v) The application for issue of branch license need not be rejected unless there were compelling reasons against it.

vi) That RBI should conduct statutory inspection at an interval of two years for other banks but for weak UCBs the interval should be more frequent.

c.) Working Group under the Chairmanship of Uday M. Chitale

A working group was formed in 1986 under the chairmanship of Mr. Uday M. Chitale to review the then existing systems of UCBs. Some of the suggestions given by the group are:

i) The audit of the banks with deposits of Rs. 25 crore and above to be conducted by Charted Accountants.

ii) There should be a standard format of audit for all the states.

iii) The audit rating model for UCBs should be revised.

d.) The Narsimham Committee

In 1997, a committee was appointed under the chairmanship of Mr.M.Narsimham to suggest measures to strengthen the banking system. The committee submitted its report in 1998 making the following recommendations:

i) Co-operative banks should reach a minimum of 8 percent capital to risk weighted assets over a period of five years.

ii) NABARD to be entrusted full control over rural credit institutions.

iii) Co-operative credit institutions should enhance their capital through subscription by their members and not by Government.

iv) The present dual control over UCBs (of State Government and RBI/NABARD) should be eliminated and they should be brought under the discipline of Banking Regulation Act.

v) The control of the Registrar over co-operatives should be along the lines of control that the Registrar of Companies has over banking institutions registered under the Companies Act 1956.
vi) Specialized institutions may be promoted by NGOs for meeting the banking needs of the poor.

vii) The banking policy should facilitate evaluation and growth of micro-credit institutions.

viii) Banks should device appropriate criteria suited to the small industrial sector and be responsive to the genuine credit needs.

e.) The Madhava Rao Committee

With a view to review the performance of UCBs and to strengthen them, the RBI appointed a high power committee in 1999 under the chairmanship of Mr. K. Madhava Rao, which made the following recommendations:

i) Licensing Policy of New Urban Co-operative Bank

a.) The existing quantitative norms for viability standards should be dispensed with and replaced by qualitative criterias such as CRCR, tolerance limit of NPAs and operational efficiency.

b.) Strong criteria should be laid down by the regulator (RBI) for new UCB at entry level i.e. a strong start-up capital and requisite norms for eligibility of promoters.

c.) For Entry Point Norms (EPN), the three grades should be replaced by a system of five grades which is:

<table>
<thead>
<tr>
<th>Population</th>
<th>Entry Point Norms (EPN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Over 15 lacs</td>
<td>Share Capital of Rs. 5 crores and minimum membership of 3000</td>
</tr>
<tr>
<td>2. From 10-15 lacs</td>
<td>Share Capital of Rs. 2.5 crores and minimum membership of 2500</td>
</tr>
<tr>
<td>3. From 5-10 lacs</td>
<td>Share Capital of Rs. 2 crores and minimum membership of 2000</td>
</tr>
<tr>
<td>4. From 2-5 lacs</td>
<td>Share Capital of Rs. 1 crore and minimum membership of 1500</td>
</tr>
<tr>
<td>5. Below 2 lacs</td>
<td>Share Capital of Rs. 2 lacs and minimum membership of 1000</td>
</tr>
</tbody>
</table>
d.) Banks that intend to start only unit banking should be given 50 percent relaxation in entry point norms applicable to the particular centre.

e.) The Entry Point Norms will continue to be relaxed for banks set up exclusively for women and SC/STs for a period of 5 years and reviewed thereafter.

ii) **Branch Licensing Policy and Area of Operation**

a) The RBI should extend to a UCB the same freedom and discipline as applicable to commercial banks, if it complies with the board norms, viz.:

- It should not have been in default in any of the provisions of the Banking Regulation Act or RBI Act or directives issued by RBI from time to time.

- Full compliance with the provisioning norms specified by RBI.

- Capital adequacy should not be lower than the minimum required level.

- Its Net NPAs are not more than 10 percent.

- Its advances to the priority sector are not less than 60 percent of the total loans and advances.

b) Non-scheduled UCBs should not open more than 10 percent of their already existing branches, subject to a minimum of one branch, in any given year. No UCB can open two branches within two years of starting their operations.

c) New UCBs can extend their area of operation in the entire district of registration and the adjoining districts.

d) If a UCB desires to open a branch in state other than the state in which it is registered, it must have a net worth which is not less than the EPN prescribed for the highest category entry in that state.

e) If a UCB desires to open a branch in state other than the state in which it is registered, it should necessarily have a net worth of at least Rs.50 crores.
f.) Jagdish Capoor Committee

The Government of India constituted a task force in 1999 under the chairmanship of Mr. Jagdish Capoor, the then Deputy Governor of RBI. The committee was constituted with the objective of developing the agricultural and rural economy through co-operative banking system. The recommendations of the committee are enumerated as:

i.) Keeping in view the limited resources of co-operative banks leading to low business levels, more than one Primary Agricultural and Credit Societies (PACS) be set up subject to the potential of that area.

ii.) The power of supersession of the board of directors should not vest with State Governments.

iii.) Adoption of those essential features of the Model Co-operative Act, 1991 or amendments in their respective Co-operative Societies Act. This will encourage democratization and self-reliance.

iv) A transparent recruitment policy should be evolved and sound personnel policies should be made for the personnel management and development.

v.) The Board of Directors of banks need to be professional and accountable.

vi.) The dual control over UCBs (of State Government and RBI/NABARD) over UCBs should be eliminated and Banking Regulation Act, 1949 to have overriding effects.

vii.) Co-operative banks to be provided with adequate freedom to take investment decisions subject to the general exposure norms.

viii.) Adequate measures to be taken for strengthening UCBs, even if necessary, by voluntary amalgamation/merger based on its merit.

ix.) Strengthen the capital base of co-operative banks and to comply with capital adequacy norms over a period of six years.

x.) Compromise settlement procedure should be evolved for settlement of long standing loans.
xi.) Banks should strengthen their internal checks, controls and MIS so that supervision over the working of these banks can be more effective.

xii.) Audit should be entrusted to firms of Charted Accountants only and finalization of panel of auditors should be done by a state level committee consisting of RBI/NABARD representatives.

1.9 Co-operative Banks v/s Commercial Banks

Co-operative banks and commercial banks are parallel financial institutions. Both of these banks render almost identical banking functions of deposit mobilization, provision of remittance facilities, and advancing of loans. Nevertheless, the two differ fundamentally from each other on the following counts:

<table>
<thead>
<tr>
<th>Points of difference</th>
<th>Co-operative Banks</th>
<th>Commercial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Formation</td>
<td>These banks are formed under the Co-operative Societies Act prevalent indifferent states. These banks are owned by the customers or users.</td>
<td>These banks are formed either as Public Corporations under the Special Acts of the Parliament or as Joint Stock Companies under the Companies Act.</td>
</tr>
<tr>
<td>2. Borrowing</td>
<td>In order to borrow funds from co-operative banks, one has to be a shareholder of the bank.</td>
<td>In commercial banks there is no such requirement for a borrower.</td>
</tr>
<tr>
<td>3. Area of Operation</td>
<td>They are restricted to a particular village / a district/ at best a state depending upon the category of banks; followed the system of unit-banking.</td>
<td>These banks follow the system of branch-banking; have their branches all over the country generally and in some cases even outside the country.</td>
</tr>
<tr>
<td>4. Management</td>
<td>Each unit has a federal autonomous set-up. It is</td>
<td>These banks are managed by a centralized head office to</td>
</tr>
<tr>
<td>Introduction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>managed by a democratically chosen board and the day-to-day affairs are looked after by honorary persons.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>which branches are accountable. Day-to-day work of these banks is carried out by well-paid, trained, professional staff.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Set-Up
- They have federal set-up having three-tier and two-tier structures depending on the type of banks.
- They have only unitary set-up.

6. Control on Membership
- The state governments have placed limitations on maximum shareholding by an individual to ensure that no single individual or group obtains control of the bank.
- In case of commercial banks, there is no such limitation because membership is not mandatory.

7. Orientation
- Basically rural oriented, engaged in financing agriculture and allied activities.
- Till recently urban-oriented. Now they have started opening rural branches and financing rural masses.

8. Objective
- “Service” rather than profit is the motto of these banks.
- Profit maximization tends to be the motto of these banks.

9. Sectoral Type
- Co-operative banks are private sector banks.
- Commercial banks are of two types – public sector and private sector.

10. Resources
- Apart from both member and non-member deposits, co-operative banks mainly depend upon RBI / NABARD for their resources. RBI/NABARD provides concessional finance to these banks.
- Public deposits are the only major source of finance available to these banks. They do not get any concessional finance from RBI / NABARD.
### Introduction

| **11. Refinance** | Only State Co-operative banks are entitled to refinance facilities from RBI/NABARD. | Every scheduled commercial bank is entitled to refinance facilities from the RBI/NABARD. |
| **12. Lending Operations** | Ever since their inception, they lend money to the priority sectors of the economy. | Commercial banks usually exercise discretionary powers in lending money. Though after nationalization they are engaged in priority sector lending, they still prefer lending more to trade, commerce and industry. |
| **13. Recovery** | In these banks, recovery is effected through field staff and in case of default, through persuasion and finally taking awards from the Registrars. | Expected to pour in automatically and in case of default, through persuasion and finally through court of laws. |
| **14. End-use of Funds** | Co-operative banks specialize in personal credit and cover the risk by strictly lending for productive purposes and regular supervision through field staff. | Commercial banks are not much concerned with the end-use of funds. They are mainly concerned about tangible securities offered by the borrower, and degree of ease and promptitude with which loan can be realized. |
| **15. Customer Relations** | Not only personal but humane relations are maintained. | Purely professional and account-oriented. |
| **16. Audit and Inspection** | In these banks audit is conducted by the audit department of the Registrar of Co-operative Societies and | Audited by the bank itself and inspected by RBI. |
17. Responsiveness to customer needs

<table>
<thead>
<tr>
<th></th>
<th>Co-operative Banks</th>
<th>Salary Earner’s Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>These banks can easily and flexibly respond to the needs of the local community.</td>
<td>These banks cannot respond easily to the needs of local people because they need to adhere to national and international standards. They cannot alter their policies easily.</td>
<td></td>
</tr>
</tbody>
</table>

1.10 Co-operative Banks v/s Salary Earner’s Society

<table>
<thead>
<tr>
<th>Points of Difference</th>
<th>Co-operative Banks</th>
<th>Salary Earner’s Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Formation</td>
<td>These banks are formed under the Co-operative Societies Act prevalent indifferent states. These banks are owned by the customers or users.</td>
<td>These are set up as co-operative societies set up by the employees of some government departments, Indian Railways, public sector undertakings, financial institutions like RBI, the SBI nationalized banks, large individual establishments etc.</td>
</tr>
<tr>
<td>2. Management</td>
<td>Each unit has a federal autonomous set-up. It is managed by a democratically chosen board and the day-to-day affairs are looked after by honorary persons.</td>
<td>The management of these banks comprises of the general body (consisting of shareholders). The day-to-day activities of these banks are looked after by the CEO, while major policy decisions are taken at the General Body meetings.</td>
</tr>
</tbody>
</table>
### 3. Orientation

<table>
<thead>
<tr>
<th>Description</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>These banks are mainly oriented to cater members as well as non-members both.</td>
<td>They are mainly oriented to cater their members only.</td>
</tr>
</tbody>
</table>

### 4. Objective

<table>
<thead>
<tr>
<th>Description</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Service” rather than profit is the motto of these banks.</td>
<td>“Service” of the “member-community” tends to be the major objective of these banks.</td>
</tr>
</tbody>
</table>

### 5. Sectoral Type

<table>
<thead>
<tr>
<th>Description</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-operative banks are private sector banks.</td>
<td>Even these banks are private sector banks.</td>
</tr>
</tbody>
</table>

### 6. Lending

<table>
<thead>
<tr>
<th>Description</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ever since their inception, they lend money to the priority sectors of the economy.</td>
<td>They lend money to the members for consumption purpose only.</td>
</tr>
</tbody>
</table>

### 7. Role in Economic Development

<table>
<thead>
<tr>
<th>Description</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-operative banks have an important role in the economic development of the area in which they are functioning.</td>
<td>This is not the case with salary earner’s society as the membership is restricted to the employees of certain institutions</td>
</tr>
</tbody>
</table>

Thus, it can be clearly ascertained that there is a thin line of distinction between co-operative banks and salary earner’s societies.

### 1.11 Introduction to the Banks under Study

#### 1. The Urban Co-operative Bank Ltd., Jaipur

The bank was established in the year 1959 and has completed 51 glorious years of its operations. This bank enjoys the position of a premier Urban Cooperative Bank of North India and is continuously striving for excellence.

#### Management Pattern

The management team of the bank comprises of the Board of Directors, Senior Management and Branch Managers. The Board of Directors of the Bank comprises of industrialists, professionals and businessmen of repute, drawn from industry, trade and banking in addition to Senior Charted Accountants. Thus, the bank has a truly professional Board, fully complying with the RBI guidelines as well. All the Board members including the Chairman and the Vice-Chairman are the non-executive members. The following members constitute the team of The Urban Cooperative Bank Ltd.:
Besides the above discussed management team, the Board has also constituted various sub-committees, which make recommendations to the Board on specific functional areas. These committees are:

1. Loan Committee
2. Audit Committee
3. Finance, Budget and Corporate Planning Committee
4. Customer Facilities and Modernisation Committee
5. Loan Monitoring and Recovery Sub Committee
6. Staff and Administrative Committee
Introduction

Key Financials (fig.in lacs)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>31.3.2010</th>
<th>31.3.09</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>16996</td>
<td>15043</td>
<td>12.98%</td>
</tr>
<tr>
<td>Advances</td>
<td>9749</td>
<td>8356</td>
<td>16.67%</td>
</tr>
<tr>
<td>Working Capital</td>
<td>21321</td>
<td>18872</td>
<td>12.97%</td>
</tr>
<tr>
<td>Net Profit Before Tax</td>
<td>726</td>
<td>707</td>
<td>2.68%</td>
</tr>
<tr>
<td>Priority Sector Advances</td>
<td>575.9</td>
<td>543.4</td>
<td>5.98%</td>
</tr>
<tr>
<td>Share Capital</td>
<td>358</td>
<td>289</td>
<td>23.87%</td>
</tr>
<tr>
<td>Membership</td>
<td>6465</td>
<td>5850</td>
<td>10.51%</td>
</tr>
</tbody>
</table>

Financial Strengths

Capital Adequacy: The Bank’s Capital Adequacy Ratio (CRAR) continues to be at over 3 times above the RBI prescribed norm of 9% and stood at 31.14% as on 31.3.2010

Net Worth: The Net worth of the Bank has increased to Rs. 38.93 Cr. on 31.3.2010 as against Rs.17.61 Cr. on 31.3.2009. Thus the bank has translated into a growth of 121% over 5 years.

Non Performing Assets: The Bank’s Net NPAs stood at “Zero Level” consecutively for 7th year and the gross NPAs as on 31.3.2010 at 0.38% i.e almost near Zero level. Thus the bank has a very healthy advance portfolio.

Branch Network

The branches of the bank are located at park street (station road), M.I.Road, Adarsh Nagar, Vaishali Nagar, Janta Store, Vishwakarma Industrial Area (VKIA) and Shyam Nagar.
2. Integral Urban Co-operative Bank Ltd., Jaipur

The bank was established in the year 1999 and is managed by a team of professionals. The Board of the Bank is a team of experienced people in the banking industry and the bank is headed by the chairman Shri Suresh Kumar Gupta. The Chief Executive Officer of the bank is Shri. Keshav Badaya. The bank has broaden its service base considerably by increasing the number of branches in Jaipur and improving the service quality.

**Key Financials**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>31.3.2010</th>
<th>31.3.09</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>7753.95</td>
<td>6169.72</td>
<td>25.67%</td>
</tr>
<tr>
<td>Advances</td>
<td>5064.03</td>
<td>3798.19</td>
<td>33.32%</td>
</tr>
<tr>
<td>Working Capital</td>
<td>8745.68</td>
<td>6865.46</td>
<td>27.39%</td>
</tr>
<tr>
<td>Net Profit Before Tax</td>
<td>77.14</td>
<td>39.05</td>
<td>97.54%</td>
</tr>
<tr>
<td>Share Capital</td>
<td>337.94</td>
<td>286.29</td>
<td>18.04%</td>
</tr>
<tr>
<td>Membership</td>
<td>7754</td>
<td>7132</td>
<td>8.72%</td>
</tr>
</tbody>
</table>

**Branch Network**

The head office of the bank is located at Sodala, Ajmer Road, Jaipur, while the the five other branches are located at, Johri Bazaar, Chandpole Bazaar, Khatipura Road, Kartarpura Phatak and Mansarover, Jaipur. The bank has also started its operations in Ajmer and Alwar district in 2010.

3. The Railway Employees Co-operative Bank Ltd., Jaipur

The bank was established in the year 1945 and has completed 65 glorious years of its operations. The bank has been established for mobilizing the savings of the
employees working with North Western Railways (N.W.R) and has been able to achieve its objectives well.

**Management Pattern**

J.C Budhlakoti, Chairperson and Manager Rail mandal, N.W.R, Jaipur

Suraj Mal Meena, Vice Chairperson and Director, Jaipur

Suraj Prakash Sharma, Chief Executive Officer

Suresh Chand Yadav, Director, Jaipur

Fateh Singh Gaur, Director, Jaipur

Jagdish Prasad Yadav, Director, Fulera

Geetam Singh, Director, Kota

Manjeet Singh Bagha, Director, Kota

Sunil Dutt Sharma, Director, Kota

Makbul Ahmed Khan, Director, Ajmer

Shri Rajkumar, Director, Ajmer

Hazari Lal Yadav, Director, Ajmer

K.P Gurjar, Director, Bandikui

Vijay Singh Meena, Professional Director and Senior Manager, N.W.R, Jaipur

M.K Rawat, Professional Director

J.L Sharma, Professional Director

Subhash Sharma, Professional Director
Introduction

Key Financials (figs in lacs)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>31.3.2010</th>
<th>31.3.09</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>1614.59</td>
<td>1407.93</td>
<td>14.68%</td>
</tr>
<tr>
<td>Advances</td>
<td>16322.98</td>
<td>12984.62</td>
<td>25.71%</td>
</tr>
<tr>
<td>Working Capital</td>
<td>23509.91</td>
<td>19147.67</td>
<td>22.78%</td>
</tr>
<tr>
<td>Net Profit Before Tax</td>
<td>362.31</td>
<td>278.59</td>
<td>30.05%</td>
</tr>
<tr>
<td>Membership (in 000’ )</td>
<td>25688</td>
<td>25671</td>
<td>0.66%</td>
</tr>
</tbody>
</table>

Branch Network

There operates only one central branch of the bank for Jaipur district at power house road. The rest branches are situated in other districts.

4. The Rajlaxmi Mahila Urban Co-operative Bank Ltd, Jaipur

The bank was established in the year 1996 on March 6. It is classified as “A” Class bank among the Urban Bank Classification. The bank has completed 15 glorious years of its operation.

Management Pattern

The bank is managed by a team of efficient and committed female members. A glance to the management pattern of the bank is:

Dr. Firoza Baano, Chairman

Smt. Manvati Aggarwal, Vice Chairperson

Smt. Alka Kotawala, Director
Introduction

Smt. Shalini Rajvanshi, Director
Smt. Sania, Director
Smt. Renu Singhal, Director
Dr. Kamlesh Tiwari, Director
Smt. Vineeta Mittal, Director
Smt. Mithlesh Chaudhary, Director
Razia Rasool, Director
Nasreen Haleem, Director

Branch Network

The Head Office of the Bank is situated at Tripolia Bazar and has two branches situated at New Sanganer Road and Khatipura Road, Jaipur.

Key Financials (fig. in lacs)

The soundness of any bank can be well explained through a variety of financial indicators which are explained as under:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>31.3.2010</th>
<th>31.3.09</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances</td>
<td>1817.86</td>
<td>1610.16</td>
<td>12.89%</td>
</tr>
<tr>
<td>Working Capital</td>
<td>23509.91</td>
<td>19147.67</td>
<td>22.78%</td>
</tr>
<tr>
<td>Net Profit Before Tax</td>
<td>20.38</td>
<td>17.36</td>
<td>17.39%</td>
</tr>
<tr>
<td>Share Capital</td>
<td>141.14</td>
<td>90.67</td>
<td>55.66%</td>
</tr>
<tr>
<td>Membership</td>
<td>5262</td>
<td>5092</td>
<td>3.33%</td>
</tr>
</tbody>
</table>

5. Malviya Urban Co-operative Bank Ltd., Jaipur
The bank was established in the year 1999 and has shown a consistent performance then onwards.

**Management Pattern**

Shri R.P Aggarwal, Chairman

Shri M.L Sharma, Vice Chairman

Shri Sanjeev Aggarwal, Managing Director

Smt. Sweety Aggarwal, Director

Smt. Sarita Sharma, Director

Dr. Urmila Sharma, Director

Smt. Rimpi Sharma, Director

Smt. Munni Devi Nagauri, Director

Shri Gaurav Gupta, Director

Shri Mohan Singh, Director

Shri Virendra Singh, Director

Smt. Richa Aggarwal, Director

**Key Financials (in lacs)**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>31.3.2010</th>
<th>31.3.09</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>5748.9</td>
<td>4028.62</td>
<td>42.70%</td>
</tr>
<tr>
<td>Advances</td>
<td>2851.85</td>
<td>2799.60</td>
<td>1.86%</td>
</tr>
<tr>
<td>Working Capital</td>
<td>6665.23</td>
<td>4807.74</td>
<td>38.63%</td>
</tr>
<tr>
<td>Priority Sector Advances</td>
<td>1419.85</td>
<td>1233.88</td>
<td>15.07%</td>
</tr>
<tr>
<td>Share Capital</td>
<td>218.08</td>
<td>205.78</td>
<td>12.30%</td>
</tr>
<tr>
<td>Membership</td>
<td>3621</td>
<td>3376</td>
<td>6.99%</td>
</tr>
</tbody>
</table>

**Branch Network**

The head office of the bank is located at Tonk Road, Jaipur, while the four branches are located at Mansarovar, Johri Bazaar, Sikar Road and Pratap Nagar, Jaipur.

**6. The Rajasthan Urban Co-operative Bank Ltd., Jaipur**

The bank was founded in the year 1961 and right from the time the bank has played a vital role in the cooperative banking sector. On August 30, 2005, RBI put the bank under directions and banking operations were suspended due to poor financials and management. RBI directions continued from the 31.08.2005 to 12.10.2009. During this phase, the banking operations did not take place but the bank strived hard for the recovery of dues and finally succeeded in its attempts. It came to life again on 14.10.2009. The bank has drawn sound future plan for all round growth on sound banking principles to achieve overall prosperity.

**Management Pattern**

The management team of the bank comprises of the top management, directors appointed by the state government and nine other members. The management pattern is as:

Ajay Chopra, Chairperson

Kunal Lalani, Vice Chairman

**Directors Appointed by State Government**

Sitaram Meena, Joint Registrar (Banking)

V.K Verma, Managing Director, JCCB

Brijendra Rajoria, Sub Registrar, Jaipur

Tara Chand, Managing Director
Key Financials (figs in lacs)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>31.3.2010</th>
<th>31.3.09</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Capital</td>
<td>402.4</td>
<td>277.57</td>
<td>44.97%</td>
</tr>
<tr>
<td>Share Capital</td>
<td>199.99</td>
<td>54.99</td>
<td>263.68%</td>
</tr>
<tr>
<td>Membership</td>
<td>4567</td>
<td>4541</td>
<td>0.57%</td>
</tr>
</tbody>
</table>

Branch Network

The head office of the bank is located at Krishna Marg,C-Scheme,Jaipur and the branch is located at Bhagwan Das Road, Jaipur.

7. Sterling Urban Co-operative Bank Ltd., Jaipur

The Bank was established in the year 1995 and has been performing consistently till date.

Management Pattern

Mr.Sunil Gang, Chief Executive Officer

Mr.Hazari Lal Kackar, Chairman

Mr.Vivek Harvyasi, Vice-Chairman

Mr.Ashok Kumar Agarwal, Director

Mr. G.R. Kejriwal, Director

Mr. Jai Narayan Sharma, Director

Mr. Saurabh Tak, Director

Mr. Naveen Mandha
Mr. Dilip Sharma

Mr. Vinay Kampawat

Key Financials (figs in lacs)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>31.3.2010</th>
<th>31.3.09</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>1177.6</td>
<td>1135.7</td>
<td>3.68%</td>
</tr>
<tr>
<td>Advances</td>
<td>760.89</td>
<td>670.99</td>
<td>13.39%</td>
</tr>
<tr>
<td>Working Capital</td>
<td>1550</td>
<td>1311</td>
<td>18.23%</td>
</tr>
<tr>
<td>Share Capital</td>
<td>250.23</td>
<td>48.76</td>
<td>414.36%</td>
</tr>
<tr>
<td>Membership</td>
<td>304.01</td>
<td>2800</td>
<td>8.60%</td>
</tr>
</tbody>
</table>

Branch Network

The bank is operating with its Head Office only located at C-Scheme, Jaipur. The branch or the Head Office is fully computerized.

8. Rajputana Mahila Urban Co-operative Bank Ltd., Jaipur

The Bank was established in the year 1997 with the key objective of providing easy finance and banking facility to the women entrepreneurs of Rajasthan. The Bank is managed by a team of competent professionals and is headed by Smt. Nupur Sareen as the chairperson. Shri Hari Om Sharma is the Chief Executive Officer of the Bank.

Key Financials (figs in lacs)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>31.3.2010</th>
<th>31.3.09</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>1291.16</td>
<td>940.96</td>
<td>37.21%</td>
</tr>
<tr>
<td>Advances</td>
<td>552.17</td>
<td>491.22</td>
<td>12.40%</td>
</tr>
<tr>
<td>Working Capital</td>
<td>1572.76</td>
<td>1170</td>
<td>34.42%</td>
</tr>
<tr>
<td>Net Profit Before Tax</td>
<td>4.19</td>
<td>3.49</td>
<td>20.05%</td>
</tr>
<tr>
<td>Share Capital</td>
<td>146.82</td>
<td>120.82</td>
<td>21.51%</td>
</tr>
<tr>
<td>Membership</td>
<td>6945</td>
<td>6639</td>
<td>4.60%</td>
</tr>
</tbody>
</table>

Branch Network
The Head Office of the bank is located at Sanganer, Jaipur and the branch of the bank is located at Mahesh Nagar and Tilak Nagar Jaipur.

References


CHAPTER: 2
METHODOLOGY

2.1 Research Problem: An Overview

The Co-operative sector in Indian Economy strikes a golden mean between the private sector on the one hand, and the governmental organisations on the other. Unlike the former, profit-making is not the sole objective of the co-operative sector, and unlike the latter, it is saved from the evils of unresponsive bureaucratic structure. Rather, the co-operative structure combines the merits of freedom and flexibility of private organisations, and purposiveness of social objectives of the governmental organisations.

The Co-operative Credit institutions are categorised into two main categories: Urban Cooperative Banks and Rural Cooperative Credit Institutions. The Urban Cooperative Banks are further bifurcated into Scheduled and Non- Scheduled banks. Out of these the Non- Scheduled Banks in Jaipur, constitute the scope of the study.

The Urban Co-operative banking is the only sector in the co-operative movement which, without receiving any assistance from the state and central governments, has been striving to solve the economic problems of the economically weaker sections of the society. However, the Urban Cooperative movement is not free from organisational and operational problems. As such, it is essential to carry out a systematic study with regards to this sector. Majority of the operational problems deal with the financial dimension, which can be encountered through a sound financial analysis. The same will be done through profitability analysis of these banks.

Profitability refers to the profit making ability of the enterprise. It is expressed as a percentage of profit to working funds. The profitability of the banks depends upon its allocational and operational efficiency. ‘Allocational efficiency’ refers to the efficient allocation of funds by an institution among the competing demands. ‘Operational efficiency’ refers to the difference between the rates at which the funds are raised and
deployed. Such an analysis will be based on a variety of ratios calculated with reference to working capital.

The profitability study of these banks will help in suggesting useful measures to improve the financial health of Urban Cooperative Banks. The study will also turn out to be helpful testing the viability of these banks.

2.2 Literature Review

Though not much has been contributed by the academicians and researchers about the profitability and productivity of Urban Cooperative Banks, some related studies on the same type of problem have been undertaken in the past. These include:

Sharma Geeta and Kawadia Dr. Ganesh (2006), in their research paper titled “Leadership through Performance: A DEA Analysis of Urban Cooperative Banks of Maharashtra (India)”, concluded that the efficiency indices can also be used for identifying the areas of inefficiency of a UCB. This will help the regulators to formulate suitable strategies and prevent the systematic failures of bank. Also their research has proved that the size of the UCB will have a direct bearing on the efficiency of the bank.

Shah Tarak (2004-05), in his research paper titled “Attaining zero Non-Performing Asset (NPA) by Transparency, Trust and & Service”, concluded that the profitability UCBs is highly sensitive to each and every small activity, the scale of operations being very small. Further the investment patterns of these banks also affect the profitability.

Mohan N. (2008), in his article titled “A Changed Rating System for UCBs”, stated that the CAMELS rating model has helped Urban Cooperative Banks to be more responsive to risks and to follow the norms. This will help in preventing the failures of UCBs due to declining profitability.

Paranjothi T. and Ravichandran K. (2009), in their research paper titled “Recent Trends and Development Problems and Prospects for Urban Co-operative Banks in...
India”, have given useful suggestions for improving the financial soundness of UCBs after studying their corresponding problems. These suggestions are:

1. Introduction of new grading norms by RBI.
2. To achieve the CRAR norms, the banks should improve its owned fund position.
3. The UCBs should focus more on the lending activities than investing activities.
4. Strong vetting procedure while scrutinizing the loan documents.

Kumawat M.L. (2009), in his conference on “Urban Cooperative Banks Scam- the Loot from Within”, has explained how the fraudulent activities in Urban Cooperative Banks influence their profitability. Also he has highlighted the importance of CD ratio and Asset Classification Norms for UCBs.

Bhatt B.U., Shiyani R.L. and Patel N.M., in their case study titled “A Case Study of Junaganth District Central Co-operative Bank”, has pointed out that effective C.D. ratio reflects the real picture of management of deposits and credit.

Kumar, Sanjib and Sharma Vinod (2001), in their research paper titled “Co-operative Credit-RevampingNeeded”, have emphasized that a successful financial institution especially a co-operative financial institution had to adopt itself to the changing needs in order to become sustainable.

Ramesh B. and Patel M.R (1999), in their research paper titled “Performance Evaluation of Urban Co-operative Banks in India”, has recognized the vital elements for accessing the performance of UCBs. These elements are: number of branches, membership, share capital, reserves, deposits, borrowings, working capital, advances, over dues etc. The deficiency in the working of UCBs has highlighted the need for profitability analyses.

Suchak V. Nilesh (2004), in his research paper titled “Management of NPAs in India” has proved that NPA is a very sensitive matter for the UCBs and has an adverse bearing on the profitability of these banks.
Dr. N. Ramu (2011), in his research paper titled “Financial Performance of Urban Co-operative Banks: A Study with Reference to Tamil Nadu” has highlighted two major problems of UCBs - one is to improve their profitability and the other is to curtail their management cost. This research paper clearly justifies the viability of this research.

Sundararaman S. (2010), in his research paper titled “Compromise Settlement of NPAs – How to do it Effectively?” has highlighted the importance of Compromise Settlement as a solution for NPA management. It is a good tool for profitability improvement.

Raikar V. Avinash (2005), in his research paper titled “Urban Cooperative banks in India: An Assessment”, has proved that the profitability of UCBs has been affected by the Asset Classification and Provisioning norms and also the overall costs (expenses) are of a major concern in these banks.

Kumar Sharad and Sreeraramulu M. (2007), in their research paper titled “Employees’ Productivity and Cost – A Comparative Study of Banks in India During 1997 to 2008” has pointed out that “per employee” indicators are useful “productivity indicators” in a bank which can give a clear picture of the bank productivity.

Sinha Swati, in her article titled “Employee Productivity Performance Analysis of State Bank of India.”, has pointed out that various employee related factors (such as working funds per employee and operating profit per employee) can be analyzed to judge the productivity performance of a bank.

Parua Anupam and Joshi Lalit Kumar (2010), in their research paper titled “Trends in Performance and Profitability of Co-Operative Banks: A Case Study of Vidyasagar Central Cooperative Bank Limited, Midnapore, West Bengal”, have identified that the major reasons that for declining profitability of the bank. They are:

- Slower rate of increase in bank’s spread ratio in comparison to the burden ratio.
- Bank is inefficient in capturing new and different channels of banking business.
• The presence of non-performing assets has also posed a great problem for the bank.

• As the regime of interest rate cut was prevalent at that time, thus the banking operations were bound to suffer from profitability perspectives.

The same has implications for this research also.

Sanyal Paroma and Sharma Rashmi (2011), in their research paper titled “Heckscher-Ohlin Theory: A Modern Approach”, have pointed out that one of the major causes for declining productivity is the competition factor. The study has proved that bank productivity is adversely affected as the competition increases.

Chander Ramesh and Chandel Jai Kishan (2010), in their research article titled “Financial Viability and Performance Evaluation of Co-Operative Credit Institutions in Haryana (India)” stated that the overall financial management in the cooperative credit institutions is poor. Also, the study has pointed out that the profitability of such institutes can be effectively measured through financial ratios.

Sherman H. David and Ladino George (1995), in their research paper titled “Managing Bank Productivity Using Data Envelopment Analysis (DEA)” have stated that benchmarking the financial performance of one branch might help in improving the productivity of other branches as well. But the benchmarking should be done scientifically.

2.3 Objectives of the Study

The main objective of the study is to analyse the profitability of Urban Cooperative Banks in Rajasthan. The broad objectives of the study can be summarised as:

1. To evaluate the profitability performance of the Urban Cooperative Banks operating in Jaipur district.

2. To analyze the impact of Non-Performing Assets (NPAs) on the profitability of these banks.
3. To analyze the size of the selected banks so as to assess its (size) impact on banks’ profitability.

4. To examine the different factors contributing to the low/ high profitability of individual banks.

5. To examine the viability of the selected Urban Cooperative Banks.

2.4 Hypotheses

To meet the objectives of the study, following hypothesis have been formulated and tested.

- The profitability of Urban Cooperative Banks in Rajasthan has been uniform over the past five years (i.e from 2005-2010).
- The Non-Performing Assets adversely affect the profitability of these Banks.
- The Urban Cooperative Banks in Rajasthan are viable.
- Sizes of the Urban Cooperative Banks influence their profitability.

2.5 Period of the Study

The present study is aimed at studying the performance of Urban Cooperative Banks in Jaipur on the basis of their profitability.

The study will be mainly based on secondary data that will be collected from the annual reports of the selected banks and annual reports of the Rajasthan Urban Cooperative Banks Federation, Jaipur. A period of five financial years, ranging from 2005-2010, has been taken up as the time frame for the study.

In order to supplement the study, secondary data will also be collected from journals, magazines, newsletters, internet etc.

2.6 Scope of Study

A number of researches have been undertaken which highlight the problems faced by Urban Cooperative Banks. Also, quiet many researches have been undertaken on the profitability and productivity of commercial banks. But no research has been undertaken to analyze the profitability and productivity dimension of Urban
Cooperative Banks. However, the fact remains that Urban Cooperative Banks are also as good as Commercial Banks and hold a very important place in the cooperative institutional structure. All these facts have motivated the researcher to undertake this research work. This research will be of a great help to:

1. **Urban Cooperative Banks**

The research will carry out a thorough scrutiny of the financial performance of UCBs and will suggest measures for improvement. This will help the banks to identify their weaknesses and improve their performance.

2. **Customers/Public/ Depositors**

This research will suggest measures for improvement for UCBs. If the UCBs will follow these measures effectively, then RBI may grant them “Scheduled” status. The same will help in building up the confidence of customers/depositors/public in Urban Cooperative Banks.

3. **Reserve Bank of India**

An analytical study of UCBs will help the banks to improve upon their profitability and productivity. Thus, the work of the regulator will be eased. Also, this will lead to the better compliance of norms by UCBs.

4. **Academicians, researchers and students**

The research will prove informative for academicians, students and reader interested in cooperative banking. The same will also help them to understand the financial problems of UCBs and their different dimensions.

2.7 **Universe of Study**

**Universe:** It consists of all the Urban Cooperative Banks in Rajasthan.

**Sample:** It consists of all the Urban Cooperative Banks in Jaipur district.

**Method of Sampling:** Judgement Sampling

2.8 **Research Design**
Research Design involves statement or determination of a variety of details about the research to be conducted. Details such as what, where, when, how much and by what means the research study will be conducted are worked out in the ‘design’ of that particular research.

There are basically two types of researches: Qualitative and Quantitative.

**Qualitative Researches** are primarily concerned with the behavioural dimension of humans and tend to find out the *why* of a particular behaviour. They are mostly used in social sciences. Such researches are used to understand the psychology of consumers also in market research.

While, **Quantitative Researches** aim at establishing the relationship between one variable (independent) and another (dependent). These researches are of two types:

1. **Descriptive Research** (where subjects are measured only once): This type of research describes the characteristics of a population or phenomenon being studied. It answers the “what” dimension i.e what are the characteristics of the population or situation under study.

2. **Experimental Research** (where subjects are measured before and after treatment): This type of research establishes the cause and effect relationship between the variables. It answers the “how/when/why” dimension of the situation as to how/ when and why the situation occurred.

This research work is a descriptive research. Hence, there is a need to have a research design for descriptive research.

**Research Design for this Research**

The design of the present research work is quite rigid and it focuses on the following dimensions:

a.) This study has the clear objective of describing the profitability performance of the Urban Cooperative Banks in Rajasthan.
b.) It has clearly designed methods of data collection. This research relies heavily on secondary data which will be collected from the annual reports of the banks under study. Some qualitative data will be collected through questionnaires which will be administered on the employees of these banks, CAs of these banks, educationists and people having knowledge about these banks.

c.) The universe for this study includes all the Urban Cooperative Banks in Rajasthan. But Judgemental Sampling technique has been adopted here and only the Urban Cooperative Banks in Jaipur have been taken up for the purpose of study.

d.) The study period will be of 5 years i.e from 2005-2010.

e.) The tools that will be used for processing and analysing the data mainly include financial tools: Ratio Analysis and Trend Analysis. The other tools that will be deployed are: Altman Z-Score Formula, Graphs and charts.

f.) A clear reporting of the profit based performance of these banks will be done along with a list of suggestions for further improving their performance.

2.9 Sources of Data Collection

Secondary Data: The study will be mainly supported by secondary data which will be collected from the annual reports of selected banks and annual reports of the Rajasthan Urban Co-operative Banks Federation, Jaipur.

Primary Data: The study mainly requires financial data and as such there will be not much need for collecting primary data. However, for collecting information about the risk factors associated with UCBs, popularity of these banks and suggestions for improving their competitiveness, questionnaires will be administered. The questionnaires will be administered on the officials and employees of the banks under study, charted accountants of these banks, and people having knowledge about cooperative banking (lecturers of the subject ‘banking and finance’ and retired bank employees).

2.10 Tools of Data Analysis and Hypotheses Testing

Both statistical and financial tools will be applied in order to support the hypothesis and derive suitable conclusions. Also the analysis will be supported by various tables.
and charts, which will help in tabulation and comparison of results respectively. The following tools will be used:

1. Ratio Analysis
2. Trend Analysis (Trend Ratios)
3. Altman Z-Score Analysis
4. Histograms, pie-charts, trend charts etc.
CHAPTER: 3
RATIO ANALYSIS

3.1 Ratio Analysis

Financial statements present a large number of figures before us, but the mere presentation of these numbers does not help in drawing out any meaningful conclusion about the financial standing of the organization/company. Hence, it becomes essential to establish some sort of relation between them so as to analyze and evaluate the financial position of the company. In order to establish this sort of relationship, a tool is deployed which is termed as “Ratio”.

A “ratio” is a simple arithmetical relationship of one number to another and is obtained by dividing the former by the later. In other words, ratios are simply a means of highlighting, in arithmetical terms, the relationship between figure drawn from financial statements.¹

Ratios may be expressed as percentages, proportion and turnover (number of times of other figure).

The process of determining and presenting the relationship of items or group of items in the financial statements is termed as “ratio analysis”. Through ratio analysis, two types of relationship can be established:

a.) Associate Relationship (as present between cost of goods sold and cost of raw material)

b.) Cause and Effect Relationship (as present between sales and profits)

Accounting ratios serve as a very useful tool in assessing the financial position of a company. Thus, they are also termed as “financial ratios”.

As a tool for financial analysis, ratios help a company/bank in the following manner:
1. Ratios facilitate variety of comparisons

With the help of ratios a company can make a variety of comparisons which help in improving its own performance. The following types of comparisons are facilitated by ratios:

a.) Comparison of the firm’s present performance with its past performance. (Performance over a number of year's i.e. horizontal analysis)

b.) Comparison of the firm with its competitors

c.) Comparison of the firm with the whole industry

d.) Comparison of one department in a firm with another department

2. Ratios help in evaluating the solvency of firm/ banking institution

They help in assessing the short term, long term and immediate solvency position of a firm with the help of various ratios such as debt-equity ratio, debt to assets ratio, capital gearing ratio etc.

3. Evaluation of the profitability performance of the firm/ bank

The major area of concern for company/ bank management as well as owners (members) is ‘profit’ of the company/bank. So, ratios help in effective evaluation of the profitability performance of the business/bank. Ratio such as gross profit ratio, operating ratio, return on capital employed, return on total assets help in the assessment of profitability position of a firm /bank.

4. Useful in evaluating the operational efficiency of firms/ banks

Operational efficiency refers to the ability of the firm/bank to perform its activities in the most cost efficient manner. Such efficiency of the bank/firm can be measured using various ratios such as stock turnover ratio, debtor's turnover ratio, working capital turnover ratio, fixed assets turnover ratio etc.
5. Helps in evaluating the credit standing of the company

Ratios even help in the evaluation of credit standing of the company/financial institution. Ratios such as capital gearing ratio, debt-equity ratio, proprietary ratio etc reveal the position of external debt (borrowing) on the firm/bank.

By analyzing the position of a firm/bank using the above kinds of ratios, the managers can easily:

a.) PLAN: for the future using budgets and can easily decide upon the future course of action by formulating policies.

b.) FORECAST: the future by analyzing the trend derived/drawn from ratios.

c.) CONTROL: the performance of the bank/company by comparing the actual performance with the standard performance (i.e. variance analysis). This helps the management to take corrective actions and control the situation.

d.) COMMUNICATE: with the top management and inform them about the progress made by the firm/bank in terms of financial facts and their analysis.

e.) TAKE DECISIONS: about improving the efficiency and profitability of the firm/bank.

In order to evaluate the profitability performance of the selected Urban Co-operative Banks, three sets of ratios have been employed namely, “Spread Ratios”, “Burden Ratios” and “Profitability Ratios”

3.2 Ratio Analysis of the Urban Co-operative Banks under Study

3.2.1 Spread Ratios

“Spread” indicates the difference between the interest earned and interest paid by banks. Thus, it plays a significant role in determining the profitability of the banks. Basically, spread is the net amount available with banks for meeting their operating, administrative and management expenses. Spread Ratios which are commonly deployed in the assessment of bank profitability are:
a.) Interest Earned as Percentage of Total Assets

b.) Interest Expended (Paid) as Percentage of Total Assets

c.) Spread as Percentage of Total Assets \((a - b)\)

### 3.2.1.a. Interest Earned as Percentage of Total Assets

This ratio is an indicator of the rate at which bank earn its income (i.e. interest). The major constituent of this ratio is interest earned. It includes:

**Interest Earned = Interest and discount earned on advances + Income from investments**

The higher this ratio is, higher is the interest based earnings of the bank. Thus, a high ratio is desirable.

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Name of the Bank</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>Net Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Urban Co-operative Bank Ltd., Jaipur</td>
<td>7.71</td>
<td>7.84</td>
<td>8.97</td>
<td>9.34</td>
<td>9.37</td>
<td>1.66</td>
</tr>
<tr>
<td>2</td>
<td>Integral Urban Co-operative Bank Ltd., Jaipur</td>
<td>10.14</td>
<td>11.83*</td>
<td>16.45**</td>
<td>15.93*</td>
<td>14.16*</td>
<td>4.02</td>
</tr>
<tr>
<td>3</td>
<td>The Railway Employees Co-operative Bank Ltd., Jaipur</td>
<td>8.37</td>
<td>8.19</td>
<td>9.21</td>
<td>9.23</td>
<td>9.53</td>
<td>1.16</td>
</tr>
<tr>
<td>4</td>
<td>The Rajlaxmi Mahila Urban Co-operative Bank Ltd, Jaipur</td>
<td>7.41</td>
<td>7.86</td>
<td>8.19</td>
<td>8.27</td>
<td>9.74</td>
<td>2.33</td>
</tr>
<tr>
<td>5</td>
<td>Malviya Urban Co-operative Bank Ltd., Jaipur</td>
<td>8.5</td>
<td>9.58</td>
<td>10.84</td>
<td>10.2</td>
<td>9.44</td>
<td>0.94</td>
</tr>
<tr>
<td>6</td>
<td>The Rajasthan Urban Co-operative Bank Ltd., Jaipur</td>
<td>4.51#</td>
<td>3.57#</td>
<td>3.92#</td>
<td>3.15#</td>
<td>5.15#</td>
<td>0.64</td>
</tr>
<tr>
<td>7</td>
<td>Sterling Urban Co-operative Bank Ltd., Jaipur</td>
<td>7.34</td>
<td>8.31</td>
<td>9.81</td>
<td>10.04</td>
<td>8.24</td>
<td>0.9</td>
</tr>
</tbody>
</table>

**Source:** Figures compiled from the annual reports of the banks under study. Ratios are computed by the researcher.

^ Indicates highest value in the table
* Indicates highest value in that particular year
# Indicates lowest value in that particular year
Analysis

In table 3.2.1.a, Integral UCB has secured the highest ratio (16.45) in the year 2007-08. The lowest ratio has been secured by the Rajasthan UCB (3.92) in 2007-08.

In the year 2005-06, the ratio is maximum for Rajputana Mahila UCB and lowest for the Rajasthan UCB. In 2006-07, the ratio is maximum for Integral UCB and is minimum for the Rajasthan UCB. In all the subsequent years from 2007-08 to 2009-10, the ratio is maximum for Integral UCB and minimum for Rajasthan UCB.

On observing the net change (i.e the change over a period of 5 years), it is found that the change is maximum for Integral UCB and is minimum for Rajputana UCB. As compared to the maximum net change (4.02), the change is extremely low for Malviya UCB, the Rajasthan UCB, Sterling UCB and Rajputana UCB.

Thus, the interest earnings of four banks (Integral, Urban, Rajlaxmi Mahila and Railway UCBs) are satisfactory while other four banks (Malviya, Rajasthan, Sterling and Rajputana Mahila UCBs) are not earning sufficient interest consistently. The interest based performance of Integral UCB is most consistent, while that of Rajputana Mahila and Rajasthan UCBs is not satisfactory.

3.2.1.b. Interest Expended (Paid) as Percentage of Total Assets

This ratio indicates the rate of expenditure incurred by banks on the borrowed funds, i.e. the rate of interest payment. In other words, interest expended indicates the cost of funds for the banks. The major component of this ratio is interest expenditure, which is computed as:

\[ \text{Interest Expenditure} = \text{Interest paid on deposits} + \text{Interest paid on borrowings} \]

A lower ratio is preferable for banks.
Table 3.2.1.b: Interest Expended as percentage of Total Assets

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Name of the Bank</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>Net Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Urban Co-operative Bank Ltd., Jaipur</td>
<td>2.8 #</td>
<td>2.97</td>
<td>3.43</td>
<td>3.98</td>
<td>4.16</td>
<td>1.36</td>
</tr>
<tr>
<td>2</td>
<td>Integral Urban Co-operative Bank Ltd., Jaipur</td>
<td>5.28</td>
<td>6.94 *</td>
<td>11.94 **</td>
<td>10.84 *</td>
<td>9.34 *</td>
<td>4.06</td>
</tr>
<tr>
<td>3</td>
<td>The Railway Employees Co-operative Bank Ltd., Jaipur</td>
<td>5.55</td>
<td>5.3</td>
<td>5.92</td>
<td>5.51</td>
<td>5.98</td>
<td>0.43</td>
</tr>
<tr>
<td>4</td>
<td>The Rajlaxmi Mahila Urban Co-operative Bank Ltd, Jaipur</td>
<td>5.46</td>
<td>5.65</td>
<td>5.67</td>
<td>4.92</td>
<td>5.48</td>
<td>0.02</td>
</tr>
<tr>
<td>5</td>
<td>Malviya Urban Co-operative Bank Ltd., Jaipur</td>
<td>3.12</td>
<td>3.36</td>
<td>4.41</td>
<td>4.77</td>
<td>6</td>
<td>2.88</td>
</tr>
<tr>
<td>6</td>
<td>The Rajasthan Urban Co-operative Bank Ltd., Jaipur</td>
<td>4.24</td>
<td>2.52 #</td>
<td>2.09 #</td>
<td>1.31 #</td>
<td>3.26 #</td>
<td>-0.98</td>
</tr>
<tr>
<td>7</td>
<td>Sterling Urban Co-operative Bank Ltd., Jaipur</td>
<td>4.85</td>
<td>5.45</td>
<td>5.31</td>
<td>5.7</td>
<td>5.17</td>
<td>0.32</td>
</tr>
<tr>
<td>8</td>
<td>Rajputana Mahila Urban Co-operative Bank Ltd., Jaipur</td>
<td>7.37 *</td>
<td>6.91</td>
<td>6.93</td>
<td>6.64</td>
<td>4.92</td>
<td>-2.45</td>
</tr>
</tbody>
</table>

**Source:** Figures compiled from the annual reports of the banks under study. Ratios are computed by the researcher.

^ Indicates highest value in the table
* Indicates highest value in that particular year
# Indicates lowest value in that particular year

Analysis

In table 3.2.1.b, Integral UCB has the highest ratio (11.94) from amongst all eight banks over the entire period of study. While Rajasthan UCB has the lowest ratio (1.31) amongst all the banks.

In the year 2005-06, the ratio is maximum for Rajputana Mahila UCB and lowest for Urban Co-operative Bank. From the year 2006-07 to the year 2009-10, the ratio is highest for Integral UCB and lowest for Rajasthan UCB.

On observing the ‘net change’, it can be ascertained that that the maximum positive net change has been registered by Integral UCB followed by Malviya UCB, which is a positive signal (from deposit perspective) but it tends to minimize the spread.
Ratio Analysis

Though it cannot be assessed with great surety whether this ratio should be kept low or high, only the quantum of interest paid can be analyzed in this ratio.

And the quantum of interest payment is high for Integral, Malviya and Urban Co-operative Bank as evident from the net change.

3.2.1.c Spread as Percentage of Total Assets

This ratio of spread is a very important indicator for determining the profitability of banks. Spread is calculated as:

\[
\text{Spread to Total Assets Ratio} = (\text{Interest Earned as percentage of Total Assets Ratio}) - (\text{Interest Expended as percentage of Total Assets Ratio})
\]

This ratio provides a cushion to the bank for meeting the expenses of management and administration. Thus, a higher ratio is desirable for banks.

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Name of the Bank</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>Average</th>
<th>Net Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Urban Co-operative Bank Ltd., Jaipur</td>
<td>4.91</td>
<td>4.87</td>
<td>5.54</td>
<td>5.36</td>
<td>5.21</td>
<td>5.18</td>
<td>0.3</td>
</tr>
<tr>
<td>2</td>
<td>Integral Urban Co-operative Bank Ltd., Jaipur</td>
<td>5.13</td>
<td>4.89</td>
<td>4.51</td>
<td>5.09</td>
<td>4.82</td>
<td>4.89</td>
<td>-0.31</td>
</tr>
<tr>
<td>3</td>
<td>The Railway Employees Co-operative Bank Ltd., Jaipur</td>
<td>2.82</td>
<td>2.89</td>
<td>3.29</td>
<td>3.72</td>
<td>3.55</td>
<td>3.25</td>
<td>0.73</td>
</tr>
<tr>
<td>4</td>
<td>The Rajlaxmi Mahila Urban Co-operative Bank Ltd., Jaipur</td>
<td>1.95</td>
<td>2.21</td>
<td>2.52</td>
<td>2.76</td>
<td>4.26</td>
<td>2.74</td>
<td>2.31</td>
</tr>
<tr>
<td>5</td>
<td>Malviya Urban Co-operative Bank Ltd., Jaipur</td>
<td>5.38</td>
<td>6.22</td>
<td>6.43</td>
<td>5.43</td>
<td>3.44</td>
<td>5.38</td>
<td>1.94</td>
</tr>
<tr>
<td>6</td>
<td>The Rajasthan Urban Co-operative Bank Ltd., Jaipur</td>
<td>0.27</td>
<td>1.05</td>
<td>1.83</td>
<td>1.84</td>
<td>1.89</td>
<td>1.38</td>
<td>1.62</td>
</tr>
<tr>
<td>7</td>
<td>Sterling Urban Co-operative Bank Ltd., Jaipur</td>
<td>2.49</td>
<td>2.86</td>
<td>4.5</td>
<td>4.34</td>
<td>3.07</td>
<td>3.45</td>
<td>0.58</td>
</tr>
<tr>
<td>8</td>
<td>Rajputana Mahila Urban Co-operative Bank Ltd., Jaipur</td>
<td>4.52</td>
<td>3.36</td>
<td>2.32</td>
<td>1.24</td>
<td>2.23</td>
<td>2.73</td>
<td>-2.29</td>
</tr>
</tbody>
</table>

Industry Average 3.63

Source: Figures compiled from the annual reports of the banks under study. Ratios are computed by the researcher.

^ Indicates highest value in the table

* Indicates highest value in that particular year

# Indicates lowest value in that particular year
Analysis

In table 3.2.1.c, Malviya UCB has the highest spread (6.43) amongst all the eight banks for the entire period of five years. And the lowest ratio has been recorded for Rajasthan UCB (0.27).

In 2005-06, the ratio is highest for Malviya UCB and till 2008-09, it has the highest ratio. The ratio is lowest for Rajasthan UCB from 2005-06 to 2007-08. In 2008-09, this ratio is lowest for Rajputana Mahila UCB. In 2009-10, the ratio is maximum for Urban Co-operative Bank and minimum for Rajasthan UCB.

The ‘net change’ in the ratio is maximum for Rajlaxmi Mahila UCB (2.31) followed by Malviya UCB (1.94). While the maximum decline in this ratio is observed for Rajputana UCB(-2.29) followed by Integral UCB(-0.31).

The industry average of this ratio is 3.63. Out of the eight banks, three banks, namely, Malviya (5.38), Urban (5.18) and Integral (4.89) are exceeding the industrial average. While the average of remaining five banks is not satisfactory.

In a nutshell, it can be concluded that Malviya UCB is outperforming its competitor banks. While the performance of Rajputana and Rajasthan UCB is not found to be satisfactory.

3.2.2 Burden Ratios

Burden represents non-interest expenditure that is covered by non-interest income. If the non-interest expenses cannot be decreased and the non-interest income cannot be increased by the banks, then the profitability of the bank totally depends on the spread. In order to enhance the profitability, banks should try to manage the burden in an effective manner. So, banks should clearly identify the key factors associated with burden and should try to control them. The difference between spread and burden indicates the profit of the bank.

Three key burden ratios are deployed to understand the profitability of banks:

a.) Non-Interest Expenditure as Percentage of Total Assets
b.) Non-Interest Income as Percentage of Total Assets