

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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A STUDY ON THE FUNDS FLOW ANALYSIS OF THE DISTRICT CENTRAL COOPERATIVE BANKS IN TIRUNELVELI REGION, TAMILNADU

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ABSTRACT

Financial management refers to two vital activities like procurement and utilization of financial resources. To ensure a better financial performance in a fund operating organization is a sine-quo-non of its prudent financial management. The be-all and end-all of financial management is to get an appreciative and desirable financial result. The finance function in a Central Cooperative Bank is highly regulated in that the sources, forms and cost of borrowings by the bank are regulates and it is not altogether free in organizing its investment portfolio. While it borrows only from the State Cooperative Bank (SCB), it lends to societies as per the directives by RBI. DCCBs occupy a place of significance in the cooperative credit delivery system. They act as a spokesperson of the cooperative movement at district level. The success or otherwise of the cooperatives in a district level largely depends upon the efficiency of the functioning of DCCBs. Therefore, the financial management occupies an importance place as the functions of these institutions are also governed by the Banking Regulation Act. And also, funds management of the DCCBs is an important issue and their financial performance is to be studied with their impact on fund flow in DCCBs. Hence, an analytical study on Funds Flow Analysis of the District Central Cooperative Banks in Tirunelveli Region has been undertaken. The results of the study will help in identifying the lacuna if any in the financial performance of the DCCBs and to frame financial policies and programme to the benefit of the banks and the community.

KEYWORDS

fund flow analysis, cooperative banks.

1.1 INTRODUCTION

Financial management refers to two vital activities like procurement and utilization of financial resources. The finance function in a Central Cooperative Bank is highly regulated in that the sources, forms and cost of borrowings by the bank are regulates and it is not altogether free in organizing its investment portfolio. While it borrows only from the State Cooperative Bank (SCB), it lends to societies as per the directives by RBI. The share capital and deposits are the other resources of bank, but these are also not free from regulation. While share capital contribution from the societies is linked to their borrowings from the bank, the types of deposit accounts and the interest rates on deposits are specified. Its investment in channels other than loans and cash credits to societies are limited and specified. These include government promissory notes, shares in SCB and other approved Cooperatives and Public institutions, term deposits and current accounts with SCB and other approved banks, debentures, bonds, etc. Of these, share capital and deposits with the SCB form the biggest chunk. The Registrar frames the policy for investment of funds of cooperative societies, including the Central Cooperative Banks based on the guidelines issued by the RBI from time to time. Thus, the Central Cooperative Banks function within a straight jacket in matters relating to finance. Not much discretion is left to the management of the bank in managing funds. In addition to the restrictions on its borrowings, landings and investment of funds, Central Cooperative Bank is also subjected to rigorous discipline in respect of a few important financial operations and its failure to observe the financial discipline will entail serious consequences of inadequate and interrupted credit flow.

Every company prepares its balance sheet at the end of its accounting year. It is a statement of assets and liabilities of the company, as on a particular date. It reveals the financial position of the company. It does not present a detailed analysis. The balance sheet fails to account for the periodic increase or decrease in the working capital of an enterprise. Hence, other statement has become necessary to show the changes in working capital during a period and explain them. The statement is called funds flow statement. The funds flow statement is a report on the movement of funds or working capital. It explains how working capital is raised and used during an accounting period. 'A statement of sources and application of funds is a technical device designed to analyze the changes in the financial condition of a business enterprise between two dates'. Fund flow statement is called by various names such as statement of sources and application of funds, sources and uses of funds, statement of changes in financial position, analysis of working capital changes and movement of funds statement. The term 'flow' means change and therefore the term 'flow of fund' means 'change in funds' or 'change in working capital.' In other words, 'flow of fund' means any increase or decrease in working capital. If the transaction results in the increase of funds it is called a source of funds; if it results in the decrease of funds it is known as an application of funds. If the transaction does not affect the working capital there is no flow of funds.

1.2 REVIEW OF LITERATURE

Several individual researchers had studied a few facets of fund flow analysis of selected DCCBs in selected areas. To know how far the ground is already prepared and to identify the gaps therein and to spell out the issues which need further intensive and comprehensive analysis, an attempt is made to review the related literature.

Gurcharan Singh and Sukhmani, (2011) in their study "An Analytical Study of Productivity and Profitability of District Central Cooperative Bank in Punjab," focused on evaluating performance of cooperative banks in the state of Punjab. It is found that profitability in all selected DCCBs of Punjab had shown a negative trend whereas the productivity improved significantly over the period of study

Lakshmanan C. and Dharmendran A, (2009) studied on, "Financial Performance of District Central Cooperative Banks in Tamilnadu". The major findings of the study were growth rate of deposits in DCCBs at Tamil Nadu state were positive in all the banks except in Tirunelveli DCCB. All DCCBs in Tamilnadu state showed a positive annual growth in loans and advances. The total over dues of DCCBs in Tamilnadu state revealed a negative annual growth in Nilgiris, Sivagangai, Thanjavur and Virudhunagar DCCBs.2007-08.

Marriapan. V, (2007) in his study entitled "Business performance appraisal. A study of Kozhikode District Cooperative Bank Ltd.", made a financial appraisal of the bank's business performance to assess the present status and future prospects. It also attempted to find out its strengths and weakness for further improvement and corrective actions. The appraisal gained significance as more stringent Non Performing Assets norms are imposed by the RBI from time to time. The important findings of the study indicate that the membership, share capital deposits, borrowings, disbursement of loans, loans outstanding had

increased. But agriculture loans outstanding had reduced and non-agriculture loans had improved as the issue of loans was more concentrated towards non agriculture purposes in the recent years.

Fulbag Singh and Balwinder Singh, (2006) in their study "Profitability of the Central Cooperative Banks in Punjab- A decomposition Analysis", they analyzed the profitability position of the Central Cooperative Bank in Punjab. Two different years have been studied with the help of a frame work of Return on Equity (ROE) model. The sample of bank with high business volume and those with low business volume had been tested separately. The study could be concluded that as far as the profitability performance was concerned, the central Cooperative Bank of Punjab had worked well. The miscellaneous income in comparison to the total income has been in lower profile in these banks. The switching over to high yield non-farm sector advances has helped to register a positive trend in financial margin in almost all the banks. The implementation of prudential norms from 1996-97 have helped the banks to generate an awareness on adverse effect of overdue/ non-performing assets in these banks.

1.3 STATEMENT OF THE PROBLEM

DCCBs occupy a place of significance in the cooperative credit delivery system. They act as a spokesperson of the cooperative movement at district level. The success or otherwise of the cooperatives in a district level largely depends upon the efficiency of the functioning of DCCBs. The founders of the movement envisioned the role of DCCBs beyond the boundaries of mere financing bank. DCCBs are expected to serve as a financing bank for the primaries in a district, guide them in their day to day operations, supply of necessary manpower and technology wherever it is required, voicing on behalf of primaries at policy level etc.. Because of this integrated role, DCCBs are strategically located and integrated with the cooperative system.

Hence, they are not only acting as financing banks but also act as development banks for the cooperatives at district level. To do these multifarious functions DCCBs should have a well-defined management system. In the total management of the DCCBs, financial management occupies a place of importance as the functions of these institutions are also governed by the Banking Regulation Act. Even a minor deviation from banking norms would attract penal actions from the law enforcing authorities. On the one side, DCCBs are expected to act as a financing bank for the primaries, which are in majority of the cases managed by untrained work force. On the other side, DCCBs are expected to follow the banking norms as well as implement the State Governments schemes and programmes for the development of the state. Most DCCBs that fail seem to do so because of problems in their loan portfolio. Non-performing loans grow to such extent that revenues fall off and loan expenses as well as operating costs absorb all the earnings that remain. The bad loan situations usually arise from combination of factors. In this regard, it is pertinent to study how these banks mobilize the resources and deploy them. Hence funds management of the DCCBs is an important issue and their financial performance is to be studied with their impact on fund flow in DCCBs. In this context, the questions apt to arise are:

- What is the nature of flow of funds?
- Whether the financial performances of the banks are in satisfactory manner in terms of fund flow?

To find out the answer to these questions, an analytical study had to be undertaken. The results of such studies will help to find out the problem, difficulties, impacts etc., and to frame financial policies by the DCCBs for the benefits of the farmers, the community and other stakeholders.

1.4 OBJECTIVES OF THE STUDY

The specific objectives of the present study are:

1. To analyze the flow of funds in the DCCBs, and
2. To offer suitable suggestions for the development of the DCCBs

1.5 METHODOLOGY

Mainly-analytical method has been followed for studying the funds flow analysis of Tirunelveli (TIDCCB), Virudhunagar (VIDCCB), Thuthukudi (TUDCCB) and Kanyakumari (KADCCB) District Central Cooperative Banks in Tirunelveli Region, Tamil Nadu. The secondary data were collected from the profit and loss account and balance sheet for the selected DCCBs. The macro level data were collected from the office of the Joint Registrar of Cooperative Audit in Tirunelveli region, Tamilnadu State Apex Cooperative Bank, Tamilnadu State Cooperative Unions, National Federation of State Cooperative Banks, NABARD and RBI.

1.6 SAMPLING

The present study has adopted the purposive sampling method for the selection of sample banks. Among the five cooperative regions (Chennai, Coimbatore, Trichy, Madurai and Tirunelveli) categorised by the Registrar of Cooperative Societies, Tirunelveli region was purposively selected. The considerations kept in mind were that the Tirunelveli region of Tamilnadu is popular for Agriculture, Fisheries, Dairy and Industrial growth. This region also covers plain and coastal areas with different cropping patterns. Four districts of this region were served by the four District Central Cooperative Banks namely Tirunelveli, Virudhunagar, Thoothukudi and Kanyakumari DCCBs. These four banks were selected for the present study.

1.7 SCOPE OF THE STUDY

A strong network of the District Central Cooperative Banks is a prerequisite for the sound performance of the three tier cooperative credit structure. DCCBs not only provided much needed financial assistance to PACBs but also ensured the smooth flow of credit to various sectors in the district. The success of these banks depends on efficient management of funds. The study has mainly focused attention to study the fund flow analysis of the four DCCBs in Tirunelveli Region. The results of this study will help in identifying the lacuna if any in the fund flow analysis of the DCCBs and to frame financial policies and programme to the benefit of the banks and the community.

1.8 PERIOD COVERED BY THE STUDY

The period of the study has been taken-up from the financial year 2004-05 to 2008-09 (5 years) as complete and comprehensive secondary data both for macro and micro level were available only for these years. The period of five years was considered for analysis.

1.9 TOOLS USED FOR DATA COLLECTION

For collecting the required secondary data from the selected DCCBs, a comprehensive schedule was prepared and used. The schedule was pre-tested and finalized.

1.10 FRAME WORK OF ANALYSIS

The data collected were subduced into a digestible account by appropriate coding, computing and tabulations. The basic tools of statistical analysis like trend and fund flow analysis were employed.

1.11 RESULTS AND DISCUSSION

The fund flow statements of District Central Cooperative Banks are prepared as per the norms followed by the Registrar of Cooperative Societies. Increase in liabilities and decrease in assets are taken into account for arriving at sources of funds. Increase in assets and decrease in liabilities are considered for application of funds. The liability of the banks includes owned funds, borrowed funds and other liabilities. Overdue interest, interest payable, branch adjustments and other liabilities are included under "other liabilities". The assets of the banks cover loans and advances, investments and other assets are brought under "other assets". The statements drawn on the above model for each banks and the Registrar as a whole are presented in the following pages

TABLE-1.1: FUND FLOW STATEMENT - TIDCCB (Rs. in lakhs)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
	Sources of Funds					
1	Increase in Liabilities					
	i) Own funds	-	2233	318	791	279
	ii) Deposits	-	-	1245	3871	5377
	iii) Borrowings	1312	1024	-	-	-
	iv) Other Liabilities	-	-	-	-	-
2	Decrease in Assets					
	i) Loans and Advances	-	3573	-	-	-
	ii) Investments	-	248	-	-	-
	iii) Other Assets	6247	1145	3374	1921	2634
3	Profit earned	953	-	-	-	102
	Total	8512	8223	4937	6583	8392
	Application of Funds					
1	Increase in Assets					
	i) Loans and Advances	4814	-	1684	2789	6345
	ii) Investments	270	-	540	407	940
	iii) Other Assets	-	-	-	-	-
2	Decrease in Liabilities					
	i) Own funds	542	-	-	-	-
	ii) Deposits	1362	1493	-	-	-
	iii) Borrowings	-	-	1461	862	740
	iv) Other Liabilities	1524	4751	686	460	367
3	Loss incurred	-	1979	566	2065	-
	Total	8512	8223	4937	6583	8392
	Trend	7705	7517	7329	7141	6953
	Prediction for the year 2014-15					4509

The changes in the sources and application of funds showed fluctuating trend over the five years period. The changes in the sources of funds were mainly due to increase in assets, decrease in owned funds, borrowed funds and other liabilities. Increase in the application of funds was characterized by the increase in loans and advances. Loan repayments were high during 2008-09. The increase in the sources and application of funds for 2014-15 over previous year is projected at Rs.4509 lakhs.

TABLE-1.2: FUND FLOW STATEMENT - VIDCCB (Rs. in lakhs)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
	Sources of Funds					
1	Increase in Liabilities					
	i) Own funds	-	630	-	2672	4987
	ii) Deposits	-	-	1815	4346	4232
	iii) Borrowings	1250	1532	-	-	755
	iv) Other Liabilities	-	-	-	-	-
2	Decrease in Assets					
	i) Loans and Advances	-	-	478	-	8235
	ii) Investments	-	-	-	-	-
	iii) Other Assets	2791	2586	2752	7140	6909
3	Profit earned	1909	-	6	-	722
	Total	5950	4748	5051	14158	25840
	Application of Funds					
1	Increase in Assets					
	i) Loans and Advances	1320	1310	-	9229	-
	ii) Investments	270	832	1048	1100	-
	iii) Other Assets	-	-	-	-	-
2	Decrease in Liabilities					
	i) Own funds	1110	-	656	-	-
	ii) Deposits	2360	902	-	-	-
	iii) Borrowings	-	-	2471	1674	-
	iv) Other Liabilities	890	793	876	1570	23818
3	Loss incurred	-	911	-	585	-
	Total	5950	4748	5051	14158	25840
	Trend	1311	6230	11146	16068	20987
	Prediction for the year 2014-15					84934

It is evident from the table that the lending and owned funds has increased during 2007-08 and 2008-09. On the other side, investments and other liabilities under application of funds enormously increased during 2008-09. Increase in deposits was noticed during the year 2007-09. Investment is high during the last five years period. Other assets made major changes in sources of funds. Altogether the change in the sources and applications of funds over the years is fluctuating. However the projected change in 2014-15 will be Rs. 84934 lakhs.

TABLE-1.3: FUND FLOW STATEMENT - TUDCCB (Rs. in lakhs)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Sources of Funds						
1	Increase in Liabilities					
	i) Own funds	-	-	130	1652	4199
	ii) Deposits	197	-	260	2874	2717
	iii) Borrowings	-	810	-	-	1482
	iv) Other Liabilities	-	-	-	-	-
2	Decrease in Assets					
	i) Loans and Advances	-	-	-	-	-
	ii) Investments	-	197	-	-	1141
	iii) Other Assets	1281	1012	4642	899	254
3	Profit earned	1506	-	778	-	4
	Total	2984	2019	5810	5425	9797
Application of Funds						
1	Increase in Assets					
	i) Loans and Advances	832	355	1665	542	2486
	ii) Investments	153	-	3286	79	-
	iii) Other Assets	-	-	-	-	-
2	Decrease in Liabilities					
	i) Own funds	806	44	-	-	-
	ii) Deposits	-	854	-	-	-
	iii) Borrowings	1003	-	38	1223	-
	iv) Other Liabilities	190	56	821	2798	7311
3	Loss incurred	-	710	-	783	-
	Total	2984	2019	5810	5425	9797
	Trend	1801	3504	5207	6910	8613
	Prediction for the year 2014-15					30755

The sources of funds like owned funds, deposits and investments were noticeably increased during 2008-09. On the other side of application of funds were noticed loans and advance and other liabilities also increased and investments, other assets, borrowing were decreased during 2008-09. Loans and advances made major change in the application of funds. The overall picture shows that the differences in the sources and application of funds are on increasing trend over the five years of the study period. The changes may reach for 2014-15 Rs.30755 lakhs.

TABLE-1.4: FUND FLOW STATEMENT - KDCCB (Rs. in lakhs)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Sources of Funds						
1	Increase in Liabilities					
	i) Own funds	16	1112	625	76	378
	ii) Deposits	834	-	374	2181	4958
	iii) Borrowings	-	2294	-	1045	-
	iv) Other Liabilities	-	-	-	-	-
2	Decrease in Assets					
	i) Loans and Advances	-	-	-	2513	-
	ii) Investments	140	3287	-	-	-
	iii) Other Assets	68	-	11262	952	1364
3	Profit earned	508	-	10	53	5
	Total	1566	6036	12271	6820	6705
Application of Funds						
1	Increase in Assets					
	i) Loans and Advances	354	1147	7146	-	3707
	ii) Investments	-	397	402	143	1240
	iii) Other Assets	-	-	-	-	-
2	Decrease in Liabilities					
	i) Own funds	-	-	-	-	-
	ii) Deposits	-	171	3592	-	1416
	iii) Borrowings	176	-	1131	-	342
	iv) Other Liabilities	1036	657	-	6677	-
3	Loss incurred	-	4321	-	-	-
	Total	1566	6036	12271	6820	6705
	Trend	4467	5573	6680	7786	8892
	Prediction for the year 2014-15					23273

It is evident from the table that the other assets of sources of funds and other liabilities of application of funds over the year are fluctuating. Investment is very high during 2008-09. Increase in the sources of funds was mainly due to increase in the deposits and borrowing. The major sources of funds of deposits are increased in the last three years. The change in the sources and applications of funds over the year are fluctuating. However the projected changes in 2014-15 will be Rs.23273 lakhs.

TABLE-1.5: FUND FLOW STATEMENT – TIRUNELVELI REGION (Rs. in lakhs)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
	Sources of Funds					
1	Increase in Liabilities					
	i) Own funds	-	2239	-	10558	17366
	ii) Deposits	-	-	3694	13272	17194
	iii) Borrowings	1383	5660	-	-	81
	iv) Other Liabilities	-	-	-	-	-
2	Decrease in Assets					
	i) Loans and Advances	-	761	-	-	-
	ii) Investments	-	-	-	-	-
	iii) Other Assets	7224	3465	22711	-	-
3	Profit earned	4876	-	228	-	833
	Total	13483	12125	26633	23830	35474
	Application of the Funds					
1	Increase in Assets					
	i) Loans and Advances	7320	-	10017	10048	4303
	ii) Investments	553	784	5276	1729	3061
	iii) Other Assets	-	-	-	-	-
2	Decrease in Liabilities					
	i) Own funds	1307	-	3778	-	-
	ii) Deposits	2691	3420	-	-	-
	iii) Borrowings	-	-	7562	2714	-
	iv) Other Liabilities	1612	-	-	5959	28110
3	Loss incurred	-	7921	-	3380	-
	Total	13483	12125	26633	23830	35474
	Trend	11172	16740	22309	27878	33446
	Prediction for the year 2014-15					105840

It is evident from the table that the total funds of the bank in Tirunelveli Region had been increasing in 2008-09. The proportion of sources of funds increase was less in other assets during 2005-06. The proportion of deposits increase was high in 2008-09 and borrowing decreased in 2008-09. On the other side of application of funds the proportion of loans and advances, investments and other liabilities increase was less in 2008-09. A deposit is a major factor contributing to change of sources of fund. On another side loans and advances, investment and other liabilities are contributing major to the application of funds. The 'projected changes' in the funds of the banks for 2014-15 is Rs.105840 lakhs.

1.12 SUM UP

The fund flow analysis clearly revealed that increasing in the funds of banks was mainly due to the increasing deposits. Loans and advances made major changes in the application of funds. Poor recovery performance led to lowering of resources. The analysis provides the projected changes of funds of the banks for the year 2014-15 at Rs.105840 lakhs.

1.13 FINDINGS

The total funds of the banks in Tirunelveli Region had been increasing 2008-09. The proportion of sources of funds increase was less in other assets during 2005-06. The proportion of deposits increase was high in 2008-09 and borrowing was decrease in 2008-09. On the other side the application of funds, the proportion of loans and advances, investments and other liabilities increase was less in 2008-09. A deposit is major factor contributing to change of sources of fund. On another side loans and advances, investment and other liabilities are major of contributing to application of funds. The 'projected changes' in the funds of the banks for 2014-15 is Rs.105840 lakhs.

1.14 CONCLUSION

It was noticed from the fund flow analysis that the deposits, borrowings and issue of loans from the major factors contributing to the sources and application of funds. Therefore a better financial management should be considered on these core aspects.

1.15 SUGGESTIONS

NON-INTEREST INCOME

The banks should meet their total establishment expenditure out of non-interest income. For this purpose the banks have to introduce many fee based products like bank guarantees letter of credit etc...

ADVANCED FACILITIES

The DCCBs may go for CBS implementation which will strengthen the bank with technology based products like ATM, Debit card, internet banking, mobile banking etc...

STAFF ORIENTATION

The bank should have a proper policy of recruitment, promotions and increment to staff. The bank employees can be trained in such a way that they can improve their talents; a cordial relationship should be maintained between the bank employees and the customers. It is essential in the present competitive money market conditions.

TIMELY AND ADEQUATE ISSUE OF LOANS

For timely and adequate dispensation of production credit, there must be coordination even from the time of credit planning.

OTHER SUGGESTIONS

- Branch-wise analysis on per employee business, accounts, service, cost of management and working results may be made scientifically.
- Recovery officers should not be politically pressurized so that they can recover loans properly.
- Proper information availability will enable the top management to adopt appropriate corporate strategy to achieve the banks goals. Therefore a robust and flexible management information system should be adopted.
- The audit should be undertaken regularly and cooperative department should insist on actions by the DCCBs on the objections raised in the audit department.

1.16 LIMITATIONS

Taking into consideration the objectives of the study and its coverage both time span and the number of banks, the study is prone to some limitations. Such unavoidable limitations of the present work are:

The study was conducted in the Tirunelveli (southern) region of Tamilnadu State. The environment particularly demographic, geographic, economic and the contributing factors for the fund flow analysis of DCCBs, differs from region to region and state to state. Hence, the findings and conclusions arrived out of the study may or may not be applicable to the banks in other regions and state.

The data used in this study are mostly derived from balance sheets of the selected banks. Window-dressing in any financial aspects is not easily traceable.

Thus, the findings of the present study should be used judiciously and carefully taking into account the various limitations.

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