

## FINANCIAL PERFORMANCE OF PERINGANDOOR SERVICE COOPERATIVE BANK

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### Abstract

*Cooperatives in Kerala are well developed and highly democratic in nature. The three tiers Short-Term Cooperative Credit Structure consist of the Kerala State Cooperative Bank (KSCB), 14 District Cooperative Banks (DCB) and the 1587 Primary Agricultural Credit Societies (PACS). The Peringandoor Service Co-operative Bank Ltd No: 297 (PSCB) is situated in Athani of Thrissur District, Kerala. PSCB is one of the few Primary Service Co-operatives that has attained a net profit of one Crore Rupees. Considering its importance in cooperativising the rural economy, the researchers thought of assessing the financial performance of Peringandoor Service Co-operative Bank. Financial performance of Peringandoor Service Co-operative Bank was analyzed with respect to Efficiency in Mobilization of Deposits, Efficiency in Deployment of funds and Efficiency in Operation. From the ratio analysis it is clear that the Bank is Efficient in Mobilization of Funds, Efficient in Deployment of Funds and Efficient in Operations. During the study period the Bank was running on Profit. Spread Ratio, Burden Ratio and the Profitability Ratio are reflecting a favourable result to the Bank. Further, the study reveals the dominance of Borrowed Funds in Working Capital throughout the reference period.*

**Key words:** Financial Performance, Efficiency, Mobilization, Deployment and Profitability

### Background and Justification

Cooperatives in Kerala are well developed and highly democratic in nature. In addition to the traditional Credit Cooperatives, Cooperatives are also performing well in the fields of Healthcare, Education, Housing, Labour Contract, Fisheries and Milk, Coir and Consumer. Cooperative Credit structure in Kerala is mainly classified in to two viz., short-term credit structure and long-term credit structure. The three tier Short-Term

Cooperative Credit Structure consist of the Kerala State Cooperative Bank (KSCB), 14 District Cooperative Banks (DCB) and the 1587 Primary Agricultural Credit Societies (PACS). Long Term Cooperative Credit Structure consists of Kerala State Cooperative Agriculture and Rural Development Bank (KSCARDB) and the 75 Primary Cooperative Agriculture and Rural Development Banks. In addition to these, 179 Urban Cooperative Banks, 1122 Employees Credit Cooperatives and 160 Non-Agricultural Credit Cooperatives are also functioning. The Peringandoor Service Co-operative Bank Ltd No: 297 (PSCB) is situated in Athani of Thrissur District, Kerala. PSCB is one of the few Primary Service Co-operatives that has attained a net profit of one Crore Rupees. The bank has completed 84 successful working years as on 31<sup>st</sup> March 2017. The area of operation of the Peringandoor Service Co-operative Bank consists of the entire Peringandoor, Minaloor and Parlikadu villages and a ward of Mundathikode village. Almost all eligible persons in the area of operation are members of the Society. The PSCB, in addition to the normal banking functions, do business like running of Supermarket, Neethi Medical Store, OnamChantha(Market), Textile Shop, Fertilizer Depot and Labour bank in the name of green army. Considering its importance in cooperativising the rural economy, the researchers thought of assessing the financial performance Peringandoor Service Co-operative Bank.

### **Objective of the Study**

The objective of the study is to analyse the financial performance of the Peringandoor Service Co-operative Bank.

### **Methodology**

The study is based mainly on the secondary data collected for ten years from 2006-07 to 2015-16 from the annual reports of Peringandoor Service Co-operative Bank. Financial performance of Peringandoor Service Co-operative Bank was analyzed with respect to Efficiency in Mobilization of funds, Efficiency in Deployment of funds and in Operation.

### **Efficiency in Mobilization of Funds**

The analysis related to Efficiency in Mobilization of Funds facilitates the bankers to identify the right mix of funds and its sources. The banker can reduce the cost of funds significantly if a continuous assessment takes place in this line. The Efficiency in Mobilization was studied with the help of the following ratios:

1. Deposit to Working Capital Ratio
2. Borrowed Fund to Working Capital Ratio
3. Owned Fund to Borrowed Fund Ratio

### **Deposit to Working Capital Ratio**

Deposit to Working Capital Ratio shows the amount of Deposit in the Total Working Capital of the bank. The Efficiency of Deposit Mobilization should match with equally Efficient Deployment of Funds. Appended Tables depicts that the Deposits to Working Capital Ratio shows a fluctuating trend from 2006-07 to 2015-16. During the study

period, 92 to 98 percent of Working Capital was covered by the Deposits from members. The higher ratio implies the efficiency of the Bank in Deposit Mobilization. During the study period the CAGR in case of Deposits was 23.60 percent and Working Capital was 23.3 percent.

### **Borrowed Fund to Working Capital Ratio**

This ratio shows the share of Borrowed Funds in the Working Capital of Bank. A higher ratio is an indicative of higher share of Borrowed Funds in Working Capital. A lower ratio is advisable for banks to show good performance. Appended Tables depicts that the Borrowed Funds to Working Capital ratio shows a fluctuating trend from 2006-07 to 2015-16. There was a sudden decline to the ratio from 2010-11 to 2011-12. In the year 2015-16 about 99 percent of Working Capital was covered by Borrowed Fund. Increase in Borrowed Fund was because of hike in Deposits over the reference period.

### **Owned Funds to Borrowed Funds Ratio**

The ratio explains the relationship between Owned Funds and Borrowed Funds. Higher ratio is preferable for any business and it indicates the increased share of Owned Funds in the functioning of the business. Appended Tables exhibits the ratio of Owned Funds to Borrowed Funds of PSCB for a period of ten years from 2006-07 to 2015-16. It is clear that the Owned Fund to Borrowed Fund Ratio has decreased from 14.6 percent in 2006-07 to 8.22 percent in 2015-16. Both the Owned Fund and Borrowed Fund are increasing every year and the growth rate of Owned Fund is less than the Borrowed Fund. Ratio shows a dominance of Borrowed Fund than Owned Fund in Total Funds.

### **Efficiency in Deployment**

Efficiency in Deployment of Funds is as equally important as Mobilization. The funds collected by the bank through Owned Fund and Borrowed Funds should be deployed in profitable avenues. The following ratios were employed for examining the efficiency in deployment of funds by PSCB.

1. Credit to Deposit Ratio
2. Credit to Owned Fund Ratio
3. Credit to Working Capital Ratio

### **Credit to Deposit Ratio**

This is very important criterion suitable for assessing the financial performance of bank about creating credit out of the Deposits they have mobilized. It is computed for knowing the performance of bank in converting the cost incurring funds into maximum interest earning assets. A higher ratio highlights the Efficiency in Deployment of Fund by the bank. Appended Tables shows Credit to Deposits Ratio of the Bank from 2006-07 to 2015-16. It reveals that the Credit to Deposits ratio has decreased from 71.1 percent in 2006-07 to 68 percent in 2015-16. Both Deposits and Credits have increased during the study period. Credit disbursement has not increased in tune with the significant

increase in Deposits. During the last year the Bank could deploy only about 68.08 percent of its deposit as credit to the people of the Bank.

### **Credit to Borrowed Fund Ratio**

Credit to Borrowed Funds ratio reveals the measure of the efficiency of the bank in converting the Borrowed Funds to Loans and Advances. The cost of the Borrowed Funds is the major expenditure of the Bank. The higher ratio implies the efficiency in deploying the funds, so a high ratio is preferred. Appended Tables shows the Credit to Borrowed Fund Ratio of PSCB from 2006-07 to 2015-16. It has a fluctuating trend over the ten years. The highest ratio was during 2011-12 i.e.89.78 percent. A higher ratio is preferred. It implies the efficiency of the Bank in Deploying the Funds. In the year 2015-16 they could convert only about 67 percent of its Borrowed Funds as Credit to its customers. During the study period the CAGR of Credit was 23.07 percent and 23.82 percent in case of Borrowed Fund.

### **Credit to Working Capital Ratio**

Credit to Working Capital Ratio is a quantitative measure of the loaning operation of the bank. This ratio shows the share of Credit in Working Capital. Higher the Ratio, higher will be the efficiency in managing funds. The deployment of Credit is naturally affected the interest earning capacity of the Bank and hence the Profit. Appended Tables shows the Credit to Working Capital Ratio of Bank for the period of 10 years. It could be observed that the ratio shows a fluctuating trend from 2006-07 to 2015-16. The ratio was 67.46 percent during 2006-07 and it has decreased to 66.18 percent in 2015-16. The Bank utilized 66 percent of its Working Capital for converting into Credit in 2015-16. This means that the Credit has moderately increased and money mobilized was deployed satisfactorily.

### **Efficiency in Operation**

Efficiency in Operation indicates the result of all banking transactions. Profitability Ratio is expressed in absolute terms indicates whether the bank's operations are satisfactory or not. Appended Tables shows the Profitability Ratio of the Bank from 2006-07 to 2015-16. From the figure it's clear that the ratio exhibits a fluctuating trend over reference period. It ranges from 1.33 to 3.30. Though the Profitability Ratio is favourable for the Bank, in this competitive era the Bank should put some more efforts to maintain the spread margin and improve the Profitability level of Bank.

### **Conclusion**

From the ratio analysis it is clear that the Bank is Efficient in Mobilization of Funds, Efficient in Deployment of Funds and Efficient in Operations. During the study period, the Bank was running on Profit. Spread Ratio, Burden Ratio and the Profitability Ratio are reflecting a favourable result to the Bank. Further, the study reveals the dominance of Borrowed Fund in Working Capital throughout the reference period. The Credit to Deposit Ratio is satisfactory for the reference period but from the deposit mix it is obvious that the Bank accepts more cost bearing Deposits viz., Fixed Deposits which

also affect the profitability of the Bank. Bank should kick off some steps for cost reduction in mobilizing resources and ensure yield from Deployment of Funds. Because the nature of sources from which the Funds have been mobilized and cost of such Funds play an important role in Profitability of the Bank. Further, the bank should sustain their non-banking activities of the bank in a profitable manner.

**Appendix**

**Table 1: Selected Financial Performance Indicators of PSCB from 2006-07 to 2015-16 (Rs. in crores)**

Year	Owned Fund	Deposits	Borrowed Fund	Working Capital	Credit	Net profit	Spread	Burden	Total Fund
2006-07	2.33	15.95	15.96	16.18	11.34	0.2	0.25	-0.18	18.29
2007-08	3.21	20.45	20.46	21.13	13.98	0.19	0.3	-0.48	23.67
2008-09	3.25	25.98	25.98	27.20	20.13	0.3	0.11	-0.66	29.23
2009-10	3.98	36.34	36.34	37.30	26.1	0.32	0.2	-0.73	40.32
2010-11	4.96	42.60	42.69	43.39	33.74	0.27	0.06	-0.6	47.65
2011-12	6.55	52.62	52.72	57.10	47.33	0.19	0.48	-0.6	59.27
2012-13	7.52	63.24	63.33	68.24	52.26	0.39	1.54	-0.1	70.85
2013-14	8.03	78.28	80.37	85.11	54.15	0.21	1.12	-0.17	88.4
2014-15	9.45	100.19	102.03	107.10	78.15	0.36	1.95	-1.3	111.48
2015-16	11.11	132.76	135.19	136.54	90.36	0.48	0.37	-1.57	146.3
<b>CAGR</b>	16.91%	23.60%	23.82%	23.3%	23.07%	9%			23.11%

**Source:** Audit Reports of PSCB from 2006-07 to 2015-16

**Table 2: Selected Financial Performance Ratios of PSCB from 2006-07 to 2015-16**

Year	Deposit to Working Capital Ratio	Borrowed Fund to Working Capital Ratio	Owned Fund To Borrowed Fund Ratio	Credit to Deposit Ratio	Credit to Borrowed Fund Ratio	Credit to Working Capital Ratio	Profitability Ratio
2006-07	94.88	98.64	14.60	71.10	71.05	67.46	2.35
2007-08	95.96	96.82	15.69	68.36	68.33	65.60	3.30
2008-09	95.51	95.51	12.51	77.48	77.48	74.01	2.63
2009-10	97.45	97.42	10.95	71.82	71.82	69.99	2.31
2010-11	98.18	98.39	11.62	79.20	79.03	77.76	1.39
2011-12	92.15	92.33	12.42	89.95	89.78	82.89	1.82
2012-13	92.69	92.8	11.87	82.64	82.52	76.59	2.31
2013-14	91.98	94.43	9.99	69.17	67.38	63.62	1.46
2014-15	93.55	95.27	9.26	78.00	76.60	72.97	2.92
2015-16	97.24	99.01	8.22	68.06	66.84	66.18	1.33

**Source:** Calculated values from the data base of Table 1

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