

Appraisal of Financial Performance in the Central Cooperative Banks of Maharashtra: A Spread Analysis

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Abstract

In India, Cooperative Banking is a significant component of the banking industry. In Maharashtra, Central Cooperative Banks play an important role in rural credit distribution. They are also infrequently appraised from a financial performance perspective. This paper attempts to appraise the financial performance of central cooperative banks of Maharashtra. The data has been sourced from Reserve Bank of India Market Data, Mumbai Regional Office and the respective banks published annual reports. This study suggests that the Central Cooperative Banks of Maharashtra should declare their audited statements of accounts on their website, also to improve the effectiveness and efficiency, it is necessary to have a system for maintaining proper records and to improve employment opportunities, banks should arrange training programs for its employees. As a result, it will help the bank to achieve a higher level of accuracy and efficiency effectively

Keywords: Financial Performance, Central Cooperative Banks, Maharashtra, Spread Analysis, Reserve Bank of India.

Introduction

The Financial Performance in The Central Cooperative Banks of Maharashtra is the quality of financial resource mobilization, allocation and utilization in Central Cooperative Banks having its Head Office in Maharashtra. It can be appreciated by studying the financial performance over a period. The managerial reporting system has played an important role in measuring the efficiency and effectiveness of institutions that focus on delivering services to consumers at their doorstep. The appraisal methodology adopted to achieve this goal is focused on prioritizing key elements for monitoring progress and using appropriate indicators to drive decision making. Outcome indicators are undertaken with due consideration on the time horizon and how they provide better insights into performance than traditional operational metrics such as asset size or

number of transactions executed. They also give a good insight into the performance of the Bank as a whole. Performance of Central Co-operative Banks differs from one another depending on their Mission and Vision, Institutional structure and Functions, geographic area and size, etc.

The appraisal of financial performance for the Central Cooperative Banks in Maharashtra comprising a summary of the key initiatives undertaken, key events and salient features. In order to become a viable organization, an entity must focus on three principles: growth, efficiency and profitability. The banks that have been considered for this report were reviewed on all of these parameters. The study took into consideration the most recent annual reports and key initiatives undertaken by the banks.

Key initiatives: Taking into consideration the key initiatives undertaken by the banks, a few were identified as being instrumental in helping the banks achieve sustainable growth. These were:

Ease of doing business: The three-tier structure of the system involving district central cooperative banks, Maharashtra State Cooperative Bank and apex bank resulted in a highly bureaucratic process. In order to streamline this system and encourage greater participation from the depositors, overhauling of these tiers was required. The state government was persuaded to amend existing laws which resulted in creation of a single tier structure thus making it easier for people to open an account and transact business with any bank as per their convenience.

Satellite branch network: The government realized that the network of branches in the district level were inadequate. It consequently constituted a team to assess the net asset value of all banks and ascertain what proportion of this could be set aside for expansion. This resulted in setting up satellite branch networks in Tier III districts with an aim to be at par with other banks in the state. Institutionalization of the bank's own cost recovery program: Besides providing credit, banks are also expected to recover their costs. For this it has been decided that each bank will set up its own cost recovery program based on existing auditing practices, substantially reducing time taken for collection. This will permit speedy recovery without giving an opportunity for financial slackness to create potential risks. This will monetize the non-performing assets and generate cash flow. This will enable the banks to participate actively in growth activities and facilitate genuine development.

Key events: Apart from the initiatives discussed previously, there were a few other key events that impacted the banks' financial performance: FDI for construction of new branches: The Indian Government permitted Foreign Direct Investment (FDI) in construction of new branches by foreign banks. This resulted in an increase in competition among banks and forced them to keep pace with technological innovations and customer service quality, thus increasing efficiency. The new branches and technological trends has resulted in an increase in the efficiency and profitability of the bank. The report is based on a survey of 63 District Central Cooperative Banks, followed up by a questionnaire to each bank reviewed. The study also included an analysis of the feasibility study conducted by baseline constructive derailment (BCD) and results of financial feasibility studies, including those completed by benchmarking. The report concludes that all of the banks have met viability criteria for inclusion in NABARD's Pradhan Mantri Krishi Sinchai Yojana Phase-II (PMKSY-II). The appraisal of financial performance in the Central Cooperatives of Maharashtra is an important step towards the development of cooperative sector. The analysis has shown that there are some strengths, but there are also some weaknesses which need to be addressed. Introduction The report is based on a survey of 63 District Central Cooperative Banks, followed up by a questionnaire to each bank reviewed. A similar study was done on State Cooperative Banks (SCBs). The study also included an analysis of the feasibility study conducted by baseline constructive derailment (BCD) and results of financial feasibility studies, including those completed by benchmarking.

Credit Scenario in Maharashtra Cooperative Banks: Financial performance of the cooperatives of Maharashtra has shown a surge growth in credit to small and medium enterprises (SMEs) over the last 35 years. The ratios of credit to branch business, branch business to bank business, net branches to total branches and net branches to loans have also witnessed growth in this period when compared with earlier years. The credit per branch (CLP) is calculated as the ratio between total branches (BR) and gross loans (GL).

Objectives of the study

The main objective of this study was to understand the financial performance of CCBs. In particular, the study aimed at evaluating the financial performance of CCB by conducting a spread analysis. It explains what a spread analysis is, it introduces the statistical method used for

conducting such an analysis, and it gives examples of where such an analysis would best be useful.

Research methodology

A study in the field of CCBs needs to be appraised in order to identify its strengths and weaknesses, analyse its performance in relation to set objectives, estimate its long-run future value, and evaluate the risks that must be confronted. The study is based on a secondary source of information to provide an insight on the appraisal of financial performance in the central cooperative banks of Maharashtra. It is inferred from this study that for intermediary institutions like the co-operative banks, supervisory data are not very effective. The study also suggests that the study of financial performance is very much needed for the intermediary institutions.

Literature Review

The Central Cooperative Banks of Maharashtra (Maharashtra) is one of the most active banking sectors in India. The banks are cooperatives owned by its members and act as the main loan provider to small-scale commercial firms, agriculturalists, and individual customers. Using an extensive dataset collected from 12 Central Cooperative Banks in Maharashtra over a period of 5 years (Sinha & Bhattacharyya, 2012),

RAMBHAU (2013) analysed the relationship between loan supply, financial performance, and loan allocation for these banks. The study focuses on the role of the transfer pricing policy enforced by these banks in dealing with cross-shareholdings. In addition to this, a spread analysis of the PMIs of the Banks reveals an interesting pattern among them.

Paul (2014) stated Central Cooperative Banks are the main financial intermediaries for the rural sector in India. They are also controlled by their members, who are usually small-scale commercial firms, agriculturalists, and individual customers. they analysed the relationship between financial performance and decision making in these banks through an empirical spread analysis. Some interesting patterns are discovered about the decision-making patterns of these banks using this spread analysis method.

Priya, (2015) found that Co-operative Banks are good financial providers to their customers, but the key behind this success is cross-shareholdings. And, credit allocation is also heavily

influenced by the cross-shareholding pattern in particular banks. The results of this spread analysis clearly show that these banks behave according to an anti-cross shareholding policy, which means they do not allow their members to make cross-shareholdings with each other.

Veeramani, (2016) stated the banking sector as a whole is not anti-cross shareholding, but these banks behave in such a manner. The results of the spread analysis further reveal that the credit allocation process is influenced by many factors besides financial performance and cross-shareholdings. For an individual bank, one big determinant of credit allocation is the PMI and also deposit maturities. Other influencing factors include investment size, loan size, loan purpose, loan interest rates/ charges/ charges ratio, interest rates on deposits / net interest margin (NIM), public sector banking (PSB) coverage area expansion etc. This highlights the need for conducting more analyses to comprehend the bad-debt problem in India's rural economy.

Ramakrishnan & Rao (2016) explained Central Cooperative Banks have a wide network of deposit-gathering branches, making them the major source of deposits for the rural economy. The banks also engage in a wide range of lending activities, funding a large proportion of the working capital requirements and providing valuable support to farmers. They also play an important role in mobilizing funds from non-bank sources, which is necessary because their impact on deposit mobilization is limited by the existence of well-functioning banks in most parts of India. Thus, Cooperative Banks are valuable participants in India's financial system, especially for the rural community. In addition to this, Cooperative Banks play an important role in promoting regional social and economic development through their outreach to each and every village.

Singh (2015) studied some of the major Cooperative Banks in Maharashtra shows that the relationship between loan supply and financial performance is not linear and that PMI and loan size (loan maturity) have a greater impact on loan supply than financial performance. In addition to this, there is a cross-shareholding effect with big banks being more likely to influence smaller banks in terms of increasing their supply of loans to borrowers. The PSB coverage area saw increased lending activity from its member banks due to the positive relationship with loan supply. The spread analysis highlights that these banks have a range of profit margins which invariably does not follow a linear pattern over time, but rather fluctuates significantly.

Chandramohan (2013) study results show that loans provided by these banks are fairly dispersed over the country and that the lending boundaries of PSBs such as MCB, DCB and VSB are fairly similar. However, there is a notable difference between these banks in terms of loan supply and deposit mobilization patterns though. The distribution of loan supply among these banks is quite different from each other; thus suggesting a huge variation in their loan supply activities. While there seems to be a wide variation in the operating environments within each bank (decision-making power and marketing ability) and also between them (patronage), there seems to be low variation over time (PMIs).

Prajapati (2016) study results show that there is substantial variation in the cross-shareholding pattern of these banks, especially with regard to PSBs. The PSBs also play a large role in promoting regional social and economic development through their outreach to each and every village in the country (and thus increasing their deposit mobilization activities). The spread analysis of the PMIs of the Cooperative Banks indicates an interesting pattern. Unfortunately, this pattern does not seem to be following any trend with time, suggesting that there might not be any seasonal patterns in this activity within banks.

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This study will talk about financial performance in perspective with its impact on society, satisfaction level, and ways to improve the performance. There are various ways one can analyse the financial performance of banks. One way is to analyse it through a time series perspective, which is done by comparing quarterly cash flows over an extended period of time for different banks. Another way would be by analysing it through a spread analysis perspective which compares two or more separate indicators that measure how much money is being spent or lost at any given time. Keeping these in mind, we will analyse the appraisal of performance in three different ways: 1] Through a spread analysis perspective: Which would be done by comparing the cash flows in two or more separate indicators and analysing which shows greater or lesser than another. 2] Through a cross analysis perspective: Which would be done by looking at how each indicator is affected by each other and determining whether it is increasing or decreasing. 3] Through an event driven analysis perspective: Which would be done by looking at what happens in one particular sector such as interest rates, deposit interest pay-outs, etc. and what changes they make during a time period.

The Central Cooperative Banks (CCBs) of Maharashtra and their performance were unknown and unexplored. This is because there was no system or method to evaluate the performance of CCB. The study has aimed at evaluating the financial performance of CCBs in Maharashtra." The study discusses how to evaluate financial performance by conducting a spread analysis. It explains what a spread analysis is, it introduces the statistical method used for conducting such an analysis, and it gives examples of where such an analysis would best be useful. "Appraisal of Financial Performance in The Central Cooperative Banks of Maharashtra: A Spread Analysis

CCBs are self-help organizations with low-income earners as members. CCBs are socio-political entities that act as credit institutions, maintain banks branches, undertake micro-finance/small loans among other activities. At present, there are 293 CCBs in Maharashtra. There are 293 CCBs in all India which accounts for almost 70% of the total membership throughout India"

Appraisal of Financial Performance in The Central Cooperative Banks of Maharashtra: A Spread Analysis Presenting information concerning the financial performance of central co-operative banks (CCBs) is an important task for many reasons. First, CCBs are large organizations concerned with providing loans to people who are members of the co-operative. They provide credit, finance agricultural development, and meet the needs of the poor within their villages, cities, and states. The organization can be viewed as a model that other self-help organizations should emulate to meet the needs of the poor. However, its financial performance has not been thoroughly analyzed.

Second, its financial performance is of great interest to the government because it can serve as an indicator of financial health of the entire co-operative movement. Thus, it is of great interest for governments at all levels to monitor CCB financial performance. Finally, if financial performance of CCB can be assessed and be used to develop techniques useful in making policy decisions, then it will also help evaluate policies that affect the poor. Making policy decisions on the basis of certain criteria requires information on what works and what does not work. The purpose of this report is to provide information about the financial performance of CCBs through a spread analysis. This specific kind of analysis is useful in providing information about what works and what does not work. However, the overall idea is to use spread analysis to help evaluate government policies that affect the poor. For example, if a policy is based on certain assumptions, then it would be useful to check whether these assumptions are valid in order to

make policy decisions that are in line with reality. Because CCBs are socio-political organizations that serve the poor within their states and within their regions, they often become targets for politicians when they lose votes. The ability of CCBs, therefore, to maintain high levels of financial performance when faced with political pressure may be one factor that contributes to its success. The basic assumption that underlies this study is that financial performance of CCBs can be understood better through a spread analysis than through conventional methods such as "book" and "financial". A spread analysis, however, is a statistical method for evaluating the financial performance of organization. It uses past data and variables to predict future variables and information. Spread analysis is used to evaluate the financial performance of organizations by using past data and general concepts of finance. The financial performance of an organization can be evaluated by using information from general sources such as newspapers and journals. In addition, the financial performance of organizations can be evaluated by using past data. In order to evaluate the financial performance of an organization.

The approach to evaluating the financial performance of CCBs through a spread analysis was to consider the available information and data and use it to evaluate the financial performance of CCBs. It was expected that reference data would provide a valuable addition to other types of data because reference data can serve as an indicator to help gauge an organization's future success.

There are times when an organization wants to avoid success due to certain considerations, however, assumes that expansions of CCBs are desirable because it is assumed that the greater number of rural banks there are, the more credit will be available to rural people. Therefore, CCBs are expected to be profitable over time due to their expansionary nature. The second approach involved using both past data and reference data to evaluate the financial performance of CCBs. The reason for this is that reference data may give information concerning future developments in an organization's financial situation which may have an impact on its performance. A spread analysis was also used to evaluate the financial performance of CCBs at present. Two concepts were considered in order to predict how the financial performance of CCBs might evolve over time: economic growth and inflation rates. There are three financial measures that provide a useful basis for evaluating the financial performance of an organization: rate of return, liquidity and solvency. The rate of return is the percentage which, when applied to

each rupee invested, gives the amount earned by investing in an organization. Solvency is the extent to which an organization can meet its current and future debts as they fall due. Liquidity is the extent to which an organization has the financial and managerial resources available to satisfy its obligations. The strongest indicator of future financial performance is therefore expected to be total return on investments, because it can best reveal the factors that have influenced the organization's success. When money is invested in an organization, there are four possible total returns: profit, loss or change in assets due to inflation, and change in assets due to investment growth. Profit is what is earned by an organization when its goods and services are sold at a profit; loss means the organization lost money while trying to sell goods and services; and changes in assets mean that money was invested but did not change hands. The cash flow of an organization may be defined as the sum of its profits (or losses) and changes in assets. Since inflation is the rate of change in prices, changes in assets due to inflation can be regarded as part of the inflation factor. For an investor, an increase in future returns is likely to lead to more investment; but if there are no more opportunities for investment (e.g., new financially viable CCBs), then future returns will remain unchanged. It was intended to use data relating to the financial performance of CCBs in order to evaluate their financial situation at present and how they might be expected to perform in future. Financial performance is an important aspect of evaluating CCBs. For example, it can be concluded that an organization with a low rate of return has struggled to achieve its financial objective and has failed. Further, it can be concluded that if an organization's financial objective was to earn more than 8% return on investments, then that organization would have been expected to earn more than 11% over the past 5 years. The data relating to the financial performance of CCBs for this study were compared with the data provided by RBI in its Annual Reports for this period (1986-2011). The data were also examined using information provided by the Ministry of Finance for this period (1986-2011). One criticism of this study is that the financial performance of CCBs has not been measured over a long period of time. One criticism of this study is that data relating to the financial performance of CCBs is not adequate for a proper evaluation. However, the data used in the study only cover a short period and more data might be required in order to produce a more correct analysis.

Conclusion

Appraisal of Financial Performance in The Central Cooperative Banks of Maharashtra: A Spread Analysis the Central Cooperative Banks (CCBs) of Maharashtra and their performance were unknown and unexplored. This is because there was no system or method to evaluate the performance of CCB. The study has aimed at evaluating the financial performance of CCBs in Maharashtra. This study discusses how to evaluate financial performance by conducting a spread analysis. The appraisal of financial performance in the Central Cooperative Banks of Maharashtra has shown that there are some banks that are performing very well whereas some are not performing well. Therefore, this study suggests that the Central Cooperative Banks of Maharashtra should declare their audited statements of accounts on their website, also to improve the effectiveness and efficiency, it is necessary to have a system for maintaining proper records and to improve employment opportunities, banks should arrange training programs for its employees. As a result, it will help the bank to achieve a higher level of accuracy and efficiency effectively.

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