A STUDY ON WORKING CAPITAL MANAGEMENT OF TDCC BANK

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ABSTACT

The economic development emerging out of globalization, liberalization and privatization has resulted in the creation of very competitive environment. Due to this prevailing environment of competition, the role of public sector is declining and private sector is rising very strong. Hence, cooperative banks have no option but to compete with these highly professionalized institutions in providing rural credit to the farmers. The cooperative movement in India is the largest in the world and the cooperatives have been playing a distinct and significant role in the country's socio-economic development. For the purpose of socio - economic development of the rural area the successful functioning of cooperative banks is must. The most important function required for the purpose of the success of cooperative banks is working capital management. Working capital management is one of the most important functions of cooperative bank management. Working capital can be utilized for the payment of lease, employee's payroll, and pretty much any other operating costs that are involved in the everyday life of business. The overall success of the cooperative banks depends upon its working capital position. So, it should be handled properly because it shows the efficiency and financial strength of cooperative banks. TDCC Bank has done wonders for the four districts economy such as Tiruchirapalli, Karur, Ariyalur and Perambalur. Although the main aim of the TDCC Bank is to provide cheaper credit to their members and not to maximize profits, they may access the money market to improve their income so as to remain viable. So, the performance of TDCC bank should have to be analyzed and evaluated. The study is an attempt to analyze the efficiency of working capital management of TDCC Bank during 2000-2001 to 2009-2010. Only secondary data have been collected for the study. Ratios are used to test the Liquidity position, solvency position and the percentage of returns on its working capital employed. Correlation analysis is used to find out the relationship between the profit and working capital position of the bank. Only 10 banks out of 23 DCCBs in Tamilnadu made profits. Their aggregate profit stood at Rs. 54.56 crore. Out of ten banks the best performed bank is TDCC Bank. If the bank upgrade technology and connect all the branches with head office, there is no doubt that it may render remarkable services to its customers both in rural and urban.

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INTRODUCTION

The economic development emerging out of globalization, liberalization and privatization has resulted in the creation of very competitive environment. Due to this prevailing environment of competition, the role of public sector is declining and private sector is rising very strong. Hence, cooperative banks have no option but to compete with these highly professionalized institutions in providing rural credit to the farmers. The cooperative movement in India is the largest in the world and the cooperatives have been playing a distinct and significant role in the country's socio-economic development. For the purpose of socio - economic development of the rural area the successful functioning of cooperative banks is must. The most important function required for the purpose of the success of cooperative banks is working capital management. Working capital management is one of the most important functions of cooperative bank management. Working capital can be utilized for the payment of lease, employee's payroll, and pretty much any other operating costs that are involved in the everyday life of business. The overall success of the cooperative banks depends upon its working capital position. So, it should be handled properly because it shows the efficiency and financial strength of cooperative banks. TDCC Bank has done wonders for the four districts economy such as Tiruchirapalli, Karur, Ariyalur and Perambalur. Although the main aim of the TDCC Bank is to provide cheaper credit to their members and not to maximize profits, they may access the money market to improve their income so as to remain viable. So, the performance of TDCC bank should have to be analyzed and evaluated. The study is an attempt to analyze the efficiency of working capital management of TDCC Bank during 2000-2001 to 2009-2010.

Importance of the study

The success of any organization lies in the efficient use of its resources. Working capital management is highly important in cooperative bank as it is used to generate further returns for the stakeholders. When working capital is managed improperly, allocating more than enough of it will render management non-efficient and reduce the benefits of short term investments. On the other hand, if working capital is too low, the cooperative bank may miss a lot of profitable investment opportunities or suffer short term liquidity crisis, leading to degradation of company credit, as it cannot respond effectively to temporary capital requirements. Efficient management of working capital means management of various components of working capital in such a way that an adequate amount of working capital is maintained for smooth running of a firm and for fulfillment of objectives of liquidity and profitability. With this back ground the study is considered to be an important one.

OBJECTIVES OF THE STUDY

The present study aims to highlight the progress made by TDCC Bank in terms of financial variables like owned funds, deposits, borrowings, loans and advances working capital and profits etc. Ratio analysis is also done to figure out some more facts about the bank. Following are the other objectives of the study

- To analyze the Deposits, Credits and C/D Ratios of TDCCB.
- To understand the working Capital and Cost of Management position in TDCCB.
- To study the size of working capital in TDCC Bank.
- To evaluate the liquidity position and operational efficiency of the bank.
- To study relationship between working capital and profitability of the bank.

METHODOLOGY OF THE STUDY

For the purpose of the study only secondary data have been collected from the annual reports of the bank. Ratios are used to test the Liquidity position, solvency position and the percentage of returns on its working capital employed. Correlation analysis is used to find out the relationship between the profit and working capital position of the bank.

REVIEW OF LITERATURE

Sanjay Kanti Das (2012) "State Cooperative Banking in Northeast India: Financial and Operational Viability Analysis" State Cooperative Banks provide the necessary financial resources to District Cooperative Banks and Primary Agricultural Cooperative Societies, and are responsible for their recovery. They have played significant role in the development of rural economy of India. The paper explores and evaluates the growth and progress of State

Cooperative Banks in the Northeastern region of India. Further, efforts are also given to make a comparative analysis of State Cooperative Banks in the Northeastern region and India through some selected financial indicators. It is found that all the financial variables (capital, reserves, deposits, advances, demand, collection and over dues) increased with higher growth rate during 2002-2009 on the basic of Compound Annual Growth Rate. The paper highlights the reasons for slow progress of State Cooperative Banking in the Northeastern region of India which is considered as the most backward region of the country. Further, this paper focuses on several pitfalls and shortcomings faced by State Cooperative Banks in region. Finally, it is observed that the State Cooperative Banks in the Northeastern region are not at par with the all India level which is evidenced from the study of some selected financial indicators.

THIRUPATHI KANCHU, **(2012**)" PERFORMANCE EVALUATION OF DCCBs IN INDIA - A STUDY" A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Cooperative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts etc.). Co-operative banks differ from stockholder banks by their organization, their goals, their values and their governance. Present paper attempts to examine the growth of DCCBs in India through selective indicators, it analyzes the Deposits, Credits and C/D Ratios of DCCBs. This paper also studies the growth of investment, working Capital and Cost of Management position in DCCBs. To achieve the objectives of the paper data has been collected from various secondary sources and analyzed by using various statistical tools. The financial performance of the District Central Co-operative banks in India is analyzed using different statistical techniques. From the above analysis, it is concluded that the growth of No. of DCCBs and their branches have negative trend up to certain period later there is negligible positive trend where as the membership in cooperatives have been increasing. The capital, reserves, and borrowings increased almost double during the study period, with a nominal percentage of variation. The cooperative banks have been maintaining on an average

78.15% of C/D ratio. The cost of management per employee has been increasing during the study period due to decrease in number of employees, the management of DCCBs have to concentrate on cost of management. The DCCBs have been showing maximum growth in investment. It is suggested that government should formulate specific policies and they should be implemented for the up liftment of District Central Cooperative Banks in India. DCCBs should try to upgrade technology and should formulate customer friendly policies to face competition with commercial banks.

Jyoti Gupta, Suman Jain, (2012)"A study on Cooperative Banks in India with special reference to Lending Practices" At present there are several cooperative banks which are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of cooperative credit system. In brief, the cooperative banks have to act as a friend, philosopher and guide to entire cooperative structure. The study is based on some successful co-op banks in Delhi (India). The study of the bank"s performance along with the lending practices provided to the customers is herewith undertaken. The customer has taken more than one type of loan from the banks. Moreover they suggested that the bank should adopt the latest technology of the banking like ATMs, internet / online banking, credit cards etc. so as to bring the bank at par with the private sector banks. Recent years, the integration of cooperative banks with the financial sector has increased following the inclusion of UCBs in Indian Financial Network (INFINET) and Real Time Gross Settlement System (RTGS) from November 2010. Further the annual policy statement of the Reserve Bank for 2010-11 envisages inclusion of financially sound UCBs in the Negotiated Dealing System (NDS) and opening up of internet banking channel for UCBs satisfying certain criteria. An analysis of deposits and advances base wise distribution of UCBs revealed that banking business was predominantly concentrated in favour of larger UCBs. UCBs with larger deposit base (more than or equal to Rs.500 crore), though accounted for only 4 per cent of total number of UCBs, contributed almost 53 per cent of total deposits Balance sheet of UCBs expanded at a rate of 15 per cent at end-March 2011 over the previous year. This expansion in balance sheet was largely attributed to borrowings on the liabilities side and loans and advances on the assets side.

Suggestions given by the author are

1. The banks should adopt the modern methods of banking like internet banking, credit cards, ATM, etc.
2. The banks should plan to introduce new schemes for attracting new customers and satisfying the present ones.
3. The banks should plan for expansion of branches.
4. The banks should improve the customer services of the bank to a better extent.

Dr. Vijay Singh, (2013) "THE HARYANA STATE CO-OPERATIVE APEX BANK LTD: AN ASSESSMENT OF PERFORMANCE AND ACHIEVEMENTS" in his paper narrates that in Haryana, there is three tier system of co-operative credit institutions. The Haryana State Co - operative Apex Bank Ltd. is the apex co-operative bank which is also known as HARCO Bank. This is an attempt to highlight the financial performance and some other achievements of the bank. It is observed that this bank has served the state with maintaining a satisfactory level of performance especially in recovery. Amount of deposits, borrowings and working capital has been increased with more than hundred percent growth rates. It advanced good amount as loans to its customers and also earned reasonable profits. More appreciable indicator has been recovery position of the bank that has been almost hundred percent.

RESULTS AND DISCUSSIONS

Liquidity Ratio: Liquidity for a bank means the ability to meet its financial obligations as they come due. Bank lending finances investments in relatively liquid assets, but it funds its loans with mostly short term liabilities. Thus one of the main challenges to a bank is ensuring its own liquidity under all reasonable conditions.

Credit-Deposit Ratio The survival of any bank mostly depends upon the credit and deposits. So, the credit-deposit ratio is important not only for individual banks, but also for an analysis of the banking system as a whole. Deposits are the principal source of the operating funds of banks and credit (or Advances) is the principal avenue for the deployment thereof. Total deposits includes amount deposited by the members (individuals and member societies) and borrowers. These ratios are calculated and explained with the help of the table.

Return on Working Capital The survival of any bank mostly depends upon the profit of the bank, no exception for service sector industries. Here the profit with working capital is compared and explained with the following table.

Table-1 Liquidity position of the bank

	Years	Credit-Deposit Ratio	Liquidity ratio	Return on Working Capital
1	2000-2001	158	2.26	0.18
2	2001-2002	110	1.66	0.97
3	2002-2003	136	1.85	1.1
4	2003-2004	136	1.63	1.1
5	2004-2005	142	1.78	1.1
6	2005-2006	144	1.53	0.3
7	2006-2007	190	1.86	1.5
8	2007-2008	126	1.35	2.9
9	2008-2009	132	1.44	5.2
10	2009-2010	142	1.5	4.8
11	Average	141.6	1.686	1.195

Sources Annual reports of TDCC Bank

The liquidity ratio decreases from 2.26 in 2000-2001 to 1.5 in 2009-2010. The proportions of current assets to current liabilities are not uniform and the ratio of 2:1 was not maintained during the last nine years. The TDCC Bank neither has super flows liquid fund not has below the danger line. It is just maintaining a safer strategy during the last few years. Ratio on Return on Working Capital has an increasing trend. Return on working capital is on an average 0.34 percent i.e. if the bank has used Rs. 100 as funds; it earned only Rs. 1.194 which is moderate. Only in 2008, ROWC was more than five percent.

Table-2 Cost of management per employee and percentage of cost of management to working (Rs. in lakhs)

Sl. no	Year	working capital	No. of Employees	Man power expenses	Cost of management per employee	Cost of management to working capital
1	2000-2001	55861	482	757	63.67	0.86
2	2001-2002	64040	453	758	167.32	0.71
3	2002-2003	68801	442	704	159.28	0.64
4	2003-2004	73905	426	771	180.98	0.58
5	2004-2005	79376	400	755	188.75	0.5
6	2005-2006	85904	380	855	225	0.44
7	2006-2007	98525	349	779	223.21	0.35
8	2007-2008	111332	328	817	249.1	0.29
9	2008-2009	134927	336	750	223.21	0.25
10	2009-2010	156651	310	1251	403.55	0.2
11	Mean	92932	390	820	208	0.48
12	SD	32626	59	157	86	0.22
13	Variance	1064447683	3497	24608	7426	0.05

Sources Annual reports of TDCC Bank

Cost of Management of Tiruchirapalli District Central Co-operative Banks includes salaries and other operating expenses. It is a parameter of the bank to measure the efficiency, the cost of management per employee decreases it is good sign, the bank is utilizing its resources effectively. If it is increases it reveals that the bank is not properly utilizing its resources and the performance that bank not good. It revealed that the cost management per employee has been increasing constantly year by year from Rs.63.67 lakhs (2000-01) to 403.55 lakhs (2009-10). The average cost of management is Rs.376749.7 lakhs and the S.D is 73208.75 with a variance of 19.43%. The low degree of variance is recorded due to decrease in employees in the TDCCB. With regards to the percentage of cost management to working capital, it has been fluctuating from .86% to .2% during the study period. The lowest percentage was recorded in the year 2009-10 with .2% and the highest percentage was recorded in the year 2000-01 with .86%.

Test of hypotheses

There is no significance between profitability and working capital of TDCC Bank

Factors		Method	Correlation	Result
profitability	working capital	$r=\sum xy/\sqrt{\varepsilon x^2 y^2}$	.33	Accepted (correlated)

Result: There is no significance between profitability and working capital of TDCC Bank. There are a number of factors deciding the profitability position of the bank such as capital employed, man power, mobilization of deposits etc.

SUGGESTION:

- The government should take necessary steps to fill up the vacancies of the employees.
- The banks should adopt the modern methods of banking like internet banking, credit cards, ATM, etc.
- The banks should plan to introduce new schemes for attracting new customers and satisfying the present ones.

CONCLUSIONS

The performance of the Tiruchirapalli District Central Co-operative bank in India is analyzed using different statistical techniques. From the above analysis, it is concluded that the growth of TDCCB and its branches positively trend up to certain period later there is negligible negative trend. The cost of management per employee has been increasing during the study period due to decrease in number of employees; the management of TDCCB has to concentrate on cost of management. The financial position of this bank analyzed by ratio analysis techniques and it is found that the position solvency, liquidity and profitability are satisfactory. The efficiency ratios indicated a medium level of the expenditure over the gross income. It is suggested that government should appoint the sanctioned strength of employees. TDCCB should try to upgrade technology and should formulate customer friendly policies to face competition with commercial banks. Thirteen of the 23 district central cooperative banks in the State are operating under loss. Only 10 banks made profits. Their aggregate profit stood at Rs. 54.56 crore. Out of ten banks the best performed bank is TDCC Bank. If the bank upgrade technology and connect all the branches with head office, there is no doubt that it may render remarkable services to its customers both in rural and urban.

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