CHAPTER - V

Financial Analysis of Sample Banks

The financial ratio represents the relationship between two accounting figures expressed mathematically. In financial analysis, a ratio is used as an index or yardstick for evaluating the financial performance or status of a bank or institution against certain standards. Ratio analysis technique is popular in the accounting system of enterprises in general and helps in spotting trends towards better or poor performance. It is helpful in finding significant deviations from an average or pre-determined standard. The financial ratios relevant to Urban Co-operative Banks are grouped under five different categories namely, Liquidity ratios, Solvency ratios, Test of strength, Profitability ratios and Efficiency ratios.\(^1\)

**Test of Liquidity :**

Liquidity ratio indicates the continuous operation of the bank. These ratios are used to measure the ability of an institution to possess adequate cash to meet immediate obligations.\(^2\) Four liquidity ratios are computed as detailed below and results are presented in the Table 5.1
TABLE-5.1

Liquidity Ratios of Guru and Kalyan Banks

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Current ratio</td>
<td>2.25 2.49</td>
<td>2.51 2.41</td>
</tr>
<tr>
<td>2</td>
<td>Credit deposit ratio</td>
<td>80.17 77.61</td>
<td>72.17 65.31</td>
</tr>
<tr>
<td>3</td>
<td>Liquid Asset to</td>
<td>0.46 0.47</td>
<td>0.57 0.54</td>
</tr>
<tr>
<td>5</td>
<td>Acid test ratio</td>
<td>1.16 1.51</td>
<td>1.78 1.83</td>
</tr>
</tbody>
</table>

Source: Annual Reports for related years

1. **Current Ratio** :

This ratio measures the degree of liquidity of the bank in the short term. It indicates whether the current assets are sufficient to repay the current liabilities.

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

The current assets of UCBs include cash on hand, cash with district central co-operative bank, balance with other banks, money at call and short notice, short term advances, bills receivable and prepaid expenses.

The current liabilities include demand deposit (saving and current) accounts, short-term borrowings and bills payable.
Liquidity indicates the preparation for any eventuality of run over the bank such as withdrawals. Table-5.1 shows that in both the banks, in both the periods, the current ratio was greater than one indicating that both the banks had more than one rupee of current assets per rupee of current liabilities. This means in the shorter period the banks will be able to meet their obligation of liability without having to depend on withdrawals from long term assets.

It is to note that in Guru bank, the current ratio, which was 2.25 on an average for the entire study period, increased to 2.49 in the last three years, where as, in Kalyan bank, current ratio remained almost stagnant in the two periods. This shows that Guru bank had concentrated more on investment in current assets, which could harm the long-term financial health of the bank. This is because overemphasis on building current assets will jeopardize the earnings, which would suffer in the long run. However, Kalyan bank has maintained status quo on investments in current assets not forfeiting the long-term interests.

2. Credit Deposit Ratio:

This ratio indicates the extent of utilization of resources by the bank. This measure acts as an indirect means of assessing the monitory management by the bank. In the present study the ratio was estimated as follows.
Credit Deposit Ratio = \frac{\text{Advances Outstanding}}{\text{Deposit Outstanding}} \times 100

The total deposits outstanding comprised of the fixed deposits, savings deposits, current deposits and other deposits. The other deposits include the deposits received from co-operative societies.

The success of the bank mainly depends upon the capacity of mobilizing different types of deposits. With these deposits, they can make loan and advances. The Urban Co-operative Banks are providing the following three types of loans and advances.

1. Short Term Loans
2. Medium Term Loans
3. Long Term Loans

Both the banks have taken keen interest in short term and medium term loans. These short term and medium term loans comprise of advances to small scale business, small-scale industries, vehicle loans, gold loans, personal security loans, education loans and house building loans and other loans. The other loans are mainly consisting of loans to petty businessmen and consumption loans.

The credit-deposit ratio in both the banks has been kept at a safe level in both the periods. In fact, the Credit-Deposit Ratio has declined in both the banks during the last three years compared to
the 13 years average. This implied that both the banks have managed to keep more of the deposits with themselves, thus, making provisions for any eventuality of big withdrawals from the depositors.

3. **Liquid Assets to Total Assets**

This ratio is used to show the degree of liquidity preference adopted by the bank and is computed as follows.

\[
\text{Liquid Assets to Total Assets} = \frac{\text{Liquid Assets}}{\text{Total Assets}}
\]

The liquid assets include, cash in hand, cash at bank and short-term deposits. The total assets include cash and bank investments, advances, fixed assets and other assets.

A review of Table 5.1 indicates that in both the banks, the ratio was about 0.5 indicating that nearly half the assets were liquid assets. In the Kalyan bank, however, the ratio was higher indicating that about 57 percent of assets were in liquid form. The results support the earlier argument (current ratio percent) that the Guru bank has concentrated in current assets which helps in meeting short term liabilities. The remaining assets (about 55 percent) are in the form of permanent assets, which do not have sufficient liquidity to discharge the long-term liabilities of the bank. Kalyan bank on the other hand has only about 43 percent of assets in permanent assets providing at a higher leverage for discharging long term liabilities also.
Kalyan bank, on the other hand, has maintained the ratio of liquid assets to total assets at a reasonably high figure of 0.50 and above in both the periods. Though the profitability due to the higher ratio is low, the liquidity is higher; thereby there is no fear of run on the bank deposits. During the survey it was found that the only problem which Kalyan bank faces is that its deposits with KCC bank (DCC bank) are blocked and it cannot encash them. However, this has not put the bank into any inconvenience in its operations.

4. Acid Test Ratio:

This ratio is called quick ratio or near money ratio. This represents the ratio between quick assets and quick liabilities and computed as follows.

\[
\text{Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}
\]

The quick assets include cash in hand, cash at bank and call money. The quick liabilities include short-term deposits, short-term borrowings, interest accrued and other liabilities.

The ratio indicates the extent to which the capital is financing the current assets, which carries a high degree of liquidity. This ratio is defined as measure of liquidity and assesses how liquid the bank would be if business operations come to an abrupt halt.
This ratio is the "acid test" of the bank's financial soundness. An ideal quick ratio is said to be 1:1. It means that liquid assets of a bank should at least be equal to current liabilities. It indicates the bank is in a position to pay its current liabilities immediately. Higher ratio indicates the better capacity of the bank to meet its current obligations at short notice and if it is very low, it shows short-term scarcity.

A perusal of the above ratio in Table 5.1 reveals that the quick assets to quick liabilities are showing an encouraging trend in both the banks. In Guru bank, the average ratio for the 13-year period was 1.16 while it increased to an average of 1.51 in the last three years. The respective figures for Kalyan bank were 1.78 and 1.83. Hence, it may be inferred that both the banks have command over their liabilities as well as assets with the value of assets per rupee of liability being greater than one. They will be able to discharge their liabilities in full out of their assets, in case such a situation like liquidation arises at any point of time.

Tests of Solvency:

The long-term solvency position of banking business is assessed by these ratios. Solvency refers to the ability of the bank to repay its outside long term liabilities/total liabilities. Solvency ratio indicates long-term stability of a concern. The long term creditors would judge the soundness of a bank on the basis of the long term
financial strength measured in terms of its ability to pay the interest regularly as well as repay the installment of the principal on due dates or in one lump sum at the time of maturity. The long-term solvency of a bank can be examined by using leverage or capital structure ratios. Two types of ratios are computed to ascertain the solvency position of sample banks in order to measure the share of the banks against the funds provided by its creditors. The ratios are presented in the Table 5.2.

### TABLE - 5.2

Tests of Solvency

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Ratios</th>
<th>Guru Bank</th>
<th>Kalyan Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Debt-equity ratio</td>
<td>5.51</td>
<td>5.32</td>
</tr>
<tr>
<td>2</td>
<td>Indebtedness ratio</td>
<td>6.51</td>
<td>6.32</td>
</tr>
</tbody>
</table>

**Source:** Worked out on the basis of data provided in Annual Reports of respective Banks

**Debt Equity Ratio:**

The ratio of borrowed funds to owner's capital is a popular measure of the long-term financial solvency. This ratio indicates the relative proportion of debt and equity in financing the assets of the bank. The relationship between outsider claims and owner's equity can be shown as follows.
Long term debt
Debt equity ratio = \[ \frac{\text{Long term debt}}{\text{Net worth}} \]

In the above ratio the debt is exclusive of current liabilities while equity refers to net worth after deducting intangible assets. Net worth includes statutory reserves, capital reserves, revenues and other reserves and share capital.

The debt equity ratio is an important tool of financial analysis to appraise the financial structure of a bank. It has important implications from the viewpoint of the depositors, creditors, owners and the bank itself. The ratio reflects the relative contribution of depositors and creditors and shareholders of a bank in financing. A high ratio shows a large share of financing by the creditors, depositors of the bank, while a low ratio implies a smaller claim of creditors. The debt equity ratio indicates the margin of safety to the depositors and creditors.

Debt to equity ratio in Guru Bank was on an average of 5.51 for the 13 year period, declined to an average of 5.32 during the last three years. In Kalyan bank, the ratio that was 5.53 for 13 years actually increased to 6.45 during the last three years.

These finding indicates that Guru bank had a debt liability of about Rs. 5.51 per rupee of its equity during the first period. It managed to reduce its debt burden to Rs. 5.32 per rupee of equity in the last three years. In Kalyan bank, on the other hand, the debt
burden, which was at the same level as in Guru bank in the first period (Rs. 5.53), has actually increased to Rs. 6.45 during the second period. This shows that Kalyan bank has been depending more on borrowing for its operation. It is natural for banks to have a high amount of deposits. Hence, this ratio can be taken to see normal. However, high debt and deposits without adequate amount of shareholders funds may expose banks to risks of default. Therefore, it is required for sample banks/UCBs to maintain an adequate amount of capital. There is a need to apply capital adequacy norms even for UCBs.

The recent failure of Guru Bank can be attributed to this over exposure on and deposits front net matched by minimum shareholders funds.

2. Total Indebtedness Ratio:

This ratio reflects the solvency position of the bank in a better way. The ratio indicates the amount owed by the bank to creditors.

\[
\text{Indebtedness ratio} = \frac{\text{Total liability}}{\text{Net worth}}
\]

In this case we take current and long term outside liabilities. The lower ratio indicates a better solvency position. The total liabilities include deposits, borrowings, other liabilities and contingent liabilities.
The indebtedness ratio presents a similar picture. It may be seen from the Table 5.2 that in Guru bank the indebtedness ratio which showed an average of 6.51 percent for the 13 years, decreased to an average of 6.32 percent in the last three years, thus indicating an improvement in the performance. On the other hand, in Kalyan bank also, the ratio actually decreased from average 7.70 for the 13 years to an average of 7.38 in the last three years.

**Tests of Strength**:

The following measures are used to measure the real worth of both the banks.

1. **Net Worth**:

   It indicates what the bank owes to the owners of business. It measures the excess of assets over liabilities. A positive difference of higher magnitude indicates the soundness of the bank.

   \[
   \text{Net Worth} = \text{Total Assets} - \text{Total Liabilities}
   \]

   The net worth indicates the long run liquidity position of the business or real worth of the institution. A positive and higher networth of the institution indicates a favourable situation for the bank. An analysis was made to test the strength of the two banks to withstand adversities. The findings are presented in Table 5.3.
TABLE - 5.3
Tests of Strength
(Amount in Rs. lakhs per Annum)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Ratios</th>
<th>Guru Bank</th>
<th>Kalyan Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Net Worth</td>
<td>550.23</td>
<td>1026.60</td>
</tr>
<tr>
<td>2</td>
<td>Net. Capital Ratio</td>
<td>1.03</td>
<td>1.09</td>
</tr>
</tbody>
</table>

Source: Worked out on the basis of data provided in Annual Reports of respective banks

The figures of net worth in Guru bank was an average Rs. 550.23 lakhs during the 13 years study period while it increased to Rs. 1026.60 lakhs for the last three years. This shows that the bank has been able to improve its average net worth position during last three years to almost double when compared to its net worth for the entire study period.

In the case of Kalyan bank, there was a 58 percent increase in its networth from an average of Rs.105 lakhs for 13 years to an average of Rs. 181 lakhs during the last three years. Positive networth in both the banks indicates encouraging performance. However, it should be noted that the results of financial analysis do not necessarily indicate the economic performance. The assets may include some of the assets which have very less or no liquidity. This
way one may keep on showing higher net worth but actually the firm may not be financially healthy. One example is in valuing the assets. The assets may be valued at current rate while its actual purchase/salvage value may be very less because of depreciation. Further, high networth may be due to non provision for bad debts. Inadequate provisioning of NPAs increases networth position of the bank.

**Net Capital Ratio:**

This ratio indicates the degree of liquidity of the business in the long run. It measures the degree of availability of assets to pay off the long-term liability.

\[
\text{Net Capital Ratio} = \frac{\text{Total Assets}}{\text{Total Liabilities}}
\]

Higher the net capital ratio, greater would be the margin of safety against decline in the values of major assets of the bank. This ratio would throw light on the real financial strength of the bank.

The figures of net capital ratio in both the banks during both the study periods were higher than one. This showed that both the banks on paper had sufficient degree of liquidity of the business in the long run throughout study period.
Profitability Ratios:

These ratios can be used to assess the financial status and overall efficiency of the banks. These ratios were used to compare the returns over the investments. An important indicator of the operational efficiency of a firm is its profits. However, total profits do not indicate the efficiency whereas the profit per unit of different aspects of the business certainly does. Hence, the ratio of net profits to different denominations is worked out and the findings of study are presented in Table 5.4

TABLE - 5.4
Tests of Profitability

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Net Profits to total assets</td>
<td>1.50</td>
<td>-0.85</td>
</tr>
<tr>
<td>2</td>
<td>Net Profits to Net worth</td>
<td>9.36</td>
<td>-2.97</td>
</tr>
</tbody>
</table>

Source: Worked out on the basis of data provided in Annual Reports of respective banks

1. Net Profit to Total Assets Ratio:

This ratio indicates the ratio of profit on the total assets of the bank and their employment. The ratio was computed as follows,
Net profits to total assets ratio = $\frac{\text{Net profits}}{\text{Total assets}} \times 100$

The net profits to total assets in Guru bank was an average of 1.50 for 13 years had drastically declined to a negative average of -0.85 during the last three years. Similarly, in Kalyan bank, the figures reduced from 0.02 to nil during the two study periods. This is due to drastic decline in their profits. In fact, the Guru bank’s profits declined from year to year and sustained heavy losses during 2002-03.

**Net Profits to Net Worth:**

The ratio of net profit to net worth shows whether profitability is being maintained. It is calculated using the following formula:

Net profit to net worth = $\frac{\text{Net profit}}{\text{Net worth}} \times 100$

The net profits per rupee of Networth in Guru bank was an average of 9.36 for 13 years and drastically declined to a negative figure of average of -2.97 for the last three years. Similarly, in Kalyan bank, the respective figures were 0.11 to 0.04 for the two periods. It may be recalled that in both the banks, the net worth increased between the two periods while the profits actually declined. Thus bringing down the ratio during the last three years compared to the overall study periods of 13 years.
Efficiency Ratios:

The following two ratios were adopted to assess the efficiency of the bank.

**Total Expenses Ratio (TES):**

This ratio helps to ascertain how efficiently the gross income of the bank was utilized and the Gross ratio was computed as follows.

\[
\text{Total Expenses Ratio} = \frac{\text{Total expenses}}{\text{Gross income}} \times 100
\]

The total expenses included both interest expenses and non-interest expenses. In the same manner, the gross income of the bank comprised both interest income and non-interest income. This ratio compares the total expenses to gross income earned during the year. In other words, this ratio measures the expenses for every Rs. 100 income of the bank.

Efficiency in operation, as indicated by reduction in the costs of operations, is an important way of improving the performance. The results of the tests of efficiency are presented in Table 5.5.
### TABLE - 5.5
Tests of Efficiency

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Ratios</th>
<th>Guru Bank</th>
<th>Kalyan Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TES ratio</td>
<td>88.65</td>
<td>107.07</td>
</tr>
<tr>
<td>2</td>
<td>Operating ratio</td>
<td>30.67</td>
<td>34.98</td>
</tr>
</tbody>
</table>

Source: Worked out on the basis of data provided in Annual Reports of respective banks

It may be seen from the table that the ratio which was 88.65 in the first period actually increased to 107.07 in the second period. This shows that the Guru bank had spent more than it earned during the second period. Similarly, in Kalyan bank, the ratio which has 86.62 in period one increased to 96.72 in period two, showing reduction in efficiency.

**Operating Ratio**:

This ratio indicates the proportion of gross income being used for meeting the operating expenses.

\[
\text{Operating ratio} = \frac{\text{Operating expenses}}{\text{Gross income}} \times 100
\]

An increase in the ratio indicates a decline in the efficiency of the bank. Results of operating ratio are presented in Table 5.5.
The operating ratio, which indicates the operating expenses per rupee of income, was lower than total expenses ratio in both the banks. The Guru bank has been able to keep its operating expenses at 30 paise for every rupee of given income earned for period one. In period two, it increased to 35 paise. The Kalyan bank has been able to keep the operating expenses at about 27 paise per rupee of gross income. The ratio seems to be on higher side in both the banks. Both the banks need to put in efforts to reduce the operational expenses to about 25 paise per rupee of gross income so that they will be left with sufficient surplus to recover the fixed expenses and still be earning profits.

**Return on Investments**:

The success of an organization is measured by the returns it generates. The scarce resources contributed to an institution would be productive only when they generate maximum returns.

To analyze the efficiency and effectiveness with which resources are deployed and managed, the following ratios are calculated.

1. Return on Net Assets (RONA)

2. Return on Shareholder Equity (ROSE)
1. **Return on Net Assets (RONA):**

In order to assess the earning abilities of sample banks, "RONA" is calculated by dividing "Gross Income" (GI) by "Net Assets" (NAs). NAs include net fixed assets, net current assets and investments. Symbolically, the ratio can be put as,

\[
\text{RONA} = \frac{\text{Gross Income}}{\text{Net assets}} \times 100
\]

The ratio for both the banks is presented in Table 5.6.

**TABLE - 5.6**

Returns on Investment

(Amount in Rs. lakhs per Annum)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Guru Bank</th>
<th>Kalyan Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1990 to 2003</td>
<td>1990 to 2003</td>
</tr>
<tr>
<td>1</td>
<td>Return on Net Assets</td>
<td>68.97</td>
<td>29.75</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2001 to 2003</td>
<td>2001 to 2003</td>
</tr>
<tr>
<td>2</td>
<td>Return on shares</td>
<td>9.23</td>
<td>10.61</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-2.97</td>
<td>3.73</td>
</tr>
</tbody>
</table>

Source: Worked out on the basis of data provided in Annual Reports of respective banks

In Guru bank, the RONA was 68.97 during the overall period 13 years of the study and it declined to 50.73 during last three years. In Kalyan bank, the RONA improved marginally from average 29.75 during the 13-year to average 32.26 during the last three years. This showed every rupee of net assets was able to bring in an income of Rs. 32.26 to the bank.
2. Return on Shareholders Equity (ROSE):

The equity shareholder is entitled to the residual profits, which is commonly known as 'ROSE'. This ROSE is a measure of total efficiency. Since equity shareholders are residual recipients, positive ROSE indicates better operating efficiency and financial efficiency. This ratio reflects an overall efficiency and profitability of the total resources employed by the enterprise.

\[
\text{ROSE} = \frac{\text{NPAIT}}{\text{NW}} \times 100
\]

Where,

\text{NPAIT} = \text{Net Profit After Interest and Tax}
\text{NW} = \text{Statutory reserves, capital reserves, revenue and other reserves and share capital.}

It may be seen from table 5.6, that the ROSE in both the banks showed declining trend between the two periods. ROSE was positive at 9.23 during 1990-2003 fell to -2.97 during 2001-03 indicating a loss of Rs. 2.97 per equity share in Guru bank. In Kalyan bank, the ROSE declined from 10.61 in the first period to 3.73 in the second indicating that the returns from equity share was just \(\frac{1}{3}\) rd of the level it was during the first period. Hence, during the last three years, both the banks earned less per equity share than they had for the average of the entire 13 years period.
Management of Spread, Burden and Profitability:

The aim of this analysis is to know the efficiency of the banks in managing the interest spread and burden to increase profitability and to suggest measures for improving the efficiency. The profitability analysis is made on two distinct aspects. Firstly, the profitability was calculated on the spread burden norms as developed by the Canara bank. Secondly, the profitability performance of the bank was also measured with the help of the key ratios derived by relating various components of profit and loss account to a common denominator, say, volume of business. The analytical framework for profitability management has been designed with the help of income and expenditure statement and the balance sheet of the banks.

The main objective of urban co-operative banks is to work for the social, ethical and economic upliftment of its members and earning profit has been regarded as a subsidiary aspect. But at the same time, viability aspect has to be taken care, which in turn is determined by profitability. During the recent years, the profit earning capacity of the banks has come under severe strain and it has become imperative for us to bestow greater attention to this vital area.

The various components of profitability and their relationship have been shown in Table 5.7. The spread, burden and profit of the
Guru and Kalyan urban co-operative banks were calculated for a period of thirteen years from 1990 to 2003. For assessing the performance of the bank, the key ratios are given in Table 5.7

**TABLE - 5.7**

Spread, Burden and Profit
(Amount in Rs. lakhs per Annum)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Interest income</td>
<td>(R)</td>
<td>504.57</td>
<td>909.95</td>
<td>108.15</td>
</tr>
<tr>
<td>2</td>
<td>Interest expenditure</td>
<td>(K)</td>
<td>339.01</td>
<td>676.25</td>
<td>73.93</td>
</tr>
<tr>
<td>3</td>
<td>Spread</td>
<td>S=(R-K)</td>
<td>165.56</td>
<td>233.70</td>
<td>34.23</td>
</tr>
<tr>
<td>4</td>
<td>Manpower Expenses</td>
<td>(M)</td>
<td>71.10</td>
<td>118.58</td>
<td>10.88</td>
</tr>
<tr>
<td>5</td>
<td>Other expenses</td>
<td>(O)</td>
<td>134.09</td>
<td>228.50</td>
<td>27.71</td>
</tr>
<tr>
<td>6</td>
<td>Non-interest expenses</td>
<td>N=(M+O)</td>
<td>205.19</td>
<td>347.63</td>
<td>38.59</td>
</tr>
<tr>
<td>7</td>
<td>Non-Interest income</td>
<td>(C)</td>
<td>14.41</td>
<td>19.45</td>
<td>2.99</td>
</tr>
<tr>
<td>8</td>
<td>Burden</td>
<td>B=(N-C)</td>
<td>190.77</td>
<td>327.63</td>
<td>35.06</td>
</tr>
<tr>
<td>9</td>
<td>Profit</td>
<td>P=(S-B)</td>
<td>-25.22</td>
<td>-93.94</td>
<td>-1.37</td>
</tr>
<tr>
<td>10</td>
<td>BEL</td>
<td>BEL=B/S</td>
<td>1.11</td>
<td>1.51</td>
<td>0.97</td>
</tr>
</tbody>
</table>

Source: Worked out on the basis of data provided in Annual Reports of respective banks
In Guru bank a comparison of average figures for 13 years and last three years showed that both interest income and interest expenditure increased between the two periods. However, the percent of increase in interest expenditure was higher than the percent of increase in interest income. Consequently, the spread, which is the difference between interest income and interest expenditure, increased by about 41 per cent between the two periods. However, due to increase of other expenses from about Rs. 134.09 lakhs to Rs 228.5 lakhs, the total non-interest expenses also increased from Rs. 205.19 lakhs to Rs. 347.09 lakhs between the two periods. Consequently, the burden of the bank in terms of meeting non-interest expenses from interest income increased from Rs.190.77 lakhs during overall period to almost Rs.327.63 lakhs during the second period. Thus, the loss of the bank, which was at Rs.-25.22 lakhs during the first period increased to Rs.-93.94 lakhs during the last three years. The break-even level (BEL) of business to be achieved, at 1.11 during the first period increased substantially to 1.51 during the second period. This means that for every one rupee deposit, the bank had done a business of Rs.1.11 in the first period; which increased to Rs. 1.51 during the second to break even.

In the case of Kalyan bank, the interest income increased by 90 percent between the two periods while the interest expenditure increased by 102 per cent during the same period, resulting in increase in spread by about 64 per cent only. The total increase in
non-interest expenses during the period was about 100 percent resulting in an increase in the burden from about Rs. 35 lakhs during the first period to about Rs. 71 lakhs during second period. Consequently, the bank's profits declined to an average of Rs. –15.31 lakhs for the last three years. The break-even level, which was 0.97 during the first period consequently increased to 1.27 during the second.

An over all view of the table shows that in both banks, they had poor business performance in the second period (average of last three years) compared to what they had in the first period (average of 13 years).

**Spread, Burden and Profitability Ratios:**

The absolute figures shown in Table 5.7 were converted into ratios for the purpose of bringing about uniform comparison and the findings are presented in Table 5.8. Performance of all the variables was converted into per rupee of volume of business to arrive at logical inferences. Hence, volume of business is common denominators for all the variables.

It may be seen from the table that in Guru bank, the spread ratio declined from 5.79 in the first period to 3.80 in the second because of an increase in interest income and interest expenditure ratios.
Though the manpower expenses ratio marginally reduced from 2.20 to 2.01, because of decrease in other expenses from 4.21 to 3.74 the non-interest expenses ratio decreased from 6.41 to 5.79 between the two periods. The non-interest income ratio also declined. Consequently, the burden ratio decreased from 5.94 in the first period to 5.47 in the second pushing down the profit ratio from -0.15 in the first period to -1.68 in the second.

**TABLE - 5.8**

Analysis of Spread, Burden and Profitability Ratios

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables</th>
<th>Ratios</th>
<th>Guru Bank</th>
<th>Kalyan Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Interest income ratio</td>
<td>(r)</td>
<td>14.52</td>
<td>14.88</td>
</tr>
<tr>
<td>2</td>
<td>Interest expenditure ratio</td>
<td>(k)</td>
<td>8.73</td>
<td>11.09</td>
</tr>
<tr>
<td>3</td>
<td>Spread ratio</td>
<td>s=(r-k)</td>
<td>5.79</td>
<td>3.80</td>
</tr>
<tr>
<td>4</td>
<td>Manpower expenses Ratio</td>
<td>(m)</td>
<td>2.20</td>
<td>2.05</td>
</tr>
<tr>
<td>5</td>
<td>Other expenses ratio</td>
<td>(o)</td>
<td>4.21</td>
<td>3.74</td>
</tr>
<tr>
<td>6</td>
<td>Non interest expenses ratio</td>
<td>(m+o)</td>
<td>6.41</td>
<td>5.79</td>
</tr>
<tr>
<td>7</td>
<td>Non-interest income ratio</td>
<td>(c)</td>
<td>0.47</td>
<td>0.32</td>
</tr>
<tr>
<td>8</td>
<td>Burden ratio</td>
<td>b=(n-c)</td>
<td>5.94</td>
<td>5.47</td>
</tr>
<tr>
<td>9</td>
<td>Profit ratio</td>
<td>p=(s-b)</td>
<td>-0.15</td>
<td>-1.68</td>
</tr>
</tbody>
</table>

Source: Worked out on the basis of data provided in Annual Reports of respective banks
In Kalyan bank, it may be seen from the table that all the ratios except interest expenditure ratio and interest income ratios declined between the two periods. The interest income ratio, which was an average 14.53 for 13 years increased to average 16.19 for the last three years. The interest expenditure ratio on the other hand, increased from 9.06 to 11.80 between two periods. Consequently, the spread ratio decreased from 5.49 in the first period to 4.30 in the second. The non-interest expenditure ratio showed a increase from 5.61 in the first period to 6.02 in the second. The burden ratio, which indicates the burden of meeting non-interest expenditure per rupee of business translated, increased from 5.12 in the first period to 5.60 in the second period, thus, increasing the burden on the bank. The profit ratio declined from 0.35 to -1.21 between the periods because of a combination of decreased profit and increased business.

An overall view of the table indicates that Kalyan bank has performed better in terms of keeping its expenditure under control and also by keeping its profits positive while Guru bank has gone into red in the last three years because of higher expenditure.

**Conclusion :**

An over all view of the tests of financial strength of the two banks presents a mixed bag. In some respect, the Guru bank has improved its performance between the two periods while in some
other respects, the Kalyan bank exhibited strengthening of performance. Among the financial ratios, Guru bank performance improved in terms of current ratio, liquid assets to total assets ratio and acid test ratio between the two periods. In Kalyan bank, only acid test ratio showed marginal improvement between the two periods while in rest of the ratios, the performance actually weakened in the second period. Guru bank has a healthy debt-equity ratio in the second period while Kalyan bank showed good strength during the first. The net worth in both the banks improved during the second period compared to the first. There was a marginal improvement in net capital ratio of both the banks.

Guru bank has made very meager profit in the second period and has incurred heavy losses in the last year. Because of this reason, the profitability ratios were negative. Kalyan bank had lower profitability ratio in the second period compared to the first.

The gross expenses per rupee of income increased in both the banks between the two periods. Operating expenses per rupee increased in Guru bank while it marginally declined in Kalyan bank during the second period.

Analysis of return on investment showed Guru bank’s performance below par. In terms of both RONA and ROSE between the two periods, Kalyan bank had better performance.

The burden (obligation to meet non interest expenditure) increased substantially in the second period compared to the first in
both the banks. The break-even level was about 50 percent higher in the second period to the first period in both the banks indicating the decreased strength of the banks to perform better.

The field situation in co-operative banking system in Dharwad district is far from satisfactory in the recent past. Many co-operative banks have seen a decline in profits. Some are actually incurring losses. The management factor is a very vital factor in sustaining the co-operatives.

Democratic functioning has many a time become a bane in co-operative banks. It is seen that the committees of these banks use undue influence on the lending to members to achieve their ulterior goals. Thus, though loan proposal are infeasible, the co-operative banks end up lending to these proposals thereby putting the banks finances into jeopardy. The fact is that these loans are continuously shown as assets of the UCBs, there by, the boosting financial ratios. This is the reason why some of the ratios such as current ratio, liquid assets to total assets ratio and acid test ratio have shown improvements in Guru bank. A further examination shows that the profitability of Guru bank has declined substantially in the second period and the bank has incurred losses in the last year. If the performance of the bank were to be evaluated beyond 2003, the figure of the monetary losses would have been exhibited at a higher level.

Similarly, in the case of Kalyan bank, the profitability declined during the second period. Here also, the analysis beyond 2003, would have shown very discouraging results.
An overall review shows that though the results of the financial ratios showed healthy signs, the inner fact is that these figures are taken straight from the records and the records themselves are doctored to keep the audit verifications at bay. An incident may be quoted here in which the committee of a co-operative bank had lent to a member by getting a pledge on fake gold jewellery. The bank lost out on the loan in the end. Such machination by the CEOs/directors at the behest of committee members has been largely responsible for the losses in co-operative banks.

In Karnataka, it is a common occurrence that co-operative banks have been reporting losses one after the another, though their books of accounts showed good results in the recent past. The co-operatives must guard against such malpractices if they have show healthy growth.

Another peculiar feature of Dharwad district is that the UCBs have kept their money in Karnataka Central Co-operative (KCC) bank as deposits. The KCC bank itself is on the verge of liquidation. The UCBs are still showing their deposits with KCC Bank as assets, which infact are not recoverable.

Thus, management committee plays a very important role in the performance of UCBs and unless the members are vigilant, the bank will go into liquidation though their books of accounts indicate otherwise.
References:


3) Ibid., pp. 183.