A Study on Financial Performance Analysis of Kangra Central Co- operative Bank Ltd.

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ABSTRACT:

Financial performance plays an important role for the development of banks. It forms the basis as one of the importance for taking financial decisions effectively. In order to analyze the financial performance of banks, the accounting ratios are used. Ratio analysis is the comparison of line items in the financial statements of a business. Ratio analysis is used to evaluate a number of issues with an entity, such as its liquidity, efficiency of operations and profitability. Secondary data is used from the published annual reports of the company for time period 2016-2021. This research paper helps to evaluate the financial characteristics of bank activity such as solvency and performance using ratio analysis.

KEYWORDS: Ratio analysis, financial performance, capital adequacy, Profitability.

INTRODUCTION

Bank is one of the important financial pillars of the financial sector. It plays a vital role in the functioning of an economy. It plays an important role in the mobilization of deposits and disbursement of credit to various sectors of the economy. The banking sector is the section of the economy devoted to the holding of financial assets for others, investing those financial assets as leverage to create more wealth and the regulation of those activities by government agencies. Risk management is the process of identifying, assessing and controlling threats to an organization's capital and earnings. These threats, or risks, could stem from a wide variety of sources, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period. Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate.

The Kangra Central Co-operative Bank Ltd was registered under Co-operative Societies Act 1912 on 17th March 1920 with Registrar Co-operative Societies Punjab situated at Lahore. At time of registration the Bank had only one branch at Dharamshala. Bank suffered loss of funds because of partition in 1947 to the tune of Rs 10.64 Lakhs deposed with Provincial Bank Lahore as fixed Deposit, Imperial Bank Lahore in current account and Punjab Bonds payable at Lahore. Second Branch of the Bank was opened after a lapse of 36 years at Nurpur in 16th January 1956 by merger of Indora Banking Union with Bank. On 4th February 1957 3rd branch was opened at Palampur by merging Palampur Banking union to the Bank. Nanaon Banking union was merged and 4th Branch was opened at Hamirpur on 1st January 1958. After the reorganization of States the number of branches increased from 8 in 1966 to 39 in 1976. The was all due to aggressive deposit mobilization campaign entered by the Bank in the year 1971-72 for funds of compensation awarded to people affected in the area of Pong Dam. Bank got maximum share of deposit in that area and bank's deposit grew from Rs 256 lakhs in 1970-71 to Rs 1054 lakhs in 1973-74. In 1990 Bank also started financing to individuals and banks, profitability and credibility increased substantially.

Ratio analysis is the process of determining and interpreting the various aspects of financial statements. Financial statements are generally insufficient to provide information to investors on their own, the numbers contained in those documents need to be put into context so that investors can better understand different aspects of the company's operations. Ratio analysis is one of the methods an investor can use to gain that understanding. Ratio analysis is a foundation for evaluating and pricing credit risk and for doing fundamental company valuation. Ratio analysis helps to evaluate the performance of the firm in terms of profitability, efficiency and risk. Financial ratios allow big and small companies to evaluate and improve their financial position.

REVIEW OF LITRATURE

Jaiswal and Jain (2016) investigated a compensative study of financial performance of SBI and ICICI banks in India. Researchers stated that banking sector is backbone of economy in the country. The finance collected from this sector works in economy as blood works in the body. In this study one private bank i.e. ICICI and one public sector bank i.e. SBI have been taken for the financial performance on the basic of ratio analysis because these are leading private and public sector banks. CAMEL model is adopted in this research. CAMEL stands for Capital adequacy, Asset quality, Management quality, Earning quality and Liquidity to check the financial performance of the banks, used financial statement for the period of 2010-11to 2014-15. The study is an exploratory and analytical in nature and used only secondary data. The main aim of this study is to check the impact of home loan interest rates on the attitude of people towards buying their dream house.

Jitendra Kumar, VP Metha and DP Malik (2019) investigated the Growth and performance of RRBs in India and Haryana and concluded that number of RRBs in India has decrease due to amalgamation process and number of districts covered by RRBs increase year by year. This paper investigates performance of positive increase investment credit, deposit, C-D ratios and investment-deposit ratio. It also investigates increase outstanding credit for agriculture and non agriculture during the period.

Erdil and Ozturk (2016) the researcher stated that population move from the rural or from communities to large urban areas as a result the consumer became more modern uses the mobile phone supermarkets for purchasing household product and departmental stores are established to achieve economies of scale through massmarketing. The relationship between the customer and the merchant becomes nameless and faceless. CRM become an important business approach. The researcher concluded that CRM is very hard to implement throughout a company.

P. Rajendran and B. Sudha (2019) This article aims to research the financial analysis and performance of HDFC Bank. This study is based on the secondary data. Bank performance can be measured by using Current ratio, Cash Position Ratio, Fixed Asset Ratio and Debt Equity Ratio. This study reveals the performance of HDFC Bank is satisfactory during the research period.

Narsi Reddy, P.V.N. Nataraj and A. Adi Sesha Reddy (2020) This article aims to analyze the financial performance of ICICI Bank. This study is based onthe secondary data. By using Trends, Productivity, Profitability ratios and various statistical tools like Mean, standard deviation, Coefficient of variation and Compound annual growth rate to analyze the bank performance. This study reveals banks utilizing funds very well, Non-Interest expenditure total assets causes more burden to bank and suggested to decrease the cost for increase the profit is the best alternative for financial performance.

OBJECTIVES OF THE STUDY

- To study the financial performance of the Kangra central Co-operative bank using ratio analysis.
- To identify the profitability and liquidity position of the bank.

METHODOLOGY

The Study uses Kangra central Co-operative bank financial data of five year period from FY ending on 31st March 2016 to the FY ending on 31st March 2021. Bank annual Report constitute the secondary data source for financial information.

DATA ANALYSIS AND INTERPRETATION

Capital adequacy ratio

It explains the relation between Bank capital and its Risk weighted assets. Standard capital adequacy percentage is 8%.

Year	**Capital Adequacy (in %)**
2016-17	12.51%
2017-18	12.42%
2018-19	10.78%
2019-20	8.81%
2020-21	9.20%

It has been inferred from the above table that the capital adequacy is following the decreasing trend which was highest in the year 2016-17 and lowest in 2019-20 with 8.81% which was again increased up to 9.20% in the year 2020-21

Year	Advances	Total Assets	Ratio (in times)
2016-17	493.40	1059.86	0.463
2017-18	527.27	1082.59	0.487
2018-19	568.68	1316.95	0.431
2019-20	616.19	1287.32	0.478
2020-21	608.18	1386.21	0.438

Advances to Total Assets

It calculates the relation between Advances to Total assets. Good Advances to Total assets ratio between 0.3 to 0.6. Advances to Total assets 0.4 is lower and better and 0.6 is high it leads problem to the bank will not have enough money to spent for further proceedings.

It has been found from the table that the ratio lies between 0.431 to 0.487 which may reveal that the bank has enough money to spend for the further proceedings.

Gross NPA and Net NPA

Loans interest not received from customers for 3 months turn into NPA. High Gross NPA means banks asset quality is in very poor shape.

Year	Gross NPA (in %)	NET NPA (in %)
2016-17	6.24	2.19
2017-18	6.13	2.32
2018-19	6.76	2.55
2019-20	6.48	2.26
2020-21	12.06	6.58

It has been interpreted from the table that the Gross NPA has shown a regular increase trend over the period of study with exceptional increase in the Year 2020-21. Similarly Net NPA has also shown a regular increase since 2016-17 and was reached at its highest level in the year 2020-21 which was an alarming situation to the bank.

Return on Annual Average Assets

It explains the relation between Net profit and Total Assets. Return on Annual Average Assets greater than 5% is good.

Year	Net Profit	Total Assets	Ratio (in %)
2016-17	14.16	1059.86	1.3
2017-18	17.37	1082.59	1.6
2018-19	15.45	1316.95	1.2
2019-20	15.35	1287.32	1.2
2020-21	9.09	1386.21	0.7

It has found from table that the ratio was at its lowest level in the Year 2020-21 and highest in the Year 2017-18.

Advances to deposit ratio

It explains the relation between advances (loans) and deposits. This indicates how much percentage banks given loans to customers from its deposits. Good Advances to Deposits is 80 % to 90 %

Year	Advances	Deposits	Ratio (in %)
2016-17	493.4	924.22	53.39
2017-18	527.24	937.52	56.24
2018-19	568.68	1053.19	54.00
2019-20	616.91	1120.36	55.06
2020-21	608.18	1199.5	50.70

It has been inferred from the table 5 that the advances to deposit ratio lies between 50.70& in the year 2020-21 to 53.39% in the year 2016-17.

Current ratio

It explains the relation between Current Assets and Current Liabilities. It indicates the Bank liquidity position. Standard current ratio is 2:1.

Year	Current Assets	Current Liabilities	Ratio (in times)
2016-17	348.66	98.06	3.56
2017-18	322.01	94.8	3.40
2018-19	300.52	96.37	3.12
2019-20	339.82	91.04	3.73
2020-21	339.08	91.86	3.69

It has been found that the bank has maintained the sufficient liquidity position with its current ration maintain a satisfactory level throughout the period under study.

CASA Ratio

CASA means Current account and savings account. It explains the relation between Deposits of current account and savings account and total deposits. It is the cheapest way of deposits to bank.

Year	Total Deposits	C/A & S/A	Ratio
2016-17	924.22	313.65	33.93
2017-18	937.52	297.66	31.74
2018-19	1053.19	296.23	28.12
2019-20	1120.36	302.3	26.98
2020-21	1199.5	328.98	27.42

It has been observed from the above table that the CASA ratio followed a decreasing trend with the highest level in the Year 2016-17 and lowest in the Year 2019-20.

Net Interest Income

Interest is one of the major revenues to the bank. Interest payments deducted from interest income from deposits is called Net interest income. Below table indicates how much interest coming after deducting interest payments. Increasing of NII is good indicator to the bank.

Year	Interest Income	Interest Expenditure	Net Interest Income
2016-17	87.34	60.69	26.65
2017-18	95.8	60.28	35.52
2018-19	99.4	73.68	25.72
2019-20	106.88	68.58	38.3
2020-21	107.74	68.05	39.69

It has been observed that the NII is following a positive trend except the Year 2018-19. It was at its highest level in the Year 2020-21 and lowest in the Year 2018-19.

CONCLUSION

The capital adequacy is following the decreasing trend which was highest in the year 2016-17 and lowest in 2019-20 with 8.81% which was again increased up to 9.20% in the year 2020-21 and hence is following the decreasing trend. The advances to total asset ratio lies between 0.431 to 0.487 which may reveal that the bank has enough money to spend for the further proceedings. The bank has maintained the sufficient liquidity position with its current ratio maintain a satisfactory level throughout the period under study. The Gross NPA has shown a regular increase trend over the period of study with exceptional increase in the Year 2020-21. Similarly Net NPA has also shown a regular increase since 2016-17 and was reached at its highest level in the year 2020-21 which was an alarming situation to the bank. The NII is following a positive trend except the Year 2018-19. It was at its highest level in the Year 2020-21 and lowest in the Year 2018-19.

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