5. *"Financial Analysis of Co Operative Credit Societies in Shahapur – Thane"*

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ABSTRACT

Co operative banking came into existence in the year 1904 when the first co operative credit society act was passed. Owing to the increase in the demand for co operative credit a new act was passed in 1912. Ten to twelve members can form co operative credit society which can be registered under the co operative society's act. It is generally set up in a particular district or taluka with the prime objective of providing short term, medium term finance mainly to the agriculture sector composed of small and marginal farmers, landless labourers, craftsmen at a reasonable rate of interest and to make them free from the clutches of the money lender and other private credit agencies. Credit societies are controlled by registrar and state government. This paper attempts to analyze the financial ratios of two credit societies i.e. Dhanvardhini and P.P. Saneguruji sahakari patpedhi in Shahapur taluka of Thane district. An analytical research design is followed in the present study for the period of two years. The financial ratio comparison reveals that, the financial position of Dhanvardhini patpedhi is good compared to P.P. Saneguruji patpedhi.

KEYWORDS: Financial Ratios, Ratio Analysis, Co operative credit societies, Patpedhi.

INTRODUCTION

Co operation is self help as well as mutual help. It is a joint enterprise of those who are not financially strong and cannot stand on their own legs and therefore come together not with a view of getting profits but to overcome disability arising out of want of adequate financial resources and thus better their economic conditions. Credit cooperative societies are formed for providing finance to the poor farmer and needy members of the society at lower rate of interest.

The society collects funds from its members in the form of share capital as well as accepts deposits from general public. It also avails loans from state cooperative banks. The fund so collected are used in providing loans to the needy people, generally to the members as loans and advances on easy terms and conditions. This process of financing people saves them from exploitation by the money lenders who usually charges high rate of interest and stiff terms and conditions.

Co-operative societies are based on the principles of cooperation, mutual help, democratic decision making, and open membership. Co-operatives represented a new and alternative approach to organization as against proprietary firms, partnership firms, and joint stock companies which represent the dominant form of commercial organization. They mainly rely upon deposits from members and non-members and in case of need, they get finance from either the district central co-operative bank to which they are affiliated or from the apex co-operative bank if they work in big cities where the apex bank has its head office. They provide credit to small scale industrialists, salaried employees, and other urban and semi-urban residents. Urban Co-operative credit societies perform functions like accepting deposits from members and non-members, advance loans to its members, collecting the bills, accepted or endorsed by their members, and provide remittance facilities, arranging the safe deposit vault services to its members

Co-operative credit is divided into two type's short and medium term and long term credit. Short and medium term credit structure consists with three tiers – at apex level there is state co-operative bank, at the district level there is central co-operative bank and at the village or grass root level there is primary agricultural credit societies. There are urban co-operative banks which carry out regular banking activities. These banks & credit societies join the District Central Co-operative banks. Besides there are also co-operatives like the salary Earners co-operative societies which form part of co-operative credit system.

Finance is the life blood of trade, commerce and industry. Now-a-days, banking sector acts as the backbone of modern business. The banking sector is the lifeline of any modern economy. It is one of the important financial pillars of the financial system which plays a vital role in the success or failure of an economy. Urban Credit Co-operative Societies are one of the important constituents of the banking system of the country. They are relatively small banks in the co-operative sector primarily catering to the needs of persons of moderate and small means. These Urban credit co-operative societies basically aim at promotion of thrift/economy and mobilization of savings from the community they serve; provision of credit mainly to small borrowers and provision of banking and other subsidiary services to the customers.

Urban co operative banks and credit societies are working efficiently since the last 100 years on the basis ideology of co-operation. The working of the Urban Co-operative banks and credit societies will have right future keeping in view the special attributes and useful role that these banks and credit societies play in filling the credit gaps in the economy. Urban co operative banks and credit societies are unique in terms of their clientele mix and channels of credit delivery on account of their local feel and familiarity. However the erratic nature of the sector has called for a differentiated regime of regulation. In recent years, therefore, the Reserve Bank has provided regulatory support to small and weak urban co operative banks and credit societies at same time strengthening their supervision.

OBJECTIVES OF STUDY

• To analyze the financial ratios of the co operative credit societies.

• To offer suggestions helpful in improving financial efficiency on the basis of conclusion.

METHODOLOGY

This paper is basically a conceptual paper. It tries to understand the financial performance of Dhanvardhini and P.P.Saneguruji patpedhi from Shahapur taluka of Thane district. Information was gathered from sources like Annual reports of patpedhis, websites, research papers etc. The study is mainly based on secondary data which is collected, compiled and calculated from annual reports of the Dhanvardhini and P.P.Saneguruji credit societies. Ratio Analysis was undertaken with a view to studying financial performance. The financial ratio analysis was considered to be an effective tool in providing bird's eye view of the performance. The financial ratio represents the relationship between two accounting figures expressed mathematically. Ratio analysis technique is popular in the accounting system and helps in spotting the strengths and weakness of an enterprise. This data was subjected to rigorous financial Ratio Analysis. For the present study the ratios like debt equity, net worth, own capital to deposit, investment to deposit, credit deposit, cost of deposit, interest earned ratio, net margin etc. are taken into consideration for the year 2014-15 to 2015-16.

LIMITATIONS

1) Time constraint.

2) Availability of data in secondary source.

INTERPRETATION OF DATA

The secondary data have been tabulated, analyzed and interpreted. Summary has been presented below –

Sr No.	Particulars	Dhanvardhini patpedhi		P.P.Saneguruji patpedhi	
		2015	2016	2015	2016
1	Own capital	47895681.97	53399280.93	2680261	3219993
2	Deposit	216734392.05	237289544.58	15751315	16971303
3	Investment	98537804.75	133786721.75	3592063	4457896
4	Loans and advances	155836309	158756527.5	14293816	14832666
5	Interest paid on deposit	17163122	18671487	1014077	1071448
6	Interest received on deposit	28496327.33	31205728	1920451	2230680
7	Operating expenses	18616033	20179871	1199767	1289448
8	Gross income	28600415.3	31323387.8	2132004	2524401

(Source: compiled from annual reports of patpedhi)

Sr No.	Ratio	Dhanvardhini patpedhi		Average	P.P.Saneguruji patpedhi		Average
		2015	2016		2015	2016	
1	Debt – Equity ratio	2.60	2.19	2.39	3.08	2.55	2.81
2	Net profit to net worth ratio	0.073	0.076	0.074	1.18	1.15	1.16
3	Operating Expense ratio	0.65	0.64	0.97	0.56	0.51	0.53
4	Own capital to Deposit	22.09	22.50	33.34	17.01	18.97	17.99
5	Investment to Deposit	45.46	56.38	50.92	22.80	26.26	24.53
6	Credit depository ratio	71.90	66.90	69.4	90.74	87.39	89.06
7	Cost of Deposit	7.91	7.86	7.88	6.43	6.31	6.37
8	Interest earned ratio	18.28	19.65	18.96	13.43	15.03	14.23
9	Net margin ratio	10.37	11.79	11.08	6.99	8.72	7.85

(Source: compiled from annual reports of patpedhi)

a) Debt – Equity ratio - This ratio is called 'leverage ratio'. This compares the banks stake in the business with outside liabilities. Lower value of the ratio indicates that the leverage effect will be restricted to the minor role of debt and major capital being equity, the bank is supposed to be trading on thick equity. Lower values of debt-to-equity ratio are favorable indicating less risk. Higher debt-to-equity ratio is unfavorable because it means that the business relies more on external lenders thus it is at higher risk, especially at higher interest rates. A debt-to-equity ratio of 1.00 means that half of the assets of a business are financed by debts and half by shareholders' equity. A value higher than 1.00 means that more assets are financed by debt that those financed by money of shareholders' and vice versa. As per the above table debt equity ratio is higher than 1 it means more assets are financed by debt.

b) Net Profit to Net worth Ratio - The ratio of net profit to net worth shows whether profitability is being maintained or not. The net worth ratio is used to analyze the effectiveness of a company's utilization of shareholder investment to create a positive return on the investment. A high net worth ratio indicates to investors there may be excessive risk in investing. Table indicates that, the ratio is high for P.P.Saneguruji patpedhi which indicate risk for investors.

c) Operating expense Ratio - This ratio indicates the proportion of gross income being used for meeting the operating expenses. An increase in the ratio indicates a decline in the efficiency of the bank. A lower operating expense ratio indicates a greater profit for the investors. In simple words, the operating expense ratio reflects the percentage of income which is being utilized to pay operational and maintenance expenses. This ratio below one for both the credit societies.

d) Own Capital to Deposit Ratio: It signifies the ratio of own capital to total deposit. The data about the own capital to deposit ratio of selected Urban Co-operative Credit Societies is tabulated in the above table. From table it is clear that, Dhanvardhini patpedhi's average ratio is 33.34% and P.P.Saneguruji patpedhi's ratio is 17.99%. The ideal ratio is 10%, both the credit societies ratio was more than 10% but Dhanvardhini patpedhi is in a better position compared to P.P.Saneguruji patpedhi.

e) Investment to deposit Ratio: This ratio reflects the percentages of amount involve in liquid security and amount available at short notice the depositors. This ratio is very important since it denotes the availability of funds to serve the depositors at sudden or in adverse situation. Higher the ratio greater is the security for depositors. The average ratio of investment to deposit of Dhanvardhini patpedhi is 50.92% and P.P.Saneguruji patpedhi's ratio is 24.53%. According to this ratio also Dhanvardhini patpedhi is in a better condition than P.P.Saneguruji patpedhi.

f) Credit-Deposit Ratio: This denotes the % of loan to total deposits. Here only deposit amount and loan amount is considered. The data regarding credit-deposit ratio of selected Urban Co-operative Credit Societies is tabulated in the above table. The standard ratio of credit-deposit ratio is 72%. Dhanvardhini patpedhi's average ratio is 69.4% and P.P.Saneguruji patpedhi's ratio is 89.06%. As per this ratio the criteria is fulfilled by P.P.Saneguruji patpedhi and it is having better position compared to Dhanvardhini patpedhi.

g) Cost of Deposit: It denotes cost of fund which is available for lending. The cost of deposit ratio of selected Urban Co-operative Credit Societies is shown in above table. We can analyze that Dhanvardhini patpedhi's average ratio is 7.88% and P.P.Saneguruji patpedhi's ratio is 6.37%.

h) Interest Earned Ratio: It denotes the % of revenue on loan. It means the average interest earned on deposit. The above table indicates Dhanvardhini patpedhi's average ratio is 18.96% and P.P.Saneguruji patpedhi's ratio is 14.23%. Higher the ratio higher the profit but this has to be keep optimum so that good borrower will be available to societies. Among both the patpedhi ratio of Dhanvardhini patpedhi is little higher than P.P saneguruji patpedhi.

i) Net Margin Ratio: This denotes the difference between interest earned and cost of deposit. This is the gross margin available to society. The average net margin ratio of Dhanvardhini patpedhi's 11.08% and P.P.Saneguruji patpedhi's ratio is 7.85%. Higher the ratio better is the margin available for the patpedhi. Among the two Dhanvardhini patpedhi is having better margin.

CONCLUSION

From the above discussion we can conclude that, debt equity ratio is higher than one for both the co operative credit societies, it means more assets are financed by debt. Net profit to net worth ratio is high for P.P.Saneguruji patpedhi which indicate risk for investors. The operating expense ratio is low for both the credit societies. Own capital to deposit ratio indicates that, Dhanvardhini patpedhi is in a better position compared to P.P.Saneguruji patpedhi. Investment to deposit ratio is good for Dhanvardhini patpedhi than P.P.Saneguruji patpedhi. Credit deposit ratio indicates that, P.P.Saneguruji patpedhi is having better position compared to Dhanvardhini patpedhi. Interest earned ratio of Dhanvardhini patpedhi is little higher than P.P saneguruji patpedhi. Net margin ratio concludes among the two Dhanvardhini patpedhi is having better margin. Among the different ratios that are calculated Dhanvardhini patpedhi is having better situation than P.P.Saneguruji patpedhi.

RECOMMENDATIONS

Co-operative credit societies are raising their deposits through members and non- members as well as member's relatives. Credit societies should try to increase their deposits by opening branches in business areas, so that more own capital will be available and dependence on debt capital can be reduced

Co-operative credit societies are providing different types of deposit schemes i.e. fixed, recurring and daily deposit facilities along with compulsory saving etc. Credit societies should introduce attractive deposit schemes that offer competitive rates of interest.

These co-operative credit societies are providing different types of loan to the customers like housing, vehicle, personal, gold, education, article, mortgage etc. In order to attract more customers they should change their loan policies and make it more customers friendly.

Interest received on loans and advances is the main source of income for these credit societies but they should provide various ancillary services to add into their income as well as tapping of non income sources can be helpful to them.

Credit recovery is weak especially in rural areas and it has created sustainability crisis. Many of the Co-operative credit societies are facing problem of increasing overdue. In order to handle this problem strict control and supervision should be done, compromise settlement can be adopted, preventive as well as curative means can be adopted to handle problem of overdue.

There is a widening gap between the level of skills and the increasing computerization. Co operative credit societies should adopt skill up gradation of the staff, improving work culture and environment and need to encourage activeness among the members as well as professional attitude.

They are mainly facing competition from other co operative credit societies, as well as from multi state co operative credit societies. In order to face competition they need to widen their area of operation, adopt new technology, professional management, better investment options to customers etc.

To improve efficiency measures like collaboration with self help groups and micro finance institutions, attracting small savings, proper utilization of funds, developing corporate culture, new avenues of investments, etc. can be undertaken by the credit societies.

The state partnership has led to excessive state control and interference. They need to look into the overlapping regulations and provide healthy atmosphere for working and growth of credit societies. The government needs to have a serious look into the issues as they did not show an impressive growth in the last 100 years.

In Maharashtra state as on 31st March, 2015, there were 517 urban co-operative banks, 4,577 urban co-operative credit societies and 7,232 salary earners' co-operative credit societies in the State. About 22 per cent of the total non-agricultural credit societies were in loss. Co operative credit societies are very much helpful to the masses because they satisfy their financial needs. They are working at the root level/ base level. In order to strengthen the co operative banking we need to strengthen the financial institutes working at the root level.

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