

## A STUDY OF FINANCIAL PERFORMANCE OF DISTRICT CENTRAL COOPERATIVE BANK, UJJAIN (MP)

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### ABSTRACT

*Strong and proper managed Co-operative banking system is important for Indian rural economy to reach sustainable growth and remain constant in competitive business situation. The District Central Cooperative Bank, Ujjain is situated in among Malwa Region. Ujjain, DCCB is doing well. As on 31.03.2020 the (CRAR) of the bank is 9.38% which is almost only complying with the Basel I slandered 9% norms. At present the Bank is facing with some problems like Gross NPA<sup>1</sup> (8.39%), very low operating margin (1.23%), higher cost of funds (6.28%).In the present scenario context when Commercial Banks and as well as RRBs are undergoing consolidation, this becomes imperative to study the Financial Performance of DCCB, Ujjain so that proper steps may be taken to achieve the long term stability and also would be able to frame the policy to comply with the coming Basel II norms, This paper attempts to analyze the performance of the DCCB,Ujjain through Financial Ratios affecting to period 2017-2018 , 2018-2019 & 2019-2020 with special reference to Non Performing Assets.*

**Keywords:** CRAR, CASA, Credit, NPA, Profitability, DCCB, NABARD.

### Introduction

Rural Cooperative Banks in recent years have shown the rising of NPAs due to bad monsoon and ethical hazard amongst the member of the cooperative credit organizations were the prominent reasons for low recovery. Low number of staff and not proper adoption of core banking software & technology were the serious issues which disadvantaged the performance and financial margin of the banks. Limited area of operation, Low income customer base portfolio, Lack of competence and Delay in policy conclusions have put these banks into the non resilient credit institutions.

As far DCCB, Ujjain is concern; it is also showing the higher inclination in seasonal agriculture operations. As on 31.03.2020, out of total loans outstanding of Rs. 94916.71 Lacs, 79.41% was the share of seasonal agricultural operations including Medium Term Conversion. Ujjain is a Mainly kharif pattern showing crop dominated district. The major crops under kharif season is Soyabean. Approximate 94 % farmers used their land in soyabean crop. of Ujjain At present the bank is countering with some major problems like Gross NPA<sup>2</sup> (08.39 %), low operating margin (1.23).With this background, this study is considered to be an important one not only to analyze the performance but to provide the handy suggestions so that bank may continue its stability, would be able to frame the strategy to comply with the coming Basel II norms.

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<sup>1</sup> A Non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time.

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Non-Performing Assets (NPA) is definite as an advance where payment of interest or repayment of installment of principal (in case of term loans) or both remains unpaid for a certain period. In India, the description of NPAs has changed over time to time . As per Narasimham Committee (1991), those Assets (advances, overdrafts, cash credit etc.) for which the interest remains due for a period of 180 days should be considered as NPAs. Subsequently, this period was reduced, and from March 1995 onwards the Assets for which the interest has remained unpaid for 90 days were considered as NPAs but agriculture SAO business at present 180 days.

### Review of Literature

Number of studies have been conducted in the country over to see the functioning of cooperative banking in India. Some of the related literature of review are as follows

**Kumar Kishan and Agdayemawar M L (2018)** have studied, impact of credit risk management on financial performance with special reference to selected district central cooperative banks in Haryana researcher analysis all DCCB in Haryana state in different parameter like cost of funds, cost of management, credit risk management in between their study period financial year 2010-11 to financial year 2015-16. Researcher used ANOVA analysis for their study. Researcher give main finding implementation mismatch credit risk management policy and process.

**Dr. Gayathri and Dr. Vikram (2018)** have analyzed the comparative performance examination between public and private sector banks under the study period 2010 to 2017. Researcher concludes from the analysis that the NPA trend is larger in public sector banks in comparison to the Private sector banks. Researcher give some suggestion for how NPA reduce in public sector banks

**Bidokht Abdulhamid and Desai Kavitha (2019)** Studied their research work, "An evaluation of financial performance of selected private sector banks in India" the researcher Analysis 6 private sector Indian banks about their net profit margin, non-profitable Assets, return on Assets ,debt equity ratio etc, the researcher compare these banks in their study period 2014-2018. The researcher opinion is year by year better performance of private bank in study period.

### Research Gap

The review of literature completed for this research work discloses that no research was previously conducted on the financial performance examination of the DCCB, Ujjain in Madhya Pradesh, India. Hence this research aims to fill the gap by analyzing the financial performance of the DCCB, Ujjain.

### Objectives

The objectives for the study are as follows:

- To Evaluate the growth rate of financial parameters of the balance sheet of the bank. District Central Cooperative Bank, Ujjain.
- To Examine the banking financial ratios contributing the financial performance of the District Central Cooperative Bank, Ujjain.
- Giving the suitable suggestions for improving the performance of the District Central Cooperative Bank, Ujjain

### Research Methodology

The research is solely based upon the secondary data collected from published sources, audit report and annual report of DCCB, Ujjain. This is descriptive and analytical research. Comparative balance sheet analysis and ratio analysis was undertaken with a view to studying financial performance of the bank. Balance sheets pertaining to FY 2017-18 to FY 2019-20 were taken as the study period.

### Profile of the District Central Cooperative Bank, Ujjain

The Ujjain bank was registered in the as a cooperative society under MP Cooperative Societies Act 1965. It performs through 30(thirty) branches. Out of these 30 branches, 20 branches are functioning as loan branches and 10 branches are functioning as deposit branches. 172 PACS affiliated to Ujjain District Central Cooperative Bank as on 31.03.2020, the bank is having accumulated profit of Rs.83.67 Lakhs and 9.38% CRAR. Bank has earned "A" class audit classification in its latest (FY 2020) statutory audit... The major bases of the resources are deposits from valuable customers as well as borrowings from MP Rajya Sahakari Bank Mydt, Bank, Bhopal.

### Results and Analysis

Following table 01 is showing the four years balance sheet position of the bank .

**Table 1: Comparative Balance Sheet Position****(Rs In Lacs)**

Liabilities / Assets	Actual		
	Mar-18	Mar-19	Mar-20
Share Capital	6044.24	8363.74	8838.61
Reserves	7317.29	8120.08	8700.48
Deposit	42480.17	47085.13	50276.47
Borrowing	62595.64	64842.67	78163.69
Branch Adjustment	396.37	0.00	181.29
Interest Payable	1260.00	1368.76	1561.64
Other Liability	8112.68	4025.18	5383.15
Accumulated Profit	424.71	162.40	83.67
<b>TOTAL</b>	<b>128631.10</b>	<b>133967.96</b>	<b>153189.00</b>
Cash In Hand & Bank	11558.88	3707.11	3558.46
Investment	17308.56	20852.29	22179.04
Loans	94916.71	102847.33	119884.93
Fixed Assets	4153.13	4127.98	4106.62
Branch Adjustment	0.00	216.78	0.00
Interest Receivable	40.63	210.02	1894.75
Other Assets	653.19	2006.45	1565.20
Accumulated Loss	0.00	0.00	0.00
<b>Total</b>	<b>128631.10</b>	<b>133967.96</b>	<b>153189.00</b>

Source: Annual report of DCCB ,Ujjain, from Financial year 2018 to 2020

Following table 02 is showing the Four years Profit &amp; Loss Account position of the bank

**Table 2: Profit & Loss Account****(Rs In Lacs)**

Expenditure	Actual		
	Mar-18	Mar-19	Mar-20
Interest Paid on Deposits	2541.81	3019.07	3269.66
Interest Paid on Borrowing	4873.13	4865.97	6349.50
All Expenditures including Depreciation & Provisions	1877.93	2425.55	2215.32
Operating Profit	424.71	162.40	47.08
<b>Total</b>	<b>9717.58</b>	<b>10472.99</b>	<b>11881.56</b>
<b>Income</b>			
Interest Received On L/A	8419.35	8926.51	9966.81
Interest Received On Investments	1134.28	1419.78	1642.74
Other Receipts	163.95	126.70	272.01
Operating Loss	0	0	0
<b>Total</b>	<b>9717.58</b>	<b>10472.99</b>	<b>11881.56</b>

Source: Annual report of DCCB ,Ujjain, from Financial year 2018 to 2020

Above tables reveals the following indications about the financial position &amp; growth rate of the bank:

- **Share Capital:** In the year 2018, the share capital was Rs 6044.24 Lacs which rose sharply in the year 2020 up to Rs. 8838.61.
- **Reserves:** In the year 2018, the reserves were Rs 7317.29 Lacs which increase in the year 2020 up to Rs. 8700.48.
- **Deposit:** In the year 2018, the deposits were Rs 42480.17 Lacs which rose up to Rs. 50276.47 in the year 2020.
- **Accumulated Profit:** In the year 2018, the accumulated profit was Rs 424.71 Lacs and in the year 2020 it was at only Rs. 83.67 Lacs. The profit was in continuous decreasing trend year by year.
- **Investment:** In the year 2018, the investments were Rs 17308.56 Lacs which increased in the year 2020 at Rs. 22179.04. lacs.
- **Loans:** In the year 2018, the loans & advances were Rs 94916.71 Lakhs (949.17 Cr) But rose abruptly in the year 2020 at Rs. 119884.93 Lakhs (1198.85 Cr) In the year 2020 growth rate suddenly hike it was increasing trend at 26%.

**Bank Financial Ratios**

Following table 03 is showing the ratios derived from the last three years Profit &amp; Loss position and establishment figures of the bank:

**Table 3: Banking Financial Ratios****(Rs In Lacs)**

SN	Particulars	Actual		
		Mar-18	Mar-19	Mar-20
1	Net Working Funds	128631.11	133967.96	153189.0
2	Weighted Return on Funds (%)	7.68	7.72	7.58
3	Weighted Cost of Funds (%)	5.84	5.89	6.28
4	Financial Margin (2-3)	1.84	1.83	1.30
5	Transaction Cost	0.28	0.17	0.07
6	Operating Margin (4-5)	1.56	1.66	1.23

Above table 03 reveals the following indications about the financial ratios of the bank:

**Profitability Ratios**

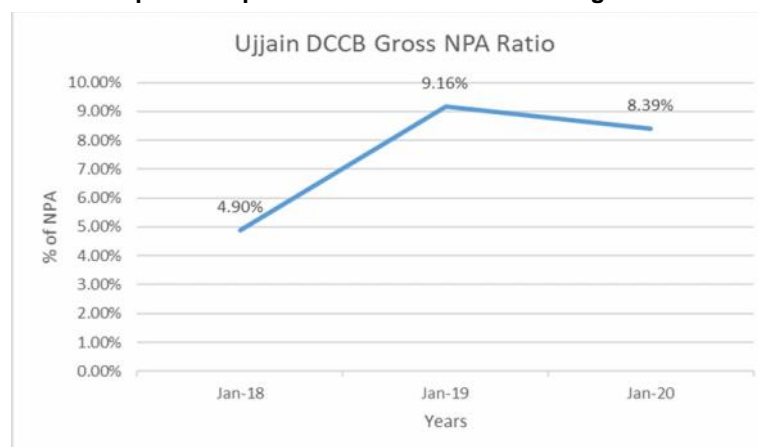
- **Weighted Return on Funds:** in the year 2018, the Return on Assets was 7.68%, whereas in the year 2020 it was decreased by 7.58%.
- **Cost of Funds:** in the year 2018, the cost of funds was 5.84%, whereas in the year 2020 it was increased by 6.28%.
- **Gross Financial Margin:** in the year 2018, the GFM was 1.84%, whereas in the year 2020 it was decreased by 1.30%.
- **Transaction Cost:** in the year 2018, the Transaction Cost was 0.28%, whereas in the year 2020 it was reduced by 0.07%.
- **Operating Margin:** in the year 2018, the Operating Margin was 1.56%, whereas in the year 2020 it was dynamic decreased by 1.23%.

**Findings**

- **Average Interest on Borrowing:** In the year 2018, the average interest on borrowing was 7.78% which increased in the year 2020 and reached at the level of 8.12%. It is at higher side. On SAO, rate of interest on NABARD fund is 5.5%. (4.5%+1.00%Apex margin) It means bank is borrowing fund from APEX Bank fund at higher rate which is contributing in steeping up the cost of borrowing. Bank needs to mobilize the deposits and should not rely on higher cost borrowing.
- The Financial margin was 1.30 % in the FY 2020. The bank may think of curtailing its single portfolio slowly and may move to high rated non SLR investment.
- **Gross NPA:** The Gross NPA level of bank is at moderately higher side. In the year 2018, the Gross NPA was 4.90% which increased a little in the year 2020 at 8.39%. for the reason of COVID 19 consequence. That is frightening situation of Ujjain District Central Cooperative Bank.

**Table 4: Gross NPA Ratio**

S.No.	Particulars	Actual		
		Mar-18	Mar-19	Mar-20
1	Gross NPA Ratio	4.90%	9.16%	8.39%

**Graphical Representation of Non-Performing Assets**

- **Loan Portfolio Diversification:** More than 85% business of the bank is coming from Primary agriculture credit society only and that to from agriculture segment. This is leading to the bank always monsoon risk.
- **Low Non Interest Income:** Non fund business or miscellaneous income of the bank is only 0.39%. Ujjain District Central Cooperative Bank requires affecting more into non interest income.

#### **Suggestions**

- Deposits are one of the main energetic product which reduce and control the the cost of fund and this lowering the cost finally leads to the better profit; therefore, bank requires taking this issue very seriously as the cost of borrowing is high.
- To reduce the cost of borrowing, which is 8.12 % at this point of time, bank needs to mobilize the deposits and apportioned the recovery proceedings in such a manner that Madhya Pradesh Rajya Sahakari bank borrowing may remain always at lower side and NABARD's portion of borrowing (5.5%) at this time may remain in rotation.
- To reduce the level of NPA, bank needs to transfer the default cases to revenue officers to start the proceedings under CRIS. Lok Adalat. For this, bank required to draft the OTS and get permission from BOD.

#### **Conclusion**

From the detailed study of Ujjain District Central Cooperative Bank, it can be concluded that, the bank is performing at honestly good level. There are certain areas of concern where instant actions are to be taken in serious mode. Bank is showing moderate strong position. Financial parameters are showing firm & confident image. Thus, it can be said that bank can retain its dominating position in rural credit market in the years to come and serve its members with the aim of wealth.

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