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FUNDS MANAGEMENT OF PARAKKADAVU SERVICE CO-OPERATIVE BANK LTD NO.2483

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ABSTRACT

The study on fund management of Parakkadavu Service Co-operative Bank Ltd No.2483 was conducted, with the objective of analyzing the fund management of Parakkadavu Service Co-operative Bank. The period of the study was 10 years from 2004-05 to 2013-14. The study was based on the secondary data, collected from the audited annual report and balance sheet of the bank, as well as various other sources like internet, books, periodicals etc. The present study reveals that, the bank shows efficiency in mobilization and deployment of funds. The bank shows tremendous, increase in deposit mobilization and a gradual decrease in borrowings. The bank was succeeding in non banking activities particularly, in sale of fertilizer, pesticides etc. Most of the ratios are favorable, to the bank except ratio related to efficiency, in operation. The major problem faced by the bank, is mounting overdue and bad debt and, bank keeps high reserves and provision for this. This reduces the profitability of the bank. The bank should take adequate measure, to increase the level of recovery and thereby, reduce the amount of overdue arises in each year. The bank should provide loans to those, who have the required eligibility and after loan sanctioning adequate supervision must be conducted.

KEYWORDS: Non Banking Activities, Sale of Fertilizer, Pesticides, Profitability

INTRODUCTION

The co-operative credit sector has playing a distinct and significant role, in the country's process of socio-economic development. Co-operatives in India are performed under two broad categories. Existing area and emerging area. The existing area covers credit, input supply, marketing, agro processing, consumer goods, and housing. The emerging area covers many new areas like power generation, production of supplementary fuels, insurance, and service sectors etc. Primary Agricultural Credit Societies (PACS) are the pioneer in providing institutional, credit to community in India. They were also assigned the role of distributing critical agricultural inputs like seeds, fertilizers, pesticides, agricultural implements and machinery, providing facilities for marketing of agricultural produce, and inculcating the habit of thrift and savings. Now they are acknowledged as an instrument, for agricultural development and as a vehicle for socio-economic transformation. PACS play a vital role in disbursing agricultural and non agricultural credit to members. In spite of the weaknesses that are associated with the PACS, like eroding profits due to lack of professional management, there is immense potential for tapping its strength, which could serve the rural people, understanding their credit needs. In Kerala most of the borrowers from PACS are small farmers. Hence, there is urgent need to revive this grass root organization, to enable ground level credit flow to agriculture facilitating inclusive growth. A service co-operative can be defined, as a voluntary form of organization organized on co-operative principle, in such a way as to provide its members every kind of services they might need, in their production activity.

A sound fund management is essential for the efficient functioning of a Primary Agricultural Credit Society. The proper utilization of available resources, determines the success of PACS. Fund management can be defined as "management of net funds available for investment and external funds purchased from other banks".

It is concerned with raising capital and deposits, at the least possible cost and deploying funds in the most profitable loans and, advances and investments. Most of the PACS show a poor performance, because of the inefficient and ineffective utilization and management of funds. Over the years, the profitability of PACS has been declining and their net worth has been eroded. Eventhough, many factors have been contributed to this state of affairs, the most significant factor has been the failure to introduce professionalism in functional management, in general and fund management in particular. Hence, fund management possesses great importance. In this context it is essential, to analyze the fund management of the Parakkadavu Service Co-operative Bank, for evaluating its effectiveness in fund management. Hence, present study is designed to analyze fund management of Parakkadavu Service Co-operative Bank.

Objective of the Study

To analyze the fund management of Parakkadavu Service Co-*operative Bank*

Methodology of the Study

The study was conducted on Parakkadavu Service Co-operative Bank. The period of the study was 10 years from 2000-01 to 2009-10. The study was based on the secondary data, collected from the audited annual report and balance sheet of the bank, as well as various other sources like internet, books, periodicals etc. A discussion was also carried out, with the officials of the Bank for collecting data.

Tools for Analysis

The tools of financial analysis, such as ratio analysis and growth index were used, for analysis of data. In the study of fund management of banks the following ratios were used, for analyzing the data.

Efficiency in Mobilization of Funds

1. Owned funds to Working capital Ratio $= \left(\frac{\text{wned funds}}{\text{Working capital}}\right) \times 100$

2. Borrowed funds to Working capital Ratio $= \left(\frac{\text{Borrowed funds}}{\text{Working capital}}\right) \times 100$

3. Deposits to Working capital Ratio $= \left(\frac{\text{Deposits}}{\text{Working capital}}\right) \times 100$

4. Deposits to Borrowed funds Ratio $= \left(\frac{\text{Deposits}}{\text{Borrowed funds}}\right) \times 100$

5. Owned funds to Borrowed funds Ratio $= \left(\frac{\text{Owned funds}}{\text{Borrowed funds}}\right) \times 100$

Efficiency in Deployment of Funds

6. Credit to Deposits Ratio $= \left(\dfrac{\text{Credit}}{\text{Deposits}} \right) \times 100$

7. Credit to Working capital Ratio $= \left(\dfrac{\text{Credit}}{\text{Working capital}} \right) \times 100$

8. Credit to Owned funds Ratio $= \left(\dfrac{\text{Credit}}{\text{Owned funds}} \right) \times 100$

9. Credit to Borrowed funds Ratio $= \left(\dfrac{\text{Credit}}{\text{Borrowed funds}} \right) \times 100$

10. Credit to Total funds $= \left(\dfrac{\text{Credit}}{\text{Total funds}} \right) \times 100$

Efficiency in Operation

11. Spread Ratio $= \left(\dfrac{\text{Interest received- Interest paid}}{\text{Total funds}} \right) \times 100$

12. Burden Ratio $= \left(\dfrac{\text{Non interest expenses- Non interest income}}{\text{Total funds}} \right) \times 100$

13. Profitability Ratio = Spread Ratio - Burden Ratio

Major Findings and Conclusions

The bank shows an increasing trend in the growth indices of membership, share capital, reserve funds, deposits, loans and advances, working capital, investment, net sales during the reference period. This indicates a good performance of the bank, in the last ten years. The borrowings of the bank reduce over the years. The profit position of the bank is not good. The reason is that, the amount of overdue and bad debt increases in each year and, it maintains high amount of reserves and provisions for bad debt and overdue.

ANALYSIS OF EFFICIENCY IN MOBILIZATION OF FUNDS

Owned Funds to Working Capital Ratio

Owned funds to Working capital ratio reflect the share of owned funds, in the net working capital of the bank. It measures the efficiency of the bank, in mobilizing internal sources of funds and its effective utilization. A higher ratio is preferable. Half of the net working capital constitutes owned funds. The ratio shows gradual decrease over the years. The bank must increases the mobilization of owned funds, by increasing the membership so that, they can strengthen the reserve position, as well as share capital base and thereby, can create much strong capital base over the years. Since, owned funds are cost free funds, the bank should increases its share in the working capital.

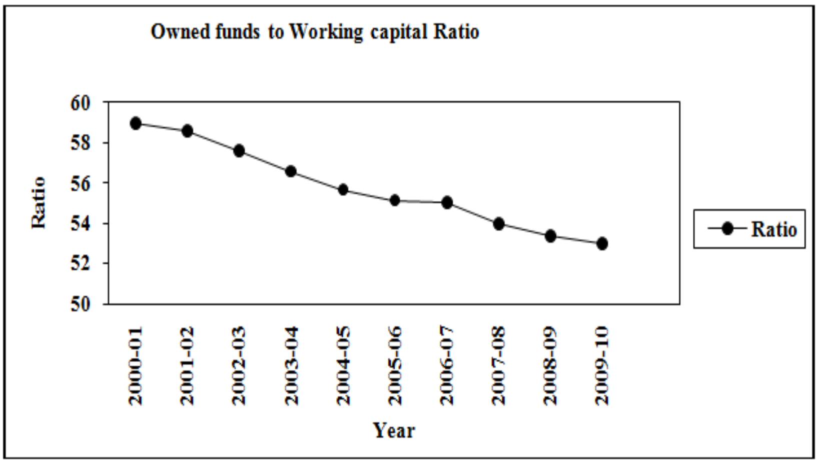

Figure 1: Owned Fund to Working Capital Ratio

Borrowed Funds to Working Capital Ratio

This ratio indicates the share of borrowed funds in the net working capital of the bank and, its effective utilization. It measures the efficiency of the bank in mobilizing the external sources of fund. A lower ratio is preferable. Otherwise, it will increase the average cost of funds of the bank. Half of the net working capital constitutes borrowed funds. The ratio shows a decreasing trend. There is an increase in deposit mobilization of the bank. The share of borrowings in the borrowed funds, of the bank showed declining trend due to increased deposits and owned capital. The bank should further reduce the borrowings, from the apex financing bank and should incorporate more owned funds, in the net working capital. Since borrowed funds incurred high cost, it must be properly managed. The bank should mobilize the borrowed funds, in cost effective manner and should depends more on owned funds.

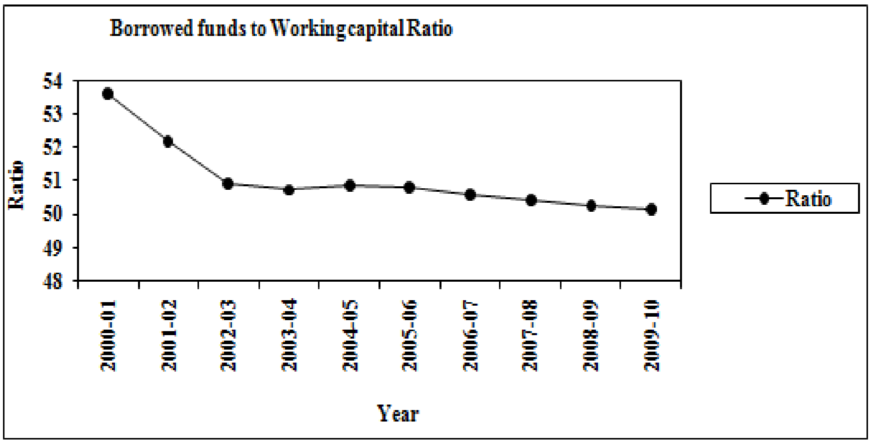

Figure 2: Borrowed Funds to Working Capital Ratio

Deposits to Working Capital Ratio

This ratio indicates the proposition of deposits, in the net working capital of the bank. A higher deposit to working capital is preferable. A higher ratio indicates higher share of deposits, in the net working capital of the bank. It measures the efficiency of the bank in mobilizing the deposits. Major portion of the borrowed funds constitutes deposits. The ratio shows an increasing trend. The proportion of borrowings in the borrowed funds is decreasing over the year. The bank is self reliant in the mobilization of funds. But, it raises cost of fund due to less dependence on borrowings. The bank should allocate the borrowed funds, in most remunerative way so that they can meet the interest expenses.

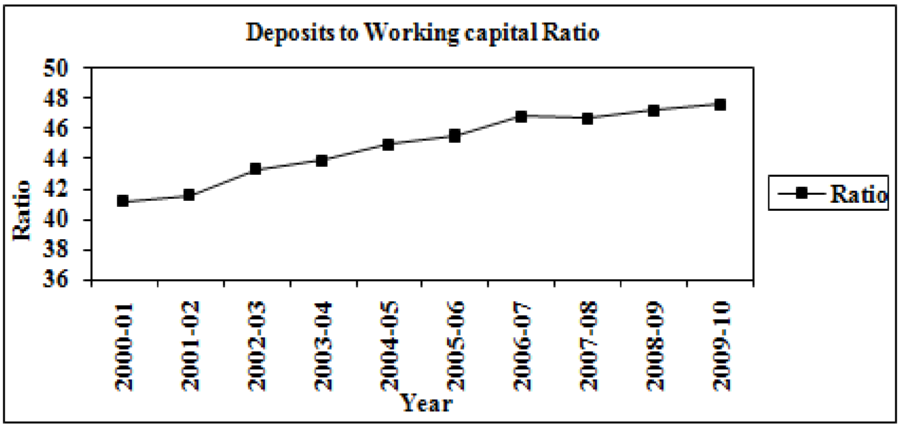

Figure 3: Deposits to Working Capital Ratio

Owned Funds to Borrowed Funds Ratio

This ratio indicates, whether the bank depends more on owned funds or borrowed funds. A higher ratio is preferable. Higher ratio indicates the dominance of owned funds, over borrowed funds. The ratio shows a decreasing trend. It indicates that, the share of owned funds is reducing over the year. Borrowed funds particularly deposits were increased, during the study period. It is clear that, the bank depends more on owned funds than borrowed funds. The bank should increase the owned funds and reduce the interest expense, by less dependence on borrowed funds.

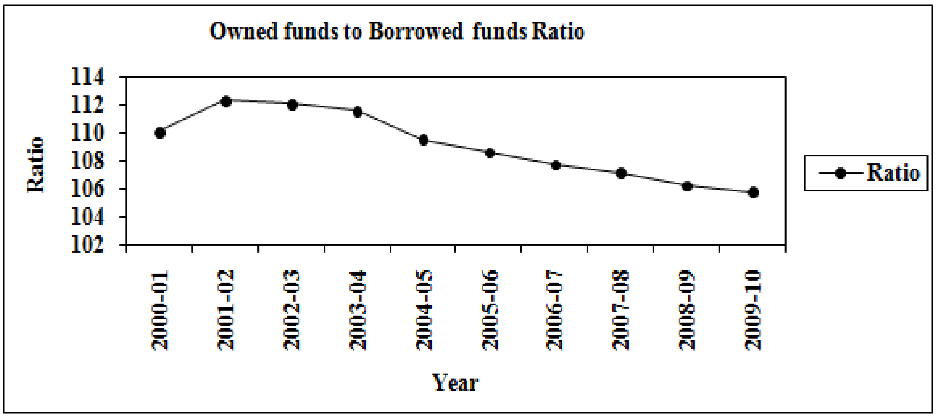

Figure 5: Owned funds to Borrowed Funds Ratio

ANALYSIS OF EFFICIENCY IN DEPLOYMENT OF FUNDS

Credit Deposits Ratio

This ratio indicates how much portion of deposit is deployed as credit. It measures the efficiency of the bank in converting the deposits in to loans and advances. A higher ratio is desirable. Higher ratio indicates larger portion of deposits is given as loans and advances, which generating more interest income to the bank. The ratio shows fluctuating trend. The fluctuating trend is due to reduction in demand, for loans and advances than the deposits accepted by the bank. Larger portion of the deposits are given as loans and advances, during the reference period.

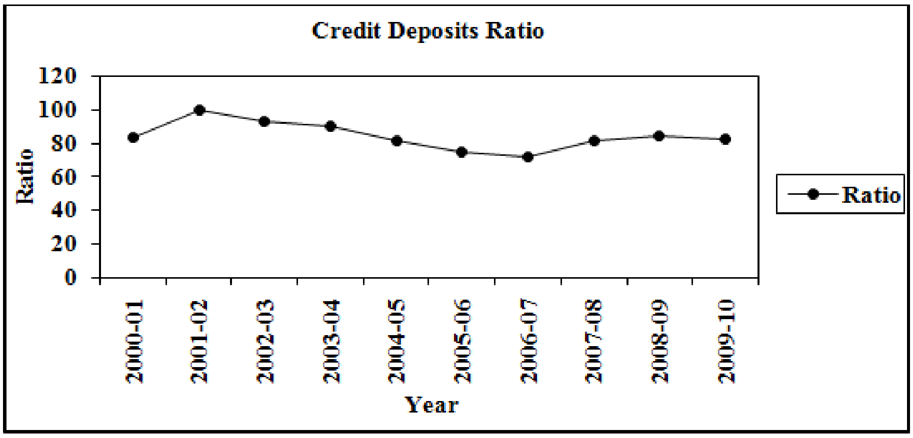

Figure 6: Credit Deposits Ratio

Credit to Working Capital Ratio

This ratio indicates how much portion of working capital is deployed as loans and advances. It is the measure of efficiency of the bank in deploying funds. Higher ratio is preferable since, loans and advances contribute to the income of the bank in the form of interest. The ratio shows a fluctuating trend. There was increased proportion of funds locked up in various reserves and provisions of the bank. The reserves and provisions of the bank show a tremendous increase, in the whole study period. The bank must utilize these resources in a profitable way.

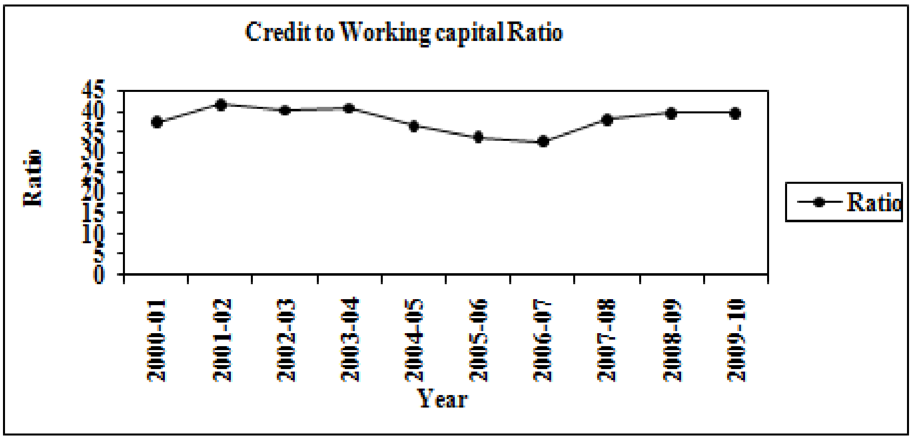

Figure 7: Credit to Working Capital Ratio

Credit to Owned Funds Ratio

This ratio indicates how much portion of owned fund is used, for providing loans and advances. It measures the efficiency of the bank in deployment of funds, for lending purpose. A higher ratio is preferable. Higher ratio indicates profitable deployment of the owned funds. It shows a fluctuating trend. The credit of the bank must be higher than the owned fund. So, the bank can ensure optimum utilization of its owned funds.

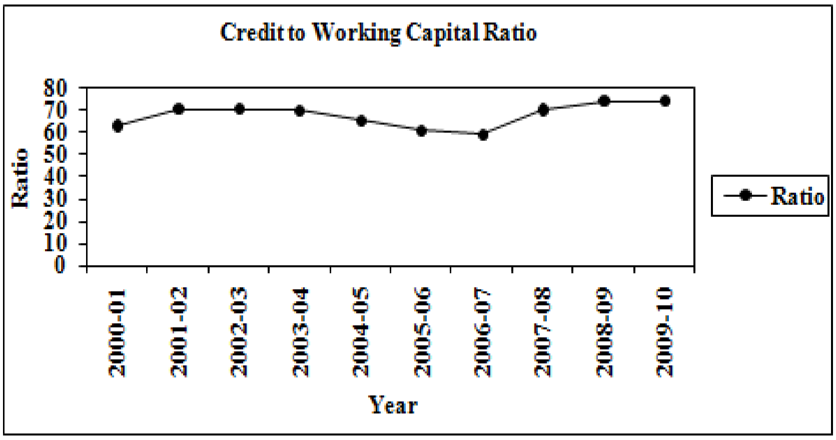

Figure 8: Credits to Owned Funds Ratio

Credit to Borrowed Funds Ratio

This ratio indicates how much portion of borrowed fund is used, for providing loans and advances. The ratio shows a fluctuating trend. Around 78 percent of credit of the bank is given by the bank from the borrowed funds. From this it is clear that, the bank depends more on borrowed fund than owned fund.

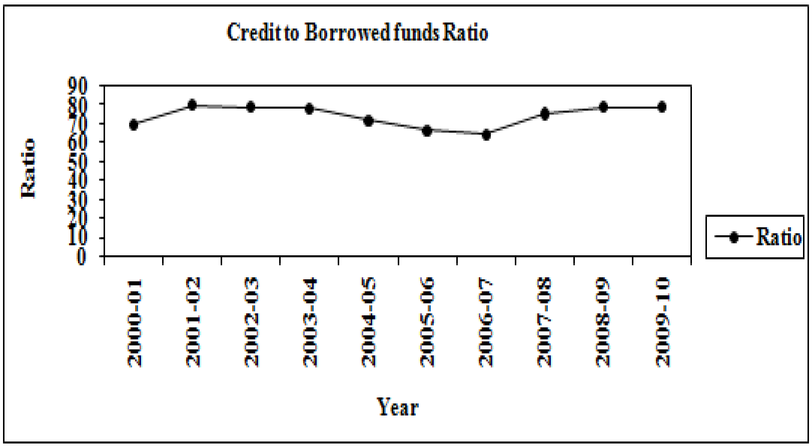

Figure 9: Credit to Borrowed Funds Ratio

Credit to Total Funds Ratio

This ratio indicates how much portion of total funds is used, for lending purpose. It measures the overall efficiency of the bank in deployment of funds. A higher ratio is preferable. Higher ratio indicates larger portion of total funds is given, as loans and advances. Around 30 percent of the total funds are given as loans and advances. A large portion of funds was kept as reserves.

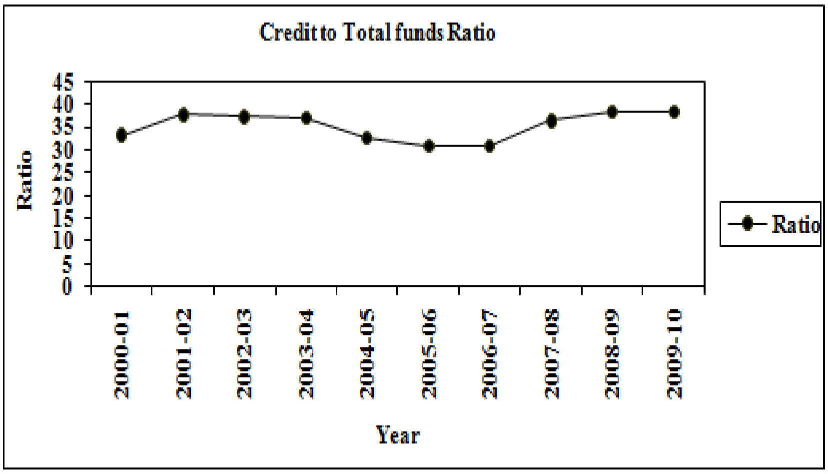

Figure 10: Credit to Total Funds Ratio

ANALYSIS OF EFFICIENCY IN OPERATION

Spread Ratio

Spread is the difference between interest income and interest expenditure. Spread ratio is the ratio, in the interest spread to the total funds of the bank. A higher ratio is preferable, since it directly related to the profitability of the bank and it is possible only when, the interest received on loans and advances are more than the interest paid, on deposits and borrowings. The spread ratio shows a fluctuating trend. Lower spread ratio indicates less profitability. The bank should increase the spread ratio, by increasing the interest received on loans than the interest paid on deposits.

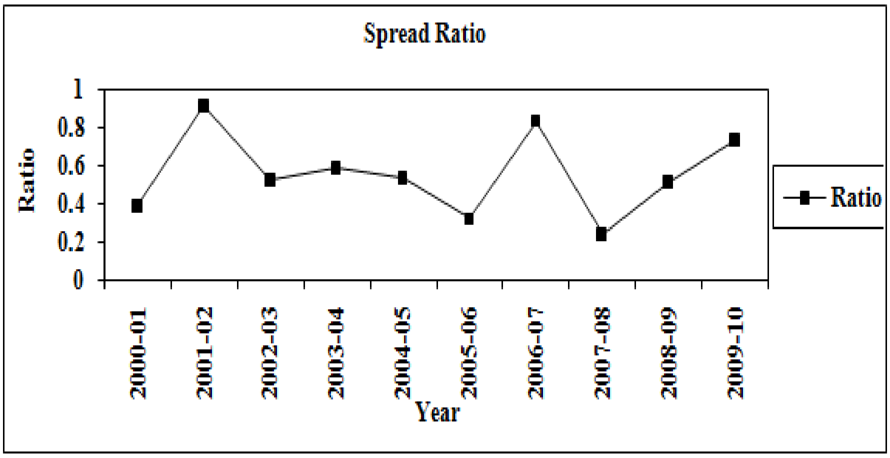

Figure 11: Spread Ratio

Burden Ratio

Burden is the difference between non interest expenditure and non interest income. Burden ratio is the ratio of burden to total funds of the bank. A lower ratio is preferable. Lower ratio indicates the profitability of the bank. It can be reduced, by either decreasing the non interest expenditure or increasing the non interest income. The ratio shows a decreasing trend. The decreasing burden ratio is a good sign. The bank should further reduce the ratio, by increasing the non interest income or, by decreasing the non interest expenditure.

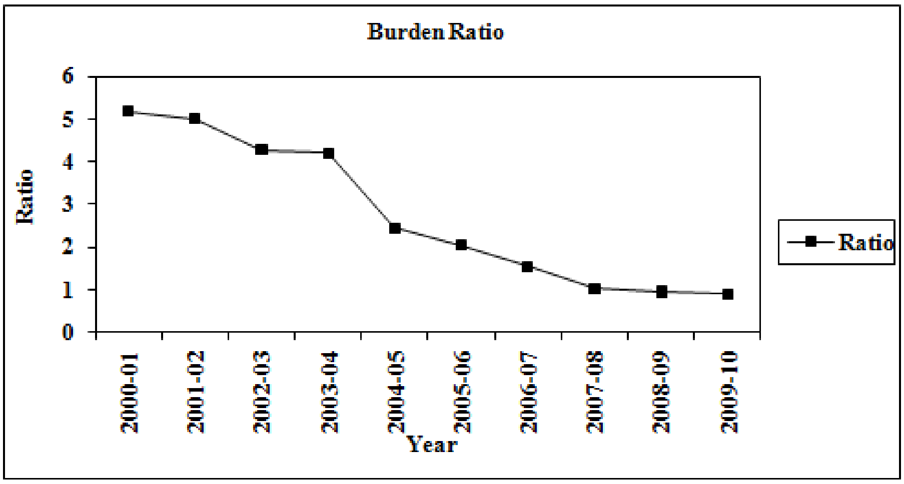

Figure 12: Burden Ratio

Profitability Ratio

Profitability is the overall measure of the performance of the bank. For knowing the financial position of the bank, the profitability of the bank has to be calculated. This ratio is expressed in terms of spread ratio and burden ratio. A higher ratio is preferable, since it indicate the ability of the bank to generate profit. The ratio indicates less profitability of the bank. It shows an increasing trend. The bank shows very little profit, compared to its performance. This is because; the bank keeps more reserves against overdue. The present ratio is not favorable for the bank. The bank has to improve the profitability ratio.

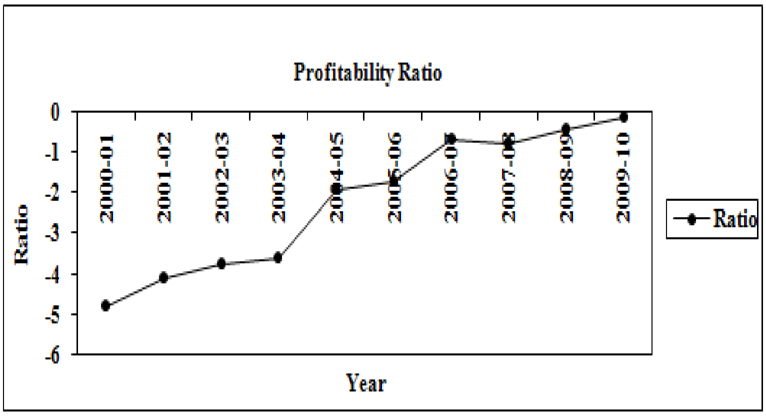

Figure 13: Profitability Ratio

CONCLUSIONS

In short, it can be noticed that, the bank shows efficiency in mobilization and deployment of resources. Efficiency in operation is not satisfactory. The spread ratio has to be improved. The burden ratio shows a declining trend. The profit position of the bank is not good. The declining profitability is the result of maintaining increased amount of reserves, due to mounting overdue arising out of non repayment of loans in time. The Deposit to Working capital ratio and Deposit, to borrowed funds ratio shows an increasing trend. It indicates the efficiency of the bank in deposit mobilization. The bank depends more on owned funds. The proposition of owned funds to working capital has shown a declining trend.

The bank must increases the mobilization of owned funds, by increasing the membership, so that, they can strengthen the reserve position, as well as share capital base. The borrowings of the bank decreases over the years. The Credit to Deposits ratio, Credit to Owned funds ratio, Credit to borrowed funds ratio is favourable to the bank. The Credit to Working capital and Credit to total funds ratio has to be improved. The bank should improve its working capital management and reduce the amount of idle funds, locked up in reserves. The profitability of the bank has to be improved, through better performance.

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