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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

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

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ABSTRACT

In the modern world technology plays an important role in banking sector. Banking is one of the largest financial institutions constantly explores the opportunity of technology enabled services to provide better customer experience and convenience. 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 Operational 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
operational ratio, central 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 operational 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 operational 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 operational 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 MDDCB 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 operational 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 operational ratio of Tirunelveli (TIDCCB), Virudhunagar (VIDCCB), Thuthukudi (TUDCCB) and Kanyakumari (KADCCB) District Central Cooperative Banks in Tirunelvel 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 Tiruneveli, Viruthunagar, 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 operational ratio of the four DCCBs in Tirunelveli Region. The results of this study will help in identifying the lacuna if any in the operational 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 subdued into a digestible account by appropriate coding, computing and tabulations. The basic tools of statistical analysis like average and operational 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.

1.11.1 OPERATIONAL RATIO
The various operational ratios are worked out in relation to total income and are presented in the following paragraphs. The data on total (gross) income of the banks which is used for calculating the ratios. Interest paid to total income ratio reflects the outflow in the income of the banks, as the bank has to pay interest

on deposits and other borrowings. The more funds that are mobilized in the form of deposits and borrowings, the greater will be the amount of interest payments. Figures presented in the table under 'financial cost' represent the amount of interest paid by the banks.

1.11.2 RATIO OF INTEREST EARNED TO TOTAL INCOME

The first ratios indicate the interest earning capacity and income of the bank. The interest earning of the banks is given in above the table No. 5.9 under 'financial returns'. This ratio expresses the share of interest income in total earnings of the bank.

TABLE – 1.1: RATIO OF INTEREST EARNED TO TOTAL INCOME *(Percentage)*

Banks / Years	TIDCCB	VIDCCB	TUDCCB	KADCCB	TOTAL
1998-99	98.4	97	73.5	96.5	93.4
1999-00	97.9	73.3	66.6	94.9	87.2
2000-01	97.9	82	49.7	90.7	81.5
2001-02	92.5	72.7	60.6	96.4	81.5
2002-03	97.4	94.7	65.3	96.1	88.7
2003-04	97.1	86	69.5	95.3	88.4
2004-05	97.3	34.4	55.1	93.8	61.4
2005-06	96.8	72.1	85.3	83.7	82.8
2006-07	83.6	96.3	73.7	86	85.6
2007-08	84.6	66.3	43.7	62.2	64.7
2008-09	91	96.8	79.9	97.1	92.4
Avg.	**112**	**79.2**	**65.7**	**90.2**	**82.5**

The ratio of interest earned to total income ranged between 93.4 and 61.4 percent during the study period; on an average ratio was 82.5 percent per annum. This implies that about 83 percent of the income was earned in the form of interest; being a banking organization it has to be like that only. Comparatively, the TIDCCB had highest ratio (112 percent) than the other three banks. The TUDCCB had lowest ratio (66 percent).

1.11.3 RATIO OF INTEREST PAID TO TOTAL INCOME

The ratio indicates the percentage of interest paid to total income by the banks.

TABLE -1.2: RATIO OF INTEREST PAID TO TOTAL INCOME *(Percentage)*

Banks / Years	TIDCCB	VIDCCB	TUDCCB	KADCCB	TOTAL
1998-99	79.6	76.9	83.1	77.6	78.8
1999-00	80.4	64.0	85.5	77.6	72.1
2000-01	82.0	71.1	76.0	78.2	74.3
2001-02	76.2	57.6	73.1	79.9	70.4
2002-03	77.2	68.1	54.7	78.1	69.3
2003-04	76.4	67.6	61.8	61.9	67.0
2004-05	80.4	28.4	34.4	62.8	45.2
2005-06	77.0	49.3	48.4	59.6	58.0
2006-07	66.6	54.1	41.3	58.6	55.7
2007-08	72.3	65.5	54.5	75.2	57.6
2008-09	78.4	57.9	71.7	88.9	73.6
Avg.	**72.4**	**60.1**	**62.2**	**69.2**	**62.3**

The ratio of interest paid on total income varies between 45 and 79 during the study period; the ratio values averaged to 62.3 and thus imply that on an average the banks are spending 62 percent of their income for interest payments. The deposits and borrowings of the banks did not show considerable fall and the decline in interest payment is a welcome feature. Further, it may also be possible on account of reduction in the rates of borrowings.

1.11.4 RATIO OF TOTAL EXPENDITURE TO TOTAL INCOME

This is an important ratio that indicates the percentage of total expenditure incurred by the banks out of its total income

TABLE -1.3: RATIO OF TOTAL EXPENDITURE TO TOTAL INCOME *(Rs.in lakhs)*

Banks	TIDCCB		VIDCCB		TUDCCB		KADCCB		TOTAL	
Years	TE	R	TE	R	TE	R	TE	R	TE	R
1998-99	2356	101.9	2596	98.2	1261	90.4	2010	98.5	8223	98.0
1999-00	2602	150.1	3561	100.0	1879	100.0	2060	100.0	10103	109.4
2000-01	3535	147.8	3436	100.0	2802	143.9	2307	100.0	12080	119.8
2001-02	3080	110.7	4244	100.0	2730	133.0	3323	98.4	13377	107.4
2002-03	4182	158.5	3373	100.0	3403	131.0	2352	96.2	13311	120.4
2003-04	3043	112.9	3681	121.0	2206	109.1	3097	96.5	12028	109.6
2004-05	2107	98.4	2304	38.0	2643	94.4	2707	84.2	9762	68.7
2005-06	4170	190.3	3500	100.0	2318	134.3	3358	100.0	13346	123.9
2006-07	2727	126.2	2740	99.8	2273	110.7	3127	87.6	10867	103.2
2007-08	2924	340.2	2736	100.0	2633	131.8	4891	98.9	13183	125.1
2008-09	3182	100.0	3567	83.2	2464	94.6	3736	99.9	12948	93.72
Avg.	**3083**	**148.8**	**3249**	**94.6**	**2419**	**115.7**	**2997**	**96.4**	**11748**	**107.2**

TE- Total Expenditure, R- Ratio.

The above table depicts the ratio of total expenditure to total income had increased from 98 in 1998-99 to 125 in 2007-08 after it has decreased to 94. During the study period, the ratio value averaged to 107.2 and thus implies that an average of the banks earn less income when compared with the banks total expenses. Hence, the selected banks should minimize the overall costs to become profitable. Hence it is concluded that the performance of the banks in this respect is not satisfactory.

1.11.5 RATIO OF ESTABLISHMENT EXPENDITURE TO TOTAL EXPENDITURE

Establishment Expenditure includes the cost of management that is the salary and allowance to employees. This ratio helps to assess the percentages of establishment expenditure to total expenditure. Total expenditure of the banks is presented in the previous table. The optimum level is 9.

TABLE -1.4: RATIO OF ESTABLISHMENT EXPENDITURE TO TOTAL EXPENDITURE *(Rs.in lakhs)*

Years \ Banks	TIDCCB		VIDCCB		TUDCCB		KADCCB		TOTAL	
	EE	R	EE	R	EE	R	EE	R	EE	R
1998-99	310	13.0	464	17.9	135	11.0	214	10.6	1123	13.7
1999-00	320	12.0	496	13.9	136	7.3	263	12.7	1215	12.0
2000-01	277	7.8	535	15.6	139	5.0	253	11.0	1204	10.0
2001-02	250	8.1	579	13.6	187	6.9	238	7.2	1254	9.4
2002-03	275	6.6	505	15.0	182	5.4	225	9.6	1187	8.9
2003-04	229	7.5	229	6.2	148	6.7	240	7.7	846	7.0
2004-05	240	11.0	240	10.4	157	5.9	235	8.7	873	8.9
2005-06	221	5.3	529	15.1	119	5.1	228	6.8	1096	8.2
2006-07	204	7.5	402	14.7	133	5.9	192	6.1	931	8.6
2007-08	217	7.4	527	19.3	147	5.6	216	4.4	1108	8.4
2008-09	221	7.0	415	11.6	141	5.7	248	6.6	1025	7.9
Avg.	**251**	**8.6**	**447**	**13.9**	**148**	**6.4**	**232**	**8.3**	**1078**	**9.4**

EE- Establishment Expenditure, R-Ratio

The establishment expenditure to total expenditure of the banks ranged between 7 percent and 13.7 percent during the study period. The average ratio reflected is 9.4 percent implying that out of the total expenditure incurred on establishment. Among the four banks, the VIDCCB had more amount spent for establishment expenditure; on an average of about 14 percent of the total expenditure per annum. The TIDCCB had spent lowest amount of total expenditure i.e., 6.4 percent per annum. Hence the overall performance in this respect is satisfactory.

1.11.6 RATIO OF INTEREST PAID ON BORROWED FUNDS

Another important ratio is used to analyze the cost of deposits and borrowings which show the ability of the banks to have a reasonable cost of deposit and borrowings. Deposits and borrowings are presented earlier in the table 4.7 and 4.8. The interest paid is also given in the above table. The following table depicts the ratio of interest paid on borrowed funds. The optimum level is 11.

TABLE -1.5: RATIO OF INTEREST PAID TO BORROWED FUNDS *(Rs.in lakhs)*

Years \ Banks	TIDCCB		VIDCCB		TUDCCB		KADCCB		TOTAL	
	BF	R	BF	R	BF	R	BF	R	BF	R
1998-99	16945	11	19094	10.6	12007	9.6	14125	11.2	62171	10.6
1999-00	21721	8.6	22171	10.3	13985	11.5	16435	9.7	74312	9.9
2000-01	20981	9.3	21238	11.5	13692	10.8	16437	15.4	72348	11.6
2001-02	22321	9.5	24593	9.9	14995	10.0	18040	15.0	79949	11.0
2002-03	23522	8.7	26493	8.7	16439	8.6	20250	9.4	86704	8.8
2003-04	23736	8.7	26524	7.8	14637	8.5	24716	8.0	89613	8.2
2004-05	23687	7.3	25414	6.8	13831	6.9	25374	8.0	88306	7.3
2005-06	23217	7.3	26044	6.6	13787	6.1	27496	7.3	90545	6.9
2006-07	23001	6.3	25388	5.8	14008	6.1	24279	8.6	86676	6.8
2007-08	26010	6.8	28060	6.4	15660	6.9	27505	13.5	97234	8.6
2008-09	30646	8.1	33047	7.5	19859	9.4	31047	10.7	114600	8.9
Avg.	**1908**	**8.3**	**2070**	**8.4**	**1274**	**8.6**	**2315**	**10.6**	**7566**	**8.9**

BF- Borrowed Fund; R- Ratio

The cost of deposits and borrowings had decreased from 11 in 1998-99 to 8.9 in 2008-09. The average of the banks was 9 during the study period. The cost of deposits and borrowings are comparatively high with KADCCB. The borrowing rates more or less remaining the same, it increase the cost in the above banks may be due to high cost deposits. The overall performance shows a satisfactory performance of the banks under this analysis.

FINDINGS

The present study, "A study on the operational 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.

Operational Ratios

Interest Earned to Total Income

The ratio of interest earned to total income between 93.4 and 92.4 during the study period; on an average ratio was 83.4 percent per annum. This implies that about 83 percent of the income was earned in the form of interest being a banking organization it has to be like that only. Comparatively, the TIDCCB had highest ratio (112 percent) than the other three banks. The TUDCCB had lowest ratio (66 percent).

Interest Paid to Total Income

The ratio of interest paid on total income varies between 45 and 83 during the study period; the ratio values averaged to 69 and thus imply that on an average the banks are spending 69 percent of their income for interest payments. The deposits and borrowings of the banks did not show considerable fall and the decline in interest payment is a welcome feature. Further, it may also be possible on account of reduction in the rates of borrowings.

Ratio of Total Expenditure to Total Income

The ratio of total expenditure to total income had increased from 98 in 1998-99 to 125 in 2007-08 after it has decreased to 94. During the study period, the ratio value averaged to 107.2 and thus implies that an average of the banks earn less income when compared with the banks total expenses. Hence, the selected banks should minimize the overall costs to become profitable. Though, the TIDCCB and TUDCCB had performed satisfactory in this respect, the overall performance of the region is not satisfactory.

Establishment Expenditure to Total Expenditure

The establishment expenditure to total expenditure of the banks ranged between 7 percent and 13.7 percent during the study period. The average ratio reflected is 9.4 percent implying that out of the total expenditure incurred on establishment. Among the four banks, the VIDCCB had more amount spent for establishment expenditure; on an average of about 14 percent of the total expenditure per annum. The TIDCCB had spent lowest amount of total expenditure i.e., 6.4 percent per annum. Hence the overall performance in this respect is satisfactory.

Ratio of Interest Paid to Borrowed Funds

Ratio of interest paid to borrowed funds had decreased from 11 percent in 1998-99 to 8.9 percent in 2008-09. The average of the banks was 9 during the study period. The cost of deposits and borrowings are comparatively high with KADCCB. The borrowing rates more or less remaining the same, it increase the cost in the above banks may be due to high cost deposits. The overall performance shows a satisfactory performance of the banks under this analysis.

TABLE 1.6: OPERATIONAL RATIO RESULT

S. No	Name of the Ratios	TIDCCB		VIDCCB		TUDCCB		KADCCB	
		S	NS	S	NS	S	NS	S	NS
	WORKING FUND RATIO								
1	Interest Earned to Total Income	S	-	S	-	-	NS	S	-
2	Interest Paid to Total Income	-	NS	S	-	S	-	-	NS
3	Total expenditure to Total Income	-	NS	S	-	-	NS	S	-
4	Establishment Expenditure to Total Expenditure	-	NS	S	-	-	NS	-	NS
5	Interest Paid to Borrowed funds	S	-	S	-	S	-	S	-
	Total	2	3	5	0	2	3	3	2

S: Satisfactory, NS: Not Satisfactory

1.13 CONCLUSION

Invariably in all the selected DCCBs of this study conducted in the Trirunelveli Region of the Tamilnadu State TIDCCB and TUDCCB was not satisfactory and VIDCCB AND KADCCB was satisfactory were found especially with reference to position in operational ratio. The 'KRA's (Key Result Areas) with reference to operational ratio was not upto the mark.

1.14 SUGGESTIONS

Operational ratios are indicators of income and expenditure pattern of bank ratio establishment expenditure to total expenditure and establishment to non-interest income (commission) of the bank. It is a generally agreed norm that and selected DCCBs should meet their total establishment expenditure out of non-interest income for this purpose the bank has to introduce as many fee based products as possible in the bank like bank guarantees, letter of credit etc… also the should judicially start charging for technology based products like ATM, NEFT, RTGS and Internet Banking facilities.

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