

Performance of State Co-operative Bank in India : An Overview

Abstract

Co-operative banking sector in India has emerged as a significant component of the financial system, spreading even to the remotest corner of the country. The State co-operative banks which may also be called apex bank, stands at the top of the credit structure in a state. The objective of this paper is to measure the performance of the state co-operative banks in terms of profitability and the quality of assets. The measurement of profitability is done using different accounting ratios. The study shows that the profitability of state co-operative banks is highly affected by spread, burden and high operating expenses. We document that the profitability of state co-operative banks is significantly impacted by non-performing assets and poor recovery of loans. The study recommends that there is need to increase in non-interest income, decrease in operating expenses and exercise of careful scrutiny before advancing loans and proper vigilance afterwards.

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Introduction

The Indian cooperative movement, like its counterparts in other countries of the world has been essentially a child of distress. Based on the recommendations of Sir Frederick Nicholson (1899) and Sir Edward Law (1901), the Cooperative Credit Societies Act was passed in 1904, paving the way for the establishment of cooperative credit societies in rural and urban areas of the country. The Cooperative Societies Act of 1912 recognized the formation of non-credit societies and the central cooperative organizations/federations. The state patronage to the cooperative movement continued even after 1947, the year in which India attained freedom. The independent India accepted the concept of planned economy and cooperative organizations were assigned an important role. The policy of the Government towards the cooperative movement was guided by the recommendations of the Saraiya Committee, which stated that the cooperative society has an important role to play as the most suitable medium for the democratization of economic planning. Various expert committees, which examined the problem of rural credit subsequently, have come to the same conclusion, without exception, that in the Indian context, there is no alternative from the point of view of structural appropriateness, to cooperatives at the village level. The Rural Credit Survey Committee (1954), the first comprehensive enquiry into problems of rural credit,

Srusti Management Review
Vol.- III, Issue-II, July-2010
pp. 17-28

after a detailed examination of the entire gamut of issues including the social ethos of rural society, summed up its findings in the celebrated dictum that .cooperation has failed, but cooperation must succeed.

Since 1950s, the cooperatives in India have made remarkable progress in the various segments of Indian economy including banking. The Cooperative bank is an important constituent of the Indian Financial System, judging by the role assigned to co operative, the expectations the co operative is supposed to fulfill, their number, and the number of offices the cooperative bank operate. Though the co operative movement originated in the West, but the importance of such banks have assumed in India is rarely paralleled anywhere else in the world. The cooperative banks in India play an important role even today in rural financing. The business of cooperative bank in the urban areas also has increased phenomenally in recent years due to the sharp increase in the number of primary cooperative banks. Co operative Banks in India are registered under the Co-operative Societies Act. The cooperative bank is also regulated by the RBI. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

Cooperative banks in India finance rural areas under

- Farming
- Cattle
- Milk
- Hatchery
- Personal finance

Cooperative banks in India finance urban areas under

- Self-employment
- Industries
- Small scale units
- Home finance
- Consumer finance
- Personal finance

The co-operative banking sector in India plays an important role in enlarging the reach of institutional credit both from geographic and socioeconomic perspective. In fact the co-operative banking sector has emerged as a significant component of the country's financial system, spreading even to the remotest corners of the country. Co-operative movement in India is one of the largest movement's in the world. The structure of the co-operative banking sector in India is complex. Loan required by various sections of the people both in terms of location and tenor are supplied by different segments of the co-operative banking sector. While the urban areas are served by urban co-operative banks with a single tier structure, the rural areas are served by two distinct sets of institutions extending short-term and long term credit. With regard to short term credit co-operatives at the grass root level there are around 97,224 Primary Agricultural credit societies (PACS) dealing directly with the individual borrowers. At the central level (district level) District Central Co-operative Banks (DCCB), functions as a link between primary societies and State Co-operative Bank (STCBs). The State Co-operative banks, which may also be called Apex Bank, stands at the top of the credit structure in a state. It acts as a supervisory body at the top and arranges to spread the Co-operative movement. It is the final link in the chain between the individual members of the small scattered primary societies on the one hand and the general money market as also the Reserve Bank of India and the central Banking authority of the country on the other.

Objectives

The main objective of the paper is to analyse the performance of the State Co-operative Banks in terms of profitability and the quality of assets. Also, it has been tried to give a picture about the growth of State Cooperative Banks during the ten year period commencing from the year 1998-1999. A very brief description about the organization structure of these banks has also been provided.

Literature Review

The Co-operative movement started in India from the field of credit, as defense mechanism against usurious money lending. However, during the last decades, Co-operatives have assumed considerable significance as an instrument of economic development. Several studies have been made to measure the efficiency of commercial banks in India. By contrast, studies analyzing the efficiency of state Co-operative banks in India are far fewer.

Sen has attempted to examine the impact of new economic policy on Co-operatives. The study focuses the new economic policy (NEP) caused a lot of concern and apprehension among the Co-operators. As the economy will be decontrolled and opened up, competition will become intense and they would not be able to face this competition. However, most of these apprehensions may be only partially correct. He concluded that involvement of people in the planning process through Co-operatives can strengthen the democratic fibre and the government should recognize the relevance and significance of the Co-operative movement and make it an integral part of the NEP.

In this study, Rathod has given a general view about profit planning in banks and stressed on the awareness of break even point to improve the profitability. Ravindra Prasad (1976) traced out that the first and foremost merit of Co-operation is that it seeks to remove the evils of capitalism. Co-operation is a weapon of persons of moderate means. Deshmukh in his study, attempted to analyze the aspects of District Central Co-operative banks in the states of Andhra Pradesh, Rajasthan, Gujrat, Uttar Pradesh and used a few indicators for the purpose of reviewing overall progress or evaluating overall performance. He identified productivity, quality of advances, non-performing asset, and loan to priority sectors as the most important factors influencing the profitability.

Jain and Jain (1982) observed that emphasis on social goal, blocking fund in sick unit, rural branch expansion are the causes for declining profits. Ramesha observed that while the extension of financial sector reforms programmed mainly the prudential standards to co-operative banking segment on par with commercial banks may be justified on several counts, it can not be ignored that such standards were essentially contrived for the latter. It is argued that if Co-operative character of credit Co-operatives is to be preserved or promoted, then the prudential norms, system of governance and supervision and regulation, all should emanate from guiding principles of Co-operation.

The occasional paper on recovery management in rural credit is prepared at the behest of National Bank for Agriculture and Rural Development (NABARD). This paper concluded that NPAs greatly affect the financial health of the rural financial institution. High level of NPAs reduces risk-taking ability of rural financial institution. It also affects the credit rating of the RFIs there by restricting their ability to approach the public for capital subscription (tier 1 capital). Alternatively, a low rating substantially increases the cost of raising funds even for (tier 2 capital).

Methodology

For empirical part, this study have used secondary data published in the annual reports of the cooperative banks. These data have then been analysed further, wherever necessary, by applying accounting ratios. The study covers ten year period commencing from 1998-99 and ending on 2008-09 in order to give a comprehensive idea about the trend of performance of the cooperative banks during recent times.

Organisational Structure of State Co-operative Banks

Membership

Theoretically State Co-operative Banks are federation of central financing agencies of primary societies. But practically in some areas of several states they function as central Banks while in others they play the role of a primary society even by shouldering the responsibility of the

financing individual who is not at all associated with any primary society. State Co-operative Banks are two types i.e. pure and mixed: the former having only societies as members while the latter have both societies and individuals as its constituents.

Management

In the early stage, the representatives of individual members dominated in the board of directors on the ground that the major portion of capital introduced by them,. Later the need for giving more representation to Co-operative societies in the management was recognized. The survey report which re-commended major state partnership in share Capital of societies stated that "ordinary Government should not be allotted more than a third of the seats on the directorate for nomination of its representation. The nominees of Govt. should include Registrars of Co-operative societies, a representative of the finance Department and a banking or financial expert. Another recommendation is that special care should be taken in the selection of the chief executive of the bank which will be approved by the Govt.. So the ideal directorate of a State Co-operative Bank would include:

- One representative of each central Bank of the State
- Elected representatives of other member societies
- Elected representative of individual members in case of mixed type of state Co-operative Banks
- One director of the apex marketing society
- Nominee of the state Government, not exceeding three

Table 1 : State Co-operative Banks at a Glance (Rs. In Lakhs)

Year	No. of State Co-operative Banks	Paid up Capital (Rs.)	Total Deposits (Rs.)	Total Borrowings (Rs.)	Working Capital (Rs.)	Investment (Rs)	Total Loan Issued (Rs)
1998 - 99	29	57608	2530913	993370	4043920	1094315	3580053
1999 - 00	29	63475	2927892	1093544	4641047	1204339	3989345
2000 - 01	30	69711	3261295	1198335	5221689	1304016	3361254
2001 - 02	30	84659	3617028	1168348	5669673	1434440	3406531
2002 - 03	30	89715	3911178	1198508	6075475	1648501	3920286
2003 - 04	30	92455	4286301	1352265	6521269	1847687	3486449
2004 - 05	30	99228	4406765	1467097	7068213	2132806	4432506
2005 - 06	30	109424	4767221	1687166	7454366	2274990	4550354
2006 - 07	31	143668	4919758	2215024	8344690	2397029	4706898
2007 - 08	31	131617	5628692	2160638	8985076	2688544	5331376

Source : NABARD & NAFSCOB

Table 2 : Trend of growth in Deposits, Working capital and Total loan issued by State Co-operative Banks (in percentage)

Year	Total Deposits	Working Capital	Total Loan Issued
1999 - 00	15.68	14.76	11.43
2000 - 01	11.38	12.51	-15.74
2001 - 02	10.90	8.57	1.34
2002 - 03	8.137	7.15	15.08
2003 - 04	9.59	7.33	-11.06
2004 - 05	2.81	8.38	27.13
2005 - 06	8.17	5.46	2.65
2006 - 07	3.19	11.94	3.44
2007 - 08	14.40	7.67	13.26

Source: Result computed from annual reports of the Co-operative Banks

Analysis of Profitability of state Co-operative Bank

Working Capital

The State Co-operative Bank must have adequate working capital to play its role as the apex bank. The working capital of State Co-operative Bank consists of share capital, owned funds, deposits and loans. Although the major portion of working capital raised in the form of deposits.

From the table-1 it is clear that in the year 2007-08 the amount of working capital is Rs. 89,85076 lakhs, and the amount of deposits being Rs.5,628692 lakhs. So, more than 62% of the working capital comes from deposits. Although the primary source of fund is share capital. On 31.03.08 the total share capital of apex Banks in India Rs.-1,31,617 lakhs. This thus formed a small fraction (1.46%) of total working capital available with the banks Total borrowings in the year 2007-08 is Rs.-2160638 lakhs. Borrowings came from RBI, NABARD, Government, Commercial Bank and others. The power of augmenting capital in the shape of receiving deposits and taking loans is regulated by the co-operative laws of each state which vary from state to state. All surplus fund generated by all the co-operative societies in a state not consumed in the movement through the central Banks and not invested in the approved securities, should be invested in the state co-operative bank. the apex bank in the co-operative movement and the vital sources of deposits for the apex bank should be the co-operative movement itself. That is why the survey Report has recommended that “all co-operative central financing agencies should be statutory required to invest their surplus funds in the apex bank”.

Lending Policy

Being predominantly agricultural country, economic development of India depends on efficient provision of rural finance and apex banks are admittedly the best agency for catering to the same. State Co-operative Bank came into existence for balancing the funds and for financing the central Co-operative Banks which are mainly federation of primary agricultural credit co-operative. Total loan issued by State Co-operative Banks in India during 2007-08 is Rs. 5,331376 lakhs. The loan consists of short term and medium term. The loan issued for agricultural & non- agricultural purposes. Amount of loan issued for agricultural purposes in India during 2007-08 is Rs. 23,46,429 lakhs which is 44% of the total loan.

State Co-operative Bank in India always move into the rural areas and serve the rural population and enhance the flow of credit to identified priority sector. It has always been maintained that operating in rural areas and lending to the priority sector discharging social responsibility. So, profitability and fulfilling the social responsibility can not go together. Only the profitability can not be taken as a parameter of efficiency for co-operative Banking Sector. The idea of starting co-operative societies in India for combating rural indebtedness and supplying rural credit on a cheaper rate was first given by Frederick Nicholson.

However, for the very survival of the banks, earning of profit is necessary. According to Paul Samuelson's dictum that there is nothing like free lunch, there cannot be any healthy enterprise without the need for profit. So, profit of an enterprise is perhaps is the most appropriate measure to evaluate the viability of co-operative banks.

In this section, we have attempted to analyse the profitability of State Co-operative Banks in India by calculating trends of some important indicators and also by applying a few relevant ratios for a period of ten years, commencing from the year 1998 - 99. Trend analysis shows the direction of operation over a period of time. The trend analysis have been presented in respect of five key indicators, namely — i) income, ii) expenditure, iii) spread, iv) burden, v) profit. The main components of banks income are interest & discount, commission, brokerage are put under the head other income.

Table 3 : Financial performance of State Co-operative Banks in India (Rs. In Crore)

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Income	4194.28	4932.72	5389	5809	5572	6046	5420	5656	5242	5750
i) Interest income	4031.94	4678.08	5194	5508	5229	5314	5039	5320	4974	5657
ii) other income	162.34	254.64	195	301	343	732	380	336	268	93
Expenditure	4301.87	4785.05	5183	5632	5137	5673	5129	5278	4967	5565
i) Interest expended	3424.19	3765.37	4120	4192	3978	3998	3481	3658	3708	4397
ii) Provisions & Contingencies	558.25	650.18	689	1024	700	1204	1164	1039	502	372
iii) Operating expenses	319.43	369.50	374	416	459	471	484	581	757	796
Profit										
i) Operating profit	450.66	797.85	895	1201	1135	1577	1455	1417	777	557
ii) Net profit	-107.59	147.67	206	177	435	373	291	378	275	185

Source : NABARD & NAFSCOB

Table 4: Spread, Burden and Relevant Accounting Ratios

Year	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08
Spread	607.75	912.71	1074	1316	1251	1316	1558	1662	1266	1260
Burden	157.09	144.86	179	115	116	(261)	104	245	489	703
Working Capital	40439	46410	52216	56696	60754	65216	70682	74543	83446	89850
Interest earned as a percentage of working capital	9.97	10.07	9.94	9.71	8.60	8.14	7.12	7.13	5.96	6.29
Interest paid as a percentage of W/C	8.46	8.11	7.89	7.39	6.54	6.13	4..92	4.90	4.44	4.89
Spread as a percentage of W/C	1.50	1.96	2.05	2.32	2.05	2.01	2.20	2.22	1.51	1.40
Non interest exp as percentage of W/C	0.78	0.79	0.71	0.73	0.75	0.72	0.68	0.77	0.90	0.88
Non interest income as percentage of W/C	0.49	0.54	0.37	0.53	0.56	1.12	0.53	0.45	0.32	0.10
Burden as a percentage of W/C	0.38	0.24	0.34	0.20	0.19	(0.40)	0.14	0.14	0.58	0.78

Source: Results Computed From Annual Accounts of State Co-operative Bank

Table 3 presents the financial performance of state co-operative banks in India. The trend analysis has been made both in aggregate and component wise of the total income. As can be seen from Table 3 there was a decline in overall income and expenditure of state co-operative bank in 2002-03. However, the net profits increase mainly due to increase in miscellaneous income and reduction in wage bill. Overall income of the STCBs increased to Rs. 6046 crore in 2003-2004 from Rs. 5572 crore in the previous year. The total income of STCBs in the year 2004-05 declined to Rs.5420 crores, from Rs. 6046 crores in the previous year. Income of the STCBs decline by 7.3 percent on account of decline in both interest income and non interest income during 2006-07. Unlike schedule commercial Banks, sources of non interest income are relatively weak for STCBs. Interest income constituted the largest component having a share of 98.4 percent in the total income of STCBs in 2007-08.

The major items of expenditure are interest paid on deposits and other operating expenses. There was a decline in overall expenditure during 2002-03 due to reduction in wage bill by 6.6 percent which is the part of operating expense. In the year 2003-04, total expenditure increased to Rs. 5673 due to excess provision and operating expenses. In 2004-05 rise in operating expenses and decline in provisions and contingencies affect total expenditure. In 2005-06 total expenditure increased sharply to Rs. 5278 crore in 2005-06 from Rs. 5129 crore in the previous year. Despite increase in the both interest expenditure and operating expenses, total expenditure declined due to decline in the provisions & contingencies in the year 2006-07. In 2007-08, like interest earned, interest expenditure is the largest component having a share of 79 percent in the total expenditure.

The differences between interest earned and interest paid is defined as spread. Every bank try to increase the spread volume so that it is sufficiently available to met the non interest expenses and the balance increase to profit volume. Table 4 reveals that spread volume during the last ten years. All the State Co-operative Banks as a whole under study have witnessed a steady improvement during study period except for the year 2006-07 and 2007-08. In the year 2006-07 there was a decline in interest income where as interest expenditure was increased. In the year 2007-08 interest income constituted the largest component having a share of 98.4 percent in the total income. Similarly interest expenditure is the major part of the total expenditure. Interest income of this year is increased by 13.02 percent while interest expenditure increased by 18.58 percent relating to previous year.

Burden is defined as the difference between non-interest expenses and not interest income of the banks. So, it represents non-interest expenses, which is not covered by non-interest income, which is adjusted with spread. Therefore, banks always try to maintain burden at the minimum so as to get higher profit. During the study period, except for the year 2003-2004 the burden volume increased substantially. As can be seen from the aforesaid table the volume of burden is very high in the year 2006-07 and 2007-08. In these year operating expenses is very high, where as other income is very low. Total operating expenses of the year 2006-07 is Rs. 757 crore which is 15.2 percent of total expenditure. Operating exp. is increased by 30.3 percent than the previous year. In 2007-08 total operating expenses is Rs. 796 crore, which is 14.3 percent of total expenditure. Operating expenses is increased by 5 percent than the previous year.

Profit is taken to be an important objective for survival and growth of any enterprise. Profit is the result of revenue function and cost function. Stated otherwise it is the difference between spread and burden for a Co-operative bank.

There was decline in overall income and expenditure during 2002-03. However the net profit increased due to increase in other income. Out of 24 reporting STCBs, 21 have earned profits aggregating to Rs. 463 crore, while 3 made losses amounting to Rs.29 crore. In the year 2003-04 there was a increase in overall income and expenditure. Net Profit in this year is affected by other income and additional provisioning. Operating profit is increased due to positive impact of burden during the year 2003-04. In the year 2004-05 there was a decline in other income on the one hand and rise in operating expenses on the other, resulted in a decline in operating profits. Net profits also declined due to provisions. 26 out of 31 STCBs earned profits aggregating Rs. 328 Crore, while 4 made losses amounting to Rs. 37 Crore. One bank reported neither profit nor loss. In the year 2005-06 although operating profits of STCBs were decreased, their net profits increased mainly on account of a substantial decline in provisioning. 27 out of 31 STCBs earned profit aggregating Rs. 408 Crore, while 4 made losses amounting to Rs. 30 Crore. Due to increase in interest expenditure and operating expenses operating profit for the year 2006-07 was decreased significantly (45.2 percent). However sharp reduction in provisions and contingencies constrained the decline in net profits. Out of 31 STCBs, 27 STCBs earned profits aggregating Rs. 319 Crore,

while 4 of them made losses amounting to Rs. 44 Crore during the year. In the year 2007-08, operating profit was Rs. 557 Crore and net profit was Rs. 185 Crore. About 82 percent of the total number of reporting STCBs were in profit in 2007 - 2008. Although there was the net profits during the year but there was a decline in the rate of growth of their profits. Operating profits was declined by 28.3 percent and net profit was declined by 32.8 percent. Out of 31 STCBs 23 banks earned profits aggregating Rs. 234 Crore, while 5 of them made losses amounting to Rs. 49 Crore during the year.

Only the quantitative information regarding profitability fails to provide the clear cut view of the state Co-operative Bank. So ratio analysis is used to substantiate the trend analysis to identify the causes of changes in profit and profitability over a period of time. Two sets of ratio have used. They are :

- i) Spread Ratio
- ii) Burden Ratio

Spread Ratio

Profitability of banks is generally determined by spread. Simply difference interest earned and interest paid constitutes the spread. The three spread ratios are as under.

- i) Interest earned as a percentage of working capital.
- ii) Interest paid as percentage of working capital.
- iii) Spread as percentage of working capital.

The ratio of interest earned as percentage of working capital depicts the rate at which a bank earns income by lending fund. The ratio of interest earned as percentage of working capital are shown in table 4. During the study period this ratio varied in between 9.97 percent in 1999 and 6.29 percent in 2007-2008 as can be seen from table 4. A closer examination of the ratio reveals that growth remained inconsistent in the year 2006-2007 and 2007-2008. This clearly indicates that state Co-operative banks is not able to employ their funds in the most efficient manner during the year 2006-2007 and 2007-2008.

Interest paid on deposits and borrowing is one of the major components of cost structure. The ratio of interest paid as percentage of working capital is an indicator of the rate at which bank incurs expenditure by borrowing funds. The ratio almost consistent upto the year 2001-2002, after that the fluctuations of the ratio are observed to be high in between 6.54 percent and 4.89 percent.

The ratio of spread as percentage of working capital is an important one. Profitability of the banks are judged by this ratio. It can be seen from table 4 that on an average this ratio ranged in between 1.50 percent and 2.32 percent and indicating little fluctuation. But in the year 2006-07 and 2007-08 this ratio is not satisfactory. In the year 2006-07 the interest income of the STCBs declined by 6.5 percent where as interest expenditure is increased by 1.4 percent which affect the spread of that year. In the year 2007 - 08 interest income increases by 13.7 percent on the other hand interest expenditure increases by 18.6 percent.

Burden Ratio

Profitability of Co-operative Banks is also affected by burden. Higher is the burden, lower is the profitability. So proper control of burden is required if a bank wants to boost up its profits. The three burden ratios are:

- a) Non-Interest expenditure as percentage of working capital.
- b) Non-Interest Income as percentage of working capital.
- c) Burden as a percentage of working capital.

Non-interest expenditure of Co-operative banks generally man power expenditure like salaries, allowance etc. As it is presented in Table-4, the ratio of non interest expenditure as percentage of working capital of the STCBs ranges in between 0.71 percent and 0.90 percent. It indicates non-volatile nature of the non- interest expenditure during the study period. In the year 2005-06 total operating exp is Rs. 581 crore out of this wage bill consists of Rs. 381 crore, which is more than 65 percent. Similarly the percentage in 2006-07 was 52.57 percent and 2007-08 was 53.39 percent. Therefore it can be inferred that the state Co-operative Banks operating in India have spend more on manpower than other exp.

Other sources of income of the banks are commission, brokerage, service charge and other miscellaneous income. In India these income of the STCBs plays little role in meeting the not interest expenditure. Ratio of other income as percentage of working capital during the period under study is depicted in Table 4. State Co-operative banks had very limited source of non-interest income. In the year 2006-07, percentage of non-interest income to total income was 5.1 percent and in the year 2007-08 it was only 1.6 percent. From the table 4 it was clear that only in the year 2003-04 the percentage of not interest income to working capital is satisfactory. The percentage was very poor in the year 2007-08.

Table 4 depicts the ratio of burden as percentage of working capital of the STCBs during the study period. In the year 2003-04 this percentage is satisfactory. But in the year 2006-07 and 2007-08 this percentage is affects the profitability of the STCBs.

Asset quality of state Co-operative Banks

Asset quality is an important aspect of the evaluation of banks. Prudential norms relating to asset classification have been extended to the State Co-operative Banks since 1996-97. The assets classification norms for the Co-operative banks have been further tightened from the year ended March, 2000. The Co-operative banks are required to make a general provision in standard assets at the minimum of 0.25 percent of such assets effective from 1999-2000. The aggregate NPAs of State Co-operative Banks were estimated at Rs. 2748 crore and formed 12.6 percent of their out standing loans as at the end of March 1999 (Table 3). Out of the 26 reporting banks, 6 banks were found to have NPAs which was less than 5 percent of the outstanding loans and advances. As against this 5 banks reported NPAs above 50 percent of total loans.

Table 5 : Asset quality of State Co-operative Banks in India (Amount in Rs. Crore)

Year	Substand ard Assets	Doubtful Assets	Loss Assets	Total NPA	Total Loan outstanding	NPA to loan outstanding Ratio (Percent)
1998 – 99	1445	1221	82	2748	21809	12.6
1999 – 00	1248	1374	136	2758	25703	10.7
2000 – 01	2178	1520	191	3889	29848	13.0
2001 – 02	2403	1821	261	4485	32111	14.0
2002 – 03	3535	2443	306	6284	32798	19.2
2003 – 04	3288	3010	250	6548	35105	18.7
2004 – 05	2961	1975	1136	6072	37346	16.3
2005 – 06	2763	2292	1680	6735	39684	17
2006 – 07	2957	2625	1122	6704	47354	14.2
2007 – 08	2779	2652	737	6169	48228	12.8

Source : NABARD & NAFSCOB

The overall non performing assets of state Co-operative banks declined both in absolute and percentage terms during 2004-05 although the NPAs to total loans ratio at 16.3 percent continued to be high. The overall NPAs of STCBs increased both in absolute and percentage terms during 2005-06 in contrast to a decline witnessed during the previous year. Substantial asset slippage continued during the year with a decline in the substandard assets and increase in doubtful and loss assets. In the year 2006-07 percentage of NPAs to loan outstanding was 14.2 percent. NPAs of STCBs varied widely across the states at end of March 2007. In some states such as Hariyana, Punjab and Rajasthan NPAs were less than 3 percent while in other states (Arunachal Pradesh, Assam, Nagaland and Bihar) NPAs were more than 40 percent. Only in eleven out of 31 states/UTs the NPA ratio was less than 10 percent. The recovery rate of STCBs also varied significantly across the states. During 2007-08 NPAs of STCBs posted a decline in absolute terms. The ratio of NPAs to loans outstanding also stood at a lower level of 12.8 percent at the end of March 2008 as compared to its corresponding level of 14.2 percentage at end of March, 2007.

Capital adequacy norms and State Co-operative Banks

In order to strengthen the capital structure of STCBs, in the context of financial stability of the whole system and pursuant to the announcement in the midterm review of the annual policy statement for the year 2007-08 all STCBs were advised to disclose the level of Capital to Risk Weighted Asset ratio (CRAR) as on March, 31 2008 in their balance sheets and there after every year as 'notes on accounts' to their balance sheet. The task force on revival of rural Co-operative Credit Institutions (Short terms) in its reports recommended as " The package will include assistance necessary to bring all Co-operatives, including Primary Agricultural Credit Societies (PACS), to a minimum CRAR of 7 percent. PACS, DCCBs and STCBs will raise this ratio within three years to 9 percent. This increase in CRAR shall be met by the PACS, DCCBs & STCBs from its own resources.

The State Co-operative Bank being the apex bank in the Co-operative structure of the state has a positive role in the development of the Co-operative movement of the state. Its extensive branch networks with rich even in remote areas, makes it an important instrument for achieving greater financial inclusion. They act as a liaison between the rural population and the Government and participate in discussion on plans & policies of the Government for the bettering the lot of the people in the country side on Co-operative lines. As a result of the acceptance of the recommendation of the All India Rural Credit Survey Committee there has been a significant change in the role of the State Co-operative Bank. The State Governments are now responsible for drawing up plans for rural credit in consultation with RBI for implementation of planned programmes with the help and support of the Co-operative financing agencies on the credit side. Economic development of India depends on the adequate supply of rural finance, as India is a agricultural country, State Co-operative Banks are admittedly the best agency for catering the same.

Over the last hundred years or more co-operatives are made substantial contribution to the country. It is revealed from the above discussion there is a manifold growth of the state co-operative banks in India. But the financial performance of state co-operative banks continued to be characterised by several weakness such as high NPA, poor recovery and accumulated losses. After the introduction of prudential norms, the non-performing assets have adversely affected the profitability of state co-operative banks in two ways. First there is a loss of interest income to the extent of interest accrued on NPAs since income recognition is limited to only standard assets. Secondly the state co- operative banks has to divert a part of profit for loan loss provision to

cover the incremental portion of NPAs. As on March 31, 2007, 4 out of 31 state co-operative banks incurred losses which together amounted to Rs 44 core. In that year the amount of non performing assets was Rs.6704 core. Which is 14.2 percent of the outstanding loans. Recovery of loans to demand was 85.7 percent. The recovery of loans to demand as on March 31, 2006 was 87 percent and 4 out of 31 state co-operative banks incurred losses which together amounted to Rs.30 core. In that year interest income contributed almost 94 percent of total income as they had very limited sources of non interest income. On the other hand, their operating expenses continued to rise. In the year 2007-08, there was a sharp fall in the growth of loans and advances of the STCBs. This fall in growth resulted in bringing down the share of loans and advances in the total assets of STCBs. As a major part of the loans from STCBs being apex level institutions go towards the lower tier institutions in short term credit structure, a decline in growth of loans from STCBs implied reduced lending to the lower tier institutions. As on March 31, 2008, 5 out of 31 state co-operative banks incurred losses which together amounted to Rs. 49 core. About 82 percent of the total number of reporting STCBs booked net profit in 2007-08. Although STCBs booked net profits during the year, there was a decline in the rate of growth of their profits. In the year 2006-07 and 2007-08 there was a decline in the rate of growth of the profits due to high operating expenses and provisions. As on 31st March, 2008 the amount of non performing assets was RS. 6169 crore which is 12.8 percent of the outstanding loans. Recovery of loans to demand was 84.6 percent. So non-performing assets is a burden to State co-operative banks. Reduction of profitability and shrinkage of loan due to high NPA so that the STCBs are not able to reduce the interest rate in relation to other bank rate which adversely affects their competitiveness and leads to poor credit expansion. Moreover, charging high provision on the NPA and the cost of servicing the STCBs are bound to charge higher interest on the performing borrowers. The progress of state co-operative banks during the study period is satisfactory. The Government should recognise the relevance and significance of the state co-operative bank and make it an integral part of the new economic policy.

Findings

The foregoing analysis of the State Co-operative Banks has revealed the following facts in respect of functioning and performance of these banks:

- a) Increase in volume the business and also growth of interest income were the factors responsible for enhancing the profitability of the banks.
- b) High operating expenses made a negative impact on profitability.
- c) High NPA, poor recovery of loans highly affected the profitability of banks.
- d) Asset quality is an important aspect of evaluation of banks. Substantial asset slippage or increase in substandard assets, doubtful assets and loss assets has affected the overall profitability of State Co-operative Banks.
- e) Non-interest income is relatively low for State Co-Operative Banks.
- f) Large increase in provisions and contingencies resulted in sharp decline in net profits of the Banks.
- g) As a result of higher provisioning due to incremental NPAs and the cost of servicing the State Co-Operative banks are bound to charge high rate of interest.

Conclusions

In the course of study, factors influencing total earnings, total expenditure and thereby the profitability of state co-operative banks in India have been examined. It can be concluded that there was a manifold growth of the STCBs in India. In a co-operative society, service to members had been given the top most priority and creation of surplus took the back seat. However, for

survival and sustenance of these banks, surplus creation must also be given the due emphasis. In the State Co-operative Banks, like the nationalized commercial banks, NPA is a major source of concern. NPAs constitute a real economic cost and they reflect the application of scarce capital to unproductive uses. Therefore utmost vigilance should be exercised at the time of granting loans so that they are channelised to the viable projects and strict monitoring should be there for timely recovery of such loans. The State Co-operative Banks must strike a balance between fulfilling social needs and with the optimum usage of funds.

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