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A STUDY ON WORKING CAPITAL MANAGEMENT OF DCC BANKWITH SPECIAL REFERENCE TO COIMBATORE DISTRICT

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Abstract
Cooperative banking has been playing a crucial role in the development of rural economy and work as a backbone of Indian financial system. The economic development emerging out of globalization, liberalization and privatization has resulted in the creation of competitive environment. Due to this prevailing environment of competition, the role of public sector is declining and private sector is rising very strong. Hence, cooperative banks have no option but to compete with these highly professionalized institutions in providing rural credit to the farmers. The most important function required for the purpose of the success of cooperative banks is working capital management. Working capital management is one of the most important functions of cooperative bank management. The study is an attempt to analyze the efficiency of working capital management of CDCC Bank during 2009-2010 to 2013-2014.

Keywords: Credit, Deposit, Coimbatore District Central Cooperative Bank (CDCCB)

1.1 INTRODUCTION

India has basically an agrarian economy with 72% of its total population residing in rural areas. The rural people need lot of services in daily life which are met by village cooperative societies. The seeds of cooperation in India were sown in 1904 when the first Cooperative Societies Act was passed. The cooperative credit system of India has the largest network in the world and cooperatives have advanced more credit in the Indian agricultural sector than commercial banks.

The cooperative system in India can be classified into two types' viz., credit and noncredit cooperatives. The credit cooperative has a three tier structure for the distribution of rural credit with primary agricultural credit cooperatives at the village level, District Central Cooperative Banks at the District level and State Cooperative Banks at the State level. The urban areas are served by urban credit cooperatives. The non-credit cooperatives include producers' societies, Consumer cooperatives and others like housing, transport, insurance, labour, farming cooperatives etc. Cooperative societies are also capable of handling activities pertaining to agriculture and small industry marketing, processing, distribution and supplies.

A cooperative bank is a financial entity which belongs to its members, the owners and the customers of their bank. Cooperative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Cooperative banks generally provide their members with a wide range of banking and financial services.(loans, deposits, banking accounts, etc).

These banks are regulated by several supervisors, including the Reserve Bank, the State Governments and the National Bank for Agriculture and Rural Development (NABARD), National Federation of State Cooperative Banks Ltd (NAFSCOB).

The main objective of the cooperative credit structure of the State is to fulfill financial requirements of the farmers by providing them short & medium-term loans. The cooperative banking sector is one of the main partners of Indian banking structure which have more reach to the rural India, through their huge network of credit societies in the institutional credit structure.

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1.2 OBJECTIVES OF THE STUDY

The present study aims to highlight the progress made by CDCC Bank in terms of financial variables like owned funds, deposits, borrowings, loans and advances working capital and profits etc. Ratio analysis is also done to figure out some more facts about the bank. Following are the other objectives of the study

1. To analyze the Deposits, Credits and C/D Ratios of CDCCB
2. To study the size of working capital in CDCC Bank
3. To examine the growth of CDCCB through selective indicators.
4. To evaluate the liquidity position

1.3 METHODOLOGY OF THE STUDY

For the purpose of the study only secondary data have been collected from the annual reports of the bank. For analysis of the data, various statistical tools (Mean, S.D, C.V, Trend analysis)has been used to arrive at conclusion in a scientific way.

1.4 LIMITATIONS OF THE STUDY

In the present analysis only a few parameters have been studied. The major limitation of the present study includes the followings-

1. The data are secondary in nature
2. As such the data are taken from the records, the analysis is based on the rendered information from the institutions alone.
3. The suggestions rendered may not be extended to the similar type of agency.

1.5 REVIEW OF THE LITERATURE

Various studies conducted and numerous suggestions were sought to bring effectiveness in the working and operations of financial institutions.

Narsimham Committee (1991) emphasized on capital adequacy and liquidity,

Padamanabhan Committee (1995) suggested CAMEL rating (in the form of ratios) to evaluate financial and operational efficiency,

Tarapore Committee (1997) talked about Non-performing assets and asset quality,

Kannan Committee (1998) opined about working capital and lending methods,

Kapoor Committee (1998) recommended for credit delivery system and credit guarantee

Verma Committee (1999) recommended seven parameters (ratios) to judge financial performance and several other committees constituted by Reserve Bank of India to bring reforms in the banking sector by emphasizing on the improvement in the financial health of the banks.

Experts suggested various tools and techniques for effective analysis and interpretation of the financial and operational aspects of the financial institutions specifically banks. These have focus on the analysis of financial viability and credit worthiness of money lending institutions with a view to predict corporate failures and incipient incidence of bankruptcy among these institutions.

Bhaskaran and Josh (2000) concluded that the recovery performance of co-operative credit institutions continues to unsatisfactory which contributes to the growth of NPA even after the introduction of prudential regulations. They suggested legislative and policy prescriptions to make co-operative credit institutions more efficient, productive and profitable organization in tune with competitive commercial banking.

Jain (2001) has done a comparative performance analysis of District Central Co-operative Banks (DCCBs) of Western India, namely Maharashtra, Gujarat and Rajasthan and found that DCCBs of Rajasthan have performed better in profitability and liquidity as compared to Gujarat and Maharashtra.

Singh and Singh (2006) studied the funds management in the District Central Co-operative Banks (DCCBs) of Punjab with specific reference to the analysis of financial margin. It noted that a higher proportion of own funds and the recovery concerns have resulted in the increased margin of the Central Co-operative Banks and thus had a larger provision for non-performing assets.

Mavaluri, Boppana and Nagarjuna (2006) suggested that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to stable the economy. They found that public sector banks have been more efficient than other banks operating in India.

Pal and Malik (2007) investigated the differences in the financial characteristics of 74 (public, private and foreign) banks in India based on factors, such as profitability, liquidity, risk and efficiency. It is suggested that foreign banks were better performers, as compared to other two categories of banks, in general and in terms of utilization of resources in particular.

Campbell (2007) focused on the relationship between nonperforming loans (NPLs) and bank failure and argued for an effective bank insolvency law for the prevention and control of NPLs for developing and transitional economies as these have been suffering severe problems due to NPLs.

Singla (2008) emphasized on financial management and examined the financial position of sixteen banks by considering profitability, capital adequacy, debt-equity and NPA.

Dutta and Basak (2008) suggested that Co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment.

Chander and Chandel (2010) analyzed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management efficiency parameters.

1.5 RESULTS AND DISCUSSIONS

Liquidity Ratio: Liquidity for a bank means the ability to meet its financial obligations as they come due. Bank lending finances investments in relatively liquid assets, but it funds its loans with mostly short term liabilities. Thus one of the main challenges to a bank is ensuring its own liquidity under all reasonable conditions.

a) **Credit Deposit Ratio**

The survival of any bank mostly depends upon the credit and deposits. So, the credit-deposit ratio is important not only for individual banks, but also for an analysis of the banking system as a whole. Deposits are the principal source of the operating funds of banks and credit (or Advances) is the principal avenue for the deployment thereof. A total deposit includes amount deposits by the members (individuals and member societies) and borrowers.

$$\text{Ratio} = \frac{\text{Total Advances}}{\text{Total Deposits}} * 100$$

b) **Current Ratio**

It is the difference between the current assets and current liabilities. Current assets includes cash in hand, cash at bank, bills receivable, income receivable etc. whereas current liabilities includes bank overdraft, Bills payable creditors, outstanding expenses etc.

$$\text{Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} * 100$$

c) **Inventory Ratio**

The Inventory of the bank consists like cash balances, balances with other bank, interest receivables and bills receivables.

$$\text{Ratio} = \frac{\text{Inventory}}{\text{Net working capital}} * 100$$

Profitability Ratio

The profitability ratios are used to study the overall efficiency of any business organization. Profit is measure of efficiency and key survival and expansion of an organization.

a) Net profits to owned funds

The net profits include profits earned by the bank after appropriations whereas owned funds includes share capital, all reserves, and surplus of CDCCB

$$\text{Ratio} = \frac{\text{Net profits}}{\text{Owned funds}} * 100$$

STATEMENT OF CHANGES IN WORKING CAPITAL

Working capital means the excess of current assets over current liabilities. Statement of changes in working capital is prepared to show the changes in the working capital between the two balance sheet dates. This statement is prepared with the help of current assets and current liabilities derived from the two balance sheets.

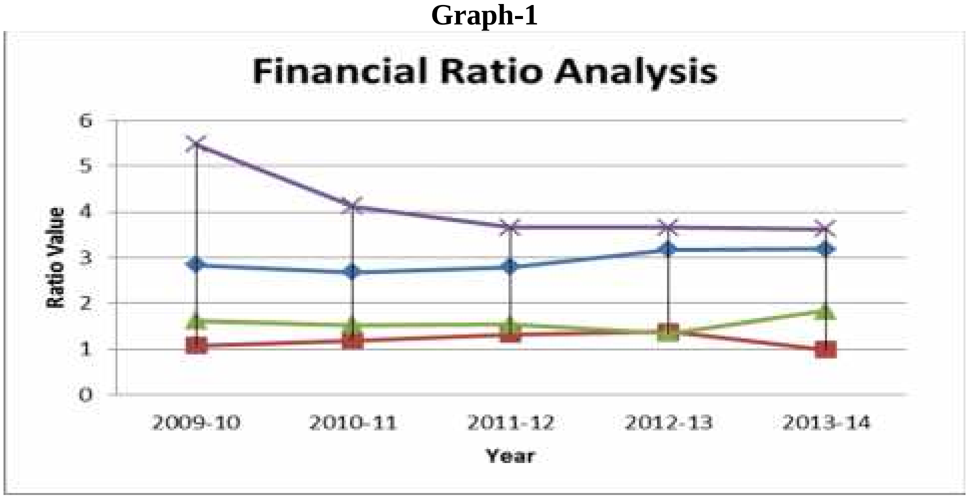
Working Capital = Current Assets – Current Liabilities

Table-1, Financial Ratio Analysis

Year	Net profit to owned funds	Credit-Deposit Ratio	Liquidity Ratio	Inventory Ratio
2009-10	2.84	1.08	1.62	5.48
2010-11	2.68	1.19	1.53	4.13
2011-12	2.79	1.33	1.54	3.66
2012-13	3.18	1.39	1.35	3.66
2013-14	3.19	0.99	1.84	3.63
Average	2.936	1.196	1.576	4.112

Sources: Annual Reports of CDCCB

Graph-1



Interpretation

Net profit to owned funds ratio was positive in 2009-10 to 2013-14 of CDCCB. The lowest ratio 2.68 in 2010-11.The highest ratio 3.19 in 2013-14which indicated a return of 4% on owned funds. The average worked out to

2.93. It indicated that the overall performance was good for the progress of the bank. The liquidity ratio for the past 5 years came into within standard i.e, standard liquidity ratio 2:1.

The credit deposit ratio of CDCCB during study period moved from 1.08 in 2009-10 to 0.99 in 2013-14 which was declined by 0.09 during the same period. Thus average beings 1.196. It reaches its high in 2012-2013 (1.39) whereas low 0.99 in 2013-14.

This current ratio was than unity in all the years of study. The standard norm is 2:1. The ratio fluctuated throughout the research period and it moved from 1.62 in 2009-10 to 1.84 in 2013-204. Thus, the average being 1.576%. As this ratio actually shows a good trend it could be concluded that the bank had maintain a reasonable level of the liquidity position.

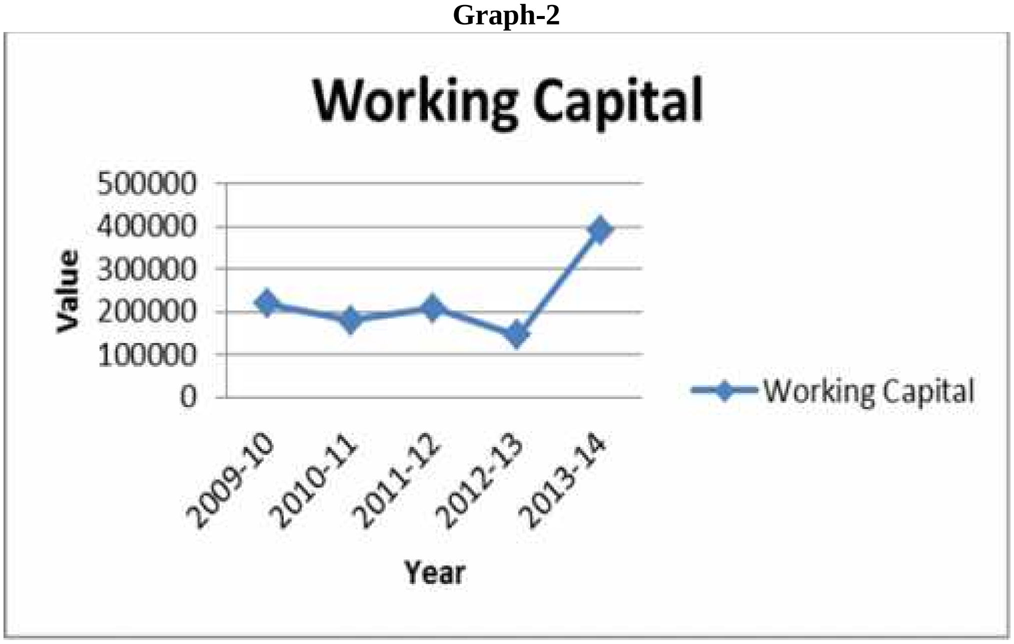
Inventory ratio measures the extent to which the net working capital finances the current assets. This ratio was not more than unity during the study period. It varied between 5.48 and 3.63 and the average for the study period was 4.11. It indicated that the networking capital of the CDCCB was not tied up in inventory.

Table-2, Statement of Changes in Working Capital (Rs. In Lakhs)

Year	Working Capital	Increase/Decrease
2009-10	218817.59	
2010-11	180125.75	(-)38692.59
2011-12	208349.54	(+)28223.78
2012-13	145306.38	(-)63043.15
2013-14	391982.26	(+)24667.58

Source: Annual Reports of CDCCB

Graph-2



Interpretation

The above table analyzed the statement of changes in working capital. The amount of working capital fluctuating every year. During the study period the amount of working capital in 2009-10 to 2010-11 is decreased by 38692.6 Lakhs and at the end of the study period working capital amount is increased comparing to previous year. i.e

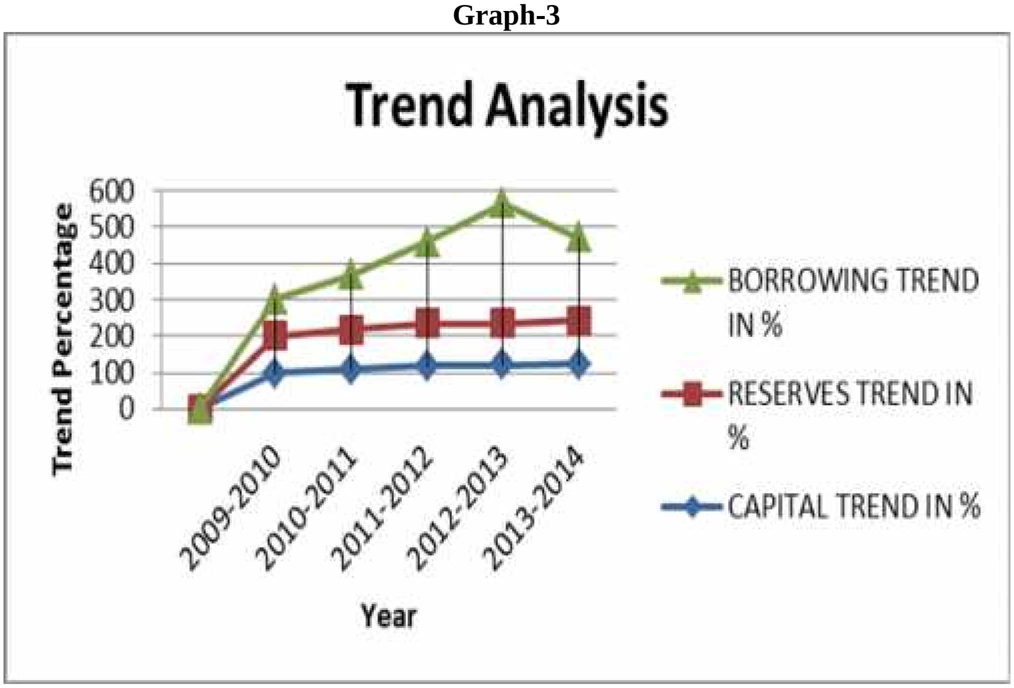
2011-12 to 2012-13 and 2012-13 to 2013-14 is decreased 63043.1 Lakhs and increased 24667.58 Lakhs respectively. This difference shows the bank ability to maintain the current assets and current liability.

Table-3, Trends of Capital, Reserves and Borrowings of CDCCB

Year	Capital Rs.	Trend In %	Reserves Rs.	Trend In %	Borrowings Rs.	Trend In %
2009-2010	1214800188	100	1214850826	100	1068731345	100
2010-2011	1334643604	109.86	1302153490	107.18	1622022968	151.77
2011-2012	1445426522	118.98	1413667947	116.36	2401004309	224.65
2012-2013	1479286822	121.77	1371215024	112.87	3519109707	329.27
2013-2014	1514563847	124.67	1438913922	118.44	2435971704	227.93
Mean	1397744197	115.056	1348160242	110.97	2209368007	206.724
S.D	122494724.1	10.0819904	90756589.91	7.4694043	928644606.1	86.888596
C.V	8.76	8.76	6.73	6.73	42.02	42.02

Source: Annual Reports of CDCCB Base year 2009-10.

Graph-3



Interpretation

The above table analyzed the funds of CDCCB and their trend in terms of Capital, Reserves and Borrowings. The amount of capital is 121480 Lakhs in 2009-2010, it has been gradually increased and reached 151456 Lakhs in 2013-14 with percentage of 24.67 (124.67-100). In case of reserves, they are 121485Lakhs in 2009-2010 where as in 2013-14 it was recorded 143891 Lakhs with 18.44% (118.44-100) growth trend. The borrowings are collected by the banks to meet the short term and long term credit needs. The borrowings of CDCCB during the year 2009-10 are 106873 Lakhs, the growth of borrowings have fluctuating growth according to the credit needs of the bank, finally the borrowings are recorded 243597 Lakhs in the year 2013-14 with 127.93%(227.93-100)growth. The average growth of Capital, Reserves and Borrowings of CDCCB is 139. %774, 134.816%, and 220.93% respectively. The S.D of Capital 122.49%, Reserves is 90.75%, and Borrowings 92.86%.

Table-4, The Overall Performance of Coimbatore District Central Cooperative Bank
(Rs. In Lakhs)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14	Mean	S.D	C.V
Memberships	1067	1068	1068	1073	1079	1071	5.0497524	0.47
Paid up Capital	2455.2	2780.42	3111.54	3450.15	3802.92	3120.046	532.1475	17.05
Reserves Fund	1776.37	2102.23	2521.34	2719.78	2982.13	2420.37	482.5361	19.93
Total Deposits	62423.4	69531.5	76361.6	86815.4	122714.5	61480.65	28941.91	47.07
Investments	27666.5	27263.7	25452.1	28253.4	51520.2	32031.16	10944.81	34.16
Total Loans Outstanding	67709	83255.5	101563	121499	121768	99159	23759.63	23.96
Profit(+)/Loss(-)	682.46	700.07	792.76	904.41	934.96	802.93	115.0290	14.32

Sources: Annual Reports of CDCCB.

Interpretation

The above given table of research methodology clearly depicts a stability in the membership was significantly high in the year 2009-10 is 1077 which saw an increase in the following the years similarly growth in the year 2013-14 is 1079. The capital invested significantly enhanced from the year 2009-2014 rising from 2455.2 lacks to 3802.92 lacks. The cherry on the cake was that the reserved capital also increased boomingly from 1776.37 lacks to 2982.13 lacks. At once the total number of deposits were 62423.4 lacks and at the other time it 122714.5 lacks in the year 2013-14. Investments during these years also witnessed a massive increase from 27666.5 lakhs to 51520.2 lakhs. The total number of loans which had been outstanding were 67709lakhs which increased by the year 2013-14 by 121768 lakhs. As a whole, the report seemed to be fruitful with the results as it depicted massive increase in the productivity and the profitability.

CONCLUSION

The performance of the Coimbatore District Central Cooperative Bank in India is analyzed using different statistical techniques. From the above analysis, it is concluded that the growth of CDCCB and its branches positively trend up to certain period later there is negligible negative trend. The statement or efficiency of working capital is fluctuating every year. The financial position of this bank analyzed by ratio analysis techniques and it is found that the position of liquidity, profitability is satisfactory. CDCCBs profit position is increasing every year so this bank is one of the profits making DCCB in India. CDCCB should try to upgrade technology and should formulate customer friendly policies to face competition with commercial banks. CDCCB should attract the more customers and retain the existing customers by promotional activities and awareness program. If the bank upgrade the technology and connect all the branches with head office, covering the more customers, there is no doubt that it may render remarkable services to its customers.

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