

A Comparative Analysis for Consistency of Leading Multi-State Cooperative Banks in India

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Article Info

Volume 82

Page Number: 14413 - 14418

Publication Issue:

January-February 2020

Article History

Article Received: 18 May 2019

Revised: 14 July 2019

Accepted: 22 December 2019

Publication: 28 February 2020

Abstract:

Banking has been one of the hallmarks of the Indian Financial System. The safely parked funds at banks were redistributed in the form of various loans, to trigger overall development of the country.

Cooperative banks have played its own role in local development. Certain banks have grown in terms of scale and volumes that their geographical reach has increased considerably. Such is the scale of operations that these banks had to launch operations beyond their state of incorporation.

A comparative analysis for consistency is being performed on the annual results of certain Multi-State Cooperative Banks based on specific attributes. The banks' results have been different from one another on many input parameters.

Keywords: Banking, Financial System, Local Development, Multi-State Cooperative Banks.

I. INTRODUCTION

Cooperative Banks have been considered as the smaller cousins of other commercial banks. These banks operate more on a localized pattern with a highly personalized service. Technology has been very slow in entering the cooperative banking sector.

Cooperative banks can be categorized as Urban Cooperative Banks, Multi-District Cooperative Banks and Multi-State Cooperative Banks. These banks that were launched as Urban Cooperative Banks, began clocking higher revenues and required an increased geographical outreach for their sustenance. Thus, Urban Cooperative Banks were permitted to open branches at neighbouring districts

With the passage of time, Cooperative Banks were permitted to have operations beyond their state of incorporation. This law was initially introduced in 1985. It was subsequently revised to its current form 17 years later. Thus, Multi-State Cooperative Societies Act, 2002, was passed mainly to encourage Urban Cooperative Banks to have operations in more than a state. Many cooperative banks like

SaraswatBnk and Cosmos Bank migrated their operations, only to become Multi-State Cooperative Banks

Despite failed banks like Madhavpura Mercantile Cooperative Bank and Punjab & Maharashtra Cooperative Bank being Multi-State Cooperative Banks, this sector has performed reasonably well over the last few years. Few Multi-State Cooperative Banks look forward to becoming regular commercial banks.

LITERATURE REVIEW

(Mitra, 2012) has analyzed the performance of Saraswat Bank. This bank has focused on quality lending by following the set prudential norms. According to the bank's financials, its NPA range was between 3-5.5%. Saraswat Bank could maintain this level of NPA consistently over a five-year horizon due to a variety of factors like early adoption of technology and scientific methods of customer credit appraisal. Due to its higher volumes of business, Saraswat Bank approached the Reserve Bank of India for pan-Indian operations.

As a result of it, the bank would like to be upgraded as a private bank.

(Pawar, 2013) suggested that Pune-based Cosmos Cooperative Bank, having adopted appropriate technology, has a potential of improving its credit card business. Customers have been wary of security issues while using the bank's internet banking. Customers look forward to a more secure environment while banking online. Many technical issues could be addressed to ensure technical glitches are fixed. Further, creating awareness among its customers about internet banking can attract more users to avail services online.

(Munirajasekhar & Sudheer, 2013) has discussed in detailed the state of technology adopted by Urban Cooperative Banks in India. Technology has become an intrinsic requirement due to increased competition from other forms of banking, faster and paperless nature of services and tech-centric initiatives by Reserve Bank of India. Urban Cooperative Banks should offer services after deploying appropriate emerging technologies in order to realize demographic dividends.

II. OBJECTIVES

- To understand and compare the relationship between deposits received and credit created.
- To relate the relationship with respect to their capitalization abilities.
- To understand the relationship based on the profits earned.

III. SCOPE

- The following five Multi-State Cooperative Banks were selected for this study:
 1. Kalupur Commercial Cooperative Bank, Ahmedabad
 2. Bharat Co-operative Bank (Mumbai)
 3. NKGSB Cooperative Bank, Mumbai
 4. AP Mahesh Cooperative Urban Bank, Hyderabad
 5. TJSB Sahakari Bank, Thane (Maharashtra)

- The period of study is for 3 years, between 2016-17 to 2018-19.
- The study is based on the annual reports of the respective banks for each year, as available in their official websites.

IV. LIMITATIONS

1. The results obtained from this analysis are valid with respect to the selected five Multi-State Cooperative Banks. It does not reflect on other similar banks.
2. Results outside the period of study shall not be reflected in the outcome.
3. Any outcome outside the annual reports is not reflected in the outcome of study.

V. HYPOTHESIS

- H_0^1 : There is no significant difference among the selected banks with respect to CD Ratio.
- H_0^2 : There is no significant difference on the basis of their capital adequacy among these banks.
- H_0^3 : There is no significant difference among these banks in respect of profitability based on capital.
- H_0^4 : There is no significant difference among these banks in respect of profitability based on the funds deployed.

VI. ANALYSIS AND INTERPRETATION

A comparison has been drawn on the performance of five Multi-State Cooperative Banks based on specific variables. These are the banks with the potential of upgrading to a private commercial bank, considering their nature and style of business.

CD Ratio

This is a basic metric for assessing the ability of a bank to convert a deposit into credit.

$$\text{CD Ratio} = \text{Loans Issued} / \text{Deposits Received} * 100$$

Table 1. CD Ratio.

Particulars	Kalupur	Bharat	NKGSB	Mahesh	TJSB
2018-19	67.40	72.16	69.08	57.49	52.90
2017-18	60.09	71.99	76.47	54.41	55.34
2016-17	67.54	64.82	72.28	49.99	53.46
Average	65.01	69.66	72.61	53.96	53.90
Standard Deviation	4.26	4.19	3.71	3.77	1.28
Coefficient of Variation	6.56	6.01	5.10	6.99	2.37

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	915.5125	4	228.8781	17.52717	0.000163	3.47805
Within Groups	130.5847	10	13.05847			
Total	1046.097	14				

Source: Annual Reports of the respective banks.

From Table 1, TJSB Sahakari Bank has the least standard deviation (1.28) and therefore considered less risky in terms of credit with respect to its deposits. The same bank has the least coefficient of variation (2.37) and therefore considered consistent. The bank with the highest standard deviation (4.26) is Kalupur Commercial Cooperative Bank. This bank is considered highly volatile. The least consistent is AP Mahesh Cooperative Urban Bank due to its high coefficient of variation (6.99).

As per the ANOVA table, f-value is greater than f-critical value. Therefore, null hypothesis is rejected and alternate hypothesis is accepted. There is significant difference among the selected banks with respect to CD Ratio.

CRAR

Capital to Risk-Weighted Assets Ratio measures the ability of a bank to raise and possess capital measured in terms of its assets

Table 2. CRAR

Particulars	Kalupur	Bharat	NKGSB	Mahesh	Thane
2018-19	16.67	13.32	12.90	17.66	15.23
2017-18	16.73	13.00	12.63	17.28	14.20
2016-17	16.88	13.05	12.32	18.50	13.82
Average	16.76	13.12	12.62	17.81	14.42
Standard Deviation	0.11	0.17	0.29	0.62	0.73
Coefficient of Variation	0.65	1.31	2.30	3.50	5.06

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	61.62089	4	15.40522	73.53095	2.24E-07	3.47805
Within Groups	2.095067	10	0.209507			
Total	63.71596	14				

Source: Annual Reports of the respective banks

From Table 2, Kalupur Commercial Cooperative

Bank has the least standard deviation (0.11) and is considered less volatile in terms of capitalization with respect to its assets. The same bank has the least coefficient of variation (0.65) and therefore is considered consistent. The bank with the highest risk factor is TJSB Sahakari Bank with its standard deviation at 0.73. The same bank is considered least consistent due to its high coefficient of variation (5.06).

As per the ANOVA table, the f-value is greater than f-critical value. Therefore, null hypothesis is

rejected and alternate hypothesis is accepted. There is significant difference on the basis of their capital adequacy among these banks.

Profit-Capital Ratio

This denotes the profits earned with respect to share capital of the bank.

$$\text{Profit-Capital Ratio} = \text{Net Profit} / \text{Share Capital} * 100$$

Table 3. Profit-Capital Ratio

Particulars	Kalupur	Bharat	NKGSB	Mahesh	Thane
2018-19	134.05	31.95	41.01	1.29	119.37
2017-18	125.2	35.98	49.72	0.98	103.26
2016-17	98.25	43.16	49.27	0.01	83.54
Average	119.17	37.03	46.67	0.76	102.06
Standard Deviation	18.65	5.68	4.90	0.67	17.95
Coefficient of Variation	15.65	15.33	10.51	87.86	17.58

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	28433.34	4	7108.336	48.92301	1.56E-06	3.47805
Within Groups	1452.964	10	145.2964			
Total	29886.31	14				

From Table 3, the bank with the least standard deviation (0.67), considered less risky, with respect to profit-to-capital ratio is AP Mahesh Cooperative Urban Bank. The bank with the least coefficient of variation (10.51) is NKGSB Cooperative Bank. On the other hand, the bank with higher risk due to its increased standard deviation (18.65) is Kalupur Commercial Cooperative Bank, while the bank considered highly inconsistent is AP Mahesh Cooperative Urban Bank due to its high coefficient of variation (87.86).

As per the ANOVA table, the f-value is greater than f-critical value. The null hypothesis is rejected and

alternate hypothesis is accepted. There is no significant difference among these banks in respect of profitability based on capital.

Profit to Funds Deployed Ratio

Funds deployed refer to the pattern of how the deposits received have been used. It is the sum of loans issued and investments made. This ratio is used to compute the actual returns that a bank earns based on their funds used.

$$\text{Funds Deployed} = \text{Loans} + \text{Investments}$$

$$\text{Profit to Funds Deployed Ratio} = \text{Profit Earned} / \text{Funds Deployed} * 100$$

Table 4. Profit to Funds Deployed Ratio.

Particulars	Kalupur	Bharat	NKGSB	Mahesh	Thane
2018-19	1.55	0.86	0.55	1.83	1.55
2017-18	1.49	0.88	0.71	1.43	1.43
2016-17	1.21	1.03	0.69	0.01	1.28
Average	1.42	0.92	0.65	1.09	1.42
Standard Deviation	0.18	0.093	0.087	0.96	0.14
Coefficient of Variation	12.81	10.06	13.41	87.75	9.53

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1.309467	4	0.327367	1.666384	0.233343	3.47805
Within Groups	1.964533	10	0.196453			
Total	3.274	14				

From Table 4, the bank that offers the best returns on the funds deployed is NKGSB Cooperative Bank with its least coefficient of correlation (0.087) while TJSB Sahakari Bank is considered very consistent due to its least coefficient of variation (9.53). AP Mahesh Cooperative Urban Bank has the highest, both in terms of standard deviation (0.96) and coefficient of variation (87.75). Therefore, this bank is has a high

risk factor in terms of profit to funds deployed, as well-as highly inconsistent.

As per the ANOVA table, the f-value is less than f-critical value. Further, the p-value (0.23) is less than the alpha value (0.05). The null hypothesis is accepted and alternate hypothesis is rejected. There is no significant difference among these banks in respect of profitability based on the funds deployed.

VII. FINDINGS AND SUGGESTIONS

Table 5: Descriptive Statistics.

Parameter	Rate of Return		Consistency	
	Highest	Least	Consistent	Inconsistent
CD Ratio	TJSB Sahakari Bank	Kalapur Commercial Cooperative Bank	TJSB Sahakari Bank	AP Mahesh Cooperative Urban Bank
CRAR	Kalapur Commercial Cooperative Bank	TJSB Sahakari Bank	Kalapur Commercial Cooperative Bank	TJSB Sahakari Bank
Profit-Capital Ratio	AP Mahesh Cooperative Urban Bank	Kalapur Commercial Cooperative Bank	NKGSB Cooperative Bank	AP Mahesh Cooperative Urban Bank
Profit-Funds Deployed Ratio	NKGSB Cooperative Bank	Kalapur Commercial Cooperative Bank	TJSB Sahakari Bank	AP Mahesh Cooperative Urban Bank

inconsistent, nor is it risky.

- Almost, all the banks have performed as far as netting best rate of returns. However, Kalapur Commercial Cooperative Bank is considered volatile.
- TJSB Sahakari Bank is considered fairly consistent. AP Mahesh Cooperative Urban Bank has been inconsistent.
- NKGSB Cooperative Bank has not been

- Overall, TJSB Sahakari Bank has been a mixed bag.

VIII. FINDINGS AND SUGGESTIONS

The following are the findings

- Almost, all the banks have performed as far as netting best rate of returns. However, Kalapur Commercial Cooperative Bank is considered volatile.

- TJSB Sahakari Bank is considered fairly consistent. AP Mahesh Cooperative Urban Bank has been inconsistent.
- NKGSB Cooperative Bank has not been inconsistent, nor is it risky.
- Overall, TJSB Sahakari Bank has been a mixed bag

Table 6. Hypothesis.

Hypothesis	Acceptance Decision
H_0^1	Alternate
H_0^2	Alternate
H_0^3	Alternate
H_0^4	Null

The following are the suggestions:

- AP Mahesh Cooperative Urban Bank should focus on improving its overall performance.
- Kalupur Commercial Cooperative Bank should execute innovative strategies to reduce the risk factor.
- TJSB Sahakari Bank should identify parameters that have made it a mixed bag, and improve on such parameters.
- Bharat Co-operative Bank (Mumbai) and NKGSB Cooperative Bank have followed the middle path. These banks continue functioning on existing lines.

IX. CONCLUSION

Multi-State Cooperative Banks have been performing reasonably well. These banks have been scoring well in almost all the selected parameters. Certain parameters require banks' immediate attention. Successfully addressing such issues by banks could boost market reachability. With high in customer confidence, it is only a question of time before these banks become regular commercial banks

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