

**A Study on Financial Solvency performance of Karnataka State Cooperative
Apex Bank Limited**

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Introduction

The co-operative movement in India basically aims at bringing about the importance of the socio-economic states of its members and their families and the community as a whole. The success of cooperatives primarily depends on universal and active membership covering all population segments. It is possible to generally split the Indian cooperative credit structure into rural and urban sections. Banks of urban and semi-urban cooperatives serve the country's cities and semi-urban areas, while rural cooperative banks serve the country's countryside. It is the responsibility of urban cooperative banks to provide credit for non-agricultural purposes.

In India, cooperative banks have experienced strong competition from both public and private sector banks. Financial service diversification has gained traction in the banking business. Banks' modern services are becoming more important, while old services are becoming less important. The Cooperative banks are meant for rendering banking services to rural areas. Nowadays, the public and private sector banks are stretching their banking services to the rural regions of India with modern technology. In contrast, cooperative banks lack in adopting the new technology in the banking activities. The present study will help understand the financial performance of cooperative apex banks.

The researcher has evaluated Karnataka State Co-operative Apex Bank Limited (KSCAB Ltd.) regarding its share capital, reserves and surplus, investments, loans and advances, total income and borrowings, total expenditure and net profit. The researcher also evaluated the financial solvency of KSCAB Ltd. by considering ratio's like- liquid assets to deposit balance; there are a number of ratios that may be used to evaluate a company's financial health. Cash to deposit, investment to deposit and credit to deposit ratios were among major financial resources used by the study. The profitability analysis of KSCAB Ltd. has been analysed with the DuPont model's help.

This study is helpful to give the proper guidelines to the researcher who is interested in making addition in this area. Moreover, this study will be beneficial to improve the financial performance of KSCAB Ltd.

Significance of the Study

Indian banking sector have gone through various transformation phases in terms of providing technological services. The performance and survival of cooperative banks are in questioning stage. Financial Solvency is one of the important parameter on which a bank's financial performance is to be measured.

Research Gap

Various research studies were conducted on the co-operative banks in India in the form of conceptual and analytical. The researcher has reviewed related literature in cooperative banks to find the research gap. It has been identified that there is no particular study conducted on the Karnataka State Co-operative Apex Banks. Hence, the researcher attempted to evaluate the financial solvency performance evaluation of Karnataka State Co-operative Apex Bank Limited.

Statement of problem

There is a need to have a critical study of the development and advancement of prestigious Karnataka State Co-operative Bank in terms of financial solvency. The finest way is to evaluate the effect through the financial variables.

Objectives of the Study

1. To understand the financial performance of KSCABL
2. To study and examine financial solvency performance of KSCABL.

Source of Data

The present study is based on secondary data collected from annual reports of State Cooperative Banks in India. The secondary data also collected from the Prowess IQ Data base and other websites likes-Zauba Corp, leading provider of commercial information and insight on businesses.

Period of the study

Annual reports of KSCAB Ltd. are being analysed for six years (2013-14 to 2018-19) in order to assess the banks financial performance and solvency status.

Tools and Techniques used for the study

Key financial ratios such as

1. Liquid Assets to Deposits Ratio

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2. Debt to Equity Ratio
3. Owned Funds to Borrowed Funds Ratio
4. Credit to Deposit Ratio
5. Current Ratio
6. Acid Test Ratio

Review of Literature

Hosamani (1995) used various ratios to evaluate the performance of Malaprabha Grameena Bank in Karnataka. Profitability ratios were negative (-43%) due to higher burden ratio (3.11%) compared to spread (2.96%).

Pathania and Sharma (1997) studied the working of Himachal Pradesh State Cooperative Agricultural and Rural Development Bank, which lends money on a long term basis for a variety of end users. The financial durability of the bank was measured and data were presented on the long – term financial strength, debt to equity ratio, fixed assets to net worth ratio, the short- term financial performance, and the current ratio. It was concluded that the financial position of the bank was not sound, with liabilities exceeding equity.

Shekhar et al. (1999) employed financial ratio analysis for the Karimnagar District Central Cooperative Bank in Andhra Pradesh, India. Financial ratios relating to solvency, liquidity, profitability, efficiency and strength of the bank were analysed for the period 1985/86-1994/95. Siddhanti (1999) used various financial ratios to analyze financial performance of Indian Farmers Fertilizers Cooperative and opined that the current ratio of the institution between 1987-88 and 1997-98 was ranging from 2.62 to 2.52 as against the standard norm of 2:1. The debt equity ratio during the period was between 1.05 and 1.07 as against standard norm of 1:1.

Patil (2000) used various financial ratios to evaluate the performance of Primary Cooperative Agricultural and Rural Development Banks in Dharwad district of Karnataka. The study revealed that the current ratio was more than unity and acid-test ratio was less than unity, while the net worth and profitability ratios were negative for all the banks in all the periods except for PCARDB, Dharwad. Deepak (2004) evaluated the financial viability of two primary agricultural cooperative societies (PACS) in Kolhapur district, Maharashtra, India, using data covering seven years after (1992-98) and seven years before (1985-91) the economic reforms. The two PACS selected represent class A and B societies, respectively. Results showed a reduction in the operational efficiency of the selected PACS during the post-reform period compared to the pre-reform period. The selected PACS showed a decline in their current liquidity ratio, rate of return on assets, return on owner's equity, and marginal efficiency of capital.

Developments in Cooperative Banking

Co-operative institutions play a significant role in credit delivery to unbanked segments of the population and financial inclusion within the multi-agency approach adopted in India in this context. They consisted of 1,551 urban co-operative banks (UCBs) at end-March 2018 and 96,612 rural co-operative banks at end-March 2017, with the latter accounting for 65.8 per cent of the total asset size of all co-operatives taken together

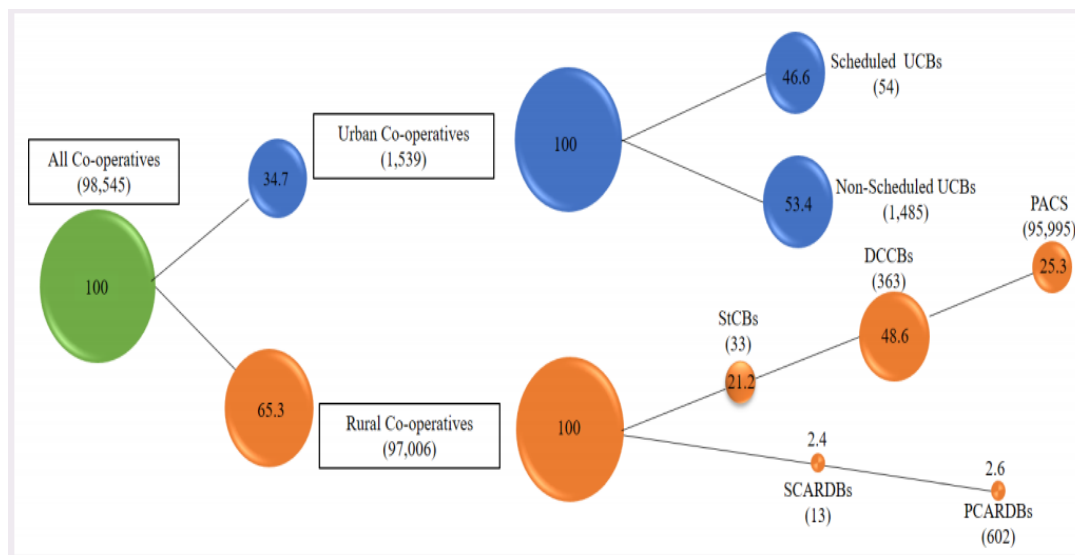


Fig. 2.1 The Structure of co-operatives by Asset size

Source: RBI Report

Notes: 1. Figures in per cent and bubble size is scaled to asset size.

State Co-operative Agriculture and Rural Development Banks (SCARDBs) are all abbreviations for the same thing: State Co-operative Agriculture and Rural Development Banks (DCCBs, PACS, SCARDB) (State Co-operative Agriculture and Rural Development Banks).

At the end of March 2020 and March 2019, the numbers in parenthesis denote the number of UCBs and rural co-ops, respectively. Thirty-six of the 54 UCBs slated will involve more than one state, while the remaining 18 will involve only one state. Out of 1,485 non-scheduled UCBs, there are 25 multi-state UCBs and 1,460 single-state UCBs.

At the end of March-2020, the sector's asset size was just 10% of that of SCBs, despite its critical importance. Although rural co-operative lending has a primary focus on agriculture, its percentage of total agricultural loans has decreased from 64% in 1992-93 to 13% in 2019-20.

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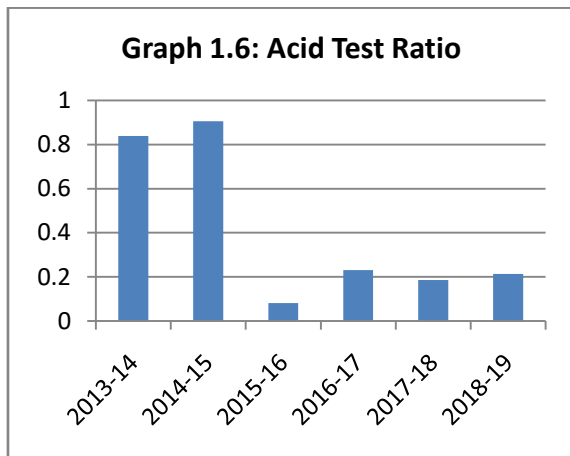
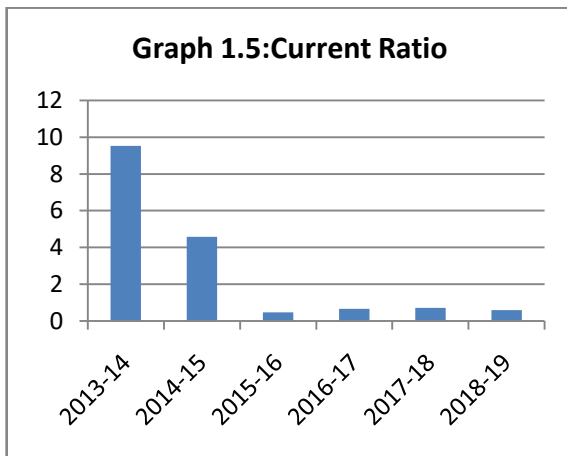
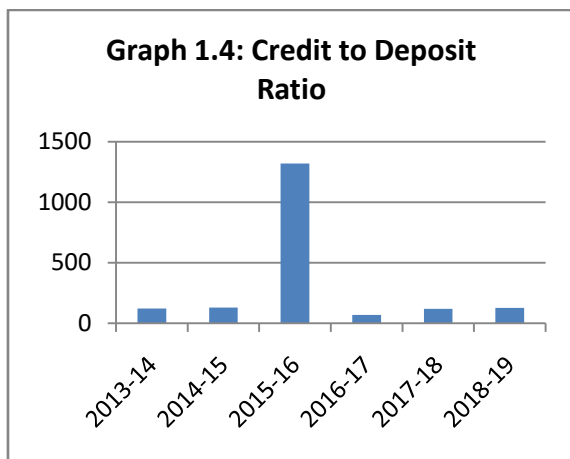
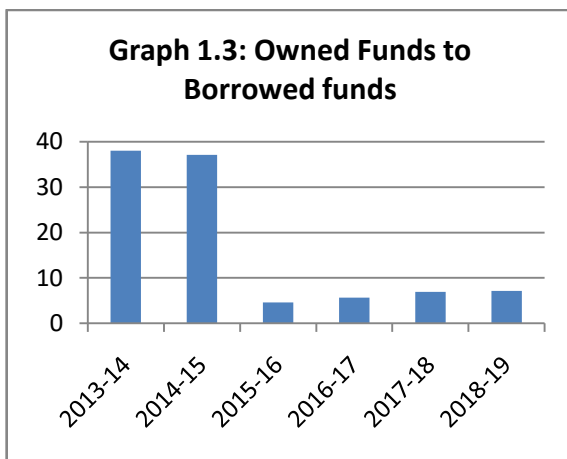
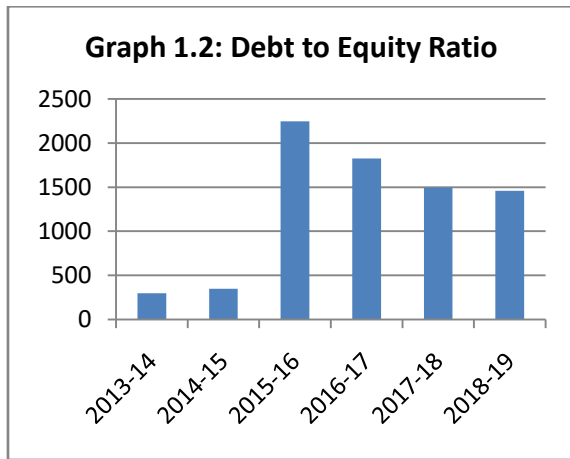
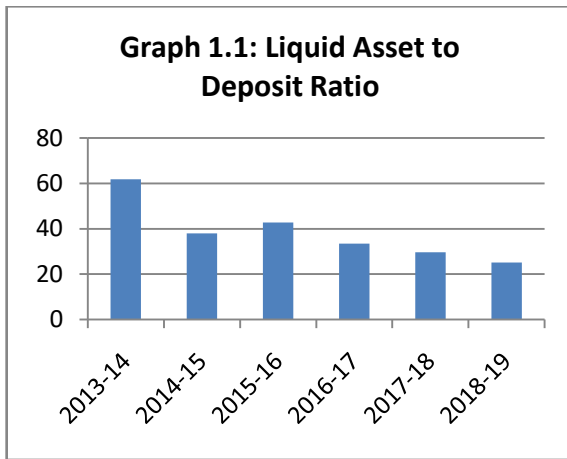
Over the past few years, the financial health of this sector has been a concern. All Inclusive Directions have been issued to 52 UCBs since April 1, 2015. 3 More than 94.3 per cent of the total claims paid out by the Deposit Insurance and Credit Guarantee Corporation (DICGC) since its founding have come from the defunct co-operative banks.

Data Analysis and Interpretation

A basic statistical technique is used to conduct explicit comparisons and explain the relationship between two graphs in order to understand the financial solvency of Karnataka State Co-operative Apex Bank Ltd.'s. Any firm may be compared quantitatively to one component. There are a variety of ratios that reveal distinct aspects of an organization's overall success. To evaluate the financial solvency and related, a ratio analysis technique is used for this objective. The following financial variables were examined for six years.

- ❖ Liquid Asset to Deposits Ratios
- ❖ Debt to Equity Ratio
- ❖ Owned Funds to Borrowed Funds Ratio
- ❖ Credit to Deposit Ratio
- ❖ Current Ratio
- ❖ Acid Test Ratio

	Liquid Asset to Deposit Ratio	Debt to Equity Ratio	Owned Funds to Borrowed funds	Credit to Deposit Ratio	Current Ratio	Acid Test Ratio
2013-14	61.84	298.15	38.0389	121.137	9.53007	0.83927
2014-15	37.94	349.86	37.1189	130.617	4.57337	0.90594
2015-16	42.74	2245.01	4.59665	1319.35	0.47753	0.08149
2016-17	33.48	1824.19	5.61951	67.5473	0.66542	0.23035
2017-18	29.6	1496.61	6.92124	119.285	0.71726	0.1863
2018-19	25.18	1459.03	7.15363	126.599	0.5962	0.21311



Interpretation

Graph 1.1 depicts that the liquid assets to demand and time liability ratio was 61.84 per cent in the year 2013-14, and it decreased to 37.94 per cent in the year 2014-15 of the study period. Later on, the ratio declined to 10.84 per cent in the year 2015-16, and it increased to 33.48 per cent in the year 2016-17. Again, the ratio decreased to 29.60 per cent and increased to 40.61 per cent in 2017-18 and 2018-19, respectively.

Graph 1.2 denotes the debt-to-equity ratio of Karnataka State Co-operative Apex Bank (KSCAB) Ltd., from 2013-14 to 2018-19. Debt includes the borrowings and debentures. In 2013-14, the

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debt-to-equity ratio was 298.15 percent; by 2015-16, it had risen to 2245.01 percent, the year with the highest ratio throughout the time period under consideration. Later on, the ratio declined to 1824.19 per cent in the year 2016-17 and continued to follow the declined trend till the year 2018-19.

Graph 1.3 represents the own fund to borrowed fund ratio of Karnataka State Co-operative Apex Bank (KSCAB) Ltd., from 2013-14 to 2018-19. It observed that the own fund and borrowed fund ratio was 38.04 per cent in the year 2013-14, and it decreased to 37.12 per cent in the year 2014-15. Later on, the ratio declined to 4.60 per cent in 2015-16. From 2015-16 onwards, the increasing trend continues until 2018-19.

Graph 1.4 signifies the credit deposit ratio, i.e., From 2013-14 to 2018-19, KSCAB Ltd. made loans and advances to its customers' savings accounts. One thing that stood out to researchers is that the credit deposit ratio climbed from 121.14% to 1319.36% in the year 2015-16, which was a record high during this time period.

KSCAB Ltd.'s current assets to current liabilities ratio is shown in Graph 1.5, which includes data from 2013-14 to 2018-19 for Karnataka State Co-operative Apex Bank For the years 2013-14 and 2015-16, the present ratio was 9.53 times higher than the lowest point recorded in the research period of 0.48 times.

From the year 2013-14 to 2018-19, the Acid Test Ratio, or the ratio of acid assets to current liabilities, of Karnataka State Co-operative Apex Bank (KSCAB) Ltd. is shown in Graph 1.6. It was shown that the credit deposit ratio was 0.84 times in 2013-14 and declined to 0.08 times in 2015-16, the lowest year of the research period.

Major Findings

1. The share of cash in hand in the liquid assets of KSCAB Ltd. was less than the investments share. The debenture shares in KSCAB Ltd.'s debt was too low compared to the borrowings share.
2. The owned funds of KSCAB Ltd. recorded a higher variation in the amount.
3. The credit to deposit ratio of KSCAB Ltd. recorded the mixed response in ratio values The loans and advances of the KSCAB Ltd. recorded more fluctuation in the absolute value.
4. The cash and bank balance and investment share recorded the decreasing value.
5. The liquid assets stood higher than the current liabilities during the study period. The acid test ratio of KSCAB Ltd is decreased during the study period.

Conclusion

The Cooperative banks are meant for rendering banking services to rural areas. Nowadays, the public and private sector banks are stretching their banking services to the rural regions of India with modern technology. In contrast, cooperative banks lack in adopting the new technology in the banking activities. The present study will help understand the financial performance of cooperative apex banks.

The liquid assets to deposit ratio, debt-to-equity ratio, owned funds to borrowed funds ratio, current ratio and Acid Test Ratio of KSCAB Ltd. recorded a mixed response during the study period.

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