

Profitability Analysis of Cheruvannur Service Cooperative Bank, Kozhikode

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Abstract

The paper makes an attempt to analyze the profitability performance of CSCB in terms of spread ratios, burden ratios, and other ratios such as CASA Deposit to Total Deposit, Share of Agriculture Loans to Total Loans, Total Cost Bearing Resources, Gold Loan to Total Loans, Interest Income to Total Income, Non- Interest Income to Total income, Credit to Deposit Ratio, Cost on Deposits Ratio, Net Profit Margin and Total Income to Working Capital Ratio. The trend to predict the future condition of CSCB was also observed. Finally, the Karl Pearson correlation technique was used to ascertain the relationship between Interest earned and profits, other income and profits, Interest Paid and Profits, and Operating and other expenses to Profits.

Key Words: Profitability, Co-operative Banks, Deposits, Ratios

Background of the Study

The cooperative movement is clearly recognized as an essential instrument for achieving the socio-economic transformation of rural masses. Credit Cooperatives are the oldest and most widespread type of Cooperative Societies. They were created, to collect and save the deposits of members and fulfil their Credit needs. Credit Cooperatives, in developing countries have been used by the government, as an instrument for developmental objectives such as implementation of agricultural reform plans, rural area progress and poverty alleviation. (Rostami and Shahrababi & Viswananth, 2012)

Review of Related Studies:

Shanmugam, et al., (2016) analyzed the financial performance of Ramanathapuram District Central Cooperative Bank in with the relevant ratios by using a decade data starting from 2005 to 2014. The study concluded by stating that the Net NPA and Net Advance do not possess much differences and NPA and Borrowings kept a low degree of negative correlation. Vinaikumar and Veerakumaran (2015), analysed the Vilvattam Service Co-operative Bank's performance by using spread and burden ratio,

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which revealed that spread ratio in the study period recorded a negative growth rate. The study also found an inverse relationship between non interest income and non-interest expenses.

Vijayachandran Pillai & Madhusoodanan Pillai (2013) employed different accounting ratios to know the financial performance, and found that the Chatannur Regional Cooperative Bank Ltd. has maintained comfortable liquidity, profitability and return on equity. However, the bank failed to retain the same trend in Return on Total Assets and the Net loan to total deposit ratio. Ramachandran, Kandakumar, and Kannadas (2019) analyzed Alangulam Primary Agriculture Co-Operative Credit Society, observed that the study period's Return on equity ratio, debt-equity ratio showed the decreasing trend in the year 2017 - 2018.

Damayanti Premier (2017) observed the capital to deposit ratio of the bank shows the ability of the bank to meet contingencies, and it is showing an increasing trend. Return on net worth ratio indicates Return to equity shareholders, a higher ratio ensures an increase in Return to equity shareholders, and this ratio is decreasing, which is not satisfactory. The net profit margin ratio also shows a decreasing trend, which indicates the bank's poor performance. Results showed that the deposits and advances strongly and negatively influenced the profitability of the bank.

Methodology of Study:

The Study covers a period of five years from 2015-16 to 2019-20. Secondary data was taken from the annual report of Cheruvannur Service Cooperative Bank. This study was based on secondary data. Primary data was not taken because the main objective of the study was to analyze financial performance.

Tools Used for the Study:

Descriptive Statistics, Ratio Analysis and Correlation Analysis

Objectives of the Study

To analyze the financial performance of the Cheruvannur Service Cooperative Bank, Cheruvannur, Kozhikode District.

The hypothesis of the Study

The researcher in this study uses the correlation technique to ascertain the relationship with interest earned, other income, Interest Paid, and Operating and other expenses with Net profit

H₀: There is a significant relation between Net profit and interest earned, other income, interest paid, operating, and others expenses.

H₁: There is insignificant relation between Net profit and interest earned, other income, interest paid, operating, and other expenses

Statement of the Problem

The Cheruvannur Service Co-operative Bank (CSCB) Ltd.No.1866 is a credit co-operative society registered under the Madras Co-operative Societies Act during 1963. After the enactment of the Kerala Co-operative Societies Act 1969, CSCB incorporated this act. CSCB provides different deposits and loan services to its members. Major deposit products are Savings Deposits, fixed deposits, recurring deposits, etc. Loan products include Kissan Credit Cards, Agri-gold loan, Kudumbhasree linkage loan, JLG loans, and credit for nonagricultural purposes. It also runs a Fertilizer depot, store, neethi medicals, cattle feed sales depot, etc.

The major crops in the area of operation are paddy, coconut, pepper, and areca nut. The rice bowl of Kozhikode district, i.e., Avalapandi and Karuvodu, is coming under its area of operation. The presence of the Kuttiadi Irrigation Project, ponds, channels, etc., ensures water availability throughout the year. The present proposal is intended to promote the production of different agricultural produce among the members. The proposal includes providing various agricultural implements, machines, and equipment on a rental basis to farmer members for the cultivation, harvesting, storage, primary processing, etc.

ANALYSIS AND DISCUSSION:

1. WORKING CAPITAL SPREAD RATIOS

- Interest Earned to Working Capital Ratio
- Interest Paid to Working Capital Ratio
- Spread to Working Capital Ratio

Table No. 1- Spread Ratios (in Percentage)

Year	Interest Working Ratio	Earned to Capital	Interest Working Ratio	Paid to Capital	Spread to Working CapitalRatio
2015-16		7.92		5.37	2.55
2016-17		7.91		5.75	2.16
2017-18		8.06		5.72	2.34
2018-19		8.72		6.24	2.48
2019-20		8.70		6.13	2.57
Mean		8.26		5.84	2.42
SD		0.41		0.35	0.17
CV		4.99		6.00	7.09

Source: Annual Reports of Cheruvannur SCB.

Table 1 indicated the spread ratio of Cheruvannur SCB. It is observed from the table that there is a fluctuating trend throughout the study and it is observed that the average Interest earned is only 4.99 percent of working capital. However, throughout the analysis, it has only a positive percentage. This shows that the CSCB has used the working capital properly. It also exhibited that spread as a working capital percentage shows a fluctuating trend throughout the study period. The Ratio lies between 2.16 to 2.57 percent. Interest paid as a percentage of working capital of CSCB resulted in to fluctuation from 5.37 percent to 6.24 percent during study period. The average value of the Ratio is 5.84 percent during the study period. Variation in the spread is shows as i.e.7.09 percent, in the last two years it performed well. There is an increasing trend during the study period, but it was pretty moderate at the beginning of the study period, and somehow slowly it rose in the last four years of the study period. It reflects that the CSCB moderately maintains the balance between procurement of funds and utilization of the available funds.

2 BURDEN RATIOS

The profit may be defined as the difference between spread and Burden instead of the difference between total income and total expenditure. Therefore, an effort to improve the CSCB's Profitability will involve the management of Burden. So, to reduce the Burden, either increasing the interest income or the non-interest expenditure should be reduced or both. Therefore, the following three ratios have been employed to study the Profitability of the Cheruvannur SCB.

- Non -Interest Income to Working Capital
- Non – Interest Expenses to Working Capital
- Burden to Working Capital.

Non-interest income of the CSCB represents income earned by way of commission, exchanges, brokerage, service charges, incidental charges, and other miscellaneous receipts. Non-interest income is very nominal and inadequate to meet non-interest expenses, and it may cause a rise in Burden. If the CSCB diversified its activity, there is a possibility to strengthen its Profitability.

Non-interest expenditure of CSCB denotes expenses on human resources and other expenses. The Ratio of non-interest expenditure as a percentage of working capital expresses the effective management of funds. Thus, it shows the operational efficiency of the CSCB.

The Ratio of Burden as a percentage of working capital can also be calculated by taking the difference between the non-interest expenditure and non-interest income.

Table 2 - Burden Ratios
(Ratio in Percentage)

Year	Non-Interest Income to Working Capital Ratio	Non-Interest Expenses to Working Capital Ratio	Burden to Working Capital Ratio
2015-16	0.64	1.71	-1.07
2016-17	0.67	2.08	-1.42
2017-18	0.60	2.12	-1.52
2018-19	0.64	2.63	-1.99
2019-20	0.71	2.06	-1.35
Mean	0.65	2.12	-1.47
SD	0.04	0.33	0.34
CV	5.87	15.53	-22.86

Source: Annual Reports of Cheruvannur SCB.

It is noted from the table that the study period with fluctuation in Non-interest income as a percentage of working capital lies between 0.60 percent and 0.71 percent with average value, i.e., 0.65 percent. Hence, it is a very nominal amount which comparing with working capital. Therefore, there is a need to improve the Profitability of the bank by improving the non-interest

income. Ratio of non-interest expenses to working capital is fluctuating from 1.71 to 2.63 percent. The average value of the Ratio is 2.12 percent. There is more variation in non-interest expenses than working capital due to this variation in the Ratio of 15.53 percent.

Burden as a percentage of working capital of the CSCB is given in table. Burden as a working capital percentage shows variation from -1.07 percent to -1.99 percent with an average value of Ratio -1.47 percent. So it is noted that the CSCB should have control over the non-interest expenditure and earn more non-interest income due to diversification of its activities to reduce Burden.

2. LOANS AND ADVANCES RATIOS

Table 3 – Advances and Loans Ratio

YEAR	Agriculture Loans to Total Loans Ratio	Gold Loan to Total Loans Ratio
2015 – 16	13.50	29.66
2016 – 17	21.82	24.81
2017 – 18	22.43	22.03
2018 – 29	26.04	19.30
2019 – 20	28.59	20.96
Average	22.48	23.35
S.D	5.72	4.05
C.V	25.46	17.36

Source: Annual Reports of Cheruvannur Service Cooperative Bank

Table 3 indicated the Agriculture Loans to Total Loans of Cheruvannur SCB. The Ratio of Agriculture loans to Total Loans has been increasing from 13.05 percent to 28.59 percent. Thus, there is an increasing trend throughout the study and it indicated that the average Interest earned is 22.48 percent of Agriculture Loans to Total Loans. However, throughout the analysis, it has only a positive percentage

This Ratio of Gold loans to total loans is fluctuating from 19.39 to 29.66 percent. The average value of the Ratio is 23.35 percent. As Gold loans to total loans vary from Rs.778.66 lakhs to Rs. 1045.18 lakhs during the study period with a fluctuating trend. The average Ratio of Gold loans to total loan is 23.35 with an SD of 4.05, and the coefficient of variation is 17.36.

Table 4 - Total Cost Bearing Resources

Year	Borrowings	Total Deposits	Ratio
2015 – 16	548.39	3739.56	14.66
2016 – 17	712.57	4330.34	16.46
2017 – 18	828.18	4947.93	16.73
2018 – 19	1132.77	5909.49	19.17
2019 – 20	691.97	6560.85	10.55
Average	782.776	5097.634	15.51
S.D	219.4702	1146.258	3.20
C.V	28.03742	22.48607	20.67

Source: Annual Reports of Cheruvannur Service Cooperative Bank

It is noted from table it reveals that during the study period with fluctuation and borrowings as a percentage of Total deposits lie between 10.55 percent and 19.17 percent with average value, i.e., 15.51 percent. The coefficient of variation shows that 20 % of dispersion with the ratios among the Borrowings and Total Deposits.

Table 5- Interest Income & Non-Interest Income Ratio

YEAR	Interest Income to Total Income Ratio	Non-Interest Income to Total Income Ratio
2015 – 16	92.55	7.44
2016 – 17	92.22	7.78
2017 – 18	93.03	6.97
2018 – 29	93.20	6.80
2019 – 20	92.50	7.50
Total	463.50	36.49
Average	92.70	7.29
S.D	0.40	0.402765
C.V	0	7.44

Source: Annual and Reports of Cheruvannur Service Cooperative Bank

It is noted from the table that interest income varies during the study period with fluctuation and interest income as a percentage of total income lies between 92.22 percent and 92.55 percent with average value, i.e., 92.70 percent. There are no changes in the coefficient of variation Interest Income to Total Income. It is also observed, from percentage of total income lies between 6.8 percent and 7.78 percent with average value, i.e., 7.29 percent. The coefficient of variation for the non-interest income to total income exhibits 7.44 percent.

Table 6 - Deposit Ratio

YEAR	CASA deposit to Total Deposit Ratio	Credit to Deposit Ratio	Cost on Deposit Ratio
2015 – 16	20.99	101.38	6.29
2016 – 17	19.20	86.73	7.45
2017 – 18	18.27	89.57	7.20
2018 – 29	16.10	88.95	7.71
2019 – 20	13.04	84.95	6.66
Average	17.52	90.32	5.79
SD	3.062377	6.45	2.48
CV	17.47932	7.14	42.85

Source: Annual Reports of Cheruvannur Service Cooperative Bank

Table 6 indicated the Current Account and Savings Account (CASA) of Cheruvannur SCB. The Ratio of CASA Deposit to Total Deposit has been fluctuating from 13.04 percent to 20.99 percent. Thus, there is a fluctuating trend throughout the study. From this, it is revealed that the average Interest earned is 17.52 percent of CASA Deposit to Deposits and it shows a positive percentage. The above table shows that the Credit to Deposits ratio fluctuated from 84.95 to 101.38 percent. The average value of the Ratio is 90.32 percent. It is found that the coefficient of variation is 7.14. It also reveals that the Interest the Ratio of Interest paid on deposits as a percentage of deposits lies between 1.43 percent and 7.45 percent with average value, i.e., 5.79 percent. The coefficient of variation for the Interest paid on deposits is having a higher variation of 42.85 percent

PROFITABILITY RATIOS

To measure the financial performance of a CSCB, profitability ratios are the most important and reliable indicators because the banks may improve their absolute profits by employing additional resources; profitability ratios serve as important indicators of the efficiency with which operations on of the CSCB are carried on. The profitability ratio analysis is extremely important for management, responsible for the ultimate sources of the CSCB.

Growth of Net Profit:

Profit is a yardstick to measure the managerial efficiency of the CSCB. The CSCB is continuously earning a net profit, and the details of net profit earned by the CSCB have been presented in the following table.

Table: 7 Growth of Net profit

Year	Net profit (Rupees in Lakhs)	Annual Growth Rate (% age)
2015-16	48.59	-----
2016-17	37.66	-22.49
2017-18	44.08	17.05
2018-19	26.76	-39.29
2019-20	16.64	-37.82
Mean	34.75	
SD	13.03	
CV	37.49	

Source: Annual Reports of Cheruvannur SCB.

Table 7 reflects the net profit of the CSCB for five years. The result shows that net profit growth is in fluctuating trend during the study period and the highest percentage observed during the year 2017-18, i.e., 17.05 percent, but during the years 2015-16, 2018-19 and 2019-20 Negative growth rate of -22.49, -39.29, and -37.82 percent, the average value of net profit is 34.75 lakhs. Variation in net profit is 37.49 lakhs under study.

NET PROFIT AS PERCENTAGE OF TOTAL INCOME & EXPENDITURE

The Profitability of CSCB can be calculated through the net profit as a percentage of total income earned by the CSCB. Thus, net profit is nothing but a balance of profit as per the profit and loss account of the CSCB, and total income includes Interest and discount, commission, exchange, brokerage, and other miscellaneous receipts of the CSCB. This Ratio represents the income-generating capacity of the CSCB.

The familiar analytical tool to determine Profitability is the net profit ratio as a percentage of working capital. This ratio indicates the efficiency with which a CSCB deploys its total working capital to maximize its profits. Hence, the Ratio serves as an index to the degree of asset utilization of banks.

Table 8 - Net Profit to Total Income Ratio

(Ratios in Percentage)

Year	Net Profit to Total Income Ratio	Net Profit to Total Expenses Ratio	Net Profit to Working Capital Ratio
2015-16	12.65	15.31	1.08
2016-17	8.59	9.40	0.74
2017-18	8.29	9.16	0.72
2018-19	4.21	4.44	0.39
2019-20	2.37	2.72	0.22
Mean	7.22	8.20	0.58
SD	4.04	4.93	0.33
CV	55.89	60.03	57.68

Source: Annual Reports of Cheruvannur SCB.

The Ratio of net profit to the total income ratio of CSCB is given in Table 8. It is clear from the table that this Ratio has been fluctuating between 2.37 percent to 12.65 percent, with an average value of 7.22 percent. It shows that net profits are 7 percent of total income. Variability in net profits is more, i.e. 37.49 percent than that of total income, which is 24.65 percent, due to this variation in the Ratio is more i.e. 55.89 percent which is moderate. During the study period, there is a fluctuating trend in this Ratio.

Table 8 also exhibits the Ratio of net profit to total expenses of the CSCB. It fluctuates between 2.72 percent and 15.31 percent. With an average value of 8.20 percent. It shows that net profits are 8 percent of total expenses.

Another important measure of the Profitability of CSCB is profit as a percentage of total expenses. Total expenses of the CSCB include Interest paid and non-interest expenses, which in turn comprise human resources

expenses and other expenses. As net profits and total expenses are both part of the expenditure side of the Profit and Loss account, this Ratio, enables us, to analyze what is the percentage of net profits out of total expenses, if it is increasing, that means there is a proportionate increase in Net profits and total expenses and Net profits are growing more proportionately than total expenses.

The Ratio of net profit to working capital in the study period shows flexible trends during the study period. First, the Ratio lies between 0.22 percent and 1.08 percent. The average value of the Ratio is 0.58 percent, which shows that net profits are less than 1 percent of working capital except for the year 2015-16. Secondly, variation in net profits, is 37.49 percent, and variation in the Ratio is, 57.68 percent.

Table –9 Net Profit Margin

(Rs in Lakhs)

YEAR	Net Profit	Total Deposits	Net Profit Margin
2015 – 16	48.59	3191.17	1.52
2016 – 17	37.66	3617.77	1.04
2017 – 18	44.08	4119.75	1.07
2018 – 29	26.76	4776.72	0.56
2019 – 20	16.64	5868.88	0.28
Average	34.74	4314.86	0.89
SD	13.03	1050.59	0.48
CV	37.49	24.35	53.9

Source: Annual Reports of Cheruvannur Service Cooperative Bank

The Ratio of net profit to the total deposits of CSCB is given in Table 9. It is clear from the table that this Ratio has been fluctuating between 16.64 percent to 48.59 percent, with an average value of 34.74 percent. Variability in net profits is more, i.e.37.49 percent, than that of total deposits, which is 24.35 percent, due to this variation in the Ratio is more i.e.53.9 percent which is moderate. During the study period, there is a fluctuating trend in this Ratio.

Table -10 Total Income to Working Capital Ratio

(Rs in Lakhs)			
YEAR	Total Income	Working Capital	Ratio
2015 – 16	384.08	4488.35	8.55
2016 – 17	438.52	5111.18	8.57
2017 – 18	531.63	6134.86	8.66
2018 – 29	636.25	6798.75	9.35
2019 – 20	703.07	7027.85	10.00
Average	538.71	5912.19	9.11
SD	132.78	1089.63	0.63
CV	24.64	18.43	6.97

Source: Annual Reports of Cheruvannur Service Cooperative Bank

The Ratio of total income to working capital is indicated in Table 10. The analysis of the study period shows flexible trends during the study period. First, the Ratio lies between 8.55 percent and 10 percent. The average value of the Ratio is 9.11 percent. Then the variation in the Ratio is 6.97 percent.

THE CSCB QUANTITATIVE VARIABLES AND PROFITABILITY:

Using the co-efficiency technique of correlation, the current study attempted to analyze the extent of influence of interest income, other income, interest expenses, operating and others, and the Profitability of CSCB.

CORRELATION

Correlation is the relationship that exists between two variables. The quantitative economic variables compared to the Profitability of the CSC bank over the years under consideration. The queue of the Karl Pearson correlation coefficient formula is

$$r = \frac{\sum dxdy - \frac{(\sum dx)(\sum dy)}{n}}{\sqrt{\sum dx^2 - \left(\frac{\sum dx}{n}\right)^2} \sqrt{\sum dy^2 - \left(\frac{\sum dy}{n}\right)^2}}$$

The researcher in this study uses the Karl Pearson correlation technique to ascertain the relationship between the following:

- Interest earned and profits.
- Other income and profits.
- Interest Paid and Profits
- Operating and others expenses to Profits

H₀: There is significant relation between Net profit and interest earned, other income, interest paid, operating, and other expenses.

H₁: - There is insignificant relation between Net profit and interest earned, other income, interest paid, operating, and others expenses.

Table – 11

Karl Pearson Correlation Analysis of Quantitative Variables

SL. NO	QUANTITATIVE VARIABLES	CORRELATION RESULTS
1	Interest earned and Net Profit.	-0.90
2	Other income and Net Profit.	-0.90
3	Interest Paid and Net Profit	-0.88
4	Operating and others expenses to Net Profit	-0.78

- There is a high degree of a negative relationship between Interest earned and Profitability.
- There is a high degree of Negative relationship between other income and Profitability.
- There is a high degree of the negative relationship between Interest paid and Profitability.
- There is a high degree of a negative relationship between operating and other expenses to Profitability.

Based on the correlation result we reject the null hypothesis. Hence there exists an insignificant relationship between Net profit and interest earned, other income, interest paid, operating, and others expenses.

FINDINGS

An analysis that has been carried out by using the tools and methodology that explained at the beginning. The results of the analysis is presented below

1. The spread ratio of CSCB throughout the study period, maintained a stable trend. Interest income and expenses in relation to the working capital of the concern has been kept in tandem with the general trend. The ratio ranges between 2.16% and 2.5%.
2. The Burden ratio of the entity has been registered negative results under the reference period. A negative burden ratio indicates that the non interest income is not in a position to cover up the non-interest expenses of the organisation.
3. Average agricultural loan percent to total loan is only 22.48%. Agricultural loan to total loan percent is very poor. The gold loan to total loan is 23.35%. It is assumed that the secured loan is below 25%, which will keep pressure on loan and recovery operations of the co-operative.
4. Correlation analysis showed that there is an insignificant relationship between Net Profit and interest earned other income, interest paid, operating and other expenses.

Suggestions:

1. Since there is no specified standard spread ratio, it may not be appropriate to suggest a specified number for the same. An arbitrary ratio that suggested for the same is in between 3 & 4. Considering these; CSCB shall initiate the action to fine tune the spread ratio by taking into member satisfaction level. Low cost deposit mobilization from 'A' class members on a regular basis may be a solution to achieve standard ratio.
2. It is suggested that the CSCB should plan to diversify its activities to generate its non-interest income. The geographical and demographical resources in its area of operation should be considered for venturing into non-credit activities.

3. The low percentage of agricultural loan to total loan must be taken for its improvement. The agricultural loan amount should be improved by designing risk free loans. It is suggested that the kind component portion of the agricultural loan must be increased to enhance the genuineness of the loan.

Conclusion:

The study suggested that the bank should raise more low-cost deposits in order to strike a balance between them to reduce its cost of funds. Also, the bank has to take drastic steps to increase net interest spread as well as non-interest income by providing more other services. To conclude Cooperatives are the best-suited instruments for socio-economic development in rural areas. There cent techniques of management, which are developing fast, and if applied in cooperatives in a modified way to suit rural conditions, then the cooperatives can do wonders in uplifting the financial and social status of the rural masses.

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