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A STUDY ON THE FINANCIAL STATUS OF MANJERI CO-OPERATIVE URBAN BANK LTD

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Abstract

A co-operative may be defined as a business owned and controlled equally by the people who use its services. Co-operatives can act as an effective media for the socio-economic reconstruction of the country. This study is on the financial analysis of Manjeri co-operative urban Bank LTD. The objective of the study is a) To identify and measure thè financial status of thè urban Bank. b) To examine thè growth in different aspects such as liquidity, profitability and long term solvency of the urban co-operative Bank. C) To suggest appropriate measure for improving thè status of thè urban Co-operative bank. The source of data were the published annual reports of Bank from 2016-2017to 2020-2021.financial analysis has been done with tools such as financial ratio, comparative financial statements, common size statements etc. The study helps to understand the working capital position, per cent changes in profits deposits and loans. The study also analysed the capital base of the Bank.

Keyword: Co-operative bank, Financial Analysis, Liquidity

INTRODUCTION

A Co-operative form of life has been in existence since dawn. The co-operative movement which saw the light of the day in Europe had spread throughout the world. An organized type of co-operative movement dates back to around 18th century. In India , the origin of co-operation can be traced back to very ancient time. Co-operative banks are small financial institutions that offer lending facilities to small businesses in both Urban and non-Urban regions. These are the monitored and regulated by the RBI and comes under the Banking regulation Act 1949 as well as the banking laws act,1965.The urban co-operative banking sector is a major innovation in the co-operative sector.

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SCOPE AND SIGNIFICANCE OF STUDY

Significance of performance evaluation in an organization for sustainable growth and development has been recognized since long. Financial analysis is done to select the information relevant to decision under consideration to the total information contained the financial statement.

STATEMENT OF THE PROBLEM

The study mainly aims to understand financial position and performance of Urban co-operative bank in Manjeri. No doubt that the financial statement contains a lot of accounting figures and data. The figured contained in the financial statement cannot speak themselves. Thus it becomes necessary to analyse financial statement in order to understand more about profitability and financial position of the bus

OBJECTIVES OF THE STUDY

(1)To identify and measure the financial status of the Urban co-operative bank.

(2)To examine the growth in different aspects such as liquidity, profitability and long term solvency of the Urban co-operative bank.

(3)To suggest appropriate measures for improving the status of the Urban co-operative bank.

RESEARCH METHODOLOGY

Descriptive kind of research design was used for this study because this study required secondary data to analyse the comparative financial statement of the Urban co-operative bank. For the purpose of the study the financial statement of Urban co-operative bank were selected.

The study exclusively based on secondary data which were collected from the website of the respective bank and from other websites .The data is collected from book, journals, annual report and other published sources. The tools for analysis were liquidity ratio, solvency ratio, profitability ratio.

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DATA ANALYSIS

The analysis mainly involves analysis of financial performance of the bank with the help of various financial analytical tools like financial ratios, comparative statement analysis and common size statement analysis etc.

RATIO ANALYSIS OF FINANCIAL PERFORMANCE

Financial ratio indicates the financial position of the bank. A company is deemed to be financially sound if it is in a position to carry on its business smoothly and meets its obligations, both short term as well as long term, without strain. It is a principle of finance that the short term requirements of funds and long term requirement should be met out of long term funds.

The financial ratio analysis is also one of the important methods of analyzing financial status of a business. The financial ratio can be used to measure a firm's liquidity, solvency, profitability and efficiency in utilizing its assets. The financial ratios calculated intend to show the broard trends and help towards the financial decision making**.**

FINANCIAL CLASSIFICATION OF RATIO

- **Liquidity ratio**
- **Solvency ratio**
- **Profitability ratio**

LIQUIDITY RATIOS

Liquidity refers to the firm's ability to pay its current liabilities out of its current assets. Liquidity ratio is used to measure the liquidity position or short term financial position of the firms. There ratios are useful to creditors and commercial bank that provide short term credit.

- ### CURRENT RATIO

Current ratio is defined as the current assets to current liabilities. It shows the relationship between current assets and total current liabilities. In short current ratio is measure of the ability

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of firm to pay its current liabilities out of current assets. Current assets also called working capital ratio or banker's ratio. Generally current ratio 2:1 is considered satisfactory or ideal. It is calculated as follows:

Current Ratio= Current assets /current liabilities

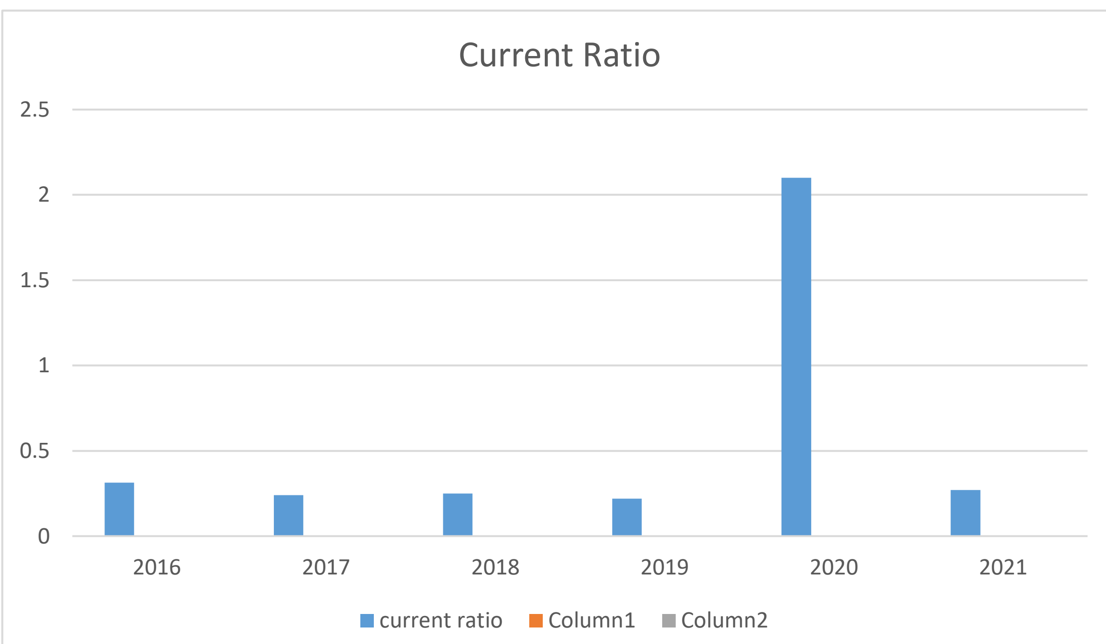
Table. 1

CURRENT RATIO

(Rs.Cr)

Year	Current assets	Current liabilities	Current ratio
2016	1104.93	3518.22	0.31
2017	1094.84	4469.57	0.24
2018	1213.25	4812.19	0.25
2019	1247.19	5656.52	0.22
2020	13536.87	6203.49	2.1

Source: Annual reports of Urban co-operative bank



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INTERPRETATION

Current ratio represents improvements in the liquidity position of a firm. The rule of thumb of current ratio is 2:1. It implies that for every one rupee of current liabilities, 2 rupee of current assets are available to meet them. A firm with higher current ratio has better liquidity and short term solvency. From the table1 and Figure 1 shows last 6 years current ratio. The current ratios were 0.31, 0.24, 0.25, 0.22, 2.1 and 0.27 for the years 2016, 2017, 2018, 2019, 2020 and 2021 respectively. The higher ratio in last six years is 2.1 in 2020 and the other ratios are below ideal ratio were not satisfactory.

- SOLVENCY RATIOS

The term solvency refers to the ability of a firm to pay its outsiders liabilities. It may be short term solvency or long term solvency. The balance sheet discloses the long term financial position in the form of source and application of long term funds in the business.

DEBT EQUITY RATIO

This ratio indicates the relative proportion of debt and equity in financing the assets of a firm. It expresses the relationship between debt and equity. The standard debt equity ratio is 2:1.

Debt equity ratio = Long term debt/ Owned fund

Table 2

Debt equity ratio

Year	**Long term debt**	**Owned fund**	**Ratio**
2016	3518.22	7598.30	0.46
2017	4469.57	7300.23	0.61
2018	4812.19	7751.68	0.62
2019	5656.52	8566.75	0.66
2020	6203.49	76814.80	0.08

Source: Annual report of Urban co-operative bank

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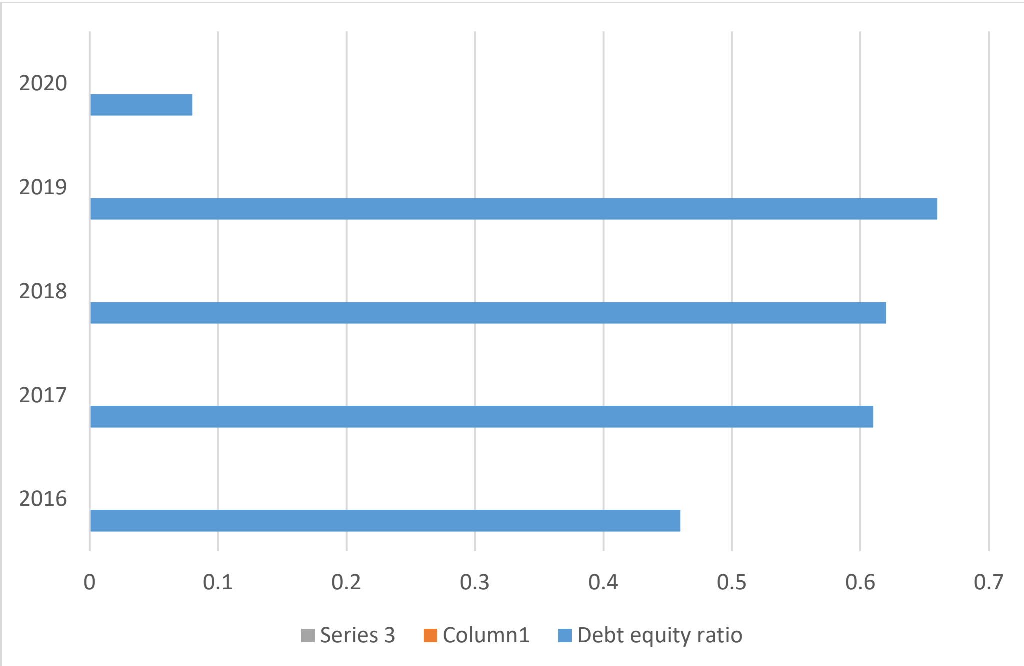

INTERPRETATION

The table.2 shows that the debt equity ratios are 0.46, 0.61, 0.62, 0.66 and 0.08 for the years 2016, 2017, 2018, 2019 and 2020 respectively. The standard norms of debt equity ratio is 2:1. The debt equity ratios are not satisfactory. The low debt equity ratio indicates less risk attached to the bank.

PROPRIETORY RATIO

Proprietory ratio establishes the relationship between shareholders or proprietor's fund and total assets. This ratio shows how much funds have been contributed by the shareholders in the total assets of the firm. Proprietory ratio is also known as equity ratio or net worth ratio. Generally a ratio of 0.50:1 or above is considered as ideal ratio.

Proprietory ratio = shareholder's fund/ Total assets

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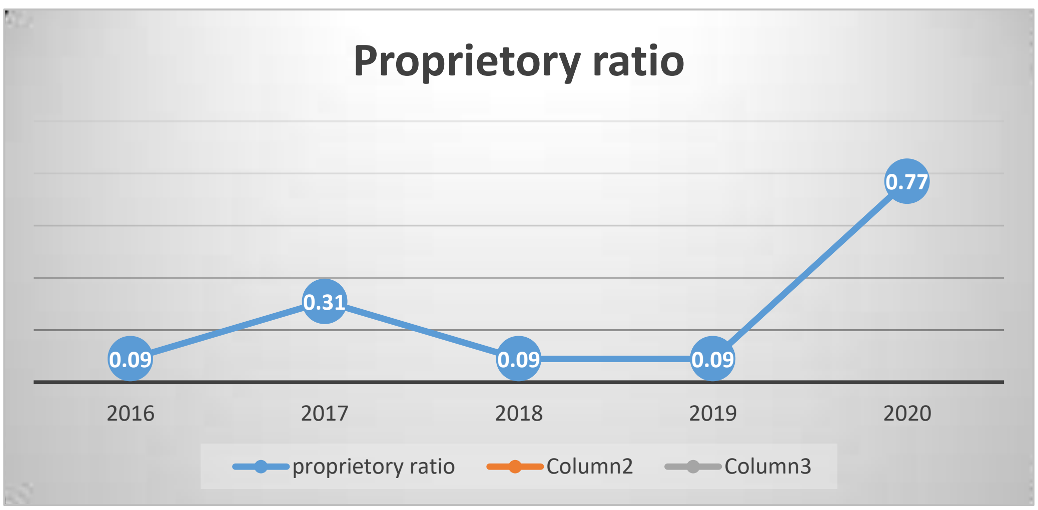
Table 3

Proprietory Ratio

(RS.Cr)

Year	**Shareholder's fund**	**Total assts**	**Ratio**
2016	7598.30	81281.40	0.09
2017	7300.23	23510.00	0.31
2018	7751.68	84225.21	0.09
2019	8566.75	94186.65	0.09
2020	76814.80	9961.64	0.77

Source: Annual report of Urban co-operative bank



INTERPRETATION

The Table.3 shows that the proprietary ratios are 0.09, 0.31, 0.09, 0.09 and 0.77 in the years 2016, 2017, 2018, 2019 and 2020 respectively. Generally proprietary ratio 0.5:1 or above is considered as ideal ratio. A higher proprietary ratio indicates that the firm is less dependent on creditors or its working capital. A high proprietary ratio indicates a sound financial position.

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FIXED ASSETS TO NETWORTH RATIO

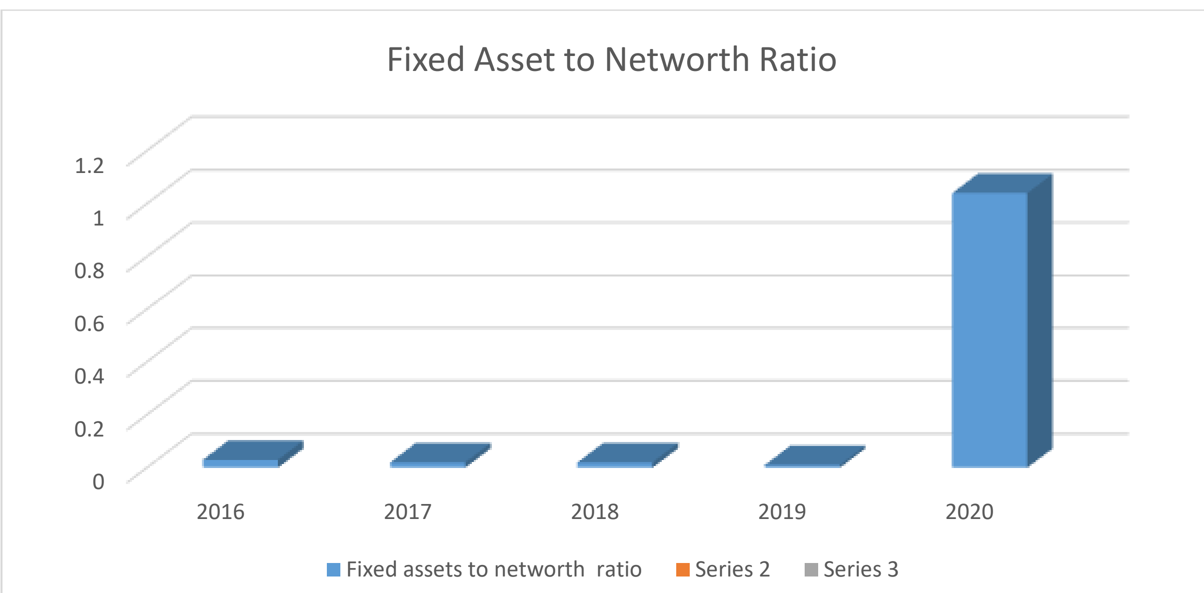
This ratio establishes the relationship between fixed assets and networth or proprietor's fund. For calculating this ratio the two components required are fixed assets and proprietors fund. This ratio indicates the extent to which shareholder's funds are invested in the fixed assets. Generally the fixed assets should be purchased out of shareholder's funds.

Fixed assets to Networth ratio = Fixed assets / Networth

Table 4

Fixed assets to Networth ratio

Year	Net fixed assets	Networth	Ratio
2016	236.63	7598.30	0.03
2017	185.36	7300.23	0.02
2018	178.67	7751.68	0.02
2019	112.24	8566.75	0.01
2020	80.09	76814.80	1.04



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INTERPRETATION

The table.4 shows that Fixed assets to networth ratio are 0.03, 0.02, 0.02, 0.01, 1.04 in the years 2016, 2017, 2018, 2019 and 2020 respectively. The ideal ratio of fixed assets to networth is 0.50:1 or lower. Here the ratios of each year are less than 0.50. For eg: If the ratio is 0.75:1, it means that 75% of proprietors fund is invested in fixed assets and 25% is invested in working capital. If the ratio is more than 1, it means that outsider's funds have been used to acquire a part of fixed assets.

- **PROFITABILITY RATIO**

The ultimate aim of any enterprise is to earn maximum profit. Lord Keynes remarked, profit is the engine that drives a business enterprise. A firm should earn profit to survive and grow over a long periode of time.

RETURN ON INVESTMENT/ EQUITY (ROI)

The ratio of Return on investment measure the profitability from the shareholder's point of view. High ratio indicates better utilization of owner's funds and higher productivity. Managers, lenders, and creditors also watch this ratio because all the parties want to associate with the company that has high return on investment.

Return on investment = Net profit after tax / shareholder's fund

Table 5

Return on Investment /Equity

Year	Net profit after tax	Shareholder's fund	Ratio
2016	408.22	7598.30	0.05

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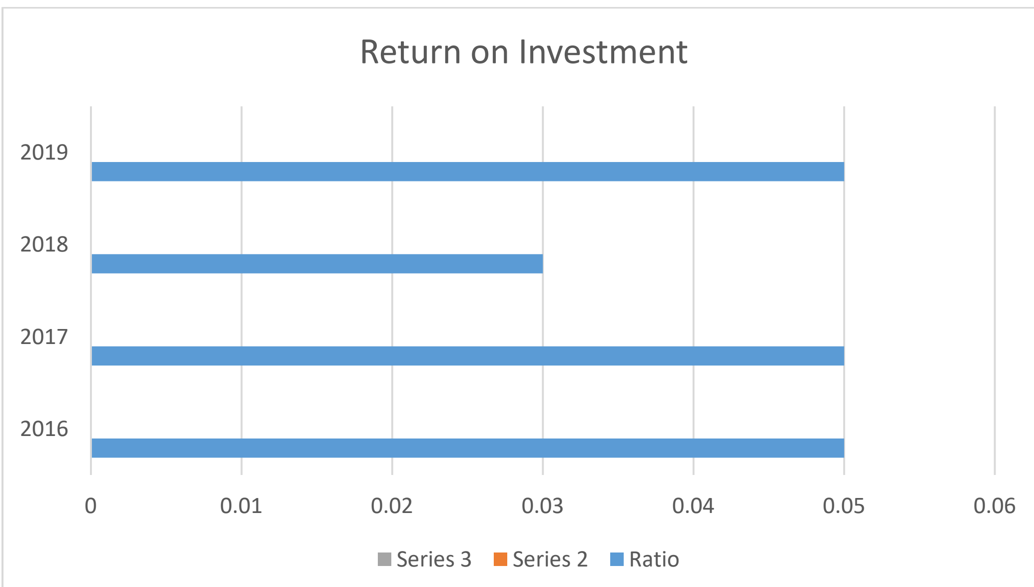
2017	**400.75**	**7300.23**	**0.05**
2018	**292.05**	**7751.68**	**0.03**
2019	**43.21**	**8566.75**	**0.05**
2020	**Net loss**	**76814.80**	**NIL**



INTERPRETATION

The table 5 shows that Return on investment are 0.05, 0.05, 0.03 and 0.05 in the years 2016, 2017, 2018, 2019 and 2020 respectively. The return on investment shows it is lower when compared to the standard ratio.

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FINDINGS

(1)The idle current ratio is 2:1. The ratio of last five years is less than one so the bank's liquidity position is showing a decreased trend.

(2)The proprietary ratio in 2016 was 0.09 and it increased to 0.77 in 2020. It indicates a strong financial position of the bank and greater security for creditors.

(3)The idle ratio of fixed asset to networth is 0.50:1 or lower. In 2016 it was 0.03 and it is increased to 1.04 in 2020 . It means that outsiders fund have been used to acquire a part of fixed assets.

(4)The return on investment of the bank in last five years shows lower. It indicates improper utilization of resources and over investment in assets.

CONCLUSION

After the analysis of financial performance of the Manjeri co-operative urban bank gave an idea about the stability and strength of the bank. The current ratio indicates a lower liquidity postion and high proprietary ratio ensures more financial security for creditors.

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