

Financial Performance of Bharat Co-Operative Bank – An Appraisal

Aarathi K. U., Aarya T. M., Shabu K. R.

Abstract: Today, the lending sector is considered as the fastest rising sectors, also plenty of funds is been devoted in banks. Thus it involves so much of complexity and proper evaluation of its performance is needed. There are various models available for assessing the routine act of the bank. In this study we uses CAMEL model as an instrument to estimate the budgetary presentation of Bharat Cooperative bank. This model comprises of Capital Adequacy, Management Efficiency, Asset quality, Liquidity and Earnings. Bharat Cooperative bank has been selected for the time period of 2014-18 for studying and evaluating its financial performance. The study was conducted in accordance of the data collected from the yearly report of the respective in situation. Aiming the performance evaluation of the bank we have used 19 ratios related to CAMEL model. From the overall evaluation it was found that the state of capital adequacy was satisfactory. While considering Asset quality it was not up to the level, that is, it is not in a good state. The state of Management efficiency was also not up to the standard. The general earning capacity and the liquidity position were found favorable and satisfiable for the bank.

Keywords: Bharat Cooperative bank, CAMEL Model, Financial performance

I. INTRODUCTION

Cooperative bank is considered as a financial entity which fits to its members who are the owner's customers of the bank. The main aims of these banks are to serve its members and they have completed 100 years of existence over India. Cooperative banks started in India in the year 1904, called the cooperative credit society act. This act led to the formation of both urban area and rural area. This action was introduced by Sir Frederick Nicholson (1899) and Sir Edward Law (1901). Later 1912, non-credit civilizations and central cooperative organization were formed. In self-governing India with the single set of plans, the cooperative organizations extend more added leverage and part with the continuous government provision. In 1928, the royal commission computed the importance of education for members/staffs on agriculture for the effective implementation of the cooperative movement. Through cooperative movements and banking structure the unknown need of rural India and small scale dealings were resonated. Meanwhile in 1905's the banks provided assistance and support in events like production, finance, credit, supply/selling, processing, etc. to households. There were about 370 central cooperative banks in India in 2013-14.

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The top ten states which are having central cooperative banks are: Uttar Pradesh, Maharashtra, Tamil Nadu, Madhya Pradesh, Rajasthan, Karnataka, Punjab, Bihar, Andhra Pradesh and Haryana in 2013-14. That bank which is comprised in the 2nd schedule of RBI act 1934 is recognized as scheduled bank in India. Those which are not under the schedule are referred as non-scheduled banks. Scheduled cooperative banks are comprised of scheduled urban cooperative and scheduled state cooperative banks.

In 1978 the bank was sponsored by a number of young passionate and likeminded social personnel linked with the Billawar association, Mumbai, which is considered as a leading charitable institution. The main aim of this bank is to uphold social righteousness and well-being and to bring the finance services to mass number of people especially the middle class and lower income group to improve their living standard. At first the bank finds it very difficult to collect the share amount, that is, Rupees 10 for one share. But nowadays the bank has innumerable confidence and loyalty from their members, well-wishers, depositors, and public in general. So the common man is confident enough and has no reluctance to invest their earned income in Bharat Bank for better return. The bank is well known for their services, clean image and young team of personnel's and takes them to the best banks in the metropolis with a consumer base of more than 5.5 Lakhs. On 22nd April 1996 the bank was conferred schedule status by RBI and subsequently the bank was registered as multistate scheduled cooperative bank on 26th September 1997. The banks have made an appreciable progress for the last decades of its banking operation like opening of branches, mobilization of deposits, deployment resources and the profitability. Attractive dividend also benefited the shareholders

II. LITERATURE REVIEW

Prof .Krupa R Trivedi in her paper on "A Camel Model Analysis of Scheduled Urban co-operative bank in Surat City – A case study of Surat People's Co-operative Bank "as found that Indian economy banking sector is considered to be the most important one and also it should be supervised very carefully .From the study she concluded that the capital adequacy of SPBC was good and also the overall asset quality of the bank was satisfactory. The bank was having a better earning capacity, but liquidity position was not adequate. Dr ChobeSanketNaryanrao in his paper on "Critical Analysis of Saraswat Co-operative Bank Limited (Scheduled Bank) by CAMEL model" as management of the bank was able to maintain capital to risk weighted asset ratio and credit deposit ratio as per norms prescribed by RBI.

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The net interest margin ratio of the treasury was not satisfactory, but the whole financial performance of the bank was acceptable.

Dr Sriharsha Reddy in his paper “Relative performance of commercial banks in India using CAMEL approach “as banks are having important role in capital formulation ,banks should be observed more carefully. The various reforms which made through slackening interest rates, streamlining direct credit and investment and as well growing competition resulted in improvement in public sector banks.

PrincipaBothra ,AswinPurohit in their paper on “A CAMEL Model Analysis of Selected Public and Private Banks in India “as the financial soundness of bank is the assurance to its depositors, employees, shareholders and the whole economy. The samples selected for the study was State Bank of India from public sector and ICICI Bank from private sector. The study was conducted for the period of 2012-13 to 2016-17.It was concluded that while considering capital adequacy ratio SBI was having a better position than ICICI. The reason was the reduced act of ICICI bank in advance to assets, debt-equity and government securities to total investment ratios. As a whole it was concluded that SBI should improve its liquidity and management quality positions and as well as ICICI Bank need to improve capital adequacy and asset quality positions.

Dr B Reghunatha Reddy in his paper on “Financial Performance Analysis of selected public sector Banks Using CAMEL Model “as paper was aiming to evaluate the financial performance of SBI and Punjab National Bank for a period of three years. CAMEL Model was used for the analysis. Aspect of financial performance was more concentrated in the study. Statistical tools such as standard deviation, correlation, averages, coefficient of variation were also used for the study. By taking the capital adequacy of SBI and Punjab National Bank, SBI was having more satisfying ratio than Punjab National Bank. The overall asset quality and management efficiency was also good.

MaliheRostami in her paper “CAMEL Analysis on Banking industry” as some important ratios was selected to evaluate and study the financial performance of the bank. After this the acquired data being compared with the reports and ratios of other bank. From the calculation relevant points were available to the managers and CAMEL Model is very effective, accurate and as well as efficient tool used for evaluating the performance of the banks.

CA .Ruchi Gupta in her paper “An Analysis of Public Sector Banks using CAMEL Approach “as central banks all over the world has improved their supervision technique and quality. The study has been conducted using CAMEL model. Different banks have been ranked by considering the rating of 5 different parameters and in all together he concluded that the performance of public sector banks are different and also the least ranked bank should improve their standard of performance.

Bhavar Singh and Pawan in the paper “An Analysis of Indian Private Sector Banks Using CAMEL Approach “as he picturices the overall performance of bank by considering parameters such as capital adequacy, Asset quality, Management efficiency, Earning efficiency and Liquidity. They says that the evaluation process was interesting and as

well as challenging. Among the banks the HDFC bank was performing excellently and also AXIS and Indus land banks were performing well upon CAMEL components.

Md.ZahidurRahman and Md.Shohidul Islam in their paper “Use of CAMEL Rating Framework: A Comparative performance evaluation of selected Bangladeshi Private Commercial Banks “as that the weakness and strengths of the bank can be identified using CAMEL model approach and the study was done upon 17 selected private sector banks. City bank is having highest CAR and NPL and Jamuna bank have tried to maintain a comfortable liquidity position. He says that using the finding from the study banks can improve their overall performance.

Mr.MelakuAlemu and Mr.MelakuAweke in their paper “Financial Performance Analysis of Private Commercial Banks of Ethiopia: CAMEL Ratings “as he conducted the study to evaluate the performance of private commercial banks of Ethiopia. Evaluation was made by considering the 10 year financial reports. From the study he concluded that the key ratios which lead to the profitability of the commercial bank in Ethiopia are asset quality ratios, Management efficiency, earning ability and as well as liquidity ratio. Banks like AIB and BOA have to work more hard for achieving the CAMEL requirements and also to secure their financial health.

III. OBJECTIVES

- To study the profitability of Bharat cooperative bank.
- To study the liquidity of Bharat cooperative bank.
- To study the solvency position of Bharat cooperative bank.
- To study the efficiency of Bharat cooperative bank.

IV. METHODOLOGY

- The research primarily depends on the secondary data – the data’s are being assorted from the banks official website. The sources of data collection are annual reports, financial statement, cash flow statement etc.
- The statistical and accounting tools which are used for financial analysis are CAMEL model,
- All the methods proposed in this research are to evaluate the financial performance of Bharat Cooperative Bank, Mumbai

V. ANALYSIS & INTERPRETATION

A. CAPITAL ADEQUACY

A1. Capital Adequacy Ratio

| Year | Ratio |
|------|----------|
| 2014 | 0.001258 |
| 2015 | 0.001268 |
| 2016 | 0.001318 |
| 2017 | 0.001305 |
| 2018 | 0.0013 |

Car=Total Capital/Risk Weighted Assets

Interpretation: The bank is in a comfortable position to absorb losses since here the ratios are showing an increase trend from 2014 to 2016 but there is a slight decrease from 2017-2018

A2. Debt Equity Ratio

| Year | Ratio |
|------|------------|
| 2014 | 10.2017321 |
| 2015 | 9.75481503 |
| 2016 | 9.27744974 |
| 2017 | 8.75402078 |
| 2018 | 9.82821908 |

Debt Equity Ratio =Debt/Equity

Interpretation: It is a ratio that displays percentage of debt towards equity. It directs the proportion of company's funds by outsiders and owners. High ratio of debt equity shows a greater use of debt in financing the company. At this point the ratio shows a decreasing trend from 2014-17 which means lower use of debt and there is a slight increase in 2018 indicating higher debt financing than equity.

A3. Advance to Asset Ratio

| Year | Ratio |
|------|------------|
| 2014 | 0.60687817 |
| 2015 | 0.58792357 |
| 2016 | 0.57051107 |
| 2017 | 0.5534811 |
| 2018 | 0.61107056 |

Advance to Asset= Total Advance/ Total Asset

Interpretation: This indicates a bank's interest on advancing that eventually results in better profitability. Here the bank is showing a mixed trend, also in 2018 it shows its ultimate and hence there is an increase in its profitability

A4. Government Security To Total Investment

| Year | Ratio |
|------|------------|
| 2014 | 0.9999999 |
| 2015 | 0.99999991 |
| 2016 | 0.99991291 |
| 2017 | 0.99990754 |
| 2018 | 0.99991395 |

Government Security Ratio=Government Security/Total Investment.

Interpretation: Government security ratio designates the amount of nontoxic investment in the overall investment of the banks and as well measures the risk involved in it. The ratio here shows that the bank is maintaining a stable position and thus the risk involved in banks investment is less.

B. ASSET QUALITY

B1.Net NPAs To Total Assets:

| Year | Ratio |
|------|-------------|
| 2014 | 0 |
| 2015 | 0.351062284 |
| 2016 | 0.744128478 |
| 2017 | 2.047177892 |
| 2018 | 1.774908761 |

Net NPA To Total Asset=Net NPA/Total Assets

Interpretation: Non-Performing Assets are those assets in which interests are in arrears for a period of more than three months. It can be noticed here that the net NPA resulted from 2014 to 2018, an increasing effect. Therefore the position of the bank is very poor.

B2.Net NPA to Net Advances:

| Year | Ratio |
|------|-------------|
| 2014 | 0 |
| 2015 | 0.597122312 |
| 2016 | 1.30431909 |
| 2017 | 3.698731364 |
| 2018 | 2.904588878 |

Net NPA to Net Advances or Net NPA/ Total Loan

Interpretation: This ratio process the complete quality of the banks loans. True financial liability is shown through this ratio. Here the ratios are increasing and as a result it reflects the bad quality of loan.

B3. Total Investment to Total Asset

| Year | Ratio |
|------|-------------|
| 2014 | 0.262139131 |
| 2015 | 0.260404224 |
| 2016 | 0.271550328 |
| 2017 | 0.222423401 |
| 2018 | 0.228581395 |

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Total Investment To Total Assets= $\frac{\text{Total Investment}}{\text{Total Assets}}$

Interpretation: Ratio measures the total resources of the bank which is confined to investment and which are not included in the principal income of the bank, besides providing loans to the customers. The ratio here shows a mixed trend and so the bank is in a profitable position.

B4. Gross NPA to Total Advances

| Year | Ratio |
|------|-------------|
| 2014 | 0.314045265 |
| 2015 | 1.893288461 |
| 2016 | 2.597704549 |
| 2017 | 5.363167237 |
| 2018 | 4.934352411 |

Gross NPA To Total Advances= $\frac{\text{Gross NPA}}{\text{Total Loan}}$

Interpretation: The ratio indicates an increasing trend during the period of study. Ratio at beginning is 0.31 and it increased to 4.93 at the end of the period. This will adversely affect the sustenance of the bank.

B5. Advance Yield Ratio

| Year | Ratio |
|------|-------------|
| 2014 | 0.123004622 |
| 2015 | 0.124847589 |
| 2016 | 0.126296799 |
| 2017 | 0.11607404 |
| 2018 | 0.104717304 |

Advances Yield Ratio= $\frac{\text{Interest Income On Advances}}{\text{Total Advances}}$

Interpretation: The ratio mainly shows the average advancing proportion of the range. High yield in advances is a sign that the firm is obsessed by finance riskier assets and may realize asset quality issues. It also specifies whether the pricing on advances is linked with fundamental threats. Ratios are showing a mixed trend here and during the years 2014, 2015, 2016 it shows a high ratio and also the risk is higher in those years.

C. MANAGEMENT EFFICIENCY

C1. Total Advance to Total Deposit.

| Year | Ratio |
|------|-------------|
| 2014 | 0.701616495 |
| 2015 | 0.677123562 |
| 2016 | 0.6617534 |
| 2017 | 0.648177743 |
| 2018 | 0.719903498 |

Total Advance To Total Deposit = $\frac{\text{Total Advances}}{\text{Total Deposits}}$

Interpretation: This part assesses banks liquidity by comparing its entire advances to its overall deposits. In here, ratios are showing an increasing trend and consequently we can conclude, the bank doesn't have enough fund to cover its unexpected requirements for funds.

C2. Profit Per Employee

| Year | Ratio |
|------|-------|
| 2014 | 10.8 |
| 2015 | 10.26 |
| 2016 | 9.33 |
| 2017 | 8.64 |
| 2018 | 6.64 |

Interpretation: The ratio here actions the revenue made by every single worker. We can see a decreasing trend in ratios here and also revenue generation is its maximum in 2014.

C3. Business Per Employee

| Year | Ratio |
|------|---------|
| 2014 | 1129.25 |
| 2015 | 1184.96 |
| 2016 | 1203.44 |
| 2017 | 1242.12 |
| 2018 | 1320.41 |

Interpretation: This ratio measures, by what means a company resourcefully utilizes their employee. An increasing trend in ratios can be seen here and which is favorable to the bank.

D. EARNING QUALITY

D1. Spread to Total Asset

| Year | Ratio |
|------|-------------|
| 2014 | 7121127118 |
| 2015 | 8632460882 |
| 2016 | 10042850464 |
| 2017 | 10727745711 |
| 2018 | 10813390123 |

Spread To Total Asset= $\frac{\text{Interest Income} - \text{Interest Expended}}{\text{Total Assets}}$

Interpretation: It expresses the variance between interest income and interest expended as a percentage to total assets. It plays an important role in measuring banks core income. The ratios are increasing here. Accordingly it indicates that the bank is having better earnings.

D2. Percentage Growth In Net Profit

| Year | Ratio |
|------|--------------|
| 2014 | 266133649.7 |
| 2015 | -103707918.2 |
| 2016 | -35584151.12 |
| 2017 | -53538920.41 |
| 2018 | 37850360.68 |

Percentage Growth In Net Profit=Current Year Net Profit/Previous Year Net Profit

Interpretation: The ratio shows a mixed trend in this method and hence it is not favorable to the bank.

D3. Dividend Payout Ratio

| Year | Ratio |
|------|-------------|
| 2014 | 9.480744956 |
| 2015 | 12.60049234 |
| 2016 | 15.86453122 |
| 2017 | 20.20830524 |
| 2018 | 35.4799523 |

Dividend Payout Ratio=Dividend/Net Profit

Interpretation: Dividend pay-out ratio is a ratio where the total amount of dividend funded to the bondholders in respect of the net profit of the company. Ratio with an increasing trend can be seen here and for this reason it is favorable, from the shareholders point of view.

D4. Interest income to Total income

| Year | Ratio |
|------|-------------|
| 2014 | 6.749638053 |
| 2015 | 7.662262681 |
| 2016 | 8.548333077 |
| 2017 | 9.008642213 |
| 2018 | 7.783129549 |

Interest Income To Total Income=Interest Income /Total Income

Interpretation: This specifies the ability of the bank in generating interest income from its loans. It is considered as a basic foundation of income for financial institutions. Mainly banks like to have high proportion of ratio as it implies the consistency in income .But here, ratio shows a mixed trend and that's why it doesn't have a regular income.

E. LIQUIDITY

E1.Liquid Asset to Total Asset

| Year | Ratio |
|------|-------------|
| 2014 | 0.437045133 |
| 2015 | 0.712881975 |
| 2016 | 0.496238495 |
| 2017 | 0.781948687 |
| 2018 | 0.47462023 |

Liquid Asset To Total Asset=Liquid Asset/Total Asset

Interpretation: This kind of ratio shows the quantity of liquid asset towards the total assets and also indicates the general liquidity situation or position of bank. The ratio in this method come up with mixed trend and from now bank is capable of maintaining sufficient amount of liquidity to overcome its financial obligations.

E2. Liquid Asset to Total Deposit

| Year | Ratio |
|------|-------------|
| 2014 | 0.505271223 |
| 2015 | 0.821040698 |
| 2016 | 0.575602349 |
| 2017 | 0.9157345 |
| 2018 | 0.559151078 |

Liquid Asset To Total Deposit=Liquid Asset /Total Deposit

Interpretation: It specifies liquidity existing in total deposit. At this moment the bank shows a mixed trend in their ratio and so is capable of maintaining adequate level of liquidity to come across its financial commitments.

E3. Government Security to Total Asset.

| Year | Ratio |
|------|-------------|
| 2014 | 0.262139105 |
| 2015 | 0.260404201 |
| 2016 | 0.271526678 |
| 2017 | 0.222402835 |
| 2018 | 0.228561726 |

Government Securities To Total Assets =Government Security/Total Assets

Interpretation: Securities of the government can easily be converted into cash and are harmless investment. It measures, amount of risk-free liquid asset invested in government securities. Also the ratio shows a mixed trend in this means. Therefore the risk involved to the bank is low.

VI. RESULT ANALYSIS

- The bank is maintaining the required Capital Adequacy Ratio throughout the study period.
- The bank depends mostly on debt funds for its business which is a risky affair as far as a bank is concerned. But the bank is trying to reduce the debt component during the period of study.
- The bank failed to reduce the NPA which shows an increasing trend but succeeded in reducing the NPA level during the last year of the period of study.
- Investments account for approximately 25% of the entire assets and 99% of investments are in government securities. This increases the stability of the bank thereby increasing income from non-banking sources and ultimately increases profitability.
- Interest income is considered as the main source of income and it is showing a decreasing trend even though the amounts of advances are showing an increasing trend.
- The bank is not able to advance more than 70% of its deposits and this affects profitability of the bank.
- Profit per employee is reducing drastically over the period under study whereas business per employee is showing an ascending trend.
- There shows no rise in profitability for bank. But the bank could achieve increase in profitability in the course of the last year of study.
- The bank could satisfy the investors by giving increased dividend pay-out throughout the period of study.
- The bank has a very low share of income other than interest income.
- The bank has to maintain adequate level of liquidity.

VII. SUGGESTION

- The major reason for failures in cooperative sector is the increased NPA and poor recovery mechanism. The study points out that the NPA level is increasing every year and this shows that the bank has to strengthen its recovery procedure. It is advantageous that the bank could reduce its NPA during the last year of study when compared to the previous year.
- The bank's major share of total income is interest income which is showing a downward trend. In order to increase profitability, the bank should concentrate on increasing income other than interest income.
- A major portion of deposits of the bank remains idle and special campaigning should be introduced to attract more loan customers.
- The above factors contributed to decrease in profitability for bank in the era of study. Bank should take appropriate cost control measures and to increase noninterest income with a view to increase profit every year.
- The liquidity position is not safe during the period of study. A proper balance between assets and liabilities should be maintained to avoid failure of the bank. This will enable to meet its obligations in time which increases the reputation of bank amongst customers.

VIII. CONCLUSION

The study makes an effort to inspect and evaluate the financial performance of Bharat Cooperative Bank, Mumbai. The scrutiny is done based on CAMEL Model for a period from 2014-18. From the analysis we can conclude that the overall state of Capital Adequacy was satisfactory but the Asset quality ratio was not so satisfiable. And the management efficiency was also found non satisfactory. Also the earning capacity is in adequate level and the liquidity position is in favorable and satisfiable condition.

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