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PERFORMANCE ANALYSIS OF DISTRICT CENTRAL CO-OPERATIVE BANKS (DCCBs) IN TAMIL NADU - A STUDY

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ABSTRACT

Present paper attempts to examine the growth of selected DCCBs in Tamil Nadu through selective key financial indicators, it analyzes the Share Capital and Deposits of the selected DCCBs. This paper also studies the growth of Loans and Advances, Investments and Overdues position in selected DCCBs. To achieve the objectives of the paper data has been collected from the annual reports of selected DCCBs. Out of 23 DCCBs, 5 DCCBs have been taken for this study. Period of ten years from 2002-03 to 2011-12 has been covered. Collected data have been analyzed with tools like annual growth rate and compound growth rate, it has been concluded that financial position of DCCBs in Tamil Nadu is positive growth, but do not compete with commercial banks.

KEYWORDS

deposits, investments, loans & advances, overdues, share capital.

1. INTRODUCTION

Cooperative banks constitute an importance part of the financial system of the country. Indian Banking System was able to withstand the Global financial crisis, especially the US sub-prime crisis, because of its inherent strengths, prudential regulations and timely regulatory interventions.

As it turned out for commercial banks in the face of economic slowdown, the financial year 2011-12 has been a crucial year for the Cooperative Banks also. The system continued to show resilience and sustained growth in terms of Share Capital, Deposits, Loans and Advances, Investments and Overdues.

Based on the available data sourced from the Financial Auditing Manuals (FAMs) and the profile of DCCBs, a comparative analysis attempted in the following pages. Analysis of DCCBs' state of affairs helps to understand the trends and growths towards areas requiring attention. However, the heterogeneity introduced in the system by pure statistical analysis should be supplemented by understanding of ground realities to draw meaningful conclusions.

In this paper, I have studied the performance Analysis of the District Central Cooperative Banks. 23 DCC Banks presently functioning in Tamil Nadu state and five DCC Banks situated in Western Districts of Tamil Nadu like Coimbatore, Dharmapuri, Erode, Nilgiris and Salem banks. These five banks have been selected on the basis of convenience for study in hand. Performance parameters such as Share Capital, Deposits, Loans & Advances, Investments, and Overdues are also captured in this article.

2. REVIEW OF LITERATURE

Sant Seema et al. (2012) have found that overall bank performance increased considerably in the years of the analysis. They have noticed a significant change in trend at the onset of the global financial crisis in 2007, reaching its peak during 2008- 2009 which resulted in falling profitability, less liquidity and deteriorating credit quality in the Indian Banking sector. Raveesha S. et al. (2010) have found that it is felt necessary to increase the amount of loans advanced. While, loans recovered per borrower registered a negative growth rate in Tumkur taluk which may be attributed to the drought situation that prevailed in that taluk during the years under study. A study has been made by Dr. C. Lakshmanan and A. Dharmendran (2007) taking into account some selected financial indicators namely deposits, loans and advances and over dues of DCCBs in Tamil Nadu for a period of seven years. The study revealed that the annual growth rate of deposits and loans & advances are positive and the total over dues is negative.

3. OBJECTIVES OF THE STUDY

This research has been undertaken with the following four objectives:

1. To examine the growth of the selected DCCBs in Tamil Nadu through selective indicators.
2. To analyze the Share Capital and Deposits of the selected DCCBs.
3. To study the growth of Loans and Advances by the selected DCCBs in Tamil Nadu.
4. To understand the Investments and Overdues position in selected DCCBs.

4. METHODOLOGY

The nature of present study is analytical. The study is based on secondary data for the ten years from 2003 – 2012. The necessary data were collected from Annual Reports of all the DCC Banks and Reports of Tamil Nadu State Apex Co-operative Bank Ltd. (TNSCB) Chennai, it is suitably compiled and analysed for the purpose of study. The statistical results are obtained by using SPSS Version 22.

The average compound growth rate was computed by employing following formula:

$$Y_t = abt$$

Where,

Y_t = Share Capital, Deposits, Loans & Advances, Investments, and Overdues.

a = Intercept

b = Parameter

t = Years

Compound Growth Rate = (Anti log of $b-1$) x 100

5. LIMITATIONS OF THE STUDY

1. This Study is based on only in secondary sources; it has been used to arrive at conclusion in a scientific way.

- The conclusion of the study has been derived from the analysis of the data. The data collected from the annual Report of DCC Banks, therefore the study included the limitations whatever the report portrays.
- The data were collected for period of ten years from 2002-03 to 2011-12, this may not be fully relevant to the later period.

6. ANALYSIS OF THE STUDY

The establishment of cooperative banks was to serve as a link between the ultimate credit disbursing outlets, viz., Primary Agricultural Cooperative Banks (PACBs) at the base (Village) level, District Central Cooperative Banks (DCCB) at the intermediate (District) level and State Cooperative Banks (SCBs) at the apex (State) level. The growths of DCCBs in Tamil Nadu are depicted as under:

6.1 SHARE CAPITAL

The share capital in the DCCB is contributed by individual members, affiliated societies and the Government of Tamil Nadu. Generally the Government of Tamil Nadu contributes a lump sum to all the DCC Banks in Tamil Nadu to encourage the co-operative system. Table 1 shows the growth rates regarding the total paid up share capital of the DCC Banks during the study period.

Sl. No.	Name of the DCC Bank	Trend Coefficients		R ²	F	CGR (%)
		a	b			
1.	Coimbatore	2.92	0.04*	0.6234	11.59*	3.98
2.	Dharmapuri	3.27	0.03	0.2082	1.84	3.35
3.	Erode	2.49	0.11*	0.9951	1412.4*	12.10
4.	Nilgiris	1.49	0.19*	0.9620	177.08*	20.35
5.	Salem	2.92	0.04	0.1664	1.40	4.43

* Significant at five per cent level.

It is understood from Table 1 that the annual growth rates of total share capital in selected DCC Banks in Tamilnadu are positive in all the banks and they are statistically significant at the five per cent level. The fitted regression models are also significant in all the banks except in the Dharmapuri and Salem banks. The co-efficient of determination in various trend equations the Erode bank has reached a maximum of 0.9951. It shows that the independent variable time explains the dependent variable of share capital to the maximum extent of 99.51 per cent in the Erode bank. The compound growth rates of share capital in all the sample banks are positive. The total share capital picture shows that there is an increased trend in all the banks in Tamil Nadu state.

6.2 DEPOSITS

The Central Co-operative Banks accept various kinds of deposits from individuals, co-operatives and other institutions. The reserve funds and surplus funds of the Co-operative Societies are deposited with the concerned Central Cooperative Banks. Voluntary agencies like local bodies, societies incorporated under the Co-operative Societies Registration Act, Universities and Technical Institutions, Government Corporations, Companies wholly owned by the Government, Religious and Charitable Institutions, Educational Institutions, Court, Electricity Board, Regulated Markets etc. have been directed by the State Government to keep their funds with the Central Co-operative Bank. Table 2 shows the trend and growth rates of deposits over the study period.

Sl. No.	Name of the DCC Bank	Trend Coefficients		R ²	F	CGR (%)
		a	b			
1.	Coimbatore	5.63	0.09*	0.8684	52.80*	9.62
2.	Dharmapuri	5.24	0.12*	0.8792	58.23*	12.79
3.	Erode	5.47	0.13*	0.9199	91.82*	13.64
4.	Nilgiris	4.29	0.09*	0.7621	25.63*	9.39
5.	Salem	6.45	0.10*	0.8454	43.76*	10.42

* Significant at five per cent level.

It is evident from Table 2 that the annual growth rates of total deposits in selected DCC Banks in Tamil Nadu are positive in all the banks. It was statistically significant at the five per cent level in all the banks. It indicates that there is an increase in the amount of deposits during the study period. The co-efficient of determination in the Erode bank was the highest of 91.99 per cent while the lowest of 76.21 per cent was found in the Nilgiris bank. The compound growth rates were positive in all the banks with the highest of 13.64 per cent recorded in the Erode bank and the lowest of 9.36 per cent in the Nilgiris bank.

6.3 LOANS AND ADVANCES

The position of loans and advances in respect of short-term loans, cash credits, overdraft, bills purchased, bills discounted, medium-term loans conversion, re-phasesments/rescheduled loans and jewel loans to individuals are presented in Table 3 showing the trend and growth rates of the loans and advances during the study period.

Sl. No.	Name of the DCC Bank	Trend Coefficients		R ²	F	CGR (%)
		a	b			
1.	Coimbatore	5.53	0.13*	0.9381	121.17*	13.50
2.	Dharmapuri	6.00	0.07*	0.6005	12.03*	6.97
3.	Erode	5.29	0.16*	0.9850	524.32*	16.96
4.	Nilgiris	4.36	0.11*	0.7150	20.07*	11.14
5.	Salem	6.06	0.14*	0.9835	477.92*	15.37

* Significant at five per cent level.

It could be seen from Table 3 that the annual growth rates of loans and advances in selected DCC Banks in Tamil Nadu are positive in all the banks. The growth rates are statistically significant in all the banks. It indicates that there is an increase in the amount of loans and advances during the study period. The co-efficient of determination in all the banks are higher than 0.71 times except in the Dharmapuri, bank with 0.60 times which indicate that changes in loans and advances vary to the maximum extent of 98.50 per cent in the Erode bank. The compound growth rates are positive in all the banks with the highest of 16.96 per cent recorded in the Erode bank and the lowest of 6.97 per cent found in Dharmapuri bank.

6.4 INVESTMENTS

Investments are made by the DCC Banks in various types of securities viz. Government Securities, Debentures of Land Development Banks, other Trustee Securities, and Fixed Deposits with institutions other than banks. The DCC banks accept deposits and are, therefore, responsible for investing their funds in such a way as to safeguard the interest of the depositors. The same considerations of safety, liquidity and profitability in the employment of funds are essential as in the case of the other banks. It is therefore, highly desirable that the DCC Banks should take all the necessary care and precaution while investing their funds. Table 4 shows the trend and growth rates of investment by the banks.

TABLE 4: TREND AND GROWTH OF INVESTMENTS IN DCC BANKS IN TAMIL NADU

Sl. No.	Name of the DCC Bank	Trend Coefficients		R ²	F	CGR (%)
		a	b			
1.	Coimbatore	4.85	0.07*	0.7651	26.05*	7.59
2.	Dharmapuri	4.20	0.10*	0.7351	22.20*	10.48
3.	Erode	4.89	0.07*	0.5268	8.91*	7.55
4.	Nilgiris	3.04	0.10*	0.7625	25.68*	10.00
5.	Salem	5.92	0.06	0.3580	4.46	5.74

* Significant at five per cent level.

It could be seen from Table 4 that the annual growth rate of investments in selected DCC Banks in Tamil Nadu is positive and statistically significant in all the banks except in the Salem bank where the annual growth rate was 0.06 times while is statistically insignificant. It indicates that there is a decline in the amount of investment in this bank during the study period. The fitted regression model for the case is also insignificant since its F value is 4.46. The co-efficient of determination in the case indicates that the change in the amount of investments is only to the extent of 35.80 per cent. The compound growth rates were positive in all the banks with the highest of 10.48 per cent recorded in the Dharmapuri bank and the lowest of 5.74 per cent in the Salem bank.

6.5 OVER DUES

Over dues means loans, bills of exchange and other obligations remaining unpaid past their due (or maturity) date. All financial arrangements become overdue one business day after their due date. Over dues is a term used to explain the non-payment of loans by the borrowers in time. The trend and growth of the overdue position is presented in Table 5.

TABLE 5: TREND AND GROWTH OF OVER DUES IN DCC BANKS IN TAMIL NADU						
Sl. No.	Name of the DCC Bank	Trend Coefficients		R ²	F	CGR (%)
		a	b			
1.	Coimbatore	4.53	-0.13*	0.6366	14.01*	-12.02
2.	Dharmapuri	4.79	-0.12	0.2108	2.14	-11.40
3.	Erode	4.53	-0.28*	0.9499	151.52*	-24.26
4.	Nilgiris	3.42	-0.11	0.3513	4.33	-10.67
5.	Salem	3.92	0.05	0.3851	5.01	5.11

* Significant at five per cent level.

It is understood from Table 5 that the Overdues of the selected DCC Banks in Tamil Nadu show positive annual growth rates in the Salem bank only with 0.05 times. But the growth is not statistically significant. There are negative annual growth rates in all the other banks but they are statistically significant at the five per cent level only in the Coimbatore and Erode banks with -0.13 and -0.28 times respectively. It shows that the overdues in the above banks have declined significantly during the study period. The fitted regressions under trend equations in the above cases are also significant at the five per cent level since the F values are 14.01 and 151.52 respectively. The compound growth rate is negative in all the banks except in the Salem bank where there is positive compound growth rates of 5.11 per cent. This speaks of the acute problem of overdues in a majority of the DCCBs in Tamil Nadu.

7. SUMMARY OF FINDINGS

- The annual growth rates of total share capital in selected DCCBs in Tamil Nadu were positive and they were statistically significant at the five per cent level in all the banks except in the Dharmapuri and Salem banks. Positive compound growth rates were noticed in all the banks.
- The annual growth rates of deposits in selected DCCBs in Tamil Nadu were positive and statistically significant in all the banks. The compound growth rates were positive in all the banks with the highest of 13.64 per cent recorded in the Erode bank and the lower of 9.36 per cent in the Nilgiris bank.
- The annual and compound growth rates of loans and advances in selected DCCBs in Tamil Nadu were positive and significant.
- The annual growth rate of investments in selected DCC Banks in Tamil Nadu were positive and statistically significant in all the banks except in the Salem bank where the annual growth rate was 0.06 times. The compound growth rates were positive in all the banks with the highest of 10.48 per cent recorded in the Dharmapuri bank and the lowest of 5.74 per cent in the Salem bank.
- The growth rates of overdues in selected DCCBs in Tamil Nadu were positive and insignificant in the Salem bank only. The amount of overdues in this bank showed an increasing trend. The negative annual growth rates were recorded in all the other banks. The amount of overdues in these banks has declined during the study period. The compound growth rate varied from 5.11 per cent in the Salem bank to -24.26 per cent in the Erode bank.

8. SUGGESTIONS

- The growth rate of share capital in the Dharmapuri and Salem DCCBs were insignificant. An attempt is required to be made by these banks to increase the share capital through membership and affiliated societies. So the banks should provide adequate guidance to the members by instituting member education programmes which will make them aware of their rights, duties and then established by Law their affiliated societies relating to accepting higher amount of share capital.
- The lowest growth rates of deposits were found in the Nilgiris bank only. This bank should review its deposit mobilisation process and take additional steps to mobilise deposits from untapped resources.
- The growth rates of loans and advances were positive and significant in all the DCCBs in Tamil Nadu. The positive growth rates of this would have led to bad Debt (NPAs). The banks have to minimise this considerably through effective recovery mechanism.
- An insignificant growth rate of investments was found in the Salem bank only. This bank should take all the necessary steps to increase their investments in the appropriate financial agencies.
- The problem of overdues has been found in Salem bank only. This must be addressed through proper recovery proceeding and the level of NPA must be brought down so that the banks can have liquidity and profitability.

9. CONCLUSIONS

The financial performance of the DCC Banks in Tamil Nadu is analyzed by using exponential equation techniques. From the above analysis, it is concluded that the growth of Share Capital in selected DCCBs have positive trend during the study period where as the Deposits in all the sample DCCBs have been increasing. The Loans and Advances and Investments increased during the study period. The Over dues has been decreasing during the study period due to increase in Recovery Performance of the DCC Banks. It is suggested that government should formulate specific policies and they should be implemented for the upliftment of DCC Banks in Tamil Nadu. DCCBs should try to upgrade technology and should formulate customer friendly policies (KYC Norms) to face competition with commercial banks.

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