Research Outline

on

A Study of Financial Performance of Selected Co-Operative Banks in Karnataka

Submitted by

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01. Introduction

Agriculture plays a stupendous role and occupies a cardinal place in the Indian economy. The fact that half of the national income is being contributed by export of agro-based produces substantiates this point. Further, majority of the Country’s people is depending on agriculture in one way or the other. Hence, the welfare of the people and their economic condition, and also the economic development of the Country depend, to a greater extent, on the output, progress and prosperity of agricultural sector. In spite of this significant role of agriculture, it is unfortunate to note the pathetic situation of agriculturists as half of the rural population live below poverty line and most of them remain indebtedness.

One of the reasons for this has been on account of inadequate returns from agriculture sector. Besides, modernization schemes in agriculture resulted in the substantial increase in the investments on seeds, fertilizers, pesticides, irrigational facilities, cost of labour and on labour-saving equipment. As a result, the financial requirement of farming-community has been increasing year after year on a consistently increasing basis. To put it differently, the farmers are in need of higher amounts of credit/loan for the purpose of undertaking agricultural activities. In this background, Co-operative Banks, based on their past performance, are recognized as the better institutions for the provision of sound and dynamic credit to farmers.

The Co-operative Banks have been performing well in mobilizing small rural savings and using the same, besides the funds mobilized from other sources, to finance the requirements of various growth sectors including agricultural sector.

02. An Overview of Banking Sector

Indian banking system has undergone a number of remarkable changes during six decades of post-independence period. Though it is very difficult to present all the changes, an attempt is made herein under to present the important changes.

2.1. Nationalisation of Reserve Bank of India: The Reserve Bank of India was established on April 1, 1935 as shareholders’ bank. The first major step taken by the Union Government of India in the field of Indian Banking was the nationalization of Reserve Bank of India on January 1, 1949. It is a symbol of financial sovereignty
and stability of the country. It holds the ultimate reserves of the Nation, controls the
flow of purchasing power - whether currency or credit, and acts a banker to the
State.

2.2. **Nationalisation of State Bank of India:** The State Bank of India was set up in July
1955, under the State Bank of India Act, 1955, when it took over assets and
liabilities of the former Imperial Bank of India. The Imperial Bank was the biggest
commercial bank in the country. The State Bank of India functions/serves as the
agent of Reserve Bank of India at places where it has a branch and where the
Reserve Bank of India has no branch.

2.3. **Nationalisation of major Commercial Banks:** A significant change in the field of
commercial banking since Independence was the nationalization of banks with
deposits of Rs.50 crore or more. The objective of bank nationalisation in 1969 was
to remove the ownership and control of a few industrial enterprises over the
commercial banks. This move aimed at preventing the concentration of income and
wealth in the hands of a few.

2.4. **Co-operative Banks:** The Co-operative banks have been established under Co-
operative Societies Acts of different states. The co-operative movement was started
in 1904 with a view to provide financial assistance to agricultural sector.

2.5. **Regional Rural Banks:** The Regional Rural Banks are the new banking institutions
which have been added to Indian Banking Sector since October 2, 1975. The
primary objective of Regional Rural Banks is to develop the rural economy by
providing credit and other facilities particularly to the small and marginal formers.

2.6. **National Bank for Agricultural and Rural Development (NABARD):** The
NABARD has emerged as an apex refinancing institution for agricultural and rural
credit in the country since July 1982. It has taken over the financing function of
Reserve Bank of India in respect of State Co-operative Banks and Regional Rural
Banks, and it provide all types of production and investment credit to agriculture,
small scale industries, cottage and village industries and other allied economic activities.

2.7. **Development Banks**: Development Banking or the Institutional Banking System has been introduced in India mainly to provide medium-term and long-term capital for industry and agriculture.

## 03. Financial Performance of Co-operative Banks - A Brief Analysis

Co-operative Banking Sector, though the oldest in the Banking Sector, it is one of the weakest segments of Indian Banking System. Both the Reserve Bank of India and the National Bank for Agricultural and Rural Development have taken various policy measures in respect of Urban Co-operative Banks and Rural Credit Co-operatives during the recent years to transform them into financially sound entities.

3.1. **Urban Co-operative Banks** (UCBs): Urban Co-operative Bank structure is bifurcated into Scheduled and Non-scheduled Banks. UCBs are graded into four categories on the basis of their financial performance. This financial performance is determined by various parameters such as Capital Adequacy, Level of Non-performing Assets, history of Profit or Loss, etc. While UCBs from Grades - I and II can be considered as relatively stronger banks, the banks belonging to Grades - III and IV can be classified as sick and weak banks. Total number of UCBs is 1,721 by the end of March 2009 comprising of 845 Grade – I Banks, 484 Grade – II Banks, 219 Grade – III Banks and 173 are Grade – IV Banks. Total income and expenditure of UCBs for the year 2008-09 are Rs.18,962 crore and 15,402 crore respectively. Hence, the total net profit of all UCBs for the year 2008-09 is Rs.1,746 crore. However, gross non-performing assets of UCBs amounts to Rs.13,043 crore which is a matter of great concern.

3.2. **Rural Co-operative Institutions**: Rural Co-operative structure is bifurcated into short-term and long-term institutions. The Short-term Co-operative Structure is of three-tier structure with State Co-operative Banks as apex level Banks followed by District Co-operative Banks at the district level followed by Primary Agriculture Credit Societies at
village level. The Long-term Co-operative Structure has State Co-operative Agriculture and Rural Development Banks (SCARDBs) at apex level followed by Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) at district or block level. Total number of Rural Co-operative Credit Institutions is 96,061 at end of March 2008. Owned fund of these institutions is Rs.53,208 crore at the end of March 2008. Total accumulated loss at end of March 2008 is Rs.11,006 crore. Non-performing assets of institutions at the end of March 2008 is mopping Rs.60,307 crore which is again a matter of great concern.

04. A Brief Review of Earlier Studies

Volumes of literature on Co-operative Banks were written by many authors, administrators, study teams and researchers. There are many research studies that try to evaluate - whether the Co-operative Banks are operating efficiently or not. At attempt is made in the following paragraphs to review some of important earlier works by the scholars with a view to find whether any researcher has worked on the topic of the proposed study.


B. Ramachandra Reddy’s (2008) work, Management of Non Performing Assets in Banks, comes to a conclusion, based on the factual analysis, that the NPAs not only eat into profitability and hamper their ability to recycle fund but also shake the public confidence which is crucial for the existence and growth of any financial institution. Abdual Hadi (2006), in his paper entitled Performance of Regional Rural Banks in West Bengal - A Evaluation, investigated the socio-economic role of Regional Rural Banks in the welfare of people living in rural area.
In the paper entitled, **Performance Appraisal of Urban Co-operative Banks - A Case Study**, Amit Basak (1995-96 to 2006-07) has highlighted that UCBs figure among the vital segments of the banking industry. They essentially cater to the credit needs of persons of small means. Biswa Swarup Misra (2006), in his work **Performance of Regional Rural Banks in India**, examined the problems of loss making RRBs with an emphasis on whether the problem is confined to some particular sponsor banks. In his work, **Performance of selected Public and Private Banks in India**, R. Soundara Rajan (2005) evaluated and compared the performance of Public Sector Banks against Private Sector Banks (including Foreign Banks) with an emphasis on the competition among themselves. For the purpose of comparison, the author has used all the parameters to measure productivity, efficiency, profitability, liquidity and growth. Kusum W Ketkar and Suhas L Ketkar in their work, **Performance and Profitability of Indian Banks in the Post-liberalisation Period**, attempt to determine the impact of various market and regulatory initiation on efficiency improvement and profitability of Indian Banks since the implementation of financial sector reforms.

Like the above, a number of studies have been completed by many Researchers in the past. However, no Researcher has worked on the topic and theme of the present study. Hence, this study aims at studying a topic on which the Researchers have not worked in the past.

**05. Statement of the Problems**

Though the Co-operative Banks have been established with laudable objective, they are suffering from various problems and as a result, their financial performance is very precarious. This is due to many a number of reasons such as lower or negative spread, mounting non-performing assets, entry of other Banking Institutions into the area earmarked for the Co-operative Banks as a result of which there is an increasing competition, etc. Moreover high levels of non-performing assets and high growth in credit of UCBs and Rural Credit Cooperative Institutions continue to be the major area of concern. Therefore, it is necessary to assess the financial performance of these Banks. In this background, the present study intends to focus on the analysis of financial performance of Co-operative Banks in general and of selected Co-operative Banks in Karnataka in particular with the objective of ascertaining the reasons for the same and also the extent to which each has contributed to the poor financial performance of Co-operative Banks.
06. Objectives of the Study

In the light of some of problems of Co-operative Banks and also of their poor financial performance, the present study keeps the following as objectives.

6.1. To study the working and growth of Co-operative Banks in Karnataka,

6.2. To evaluate financial performance of selected Co-operative Banks in Karnataka,

6.3. To assess the Capital Adequacy, Reserves, Borrowings, Liabilities and levels of Non-performing Assets of selected Co-operative Banks in Karnataka,

6.4. To evaluate the efficiency and effectiveness of selected Co-operative Banks in Karnataka in mobilising the deposits, lending advances, investments and recovery performance of selected banks,

6.5. To assess the Operating Profit/Net Profit of the selected Co-operative Banks in Karnataka, and

6.6. To suggest policy measures for improving the working of Co-operative Banks.

07. Scope of the Study

The study intends to analyze the financial performance of selected Co-operative Banks in the Karnataka. For this purpose, it is planned to select the Co-operative Banks in Karnataka giving representation to geographical area, size of the Banks, Financial Performance (selecting some Banks which are earning profit and which are incurring loss), etc.

The study covers the assessment and evaluation of financial performance of both Urban Co-operative Banks and Rural Credit Institutions with an emphasis on unearthing the reasons for the mounting losses and non-performing assets. Further, the study will be based on the financial performance of the selected Co-operative Banks during the last ten years (2000-01 to 2009-10) which enables to identify the trends in their performance.

08. Methodology

8.1. The present study will be primarily based on the secondary data – the data to be collected from Banks and other sources. The required data will be collected from the Banks which are the units of the present study. Besides, the necessary data will be collected from other sources such as annual reports, bulletins, magazines, articles, newspapers, e-sources, etc,
8.2. Statistical and accounting tools such as ratios, correlation, etc will be used to analyze the data to find out the reasons for the poor financial performance, and

8.3. The method of analysis proposed to be followed in this work is purely analytical as to how the selected Co-operative Banks are performing in terms of financial performance.

09. Chapter Scheme

The report of the present work is proposed to be presented in six chapters as presented below.

9.1. Introduction – In this chapter, an overview of Indian Banking sector as well as in Karnataka will be presented which gives a comprehensive idea about the structure of Banking System in the Country and also in Karnataka.

9.2. Research Design – This chapter is meant for presenting the technical aspects of research reports such as, review of earlier works on the proposed topic for the present study, statement of the problems, objectives of the study, methodology, hypotheses, scope of the study, limitations of study, etc.

9.3. Co-operative Banks – A Brief Profile – This chapter is meant for presenting a profile of the Co-operative Banks selected for the present study.

9.4. Financial Performance of Co-operative Banks – An Evaluation – This chapter will be used to present and evaluate the financial performance of Co-operative Banks selected for the present study.

9.5. Spread and Non-performing Assets – An Analysis – An attempt will be made in this chapter to analyze the interest income and interest expense, and also the problem of non-performing assets with the objective of identifying the factors that are contributing this situation.

9.6. Summary of Major Findings, Suggestions and Conclusion – The findings of the study and also the suggestions to be offered for improving the financial performance of Co-operative Banks will be presented in this chapter.

10. Limitations of the Study

The study will be confined to selected Co-operative Banks in Karnataka with an emphasis on the evaluation of financial performance. Hence, other aspects that are not directly pertaining to the financial performance of Co-operative Banks will be outside the purview of the present study. Further, the Banking Institutions in other sector such as private sector, foreign banks, etc will not be covered in the present study. Besides, the banking institutions in other states in the Country will not be studied in this study.
References


(Nagaraja, R. C) (J. Madegowda)
Researcher Research Guide