"The study of financial analysis of Co-operative Banks"

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Abstract :

Financial statements for banks present a different analytical problem than manufacturing and service companies. As a result, analysis of a bank's financial statements requires a distinct approach that recognizes a bank's somewhat unique risks. Banks take deposits from savers, paying interest on some of these accounts. They pass these funds on to borrowers, receiving interest on the loans. Their profits are derived from the spread between the rate they pay for funds and the rate they receive from borrowers. This ability to pool deposits from many sources that can be lent to many different borrowers creates the flow of funds inherent in the banking system. By managing this flow of funds, banks generate profits, acting as the intermediary of interest paid and interest received and taking on the risks of offering credit.

Keyword : Financial Analysis

Introduction

A careful review of a bank's financial statements can highlight the key factors that should be considered before making a trading or investing decision. Investors need to have a good understanding of the business cycle and the yield curve - both have a major impact on the economic performance of banks. Interest rate risk and credit risk are the primary factors to consider as a bank's financial performance follows the yield curve. When it flattens or becomes inverted a bank's net interest revenue is put under greater pressure. When the yield curve returns to a more traditional shape, a bank's net interest revenue usually improves. Credit risk can be the largest contributor to the negative performance of a bank, even causing it to lose money. In addition, management of credit risk is a subjective' process that can be manipulated in the short term. Investors in banks need to be aware of these factors before they commit their capital

The term Co-operative Banks (UCBs), though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centred around communities, localities work place groups. They essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably.

The origins of the cooperative banking movement in India can be traced to the close of nineteenth century when, inspired by the success of the experiments related to the cooperative movement in Britain and the cooperative credit movement in Germany such societies were set up in India. Cooperative societies are based on the principles of cooperation, - mutual help, democratic decision making and open membership. Cooperatives represented a new and alternative approach to organisaton as against proprietary firms, partnership firms and joint stock companies which represent the dominant form of commercial organisation.

Over the years, primary cooperative banks have registered a significant growth in number, size and volume of business handled. As on 31st March, 2003 there were 2,104 UCBs of which 56 were scheduled banks. About 79 percent of these are located in five states, - Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu. Recently the problems faced by a few large UCBs have highlighted some of the difficulties these banks face and policy endeavours are geared to consolidating and strengthening this sector and improving governance.

Financial Analysis Measures :

1. A financial ratio (or accounting ratio) is a relative magnitude of two selected numerical values taken from an enterprise's financial statements. Often used in accounting, there are many standard ratios used to try to evaluate the overall financial condition of a corporation or other organization. Financial ratios may be used by managers within a firm, by current and potential shareholders (owners) of a firm, and by a firm's creditors. Security analysts use financial ratios to compare the strengths and weaknesses in various companies.- If shares in a company are traded in a financial market, the market price of the shares is used in certain financial ratios.

2.Multiples Ratio : Ratios can be expressed as a decimal value, such as 0.10, or given as an equivalent percent value, such as 10%. Some ratios are usually quoted as percentages, especially ratios that are usually or always less than 1, such as earnings yield, while others are usually quoted as decimal numbers, especially ratios that are usually more than 1, such as P/E ratio; these latter are also called **multiples.** Given any ratio, one can take its reciprocal; if the ratio was above 1, the reciprocal will be below 1, and conversely. The reciprocal expresses the same information, but may be more understandable: for instance, the earnings yield can be compared with bond yields, while the P/E ratio cannot be: for example, a P/E ratio of 20 corresponds to an earnings yield of 5%.

Financial ratios quantify many aspects of a business and are an integral part of the financial statement analysis. Financial ratios are categorized according to the financial aspect of the business which the ratio measures.

3. Liquidity ratios measure the availability of cash to pay debt.

4. Activity ratios measure how quickly a firm converts non-cash assets to cash assets.

5. Debt ratios measure the firm's ability to repay long-term debt.

6. Profitability ratios measure the firm's use of its assets and control of its expenses to generate an acceptable rate of return.

7. Market ratios measure investor response to owning a company's stock and also the cost of issuing stock. These are concerned with the return on investment for shareholders, and with the relationship between return and the value of an investment in company's shares.

The cooperative banking sector comprises a number of institutions which vary in terms of their size, nature of business and geographic spread while concentrating on credit delivery in areas. As an outcome of the on-going consolidation of the sector, there was a decline in the number of UCBs at end-March 2010 to 1,674 from 1,721 in the previous year.' The progress made so far in the consolidation of the UCB sector is provided.

8. Profile of CBs

On account of the consolidation process going on in the CB sector, percentage of banks in grades III and IV witnessed a declining trend during recent years. Further, the absolute amount of deposits as well as advances with CBs in grades III and IV also witnessed a decline as at end-March 2010 as compared with the previous year. Accordingly, the percentage of banks in grades I and II as also their share in total deposits and advances of the sector exhibited a rising trend during the recent years. This implies a shift in the concentration of banking business in favour of financially sound CBs. The value of normalised Herfindahl-Hirschman Index for the CB sector increased to 0.38 as at end-March 2010 from 0.30 in the previous year, indicating an increase in the concentration of banking business with grade I banks in the sector.

Balance sheets of CBs expanded at a higher rate at end-March 2010 over the previous year, which con be attributed to deposits on the liability side, and investments and disbursement of loans and advances on the asset side. While the growth of capital accelerated at end-March 2010, reserves also grew at a high rate of around 20 per cent, though at a decelerated pace during the same period. Deposits were the major liability of the CB sector, implying that the sector is heavily dependent on deposits for resources. On the assets side, while loans and advances constituted almost half of total assets, investments grew at the highest rate constituting a little more than one third of the total assets

In response to measures undertaken in the sector, the financial performance of CBs witnessed considerable improvement over the last one decade. The scheduled CB sector started reporting overall net profits since 2003-04 as compared with net losses prior to it. Accordingly, the return on assets (RoA) of the scheduled CB sector witnessed a rising trend during the last one decade. However, owing to the spillover effects of the global financial turmoil, net profits declined during 2008-09 and 2009-10. Consequently, the sector reported lower RoA during the last two years as compared with 2007-08. The decline in RoA was mainly due to a

decline in net interst margin (NIM) and non interest margin (Non-IM) during the last two years.

An analysis of return on assets (RoA) of the scheduled CB sector for the last one decade is provided.

Relevance of the study :-

The study is relevant to all the co-operative banks situated in pune region. The study will help to co-operative banks to know the withstanding of the banks in this modern world.

To analyze the financial positiobn of Co-operative Banks in the Pune region.

Objectives of the study :-

- "To analyze the financial position of banks.
- To analyze the financial growth of banks.
- To compare the financial structure of Co-operative banks.
- To provide suggestions for enhancement of the financial position of co-operative banks.

Every organisation whether small or big has certain financial positionin the market to withstand the present scenario. The biggest lending organisation banks do have certain position in the financial market. To study such banks financial posion growth & comparing with similar organisations.

Hypotheses.:-

H1 - The Co-operative Banks are financially developing with the passage of time.

H2 - The Co-operative Banks are doing well.

Working definitions of terms used :-

- Financial Analysis refers to the assessment of a business to deal with the planning, budgeting, monitoring, forecasting, and improving of all financial details within an organization.
- A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers arid are then compared to previous years,

other companies, the industry, or even the economy to judge the performance of the company. Ratio analysis is predominately used by proponents of fundamental analysis.

- In financial economics, a **financial institution** is an institution that provides financial services for its clients or members. Probably the most important financial service provided by financial institutions is acting as financial intermediaries. Most financial institutions are highly regulated by government.

- **The Reserve Bank of India** is the central banking institution of India and controls the monetary policy of the rupee as well as US$300.21 billion (2010) of currency reserves. The institution was established on 1 April 1935 during the British Raj in accordance with the provisions of the Reserve Bank of India Act, 1934 and plays an important part in the development strategy of the government. It is a member bank of the Asian Clearing Union:

- The cooperative banking sector comprises a number of institutions which vary in terms of their size, nature of business and geographic spread while concentrating on credit delivery in areas.

Research Methodology:-

The respondents to be contacted are the bank officials & directors of co-operative

banks.

RBI officials may be contacted to know the financial disclosure of co-operative banks.

All the Co-operative banks situated in Pune region (50 approx.). Sample size selected will be 12 banks.

For the purpose of study 12 banks which comprises of 24% of population.

- Primary Data:-

  Informal discussions.

  Interview.

  Questionnaires.

- Secondary Data :- Information will be collected by visiting various institutes, library, organizations providing latest updates & annual reports of the selected co-operative banks.

To collect information banks will be visited personally & information will be collected by personnel (managers).

To collect information by the women entrepreneurs they will be interviewed & questionnaire will be framed to get detailed information.

The technique for analyzing data will be ratio analysis, comparative analysis & trend analysis.

1. Coefficient of correlation.

2. Innova.

3. Chi-square test.

Review of literature:-

The review of literature helped the researcher to analyze various topics of research & thereby improve knowledge.

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