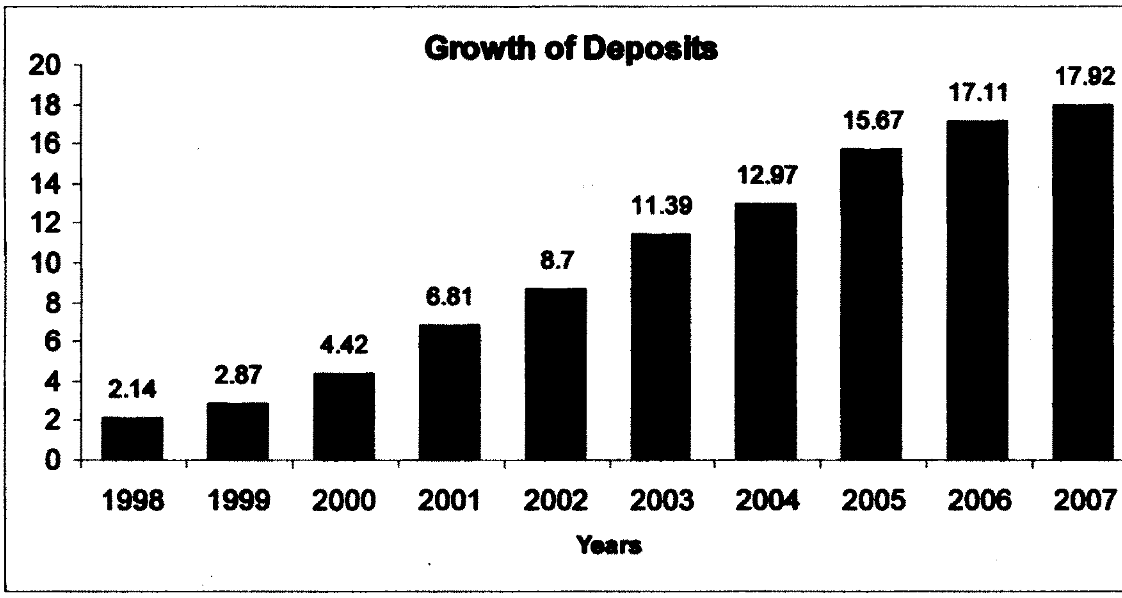


Table no. & bar diagram no. 4.4 represents deposit collection capacity of the society. In this area, initially the society had a very limited amount of deposits. The deposits are dependent on membership of the society and turnover of loan portfolio. Under the study period the deposits shows increasing trend. The percentage of growth in deposits ranges from 2.14 to 17.92. It means the deposits of the society increased dramatically with the efficient policy of the management regarding branch expansion. As regards actual growth of deposits in the 1st four years it shows increasing trend but in the last four years it shows remarkable negative fluctuation.

5. BORROWINGS

Another important source of finance for the credit co-operative society is borrowings from various co-operative banks. It is important function of credit co-operative society to borrow funds as and when the internal source of finance is not sufficient to carry out the banking business.

TABLE NO. 4.5

GROWTH OF BORROWINGS

(Rs. in lakhs)

Co-operative Year	Borrowings	Annual Growth	% of Avr. Annual Growth	Actual Growth	% of Actual Growth
1997-1998	69.12	100.00	7.38	-	-
1998-1999	119.02	172.19	12.72	49.90	72.19
1999-2000	68.84	99.59	7.35	-50.18	-42.16
2000-2001	43.12	62.38	4.61	-25.75	-37.36
2001-2002	123.01	177.97	13.14	79.89	185.27
2002-2003	77.91	112.72	8.32	-45.10	-36.66
2003-2004	161.16	233.16	17.22	83.25	106.85
2004-2005	32.64	47.22	3.49	-128.52	-79.75
2005-2006	33.14	47.95	3.54	0.50	1.53
2006-2007	208.06	301.01	22.23	174.92	527.82

Source: Annual reports.

DIAGRAM NO. 4.5

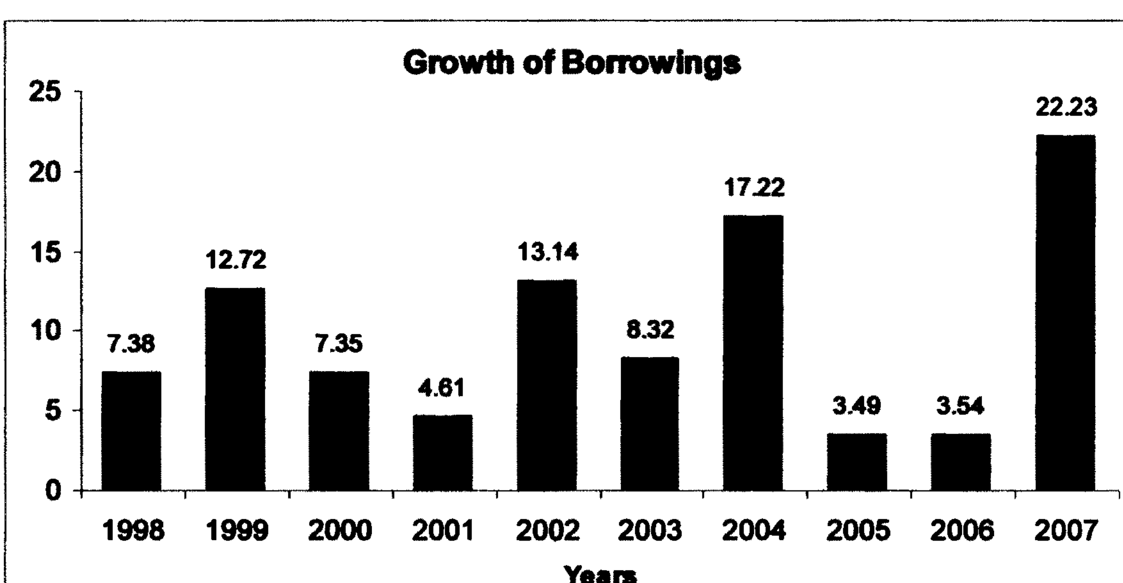


Table and bar diagram no. 4.5 indicates borrowings of the society for the study period. The borrowing of the society shows the borrowing from District Central Co-operative Bank and others from outside sources. In funds management of the society borrowing is necessary to meet the loan requirement of the members. The borrowings of the society show tremendous fluctuations. In the 1st year total borrowings were 7.38% and in the last year it is 22.23%. On the basis of actual growth of borrowing it also shows negative trend. It indicates that the society is mainly dependent on own sources of finance and less dependent on outside borrowings.

6. OTHER LIABILITIES

Other liabilities of the societies include outstanding expenses, various types of deposits, interest outstanding, dividend outstanding, bonus to employees and outstanding etc. The society has to make the proper provision for the other liabilities.

TABLE NO. 4.6

GROWTH OF OTHER LIABILITIES

(Rs. in lakhs)

Co-operative Year	Other Liabilities	Annual Growth	% of Avr. Annual Growth	Actual Growth	% of Actual Growth
1997-1998	93.17	100.00	4.05	-	-
1998-1999	113.51	121.83	4.93	20.34	21.83
1999-2000	144.16	154.73	6.26	30.65	27.00
2000-2001	178.68	191.78	7.76	34.52	23.95
2001-2002	218.12	234.11	9.48	39.44	22.07
2002-2003	364.48	391.20	15.84	146.36	67.10
2003-2004	287.60	308.68	12.50	-76.88	-21.09
2004-2005	339.49	364.38	14.75	51.89	18.04
2005-2006	275.44	295.63	11.97	-64.05	-18.87
2006-2007	286.72	307.74	12.46	11.28	4.10

Source: Annual reports.

DIAGRAM NO. 4.6

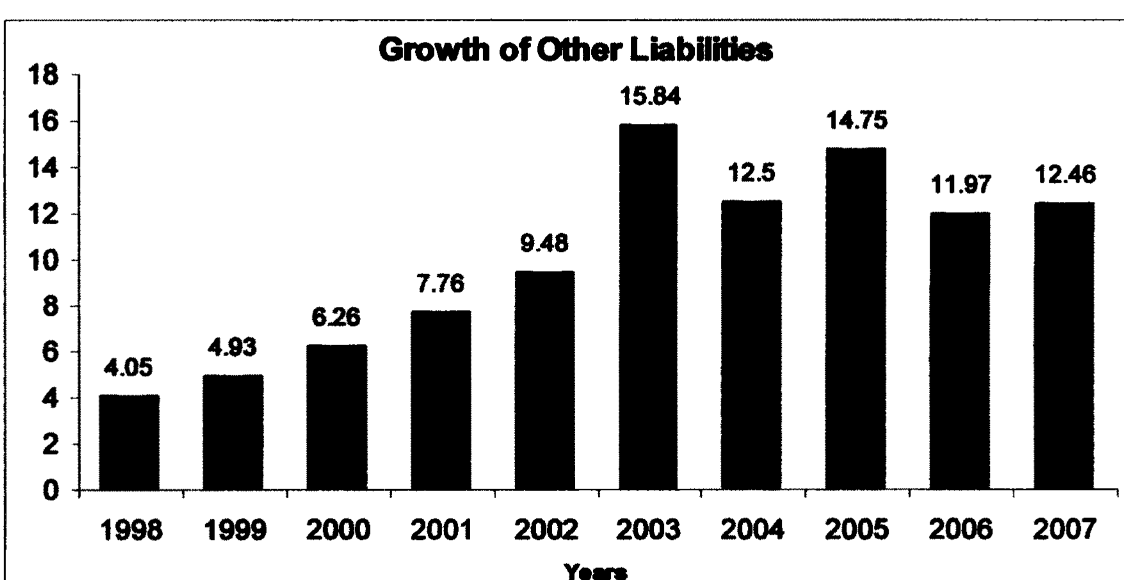


Table and bar diagram no. 4.6 indicates the other liabilities of the society for the study period. It shows increasing trend in the 1^{st} six years. In the first year it is 4.05% and it goes up to 15.84% in the 6^{th} year. In the 7^{th} year it goes down (12.50%) again it is increase to 14.75% in the 8^{th} year. And in the last two years it is 11.97% and 12.46% respectively. Regarding other liabilities of the society management has to take the prompt decision and proper provision should be done. The liquidity of the society depends upon the limited other liabilities and proper provision for other liabilities. On the basis of actual growth it is observed that society has fully controlled other liabilities of the society.

COMPOSITION OF SOURCES OF FUNDS AT A GLANCE

Sources of funds includes paid up share capital, reserves & surplus, deposits, borrowings and other liabilities. This composition proposed to present the trends in each of the components of sources of funds. The following table represents the information about cumulative total of components of sources of funds, percentage share of each of the components in the total sources of funds and percentage growth in total sources of funds. During the period under 10 years it also indicates the performance of management in mobilization of total sources of funds. As general practice the ratio of share capital, reserve fund & other provisions, deposits, borrowings and other liabilities the percentage should be 5:10:70:10:5 as compared to total sources of funds.

TABLE NO. 4.7

COMPOSITION OF SOURCES OF FUNDS AT A GLANCE

(Rs. in lakhs)

Co-Operative Year	Share Capital	Reserve &Other Funds	Deposits	Borro-wings	Other Liability	Total Funds	% Of Actual Growth
1997-1998	252.72 (25.10)	68.71 (6.83)	522.88 (51.94)	69.12 (6.87)	93.17 (9.26)	1006.60 (100)	Nil
1998-1999	300.67 (22.73)	87.62 (6.62)	702.06 (53.07)	119.02 (9.00)	113.51 (8.58)	1322.88 (100)	31.42
1999-2000	365.47 (20.70)	106.80 (6.06)	1080.13 (61.18)	68.84 (3.90)	144.16 (8.16)	1765.40 (100)	33.45
2000-2001	434.00 (17.78)	119.17 (4.88)	1665.65 (68.25)	43.12 (1.77)	178.68 (7.32)	2440.62 (100)	38.25
2001-2002	518.66 (16.58)	141.00 (4.52)	2127.28 (68.00)	123.01 (3.93)	218.12 (6.97)	3128.07 (100)	28.17
2002-2003	621.21 (14.80)	362.04 (8.60)	2784.02 (66.10)	77.91 (1.85)	364.48 (8.65)	4211.66 (100)	34.64
2003-2004	723.14 (15.29)	385.94 (8.17)	3171.54 (67.05)	161.16 (3.40)	287.60 (6.09)	4729.38 (100)	12.29
2004-2005	819.92 (15.23)	359.09 (6.67)	3831.59 (71.18)	32.64 (0.61)	339.49 (6.31)	5382.73 (100)	13.81
2005-2006	910.92 (15.66)	411.48 (7.08)	4184.63 (71.95)	33.14 (0.57)	275.44 (4.74)	5815.61 (100)	8.04
2006-2007	1012.85 (15.92)	472.21 (7.43)	4382.36 (68.88)	208.06 (3.27)	286.72 (4.50)	6362.22 (100)	9.34
Total	5961.56	2514.06	24452.14	936.02	2301.37	36165.15	
Average	16.48	6.96	67.61	2.59	6.36		

Source: 1) Annual reports of the society. 2) Appendix-V

Table no. 4.7 represent source wise classification of total funds of the society presents that over 10 years the total funds of a society shows increasing trend. It was Rs. 1006.60 lakhs in the 1st year and increased to Rs. 6362.22 lakhs. The year wise percentage growth varied between 5.15 and 38.25 during the period 10 years highest growth rate been recorded in the year 2000-01 due to increase in deposits & reserves of society. The percentage share of, share capital, reserves & other reserves, deposits, borrowings and other liabilities to total fund employed varied between 14.80 to 25.10, 4.52 to 8.60, 51.94 to 71.95, 0.57 to 9.00, 4.50 to 9.26 respectively. In the same way the average proportion of share capital, reserves & other reserves, deposits, borrowings and other liabilities is 16:7:68:3:6. Thus the composition indicates that the percentage share of deposits much higher than that of owned capital (share capital and reserve & other reserve). In total source it is the major part of the total funds. It is suggest that the bank depends heavily on outside sources for its working capital and sources of funds. The average annual growth rate of total fund employed according to the RBI guidelines regarding potential norms should be 15%. The said 15% growth rate has maintained by the society in the 1st six years.

4.1.2 APPLICATION OF FUNDS

It has explained that the funds required by a society can raised either through own funds these are paid-up share capital, reserves, deposits, borrowings and other liabilities. The society has to maintain the proper mix of these two types of funds. The investment decision or application of funds involves a careful consideration of various factors like profitability, safety, liquidity and solvency.

While taking decisions on deployment of funds, the CCSs should guard against at least the following three major aspects in order to ensure optimum utilization of resources

1. There should not be unnecessary large amount of cash-on-hand as also balances in current account with other banks, as they do not earn any profit.
2. There should not be excessive accounts receivable as some of them may not be recoverable.
3. There should not be too much investment in establishments, buildings, furniture etc.

Hence, the CCSs should not keep only that portion of funds that is considered sufficient to meet its day-to-day requirements in liquid form and utilize the rest by granting loans and advances to its constituents and by investing judiciously in government and trustee securities and in fixed deposits with higher financial agencies.

1. CASH IN HAND

Cash is the important asset for the operation of business. The total funds raised by the CCSs are utilized for different heads. Some portion of the funds must be kept in hand to meet day-to-day requirement of the CCSs. i.e. daily cash payments at the counter of the CCSs and office expenses of the bank.

TABLE NO. 4.8

GROWTH OF CASH

(Rs. in lakhs)

Co-operative Year	Cash	Annual Growth	% of Avr. Annual Growth	Actual Growth	% of Actual Growth
1997-1998	0.58	100.00	1.56	-	-
1998-1999	0.09	15.52	0.02	-0.49	-84.48
1999-2000	0.33	56.90	0.89	0.24	266.67
2000-2001	1.45	250.00	3.89	1.12	339.40
2001-2002	7.75	1336.21	20.79	6.30	434.48
2002-2003	3.02	520.70	8.10	-4.73	-61.03
2003-2004	11.69	2015.52	31.37	8.67	287.09
2004-2005	7.31	1260.34	19.61	-4.38	-37.47
2005-2006	2.73	470.70	7.33	-4.58	-62.65
2006-2007	2.32	400.00	6.22	-0.41	-15.02

Source: Annual reports.

DIAGRAM NO. 4.7

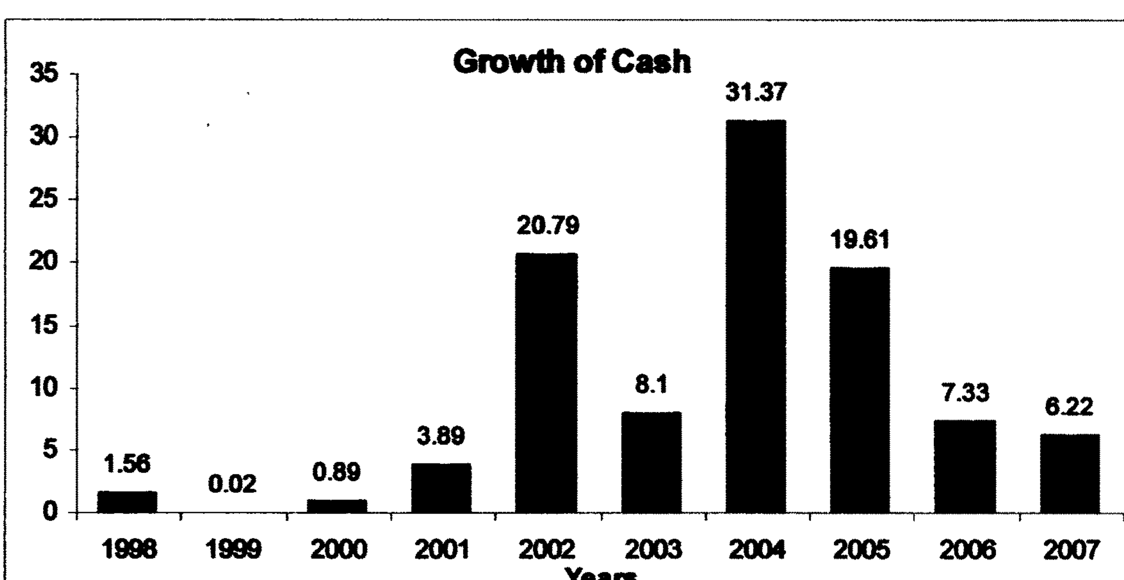


Table no. 4.8 and bar diagram no. 4.7 indicates the available cash in hand in the society for the study period. In cash management of the society, it has to maintain the sufficient amount cash in hand. On the basis of average growth of cash balance the cash position of the society indicates that during the 1st four years the society kept very less cash balance in hand. In the 5th year there is sudden increase in cash. In the 6th year the societies cash position reached at highest level i.e. 31.37% and afterwards it shows decreasing trend. On the basis of actual growth the cash position of the society shows negative fluctuating trend

2. BALANCE WITH OTHER BANKS

This is the amount deployed by the bank in the near other bank, with an intention to make urgent payments of the CCSs. For such payments, the balances with other banks are making available easily.

3. INVESTMENTS

In case of CCSs, this factor is very important. Where general principles of investments should be taken into consideration i.e. safety, income or yield marketability and price stability.

Normally, CCSs invest there funds in government securities, trustee securities, shares in state co-operative banks and certificate of deposits with IDBI.

Investment decision of the society is very important. To maintain financial discipline and to earn additional income investment should be done in a profitable manner, but while taking the investment decision risk factor should be properly studied by the management. The Shikshan Sevak Sahakari Society Ltd., Sangli invested the surplus amount in bank shares. Investment of reserve fund and other surplus money is done in co-operative banks of the Sangli district.

TABLE NO.4.9
GROWTH OF INVESTMENTS

(Rs. in lakhs)

Co-operative Year	Investments	Annual Growth	% of Average Annual Growth	Actual Growth	% of Actual Growth
1997-1998	74.46	100	2.03	-	-
1998-1999	88.07	118.27	2.40	13.61	18.27
1999-2000	112.30	150.81	3.07	24.23	27.51
2000-2001	296.70	398.46	8.11	184.40	164.20
2001-2002	367.43	493.45	10.04	70.73	23.83
2002-2003	580.98	780.24	15.88	213.55	58.11
2003-2004	423.34	568.54	11.57	-157.64	-27.13
2004-2005	552.36	741.82	15.10	129.02	30.47
2005-2006	624.32	838.46	17.06	71.96	13.02
2006-2007	537.77	722.22	14.70	-86.55	-13.86

Source: Annual reports.

DIAGRAM NO. 4.8

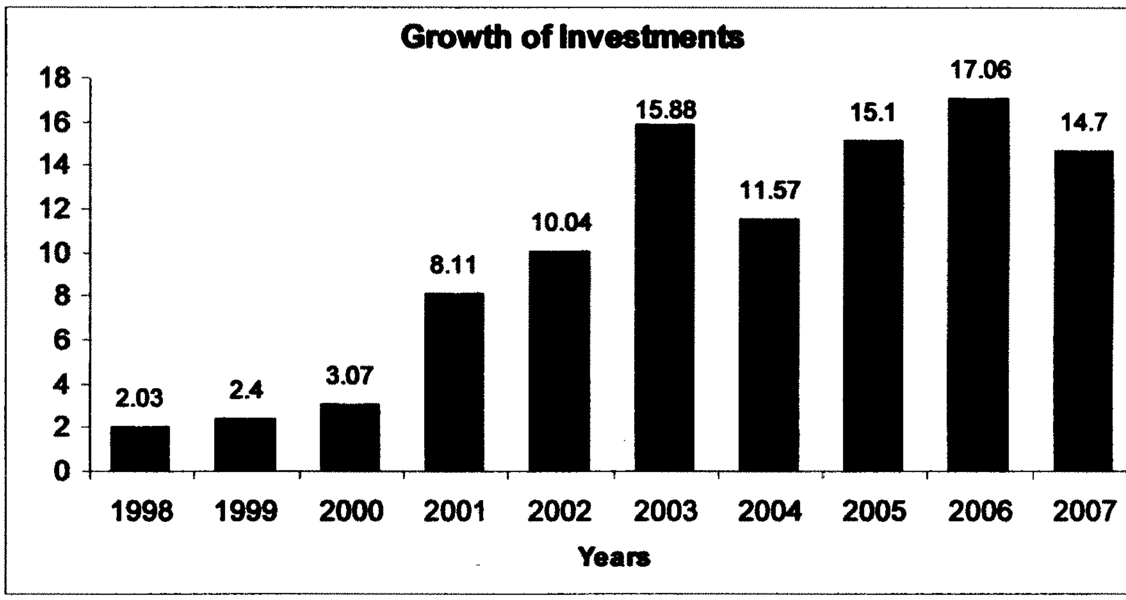


Table no. 4.9 and bar diagram no. 4.8 indicates the investment done by the society to maintain stability and to increase the profitability. On the basis of percentage of average annual growth bar diagrams are constructed it shows steady growth in the 3 years, there is a slight increase in the 4th and 5th year. In the 6th year there is dramatic change because the percentage goes up to 15.88% and afterwards it shows decreasing trend except 9th year. But on the basis of percentage of actual growth there is a great fluctuation in the investment figures. In the 4th year the investment is on peak point. Afterwards it decreased to some extent and in the 7th and 10th year it showed negative trend.

4. LOANS AND ADVANCES

A loan is a kind of advance make with or without security and paid to the borrower in one lump-sum either in cash or by transfer to his current account. It is given at an agreed rate of interest for a fixed period on short-term or medium-term or long-term basis depending on the purpose for which the loan is required. CCSs grant loans to their members with fixed income such as those belonging to professional classes, salaried persons etc. with facility to collect repayment amount on a monthly installment basis.

a. Consideration about the CCSs itself
b. Consideration about the Borrower
c. Consideration about the proposal

Loans and advances granted in conformity which should principles of lending is the most profitable deployment of funds. The Reserve Bank of India under the derogated regain, gave the banks free bank and liberty to decide the interest rates so far they are market related/ aligned and non-discriminative in nature. The banks should have a diversified advances portfolio. The advances should be within the limit of loanable funds.

CCSs advances, the major funds raised on loans and advances. While taking the lending decision, the bank management has to consider the principles of good lending.

TABLE NO.4.10

GROWTH OF LOANS & ADVANCES

(Rs. in lakhs)

Co-operative Year	Loans & Advances	Annual Growth 3461.04	% of Avr. Annual Growth	Actual Growth	% of Actual Growth
1997-1998	923.63	100.00	2.89	-	-
1998-1999	1222.92	132.40	3.83	299.29	32.40
1999-2000	1636.40	177.17	5.12	413.48	33.81
2000-2001	2100.83	227.45	6.57	464.43	28.38
2001-2002	2697.80	292.09	8.44	596.97	28.42
2002-2003	3577.31	387.31	11.19	879.51	32.60
2003-2004	4244.81	459.58	13.28	667.50	18.66
2004-2005	4766.44	516.06	14.91	521.63	12.29
2005-2006	5092.91	551.40	15.93	326.47	6.85
2006-2007	5704.11	617.58	17.84	611.20	12.00

Source: Annual reports.

DIAGRAM NO.4.9

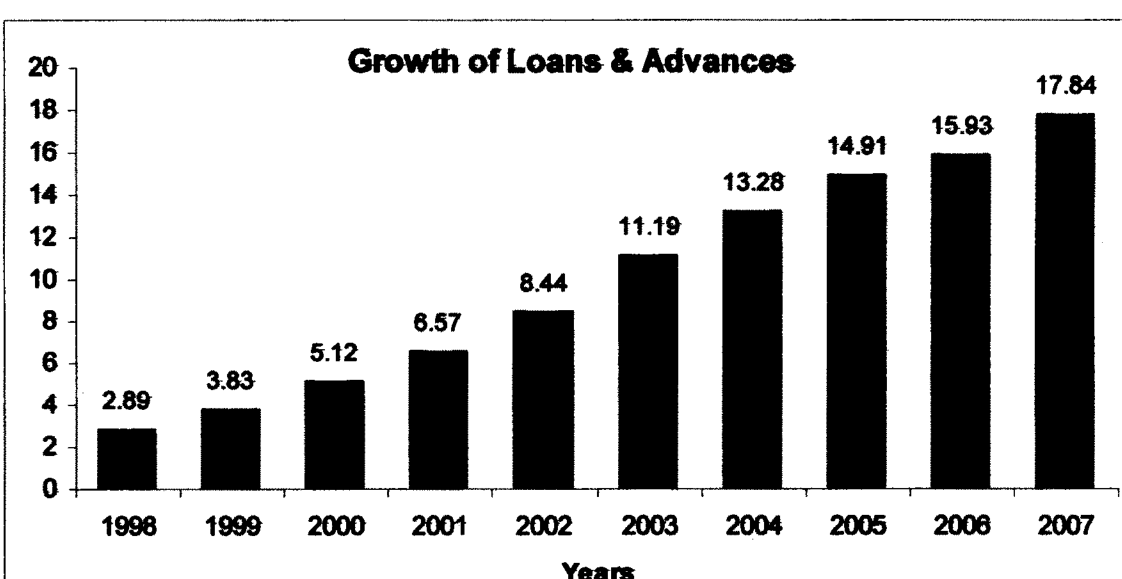


Table no. 4.10 and bar diagram no. 4.9 shows the loan portfolio of the society for the period under study. In the first five years the percentage of loans and advances shows increasing trend but the increase is at in small percentage. In the year 2002-03 the actual percentage is increased by 3.4%, but in the 8^{th} and 9^{th} year the loans and advances decreased to some extent and in the last year there is tremendous growth in the loans and advances. On the basis of actual growth in the 2^{nd} year only there is a positive growth in loans and advances. But up to 3^{rd} to 6^{th} year it shows ups and downs and in the last two years actual growth shows negative trend.

In the society the lending capacity depends upon the recovery of loan, collection of monthly contribution and ability of the society to raise funds with the help of borrowings.

4.2 POSITION OF OTHER ASSETS

Other assets of the society includes the following – telephone deposit, water deposit, outstanding interest on secured loan, MSEB deposit, prepaid insurance, outstanding interest on bank investment, stock of stationary and advance against computer etc.

TABLE NO. 4.11
GROWTH OF OTHER ASSETS

(Rs. in lakhs)

Co-operative Year	Other Assets	Annual Growth 12175.80	% of Avr. Annual Growth	Actual Growth	% of Actual Growth
1997-1998	2.52	100.00	0.82	-	-
1998-1999	6.55	259.92	2.13	4.03	159.92
1999-2000	10.59	420.24	3.45	4.04	61.68
2000-2001	33.58	1332.54	10.94	22.99	217.09
2001-2002	46.61	1849.60	15.19	13.03	38.80
2002-2003	41.72	1655.56	13.60	-4.89	-10.49
2003-2004	40.14	1592.86	13.08	-1.58	-3.79
2004-2005	39.03	1548.81	12.72	-1.11	-2.77
2005-2006	42.06	1669.05	13.71	3.03	7.76
2006-2007	44.03	1747.22	14.35	1.97	4.68

Source: Annual reports.

DIAGRAM NO. 4.10

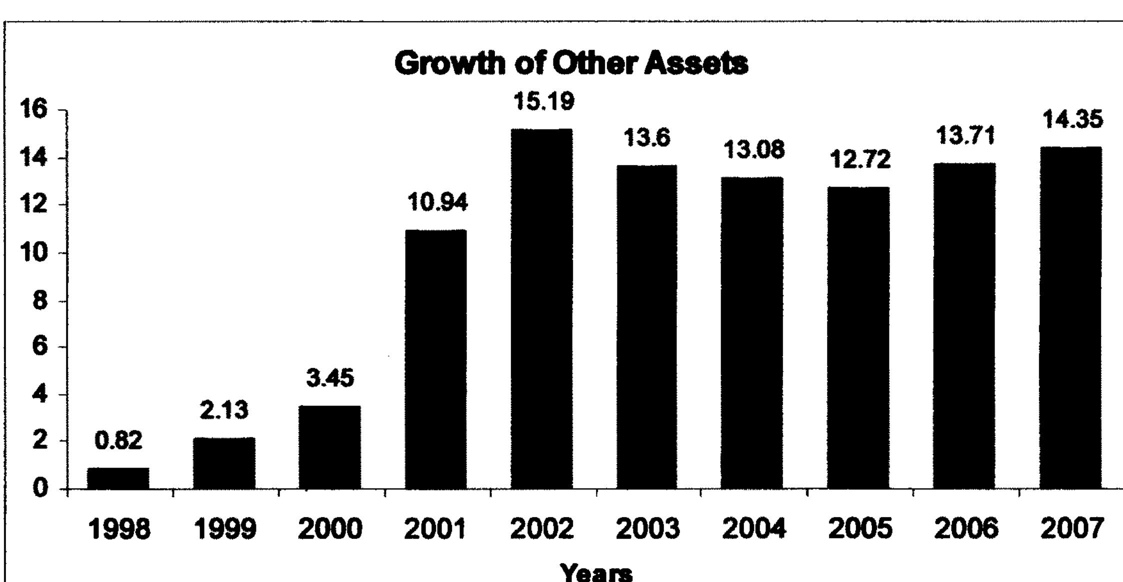


Table no. 4.11 and bar diagram no. 4.10 indicates the other assets of the society for the study period which includes various types of deposits and other assets. On the basis of average annual growth rate, in the 1st three years it shows slight increase in other assets (0.82% to 3.45%). In the 4th & 5th year it shows dramatic change (10.94% & 15.19%). Afterwards it shows decreasing trend in comparison with the other assets of 5th year. On the basis of actual growth also the position of other asset is same as position shown by annual average growth.

APPLICATION OF FUNDS AT A GLANCE

Total fund employed by the society includes cash in hand, investment, loans & advances, fixed assets and other assets. Society collects deposits & other sources of fund and used for various business purposes as a general practice, the percentage of cash in hand, investments, loans & advances, fixed assets and other assets should be 3:15:75:2:5 respectively to the total funds employed. Society keeps the cash and makes the investment to maintain the liquidity and to give the loans & advances to earn interest and maintain the fixed assets to carry the business transactions. The following table presents the data on application of total funds employed by society.

TABLE NO. 4.12

APPLICATION OF FUNDS AT A GLANCE

(Rs. in lakhs)

Co-Operative Year	Cash In Hand	Invest-ments	Loans & Advan-ces	Fixed Assets	Other Assets	Total Funds	% Of Actual Growth
1997-1998	0.58 (0.06)	74.46 (7.40)	923.63 (91.76)	5.41 (0.53)	2.52 (0.25)	1006.60 (100)	Nil
1998-1999	0.09 (0.007)	88.07 (6.66)	1222.92 (92.44)	5.25 (0.40)	6.55 (0.50)	1322.88 (100)	31.42
1999-2000	0.33 (0.02)	112.30 (6.36)	1636.40 (92.69)	5.78 (0.32)	10.59 (0.60)	1765.40 (100)	33.45
2000-2001	1.45 (0.06)	296.70 (12.17)	2100.83 (86.08)	8.06 (0.33)	33.58 (1.38)	2440.62 (100)	38.25
2001-2002	7.75 (0.25)	367.43 (11.75)	2697.80 (86.24)	8.48 (0.27)	46.61 (1.49)	3128.07 (100)	28.17
2002-2003	3.02 (0.07)	580.98 (13.79)	3577.31 (84.94)	8.63 (0.20)	41.72 (0.99)	4211.66 (100)	34.64
2003-2004	11.69 (0.25)	423.34 (8.95)	4244.81 (89.75)	9.40 (0.20)	40.14 (0.85)	4729.38 (100)	12.29
2004-2005	7.31 (0.14)	552.36 (10.26)	4766.44 (88.55)	17.59 (0.33)	39.03 (0.72)	5382.73 (100)	13.81
2005-2006	2.73 (0.05)	624.32 (10.74)	5092.91 (87.57)	53.59 (0.92)	42.06 (0.72)	5815.61 (100)	8.04
2006-2007	2.32 (0.04)	537.77 (8.45)	5704.11 (89.66)	73.99 (1.16)	44.03 (0.69)	6362.22 (100)	9.34
Total	37.27	3657.73	31967.16	196.18	306.83	36165.15	
Average	0.11	10.11	88.39	0.54	0.85		

Source: Annual reports.

Table no. 4.12 represents the basic component of total fund employed are cash in hand, investment, loans & advances, fixed assets and other assets. Total capital employed is concerned with managing all the above constitutes. The distribution of total funds employed helps to know the application of funds made by society. The data in table indicates that the average proportion of cash in hand, investment, loans & advances, fixed assets and other assets are 0.11:10:88:0.54:0.85 respectively to the application of total funds. The components of analysis of total fund employed shows that an average proportion of investment and loans advances is highest to total funds employed. It is reveals that the percentage of cash to total funds employed is very low that is society has not maintain sufficient liquidity position. The investment of the society has been increased every year constantly at the same time loans & advances of the society increased every year; it means the society diverts more funds into investment. The average annual growth rate of total fund employed according to the RBI guidelines regarding potential norms should be 15%. The said 15% growth rate has maintained by the society in the 1^{st} six years.

4.3 APPRAISAL OF WORKING CAPITAL

Working capital of the credit co-operative society includes total capital employed by the society. It consists of paid-up share capital, reserves, deposits, borrowings and other liabilities. In other words working capital is nothing but the total of the balance sheet i.e. total of any side of the balance sheet minus contra items.

TABLE NO. 4.13

GROWTH OF WORKING CAPITAL

(Rs. in lakhs)

Co-operative Year	Working Capital	Annual Growth	% of Avr. Annual Growth	Actual Growth	% of Actual Growth
1997-1998	1006.60	100.00	2.78	-	-
1998-1999	1322.88	131.42	3.65	316.28	31.42
1999-2000	1765.40	175.38	4.88	442.51	33.45
2000-2001	2440.62	242.46	6.74	675.23	38.24
2001-2002	3128.07	310.75	8.64	687.45	28.16
2002-2003	4211.66	418.40	11.64	1083.59	34.64
2003-2004	4729.38	469.83	13.07	517.72	12.29
2004-2005	5382.73	534.74	14.88	653.35	13.81
2005-2006	5815.61	577.74	16.08	432.88	8.04
2006-2007	6362.22	632.05	17.59	546.61	9.39

Source: Annual reports.

DIAGRAM NO. 4.11

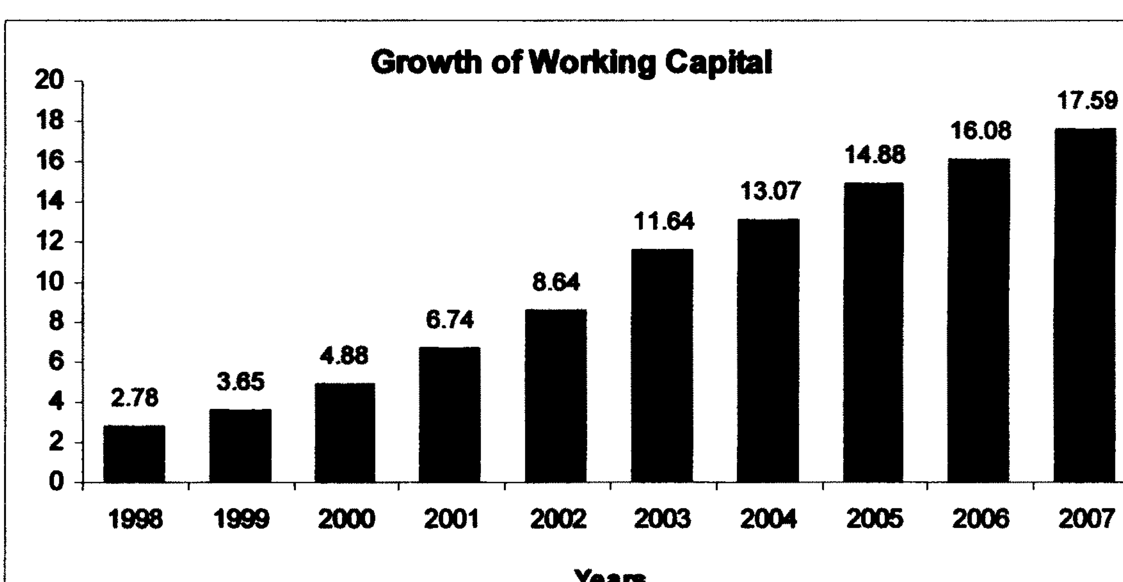


Table no. 4.13 and bar diagram no. 4.11 presents the working capital position of the society for the study period. The working capital is very important to maintain the liquidity of the business. On the percentage of average annual growth bar diagram is constructed. It indicates the continuous growth in the figures of working capital. It is a indicator of proper liquidity and solvency position of the society. On the basis of percentage of actual annual growth in the first 5 years shows remarkable growth but afterwards it shows decreasing trend. And in the last year it shows slight increase in working capital but overall working capital position of the society is very strong.

4.4 PROFIT APPRAISAL

Basically, credit co-operative societies are established to provide basic needs of people in rural and urban areas. They provide services to their members and are working on co-operative principles. But, now a days credit co-operative societies are working in competitive environment and so to attain stability, efficiency and self-reliant, these societies also makes profit. Profit planning and to attain profitability has a great importance in the working of credit co-operative societies.

Profit is the very essence of any commercial enterprise. It is the sign of its life, motive behind its growth and the evidence of its viability. Profit is a source for and means to growth. To the financial management, profits are the test of efficiency and a measure of control, to the owners a measure of the worth of their investment, to the creditors, the margin of safety, to the employees a source of fringe benefits, to the government a measure of taxable capacity and the basis of legislative action, to the country profits are an index of economic progress, national income generated and rise in the standard of living.

TABLE NO. 4.14

GROWTH OF PROFITS

(Rs. in lakhs)

Co-operative Year	Profits	Annual Growth	% of Avr. Annual Growth	Actual Growth	% of Actual Growth
1997-1998	47.64	100	4.46	-	-
1998-1999	55.44	116.37	5.19	7.80	16.37
1999-2000	66.03	138.60	6.18	10.59	19.10
2000-2001	80.21	168.37	7.51	14.18	21.47
2001-2002	95.74	200.97	8.96	15.53	19.36
2002-2003	122.39	256.91	11.45	26.65	27.84
2003-2004	131.63	276.30	12.32	9.24	7.55
2004-2005	156.96	329.47	14.69	25.33	19.24
2005-2006	152.08	319.23	14.23	-4.88	-3.11
2006-2007	160.37	336.63	15.01	8.29	5.45

Source: Annual reports.

DIAGRAM NO. 4.12

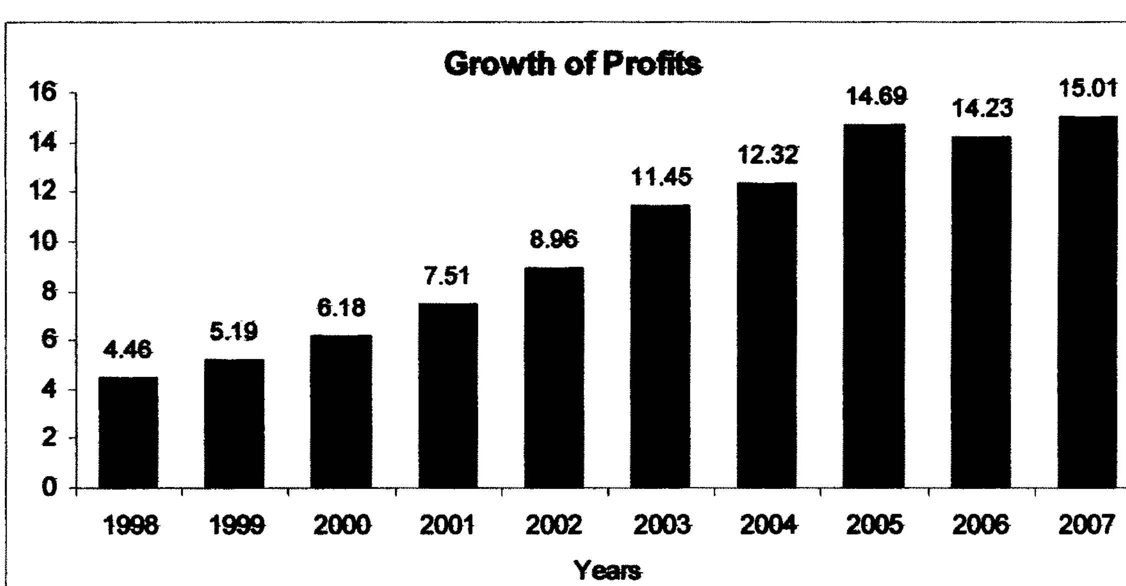


Table no. 4.14 and bar diagram no. 4.12 represents the profit figure of the society for the study period. The bar chart is constructed on the basis of percentage of average annual growth of profit. The profit figures of the society shows continuous increase in profit i.e. 4.45% in the 1st year to 15% in the last year. On the basis of percentage of actual annual growth of profit, it shows varied fluctuations in the year 2005-06 it shows negative growth in profit. It puts question mark on the profit earning capacity of the society. In all, the profitability position of the society is satisfactory.

4.5 POSITION OF DIVIDEND

The share holders are entitled to get dividend on their share contribution. The dividend rate depends upon the profit earning capacity and the guidelines and directions of the District Co-operative Department. The rate of dividend of the society for the study period is given below.

TABLE NO. 4.15

GROWTH OF DIVIDEND RATE

(Figures in %)

Co-operative Year	Dividend Rate	Annual Growth	% of Avr. Annual Growth	Actual Growth	% of Actual Growth
1997-1998	16	100	10.56	-	-
1998-1999	16	100	10.56	0	0
1999-2000	16	100	10.56	0	0
2000-2001	16	100	10.56	0	0
2001-2002	16	100	10.56	0	0
2002-2003	16	100	10.56	0	0
2003-2004	15	93.75	9.90	-1	-6.25
2004-2005	15	93.75	9.90	0	0
2005-2006	13	81.25	8.58	-2	-13.33
2006-2007	12.50	78.12	8.25	-0.5	-3.82

Source: Annual reports.

DIAGRAM NO. 4.13

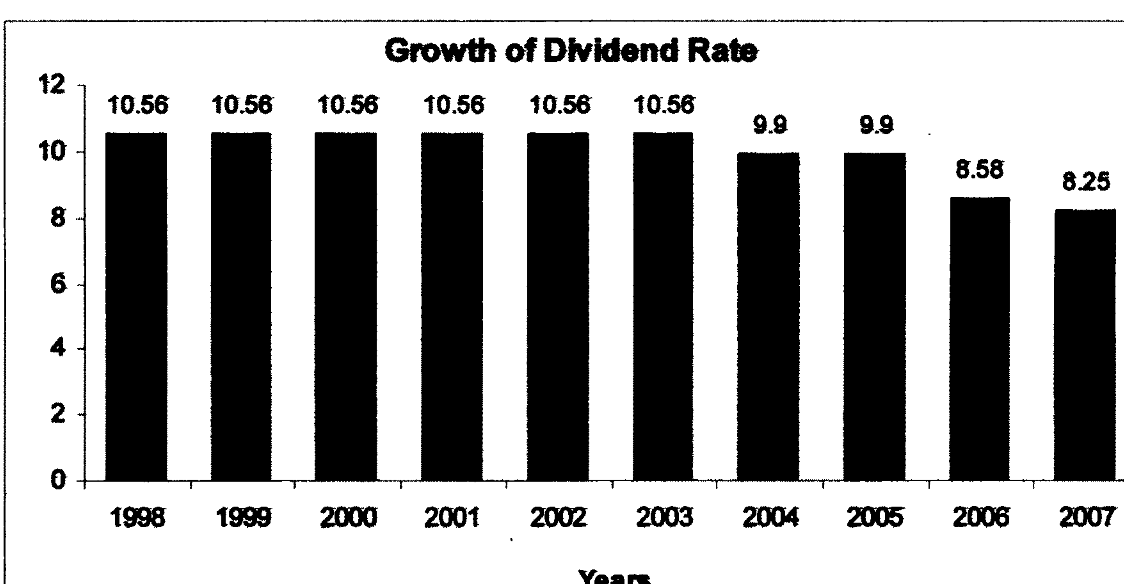


Table no. 4.15 and bar diagram no. 4.13 states the rate at which the dividend is paid to the share holders. On the basis of percentage of annual and actual average growth in the first 6 years the rate of dividend is constant at 10.56%. But in the last four years the rate is decreased to some extent. The society maintained the dividend rate in comparison with the other societies.

4.6 ANNUAL EXPENDITURE POSITION

In financial appraisal, control on expenditure is very important. Profitability of the business closely depends upon expenditure incurred by the society. And so management of the credit co-operative society has to efficiently control the capital expenditure as well as revenue expenditure. The following table shows the trend in annual expenditure for the period under study.

TABLE NO. 4.16

GROWTH OF ANNUAL EXPENDITURE

(Rs. in lakhs)

Co-operative Year	Annual Expenditure	Annual Growth	% of Avr. Annual Growth	Actual Growth	% of Actual Growth
1997-1998	93.41	100.00	2.55	-	-
1998-1999	128.86	137.95	3.51	35.45	37.95
1999-2000	168.53	180.41	4.60	39.67	30.77
2000-2001	233.24	249.69	6.36	64.71	38.40
2001-2002	327.70	350.81	8.94	94.46	40.49
2002-2003	672.20	719.62	18.35	344.50	105.13
2003-2004	484.67	518.86	13.23	-187.53	-27.89
2004-2005	535.12	572.87	14.61	50.45	10.40
2005-2006	517.33	553.82	14.12	-17.79	-3.32
2006-2007	501.22	536.58	13.68	-16.11	-3.11

Source: Annual reports.

DIAGRAM NO. 4.14

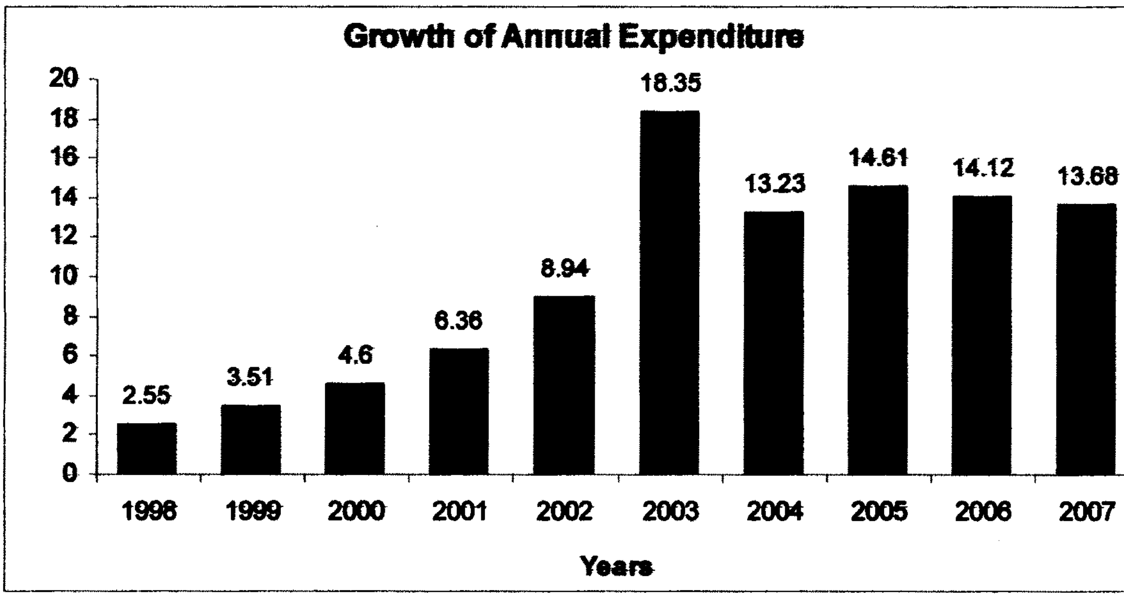


Table no. 4.16 and bar diagram no. 4.14 depicts the expenditure incurred by the society for the study period. In the first five years, there is continuous increase in the annual expenditure. There is remarkable increase in the annual expenditure in the year 2002-03 because of branch expansion and staff payment. In the year 2003-04 there is a slight decrease in the annual expenditure and in the last three years its shows slight fluctuation. On the basis of actual growth there is a slight decrease in the 2nd year. Followed by small growth in the succeeding three years, but in the last two years it shows negative trend except the 8th year. The management has to insist the strict control over administrative, operative and capital expenditure.

4.7 APPRIASAL OF TOTAL INCOME

The efficiency of the banking business largely depends upon income earning capacity of the society. The society has to develop various sources of income. It includes revenue income and capital income. For increase in income cost reduction and cost control is very necessary. The following table represents the income figure of the society for the study period.

TABLE NO. 4.17

GROWTH OF TOTAL INCOME

(Rs. in lakhs)

Co-operative Year	Total Income	Annual Growth	% of Avr. Annual Growth	Actual Growth	% of Actual Growth
1997-1998	177.78	100.00	3.71	-	-
1998-1999	213.09	119.86	4.45	35.31	19.86
1999-2000	270.52	152.17	5.65	57.43	26.95
2000-2001	245.24	137.95	5.12	-25.28	-9.34
2001-2002	274.43	154.36	5.73	29.19	11.90
2002-2003	875.27	492.33	18.28	600.84	218.94
2003-2004	708.98	398.80	14.81	-166.29	-19.00
2004-2005	692.09	389.30	14.45	-16.89	-2.38
2005-2006	669.42	376.54	13.98	-22.67	-3.38
2006-2007	661.59	372.14	13.82	-7.83	-1.17

Source: Annual reports.

DIAGRAM NO. 4.15

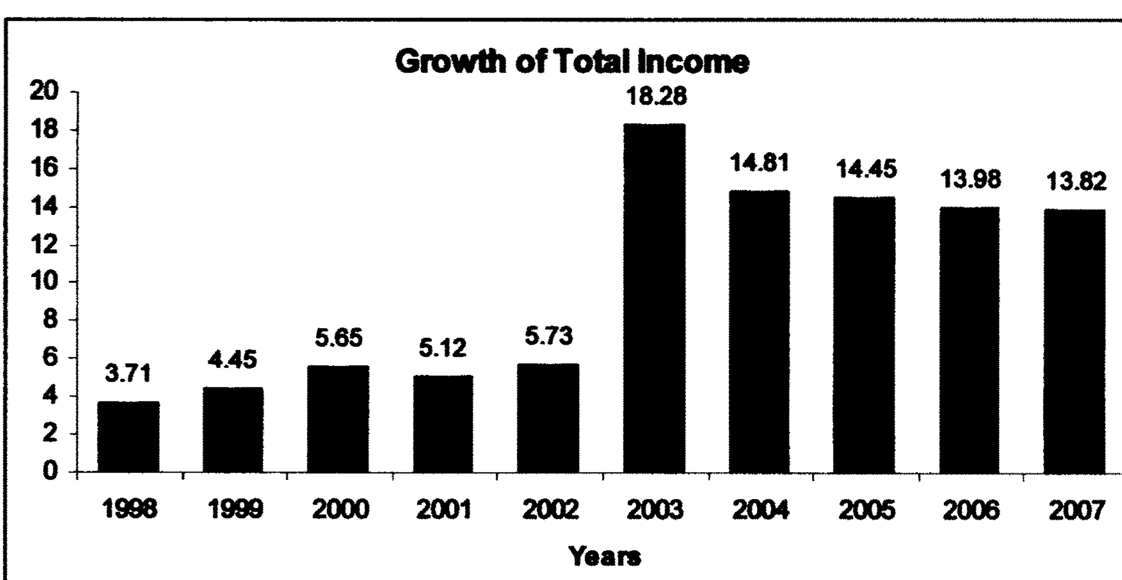


Table no. 4.17 & bar diagram no. 4.15 represents the trends in total income of the society for the period under study, where trend is represented in the percentage of actual growth & annual growth. As regards annual growth in the first 5 years there is increasing trend and in the 6^{th} year the society achieved highest income level. And in the last four years there is a slight fluctuation in the percentage of total income. Regarding actual growth percentage in the first six years shows increase in total income, but afterwards there is continuous decline in the total income. In the last 2 years it shows negative trend.

4.8 RATIO ANALYSIS

MEANING

Ratio analysis [3] is the process of determining and presenting in arithmetical terms the relationship between figures and group of figures drawn from the financial statements. Ratio is the basis of analysis. Ratio may be expressed in, any of the three ways – I Times, ii) Proportions or pure ratios and iii) Percentage.

Ratios may be compared with its own parts records, ratios of similar firm, and average of industry.

The modern technique of performance appraisal is the ratio analysis techniques. It is the principal and universally accepted technique of assessing the operational efficiency of the business enterprise "Ratio Analysis" in the words of Erich A. Helfert provide, guides and clues especially in spotting trades towards better or poor performance and in finding significant deviations from any average or relatively applicable standards.

According to J. BATTY [4] "The term accounting is used, to describe significant relationship which exists between figures shown in the balance sheet, in a profit and loss account in a budgetary control system or in any other part of the accounting organization.

Under this technique of appraisal various factors are calculated.

4.8.1 CLASSIFICATION OF RATIOS

1. Liquidity Ratios

Liquidity Ratios are designed to measure the ability of a company to meet its short-term obligations and to reflect the short term financial strength. The two commonly used liquidity ratios are

a) Current Ratio
b) Quick Ratio

2. Leverage Ratios

These ratios helps to measure the financial contribution of the owners compared with that of creditors as also the risk of debt financing. These are also known as capital structure ratio. The leverage ratios are

a) Debt-equity ratio.
b) Fixed Assets to net worth ratio.
c) Interest leverage ratio.
d) Capital gearing ratio.

3. Activity Ratios

Activity ratios are also known as turnover ratios. These ratios enable measurement of the effectiveness of the uses of the resources of a concern. Activity ratios may be classified as follows:-

a) Fixed Asset Turnover ratio.
b) Working Capital Turnover ratio.
c) Stock Turnover ratio.
d) Current Asset Turnover ratio etc.

4. Profitability Ratio

A measure of profitability is the overall measure of efficiency. The purpose of profitability measurement is to see whether an enterprise has effectively used its resources to achieve its profitability objectives. The various ratios included in this category are:-

a) Gross Profit Ratio
b) Net profit ratio
c) Return on Capital employed Ratio
d) Operating Ratio
e) Net Profit to Net worth Ratio
f) Dividend Yield Ratio

4.8.2 CALCULATION OF VARIOUS RATIOS FOR SHIKSHAN SEVAK SAHAKARI SOCIETY LTD., SANGLI

Considering the importance of ratio analysis technique in financial management and performance appraisal of the society under study following ratios are calculated. To know the liquidity, profitability and overall financial performance of the society, the following ratios help to a great extent.

Some of the selected ratios are calculated as follows:

SHORT TERM SOLVENCY RATIO

Short term solvency ratio shows short term financial strength of the society. This ratio indicates the ability of a society to meet its short term (a period of 12 months) or current obligations as and when they become due for payment.

1. CURRENT RATIO

This ratio is calculated to know the liquidity position of the bank. The standard current ratio for the bank is 1.5:1

Formula

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

Current Assets include outstanding loan, cash and bank balance, etc. And
Current Liabilities include bank overdraft, balance of cash-credit, outstanding expenses, outstanding taxes, outstanding dividend etc.

TABLE NO. 4.18

CALCULATION OF CURRENT RATIO

(Rs. in lakhs)

Co-operative Year	Ratio Calculation
1997 - 1998	54.03 / 150.48 = 0.36 : 1
1998 - 1999	92.20 / 242.67 = 0.38 : 1
1999 - 2000	114.96 / 300.24 = 0.38 : 1
2000 - 2001	318.28 / 387.72 = 0.82 : 1
2001 - 2002	404.69 / 516.06 = 0.78 : 1
2002 - 2003	583.47 / 604.69 = 0.96 : 1
2003 - 2004	446.47 / 569.20 = 0.78 : 1
2004 - 2005	571.38 / 906.44 = 0.63 : 1
2005 - 2006	626.99 / 855.20 = 0.73 : 1
2006 - 2007	552.17 / 1487.77 = 0.37 : 1

Source: Annual Reports.

Table no. 4.18 represents the current ratio of the society under study for period selected. It is observed that for all the years under study, the current ratio shows the negative trend. The above position of the current ratio indicates that long term investment is high and also the short term deposits are high so the liquidity position has not maintained as per standard. Standard current ratio is 1.5:1. But here it is below 1, it indicates that liquidity position of the society is questionable. Management of the society has to take the positive steps to increase the current assets of the society to achieve the target of standard ratio.

2. DEBT-EQUITY RATIO

This ratio indicates the relationship between debt capital and equity capital to the long term loan advanced by the society. This ratio is mostly used to establish the solvency position of the business. This ratio indicates the capacity of the bank to meet its debt obligations of medium and long term nature out of its own capital borrowed funds of the bank consist deposits and borrowings where as share capital and free reserves (total reserves & surplus – bad debt provision) are called own funds of the banks. The ratio shows the extent which debt financing has been used in an organization. The conventional ratio 1:1 is an ideal ratio. The higher ratio indicates that the claim of the outsiders is greater than those of owners and vice versa.

Formula

$$\text{Debt-Equity Ratio} = \frac{\text{Debts}}{\text{Owners Equity}}$$

TABLE NO. 4.19

CALCULATION OF DEBT-EQUITY RATIO

(Rs. in lakhs)

Co-operative Year	Ratio Calculation
1997 - 1998	592.00 / 320.38 = 1.85 : 1
1998 - 1999	821.08 / 387.21 = 2.12 : 1
1999 - 2000	1148.97 / 471.18 = 2.44 : 1
2000 - 2001	1708.77 / 552.06 = 3.10 : 1
2001 - 2002	2250.29 / 658.53 = 3.42 : 1
2002 - 2003	2861.93 / 984.00 = 2.91 : 1
2003 - 2004	3333.15 / 1107.30 = 3.01 : 1
2004 - 2005	3864.23 / 1177.14 = 3.28 : 1
2005 - 2006	4217.77 / 1319.48 = 3.20 : 1
2006 - 2007	4590.42 / 1481.45 = 3.10 : 1

Source: Annual Reports.

Table no. 4.19 represents the Debt-equity ratio of the society under study. Where, borrowed funds are compared with the own funds of the society. The ratio fluctuates between 1.85 to 3.42. The debt is more as compared to the equity i.e. the CCSs is more depending upon outside funds for the banking business. So it is required to increase owned capital of the society with increase in membership, monthly contribution, share capital and reserves & surplus as an internal source of finance.

3. OWN FUNDS TO WORKING CAPITAL RATIO

This ratio shows the share of own funds to the total working capital employed by the bank. It indicates the strength of the institution. Higher the ratio is better for the institution. The high ratio indicates the fact that the bank will incur low risk. The standard ratio should be 15%. This ratio is computed by following equation

Formula

$$\text{Own Funds To Working Capital} = \frac{\text{Own Funds}}{\text{Working Capital}} \times 100$$

TABLE NO. 4.20

CALCULATION OF CAPITAL ADEQUACY RATIO

(Rs. in lakhs)

Co-operative Year	Ratio Calculation (%)
1997 - 1998	320.38 / 1006.60 X 100 = 31.83
1998 - 1999	387.21 / 1322.88 X 100 = 29.27
1999 - 2000	471.18 / 1765.39 X 100 = 26.69
2000 - 2001	552.66 / 2440.62 X 100 = 22.64
2001 - 2002	658.53 / 3128.07 X 100 = 21.05
2002 - 2003	984.00 / 4211.66 X 100 = 23.36
2003 - 2004	1107.30 / 4729.38 X 100 = 23.41
2004 - 2005	1177.14 / 5382.73 X 100 = 21.87
2005 - 2006	1319.48 / 5815.61 X 100 = 22.69
2006 - 2007	1481.45 / 6362.22 X 100 = 23.29

Source: Annual Reports.

Table no. 4.20 shows the relationship of the own funds to the working capital of the society. It also shows the capital adequacy position of the society. The ratio was decreased in the 1st five years continuously from 31.83% to 21.05% respectively. Then for 6th and 7th year the ratio is slightly increased for 23.36% and 23.41% respectively. And in the last three years ratio is increased from 21.87% to 23.29%. From this it is conclude that the own fund of the society reflect the satisfactory position because the standard ratio is 15%. And here the ratio of capital adequacy ratio is above the standard.

4. GROSS CREDIT DEPOSIT RATIO

The C.D. ratio is the major into for judging the efficiency of the society with regarding to profitability, liquidity and solvency. The ratio establishes relationship between loan disbursement ability and deposit collection capacity of the society. The banking business of the society largely depends upon the deposit collection and its profitable disbursement. The lower C.D. ratio indicates that the deposits of the society are more than its credit made by the society and higher C.D. ratio indicates that the deposits of the society are less than its credit made by the society. This ratio is calculated to know the relationship between the total deposit collected by the society with total loans and advances of the society. The standard ratio is 70%.

Formula

$$\text{Credit Deposit Ratio} = \frac{\text{Loans \& Advances}}{\text{Deposits}} \times 100$$

TABLE NO. 4.21

CALCULATION OF CREDIT DEPOSIT RATIO

(Rs. in lakhs)

Co-operative Year	Ratio Calculation In %
1997 - 1998	923.63 / 0522.88 X 100 = 76.64
1998 - 1999	1222.92 / 0702.06 X 100 = 74.19
1999 - 2000	1636.40 / 1080.13 X 100 = 51.50
2000 - 2001	2100.83 / 1665.65 X 100 = 26.13
2001 - 2002	2697.80 / 2127.28 X 100 = 26.82
2002 - 2003	3577.31 / 2784.02 X 100 = 28.49
2003 - 2004	4244.81 / 3171.54 X 100 = 33.84
2004 - 2005	4766.44 / 3831.59 X 100 = 24.40
2005 - 2006	5092.91 / 4184.63 X 100 = 24.71
2006 - 2007	5704.11 / 4382.36 X 100 = 30.16

Source: Annual Reports.

Table no. 4.21 represents C.D. ratio of the society under study. In the 1st two years the society had maintained the standard of 70% i.e. 76.64% and 74.19% respectively. But afterwards the management of the society failed to maintain the standard of C.D. ratio. The lower C.D. ratio has indicates that the deposits of the society is more than its credit.

5. MARGIN OF SAFETY FOR DEPOSITORS

It is one way of studying deposits is to find out the relationship between deposits and own funds of the bank. The owned funds of the CCSs include paid-up share capital and free reserves (less provision for bad-debts), credit balance in profit and loss account less accumulated losses if any. The ratio of owned funds to deposits reveals that the number of times the total deposits of the society is covered by its owned funds.

Deposit is the borrowed capital that should be returned after maturity for the sound financial position. Owned funds of the society should be more and increasing trend.
The ratio of owned funds to deposits indicates the margin of safety for depositors.. The standard ratio is 5% in general practice.

Formula

$$\text{Own Funds to Deposits Ratio} = \frac{\text{Owned Funds}}{\text{Deposits}} \times 100$$

TABLE NO. 4.22

COMPUTATION OF OWNED FUNDS TO DEPOSITS RATIO

(Rs. In lakhs)

Co-operative Year	Owned Funds	Deposits	Ratio (%)
1997-1998	320.38	522.88	61.27
1998-1999	387.21	702.06	55.15
1999-2000	471.18	1080.13	43.62
2000-2001	552.06	1665.65	33.14
2001-2002	658.53	2127.28	30.96
2002-2003	984.00	2784.02	35.34
2003-2004	1107.30	3171.54	34.91
2004-2005	1177.14	3831.59	30.72
2005-2006	1319.48	4184.63	31.53
2006-2007	1481.45	4382.36	33.80

Source: 1) Annual reports
2) Appendix-IV

Table no. 4.22 represents the relationship between owned funds to deposits. The ratio of owned funds to deposits is always expressed in times. Generally, the total deposits of the society are compared with its owned funds. The ratio is also expressed in percentage. And the standard ratio for credit co-operative society is 5%. The above table indicates that the ratio calculated for the period under study ranges from 30.72 to 61.27%. The margin of safety calculated on the basis of above ratio indicates very high. And so it is favourable to the society.

6.WORKING CAPITAL

In financial management of credit co-operative society to maintain liquidity and stability of the credit co-operative society, some ratios relating to the working capital are calculated. Following ratios and the standard ratios are given related to the working capital of the bank.

1. **DEPOSIT TO WORKING CAPITAL RATIO**

   Deposit is the most important constituent in the calculation of working capital. With the help of the deposit society can expand its turnover & increase the working capital. It is another tool for analyzing the performance of deposit through deposit to working capital ratio. The standard ratio is 70%.

   Formula

$$\text{Deposits To Working Capital} = \frac{\text{Deposits}}{\text{Working Capital}} \times 100$$

TABLE NO. 4.23

CALCULATION OF DEPOSIT TO WORKING CAPITAL RATIO

(Rs. In lakhs)

Co-operative Year	Ratio Calculation In %
1997 - 1998	522.88 / 1006.60 X 100 = 51.95
1998 - 1999	702.06 / 1322.88 X 100 = 53.08
1999 - 2000	1080.13 / 1765.39 X 100 = 61.18
2000 - 2001	1665.65 / 2440.62 X 100 = 68.25
2001 - 2002	2127.28 / 3128.07 X 100 = 68.00
2002 - 2003	2784.02 / 4211.66 X 100 = 66.10
2003 - 2004	3171.54 / 4729.38 X 100 = 67.06
2004 - 2005	3831.59 / 5382.73 X 100 = 71.18
2005 - 2006	4184.63 / 5815.61 X 100 = 71.96
2006 - 2007	4382.36 / 6362.22 X 100 = 68.88

Source: Annual Reports.

Table no. 4.23 represents deposits to working capital ratio in the study period, where there is a comparison between amounts of deposits with total working capital is done. The standard ratio is 70%. The ratio indicates that during the 1st seven years the society is not maintained the standard because it ranges from 51.95 to 68.25%. Only in the 8th & 9th year the society achieved the standard of said ratio. And finally, the ratio is again decreased to the 68.88%. In composition of the working capital the deposits constitute important place. The management of the society strictly has follows to maintain the standard.

7. PROFIT APPRAISAL THROUGH PROFITABILITY RATIO

Profits are the soul of the business, without which it is lifeless to measure the efficient performance of the business so the accounting profit is the most important. The accounting profit may be defined as the excess of total revenues realized during a given period of time over total expenditure. Accounting profit can be determined as follows

Accounting Profit = Total Revenues – Total Cost

The term profitability [5] is composed of two words profit and ability. Profit, has already be defined, the term ability reflex the power of an enterprise to earn profits. This also referred to an 'earning power', 'earning capacity' or 'operating performance' of the concerned investment. The word profitability may be defined as the ability of a given investment to earn a return from its use. "Profitability is an overall reflection of the strength and weaknesses of an enterprise". Thus, the profitability is the main indicator of the efficiency and effectiveness of a business enterprise in achieving its goal of earning profit.

The profitability is the profit making ability of the credit co-operative society when the profitability is analyzes then various most important factors are affects on the profitability i.e. income received from loans & advances, dividend & investment, interest paid on deposits & borrowings, cost of management and non-interest income. When profitability ratios are find out then the term working capital is taken as total of the balance sheet i.e. total of any one side of the balance sheet minus contra items. For the analysis of profitability ratio the researcher takes the 10 years period. On the basis of this analysis researcher has made an attempt to suggest tools & techniques for improving the profitability of the credit co-operative society.

A. RETURN ON FUNDS TO TOTAL FUNDS EMPLOYED

Return on funds is the functions of the CCSs which shows the total income that is derived from the service rendered by it. The main source of operating revenue of CCSs includes interest on loans & interest / dividend on investment. Return on funds ratio indicates the proportion of interest income on loans & investments to total funds employed by the society. Higher the ratio greater is the profitability of the society and vice-versa.

Formula

$$\text{Return on funds to total funds Employed} = \frac{\text{Return on funds}}{\text{Total funds Employed}} \times 100$$

TABLE NO. 4.24

CALCULATION OF RETURN ON FUNDS TO TOTAL FUNDS EMPLOYED RATIO

(Rs. In Lakhs)

Year	Return on Funds	Total Funds Employed	Ratio (%)
1997 - 1998	150.95	1006.60	15.00
1998 - 1999	184.02	1322.88	13.91
1999 - 2000	234.37	1765.40	13.28
2000 - 2001	313.10	2440.62	12.83
2001 - 2002	406.65	3128.07	13.00
2002 - 2003	793.83	4211.66	18.85
2003 - 2004	615.60	4729.38	13.02
2004 - 2005	691.48	5382.73	12.85
2005 - 2006	668.52	5815.61	11.50
2006 - 2007	660.82	6362.22	10.39

Source: 1) Appendix-II

2) Appendix-V

Table on. 4.24 represents that the ratio of society was reducing trend in the 1st four years & increased in the 5th & 6th year. The ratio of society varies between 10.39 to 18.85%. It is observed that in 2002-03 return on fund ratio increased due to increased in rate of interest on investments and regular recovery of interest amount from the borrowers. The return on funds is increased in last 4 years & also total fund employed are increased. Higher the ratio betters the condition of return.

B. COST OF FUNDS TO TOTAL FUNDS EMPLOYED

Cost of funds shows the total expenses incurred on producing any service rendered by it. The main items of expenses of CCSs are interest paid on deposits & borrowings. This ratio indicates the proportion of interest cost on the borrowed funds to the total funds employed by the society. Higher the ratios greater is the profitability of the CCSs & vice versa.

Formula

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

TABLE NO. 4.25

CALCULATION OF COST OF FUNDS TO TOTAL FUNDS EMPLOYED RATIO

(Rs. In Lakhs)

Year	Cost of Funds	Total Funds Employed	Ratio (%)
1997 - 1998	88.20	1006.60	8.76
1998 - 1999	110.25	1322.88	8.33
1999 - 2000	151.12	1765.40	8.56
2000 - 2001	215.96	2440.62	8.85
2001 - 2002	288.27	3128.07	9.22
2002 - 2003	454.39	4211.66	10.79
2003 - 2004	453.16	4729.38	9.58
2004 - 2005	501.33	5382.73	9.31
2005 - 2006	466.11	5815.61	8.01
2006 - 2007	446.57	6362.22	7.02

Source: 1) Appendix- III

2) Appendix - V

Table no. 4.25 indicates that in the 1st four year ratio has change by small difference. Lower the ratio is expected but in 2002-03. Ratio increased up to 10.79%. It is not favourable to the society but in last four years ratio has decreasing trend. It has a favourable to the society.

C. NET INTEREST INCOME (FINANCIAL MARGIN) RATIO

In the accounting language the spread is known as net interest income or net interest margin. It is one of the indicators of the society's profitability, which is defined as the total interest earned minus total interest paid. The income of CCSs depends upon total interest received & total interest paid. The effective management will try to increase the margin between the two variables. The goal of Shikshan Sevak Credit Co-operative Society is to develop performance of the society. This ratio indicates the proportion of interest income utilize for meeting the interest cost. It also indicates the spread available the society to meet the other cost. Higher the ratios greater is the performance of the bank & vice versa.

Formula

Spread = Return on funds to total funds – Cost of funds to total funds

TABLE NO. 4.26

CALCULATION OF NET INTEREST INCOME RATIO

(Figures in %)

Year	Return on Funds	Cost of Funds	Ratio In %
1997 - 1998	15.00	8.76	6.24
1998 - 1999	13.91	8.33	7.67
1999 - 2000	13.28	8.56	15.00
2000 - 2001	12.83	8.85	4.43
2001 - 2002	13.00	9.22	3.78
2002 - 2003	18.85	10.79	8.06
2003 - 2004	13.02	9.58	3.44
2004 - 2005	12.85	9.31	3.54
2005 - 2006	11.50	8.01	3.49
2006 - 2007	10.39	7.02	3.37

Source: 1) Table no. 4.24 Return on funds to working capital

2) Table no. 4.25 Cost of funds to working capital.

Table no. 4.26 represents the ratio of the society increased in the 1st three year from 6.24% to 15.00%. It is a better condition of net interest income because higher ratio is expected. But from 4th year it has decreasing trend due to the decrease in the rate of interest on investment & less recovery of interest amount from borrowers. In the last year it is very low at 3.37%. It is not a good condition.

D. NON INTEREST INCOME

Other income is the most important source of societies earning which are charged by CCSs for service rendered by it. This ratio computed by dividing the non interest income by total funds employed. This ratio indicates that proportion of income from non-fund business. Higher the ratios greater is the profitability of CCSs & vice versa. The ratio is computed by dividing the non-interest income by the total funds of CCSs.

Formula

$$\text{Non Interest Income as a Percentage to Total Funds} = \frac{\text{Non Interest Income}}{\text{Total Funds Employed}} \times 100$$

TABLE NO. 4.27

CALCULATION OF NON INTEREST INCOME TO TOTAL FUNDS EMPLOYED RATIO

(Rs. In Lakhs)

Year	Non Interest Income	Total Funds Employed	Ratio (%)
1997 - 1998	0.09	1006.60	0.0089
1998 - 1999	0.27	1322.88	0.0204
1999 - 2000	0.19	1765.40	0.0108
2000 - 2001	0.35	2440.62	0.0143
2001 - 2002	0.73	3128.07	0.0233
2002 - 2003	0.77	4211.66	0.0183
2003 - 2004	0.70	4729.38	0.0148
2004 - 2005	0.60	5382.73	0.0111
2005 - 2006	0.90	5815.61	0.0155
2006 - 2007	0.77	6362.22	0.0121

Source: 1) Annual reports of the society.
2) Appendix - V

Table no. 4.27 indicates that the ratio is fluctuating every year and it is varies between 0.0089 to 0.0233%. In the 5th year it is highest at 0.0233%. It is favourable condition because higher ratio is expected. But in the last year it is decreased upto 0.0121%. Due to this position society has need to thinking over increase the non interest income.

E. COST OF MANAGEMENT

Cost function shows the total expenses incurred on producing any service rendered by CCSs. Cost of management is sum total of salaries, allowances and bonus paid to the bank staff, establishment expenses incurred on rent, electricity, telephone bill, postage & stationary etc. Hence the cost of management is an important variable which affects the profit. Lower the ratios greater the profitability of CCSs & vice versa. As per the NABARD guidelines the standard ratio should be 2.50%.

Formula

$$\text{Cost of Management to Total Fund Employed} = \frac{\text{Cost of Management}}{\text{Total Fund Employed}} \times 100$$

TABLE NO. 4.28

CALCULATION OF COST OF MANAGEMENT TO TOTAL FUND EMPLOYED RATIO

(Rs. In Lakhs)

Year	Cost of Management	Total Funds Employed	Ratio (%)
1997 - 1998	15.20	1006.60	1.5100
1998 - 1999	18.60	1322.88	1.4060
1999 - 2000	17.41	1765.40	0.9862
2000 - 2001	17.27	2440.62	0.7076
2001 - 2002	23.37	3128.07	0.7471
2002 - 2003	24.81	4211.66	0.5891
2003 - 2004	31.52	4729.38	0.6665
2004 - 2005	33.80	5382.73	0.6279
2005 - 2006	51.23	5815.61	0.8809
2006 - 2007	54.64	6362.22	0.8588

Source: 1) Annual reports of the society.

2) Appendix - V

Table no. 4.28 indicates that in 1st two year ratio reducing. But in 3rd year it is increased up to 0.9862% & from 4th & 5th year it is constant but in 6th year it is became the low up to 0.5891%. But 7th & 8th year it is increasing sound position of society. But in last two years it is increased so society has needed to maintain this ratio at low rate for sound position.

F. <u>RISK COST TO TOTAL FUNDS EMPLOYED</u>

As Credit Co-operative Society provides loans & advances to its customers and members where there is a great risk because in loan portfolio, optimum balance should be maintained. Some of the loans may become bad on account of natural calamities, which are beyond the control of CCSs or lack of financial discipline among the borrowers. Risk cost includes bad & doubtful debts reserve (Provision made on sub borrower but not paid by them) and (Provision on standard assets made by the society). In term of RBI guidelines lower the ratios greater the profitability of CCSs & vice versa. Formula:

<u>Formula</u>

$$\text{Risk Cost as Percentage to Total Funds Employed} = \frac{\text{Provision for bad \& doubtful debts}}{\text{Total Funds Employed}}$$

TABLE NO. 4.29

CALCULATION OF RISK COST TO TOTAL FUNDS EMPLOYED RATIO

(Rs. In Lakhs)

Year	Bad & Doubtful Debts	Total Funds Employed	Ratio (%)
1997 - 1998	0.03	1006.60	0.0030
1998 - 1999	0.01	1322.88	0.0008
1999 - 2000	0.03	1765.40	0.0017
2000 - 2001	0.02	2440.62	0.0008
2001 - 2002	0.11	3128.07	0.0035
2002 - 2003	0.53	4211.66	0.0126
2003 - 2004	0.08	4729.38	0.0017
2004 - 2005	1.06	5382.73	0.0011
2005 - 2006	0.70	5815.61	0.0120
2006 - 2007	0.75	6362.22	0.0118

Source: 1) Annual reports of the society.

2) Appendix-V

Table no. 4.29 shows that the ratio of risk cost fluctuating every year. The lower ratio is expected. The ratio is fluctuating between 0.0008 to 0.0126% in the study period. In 2nd & 4th year it is the condition of the society but in last two years it is increased.

G. NET MARGIN RATIO

The measurement of net income [6] of credit co-operative society is important like other business organizations. The credit co-operative society's income is the result of the functions i.e. the revenue function & cost function. Revenue function shows the total income of CCSs that is derived from the services rendered by it. Cost function shows the total expenses incurred on producing any service rendered by it. The excess of total revenue over the expenditure incurred in connection with the operations of CCSs is the total net income.

The net margin ratio indicates the proportion of interest income & non-interest income for meeting the interest cost. It indicates the spread available in the CCSs to meet the cost of management & risk cost. Higher the ratios better the profitability of the CCSs & vice versa. The percentage of net margin is workout as under.

Net Margin = (Spread + Non-interest Income as a % to Total Fund Employed)) – (Cost of Management as a Percentage to Total Funds Employed + Risk Cost as a Percentage to Total Funds Employed)

Spread

The difference between interest earned and interest paid is called spread. These two interest items are considered as variable cost and variable income. The spread can be equated with contribution for the purpose of profit planning.

Spread = Net Income ratio
Reserve on Funds – Cost of Funds

Burdon

The difference between non-interest cost and non-interest income is defined as burden. These computations are important for the purpose of measuring net income and productivity of staff as well as the capital employed.

Net Profit

The excess of spread over burden is known as net profit.

NII = Non Interest Income into Total Funds Employed Ratio

TABLE NO. 4.30

NET MARGIN RATIO

(Figures in %)

Year	Spread a	NII b	Net Income c =a+b	Cost of Management D	Risk Cost e	Total Cost f =d+e	Ratio g =c-f
1997 - 1998	6.24	0.0089	6.2489	1.5100	0.0030	1.5130	4.7359
1998 - 1999	7.67	0.0204	7.6904	1.4060	0.0008	1.4068	6.2836
1999 - 2000	15.00	0.0108	15.0108	0.9862	0.0017	0.9879	15.0229
2000 - 2001	4.43	0.0143	4.4443	0.7076	0.0008	0.7084	3.7359
2001 - 2002	3.78	0.0233	3.8033	0.7471	0.0035	0.7506	3.0527
2002 - 2003	8.06	0.0183	8.0783	0.5891	0.0126	0.6017	7.4766
2003 - 2004	3.44	0.0148	3.4548	0.6665	0.0017	0.6682	2.7866
2004 - 2005	3.54	0.0111	3.5511	0.6279	0.0011	0.6290	2.9221
2005 - 2006	3.49	0.0155	3.5055	0.8809	0.0120	0.8929	2.6126
2006 - 2007	3.37	0.0121	3.3821	0.8588	0.0118	0.8706	2.5115

Source: 1) Table no.4.26, Net Interest Income Ratio, 2) Table no. 4.27, Non Interest Income to Working Capital Ratio
3) Table no. 4.28, Cost of management to working capital ratio, 4) Table no. 4.29, Risk Cost to Working Capital Ratio

Table no. 4.30 indicates that the 1st three years net margin ratio increased. It is favourable condition of society. But from 4th year it has decreased up to last year. It has favourable because higher the ratio is expected. It is observe that risk cost of the society has increase heavily in 2002-03. This adversely affect on net margin ratio of the society. Hence the profitability of the society adversely affected due to the heavy risk cost. In that year net margin ratio is very low. It is unfavourable position of society. But average ratio is 5.0078% it is favourable condition of the society.

H. TOTAL INTEREST COST TO TOTAL INTEREST INCOME RATIO

This is another one method of analyzing the profitability of the credit co-operative society. This ratio is calculate to study the interest paid including interest due but not paid on deposit and borrowings to total interest income. This ratio indicates the proportion of interest income utilized for meeting interest cost and indicates the spread available to society to meet the cost of management and other cost. Lower the ratios greater the profitability of the society.

Formula

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

TABLE NO. 4.31

TOTAL INTEREST COST TO TOTAL INTEREST INCOME RATIO

(Rs. in lakhs)

Year	Total Interest Paid	Interest Income	Ratio (%)
1997 - 1998	88.20	150.95	58.43
1998 - 1999	110.25	184.02	59.91
1999 - 2000	151.12	234.37	64.48
2000 - 2001	215.96	313.10	68.97
2001 - 2002	288.27	406.65	70.89
2002 - 2003	454.39	793.83	57.24
2003 - 2004	453.16	615.60	73.61
2004 - 2005	501.33	691.48	72.50
2005 - 2006	466.11	668.52	69.72
2006 - 2007	446.57	660.82	67.58

Source: 1) Annual reports of the society

2) Appendix II

3) Appendix III

Table no. 4.31 shows the ratio of total interest cost to total interest income is increased from 58.43% to 70.89% in the 1st 5 years. It is not a favourable condition of the society because the low ratio is expected. In the 6th year the ratio is 57.24% comparatively it is very low. So it is better condition of the society because total interest received is nearly double of the total interest paid. The society has earned better profit. But after 6th year the margin of total interest received and total interest paid is medium.

I. COST OF FUNDS TO TOTAL EXPENDITURE

This ratio indicates the total expenses made by CCSs. It includes interest payment, cost of management and other current operating expenses. The cost of funds includes the interest paid on deposits and borrowings. A high level of interest cost indicates a poor level of internal resources position and heavy dependence on outside resources.

Formula

$$\text{Cost of funds to total expenditure} = \frac{\text{Interest Cost}}{\text{Total Expenditure}} \times 100$$

TABLE NO. 4.32

COST OF FUNDS TO TOTAL EXPENDITURE

(Rs. in lakhs)

Year	Cost of Funds	Total Expenditure	Ratio (%)
1997 - 1998	88.20	103.40	85.30
1998 - 1999	110.25	128.25	85.96
1999 - 2000	151.12	168.53	89.67
2000 - 2001	215.96	233.23	92.60
2001 - 2002	288.27	311.64	92.50
2002 - 2003	454.39	672.20	67.60
2003 - 2004	453.16	484.68	93.50
2004 - 2005	501.33	535.13	93.68
2005 - 2006	466.11	517.34	90.10
2006 - 2007	446.57	501.21	89.10

Source: 1) Annual reports of the society

2) Appendix III

Table no. 4.32 represents the ratio of the society is varies between 67.7% to 93.68%. But in the 1st five years it has increasing trend. So it is reveals that society depends upon the outside resources for business because out of total expenditure, cost of funds (interest paid on deposits & borrowings) are the more part of expenditure. In the 6th year ratio is 67.7%. It is the favourable condition because lower ratio is expected. In the 6th year cost of funds decreased but after 6th year ratio has increased. The society should thinking about it. It is the questionable & unfavourable position.

J. RETURN ON TOTAL FUNDS EMPLOYED

This ratio indicates the profitability of the society. The performance of the CCSs is examined in terms of return on total fund employed. This ratio shows the margin of profitability available to the society and to what extent total funds of the society has been effectively utilized.

Formula

$$\text{Return on Total Fund Employed} = \frac{\text{Net Profit}}{\text{Total Fund Employed}} \times 100$$

TABLE NO. 4.33

RETURN ON TOTAL FUNDS EMPLOYED

(Rs. in lakhs)

Year	Net Profit	Total Fund Employed	Ratio (%)
1997 - 1998	47.51	1006.60	4.72
1998 - 1999	55.39	1322.88	4.19
1999 - 2000	65.93	1765.40	3.29
2000 - 2001	80.13	2440.62	3.28
2001 - 2002	95.29	3128.07	3.05
2002 - 2003	120.28	4211.66	2.86
2003 - 2004	131.26	4729.38	2.78
2004 - 2005	152.78	5382.73	2.84
2005 - 2006	149.29	5815.61	2.57
2006 - 2007	157.39	6362.22	2.47

Source: 1) Appendix-VI
2) Appendix-V

Table no. 4.33 shows the ratio of the society is fluctuate between 2.47% to 4.72%. In the last year ratio is very low 2.47%. There is a continuous growth in total fund employed as well as in net profit. It indicates that in the 1st two years the profitability of the society is favourable to some extent. But it goes decreasing continuously from 3rd year to last year. It shows that turnover of the society increased but there is no corresponding increase in the net profit of the society.

4.9 BREAK EVEN ANALYSIS

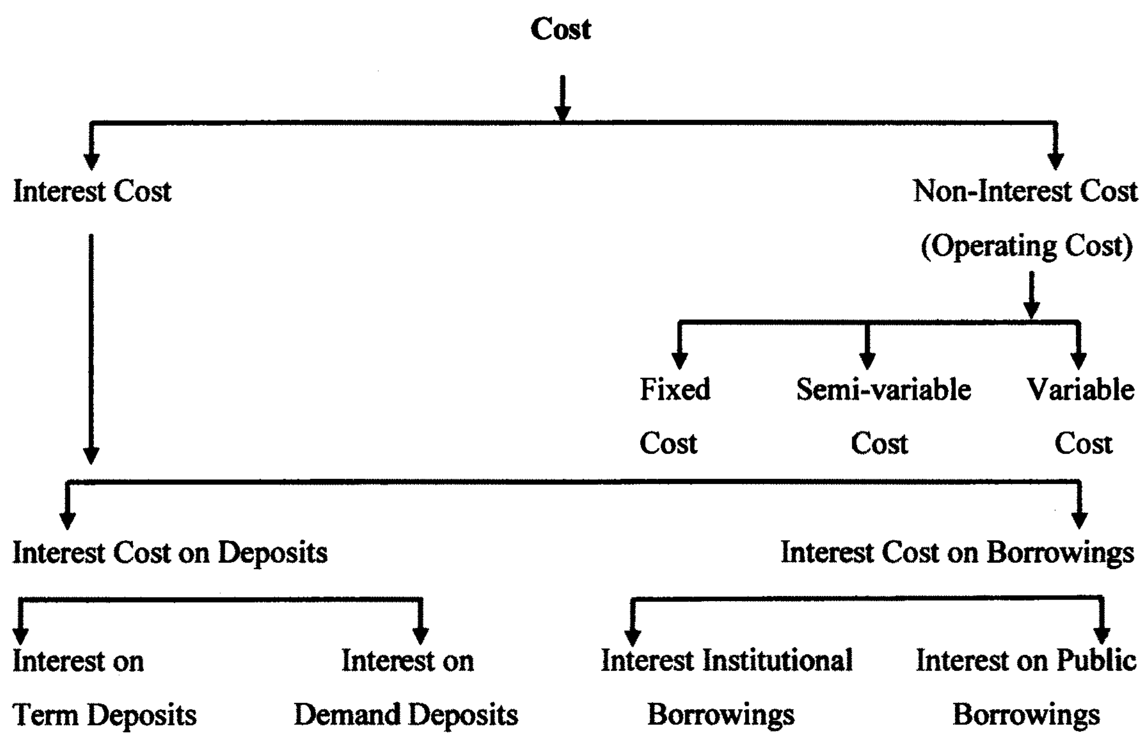
Having the banking sector as an industry, the analytical tools which have been used to industries to assess the profitability and efficiency are used in banking sector also. Break Even point [(7)] (BEP) is one such technique which is principally concerned with Cost Volume Profit Analysis (CVP)

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

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

FIGURE NO. 4.1

COST STRUCTURE



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

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

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

BEP = FC/CR

CR = AR-VC

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

AR = TR/OP

VC Per Unit = VC/OP

CALCULATION OF BREAK EVEN POINT

The break even point can be work out as with the help of using the following formula:

BEP = FC / CR,

CR = AR-VC per unit

Where,

1. TR – Total Revenue (Total interest income + non interest income)
2. OP – Output (Loans & Investments)
3. AR – Average Revenue
4. VC – Variable Cost (Total Interest Cost)
5. CR – Contribution Ratio
6. FC – Fixed Cost (Cost of Management)

AR = TR / OP

VC Per Unit = VC / OP

TABLE NO. 4.34

CALCULATION OF BREAK EVEN POINT

(Rs. in lakhs)

Particulars	1997 - 1998	1998 - 1999	1999 - 2000	2000 - 2001	2001 - 2002	2002 - 2003	2003 - 2004	2004 - 2005	2005 - 2006	2006 - 2007
1. TR	177.78	213.13	270.52	345.23	474.43	875.27	708.97	692.09	669.42	661.59
2. OP	998.09	1310.99	1748.68	2397.52	3065.20	4158.28	4668.06	5318.81	5717.21	6241.85
3. AR (1/2)	0.1781	0.1626	0.1547	0.1440	0.1548	0.1911	0.1519	0.1301	0.1171	0.1060
4. VC	88.20	110.25	151.12	215.96	288.63	454.39	453.16	501.33	466.12	446.57
5. VC Per unit (4/2)	0.0884	0.0841	0.0864	0.0901	0.0942	0.1093	0.0971	0.0943	0.0815	0.0715
6. CR (3-5)	0.0897	0.0785	0.0683	0.0539	0.0606	0.0818	0.0548	0.0358	0.0356	0.0345
7. FC (Cost of Management)	15.20	18.60	17.41	17.27	23.37	24.81	31.51	33.80	51.23	54.64
8. BEP (7/6)	169.45	236.94	254.90	320.41	385.64	303.30	575.00	944.13	1439.04	1583.77

Source: Annual reports of the co-operative society 1997-98 to 2006-07.

Table No. 4.34. represents the BEP of the society under study. Where, contribution of the society is deducted from the Average revenue. Variable cost per unit is calculated by dividing variable cost by out put i.e. loans & advances. And finally BEP of the society is calculated by dividing cost of management with contribution ratio. The contribution ratio of the society shows continuously decreasing trend except the 6th year. It indicates low profitability. The cost of management is also goes increasing continuously from year to year. Greater the BEP ratio lower is the profitability and vice versa.

RATIOS RELATING TO THE BREAK EVEN POINT

Following ratios are calculated relating to the break even point.

TABLE NO. 4.35

CALCULATION OF BREAK EVEN POINT TO OUTPUT RATIO

(Rs. in lakhs)

Year	Output	BEP	CR	% of BEP to Output
1997 – 1998	998.09	169.45	0.0897	16.98
1998 – 1999	1310.99	236.94	0.0785	18.07
1999 – 2000	1748.68	254.90	0.0683	14.58
2000 – 2001	2397.52	320.41	0.0539	13.36
2001 – 2002	3065.20	385.64	0.0606	12.58
2002 – 2003	4158.28	303.30	0.0818	7.29
2003 – 2004	4668.06	575.00	0.0548	12.32
2004 – 2005	5318.81	944.13	0.0358	17.75
2005 – 2006	5717.21	1439.04	0.0356	25.17
2006 – 2007	6241.85	1583.77	0.0345	25.37

Source: Table no. 4.34 Calculation Of Break Even Point

Table no. 4.35 indicates that percentage of BEP to total output was increased 1st year to 2nd year from 16.98% to 18.07%. The ratio is decreases from 3rd year to 6th year upto 7.29%. This indicates that the society earn highest profit in 2002-03 because in 2002-03 break even point is minimum. It is a better position of society i.e. output increases simultaneously the revenues are also increase of the society. There is a positive relation between output and revenue but in the last 4 years there is increase in output but simultaneously decrease in the revenue. Therefore the BEP for the last four years show the increasing trend. In the last 4 years interest on loans & advances and return on investment had not increased in the proportion of output. So the ratio increased it is not a better condition of the society. In 2002-03 outputs are increased but in that proportion revenues are increased. So society has a better condition. But afterwards 2003-04 outputs are increased but in that proportion revenues are not increased so the break even point also increased compare to 2002-03. It is not a better condition of a society.

BREAK EVEN POINT TO TOTAL FUNDS EMPLOYED

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

$$\text{BEP} = \frac{\text{COM in amounts} + \text{Risk Cost in amount} - \text{NII}}{\text{Financial Margin}} \times 100$$

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

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

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

iv) Financial Margin – It is difference between the return on Funds as a percentage to total funds employed and cost of Funds as a percentage to total funds employed.

TABLE NO. 4.36 BEP TO WORKING CAPITAL RATIO

(Rs. In Lakhs)

Year	COM (a)	Risk Cost (b)	NII (c)	Total Cost (d=a+b-c)	Financial Margin (e)	BEP (f=d/e)	Total Funds Employed (g)	% of BEP to Total Funds Employed
1997 – 1998	15.20	0.03	0.09	15.32	6.24	2.46	1006.60	0.24
1998 – 1999	18.60	0.01	0.27	18.88	7.67	2.46	1322.88	0.19
1999 – 2000	17.41	0.03	0.19	17.63	15.00	1.18	1765.40	0.07
2000 – 2001	17.27	0.02	0.35	17.64	4.43	3.98	2440.62	0.16
2001 – 2002	23.37	0.11	0.73	24.21	3.78	6.40	3128.07	0.20
2002 – 2003	24.81	0.53	0.77	26.11	8.06	3.24	4211.66	0.08
2003 – 2004	31.52	0.08	0.70	32.30	3.44	9.39	4729.38	0.20
2004 – 2005	33.80	1.06	0.60	35.46	3.54	10.02	5382.73	0.19
2005 – 2006	51.23	0.70	0.90	52.83	3.49	15.14	5815.61	0.26
2006 – 2007	54.64	0.75	0.77	56.16	3.37	16.66	6362.22	0.26

Source: 1) Appendix-V 2) Appedix- VI 3) Table no. 4.26 Net Interest Income Ratio (Financial Margin Ratio)

Table no. 4.36 indicates that the BEP level calculated on the basis of management expenses, risk cost and non interest income. It constitutes the total cost, which is compared with financial margin. The BEP had increased from 1.18 to 27.18 in the 3rd year to 6th year respectively and subsequently decreased to some extent as compared to 6th year. This indicates that the society has earned adequate profit in the first 4 years and in the 6th year. In the year 2002-03 the BEP to working capital ratio is minimum (0.08%) because the society has earned highest profit. But in the 8th and 9th year BEP to working capital ratio has 0.20 % and 0.19% respectively. Subsequently in the last 2 years the BEP to working capital ratio was increased by 0.26%. It indicates that the society has earned low net profit. It is observed that profitability of the society reducing due to the decrease in the financial margin and increase in the risk cost. It may be concluded that the interest income of the society decreasing.

4.10 COMPARATIVE BALANCE SHEET

The comparative balance sheet statement indicates the financial strength [8] of the society. The meaning of strength is power and power refers to capacity therefore the word 'Strength' may be defined as one's ability to resist or overcome a strain. Similarly financial strength may be described as one's ability to overcome or meet financial obligations.

The term financial strength has related to the ability of society i) To meet the claims of outside liabilities not only under favourable economic condition but also under the unfavourable situation that may occur in future. ii) To take the advantages of various dealings of societies or expansion which require presently own resources, additional funds obtained through the societies long term obligations.

The comparative balance sheet statement is one that shows the separate items of different years. It is also known as the vertical analysis of the balance sheet items.

So researcher can find out the relative importance of each individual amount stands in balance sheet and compare the figure of two or more than two year. And make the analysis clearly. The comparative statement of balance sheet shows the distribution of liabilities and owners equity that means all the sources of funds and application of funds on the assets side.

TABLE NO. 4.37

COMPARATIVE STATEMENT OF BALANCE SHEET (LIABILITIES)

(Rs. In Lacks)

Liabilities & Capital	1997 - 1998	1998 - 1999	1999 - 2000	2000 - 2001	2001 - 2002	2002 - 2003	2003 - 2004	2004 - 2005	2005 - 2006	2006 - 2007
1.**Share Capital**										
a.Authorized	300.00	300.00	500.00					1000.00	1000.00	1500.00
b.Paid-up Capital	252.72	300.67	365.47	434.00	518.66	623.21	723.14	819.92	910.92	1012.85
2.Reserves & other funds	68.71	87.62	106.80	119.17	141.00	362.04	385.94	359.09	411.48	472.21
3.**Deposits**										
a. Long term	484.21	630.14	912.61	1390.00	1818.54	2420.23	2824.93	3083.25	3177.20	3166.05
b. Medium term	2.84	6.34	14.25	29.52	38.07	79.10	94.54	57.07	8.73	62.95
C .Short term	35.83	65.58	153.27	246.13	270.67	284.69	252.07	691.27	998.70	1153.36
Total (a+b+c)	522.88	702.06	1080.13	1665.65	2127.28	2784.02	3171.54	3831.59	4184.63	4382.36
4.Borrowings	69.12	119.02	68.84	43.12	123.01	77.91	161.16	32.64	33.14	208.06
5.Contra Items										
6.Other liabilities	45.53	58.07	78.13	98.47	122.38	242.09	155.97	182.53	123.36	126.35
7. Profit	47.64	55.44	66.03	80.21	95.74	122.39	131.63	156.96	152.08	160.37
Grand Total	**1006.60**	**1322.88**	**1765.40**	**2440.62**	**3128.07**	**4211.66**	**4729.38**	**5382.73**	**5815.61**	**6362.22**

Source: Annual reports of the co-operative society 1997-98 to 2006-07.
Ref.: Rao K. Someshwar, 'Economics of Rural Banking', Anmol Publications Pvt. Ltd., New Delhi, 1998. 187, 204

Table no. 4.37 represents the distribution of the liabilities, owners fund and borrowing. It means sources of the funds. The above statement indicates the different sources of funds for the ten years. Under the fixed liabilities category, paid up share capital, reserve and surplus Long term deposits and borrowings are increasing continuously for the study period so it is concluded that financial strength of the society is very strong. The other liabilities of the society also shows increasing trend. Society can pay it at the date of maturity. The liquidity position of the society is also very strong. And finally the profit position of the society is also shows increasing trend for the ten years.

TABLE NO. 4.38

COMPARATIVE STATEMENT OF BALANCE SHEET (ASSETS)

(Rs. In Lacks)

Assets & Properties	1997 - 1998	1998 - 1999	1999 - 2000	2000 - 2001	2001 - 2002	2002 - 2003	2003 - 2004	2004 - 2005	2005 - 2006	2006 - 2007
1.Cash in hand & at bank	0.58	0.09	0.33	1.45	7.75	3.02	11.69	7.31	2.73	2.32
2.Investment	74.46	88.07	112.30	296.70	367.43	580.98	423.34	552.36	624.32	537.77
3.Loan&advance										
a. Long term	16.83	27.49	31.62	40.54	45.24	280.42	503.09	677.18	814.38	909.69
b. Medium term	865.85	1125.87	1521.74	1958.96	2251.85	3202.41	3627.33	3963.99	4163.58	4669.31
c. Short term	40.95	69.56	83.04	101.33	100.71	94.48	114.39	125.27	114.95	125.11
Total (a+b+c)	923.63	1222.92	1636.40	2100.83	2697.80	3577.31	4244.81	4766.44	5092.91	5704.11
4.Fixed Asset										
a.Land & building	3.54	3.34	3.63	4.38	4.42	4.43	4.73	12.56	46.00	56.55
b. Dead stock	1.87	1.91	2.15	2.48	2.86	3.00	3.47	3.83	4.05	4.59
c. Computer				1.20	1.20	1.20	1.20	1.20	3.54	12.85
Total (a+b+c)	5.41	5.25	5.78	8.06	8.48	8.63	9.40	17.59	53.59	73.99
5.Other Asset (Sundry Asset)	2.52	6.55	10.59	33.58	46.61	41.72	40.14	39.03	42.06	44.03
Grand Total	**1006.60**	**1322.88**	**1765.40**	**2440.62**	**3128.07**	**4211.66**	**4729.38**	**5382.73**	**5815.61**	**6362.22**

Source: Annual reports of the co-operative society 1997-98 to 2006-07.
Ref.: Rao K. Someshwar, 'Economics of Rural Banking', Anmol Publications Pvt. Ltd., New Delhi, 1998. 187, 204

Table no. 4.38 represents distribution of the assets of the society of the ten years. It constitutes current assets, fixed assets and other sundry assets. As regards current assets of the society, all the assets i.e. cash in hand, investments and different classes of loans & advance figures shows increasing trend continuously for the ten years. It has ability convert it into cash, so the liquidity position of the society is up to the mark. Regarding fixed assets, society included land & building, furniture and computers. The figures of land and building and furniture show large investment continuously for the ten years. The society has made investment in computers from the year 2000-01. It increased in 9th & 10th year at 3.54 & 12.85 lakhs respectively. The other assets of the society also show increasing trend, in comparison the figures of it among the ten years. So we conclude that the application of the funds of the society is on proper line.

4.11 COMPARATIVE INCOME STATEMENT

Comparative profit & loss account [9] of CCS have been prepared to study & evaluate the performance of the society during the period of 10 years. It establishes the relationship between the income received from various sources & expenses incurred on various heads and also includes the cost of management and interest paid on loans and borrowings. Comparative profit & loss statement is most important because it represents the profitability of he society for the period under study. In the statement, comparative figures are considered relating to the interest received on investment and dividend with interest paid on loans & borrowings. The comparison between above factors is very necessary to find out the net profit margin of the society.

TABLE NO. 4.39

PROFIT AND LOSS ACCOUNT (EXPENDITURE)

(Rs. In Lacks)

Expenditure	1997 - 1998	1998 - 1999	1999 - 2000	2000 - 2001	2001 - 2002	2002 - 2003	2003 - 2004	2004 - 2005	2005 - 2006	2006 - 2007
1.Interest paid on deposit & borrowings	114.94	139.09	187.08	247.74	355.32	454.39	545.83	501.33	466.11	446.57
2.Interest on capital						80.67				
3.Salary, provident fund, subscription & charges	6.40	7.22	8.17	9.27	9.04	14.06	20.00	22.20	25.36	27.63
4.Printing & stationary	1.00	1.01	1.25	1.47	1.69	1.63	2.03	2.34	1.89	2.25
5.Rent & Rates	0.63	0.69	0.94	1.40	1.46	1.64	2.19	2.32	2.30	2.95
6.Other Misc.Exp.	7.17	9.68	7.05	5.14	11.18	7.49	7.29	6.94	21.68	21.82
7.Provisions										
Bad & doubtful Debts	0.03	0.01	0.03	0.02	0.11	0.53	0.08	1.06	0.70	0.75
Dividend Equalization Fund	0.03	0.01	0.02	0.02	0.11	0.53	0.10	1.04	0.70	0.75
Building Fund	0.07	0.03	0.05	0.04	0.23	1.06	0.18	2.09	1.39	1.49
Other Provision						193.00				
Total	0.13	0.05	0.10	0.08	0.45	195.12	0.36	4.19	2.79	2.99
8.P & L A/C (N.P.)	47.51	55.39	65.93	80.13	95.29	120.27	131.27	152.77	149.29	157.38
Total	**177.78**	**213.13**	**270.52**	**345.23**	**474.43**	**875.27**	**708.97**	**692.09**	**669.42**	**661.59**

Source: Annual reports of the co-operative society 1997-98 to 2006-07.

Reference: Rao K. Someshwar, 'Economics of Rural Banking', Anmol Publications Pvt. Ltd., New Delhi, 1998, P-202.

The table no. 4.39 represents the broad items of expenses for the study period. Under this interest paid on deposits and borrowings is the main item of expenditure. It shows increasing trend during the last 10 years with increase in deposits and borrowings. At the same time, during the year 2002-03 the society have done the capital investment in land & building for the society so the cost of capital interest stated is 80.67 lakhs. The administrative expenses of the society include salary, contribution to provident fund, printing & stationary, rent & rates and other Misc. expenses. These expenses are increasing continuously for the period of 10 years. This is due to branch expansion of the society. The society has made the provision for bad & doubtful debts, dividend equalization fund, building fund and other provision. The figures of the provision also show increasing trend for the comparison of the 10 years. It is concluded that during the 10 years the expenditure on every head of expenditure increased due to capital expenditure and revenue expenditure increased due to branch expansion and other reasons.

TABLE NO. 4.40

COMPARATIVE STATEMENT OF INCOME

(Rs. In Lakh)

Income	1997 – 1998	1998 - 1999	1999 - 2000	2000 - 2001	2001 - 2002	2002 - 2003	2003 - 2004	2004 - 2005	2005 - 2006	2006 - 2007
1. Interest Recovery on loans & advances & invest-tment	177.69	212.86	270.33	344.88	473.70	793.83	708.27	691.48	668.52	660.82
2.Capital Interest						80.67				
3. Commi-ssion exchange brokerage (Dividend on bank shares)	0.09	0.27	0.18	0.35	0.73	0.77	0.70	0.61	0.90	0.77
Total	**177.78**	**213.13**	**270.52**	**345.23**	**474.43**	**875.27**	**708.97**	**692.09**	**669.42**	**661.59**

Source: Annual reports of the co-operative society 1997-98 to 2006-07.

Reference: Rao K. Someshwar, 'Economics of Rural Banking', Anmol Publications Pvt. Ltd., New Delhi, 1998, P-202.

Table no. 4.40 shows income side of the society for the study period. Broadly it includes interest received (revenue & capital) and commission, brokerage and dividend on bank shares. The figures of interest received shows increasing trend continuously for the 10 years. It includes recovery on loans and interest from investment. Regarding capital interest, it is shown in the year 2002-03. It is the contra items shown in the balance sheet of that year. The income from commission exchange and brokerage shows fluctuating trend during the last 10 years.

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