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A STUDY ON THE WORKING CAPITAL RATIO OF THE DISTRICT CENTRAL COOPERATIVE BANKS IN TIRUNELVELI REGION, TAMILNADU

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ABSTRACT

Banking is the life line of the nation and its people. In today's economy banking sector need to stand out in crowded and highly competitive markets. The pace of business is relentless, where today's innovation becomes tomorrow's status quo. DCCBs occupy a place of significance in the cooperative credit delivery system. They act as a spokesperson of the cooperative movement at district level. Inefficient functioning of cooperatives is due to bad debts, excessive overdue or otherwise investment. Therefore, the financial management occupies an importance place as the functions of these institutions. Hence, the analytical study on the Working Capital Ratio of 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

financial analysis, co-operative banks.

1.1 INTRODUCTION

Financial Statements' refer to a package of statements such as balance sheets, income statement, funds flow statement, cash flow statement and statement of retained earnings. The balance sheet and income statement are traditional financial statements. Other statements are prepared to supplement them. The following are the main objectives of finance statement analysis.

- To estimate the earning capacity of the concern
- To judge the financial (both liquidity and solvency) position and financial performance of the concern.
- To determine the debt capacity of the concern.
- To decide about the future prospects of the concern.

According to the American Institute of Certified Public Accounts (AICPA), "financial statements reflect a combination of recorded facts, accounting principles and personal judgments." The term recorded facts refers to the data taken out from accounting records. Facts which have not been recorded in the financial books are not depicted in financial, however important they might be. For example, fixed assets are shown at cost irrespective of their market or replacement price since only cost price is recorded in the books. Certain accounting principles, concepts and conventions are followed in the preparation of financial statements. For example, the convention of valuating stock at cost or market price, whichever is less is followed. The principle of valuating assets at cost less depreciation is followed for balance sheet purpose. Personal judgment has an important bearing on the financial statements. For example, the selection of a method for stock valuation depends on the personal judgment of the accountant.

1.2 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 working capital ratio in DCCBs. In this context, the questions apt to arise are:

- Whether the financial performances of the banks are in satisfactory manner in terms of working capital ratio?

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.

1.3 REVIEW OF LITERATURE

Several individual researchers had studied a few facets of working capital ratio 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.

1.3.1 Gowthaman A. and Srinivasan T, (2010) in their article entitled, "Effective Funds Management by the Kumbakonam Central Cooperative Bank" has presented the DCCBs are modal centers of financial institution in the cooperative sector in a district. They have to mobilize the available resources and utilize them in the most efficient and profitable manner. As a consequence of this situation, efficiency in funds management has down considerably and profitability of

the DCCBs in Tamilnadu is found decreased. In this paper an attempt is made to analyze the funds management of the bank for the period of 1998-99 to 2007-08.

1.3.2 Surya Rao K, (2007) in his study, "Performance of Cooperative Banking. A study of DCCB - Eluru, Andhra Pradesh", applied ratio such as profitability analysis, productivity analysis, solvency position, and operational efficiency and SWOT analysis. The study revealed through productivity analysis that the rate of deposits per employee has lagged behind that of the loans per employee ratio. Thus there is need on the part of employees to mobilize deposit to meet loans demand in view of disparity in the growth rate in these two ratios. Accordingly the ratio values of deposits per employee, productivity of employees can be improved. The solvency ratios showed that the bank was maintaining an average cash reserve ratio of 11 per cent that is much more than the stipulated ratio of 6 per cent. The operational efficiency ratios concluded the satisfactory performance. Finally SWOT analysis revealed various aspects of the Eluru DCCBs. The study suggested strengthening of the working capital and to increase the deposit from member societies. The bank should utilize the opportunity of expanding their lending operations. Depending on external sources of borrowing such as refinance from apex bodies could be minimized by promoting deposits mobilization.

1.3.3 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.

1.3.4 Raja. S, (2005) in his study, "Performance Evolution of MDCCB Ltd- an Application of Structural and Growth Analysis", analyzed the pattern of each component of the financial statements such as balance sheet and profit and loss account over a period of time. The study found out that performance of the Madurai District Central Cooperative Bank (MDCCB) using structural and growth analysis. Macro mean has been used to exhibit the strength and weakness of each factor considered. The major result of the study is macro mean which in respect of interest received constitutes 99% of the total income, 97% for interest paid, 21% in the case of operating expenses, 94% for spread and it is at 93% for burden. As regards book profit, it works out to be 7% the revolution of the growth rate analysis are that net loss has recorded the growth at 17%, operating expenses at 18%, spread at 13%, burden 20% advances and aggregate deposits at 6% each and fixed deposits and saving deposits at 9% each. The study concluded that the burden rate should be reduced by effecting cost control measure and spread rate be increased so that profitability can be at higher rate.

1.4 OBJECTIVES OF THE STUDY

The specific objectives of the present study are:

1. To analyze the working capital ratio 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 working capital ratio 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) categorized 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 working capital ratio of the four DCCBs in Tirunelveli Region. The results of this study will help in identifying the lacuna if any in the working capital ratio 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 1998-99 to 2008-09 (11 years) as complete and comprehensive secondary data both for macro and micro level were available only for these years. The period of eleven 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 average and working capital ratio were employed.

1.11 RESULTS AND DISCUSSION

1.11.1 RATIO ANALYSIS

The relationship between two figures expressed mathematically is called a 'Ratio'. It is a numerical relationship between two numbers which are related in some manner. Ratio analysis is technique of analysis and interpretation of financial statements. It is the process of determination and interpretation of various ratios for helping in decision making. Ratio analysis involves three steps.

1.11.2 WORKING CAPITAL RATIOS

Working capital management as a part of financial management is a crucial function in the DCCBs. Working capital management is more or less deemed as cash management of the bank. The reason is clear as cash is vital one and its inflow and out flow have to be carefully watched and managed by the bank not only for its profitability but also for its survivability. Another reason behind it is that cash touches all the activities of the bank and all sections in the banks are highly related and combined together in management of cash effectively and efficiently. The normal practice followed by the cooperative banks to calculate the working capital just differs from manufacturing industries and other banking institutions. The sources of working capital of the DCCBs consists of i) Share Capital ii) Reserves and other funds iii) Deposits and iv) Borrowings.

Working capital or funds forecasting is one of the investment decisions which has been performed by the banks. It is necessary for an organization to run successfully its affairs to provide for adequate working capital. The working capital as decided should neither be insufficient nor excessive. The optimum level of working capital depends on capital requirements of the bank i.e., lending policy, RBI and Govt. policies, seasonal demands for the loan, etc. The financial position of any cooperative society is explained in terms of the volume of working capital. The size of the working funds and its proper management have their positive

effects on the volume of business and there by contributing to the overall profitability. The data in relation to the working capital of the selected DCCBs during the study period are presented in table 9. The ratios worked out are based on the working capital are explained in the following paragraphs.

1.11.3 RATIO OF OWNED FUNDS TO WORKING CAPITAL

The proportion of owned funds to working capital need to be examined in the context of study of efficiency of management. The owned funds comprise of share capital and reserves funds of the banks. Their contribution to working capital is depicted below.

TABLE- 1.1: RATIO OF OWNED FUNDS TO WORKING CAPITAL (Rs.in lakhs)

Banks Years	TIDCCB			VIDCCB			TUDCCB			KADCCB			TOTAL		
	OF	WC	R	OF	WC	R	OF	WC	R	OF	WC	R	OF	WC	R
1998-99	1262	18207	7.2	1618	20575	7.8	1714	13721	12.5	1548	15673	9.9	6142	68176	9.1
1999-00	1514	23234	6.7	1677	24087	7.0	2513	16499	15.2	1754	18189	9.6	7458	82009	9.2
2000-01	1606	22586	7.4	1761	25496	7.7	2990	16682	17.9	2087	18524	11.3	8444	83288	10.5
2001-02	2041	24363	8.7	1824	27416	6.9	3991	18987	21.0	2231	20271	11.0	10087	91037	11.3
2002-03	3247	26768	12.6	1811	29612	6.4	5883	22322	26.4	2346	22597	10.4	13287	101299	13.4
2003-04	3667	27403	13.8	1987	30917	7.0	6769	21406	31.6	2945	27660	10.6	15367	107386	14.8
2004-05	3125	26811	12.1	1994	28753	7.3	5884	19715	29.8	2961	28334	10.4	13963	103613	13.8
2005-06	5358	28575	20.1	2128	30435	7.6	7737	21524	35.9	4073	31570	12.9	19296	112104	17.9
2006-07	5676	28676	21.2	3215	31034	11.0	8288	22297	37.2	4698	28978	16.2	21878	110985	20.5
2007-08	6467	32477	21.2	2172	33514	7.2	9254	24914	37.1	4774	32279	14.8	22667	123184	19.2
2008-09	6746	37393	19.1	2260	38827	6.4	9952	29812	33.4	5152	36199	14.2	24110	142231	17.6
Avg.	3701	26954	13.6	2041	29151	7.5	5907	20716	27.1	3143	25479	11.9	14791	102301	14.3

OF: Owned fund R: Ratio;

The ratio of owned funds to working capital during the study period had fluctuated; on an average it was 14.3 percent. Among the four banks VIDCCB had very low owned funds (7.5 percent on an average). Whereas TIDCCB, TUDCCB and KADCCB had very good performance in this respect. Putting all banks together, it was found that the proportion of owned fund to working capital was varied over the years. Based on the overall average ratio, it is concluded that the performance of the banks in this region with regard to owned funds to working capital ratio is satisfactory.

1.11.4 RATIO OF DEPOSITS TO WORKING CAPITAL

Mobilization of deposits is one of the main functions of the banking business and also an important source of funds of the bank. The success of the banking greatly lies on the deposits mobilization performance of the banks. The deposits normally include current, Saving, Fixed, Recurring and other special deposits to meet the varying requirement of the customers.

TABLE -1.2: RATIO OF DEPOSITS TO WORKING CAPITAL (Rs.in lakhs)

Banks Years	TIDCCB		VIDCCB		TUDCCB		KADCCB		TOTAL	
	D	R	D	R	D	R	D	R	D	R
1998-99	15576	88.6	17141	83.0	11081	80.8	8179	52.2	51977	76.8
1999-00	20983	93.0	19922	84.1	13639	82.7	12656	69.6	67200	82.9
2000-01	19581	89.6	20976	91.1	13154	78.9	11200	60.5	64912	81.1
2001-02	19886	84.3	22008	83.3	13832	72.9	13323	65.7	69050	77.4
2002-03	20512	79.3	24062	85.0	15209	68.1	16036	71.0	75820	76.5
2003-04	17841	67.4	23336	82.0	12161	56.8	15849	57.3	69187	66.5
2004-05	16479	63.7	20976	77.0	12358	62.7	16683	58.9	66498	65.6
2005-06	14986	56.2	20074	71.1	11504	53.4	16512	52.3	63075	58.4
2006-07	16231	60.7	21889	77.0	11764	52.8	16886	58.3	66770	62.6
2007-08	20102	65.8	26235	87.0	14638	58.8	19067	59.1	80042	67.8
2008-09	25479	72.0	30467	86.0	17355	58.2	24025	66.4	97326	71.2
Avg.	18878	71.5	22462	77.4	13336	65.5	15492	61	70169	70

D: Deposits R: Ratio

It could be observed from the above table that the deposits to working capital ranged between 62 percent and 83 percent; on an average 71.5 percent of the total working capital of the selected DCCBs were by way of deposits. The VIDCCB has more of deposits to working capital ratio (i.e., 82.1 percent) and stood first among the four banks. The TUDCCB and KADCCB had below the optimum level deposits i.e., 66 percent and 61 percent respectively, the optimum being 70 percent. It can be inferred that, the overall performance of the banks in this respect is satisfactory.

1.11.5 RATIO OF BORROWINGS TO WORKING CAPITAL

In addition to the deposits, borrowings from other agencies such as loans from TNSCB, commercial banks etc., constitute an important source of working capital of the banks. The ratio of borrowings to working capital is presented in the following table.

TABLE 1.3: RATIO OF BORROWINGS TO WORKING CAPITAL (Rs.in lakhs)

Banks Years	TIDCCB		VIDCCB		TUDCCB		KADCCB		TOTAL	
	B	R	B	R	B	R	B	R	B	R
1998-99	1369	7.8	1952	9.4	926	6.8	5946	37.9	10193	15.1
1999-00	738	3.3	2249	9.4	346	2.1	3779	20.8	7112	8.8
2000-01	1399	6.4	2626	1.1	538	3.2	5237	28.3	9800	9.3
2001-02	2436	10.3	2584	9.8	1163	6.1	4717	23.3	10900	12.2
2002-03	3010	11.6	2430	8.6	1230	5.5	4214	18.6	10884	11.0
2003-04	5895	22.3	3188	11.0	2476	11.6	8867	32.1	20426	19.6
2004-05	7207	27.8	4438	16.0	1473	7.5	8691	30.7	21809	21.5
2005-06	8231	30.9	5970	21.0	2283	10.6	10985	34.8	27469	25.5
2006-07	6770	25.3	3499	12.0	2245	10.1	7393	25.5	19907	18.7
2007-08	5908	19.3	1825	6.0	1022	4.1	8438	26.1	17193	14.6
2008-09	5168	14.6	2580	7.3	2504	8.4	7022	19.4	17274	12.6
Avg.	4376	15.5	2816	9.7	1473	6.9	6844	27	15509	14.9

B: Borrowings R: Ratio

The average proportion of the borrowings to working capital of the banks is 15.3 percent. However this percentage was found to be very high only with KADCCB (27.0 percent) revealing the much dependence of the bank on borrowings. Lower borrowings generate more profit and high borrowings generate heavy loss. The overall analysis revealed that the performance of the DCCBs in this respect is satisfactory.

1.11.6 RATIO OF OWNED FUNDS TO BORROWED FUNDS

A higher level of owned funds is construed as a favorable financial factor for the DCCBs.

TABLE- 1.4: RATIO OF OWNED FUNDS TO BORROWED FUNDS (Rs.in lakhs)

Banks Years	TIDCCB			VIDCCB			TUDCCB			KADCCB			TOTAL		
	BF	OF	R	BF	OF	R	BF	OF	R	BF	OF	R	BF	OF	R
1998-99	16945	1262	7.5	19094	1482	8.5	12007	1714	14.3	14125	9027	11.0	62171	6006	9.9
1999-00	21721	1513	7.0	22171	1916	7.6	13985	2514	18.0	16435	13553	10.7	74312	7697	10.0
2000-01	20981	1606	7.7	21238	1894	8.3	13692	2990	21.8	16437	12429	12.7	72348	8577	11.7
2001-02	22321	2041	9.1	24593	2824	7.4	14995	3992	26.6	18040	14623	12.4	79949	11088	12.6
2002-03	23522	3246	13.8	26493	3120	6.8	16439	5883	35.8	20250	17390	11.6	86704	14596	15.3
2003-04	23736	3667	15.5	26524	4393	7.5	14637	6769	46.2	24716	17705	11.9	89613	17773	17.1
2004-05	23687	3125	13.2	25414	3339	7.8	13831	5884	42.5	25374	18514	11.7	88306	15308	15.8
2005-06	23217	5358	23.1	26044	4391	8.2	13787	7737	56.1	27496	19391	14.8	90545	21559	21.3
2006-07	23001	5675	24.7	25388	5646	13.0	14008	8288	59.2	24279	20029	19.4	86676	24308	25.2
2007-08	26010	6467	24.9	28060	5454	7.7	15660	9254	59.1	27505	21928	17.4	97234	25949	23.3
2008-09	30646	6746	22.0	33047	5780	6.8	19859	9953	50.1	31047	26675	16.6	114600	27631	21.0
Avg.	23253	3701	15.3	25279	3658	8.1	14809	5907	39.1	22337	17387	13.6	85678	16409	16.7

BO: Borrowed Funds R: Ratio

On an average the proportion of owned funds to borrowed funds of the selected DCCBs was about 16.7 percent during the study period. Comparatively, the Thirunelveli DCCB had very less (7.5 percent) ratio of owned funds to borrowed funds which is not considered good. The Thuthukudi DCCB's performance in this respect is comparatively better. Since the ratio of most of the banks is more than 8 percent it can be concluded that the financial performance of the banks in this respect is satisfactory

1.11.7 RATIO OF NET PROFIT TO WORKING CAPITAL

The net profit is also known as Net Margin or surplus. This ratio measures the relationship between net profit and working capital. Higher the ratio of net operating profit to working capital better is operational efficiency of the DCCBs. Net profit ratio of 5 percent is considered to be optimum. The ratio of net profit to working capital is presented below.

TABLE- 1.5: RATIO OF NET PROFIT TO WORKING CAPITAL (Rs.in lakhs)

Banks Years	TIDCCB		VIDCCB		TUDCCB		KADCCB		TOTAL	
	NP	R	NP	R	NP	R	NP	R	NP	R
1998-99	-43.8	-0.2	47.1	0.2	8	0.1	30.	0.2	41	0.1
1999-00	-328	-1.5	-902	-3.8	-41	-0.3	69.	0.4	-1203	-1.5
2000-01	-1143	-5.2	-444	-1.9	-949	-5.7	-152	-0.8	-2689	-3.4
2001-02	-298	-1.3	-320	-1.2	-791	-4.2	55	0.3	-1354	-1.5
2002-03	-1544	-6.0	-111	-0.4	-987	-4.4	93	0.4	-2550	-2.6
2003-04	-348	-1.3	-348	-1.2	-331	-1.5	111	0.4	-917	-0.9
2004-05	952.8	3.7	1908	7.0	1506	7.6	508	1.8	4876	4.8
2005-06	-1979	-7.4	-497	-1.8	-710	-3.3	-432	-1.4	-3618	-3.4
2006-07	-566	-2.1	6.09	0.0	777.8	3.5	10	0.0	227	0.2
2007-08	-2065	-6.8	-585	-1.9	-783	-3.1	53	0.2	-3379	-2.9
2008-09	101.5	0.3	722	2.0	4.39	0.0	5	0.0	832	0.6
Avg.	-660	-2.5	-47.7	-0.3	-207	-1.0	31.7	0.1	-884.8	-0.9

NP: Net Profit R: Ratio.

The Ratio of net profit to working capital of the selected banks ranges between -3.4 percent to 4.8 percent during the study period; on an average of -0.9 percent. The selected banks showed negative trend during many years. Comparatively, the TIDCCB, TUDCCB and VIDCCB had incurred heavy loss due to the non performing assets among them the KADCCB registered slightly higher performance (0.1 percent). The performance of the banks under this ratio analysis is unsatisfactory. The low ratio is not a sign of healthy banking operation.

1.11.8 RATIO OF GROSS PROFIT TO WORKING CAPITAL

Gross profit means the operating profit i.e., interest income on loans and advances and investments (+) other operating income. The optimum level of the ratio is 11 percent. The ratio of net profit to working capital and the gross income to working capital are presented below.

TABLE - 1.6: RATIO OF GROSS PROFIT TO WORKING CAPITAL (Rs.in lakhs)

Banks Years	TIDCCB		VIDCCB		TUDCCB		KADCCB		TOTAL	
	GP	R	GP	R	GP	R	GP	R	GP	R
1998-99	2312	13.2	2643	12.8	1395	10.2	2041	13.0	8391	12.4
1999-00	1734	7.7	3561	14.9	1879	11.4	2060	11.3	9235	11.4
2000-01	2392	10.9	3436	14.9	1947	11.7	2307	12.5	10082	12.6
2001-02	2783	11.8	4244	16.1	2053	10.8	3378	16.7	12457	14.0
2002-03	2638	10.2	3373	11.9	2598	11.6	2445	10.8	11054	11.2
2003-04	2695	10.2	3043	10.7	2023	9.5	3208	11.6	10969	10.5
2004-05	2142	8.3	6060	22.1	2800	14.2	3216	11.3	14218	14.0
2005-06	2191	8.2	3500	12.4	1726	8.0	3358	10.6	10775	10.0
2006-07	2160	8.1	2746	9.6	2253	10.1	3569	12.3	10728	10.1
2007-08	860	2.8	2736	9.0	1997	8.0	4944	15.3	10536	8.9
2008-09	3182	9.0	4288	12.1	2605	8.7	3741	10.3	13816	10.1
Avg.	2281	8.7	3603	13	2116	10.4	31.14	12.3	11115	11.5

GP: Gross Profit R: Ratio

The selected banks were able to earn consistent level of gross income of 11.4 percent throughout the study period. The annual average proportion of gross income to working capital for TIDCCB, VIDCCB, TUDCCB and KADCCB were 9.1, 13.3, 10.4 and 12.3 percent respectively. Hence it is concluded that the financial performance of the banks under this ratio analysis is satisfactory.

1.11.9 RATIO OF COST OF MANAGEMENT TO WORKING CAPITAL

The cost of management comprise of establishment expenditure (Salary and other allowances). This is an important expenditure of the banks and therefore its relationship with the capital employed in the business (working capital) need to be examined. The ideal level is less than 0.7 percent.

TABLE – 1.7: RATIO OF COST OF MANAGEMENT TO WORKING CAPITAL (Rs.in lakhs)

Banks	TIDCCB		VIDCCB		TUDCCB		KADCCB		TOTAL	
	COM	R	COM	R	COM	R	COM	R	COM	R
1998-99	310	1.8	464	2.2	135	1	214	1.4	1123	1.7
1999-00	320	1.4	496	2.1	136	0.8	263	1.4	1215	1.5
2000-01	277	1.3	535	2.3	139	0.8	253	1.4	1204	1.5
2001-02	250	1.1	579	2.2	187	1.0	238	1.2	1254	1.4
2002-03	275	1.1	505	1.8	182	0.8	225	1.0	1187	1.2
2003-04	229	0.9	229	0.8	148	0.7	240	0.9	846	0.8
2004-05	240	0.9	240	0.9	157	0.8	235	0.8	873	0.9
2005-06	221	0.8	529	1.9	119	0.6	228	0.7	1096	1.0
2006-07	204	0.8	402	1.4	133	0.6	192	0.7	931	0.9
2007-08	217	0.7	527	1.7	147	0.6	216	0.7	1108	0.9
2008-09	221	0.6	415	1.2	141	0.5	248	0.7	1025	0.8
Avg.	251	1	477	1.6	148	0.7	232	1	1078	1.1

COM: Cost of Management R: Ratio.

It can be observed from the table that the banks are incurring on an average more than one percent on management cost which is above the ideal level of 0.7 percent. Hence the performance of the banks in this respect is not satisfactory. The bank should inculcate the cost consciousness among the staff and management so that a higher profit can be achieved.

1.12 FINDINGS

The present study, “A study on the working capital ratio of the DCCBs in Tirunelveli Region, Tamilnadu State” is an analytical one. The study was conducted in Tirunelveli Region, Tamilnadu state. Among the five Cooperative Regions in Tamilnadu, Tirunelveli Region covering four DCCBs was selected and secondary data were used for the analysis. A decadal period was covered by this (1998-99 to 2008-09). Statistical tools of statistical like average and ratio were used for analysis. The major findings and conclusion are presented in the following paragraphs.

WORKING CAPITAL RATIOS

Owned fund to Working Capital ratios

Among the four banks VIDCCB had very low owned funds. Whereas TIDCCB, TUDCCB and KADCCB had very good performance in this respect. Putting all banks together, it was found that the proportion of owned fund to working capital was varied over the years. Based on the overall average ratio, it is concluded that the performance of the banks in this region with regard to owned funds to working capital ratio is satisfactory.

Deposits to Working Capital

The VIDCCB has more of deposits to working capital ratio and stood first among the four banks. The TUDCCB and KADCCB had below the optimum level deposits. The optimal ratio of deposits to working capital is 70 percent. It can be inferred that, the overall performance of the banks in this respect is satisfactory.

Borrowings to Working Capital

This percent was found to be very high with only KADCCB (27.0 percent) revealing the much dependence of the bank on borrowings. Lower borrowings generate more profit and high borrowings generate heavy loss. This analysis revealed that the performance of the DCCBs in this respect is satisfactory.

Ratio of Owned Funds to Borrowed Funds

Comparatively, the Thirunelveli DCCB had very less ratio of owned funds to borrowed funds which is not considered good. The Thothukudi DCCB’s performance in this respect is comparatively better. Since the ratio of most of the banks is more than 8 percent it can be concluded that the financial performance of the banks in this respect is satisfactory.

Ratio of Gross Profit to Working Capital

The selected banks were able to earn consistent level of gross income throughout the study period. Hence it is concluded that the financial performance of the banks under this ratio analysis is satisfactory.

Ratio of Net profit to Working Capital

The selected banks showed negative trend during many years. Comparatively, the TIDCCB, TUDCCB and VIDCCB had incurred heavy loss due to the non performing assets among them the KADCCB registered slightly higher performance. The performance of the banks under this ratio is unsatisfactory. The low ratio is not a sign of healthy banking operation.

Ratio of Cost of Management to Working Capital

The cost of management to working capital of the sample banks showed that high level during the study period. Hence the performance of the banks in this respect is not satisfactory.

TABLE 1.8: WORKING CAPITAL RATIO RESULT

S. No	Name of the Ratios	TIDCCB		VIDCCB		TUDCCB		KADCCB	
		S	NS	S	NS	S	NS	S	NS
WORKING CAPITAL RATIO									
1	Owned funds to Working Capital	S	-	S	-	S	-	S	-
2	Deposits to Working Capital	S	-	S	-	-	NS	-	NS
3	Borrowings to Working Capital	S	-	S	-	S	-	-	NS
4	Owned funds to Borrowed funds	-	NS	-	NS	S	-	S	-
5	Net Profit to Working Capital	-	NS	-	NS	-	NS	-	NS
6	Gross Profit to Working Capital	-	NS	S	-	-	NS	S	-
7	Cost of Management to Working capital	-	NS	-	NS	S	-	-	NS
	Total	3	4	4	3	4	3	3	4

S: Satisfactory NS: Not Satisfactory

1.13 CONCLUSION

Invariably in all the selected DCCBs of this study conducted in the Tirunelveli Region of the Tamilnadu State TIDCCB, KADCCB was not satisfactory and VIDCCB, KADCCB was satisfactory were found especially with reference to position in working capital ratio. The ‘KRA’s (Key Result Areas) with reference to working capital ratio was not upto the mark.

1.14 SUGGESTIONS

The working capital components are owned funds borrowings and deposits from public in general the cost of deposits from public will be minimum. Therefore the bank should actively mobilize deposits from public to increase its lending activities and achieve profit.

Owned funds have two components one is share capital and then second one is reserves. Reserves are accommodated out of profit generated by the bank. Though share capital have cost in the form of dividend distribution, where as reserve funds do not entail any cost. Therefore the bank attempt should be to generate more profit and transfer substantial portion of the profit to the reserve funds.

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