



www.eprawisdom.com

Research Paper

A STUDY ON THE PERFORMANCE INDICATORS OF RURAL CO-OPERATIVE BANKS

Mamta Sharma¹

¹Assistant Professor, Department of Commerce, Kishan Lal Public College, Rewari, Haryana, India

ABSTRACT

Rural cooperative banks are involved basically in the agricultural and allied activities. It means the cooperative banks play vital role in providing finance to the needy persons of the rural areas. The primary objective of rural cooperatives can be satisfied only in a case where the cooperative itself is feasible. The present study is conducted to elaborate the concept of rural cooperative banks and study their performance in terms of financial parameters and assets quality. For the present study secondary data have been collected from the website of Reserve Bank of India considering the period starting from 2005 to 2015. Data have been collected using Report on Trend and Progress of Banking in India, RBI. It has been found in the present study that the risk factor is very high in case of Primary Co-operative Agricultural and Rural Development Banks and State Co-operative Agriculture and Rural Development Banks as these are mainly financed by the borrowed capital. The profitability position of long term rural co-operative banks is not so good, as both types of institutions have shown overall loss during the study period. The study states that the position of asset quality is not so clear because both the units are having a large amount of non-performing assets.

KEYWORDS: Rural cooperative banks, non-performing assets, financial parameters, borrowed capital

INTRODUCTION

Cooperative Banks in India can be considered as an integral part of the success of Indian Financial Inclusion programme. They have accomplished so many milestones throughout the journey as they have assisted a normal rural Indian to experience empowered and protected. Cooperative banking is basically related with the retail and commercial banking which is organized on the basis of cooperation. These banks also work in the same way as the other banks do, like to collect deposits from the public (persons having surplus income) and lend this amount to the persons who are in the need of money or funds. Indian cooperative structures are one of the largest networks in the world with more than 200 million members. It has about 67% penetration in villages

and providing huge fund i.e. 46% of the total rural credit. It also stands for 36% of the total distribution of rural fertilizers and 28% of rural fair price shops (www.gktoday.in Updated: June 28, 2017). Today, the co-operative banks in rural areas mainly provide finance to the agricultural based activities including farming, cattle, milk, hatchery, personal finance etc. along with some small scale industries and self-employment driven activities, the co-operative banks in urban areas provide finance to various categories of people for self-employment, industries, small scale units and home finance.

From the above statement, it is clear that rural cooperative banks are involved basically in the agricultural and allied activities. It means the cooperative



banks play vital role in providing finance to the needy persons of the rural areas. But for providing specific services to rural people, these banks must have the features of a sound financial institution. The primary objective of rural cooperatives can be satisfied only in a case where the cooperative itself is feasible. So, it is very important to study the soundness of rural cooperative banks. The present study is conducted to elaborate the concept of rural cooperative banks and study their performance in terms of financial parameters and assets quality.

REVIEW OF LITERATURE

Darzi (2016) studied the performance of cooperative banks functioning in J & K State and found that the performance of cooperative banks in the state is not as per the expectations with which these banks have been established. It was suggested that the focus of the cooperative movement in J&K should be aimed at building a democratically energetic, economically feasible and self-sufficient movement. Since the cooperatives are considered to be the backbone of the rural credit formation due to their many intrinsic characteristics, strengthening this structure is therefore a precondition, if the credit requirements of the rural public are to be properly tackled. **Kanchu (2012)** examined the growth of DCCBs in India through selective indicators and analyzed the Deposits, Credits and C/D Ratios of DCCBs. The growth of investment, working Capital and Cost of Management position in DCCBs was also studied in the paper. In results, it was revealed that the growth in the number of DCCBs and their branches have negative trend up to certain period later there was negligible positive trend. Almost double increase had been recorded in the capital, reserves, and borrowings during the study period, with a nominal percentage of variation. **Goyal and Kaur (2011)** analyzed the asset quality of Urban Co-operative Banks working in India and also evaluated the return on assets of Urban Co-operative Banks in India along with pattern of financing to different sectors. As per the findings of the study, the position of Non Performing Assets in banks had been improved over the period of study. However, in the year 2007-08, the NPA in these banks increased in comparison of the previous year. During the study period, most of the UCBs had Capital Adequacy Ratio more than 9 percent. **Chander and Chandel**

(2010) examined the financial feasibility, efficiency and performance of four DCCBs operating in Gurgaon division in Haryana (India), viz. Gurgaon, Faridabad, Mahendergarh and Rewari for a period of twelve years (1997-98 to 2008-09) by financial analysis and z-score analysis. The parameters for the evaluation were profitability, liquidity, efficiency, solvency, risk and bankruptcy in the study. In results, it was revealed that four DCCBs with approximately fifty branches have not been performing well on all financial parameters taken for study. The banks were found performing well on one parameter but deteriorated on another and in different years as well. All the banks have been found becoming the part of bankruptcy zone (weak performance zone) throughout the study period. It was suggested that the banks should change their vision and act accordingly for sustenance in competitive financial environment.

OBJECTIVES OF THE STUDY

1. To study the balance sheet indicators of Long Term Rural Co-operative Banks.
2. To evaluate the asset quality of Long Term Rural Co-operatives.
3. To study the profitability of Long Term Rural Co-operatives.

RESEARCH METHODOLOGY

The present study is descriptive cum analytical in nature. For the present study secondary data have been collected from the website of Reserve Bank of India considering the period starting from 2005 to 2015. Data have been collected using Report on Trend and Progress of Banking in India, RBI. The collected data have been compiled into tables and analyzed with the help of various statistical tools. There are two broader types of Co-operative Bank in India namely Urban Co-operative Bank and Rural Co-operative Banks. Rural Co-operative Banks have further classification of Long Term Co-operatives and Short Term Co-operatives. For the present study, Rural Long Term Co-operative Banks have been selected.

BALANCE SHEET INDICATORS OF RURAL

The balance sheet indicators of Primary Co-operative Agriculture and Rural Development Banks can be described with the help of following Table I:

Table I Balance Sheet Indicators of Primary Co-Operative Agriculture and Rural Development Banks (PCARDBs)

Year	Amount in Billion					
	Owned Funds	Deposits	Borrowings	Loans & Advances	Total Liabilities	Owned Funds/Total Liabilities Ratio (%age)
2005	34.94	3.65	128.73	127.63	203.55	17.17
2006	33.80	3.82	130.66	127.40	213.65	15.82
2007	35.96	3.41	127.51	121.14	217.74	16.52
2008	30.39	3.31	102.06	95.29	182.09	16.69
2009	50.07	4.00	123.65	112.68	248.46	20.15
2010	51.65	4.61	128.32	114.82	250.37	20.63
2011	49.00	5.00	128.00	116.00	252.00	19.44
2012	48.00	5.00	135.00	120.00	262.00	18.32
2014	53.00	7.40	144.40	128.90	279.70	18.95
2015	53.50	10.20	163.70	148.10	306.80	17.44
Mean	44.03	5.04	131.20	121.20	241.64	18.22
S. D.	9.09	2.17	15.60	13.65	37.55	
C.V.	20.64	43.13	11.89	11.26	15.54	

Source: Report on Trend and Progress of Banking in India, RBI.

Table I shows various balance sheet indicators namely owned funds, deposits, borrowings, loans and advances, total liabilities and owned funds to total liabilities ratio. The data for the total liabilities indicates that it is mainly consisted of the borrowings and loans and advances. So it clearly shows the high risk factor in case of Primary Co-operative Agricultural and Rural Development Banks. The proportion of owned funds in total liability is very low as compared to the proportion

of borrowed funds, as the average Owned Funds to Total Liabilities Ratio is 18.22% during the study period. Co-efficient of variation is tool to measure the consistency of a particular series. In the present study, the co-efficient of variation is lowest in case of loans and advances and highest for deposits. It means the amount of deposits is less consistent as compared to the other variables of balance sheet.

Table II Balance Sheet Indicators of State Co-Operative Agriculture and Rural Development Banks (SCARDBs)

Year	Amount in Billion					
	Owned Funds	Deposits	Borrowings	Loans & Advances	Total Liabilities	Owned Funds/Total Liabilities Ratio (%age)
2005	50.22	5.66	171.80	174.22	242.71	20.69
2006	33.52	6.36	170.75	177.13	246.04	13.62
2007	29.31	6.05	166.62	186.44	243.36	12.04
2008	37.13	6.45	158.43	182.17	244.03	15.22
2009	40.03	7.11	158.49	164.21	253.86	15.77
2010	45.10	7.59	155.81	170.00	255.62	17.64
2011	45.00	10.00	162.00	178.00	285.00	15.79
2012	64.00	11.00	160.00	194.00	294.00	21.77
2014	68.70	15.40	157.50	204.00	310.30	22.14
2015	74.70	18.40	161.10	211.90	332.90	22.44
Mean	48.77	9.40	162.25	184.21	270.78	18.01
S. D.	15.47	4.37	5.60	15.11	32.57	
C.V.	31.72	46.44	3.45	8.20	12.03	

Source: Report on Trend and Progress of Banking in India, RBI.

In case of State Co-operative Agriculture and Rural Development banks, proportion of loans and advances is highest in total liabilities and lowest proportion is of the deposits in total liabilities. As per the owned funds to total liability ratio, this ratio is highest in the year 2015 (22.44%). The average owned

funds to total liabilities ratio has been found at 18.01% during the study period. Co-efficient of variation has been found at highest level in case of deposits (46.44%) and lowest in case of borrowings (3.45%). It can be concluded here that deposits are less consistent than any other variable.

Table III Profitability of Primary Co-Operative Agriculture and Rural Development Banks (PCARDBs)

Year	No. of Co-operatives	Amount in Billion				Overall Profit/Loss
		Institutions in Profit		Institutions in Loss		
		Number	Profit	Number	Loss	
2005	727	262	6.65	465	2.74	3.91
2006	696	331	3.28	194	4.11	-0.83
2007	697	350	4.19	342	5.66	-1.47
2008	697	203	1.70	258	5.16	-3.46
2009	697	303	1.77	309	3.75	-1.98
2010	697	276	1.23	416	5.38	-4.15
2011	697	329	2.00	368	4.00	-2.00
2012	697	358	2.00	338	4.00	-2.00
2014	714	372	2.70	340	5.10	-2.40
2015	702	319	1.80	381	5.60	-3.80
Mean		310.3	2.73	341.1	4.55	-1.82

Source: Report on Trend and Progress of Banking in India, RBI.

Table III depicts the profitability of Primary Co-operative Agricultural and Rural Development Banks i.e. total number of Co-operatives, institutions in profit, institutions in loss and overall profit or loss. The total number of Co-operatives was highest in 2005 (727). After this year, the number has been found consistent i.e. 697 from the year 2007 to 2012. The average number of co-operative institutions in profit has been found at 310 institutions with the average profit of Rs 2.73 billion and average number of co-operative institutions making loss has been found at 341 having Rs. 4.55 billion average

loss. Overall loss has been occurred at Rs. 1.82 billion; this average loss has been found just because of the average number of profit making co-operative institutes is less than the average number of loss making co-operative institutes. It means that the loss making co-operatives are more than the profit making co-operatives which may be an obstacle for the profitability of Primary Co-operative Agricultural and Rural Development Banks in long run. The study suggests that the imbalance between the profit making and loss making Co-operatives must be eliminated for enhancing the profitability of these units.

Table IV Profitability of State Co-Operative Agriculture and Rural Development Banks (SCARDBs)

Year	No. of Co-operatives	Institutions in Profit		Institutions on Loss		Overall Profit/Loss
		Number	Profit	Number	Loss	
2005	20	11	0.81	9	2.44	-1.63
2006	20	11	3.35	8	2.27	0.88
2007	20	10	2.80	8	1.90	0.90
2008	20	9	1.51	8	3.98	-2.47
2009	20	11	3.98	8	3.49	0.49
2010	20	10	1.27	9	1.55	-0.27
2011	20	9	1.00	10	4.00	-3.00
2012	20	10	1.00	10	3.00	-2.00
2014	20	8	1.60	11	5.10	-3.50
2015	20	9	1.10	4	5.00	-3.90
Mean		9.8	1.84	8.5	3.27	-1.45

Source: Report on Trend and Progress of Banking in India, RBI.

Table IV demonstrates the profitability of State Co-operative Agriculture and Rural Development Banks which include total number of Co-operatives, institutions in profit, institutions in loss and overall profit or loss. Total number of co-operatives in case of State Co-operative Agriculture and Rural Development Banks has been recorded as 20 co-operatives throughout the study period. The data for the mean value shows that the average number of profit making unit (10) is more than the loss making units (8), even then the Overall profit or loss is showing a negative value i.e. Rs. 1.45 billion. It means that State Co-operative Agriculture and Rural Development Banks have made an average loss of Rs. 1.45 billion. The mean value of profit making units for its profits has been found Rs. 1.84 billion. The mean value of loss making units for its losses has been found Rs. 3.27 billion. Although the number of profit making units is more than the loss making units even then overall loss has been found instead of profits. The profit making units are more in number but the fact is, profits are less in figures in comparison of loss incurred by the loss

making units. This is why the mean value of profits is less than the mean value of losses and overall losses has been made by the State Co-operative Agriculture and Rural Development Banks.

ASSETS QUALITY OF LONG TERM RURAL CO-OPERATIVE BANKS

For studying the assets quality, the knowledge regarding classification of non-performing assets is needed. The NPAs may be classified into four broader classes. Those are standard assets, sub-standard assets, doubtful assets and loss assets.

Standard assets are those assets which yield the income regularly as such paying interest and installments. Any loan becomes a sub-standard asset when the loan is non-performing assets up to 12 months. Doubtful assets are those sub-standard assets which are non-performing assets for a period of three years or more. Loss assets are those loans which have been identified as loss asset by the bank or internal/external auditor or by the Reserve Bank of India.

Table V Assets Quality of Primary Co-Operative Agriculture and Rural Development Banks (PCARDBs)

Year	Amount in Billion							
	Total NPA	Sub-Standard	Percentage to Total	Doubtful Assets	Percentage to Total	Loss Assets	Percentage to Total	NPA/Loans (%age)
2005	40.54	21.61	53.30	18.45	45.50	0.50	1.20	31.90
2006	45.86	26.64	58.10	18.73	40.80	0.49	1.10	35.64
2007	43.16	25.12	58.20	17.83	41.30	0.21	0.50	35.40
2008	51.17	29.83	58.30	21.06	41.20	0.28	0.50	51.60
2009	47.42	27.69	58.40	19.30	40.70	0.43	0.90	42.20
2010	48.90	27.70	56.70	20.60	42.10	0.57	1.20	42.60
2011	49.00	25.00	50.30	24.00	49.20	0.20	0.40	40.60
2012	47.00	21.00	45.70	25.00	53.60	0.30	0.60	38.60
2013	49.80	23.20	46.60	26.20	52.60	0.43	0.90	37.70
2014	48.10	22.10	46.00	25.60	53.30	0.40	0.80	37.30
2015	53.60	27.30	50.90	26.00	48.50	0.30	0.60	36.20
Mean	47.69	25.20		22.07		0.37		39.07

Source: Report on Trend and Progress of Banking in India, RBI.

From the above table, it is clear that the overall non-performing assets, sub-standard assets, doubtful assets and loss assets of Primary Co-operative Agricultural and Rural Development Banks have been fluctuating throughout the study period. The average of non-performing assets was Rs. 47.69 billion. It means around 40% of the loans sanctioned by the Primary Co-operative Agricultural and Rural Development Banks

have been turned up as non-performing assets. The mean value of sub-standard assets and doubtful assets are Rs. 25.20 billion and Rs. 22.07 billion respectively. Average loss assets are Rs. 0.37 billion during the study period. Ratio of non-performing assets to total loans has a mixed trend, as in the year 2005; the level of ratio was 31.90% and after having a hike to 51.60% in the year 2008, this ratio has been recorded at 36.20 in the year 2015.

Table VI Asset Quality of State Co-Operative Agriculture and Rural Development Banks (SCARDBs)

Year	Amount in Billion							
	Total NPA	Sub-Standard	Percentage to Total	Doubtful Assets	Percentage to Total	Loss Assets	Percentage to Total	NPA/Loans (%age)
2005	54.37	32.88	60.50	21.29	39.20	0.20	0.40	31.30
2006	57.79	37.53	64.90	20.08	34.70	0.18	0.30	32.70
2007	56.43	43.15	76.50	13.10	23.20	0.17	0.30	30.30
2008	64.35	34.65	53.80	27.61	42.90	2.09	3.20	34.80
2009	49.48	29.42	59.50	19.70	39.80	0.36	0.70	30.40
2010	57.00	28.00	50.20	27.00	48.30	0.90	1.60	33.20
2011	60.00	29.00	48.90	30.00	50.80	0.20	0.30	32.30
2012	64.00	30.00	46.40	34.00	53.30	0.20	0.30	33.10
2013	67.50	28.20	41.70	38.10	56.40	1.20	1.80	36.00
2014	76.60	31.05	42.80	41.40	57.00	0.10	0.20	35.60
2015	64.40	24.60	38.10	39.20	60.90	0.60	0.90	30.30
Mean	61.08	31.68		28.32		0.56		32.73

Source: Report on Trend and Progress of Banking in India, RBI.

From the above table, it is depicted that total number of non-performing assets of State Co-operative Agriculture and Rural Development Banks have increasing trend during the study period except the years 2007, 2009 and 2015 where non-performing assets have been decreased. Sub-standard assets, doubtful assets

and loss assets have been fluctuating throughout the study period. Average of the sub-standard assets, doubtful assets and loss assets have been found as Rs. 31.68 billion, Rs. 28.32 billion and Rs. 0.56 billion respectively. The mean of overall non-performing asset is Rs. 61.08 billion which is 32.73% of the total loans.

The non-performing assets are the idle assets whose returns are not certain and which are no longer beneficial for any financial institution. As the ratio of NPA to Loans is high, so it can be concluded that the asset quality of State Co-operative Agriculture and Rural Development Banks is not so good.

CONCLUSION

Cooperative Banks in India can be considered as an integral part of the success of Indian Financial Inclusion programme. In the present study, it has been found that the risk factor is very high in case of Primary Co-operative Agricultural and Rural Development Banks and State Co-operative Agriculture and Rural Development Banks as these are mainly financed by the borrowed capital. The profitability position of long term rural co-operative banks is not so good, as both types of institutions have shown overall loss during the study period. As per the asset quality, the condition is not so clear because both the units are having a large amount of non-performing assets.

REFERENCES

1. Chander, R., & Chandel, J. K. (2010). *Financial Viability and Performance Evaluation of Co-operative Credit Institutes In Haryana (India)*. *International Journal of Computing and Business Reserach*, 1 (1).
2. Darzi, D. M. (2016). *Performance Evaluation of Co-operative Banks of Jammu and Kashmir State*. *International Journal of Commerce and Management Research*, 2 (5), 17-20.
3. Goyal, A., & Kaur, H. (2011). *Performance Evaluation of Urban Cooperative Banks in India*. *Elixir International Journal*, 31, 1966-1973.
4. Kanchu, T. (2012). *Performance Evaluation of DCCBs in India- A Study*. *Asia Pacific Journal of Marketing & Management Review*, 1 (2), 169-180.
5. <http://www.rediff.com/money/2009/jul/29perfin-what-you-need-to-know-about-co-operative-banks.html>