Available Online at http://www.recentscientific.com

CODEN: IJRSFP (USA)

International Journal of Recent Scientific Research
Vol. 10, Issue, 06(E), pp. 32994-33002, June, 2019

ISSN: 0976-3031

International Journal of Recent Scientific Research

DOI: 10.24327/IJRSR

Research Article

EVALUATION AND ANALYSIS OF PROFITABILITY OF URBAN CO-OPERATIVE BANKS: A CASE STUDY OF UTTAR PRADESH

Dr. Ram Prakash

Department of Economics, DAV, College, Kanpur, U.P

DOI: http://dx.doi.org/10.24327/ijrsr.2019.1006.3584

ARTICLE INFO

Article History:
Received 13th March, 2019
Received in revised form 11th April, 2019
Accepted 8th May, 2019
Published online 28th June, 2019

Key Words:

UCBs, Profitability, Financial ratio analysis, Return on Assets, Return on Equity, Return on Investment

ABSTRACT

This research paper attempts to analyses the operational and financial performance of Urban Cooperative Banks (UCBs) in Uttar Pradesh. The analytical frame of the operational tools in terms of the Return on Assets (RoA), Return on Equity (RoE) and Net Interest Margin (RIM) of profitability indicator have been presented. The research paper is based on secondary data collected from annual reports of urban cooperative banks in India an U.P. for the study period i.e. 2003-04 to 2007-08. Ratios are used here with financial ratio analysis (FRA) method which helps to draw an overview about the financial performance of the urban co-operative banks in terms of profitability, liquidity and credit performance. This analysis is helpful to see the current performance, condition of these urban co-operative banks to analyse the financial health. The study findings may be helpful for managing of urban co-operative banks of Uttar Pradesh. The study also identified specific areas for urban co-operative banks to work on which can ensure sustainable growth and development for these scheduled and non-scheduled urban co-operative banks.

INTRODUCTION

The profitability of an UCB can be evaluated on the basis of its deposits, advances and more specifically by the difference between its total income and expenses. In case total income exceeds the total expenses, the difference will amount to profit, while any excess of expenses over income will show loss suffered by the UCB concerned. During the year 2007-08 deposits of all the UCBs in U.P. were to the tune of Rs. 1472.02 crores, which resulted the growth rate of 18.69% in 2007-08 as against 22.92% in 2006-07. The outstanding credit of all the UCBs in the State of U.P. was Rs. 988.29 crores in 2007-08 which recorded a growth at the rate of 31.32% as against 35.99% in 2007-08. The credit – deposits, ratio as on March 31, 2008 was 67% as against 40.3% in 2003-04. The priority sector advances during the year 2007-08 were 57.51 percent of the total advances extended by these UCBs in the State of U.P. Thus, Urban Co-operative Banks (UCBs) are an important part of the financial system in India. It is, therefore, necessary that the UCBs emerge as a sound and healthy network of jointly owned, democratically controlled, and ethically managed banking institutions providing need based quality banking services, essentially to the middle and lower middle classes and marginalized sections of the society. It is needless to say that the UCBs as a group are totally segregated from the commercial banking sector, though there are a number of commonalties in the operating environment of the UCBs and Scheduled commercial Banks (SCBs). Here an attempt is being made to compare the performance of these groups. By virtue of their retail market orientation and identified customer groups, the UCBs have been able to achieve higher growth rates in deposits and advances than the scheduled commercial banks. A comparison of the financial performance of these two groups reveals that in relation to total assets, spread of UCBs has been higher and the operating expenses lower than those of SCBs. However, the gap in the operating profit ratios of UCBs and SCBs is narrowed down due to higher share of other incomes for SCBs. Still the profitability of UCBs has been higher than that of SCBs. While comparing the expenditure pattern of UCBs and SCBs, it has also been observed that the interest expenses a counted for a higher share of the total expenses in the case of UCBs, but their establishments comparatively cheaper.

Problems Faced By Co-operative Banks

The co-operative financial institutions are facing severe problems which have restricted their ability to ensure smooth flow of credit- i. Limited ability to mobilize resources. ii. Low Level of recovery. iii. High transaction of cost. iv. Administered rate of interest structure for a long time.

Corresponding author:* **Dr. Ram Prakash
Department of Economics, DAV, College, Kanpur, U.P

Due to co-operative legislation and administration, Government interference has become a regular feature in the day–to-day administration of the co-operative institution. Some of the problem area that arises out of the applicability of the co-operatives legislative is: Deliberate control of cooperatives by the government, Nomination of board of director by the government, Participation of the nominated director by the government, Deputation of government officials to cooperative institution etc.The state co-operative banks are not able to formulate their respective policies for investment of their funds that include their surplus resources because of certain restrictions.Prior approval of RBI is mandatory for opening of new branches of SCBs. The SCBs are required to submit the proposal for opening of new branches to RBI through NABARD, whose recommendation is primarily taken into consideration while according permission.

Review of Literature

Vaidyanathan Committee (2004): Government of India constituted a committee under the Chairmanship of A.Vaidyanathan, known as Task Force on Revival of Cooperative Credit Institutions, to reviving and revitalizing the rural cooperative credit structure (CCS) and attributes high priority and urgency to it. Report of Task Force on Revival of Rural Cooperative Credit Institutions (in the Short Term Cooperative Credit Structure) was submitted in February 2005 and Report of the Task Force on Revival of Rural Cooperative Credit Institutions (in the Long Term CCS) was submitted in August 2006. Singla(2008) emphasized on financial management and examined the financial position of sixteen banks by considering profitability, capital adequacy, debt-equity and NPA. Dutta and Basak (2008) suggested that Co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment. They were also characterized by low capital base. They were not be able to render their service to meet the increasing credit requirements of their clients and new demands for personal loans. He suggested that UCBs should overcome these weaknesses and they should be motivated to grow in the healthy competition in the banking sector. In their Research Paper, “Workings of Select Urban Co-Operative Banks in Tamilnadu– With Reference to Profitability Analysis” (2014), J.Paramasivam, and R.Venkatasamy, analysed the profitability of four selected UCBs from 2003-04 to 2012-13 in Tamilnadu. The study concluded that the net profit of all selected UCBs had been increasing for the ten years while the average of net profit to total assets ratio (ROA) for the four UCBs differed and fluctuated considerably during the study period. ***Objectives of the Study:*** In the light of some of problems problem faced by Urban Co-operative Banks and also of their poor financial performance in the State of Uttar Pradesh, the present research paper set the following as objectives.

1. To study the working and growth of Co-operative Banks in India
2. To evaluate the profitability of Urban Co-operative Banks in Uttar Pradesh
3. To evaluate the return on investment of Urban Co-operative Banks in India
4. To suggest policy measures for improving the working of Urban Co-operative Banks of Uttar Pradesh.

Research Methodology Used: The present research paper is primarily based on the secondary data. The required data have been collected from the Urban Co-operative Banks of U.P. which are the units of the present study. Besides, the other necessary data have been collected from other sources such as annual reports, bulletins, magazines, articles, e-sources, etc, Statistical and accounting tools such as ratios, correlation, etc is used to analyze the data to find out the reasons for the poor financial performance.

Table 1 Number of Urban Co-operative Banks and Deposits and Advances

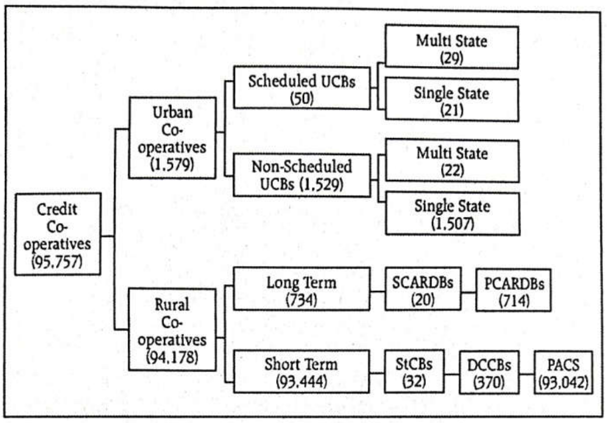
Name of the State	No of banks in operation	% to total no. of banks	Deposits (Rupees in lakhs)	% of deposits to total deposits	Advances (Rupees in lakhs)	% of advances to total advances
Maharashtra	639	26.68	60,72,498	55.08	37,42,401.2	55.09
Gujarat	321	15.24	16,27,946	14.77	9,70,287.03	14.28
Karnataka	300	14.25	8,35,274	7.58	5,37,186.7	7.91
Tamil Nadu	132	6.27	3,10,521	2.82	2,12,113.28	3.12
Andhra Pradesh	131	6.22	2,11,324	1.92	1,37,888.23	2.03
Total	**1,523**	**2,106**	**90,57,563**	**82.15**	**55,99,876.5**	**82.44**

Chander and Chandel (2010) analyzed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management efficiency parameters. S. Sant and P.T Chaudhari in their Research study, “A Study of the Profitability Of Urban Cooperative Banks (In Greater Mumbai and Jalgaon for 5years) (2012) concluded that UCB’s performance in Greater Mumbai was considerably better than UCB’s performance in Jalgaon and as the technology of communication improved, the UCBs were successful in decreasing their burden ratio and credit-deposit ratio over the time. Dr. K.V.S.N. JawaharBabu (2012) in his Research study titled “Performance Evaluation of Urban Cooperative Banks In India” made a conclusion that the number of UCBs in India was inadequate and that large number of banks had noticeable signs of weakness and non-performing assets of them were growing unceasingly.

Structures and Spread of Urban Co-operative Banks: In terms of geographical spread, UCBs are unevenly distributed across the states. Five major states viz., Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu account for 1523 out of 1924 banks that presently comprise the sector. Further, the UCBs in these states account for approximately 82% of the deposits and advances of the sector as may be seen from the table-1 given below:

For all UCBs in the country, the total Deposits are Rs. 1, 10, 25,642 lakhs and total Advances are Rs. 67, 93,017 lakhs.

Performance of Urban Co-operative Banks: Growth in assets of UCBs witnessed reduction during 2014-15 as compared to the previous years (see cahrt-2). Slowdown in growth of assets was led by lower growth in ‘other assets’ of UCBs. Loans and advances grew by about 12 per cent and continued significantly to the total increase in FY-2014-15.



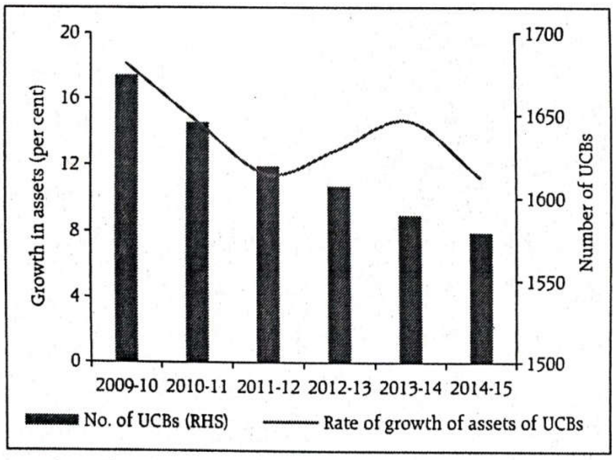
DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.

Notes: 1. Figures in parentheses indicate the number of institutions at end-March 2015 for UCBs and at end- March 2014 for rural co-operatives.

2. For rural co-operatives, the number of co-operatives refers to reporting co-operatives.

Source: RBI.

Chart 1 Structure of co-operative credit institutions in India – position at end March, 2015

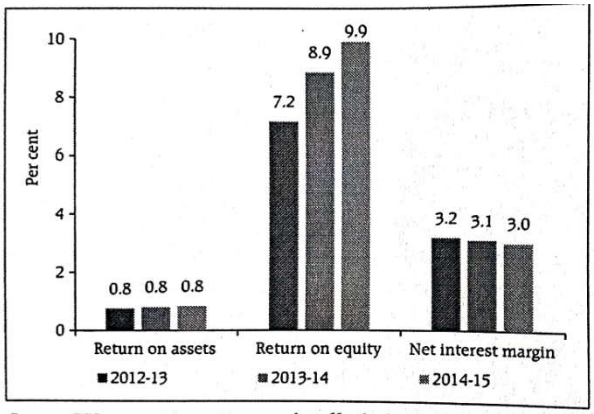


Note: Data for 2014-15 are provisional.

Source: RBI supervisory returns and staff calculations.

Chart 2 Total number and growth in Asserts of Urban Co-operative Banks

The Urban Co-operative Banks performed well in term of return on equity (RoE). Whereas Net interest margin (NIM) marginally moderated (chart-3). Income of Urban Co-operative Banks is classified into two part; i-interest income, ii- other income, while the expenses of Urban Co-operative Banks is bifurcated into three segment i.e. interest paid, operating expenses and other operating expenses. There was deceleration in growth of both interest income and interest expenses whereas the growth in other income and other operating expenses increased during financial year 2014015.



Source: RBI supervisory returns and staff calculations.

Chart 3 Select Indicators of profitability of Urban Co-operative Banks

Financial Performance and Profitability of UCBs

UCBs have shown a reduction in their returns on the equity and the assets in 2015-16. The net interest margin also dropped over the period. The pace in their total expenses grew like it happened in 2014-15, at 8.8% than total income at 7.9%. Moreover, provisions that were earmarked during 2015-16 against risks as well as contingencies were hiked by 4.6% to the previous year's provision. Net profits of UCBs also registered deceleration. Growth rate in interest income registered shrink and was marked at 9.2% in 2015-16 when compared to 13.2% in 2014-15. In addition, other income that increased by 7% for the year 2014-15 registered a decline of 8.4% during the financial year 2015-16. UCBs recorded accelerated growth in net profit in 2016-17 because of growth in both interest and non-interest incomes. While the slowdown in loans and advances led to some deceleration in interest income, non-interest income but non-interest income increased sharply due to diversification of Urban Co-operative Banks into a host of fee-earning activities to compensate for slack in lending activity [Table-2].

Table 2 Financial Performance of Scheduled and Non-Scheduled Urban Co-operative Banks (Rs. Billion)

Item	Scheduled UCBs		Non-scheduled UCBs		All UCBs		Variation (%)	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
1	2	3	4	5	7	8	9	10
A. Total Income [i+ii]	**212 (100.0)**	**231 (100.0)**	**266 (100.0)**	**294 (100.0)**	**478 (100.0)**	**525 (100.0)**	**8.7**	**9.8**
i. Interest Income	192 (90.7)	202 (87.6)	253 (94.8)	273 (92.8)	445 (93.0)	475 (90.5)	9.4	6.9
ii. Non-interest Income	20 (9.3)	29 (12.4)	14 (5.2)	21 (7.2)	34 (7.0)	50 (9.5)	-0.2	48.6
B. Total Expenditure [i+ii]	**182 (100.0)**	**194 (100.0)**	**229 (100.0)**	**253 (100.0)**	**412 (100.0)**	**447 (100.0)**	**9.8**	**8.6**
i. Interest Expenditure	137 (75.0)	143 (73.8)	172 (75.2)	190 (75.0)	309 (75.1)	333 (74.5)	9.4	7.8
ii. Non-interest Expenditure	46 (25.0)	51 (26.2)	57 (24.8)	63 (25.0)	103 (24.9)	114 (25.5)	11.0	9.9
of which: Staff Expenses	22	24	31	34	53	58	8.0	9.9
C. Profits								
i. Amount of Operating Profits	29	37	37	42	67	78	2.3	17.0
ii. Provision, Contingencies	9	14	8	11	17	25	1.2	49.5
iii. Provision for Taxes	6	6	7	7	13	14	-2.4	3.7
iv. Amount of Net Profit before Taxes	20	22	30	31	50	53	2.7	6.0
v. Amount of Net Profit after Taxes	14	16	23	24	37	39	4.6	6.8

Notes: 1. Figures in parentheses are share in total income/expenditure.
2. Y-o-y variations could be slightly different because absolute numbers have been rounded off to ₹1 billion in the table.
3. Components may not add up to the total due to rounding off.
4. Data for 2016-17 are provisional.

Derivation of Profit of Scheduled and Non-scheduled UCBs

A Du Pont analysis decomposes the drivers of profitability between efficiency and increased leverage. The profitability metric of return equity (ROE) is a composite of the return on assets (RoA) and an indicator of the debt-equity composition in the banks' funding structure – leverage ratio or the equity multiplier. Return of assets, in turn, is the sum total of the quality of asset utilization and cost management by the banks. These two form the basis of the Du Pont identity.

Du Pont identity:

$$Return\ on\ Equity \equiv Return\ on\ Assets * Leverage$$

Decomposition 1:

$$\frac{Net\ Profit}{Average\ Equity} = \left(\frac{Net\ Profit}{Average\ Assets}\right) * \left(\frac{Average\ Assets}{Average\ Equity}\right)$$

Decomposition 2:

$$\frac{Net\ Profit}{Average\ Assets} = \frac{Net\ Income - Provisions\ and\ Contingencies}{Average\ Assets} - \frac{Operating\ Expenses}{Average\ Assets}$$

The first and the second terms in decomposition 2 stand for effective assets utilisation and cost management , respectevely. To understand the individual contribution of each of the component of RoE, the product form in composition 1 is log transformed into a sum of its components and the growth rate of the components are compared with the growth rate of the whole to complete the analysis. A similar analysis is carried out for the second composition but without the log tronsmation. If higher RoE is driven bu sustitution by equity capital with lower cost long-term debt, then it is an indication of a build-up of stress in the future.

Table 3 Select Indicators of Profitability of UCBs

(per cent)

Indicators	Scheduled UCBs		Non-scheduled UCBs		All UCBs	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
1	2	3	4	5	6	7
Return on Assets	0.64	0.65	0.95	0.88	0.80	0.77
Return on Equity	8.13	8.29	10.43	9.70	9.42	9.09
Net Interest Margin	2.57	2.43	3.33	3.11	2.97	2.79

Note: Data for 2016-17 are provisional.

Both return on assets and return on equity of UCBs moderated in 2016-17, but with in the UCBs , the profitability indicators of the scheduled UCBs improved vis-à-vis that of non-scheduled Urban Co-operative Banks. Scheduled Urban Co-operative Banks not only registered higher profitability in 2016-17 but also showed an improvement in efficiency as their net interest margins (NIMs) decreased that indicate a decline in the cost financial intermediation. Profitability indicators of non-scheduled Urban Co-operative Banks remained higher but more variable than those of scheduled Urban Co-operative Banks [Table-3]. Profitability indicators for scheduled and non-scheduled Urban Co-operative Banks have showed different movement calculating through a Du Pont Analysis.

Return on Investments of UCBs

Urban Co-operative Banks of Uttar Pradesh use most of their available funds to make loans, but they also place funds in investment securities to obtain interest income, to provide for unexpected liquidity needs, and to diversify credit risk. The demand for bank loans is cyclical and at such times banks have excess funds because of a decline in demand for new loans. Seasonal increases in deposits also produce excess funds. Investing excess funds in marketable securities allows urban banks to earn interest, rather than old non earning idle cash reserves. In addition to providing earning, marketable securities are purchased to provide liquidity. Urban Bank's available funds cannot be put into loans because the banks flow of deposits cannot be predicted with certainty; some funds must be held available in marketable securities that can be sold in the secondary market to provide additional funds as and when needed. These Banks also invest in securities to diversify credit risk among its portfolios of loans and investments the assumption of greater credit risk in one portfolio can be balanced with lower risk assets in another portfolio. Urban banks are not allowed to purchase corporate stock, but they may invest in corporate bonds, as well as debt issues of other financial institutions. Their various debt obligations differ in terms of their maturities, degree of credit risk, liquidity and marketability, tax treatment, yields, methods of issue and ownership.

Here researcher is dividing the areas of investment by urban co-operative banks to know about the return on investments in the manner given below

SLR investment in the Government and approved Securities:

UCBs have increased proportion of S.L.R. holdings in the form of Government and other approved securities as percentage of net demand and time liabilities (NDTL) in the following manner, which has achieved by UCBs by the end of March 2005.

Table 4 Pattern of Investment in Govt. and other Approved Securities

Category of UCBs	**Investment in Govt. and other approved securities as percentage of net demand and time liabilities (NDTL)**	
	Present	**Revised**
Scheduled UCBS	15%	20%
Non Scheduled UCBs		
I. UCBs with NDTL of Rs. 25 Crore and above	10%	15%
ii. UCBs with NDTL of less than Rs. 25 crore	Nil	10%

Since April 01, 2003 UCBs have 25% of their entire SLR assets only in Government and other approved securities [Table-4]. Some Scheduled UCBs and non scheduled UCBs with NDTL of Rs.25 crore and above are required to maintain investments in Government securities only in SGL Accounts with Reserve Bank of India or in constituent SGL Accounts of Public sector or Banks and Primary Dealers (PDs). RBI by its circular No. B/R 16.26.00/2003-21 date 09.08.2004 has advised that UCBs can also hold securities in constituent SGL accounts maintained by other scheduled commercial banks, State Cooperative Banks, Depositories and Stock Holding Corporation of India Ltd. Non scheduled UCBs with NDTL of less than Rs. 25 crore may also maintain Govt. Securities in Physical or scrip from. Violation or circumvention of above instructions will be liable for penal action against banks which could include raising of reserve requirements, withdrawal of refinance from the RBI and denial of access to money market as also such other penalty under the provisions of the Banking Regulation Act as may deem fit.

Investment of funds by UCBs (Deposits with other Institutions)

Urban Cooperative Banks essentially being creator of credit to persons with small means and as parking of funds, keeping deposits with other urban co-operative Banks, affect depositing banks finance in the event of any financial problem affecting the deposit accepting bank. Such of those UCBs which are maintaining these funds in the form of fixed deposits or term deposits with other UCBs are required to unwind the outstanding deposits before the end of June 2005. The banks are also required to report their position to respective regional offices.

Investment of Funds by UCBs (Deposits with Companies Corporations and Cooperative Institutions)

Urban Cooperative Banks are enjoying various concessions such as higher rates of interest on deposits, lower liquidity ratio, exclusion of borrowings from higher financing agencies from outside liabilities etc, with the objective among others to promote thrift and mobilisation of resources from the Community of area of operation, for the purpose of provision of credit at a reasonable rate to small borrowers. In this context, if the UCBs choose to divert such surplus funds as deposits with institutions/Companies etc., it amounts to grant of unsecured advances to the concerned institutions/Companies thereby violating the provisions of the Reserve Bank directive on interest rates on advances as well as maximum limit on advances.

Investment of Funds by Banks in PSUs

Urban co-operative banks invest their surplus fund (i.e. up to 10% of the Demand and time liabilities) in public sector undertaking bonds. Conditions in this regard are as follows:-

1. Investments already made in PSU bonds plus such fresh investments should not exceed the limit of 10% as stipulated above. The limit includes the investments made in such bonds out of statutory reserve fund also.
2. A provision exists for such investments in respective State Cooperative Societies/Multi State Cooperative Societies Act and a specific permission is to be obtained from the concerned Registrar of Cooperative Societies of the state.
3. Some banks of Uttar Pradesh are complying with the instructions contained in circular UBD No. (Plan) 12/UB. 81/92-93 dated 15th September 1992[3], regarding investment policy and the dealing in securities transactions.
4. Now the urban co-operative banks of U.P. are complying with the Reserve Bank of India's instructions regarding non assets, income recognition, assets classification and provisioning.
5. No excessive investment in one or two public sector bonds is made. The bank also assess the soundness of the investment, relative pricing, maturity, rate, security, liquidity and yield aspects, while investing in PSU Bonds. These banks also keep in mind that necessary depreciation is to be provided in the Investment Depreciation Reserve against the depreciation in the value.
6. Primary Cooperative Banks also invest their surplus fund in PSU Bonds and also in equity subjected to the ceiling of 10% of their deposits.

Investment Portfolio of Banks-Transactions in Government Securities

Investment portfolio of UCBs comprises of only a small proportion of Government and other securities. There is no prohibition to deal in Government and other approved securities in case a bank has appropriate surplus, which it would like to invest profitably, Subject to bank observing the following conditions

1. The transaction undertaken by banks in government and other approved securities or in any other securities such as PSU bonds and unit should be on their investment accounts.
2. UCBs should not undertake security transactions only on outsight basis.

Investment in Small Scale Industries

UCBs in U.P. invest their funds in small scale industries; the return on such investments is not good because most of these borrowers are not in good condition and not in a position to ensure adequate return.

Banks have been fixed limits for the Investment in plant and machinery in respect of industries related business. The limit has been increased to Rs. 10 lakhs as against Rs. 5 lakhs at present. An illustration list of small scale service business (Industry related) enterprises are as under

Illustrative list of Small Scale Service and Business (Industry Related Enterprises)

- Advertising Agencies,
- Marketing Consultancy,
- Industrial Consultancy,
- Equipments Repairs and Maintenance,
- Rental & Leasing,
- Typing Centers,
- Xeroxing,
- Industrial Photography,
- Industrial R & D Labs.
- Industrial Testing Labs,
- Computerized Design and drafting,
- Creation of Data bases Suitable for foreign/Indian Markets.
- Software Development,
- Auto Repair, Services and Garages
- Documentary films on themes like Family Planning.

Social Forestry, Energy Conservation and commercial Advertising, Laboratories engaged in Testing of Raw Materials, finished products etc.,

"Servicing Industry" undertaking engaged in maintenance, repair, testing or electronic/electrical equipment/instruments i.e. measuring/ control instruments servicing of all types of vehicles and machinery of any description including television, tape recorders, VCRs, Radios. Transformers, Motors Watches etc.

- Laundry and dry cleaning
- X-ray clinic
- Tailoring
- Servicing of agriculture farm equipments e.g. Tractor, Pump, Rig, Boring Machine, etc.,
- Weight Bridge,
- Photographic lab.
- Blue printing and enlargement of drawing/designs facilities,

- ISD/STD Booths for industries.
- Teleprinters / fax services (Software Serving & Data Processing, including Computer Graphics) and Printing Press which were earlier registered as SSBEs have since been recognized as industrial activity registered as small scale Industry (SSI).
- Sub Contracting Exchanges established by Non-Government Agencies, Coloured and Black and white studios equipment with processing laboratory,
- Ropeways in hilly areas,
- Installation and operation of Cable TV network,
- Operating EPABX under franchises,
- Beauty Parlors and crèches, etc.

Urban banks of U.P. get lower average return on their investments. Normally, they have a low CD Ratio because of risk of NPAS and limited avenues for investments. So, they invest the remaining available funds in risk-free Govt. Securities and fixed deposits with commercial banks and state and central cooperative banks that yield a relatively lower rate of return.

Percentage Ratio of Spread to Working Funds

Working capital structure is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the inter-relationship that exists between them. The term "Current assets" refers to those assets which in the ordinary course of business can be, or will be, turned into cash within one year without undergoing a diminution in value and without disrupting the operations of the firm. "Current liabilities" are those liabilities which are intended at their inception to be paid in ordinary course of business within a year, out of the current assets or earnings of the concern.

The goal of working capital management is to manage the urban-banks current assets and current liabilities in such a way that satisfactory level of working capital is maintained. A notable feature of short term assets is the question of profitability versus liquidity and the related aspects of risk. If the size of such assets is large, the liquidity position would improve, but profitability would be adversely affected as funds will remain idle, contrary to it, if the holdings of such assets are relatively small, the overall profitability of bank will, no doubt, increase, but it will have an adverse effect on the liquidity position and make the bank more risky. If the bank cannot maintain a satisfactory level of working capital, it is likely to become involvement and may even be forced into bankruptcy. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of safety. Each of the current assets must be managed efficiently in order to maintain the liquidity of the bank. The financial managers of bank spend a great deal of time in managing current assets and current liabilities accordingly. Short-term financing, negotiating favourable credit terms, controlling the movement of cash, administering accounts receivable and monitoring the investment in inventories, consume a great deal of time of Bank's financial manager. The basic ingredients of the theory of working capital structure and the variables affecting the level of difference of components may be said to include its definition, need optimum level of current assets, the trade off between profitability and risk associated with a firms level of current assets and liabilities, financing, raised strategies and so on. In Uttar Pradesh the working capital of urban co-operative banks is "Temporary as fluctuating" because these banks are not in a good position and because of insufficient working capital they are unable to fulfill their requirements. Both kinds of working capital are necessary to facilitate these banks. Temporary working capital is created to meet liquidity requirements. U.P. urban co-operative banks are advised that as instances of diversification of funds, provided for working capital by the banks to the borrowers, for financing their investment transactions have been observed, specially U.P. urban co-operative banks are advised to ensure that withdrawals on cash credit/overdraft accounts are strictly for the purpose for which the credit limits are sanctioned. There should be no diversion of working capital finance for acquisition of fixed assets, investments in associate companies/Subsidiaries, and acquisition of shares, debentures, units of UTI and their mutual funds and other investments in the capital market. This has to be so, even if there is sufficient drawing power and undrawn limit for the purpose of affecting withdrawals from the cash credit account. Banks are advised to fix a suitable cut off point for credit limits, with the approval of their Board of Directors, requiring such detailed scrutiny on an ongoing basis.

Operational instructions issued by the RBI on certain aspects of working capital finance for UCBs have been stated in Table-5 given below.

Table 5 Operational instructions issued by the RBI for UCBs

Circular No.	Instructions Issued
UBD No. PCB.2/DC.R.1/90-91 dated 20th July 1990 forwarding/ ECD circular IECD No. CAB.2001 and 205/C, 446 (LF)-87-88 dated 12th April and 28th April, 1998 respectively.	(i) Bank finance to leasing concerns should be restricted only to "full pay out" lease i.e. those where the cost of the asset Period itself and further it should Cover Purchases of only new equipment. (ii) As a prudent policy, lease rentals during the period of next five years should a loan be taken into account for the purpose of lending.
UBD No. DS Cir. PCB 18/13-05-00/94-95 dated 19th Sept. 1994	(i) Review of all borrower accounts enjoying funds based working capital credit limits of Rs. 10 lakh and above should be undertaken at least once a year. (ii) Every borrower enjoying aggregate fund based working capital credit limit of Rs. 1 crore and above from the banking system should submit statement under quarterly information system/monthly cash budget system to enable a bank to fix and monitor the operative limits.
UBD No. DS PCB Cir 28/13/05.00/94-95 dated 31st October 1994.	Stipulated minimum NWC may be reckoned after excluding from current assets, receivables arising out of domestic/ inland sales by drawing of bills of exchange under letters of credit.

UBD No. DS PCB Cir 54/13.05.00/95-96 23rd March 1996	(1) Banks must exclude, for the purpose of build-up current assets to be financed, investment made by the borrower in shares, debentures, etc. of a current nature, units of UTI/other mutual funds and in associates companies/subsidiaries as well as investments / loans in the form of inter-corporate deposits etc. (ii) As the current Ratio 1:33:1 is only the minimum required to be maintained by a borrower in respect of working capital limit of Rs. 1 crore and above, the bank finance for working capital purposes is not intended to support long term investments. (iii)Bank must evolve and implement a system to effect scrutiny for each borrower accounts, say, with working capital credit limits of Rs. 10 crore and above from the entire banking system and ensure before allowing such withdrawal that the amount is drawn for purposes for which credit has been sanctioned.

Profitability of Urban Co-operative Banks in Uttar Pradesh

After discussing various sectors in which the UCBs can invest their surplus funds and also after highlighting the principles and procedures in this request, it becomes inevitable to throw some focus on the profitability trends of UCBs in the state. Since the ‘profit’ is the excess of income over expenditure, ‘loss’ is the excess of expenditure over income. Thus, income and expenditure are the main factors, which determine the profitability of a concern. So far the heads of income of an UCB are concerned; they include interest on the advances extended by it, interest on investments on its surplus funds and other miscellaneous items which are not very significant. On the other hand, the heads of expenditure of an UCB are establishment expenses, interest paid on its all types of deposits and some other petty items which are quite insignificant. What to say of U.P. which is far behind Maharashtra, Tamil Nadu and Gujarat in regard to the working and operation of UCBs, most of these banks are running with losses or marginal profits. The table 6 exhibits the profitability of UCBs in the State of Uttar Pradesh

Table 6 Profitability of UCBs in U.P

Years	Gross Profit/Losses (in crores)	Transfer to Reserves & Provisions	Net Profit/ Loss (in crores)	Net Profit/Loss (as % to capital)	Net profit / loss (as % to deposits)
2003-04	-126.17	81.09	-207.26	16.84	25.62
2004-05	-173.04	87.91	-206.95	21.20	29.35
2005-06	-87.46	96.32	-183.78	14.93	18.21
2006-07	-31.07	98.21	-129.28	10.50	10.42
2007-08	-21.00	99.00	-120.00	9.75	8.15

The Analysis of the table Under study Reveals the Following few facts About the Profitability of UCBs in U.P

The State UCBs have been running with gross losses during all the five years under study. Moreover, it is a good sign that the quantum of loss being suffered by these UCBs has been declining steadily as it has come down to Rs. 21.00 crores in 2007-08 as against Rs. 126.17 crores in 2003-04.

Because of the continuously increasing liability, these banks have to make a number of provisions and maintain so many statutory and other reserves. The amount transferred under this head has gone up to Rs. 99.00 in 2007-08 crores as against Rs. 81.09 crores in 2003-04. The adjustments also affect the profitability and, therefore, their net losses are increased further as it has been Rs. 120.00 crores in 2007-08, while the gross loss in this year is only Rs. 21.00 crores.

Though the net losses of these UCBs are declining steadily as they have come down to Rs. 120.0 crores in 2007-08 as against Rs. 207.26 crores in 2003-04, the rate of such decline is much less as compared to their gross losses which are only 21.00 crores in 2007-08 as against Rs. 126.17 crores in 2003-04. During this period of five years from 2003-04 to 2007-08, the gross losses of these UCBs have come down to 16.64%, while this rate is as high as 57.90% for net losses. Thus, it is clear that a heavy contribution by UCBs towards reserves and provisions make the net losses too high.

Both net and gross losses of these UCBs have shown increasing trends during 2004-05 over 2003-04, while both are coming down constantly and the declining rate is comparatively higher during the last two years i.e. 2006-07 and 2007-08.

The rate of net loss as percentage to their capital has been very high in 2004-05 being 21.20% while it has been declining continuously during the subsequent years and has come down to 9.75% in 2007-08.

Net loss as percentage to deposits also shows the same trends as its percentage to capital. It is very high during 2004-05 being 29.35 followed by declining trends being 18.21, 10.42 and 8.15 during, 2005-06, 2006-07 and 2007-08 respectively.

Lastly, it can be concluded that on analysis the above table following facts become clear about the profitability of UCBs.

a. Both gross and net losses of UCBs in U.P. show a declining trend.
b. The rate of such decline is higher in gross losses because the ever increasing contributing to reserves and provisions increase the net losses.
c. Constant decline in percentages of net loses to capital as well as to deposits is good sign as it shows the proportionate decline in net losses.
d. Perhaps, the decline in these losses seems to be because of the following reasons:
e. Strict implementation of RBI rules and regulations on UCBs;
f. More emphasis on periodical audit vis-a-vis statutory audit;
g. Strict watch and ward against frauds and severe punishment to guilty employees;
h. More scope for working and operations by UCBs in new fields;
i. Competitive spirit against the scheduled commercial banks; etc.

Reasons for Poor Profitability in UCBs in U.P

The researcher feels that following are the prominent reasons, why the UCBs in U.P. are still running with heavy losses

1. Too much political interference as on their Board of Directors, mostly the politicians are placed;
2. Set up and their branches are totally based on political grounds;
3. Working staff, both-officers and officials are guided and favoured by top politicians. Therefore, the loans

extended are on political pressure;

4. Recovery position being much poor because the state Revenue Department does not favour them;
5. Ever increasing cases of frauds and lack of proper punishment to guilty persons;
6. Acute safety problem because of the lack of security staff;
7. Lack of attraction to customers because of poor premises, uncomfortable furniture; congested space full of dust and dirt;
8. Lack of modern E Banking facilities, e.g. ATM, CBs, etc;
9. Tough competition with scheduled commercial banks, specially the newly coming foreign banks;
10. The members of the cooperative societies to whom, they have to deal with are neither cooperative not understand the things; etc.

How to Combat with the Problem?

Since he role of UCBs in the country's economy cannot be over looks, the Government and RBI will have to take some positive steps to improve their working and operational conditions. In this regard, the researcher puts forth the following suggestions

1. To make an end of all sorts of political interference;
2. To make the staff not only trained but also to make them courteous to the clients;
3. Campaign for healthy customer services to be introduced;
4. On the Board of Directors of UCBs, persons like industrialists, finance experts, traders, members of chamber of commerce etc., be placed in place of politicians;
5. Arrangement of training programmes to the staff, this responsibility can be taken up by the scheduled commercial banks and some state institutes;
6. Strict watch and ward against frauds and awarding severe punishment to guilty persons;
7. To strengthen the security of these banks;
8. To open new branches on the demand and scope of banking business rather than on political grounds;
9. To make the bank premises as attractive as that of the scheduled commercial banks and foreign banks;
10. To improve the recovery position:-
    (a) Sanction of loans and advances after proper serenity of the customers and the guarantors.
    (b) More emphasis on the repaying capacity of the customer; and
    (c) To ensure proper use of the advances, i.e. to be used for the purpose for which sanctioned;
11. To introduce at UCBs modern Banking facilities like ATM, Computers, E Banking, etc.
12. If any loans to any class of customers are excused either its interest or the principal or both they should be reimbursed by the state government to the UCB concerned;
13. Members of the member cooperative societies and non-members be considered by these UCBs on equal footing for loans and advances purposes;
14. The UCBs be given some financial assistance from the State Cooperative Department, who may also impart training to their staff on cooperative principles and practices;
15. So far as possible, UCBs be kept free from the competition with the scheduled commercial and foreign banks; etc.

Some other Suggestions

The Reserve Bank of India may have to provide assistance to the UCBs, more particularly the smaller ones, in improving their skill levels. Since the College of Agricultural Banking is already providing training facilities to the UCBs, this institution could be used as the forum for doing so. Keeping in view the financial implications for banks, for providing quality training, the cost of training programmes could be largely subsidized by the Reserve Bank for the Unit banks falling under Tier I.

The Reserve Bank has been encouraging the UCBs to invest in government securities by stipulating that a portion of the SLR investments are held in the form of these securities. There is an inherent advantage in holding a part of the SLR investments in government securities, otherwise the banks are required to keep their entire SLR in higher tier co-operative banks, the financial position of which may itself be uncertain. At the same time it would be necessary to ensure that the UCBs are not put to any difficulty in buying and selling the securities. To address this issue Reserve Bank may, through its Regional Directors, liaise with the network of Primary Dealers to put in place an appropriate arrangement in this regard.

It is advised that banks should ensure that the finance is extended only against genuine trade bills within their legitimate requirement. While discounting bills, it should ensure that the funds from cash credit/overdraft accounts are strictly used for the purpose for which the facilities are sanctioned and not diverted for acquisition of fixed assets or for any unauthorized purpose. Banks are also advised to meet the requirements of their account holders, some of whom have resorted to heavy cash withdrawals which seem to be disproportionate to their normal trade or business requirements. UCBs are further advised that they should not consider the loan applications received from the defaulting customers either exclusively or jointly. In regard to working capital finance, UCBs are also advised that such facility should be given only in those cases; where there is reason to believe that the concerned units are not indulged in any malpractice. These banks should furnish a working report for the calendar year, before 31st January of the following year in respect of the units enjoying working capital and limit of Rs. 30 lacs and above and persistently defaulting in payment of loan installments or interest or both. It also applies in case of deferred guarantee extended by UCBs. The report should also indicate the action taken in the matter. UCBs are also required to submit within 15 days from the close of the quarter to which the report relates, quarterly reports indicating the names of the borrowers against whom action has been taken.

References

Annual Reports published by the federation of UCBs and Credit Societies Ltd., New Delhi, 2004-05 (For first five columns) and for the last column self calculation.

Suresh K.A., Joseph Molly (1990). Cooperatives and Rural Development in India. Ahish Publishing House, New Delhi.

Swami H.R. and Gupta B.P. (2006). Rural Development and Cooperation in India. Indus Valley Publications, New Delhi.

K.V.S.N. Jawahar Babu (2012) "Performance Evaluation of Urban Cooperative Banks In India"

Kulkarni, Dr. A. P. (2005, April). Analysis of Financial Statement of Urban Cooperative Banks with Special Reference to Pune.

Rao, K. V. & Nirmala, D. (2006, October-December). Performance Evaluation of Urban Cooperative Banks. *The Indian Journal of Commerce: Indian Commerce Association*, 36-50.

Sharma, G. & Kawdia, G. (2006). Efficiency of Urban Co-operative Banks of Maharashtra: A DEA Analysis. The ICFAI Journal of Bank Management: The ICFAI University Press, 25-38.

Niranjan Chipalkatti (Seattle University, USA), K.Ramesh (National Institute of Bank Management, India) and Meenakshi Rishi (Seattle University, USA), "Depositor Discipline, regulatory control and banking crisis: A study of Indian UCBs", Annals of Public and Cooperative Economics 78:4 2007, pp.567-594

Reserve Bank of India (2017), Publication on Developments in Co-operative Banking as on 31.03.2016, Mumbai.

Reserve Bank of India (1992), Report of the committee on licensing of new Urban Co-operative Banks (Marathe Committee), Mumbai.

Jawahar Babu K.V.S.N., (2012), "Performance evaluation of Urban Co-operative Banks in India", IOSR Journal of Business and Management (IOSRJBM), Vol. I Issue 5, pp.28-30.

Dr.Shirasi R.S., (2012), "A study of financial working and operational performance of Urban Co-operative Banks in Pune District", Indian Streams Research Journal, Vol.1, Issue 5, pp.1-4.

Draft Vision Document-2005 for Urban Co-operative Banks

Dr.Jawahar Babu K.V.S.N., and Muniraja Selkhar B., (2012) : "The emerging Urban Co-operative Banks (UCBs) in India : Problems and Prospects", IOSR Journal of Business and Management (IOSRJBM) Vol.2, Issue 5, pp. 01-05

Seema Sant and D.P.T Chaudhari [2012]"A Study of the Profitability Of Urban Cooperative Banks (In Greater Mumbai and Jalgaon)

Jain (2001),"Comparative study of performance of District Central Co-operative Banks (DCCBs) of Western India i.e. Maharashtra, Gujarat & Rajasthan for the year 1999-2000 from the point of view of net profit/loss", NAFSCOB Bulletin, April-June 2001.

Mukul G. Asher (2007) "Reforming Governance and Regulation of Urban Cooperative Banks in India" *Journal of Financial Regulation and Compliance*. Vol 15; No 1; Year 2007, pp.20-29.

Shah Deepak (2007) "Evaluating Financial Health of Credit Cooperatives in Maharashtra State of India" University Library of Munich, Germany, MPRA Paper-3949 (July)

Agarwal R.C., Prasad B. and Arora V.P.S. (1972), Problems and Prospectus of Co-operative Credit: A Case Study, Indian Cooperative Review (9) pp 417-422, NCUI, New Delhi.

Giri .D.K (2001), co-operative marketing in Indiaand abroad, Kurukshetra, May, Vol.49, No.8, p.no:47-48.Babu, C.V. (1997) Liquidity, Profitability and Business Strength Analysis of Urban Cooperative Banks, Indian Cooperative Review, Vol. XXXV, No.1, pp. 56-70, NCUI, New Delhi.

Programme on Non-Performing Assets (NPA) and Management of Recovery for Urban Cooperative Banks (course material 1996), Dr. V.V. Patil Institute of Cooperative Management, Pune, p.1-5.

Ravivarma(1993) "An evaluation of performance of district centralco-operative bank, Chittor, Andra Pradesh, before and after the swards", Co-operative perspective VAMNICOM, Pune, October December, pp.30

Urban Banks Department, RBI, circular issued in March 2002.

How to cite this article:

Dr. Ram Prakash., 2019, Evaluation and Analysis of Profitability of Urban Co-Operative Banks: A Case Study of Uttar Pradesh. *Int J Recent Sci Res.* 10(06), pp. 32994-33002. DOI: http://dx.doi.org/10.24327/ijrsr.2019.1006.3584

****