CHAPTER – V

FINANCIAL PERFORMANCE

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial analysis can be undertaken by management of the firm or by parties outside the firm, viz., owners, creditors, investors and others. The nature of analysis will differ depending on the purpose of the analyst. For example, trade creditors are interested in the fact that the firm should be able to meet their claims over a very short period of time. Their analysis will, therefore, confine to the evaluation of the firm’s liquidity position. The suppliers of long-term debt, on the other hand, are interested in the firm’s long-term solvency and survival. They analyse the firm’s profitability over time, its ability to generate cash to be able to pay interest and return their claims and the relationship between various sources of funds (capital structure relationships) long-term creditors not only analyse the historical financial statements, but require the firm’s supply projected or pro forma financial statements to make analysis about the firm’s future solvency and profitability. Similarly, investors, who have invested their money in the firm’s shares, are most concerned about the firm’s earnings. They restore more confidence in those firms that show steady growth in earnings. As
such, they concentrate on the analysis of the firm’s present and future profitability. They are also interested in the firm’s financial position to the extent it influences the firm’s earnings ability. Finally, management of the firm would be interested in every aspect of the financial analysis. It is their overall responsibility to see that the resources of the firm are used most effectively and efficiently, and that the firm’s financial condition is sound. Though financial analysis, they try to seek answers to the following questions.¹

1. Is the firm in a position to meet its current obligations?

2. What sources of long-term finance are employed by the firm and what is the relationship between them? Is there any danger to the solvency of the firm due to the employment of excessive dept?

3. How efficiency does the firm use its assets?

4. Are the earnings of the firm adequate?

5. Do investors consider the firm profitable and safe for the purpose of investing there in the shares of the firm?

Financial analysis may not provide exact answers to these questions, but it does indicate what can be expected in the future. The purpose of this chapter is to discuss ratio analysis as a technique of analyzing the financial information, contained in the balance sheet and the profit and loss account, for a more meaningful understanding of the financial position and performance of the three UCBs in Salem District.

Several ratios can be calculated from the accounting data contained in the financial statements. These ratios can be grouped into various classes according to the financial activity or function to be evaluated. The parties which generally undertake financial analysis are short-term creditors, long-term creditors, owners and management. Short-term creditors’ main interest is in the liquidity position or the short-term solvency of the firm. Long-term creditors, on the other hand, are more interested in the long-term solvency and profitability of the firm. Similarly, owners concentrate on firm’s profitability analysis and the analysis of the firm’s financial conditions. Management are interested in evaluating every activity of the firm. They firm have to protect the interests of all parties and see that the firm grows profitably. In view of the requirements of the various users of ratios, they are classified in this study into the following four important categories.

1. Solvency ratios
2. Operational ratios
3. Productivity ratios
4. Profitability ratios

5.1 Solvency ratios

The short term creditors like bankers and suppliers of materials are concerned with the firm’s current debt – paying ability. On the other hand, long term creditors like debenture holders, financial institutions etc., are more concerned with the firm’s long term solvency.
Financial strength is a pre requisite for any bank in order to run its
operation successfully and smoothly and also to ensure its long-term
existence. The solvency position of the selected three Urban Co-operative
Banks in Salem District has analyzed with the help of the following five
ratios, i.e., (i) cash to deposits ratio, (ii) investments to deposits ratio,
(iii) credits to deposits ratio, (iv) spread to total assets ratio, (v) net worth to
fixed assets ratio, and they are exhibited the Table 5.1.

5.1.1 Cash to deposits ratio

Cash is an item where a part of working funds has been to meet day-
to-day demand and to maintain the prescribed statutory requirement of cash
reserve ratio. Cash, here, includes cash in hand and cash at bank (balance
with RBI). Deposit is the major sources of funds in all the commercial bank
including UCBs. Deposits here include all types of deposits mobilized by
the bank.

Cash to deposits ratio reflects the liquidity position of the bank. It
helps the management of the bank to evolve strategic deployment of funds
without leaving any idle assets. The present CRR requirement is 5 per cent
of the demand and a low level of liquidity damages the images of the bank.
Therefore, the bank has to strike out a balance between liquidity and
profitability and maintain the cash balance at an optimum level of
requirement. More cash balance with reference to the deposits will indicate
the existence of more idle assets which are non-remunerative.
The average cash to deposits ratio of SUCB is arrived for the study period as 0.29 times. In other words, an average of 29 per cent of the deposits has been kept as cash. The first half of the decade, the solvency ratio was increased from 0.23 times to 0.38 times and it has slowly decreased from 0.36 times to 0.13 times during the second half of the study period. It indicates that SUCB has deployed the funds in investments or credit portfolio.

AUCB had an average cash to deposit ratio of 0.04 times in the whole study period. It denotes that AUCB has to take risk for the maintenance of minimum cash balance.

An average cash to deposit ratio of SKUCB was 0.56 times in the whole study period. It has an average cash to deposit ratio was 0.97 times in the first half of the decade. In this period, the SKUCB has not taken required steps to deploy the idle funds of cash balance. In the second half of the decade, the cash balance has steeply decreased and it was 0.05 times in 2010-11.

SUCB and SKUCB had 31 per cent and 97 per cent of the deposits respectively as average cash in the first half of the decade. But they decreased their cash balance to 27 per cent and 16 per cent of their deposits respectively in the second half of the decade. The AUCB has lower percentage of its deposits as cash throughout the study period. Among the
three banks, the SKUCB has realized the consequences of higher cash balance. It may help to shower higher liquidity position. The SUCB has realized the moderate cash balance during the decade. The AUCB has maintained the minimum cash balance throughout the decade. It may help to increase the profitability of the bank. Three UCBs were maintaining a cash balances in different mode. Therefore all the three UCBs should maintain an optimum level of cash balance by trading off between liquidity and profitability.

5.1.2 Investments to deposits ratio

Investment is the funds which are deployed essentially to meet certain statutory requirements, like statutory liquidity ratio, as prescribed by RBI. Present SLR is 25 per cent of demand and time liabilities. The DTL of the bank consist mainly deposits mobilized both under demand and time deposits schemes of the bank. The co-operative banks are restricted to invest their money in bonds and securities. Therefore, the investment portfolio has not gained much importance in the co-operative banking sector, including UCBs. However, the bank can part its funds with less risk and high security, but the revenue will be low. It helps the bank to maintain a required level of liquidity, as the banks can convert the investments into cash with certain formalities to meet the exigencies. Such a volatile operation is not possible in case of the funds employed in loans and
advances. Though the investment portfolio does not play a major role to meet certain requirements and to maintain a reasonable liquidity in the bank’s activities, the UCBs have to invest in government securities as directed by RBI.

In SUCB an average of 22 per cent of the deposits are used to keep in investments during first half of the decade while in the second half of SUCB has used more funds to deploy under investments, as the average of the second half is arrived at as 30 per cent. The average ratio for the whole decade is 0.26 times. The performance of SUCB, under investment portfolio may be compared with its performance in cash to deposit ratio. The SUCB has slightly higher percentage of deposits under cash (Average 29%) a non- remunerative asset. But it has low level of investment to deposit ratio (average 26%), where investment is an asset that can provide income to the bank by way of either interest or dividend.

The AUCB has an average of 56 per cent of its deposits in investment during the first five year of the study period. The investment has slowly decreased to 46 per cent during the last five years of the study period. The AUCB had larger deposits is investments as average of 51 per cent. The average ratio of cash to deposits was seen as 0.04 times. Thus, AUCB has more investment portfolio than in kept cash balance. It helps to earn more income to the AUCB.
The SKUCB has an average of 51 per cent its deposits in investments during the ten years taken for the study. The SKUCB has 70 per cent of its deposits in investments during the first five years. In the second half of the decade, SKUCB has drastically reduced its investments to 32 per cent. The average ratio of cash to deposits was seen as 0.56 times. Thus, SKUCB has more cash balance in its operations than in investment portfolio. This position has to be reversed to earn more revenue.

Among the three UCBs, the ACUB and SKUCB have maintained 51 per cent of its deposits in investments. The SUCB has invested its deposits at lower level of 26 per cent during the study period. It indicates that the SUCB have not taken any steps to augment income by diverting the excess cash balances to investment portfolio without affecting the liquidity and solvency.

5.1.3 Credit to deposits ratio

Credit to deposits ratio is an index of the health of banking system in terms of demand for credit in proportion to total deposit growth in the banking sector. The ideal level of CD ratio for a bank is 65 to 70 per cent.\(^2\) Credit portfolio is very important as well as sensitive for a bank, where the larger income. On the other hand deposits are the major source of funds for the banking operations as well as the major item in the total demand and

\(^2\)Mohsin M. (1986), Financial planning and control, Vikas Publishing House (p) Ltd., New Delhi, p. 5
time liabilities of the bank. Bank has to meet the statutory obligations of both CRR and SLR. After meeting CRR and SLR requirements, the balance amount of deposits as well as other components of working funds are available with the banker to deploy in various forms of assets to generate income. Among the various forms of assets are created by the bank, credit formation (Loans and advances) is the one single major area on which the bank depends for its interest revenue. The interest income generated from the credit portfolio must take care of meeting the cost of deposits (interest paid on deposits) and providing marginal surplus to the bank. The link between the credit and deposits in a bank is being studied through the CD ratio. Adequate CD ratio ensures the solvency status of the bank. The bank must take concerned efforts to maintain an optimum level of CD ratio to ensure required level of consists income generation. A declining CD ratio implies that banking sector was flush with funds without any corresponding demand for credit affecting the bank’s profitability in the long run as have to pay interest to depositors without corresponding income from the credit outflow.

SUCB has almost a homogenous distribution of the credit to deposits ratio throughout the period of ten years except in 2007-08. The average ratio is 0.63 times for the decade.
The average credit to deposits ratio of AUCB for the study period is 0.70 times, except the two years (i.e., 2006-07 and 2010-11) of the study period. The credit to deposits ratio of the bank is less than the average of the remaining eight years.

The average of credit to deposits ratio of SKUCB for the decade under study is 1.17 times. Except the first three years of the study period in all other seven years, the credit to deposits ratio of the bank is less than the average. Thus, the SKUCB has marginally a low rate of credit to deposits ratio which could be hiked to enhance its interest income.

Out of the three UCBs, the average credit deposits ratio is comparatively high in SKUCB and it is low in other two banks. In many of the years of the decade, the credit to deposits ratio of the selected UCBs is almost equal to the standard norms. It indicates that the SKUCB and AUCB had a better solvency and continuous flow of interest income during the study period.

5.1.4 Spread to total assets ratio

The spread of a bank means the remainder of subtracting the interest paid on deposits from the interest earned on advances. The spread to total assets ratio is the quotient of dividing the spread by the total assets.
### Table 5.1

**Solvency Ratios of Selected UCBs in Salem District**

<table>
<thead>
<tr>
<th>Year</th>
<th>SUCB</th>
<th>AUCB</th>
<th>SKUCB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>0.23</td>
<td>0.17</td>
<td>0.70</td>
</tr>
<tr>
<td>2002-03</td>
<td>0.28</td>
<td>0.20</td>
<td>0.63</td>
</tr>
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<td>2003-04</td>
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<td>0.22</td>
<td>0.64</td>
</tr>
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<td>2004-05</td>
<td>0.34</td>
<td>0.26</td>
<td>0.63</td>
</tr>
<tr>
<td>2005-06</td>
<td>0.38</td>
<td>0.27</td>
<td>0.61</td>
</tr>
<tr>
<td>2006-07</td>
<td>0.36</td>
<td>0.23</td>
<td>0.66</td>
</tr>
<tr>
<td>2007-08</td>
<td>0.39</td>
<td>0.21</td>
<td>0.63</td>
</tr>
<tr>
<td>2008-09</td>
<td>0.29</td>
<td>0.30</td>
<td>0.71</td>
</tr>
<tr>
<td>2009-10</td>
<td>0.20</td>
<td>0.19</td>
<td>0.77</td>
</tr>
<tr>
<td>2010-11</td>
<td>0.13</td>
<td>0.26</td>
<td>0.80</td>
</tr>
<tr>
<td>AVG</td>
<td>0.29</td>
<td>0.26</td>
<td>0.63</td>
</tr>
</tbody>
</table>

Sources: Calculated from the annual reports of the selected urban Co-operative banks.

- **C** = Cash;
- **D** = Deposits;
- **I** = Income;
- **S** = Spread = Interest earned – Interest paid;
- **TA** = Total assets;
- **NW** = Net worth;
- **SP/TA** = Spread/Total assets;
- **C/D** = Cost/Deposits.
The spread is arrived at as the difference between the interest earned and interest paid by the bank. On the assets side, the major items, investments and loans generate income through interest for the bank. Similarly, on the liabilities side, the major items, borrowings and deposits incur through interest over the interest expenditure, plays an important role in the profitability of the bank. Higher spread ensures to make profit and a comfortable position for the bank and vice versa. Thus the ratio of spread to total assets is considered to be an important ratio for the analysis of the performance of the bank towards profitability, which in turn out the long terms solvency of the bank.

Higher spread ratio can be achieved only by increasing the interest received and lowering the interest paid. Both these factors cannot be manipulated as they are not decided by the banks. However, a timely recovery of loans would result in higher spread ratio. Furthermore investment of funds in more profitable and reliable sources would help bring in more interest and therefore a higher spread provides the spread ratio of the UCB.

In the SUCB, the interest earned and interest paid has fluctuated during the whole study period. But, both are increased at the end of the decade. In 2001-02, the interest paid is higher than the interest received. The spread ratio is ranging between - 0.01 and 0.03. The average spread
ratio for the decade has been arrived at as 0.01 times. The spread ratio is not adequate to have comfortable profitability position for SUCB. The SUCB must take corrective steps to improve the spread ratio.

The spread ratio of AUCB has been fluctuating from 0.03 to 0.07 and average for the decade has been arrived at as 0.04 times. There is enough scope for AUCB to enhance income through interest and to certain the interest expenditure, so that the spread ratio may be strengthened.

The spread to total assets ratio of SKUCB is ranging between 0.02 and 0.05 times during the study period. The average of spread ratio of 0.03 times is insufficient to SKUCB to claim a solvent position as the profitability position is uncomfortable.

The total assets of all the three UCBs, has set a growth trend throughout the decade except marginal fallout in few years. The spread to total assets ratio has been at an average of 0.01, 0.04 and 0.03 times for SUCB, AUCB and SKUCB respectively. The spread to total assets ratio is not encouraging for all the three UCBs. The spread must be improved through professional approach by augmenting the income through interest i.e., by an effective investment and credit management. UCBs can concentrate more in mobilizing low cost funds through more savings bank and current account deposits by offering quality services to the customers. The term deposits are increases interest expenditure as the rate of interest in more. Thus, all the UCBs, must initiate efforts to increase interest income and contain interest expenses to improve the spread ratio.
5.1.5 Net worth to fixed assets ratio

This ratio measures the ownership rights of the shareholders on the fixed assets of the bank. To find out this ratio the net worth is divided by the fixed assets. Net worth of the bank consists of shares and reserve and surplus of the bank. It is a part and parcel of the working funds, which is otherwise called as bank’s owned funds. Higher the net worth helps the bank to have adequate solvency besides fulfilling the CAR norms prescribed by RBI. Low net worth exhibit the bank’s weakness and the bank would suffer with inadequate capital to prove its solvency. In case of fixed assets, the funds are locked in either movable or immovable assets which are not easily converted into liquid funds. Thus a high level of net worth and low level of fixed assets would help the bank to have a sound financial position and in such situations the net worth to fixed assets ratio will be high. Banks, in general, possess less fixed assets to spare more funds for its business operations. Also banks are expected to have a strong capital base with more equity.

The average net worth of SUCB for the study period of ten years has been calculated as `1232.32 lakhs. The growth of the net worth of the SUCB has been increased from `1166.59 lakhs in 2001-02 to `1331.06 lakhs in 2010-11. The fixed assets have been fluctuating during the whole study period. The ratio has shown a small variation between 29.58 times
and 37.48 times with an average of 31.95 times. However, the growth of net
worth provides a strong capital base to prove its solvency as well as to
fulfill the CAR requirements.

The net worth of the AUCB has grown positively during the study
period registering a 1.4 times growth. Both share capital and reserves
increased annually throughout the decade. The fixed assets of the AUCB
has constant for the period of last eight years of the study period. The fixed
asset of the AUCB has decreased from ` 7.55 lakhs in 2001-02 to ` 7.37
lakhs in 2002-03. In 2003-04 onwards, the fixed assets of AUCB has
constant amount of ` 30.23 lakhs up to 2010-11. The average of net worth
to fixed assets ratio is 13.86 times. Except the first two years of the study
period, the ratio of the AUCB is less than the average. The growth of the
fixed assets has affected the net worth to fixed assets ratio of AUCB.

The net worth of the SKUCB has increased slowly from ` 135.92
lakhs in 2001-02 to ` 156.27 lakhs in 2010-11. The growth rate of the net
worth is 1.15 times in ten years of the study period. The fixed asset has
showing fluctuating trend during the whole study period. But it was
decreased from ` 10.27 lakhs in 2001-02 to ` 4.10 lakhs in 2010-11. The
average of net worth to fixed assets ratio is 26.68 times. The first six years
of the study period, the net worth to fixed assets ratio is less than the
average and the rest of period it shows the higher than the average.
The ratio of net worth to fixed assets is no homogeneity during the study period of the selected UCBs. Net worth of all the three UCBs has positive growth with annual increments. In case fixed assets, it has been almost stable throughout the decade in AUCB. But in SUCB and SKUCB, the fixed assets have fluctuated. So, the net worth to fixed assets ratio of selected UCBs has registered fluctuating trend during the first seven years of the study period. In other words, it shows increasing trend in the last three years.

5.2 Operational ratios

An analysis of the operational ratios might bring to light the operational efficiency of the bank in its various activities, namely, mobilization of funds, use of funds; cost of funds, earning capacity etc. The funds of shareholders, creditors and deposit holders are invested in various kinds of assets and lent as advances to generate revenue and profit. Better management of funds results into larger amount of revenue. Operational ratios are employed to evaluate the efficiency with which the bank manages and utilizes its funds. Operational ratios of the selected UCBs have been exhibited in Table 5.2

5.2.1 Interest earned to total income ratio

The total income includes interest earned from investments and loans as well as non-interest income earned by way of fees, commission,
exchange, brokerage, profit on sales, rent on locker, etc. the main function of a bank is lending loans and advances as well as making investments. Income through interest is the major source of income for the bank. The ratio of interest earned to total income is obtained by dividing the interest income by the total income of the bank.

Non-interest income or other is one area where the bank can realize income instantaneously as and when the service is provided. But, in general, the banks do concentrate on interest income, the realization of which is not certain or regular. The commercial banks have started giving more importance to other income providing an array of ancillary service each at a nominal charge.

The interest earned to total income ratio of SUCB has ranging between 0.58 times and 0.78 times and its average ratio is 0.69 times for the entire study period of ten years. The SUCB has earned a moderate rate of income through investments and credit portfolio.

The interest income and the total income of the AUCB has registered the increasing trend throughout the study period with some fluctuation. The ratio of interest earned to total income varied between 0.81 times and 0.99 times. These variations are due to the fluctuation in the growth rates of both the variables. The average ratio of the entire study period is 0.94 times. In other words, the AUCB could earn 94 per cent of its total income through
interest and only 6 per cent from other source of revenue. The AUCB must plan and implement certain strategies to improve its non-interest income by moving ahead with varieties of ancillary services.

The SKUCB also earning a major total income through the interest income. The average ratio of interest earned to total income of SKUCB has been arrived at as 0.96 times, i.e., SKUCB is getting 96 per cent of its total income from interest earned. This position has to be changed and it should concentrate to improve the non-interest income of the bank.

The analysis of interest earned to total income reveals that the average interest earned to total income ratio is comparatively low in SUCB and it is high in other two banks. It indicates the AUCB and SKUCB is highly depending on the income through interest generated through investment and credit portfolio, especially through credit portfolio. The trend has changed to a large extent during the last decade in the banking industry. Many commercial banks, both public and private sectors, and few Co-operative banks have been endeavoring in increasing their non-interest income by introducing novel ancillary services. Though, the SUCB has about 31 per cent of its total income as other income, the AUCB and SKUCB have only 6 per cent and 4 per cent from other income. Therefore, the bank must think and act in accordance to the line of increasing the other income to overcome future challenges in its business development.
5.2.2 Interest paid to total income ratio

The expenditure for a bank can be grouped under interest expenditure, establishment expenditure and other operational expenditure. The interest expenditure is always the main expenditure for the bank. This ratio is calculated in order to find out the quantum of bank’s total income that is drained out to meet the commitment of the bank to pay interest on both borrowings and deposits. There won’t be any second opinion on the fact that the total income of the bank must be increased every year and at the same time the interest expenditure must be comfortable spread for profit. Interest paid on borrowings can be controlled by choosing low cost borrowings like refinance and long-term soft loans from NABARD and other financial institutions. In case of interest paid on deposits, the bank management can concentrate on the mobilization of low cost deposits, namely, savings bank deposits and current account deposits, where the interest rate offered is very less as compared to term deposits. A good customer service provided with varieties of ancillary services could help the bank to increase the clientele and thereby the savings and current account customers may be increased. Thus, the ratio of interest paid to total income will help the bank management to realize the cost consciousness besides it capability to control the interest expenditure up to an optimum level.
The interest expenditure of SUCB has fluctuated during the whole study period and it has registered a growth rate of 1.16 times. The average ratio of interest paid to total income of SUCB is 0.61 times, though the ratio has been fluctuating between 0.51 times and 0.79 times during the study period. Thus, the SUCB has spends around 60 per cent of its total income towards the payment of interest on deposits and borrowings.

The interest paid expenses of AUCB has been reduced from Rs. 565.27 lakhs in 2001-02 to Rs. 401.39 lakhs in 2010-11. It has showing a fluctuating trend during the decade. The ratio of interest paid to total income of AUCB has been fluctuating between 0.44 times and 0.74 times and the average has been 0.56 times in the period of ten years. The fluctuations in the ratio is much higher in the first half of the decade when compared to the second half.

The interest expenditure of SKUCB has grown gradually and registered a growth rate of 1.20 times. Average ratio of interest paid to total income of SKUCB is 0.65 times. In other words, the SKUCB is incurring about 65 per cent of its total income in meeting the payment of interest on deposits. The SKUCB has not borrowed money from anywhere.

The average of interest paid to total income of selected UCBs is 61 per cent in SUCB, 56 per cent in AUCB and 65 per cent in SKUCB. Thus, high ratio of interest paid to total income pose threat to profitability.
Therefore, the UCBs have to evolve strategies to mobilize more demand deposits at low rate of interest and to increase its total income to reduce the ratio moderately.

5.2.3 Total income to working funds ratio

The ratio of total income to working funds for a bank provides an indicator to measure the income earning capacity of the bank. Bank needs higher level of working funds and at the same time a reasonable income by employing the working funds effectively. Through, the total income includes the interest earnings and non-interest earnings, working funds is the funds revolved frequently in the business operations of the bank, the effective use of which adds to the income. This ratio helps to understand the volume of business done with the available working funds and the income generated from such business operations.

The working funds of SUCB have showing a decreasing trend from the second year onwards of the study period amount of ` 17902.84 to ` 16565.93 lakhs in 2007-08. Afterwards, it has gradually increased to ` 26037.20 lakhs in 2010-11. The total income of the SUCB also showing a fluctuating trend for the first five years of the decade and it has grown up to the second half of the study period. The ratio of total income to working fund has ranging between 0.13 times and 0.16 times during the decade and it has registered as average of 0.15 times.
Both the total income and working funds of the AUCB has showing a fluctuating trend during the whole study period. The ratio of total income to working funds varied between 0.11 times and 0.16 times. The average ratio is 0.14 times.

The working fund of the SKUCB has grown gradually from ` 625.20 lakhs in 2001-02 to ` 3410.27 lakhs in 2010-11. The growth rate of the working fund is 5.45 times during the decade. The total income of the SKUCB has fluctuated and decreasing up to first five years of the decade and it has increased for the second half of the study period. The ratio of total income to working funds is increased in the first three years i.e 0.54 times in 2001-02, 0.40 times in 2002-03 and it has drastically decreased up to 0.14 times in 2010-11. The average ratio of total income to working funds is 0.22 times.

Both the total income and working funds of all the selected UCBs has been fluctuated during the study period. The growth in total income is inadequate. Thus, the ratio declined in some of the years in all the three selected UCBs. All the three UCBs must concentrate in generating more income. They have to ensure continuous increase in the total income of the banks. The banks can launch schemes to provide more ancillary services through which they can earn more non- interest income.
5.2.4 Total expenditure to total income ratio

The ratio of total expenditure to total income may be identified as a corollary to the spread ratio. Spread ratio deals with interest income and interest expenditure and here, the ratio deals with total income and total expenses. This ratio evaluates whether the overall operations of the bank really yield any organization or bank cannot run with its operational results below the level of break even. It must earn surplus to exist and to go ahead with future plans of expansion. Therefore, this ratio of total income to total expenses measures the percentage of expenditure incurred out of the total income earned by the bank. The increase of its ratio over a period indicates low margin of profit for the bank. Therefore, this ratio of total income to total expenses measures the percentage of expenditure incurred out of the total income earned by the bank. The increase of its ratio over a period indicates low margin of profit for the bank. This ratio may increase at the time of expansion process or when the bank takes up any diversified activities in connections with modernization. But a continuous increasing trend may hurt the revenues of making higher profit.

The SUCB is spending an average of 95 per cent from its income during the study period of ten years. In the first year onwards, the ratio is almost homogenous at the end of the study period. The average ratio of total expenditure to total income is 0.95 times. This ratio indicates only 5 per cent is left as surplus of income over expenditure. The meager percentage of 5 per cent is highly insufficient for SUCB to run the bank comfortably.
Table 5.2
Operational Ratios of Selected UCBs in Salem District

<table>
<thead>
<tr>
<th>Year</th>
<th>SUCB</th>
<th>AUCB</th>
<th>SKUCB</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IE/TI</td>
<td>IP/TI</td>
<td>TI/WF</td>
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<tr>
<td>2001-02</td>
<td>0.75</td>
<td>0.79</td>
<td>0.14</td>
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<td>2002-03</td>
<td>0.72</td>
<td>0.68</td>
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<td>2003-04</td>
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<td>0.63</td>
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<td>2004-05</td>
<td>0.72</td>
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<td>2005-06</td>
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</tr>
<tr>
<td>2010-11</td>
<td>0.78</td>
<td>0.68</td>
<td>0.13</td>
</tr>
<tr>
<td>AVG</td>
<td>0.69</td>
<td>0.61</td>
<td>0.15</td>
</tr>
</tbody>
</table>

Sources: Calculated from the annual reports of the selected urban Co-operative banks
IE = Interest earned
EE = Establishment expenditure
TI = Total Income
TE = Total expenditure
IP = Interest paid
WF = Working Fund
For AUCB, the average ratio of total expenditure to total income for the study period is 0.93 times. Almost, the ratio is showing more than 91 per cent for the whole study period. The high ratio indicates, the AUCB has a Herculean task before it to reduce the expenditure and increase the total income.

The average ratio of total expenditure to total income of SKUCB for the study period is 0.95 times. The ratio is high which is to be reduced at a shortest possible time to ensure profitability.

The average ratio of total expenditure to total income of SUCB is 0.95 times, AUCB is 0.93 times and SKUCB is 0.95 times. All the three banks were having a least surplus during the study period. The least margin amount is not sufficient for the future development of the UCBs in the competitive era. All the three UCBs must take into an emergent action to control the expenditure and to enhance the income.

5.2.5 Establishment expenditure to total expenditure ratio

Maintenance of infrastructure and premises attract expenditure for the bank besides the salary and allowances payable to the employees of the bank. Such expenditure, other than the interest expenditure has been usually classified as established expenditure. As it is stated earlier, the total expenditure has always been influenced highly by the interest expenditure which could be minimized by selecting the borrowing pattern and
mobilizing low cost deposits. Similarly, the establishment expenses could also be controlled by proper monitoring of the expenditure incurred under various heads. Employees must be educated and trained to utilize the infrastructure facilities properly. The sense of belongings’ should be instilled in the minds of the staff so that they would come forward to contribute more to the bank, which will result in increased income and controlled expenditure. When both interest expenditure and establishment expenditure are controlled, the total expenditure would be under control providing a favorable atmosphere for the growth of profits. The ratio of establishment expenses to total expenses would help the bank to relate the expenses with the effective utilization of the infrastructure and human resources.

The establishment expenditure of SUCB has showing increasing trend during the study period and the growth rate is 1.91 times. The average ratio of the establishment expenditure to total expenditure of SUCB is 0.17 times. In other words, the establishment expenses cover 17 per cent of the total expenses incurred by the SUCB.

The AUCB has spent an average of 15 per cent of its total expenditure towards establishment expenditure in the first half of the study period and it has increased to 25 per cent on an average in the second half. The average ratio for the whole decade is 0.20 times, i.e., 20 per cent of the total
expenses in spent towards establishment expenses. Thus, the AUCB could 
extercise enough control over the establishment expenditure and it should be 
maintained.

The establishment expenses of SKUCB have grown by 2.28 times 
during the study period of the ten years. The first five years of the average 
ratio of establishment expenses to total expenditure is 0.20 times and it has 
increased to 0.26 times in the second half of the period. The average ratio 
for the whole decade is 0.23 times.

In all the three UCBs, the average ratio of establishment expenditure 
to total expenses is 0.17 times, 0.20 times and 0.23 times for the SUCB, 
AUCB and SKUCB respectively. The management of the SUCB deserves 
application for their effective control over the establishment expenses. The 
AUCB and SKUCB should control the establishment expenses in future 
growth of the profits.

5.3 Productivity ratios

Productivity is defined as the relationship between output of goods 
and services and the inputs of factors provided to create this output.\textsuperscript{3} 
Productivity in a manufacturing industry is influenced by the combined 
functions of the factors of production. Viz., labour, management and 
technology and hence, measurable in terms of quantity, while it is not so in

a service industry like banking where services rendered include acceptance of deposits, dispensation of credit, remittance of funds, discounting and collection of bills, safe custody, etc. The inputs would be in terms of employees as also other financial assets.\(^4\)

An analytical study on productivity of a bank is important in today’s context in the midst of rapid technological advances and acute competition when the country’s economy is opened up. Productivity in banks is related to the effective initialization of the resources in producing the services products as well as in providing them to the customers with an ultimate goal of improving the revenue. In producing and providing the services to the customers, the employees, the infrastructure and other resources are being employed in the form of inputs to obtain higher outputs.

Productivity in banks is related to services produced and resources utilized in producing the same. This means that in order to produce services either the field office or any other place of work. Certain resources have to be employed in the form of inputs to obtain outputs and productivity takes into consideration both these aspects. These inputs are men, money, machines, materials, energy, work technology, management and organisation. Higher productivity is secured by efficient use of these inputs.

Thus banking is essentially a services oriented industry and hence it is hard to find out its productivity in absolute terms. However, the productivity of a bank can be measured through the performance of its employees over a period of time., as employees are users of the infrastructure available at the bank, they are the main inputs in the production of service products and they are the persons provide the service to the customers. Better customer relationship management and satisfaction of the customers are essential to multiply the volume of business. The ratio calculated as business per employee, income per employee, etc. is used as indicators to measure productivity of the bank. The following are the ratios employed in this study to analyse the productivity performance of the three selected Urban Co-operative Banks. They are exhibited in Table 5.3.

5.3.1 Per employee deposits

Per employee deposits has been arrived by dividing the total deposits by the number of employees. Deposits Mobilization is the main source of funds for the bank. Deposits are mobilized under various schemes from the public offering graded rate of interest as per the term of the deposits. Bank employees mobilize the deposits under various schemes utilizing the infrastructure provided by the bank. The courteous and prompt service rendered by the staff, the congenial atmosphere provided at the premises, proper explanations given to the queries raised by the customers, practicing
customer-friendly systems and procedure, etc. are essential for the bank to improve its deposits position. The employees are in the pivotal position in the mobilization for deposits from the public. Therefore, the per employee deposits ratio exhibits the average efficiency of the employees in mobilizing the deposits. In order words, the ratio provides a parameter to evaluate the average productivity of each employee of the bank. The experience, skills and the knowledge of the employee put together add to the productivity of the bank when a favorable environment is provided by the bank. The total number of employees in the study period is given in Appendix.

The total deposits of the SUCB has been increased from ₹16,717.90 lakhs in 2001-02 to ₹23054.79 lakhs in 2010-11 with some years of fluctuations. The number of employees of the SUCB has 243 in the first year and it has increased to 246 in the second year. Afterwards, it has gradually decreased to 192 in 2010-11. The per employee deposit ratio increased from ₹68.80 lakhs in 2001-02 to ₹120.08 lakhs in 2010-11 except a short fall in middle of the study period. The average ratio of per employee deposit is 75.34 times.

In AUCB the total deposits increased from ₹4626.34 lakhs in 2001-02 to ₹4829.46 lakhs in 2002-03 and thereafter, it has decreased to ₹4147.87 lakhs in 2008-09. Subsequently, it has increased to ₹4479.92 lakhs in 2009-10 and ₹5019.91 lakhs in 2010-11 respectively. The number of
employees of AUCB has varied between 28 and 34 and mostly the number is 28. The per employee deposit ratio has been increased from `136.07 lakhs in 2001-02 to `179.28 lakhs in 2010-11. The average ratio of per employee deposit is `139.90 times during the study period of ten years.

The total deposits of SKUCB have increased every year from `489.28 lakhs in 2001-02 to `3254.01 lakhs in 2010-11. The number of employees of SKUCB has varied between 28 and 34. The average number of employees of SKUCB is only 31 for the decade.

All the three UCBs have limited the number of employees and the number is almost constant throughout the decade of the study. The per employee deposit ratios of all the three UCBs have increased and they have maintain the trend in future.

5.3.2 Per employee advance

The total advances are divided by the number of employees to find out the per employee advances. Advances are the portfolio of a bank, which generates the highest percentage of interest income, is the single major contributor to the total income of the bank. Right from the selection of borrowers, the loans and advances portfolio has varieties of functions involving the knowledge, skills and efforts of the employees till the last rupee of the loan is recovered. The processing of the loan application, security of the financial viability of the project, pre-sanction survey or
enquiry, documentation, disbursement of loan, verification of assets created, post disbursement inspection, collection and review of the operational results, quarterly review, follow up of recovery of interest and installments, etc. are the various functions in loan management and each function needs to be attended by the employee including officials of the bank. The productivity of the employees of the bank in managing the advances portfolio is being brought to light by the ratio of per employee advances.

The total advances (Table 5.3) of SUCB has been decreased from `11389.30 lakhs in 2001-02 to `8038.71 lakhs in 2005-06 and it has increased from `9106.86 lakhs in 2006-07 to `18444.55 lakhs in 2010-11. The net growth of advances in ten years is 1.62 times. The per employee advances ratio has increased from `46.87 lakhs in 2001-02 to `96.07 lakhs in 2010-11. The ratio of per employee advances has grown by 2.05 times during the study period.

The advances (Table 5.3) of the AUCB have been gradually increased from `2250.66 lakhs in 2001-02 to `3601.85 lakhs in 2010-11 and the growth rate is 1.60 times during the decade. The per employee advances has grown annually and registered a net increase of 1.94 times growth from `66.20 lakhs in 2001-02 to `128.644 lakhs in 2010-11. It indicates that the utilization of manpower of this bank for the productive activities is very low.
The number of employees (Appendix –II e) in SKUCB is around 28 in the study period. The advances of SKUCB have grown 1.70 times during the study period. The growth trend of per employee advances ratio as 2.07 times as that of advance. The growth rate of advances in the first half of the decade is less than that of the growth recorded in the second half of the decade.

All the three UCBs advances has grown gradually throughout the study period, except very marginal set back in one or two year. Therefore, the ratio of per employee advances has registered a moderate growth rate in all the three UCBs.

5.3.3 Per employee income

Though productivity is being measured using different parameters, income generated leads to decide the real productivity of a bank. The perennially generated income of a bank provides a healthy and congenial atmosphere for its developmental activities thereby the productivity of the bank also will increase. The income generation is the ultimate apparatus that facilities the bank to carry on its productive functions with confidence. The attention of those interested to know about the health of the bank will be on the operative income of the bank and then on net profit. The employee’s interest or welfare measures also depend mostly on the income generation capacity of the bank. Thus, the ratio of per employee income can
be considered as a vital productivity ratio. The per employee income has been arrived at dividing the total income of the bank by the number of employees.

The total income of SUCB has declined annually in the first half of the study period and it has increased in the second half of the decade. The net growth has been registered as 1.34 times. The same trend has reflected in the ratio of per employee income of the SUCB, but the net growth has been 1.70 times from ` 10.27 lakhs in 2001-02 to ` 17.42 lakhs in 2010-11.

The total income (Appendix-II a) of AUCB has been fluctuated during the whole study period, but it has decreased from ` 765.45 lakhs in 2001-02 to 707.69 lakhs in 2010-11. The ratio of per employee income has varied between ` 13.82 lakhs and ` 25.26 lakhs during the decade. The decline in the income as well as the ratio during the study period has to be viewed seriously by AUCB and corrective actions have to be initiated to the reverse trend.

The total income of SKUCB has been showing declining trend in the first half of the decade and it has increased in the second half of the study period. The same trend also reflected in the ratio of per employee income. The net increase in the income is 1.37 times but in the ratio is 1.67 times. The ratio per employee income of the SKUCB is not satisfactory.
Table 5.3
Productivity Ratios of Selected UCBs

(\text{' in lakhs})

<table>
<thead>
<tr>
<th>Year</th>
<th>SUCB</th>
<th>AUCB</th>
<th>SKUCB</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PED</td>
<td>PEA</td>
<td>PETI</td>
</tr>
<tr>
<td>2001-02</td>
<td>68.80</td>
<td>46.87</td>
<td>10.27</td>
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<tr>
<td>2002-03</td>
<td>68.04</td>
<td>43.05</td>
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<td>2003-04</td>
<td>63.14</td>
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<td>59.48</td>
<td>37.22</td>
<td>10.43</td>
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<td>2005-06</td>
<td>58.40</td>
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<td>8.17</td>
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<tr>
<td>2006-07</td>
<td>62.52</td>
<td>41.21</td>
<td>9.38</td>
</tr>
<tr>
<td>2007-08</td>
<td>71.36</td>
<td>44.82</td>
<td>11.69</td>
</tr>
<tr>
<td>2008-09</td>
<td>80.47</td>
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<td>2010-11</td>
<td>120.08</td>
<td>96.10</td>
<td>17.42</td>
</tr>
<tr>
<td>AVG</td>
<td>75.34</td>
<td>52.16</td>
<td>11.87</td>
</tr>
</tbody>
</table>

Source: Calculated from the annual reports of the selected urban Co-operative banks.

PED = Per employee Deposits; PEA = Per employee Advances; PETI = Per employee Total income; PEE = Per employee Establishment expenditure; PESP = Per employee Spread; PEP = Per employee Profit.
All the three UCBs have almost consistent number of employees during the study period. The total income as well as ratio of per employee income has fluctuated during the study period. In all the three UCBs the rate of increase in income as well as the increase in ratio slows in the first five years of the study period. In the second half, the rate of increase is faster and more over positive in the last three years. Therefore all the three UCBs must take appropriate corrective action to improve the income so as to strengthen the ratio of per employee income.

5.3.4 Per employee establishment expenditure

The banking operations are performed by the staff utilizing the machine, materials and premises. The infrastructure and personnel are required to be increased according to the volume of business and the relative establishment expenditure will be increasing. The establishment expenditure includes the manpower expenditure and other expenditure. The ratio of per employee establishment expenditure will indicate the cost of manpower for the bank. The percentage of increase in the cost of manpower will be studied along with the rate of increase in the volume of business and profits. Such an exercise will help the bank management in proper utilization of the personnel as well as infrastructure for its business progress. The ratio of per employee establishment expenditure is calculated by dividing the establishment expenditure by the number of employees of the bank. The establishment expenses of selected UCBs is given in Appendix.
The establishment expenses of SUCB have increased from `295.89 lakhs in 2001-02 to `566.62 lakhs in 2010-11. With the fluctuating trend, the ratio of per employee establishment expenses has varied between `1.22 lakhs and `2.95 lakhs during the decade.

The establishment expenses of AUCB have registered an increasing trend during the study period. Therefore, the ratio of per employee establishment expenses also increased from `2.49 lakhs in 2001-02 to `5.97 lakhs in 2010-11. The net increase in the ratio is 2.40 times which is identical to the net increase in establishment expenditure.

In SKUCB, the establishment expenditure has increased annually from `51.13 lakhs in 2001-02 to `116.44 lakhs at the end of the study period of 2010-11. The net increase in establishment expenditure is 2.28 times in the study period. The ratio of per employee establishment expenditure also had the same trend as total establishment expenditure. The ratio was `1.50 lakhs in 2001-02 to `4.16 lakhs in 2010-11. The net growth in the ratio of per employee establishment expenditure is at 2.77 times.

All the three UCBs ratios of per employee establishment expenditure have showing an increasing trend throughout the study period. The net increase in the ratio of per employee establishment expenditure is around 2.5 times in all the three UCBs. All the three UCBs should maintain the control over the establishment expenditure in future.
5.3.5 Per employee spread

Spread is the excess of income through interest of the bank over its interest expenditure. This is the key element that determines the amount of profit for the bank, because income through interest and interest expenditure are the major contributors to the bank’s total income and expenditure respectively. Banks are facing more new challenges from the competitive fellow bankers in fixing of interest rates on the side and they are forced to manage various risks in lending and recovery of interest on other side. Therefore, the modern banking has been striving hard to increase non-interest income i.e., fees, commission charges, rent, exchange etc., to meet the entire non-interest expenditure i.e. establishment expenditure including other expenses. Once a bank could break between non-interest income and non-interest expenditure, then the spread will ensure the bank’s comfortable profitability.

Increasing interest income or non-interest income depends highly on the effective participation and performance of the employees of the bank. Similarly it is in their hands to contain the expenditure also. Thus employees play a vital role in contributing a lot to have a comfortable spread. The ratio of per employee spread should set a growing trend in order to highlight the effective performance of the employees towards an integrated progress of the bank.
The growth trend of the spread in SUCB has been positive in all the years of the study period, except in 2001-02 is a negative growth. The ratio of per employee spread had been `-0.39 lakhs in 2001-02 and it has increased in the subsequent years and reached the highest level of `2.41 lakhs in 2008-09. Thereafter it has declined.

The spread for AUCB has registered a fluctuated growth during the whole study period. The spread has grown from `189.27 lakhs in 2001-02 to `272.19 lakhs in 2010-11. The net growth in spread is `1.44 lakhs times in ten years. The ratio of per employee spread has been increased from `5.57 lakhs in 2001-02 to `9.72 lakhs in 2010-11 and it has reached the highest level of `13.22 lakhs in 2008-09.

The spread of SKUCB has been fluctuated during the whole study period. The net growth of the spread is 1.88 times during the decade. The ratio of per employee spread was `1.95 lakhs in 2001-02 to `4.49 lakhs in 2010-11. It has registering a net increase of 2.30 times.

All the three UCBs are registering growth in the spread as well as the ratio of per employee during the whole study period of ten years. Thus, the selected UCBs are taking corrective steps to improve the rate of growth of per employee in future.
5.3.6 Per employee profit

The prime aim of any commercial organisation including bank is making profit in the course of the business. Making profit is a consecutive year will exhibit the operational efficiency of the bank. Profit is the excess of income over expenditure. Therefore, earning profit is possible only when the total income of the bank is magnified. Similarly, the total expenditure has to be kept under control. Increasing income and reducing expenditure are in the hands of the employees of a bank. In other words, where the employees are very much conscious about profit making they will perform diligently in augmenting the income for the bank and take care in controlling the items of expenditure. The ratio of per employee profit will help the bank management to review the efficiency and contribution of the employees towards profitability. The ratio of per employee profit is found by dividing the net profit by the number of employees. The net profit of the selected UCBs is given in Appendix-II c.

The profit of SUCB has varied between ` 60.27 and ` 197.02. The ratio of per employee profit has also fluctuated throughout the whole study period. The average ratio of per employee profit is 0.90 times. It is not comfortable for smooth running of the SUCB.

The profit of the AUCB has increased from ` 31.76 lakhs in 2001-02 to ` 39.67 lakhs in 2010-11 with some up and downs of the whole study
period. The same trend also reflected in the ratio per employee profit during the decade. The ratio of per employee profit position is satisfactory to the AUCB in the future development.

The profit of the SKUCB has fluctuated throughout the study period. The profit of the SKUCB varies between ` 1.90 lakhs and ` 36.58 lakhs. The ratio of per employee profit is showing a same position of the profit because of the number of employee of SKUCB has been almost uniform at 31. The per employee profit is very poor performance in the study period.

All the three UCBs have slow growth of the profit during the study period of ten years. Therefore, it is necessary to strive hard to make profits in the ensuring years to improve the rate of growth in profits.

5.4 Profitability ratio

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of a bank and it will have no future if it fails to make sufficient profits. The profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the bank, creditors and owners are also interested in the profitability.

Appraisal of the financial position of the selected three Urban Co-operative Banks is incomplete without measuring its overall profitability. Profits are the primary motivating force for business activities. “Profits are
the report card of the past, the inventive gold star for the future. If an
enterprise fails to make profit, capital invested is eroded and if this situation
prolongs the enterprise ultimately ceases to exist”.\(^5\) It is the milestone of the
operational performance and the touchstone of financial stability.

B.B.Howad and M.Upton observe that the word profitability may be
defined as “the ability of a given investment to earn a return on its use”\(^6\). It
is observed by J.F. Weston and E.F.Bingham that, “profitability is the et
surplus of a large number of policies and decisions”\(^7\). Thus profitability is
the ability of an organisation to earn profits.

In spite of the several social objectives to be fulfilled the Urban Co-
operative Bank, it is necessary for them to earn for their survival making at
least a minimum rate of return on the capital invested. The analysis of
profitability of the selected three Urban Co-operative Banks, in relation to
the total income, total deposits, spread, total assets and net worth is made
here with the help of following ratios. Profitability ratios of the three Urban
Co-operative Banks in shown in Table 5.4.

\(^7\)Weston J.F and Bring ham E.F,(1971), Essential of Managerial Finance, Hold Rene hart&Winston, New
York, p.48.
5.4.1 Interest earned to total assets

It is an indicator of the rate at which a bank earns by lending various funds. The interest earned to total assets position of sample banks is depicted in Table 5.4 and is discussed below.  

The main function of a bank is lending loans and advances as well as making investments. Income through interest is the major source of income for the bank. The ratio of interest earned to total assets is obtained by dividing the interest earned by the total assets of the bank. The interest earned to total assets position of sample bank is depicted in Table 5.4.

In SUCB, the interest income and total assets set decreasing trends during the first half of the study period and thereafter they both grown positively. But, the ratio of interest earned to total assets varied between 6.35 per cent and 9.58 per cent. These various are due to the fluctuations in the growth rates of both the variables. The average ratio for the entire study period is 8.45 per cent.

The interest earned total assets of AUCB has not shown any regular trend throughout the decade of the study. The figures of the table shown frequent ups and downs. The interest earned total assets ratio ranges from 6.54 per cent to 1198 per cent and the average is arrived at as 9.49.

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The interest earned and total assets of SKUCB has registered a declining trend during the first half of the study period and thereafter it has been increased positively. The average ratio of interest earned to total assets of SKUCB has been arrived at as 9.95 per cent.

All the three UCBs are highly depending on the income through interest generated from investment and credit portfolio, especially through credit portfolio. The average ratio of interest earned to total assets of SUCB is 8.45 per cent, AUCB is 9.49 and SKUCB is 9.95. Among these bank, the SUCB came under good level of performance.

5.4.2 Interest paid to total assets

It is a measure of the cost of funds incurred by the bank. Lesser the ratio, greater shall be the profit margins of the bank. The interest paid to total assets position of UCBs during the study period is depicted in Table 5.4 discussed below.

The interest expenditure is the major expenditure for a bank. In case of interest paid on deposits the bank management can concentrate on the mobilisation of low cost deposits namely, savings deposits and current account deposits. A good customer service provided with varieties of ancillary services could help the bank to increase the clientele and thereby the savings and current account customers may be increased. This ratio is measure the cost of funds incurred by the bank.
The interest expenditure and total assets of SUCB has shown declined trend during the first half of the decade of the study and it has been registered increasing trend during the second half of the decade. The average ratio of interest paid to total assets is 7.52 though the ratio has been fluctuating between 5.92 per cent and 9.76 per cent during the study.

The interest paid expenses and total assets of AUCB has shown ups and downs thought the study period. The same trend also reflected in the interest paid to total assets of AUCB. It has been fluctuating between 3.71 per cent and 8.21 per cent and the average has been 5.68 per cent in the period of ten years.

The interest expenditure of SKUCB has decreased from `263.25 lakhs in 2001-02 to `151.17 lakhs in 2004-05 and thereafter it has increased in 2010-11. The average ratio of interest paid to total assets is 6.82 per cent, though the ratio fluctuating between 5.04 per cent and 9.47 per cent during the study period. Thus, on an average, SKUCB spends around 7 per cent of its total assets towards payment of interest on deposits and borrowings.

Out of three UCBs, the SUCB (7.52 per cent) having highest average ratio of interest paid to total assets. Then the other two UCBs of AUCB (5.68 per cent) and SKUCB (6.82 per cent). The SUCB spent more money towards the payment of interest on deposits and borrowings.
5.4.3 Non-interest expenditure to total assets

This ratio represents the share of manpower expenses and other contingent expenses from the total assets. The reduction in the ratio is a better sign for the profitability of the bank.

The ratio of SUCB has fluctuated during the whole study period of ten years. Out of ten years, six years ratio is above the average of 3.92 per cent and rest of the period is below average.

The ratio of AUCB is less than the average of 3.91 per cent during the first half of the study period. Whereas, during the second half of the study period it has increased more than the average.

The ratio of SKUCB has fluctuated during the decade. Average ratio of SKUCB is 3.05 per cent during the study period. out of ten years, five years period of ratio is above the average and rest of the period it has been below the average.

Among the three selected UCBs the non-interest expenditure to total assets in terms of dispersion was less consistent with SUCB (3.92 per cent) and AUCB (3.91 per cent) and more consistent with SKUB (3.05 per cent).

5.4.4 Non-interest income to total assets

This ratio indicates the non-fund-based incomes, and includes commission, brokerage, service charges, and miscellaneous receipts. The position of non-interest income to total assets during study period.
In SUCB, the ratio of non-interest income to total assets has been increased from 3.10 per cent in 2001-02 to 4.86 per cent in 2007-08, except two years of 2004-05 (3.59 per cent) and 2005-06 (3.50 per cent). Afterwards, it has decreased to 2.47 per cent in 2010-11. The average of non-interest income to total assets ratio is 3.67 per cent.

The AUCB ratio of non-interest income to total assets has not registered constantly. The highest level of ratio is 2.20 per cent in 2006-07 and lowest level is 0.16 per cent in 2001-02. The average ratio of non-interest income to total assets is 0.61 per cent.

The non-interest income to total assets ratio of SKUCB has been fluctuated during the whole study period of ten years. The average of non-interest income to total assets ratio is 0.37 per cent.

Out of three UCBs the SUCB was having highest average of non-interest income to total assets then the other two UCBs. As mentioned earlier, the SUCB has a eight branches and rendering huge services to its customers compare to other two UCBs. It is the main reason for earning huge non-interest income from their services. The AUCB and SKUCB has a second and third position in the ratio of non-interest income to total assets.

5.4.5 Net profit to total assets

The ratio of net profit to total assets is used to find out the profit making capacities of assets. This ratio is also known as return on assets and is the indicator of an excellent utilisation of resources.
The overall net increase in net profit of SUCB has registered a threefold growth in the decade, though there are ups and downs. The total assets of SUCBB has grown gradually from 20137.96 lakhs in 2001-02 to 30378.54 lakhs in 2010-11 registering a one and half fold net growth. The ratio of net profit to total assets has set a range of 0.29 per cent to 0.86 per cent and the average is arrived at as 0.68 per cent.

The net profit of AUCB has grown positively with annual increments throughout the decade of study except a marginal decline in the years 2007-08 and 2009-10. The total assets of AUCB has set an fluctuating trend during the whole study period. The net profit to total assets ratio for AUCB ranges from 0.45 per cent to 0.88 per cent and the average is arrived at as 0.59 per cent.

The net profit of SKUCB has fluctuated during the whole study period. The total assets gradually throughout the decade of study except a marginal decline in 2003-04. The net profit to total assets ratio of SKUCB is varied between 0.04 per cent and 1.28 per cent during the decade and the average is arrived at as 0.41 per cent.

The average ratio of net profit to total assets is 0.68 for SUCB, 0.59 for AUCB and 0.41 for SKUCB. It is very low for all the three UCBs, but the ratio is positive. All the three UCBs should take efforts to imitate to improve the ratio by enhancing the net profit in the years to come.
5.4.6 Burden to total assets

This is the difference between non-interest expenditure to total assets (non-interest expenditure to total assets and non-interest income to total assets). The lesser the ratio, the better shall be the profitability.

Table 5.4 In SUCB, the non-interest expenditure is fluctuated trend throughout the study period. But, the non-interest income of SUCB has set increasing trends to compare the non-interest expenditure. Out of ten years, five years of burden to total assets ratio was less than the one per cent. In this period shows the positive trend in the profitability. The Burden to total assets ratio of SUCB has been varied between -0.77 per cent and 2.02 per cent. The average ratio for the entire study period is 0.25 per cent. The average ratio reveals that the non-interest expenditure is less than the one per cent level.

The non-interest expenditure set increasing trends is AUCB during the first eight years of the study period except in 2009-10 and 2010-11. The burden to total assets ratio of AUCB ranges from 2.12 per cent to 5.78 per cent and the average is arrived at as 3.30 per cent. It shows the negative trend in the profitability of the AUCB.

In SKUCB the non-interest expenditure is grown gradually and registered a 1.24 fold growth during the study period. The non-interest income has not shown any regular trend throughout the decade of the study.
The figures shown frequent ups and downs. The burden to total assets ratio of SKUCB has gradually grown up to third year of the study period. Afterwards it has been declined at the end of the study period except in 2008-09. The burden to total assets ratio has varied between 1.52 per cent and 3.97 per cent. These variations are due to the fluctuations in the growth rates of both the variables. The average ratio for the entire study period is 2.67 per cent.

Among the three UCBs, the average ratio of burden to total assets is 0.25 per cent for SUCB, 3.30 per cent for AUCB and 2.67 per cent for SKUCB. The high ratio of burden total assets pose threat to profitability. Therefore the UCBs have to evolve strategies to earn more non-interest income and reduce the non-interest expenditure of their administration.
Table 5.4
Profitability Ratio of Selected UCBs

<table>
<thead>
<tr>
<th>Year</th>
<th>SUCB</th>
<th></th>
<th>AUCB</th>
<th></th>
<th>SKUCB</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>9.29</td>
<td>9.76</td>
<td>2.33</td>
<td>3.10</td>
<td>0.29</td>
<td>-0.77</td>
</tr>
<tr>
<td>2002-03</td>
<td>9.65</td>
<td>9.02</td>
<td>3.47</td>
<td>3.66</td>
<td>0.80</td>
<td>-0.19</td>
</tr>
<tr>
<td>2003-04</td>
<td>8.71</td>
<td>7.90</td>
<td>3.97</td>
<td>3.88</td>
<td>0.71</td>
<td>0.09</td>
</tr>
<tr>
<td>2004-05</td>
<td>9.07</td>
<td>6.51</td>
<td>5.61</td>
<td>3.59</td>
<td>0.54</td>
<td>2.02</td>
</tr>
<tr>
<td>2005-06</td>
<td>6.50</td>
<td>5.92</td>
<td>3.22</td>
<td>3.50</td>
<td>0.86</td>
<td>-0.28</td>
</tr>
<tr>
<td>2006-07</td>
<td>6.35</td>
<td>5.95</td>
<td>4.25</td>
<td>4.56</td>
<td>0.71</td>
<td>-0.31</td>
</tr>
<tr>
<td>2007-08</td>
<td>8.03</td>
<td>7.52</td>
<td>4.60</td>
<td>4.86</td>
<td>0.77</td>
<td>-0.26</td>
</tr>
<tr>
<td>2008-09</td>
<td>99.58</td>
<td>77.33</td>
<td>4.77</td>
<td>3.31</td>
<td>0.80</td>
<td>1.46</td>
</tr>
<tr>
<td>2009-10</td>
<td>8.81</td>
<td>7.75</td>
<td>4.05</td>
<td>3.75</td>
<td>0.75</td>
<td>0.30</td>
</tr>
<tr>
<td>2010-11</td>
<td>8.53</td>
<td>7.50</td>
<td>2.91</td>
<td>2.47</td>
<td>0.59</td>
<td>0.44</td>
</tr>
<tr>
<td>AVG</td>
<td>8.45</td>
<td>7.52</td>
<td>3.92</td>
<td>3.67</td>
<td>0.68</td>
<td>0.25</td>
</tr>
</tbody>
</table>

Source: Calculated from the annual reports of the selected urban Co-operative banks.

IE = Interest Earned; NIE = Non-interest expended; B = Burden;
TA = Total assets; NII = Non-interest income;
IP = Interest Paid; NP = Net profit;
B/TA = Burden as percentage of TA is the difference between NIE to NII to total assets.