

Financial performance of Urban Cooperative Bank (UCB) in Lakhimpur Kheri district of U.P.

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ABSTRACT

The objective of the present study is to analyse the financial performance of Urban Cooperative Bank (UCB) in Lakhimpur Kheri district of U.P. The results of the study show that though the bank has shown reasonable growth in terms of advances and deposits but it is felt by us that it could have done much better had it not followed an over cautious approach in lending policy and would have gone for required expansion.

KEY WORDS : Financial performance, Co-operative, Average working fund

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A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks provide their members with a wide range of banking and financial services.” As far as an Urban Cooperative bank, a bank operating in urban areas on the basis of co-operative principles is known as Urban Co-operative Bank. Initially UCBs were organized as credit societies in India and later converted into Urban Banks. The term Urban Co-operative Banks (UCBs) refers to primary cooperative banks located in urban and semi-urban areas. Urban Cooperative Banks were set up with the objective of promoting sustainable banking practices amongst a relatively specific target clientele viz., the middle income strata of the urban population. They

were brought under the regulatory ambit of the Reserve Bank by extending certain provisions of the Banking Regulation Act, 1949, effective from March 1, 1966. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. The origins of the urban cooperative banking movement in India can be traced to the close of nineteenth century when, inspired by the success of the experiments related to the cooperative movement in Britain and the cooperative credit movement in Germany such societies were set up in India. Cooperative societies are based on the principles of cooperation, - mutual help, democratic decision making and open membership. Cooperatives represented a new and alternative approach to organization as against proprietary firms, partnership firms and joint stock companies which represent the dominant form of commercial organization.

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Objectives of the Urban Co-operative Bank (UCB) :

The UCBs are considered as “Small people’s Bank” and they are organized for promoting thrift and co-operation among the lower and middle strata of the society. The principal objectives of the UCBs include promotion of thrift and mutual cooperation, mobilize resources, provide credit to members at reasonable rates, collect bills, cheques, drafts, arrange for

safe custody of valuables and documents, while subsidiary objectives include providing possible help and necessary guidance to traders and artisans etc. to do every kind of trust and agency business, to undertake every kind of banking and sharaffi business including bank guarantee and letters of credit etc.

Urban Co-operative Bank Ltd., Lakhimpur Kheri was established in the year 1985 in district Lakhimpur of UP. It provides 365 days services to its customers and free accidental

insurance coverage to all its share holders, depositors and borrowers. The bank has been established in 1985 with an initial capital of Rs. 1.57 Lacs with only one branch at Lakhimpur Kheri, which stood at Rs.144.08 Lacs as on 31.03.2011 with eight branches (Table 1). It has made its presence felt among the people of the district along with private and other nationalized banks. Today the bank has fully computerized all its 8 branches with working capital of its Rs. 23741.88 Lacs. The Bank has established its own Head Office

Table 1 : Progress of bank since inception as on 31st March 1985 and 2011

Name	Established	No. of members		Total capital (Rs. Lakhs)		Average working fund (AWF) Rs. Lakhs		No. of employees		No. of branches	
		1985	2011	1985	2011	1985	2011	1985	2011	1985	2011
Urban Cooperative Bank Ltd.	1985	433	5022	1.57	144.08	9.61	23741.88	07	89	01	08

Table 2 : Financial performance of UCB during 2005-06 to 2010-11 (Rs. in lakhs)

Financial parameters	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Reserve fund	767.16 (7.7%)	903.81 (17.81%)	1028.51 (13.8%)	1068.32 (3.87%)	1154.9 (8.1%)	1235.29 (6.96%)
Total deposits	8598.06 (13.8%)	10461.16 (21.67%)	12170.10 (16.375)	14851.23 (22.03%)	18441.54(24.18%)	22133.09 (20.02%)
Total advances	2221.16 (21%)	2616.14 (17.78%)	2811.11 (7.45%)	3204.69 (14%)	3654.25 (14.02)	4280.82 (17.15%)
Average working fund (AWF)	9803.91 (16.58)	11827.45 (20.64%)	14008.41(18.44%)	1647.87 (17.62%)	20195.08(22.57%)	23741.88 (17.56%)
Loan to priority sector	1356.01 (22.98%)	1623.31 (19.71%)	1738.39 (7.09%)	2011.24 (15.7%)	2352.85 (16.9%)	2762.88 (17.43%)
Non-performing assets (NPA)	90.27 (11.04%)	94.38 (4.5%)	97.61 (3.4%)	110.80 (13.5%)	104.77 (-5.44%)	85.62 (-18.28%)
Total non-interest income	28.30 (10.3%)	25.61 (-2.6%)	25.09 (-2.07%)	25.81 (2.87%)	45.25 (75.3%)	43.66 (-3.51%)
Total interest income	767.17 (-8.36%)	714.65 (-7.09%)	767.43 (7.38%)	1286.91 (67.7%)	1475.27 (14.64%)	1861.22 (26.16%)
Total operating expenses (including interest payment)	644.30 (4.76%)	673.08 (17.92%)	739.52 (8.87%)	1258.58 (39.17%)	1465.01 (16.4%)	1848.60 (14.21%)
Gross profit (total int. and non-int. income)	795.47 (10.49%)	740.26 (-6.94%)	792.53 (7.06%)	1312.72 (65.6%)	1520.52 (15.8%)	1904.89 (25.27%)
Net profit (after tax) (Gross profit –Total operating expense)	151.17 (25.02%)	67.18 (-55.5%)	53.01 (-21.09)	54.14 (2.13%)	55.51 (2.53%)	56.29 (1.4%)
Ratios	(In percentage)					
Credit/Deposit (CD Ratio)	25.83	25.01	23.10	21.58	19.82	19.34
Net profit/Gross profit	19.0	9.08	6.69	4.12	3.65	2.96
Net profit /AWF	1.54	0.57	0.38	0.33	0.27	0.24
Operating expense/ AWF	0.95	0.93	0.95	1.13	1.14	1.10
Operating expense/ Gross profit	11.77	14.9	16.7	14.10	15.09	13.76
NPA/ Net advance	4.1	3.6	3.4	3.1	2.9	2.0
Priority sector/Total advances	51.09	62.05	61.84	59.95	64.39	64.54
Capital adequacy ratio	28.62	19.22	19.62	17.13	15.89	13.08
Interest income/AWF	7.85	6.04	5.48	7.81	7.30	7.84
Non-interest income/AWF	0.29	0.22	0.18	0.16	0.22	0.18
Interest spread/AWF	2.66	2.20	1.83	1.86	1.66	2.09
Business per employee (Rs. in lacs)	166.45	201.19	230.48	277.78	339.94	296.79
Return on assets(ROA)	1.54	0.57	0.38	0.33	0.27	0.23

Note : Figures in parenthesis show growth over the previous years

at Kheri road Lakhimpur Kheri at a grand and marvelous building.

Objective of the proposed study :

The objective of the proposed research study is to analyze the financial performance of UCB in district Lakhimpur of UP during the previous six years. For this purpose, secondary data were used from annual reports of the bank related to previous six years. Suitable ratios have been calculated to judge the financial and operational efficiency of the bank. For arriving at the suitable conclusions, opinions of the bank authorities and staff have also been taken.

Analysis of data (Table 2):

The reserve fund of the bank grew from Rs 767.16 Lakhs in 2005-06 to Rs 1235.29 Lakhs at the end of 2010-11 showing compounded annual growth rate (CAGR) of approx. 10%. The total deposit of bank has been increasing year after year with Rs.22133.09 Lakhs as against just a meagre amount of Rs. 7.85 Lakhs in year 1984-85 registering a growth of 26% during all the years under study. The total advances were just Rs. 6.06 Lakhs in the inception stood at Rs. 4280.82 Lakhs at the end of the year 2011 showing CAGR of well above 16%. The AWF of the bank has shown CAGR of 24% during six years under study. The total interest income earned by the bank has shown CAGR of 24% while operating expenses (including interest paid by the bank) has shown CAGR of more than 30%. Gross profit (addition of total interest and non-interest income) stood at Rs. 1904.89 Lacs than Rs. 795.47 Lacs showing CAGR of 23%. The net profit (after tax) of the bank has shown declining trend and it stood at Rs. 56.29 Lacs at the end of 2011 it has declined due to increasing burden of interest payment and operating expenses of the bank. Non-Performing Assets of the bank has shown declining trend and it stood at Rs. 85.62 Lacs at the end of 2011 as against Rs. 90.27 Lacs in the year 2005-06.

Analysis of data through suitable ratios :

– Credit/Deposit ratio (ratio of total advances disbursed by the bank in comparison to its deposits) does not match with standard norms of RBI, which is 60%. It varies around 20-25%. The reason is that the bank has adopted very cautious approach in its lending activity. The bank has not launched rigorous advertisement campaign to increase its lending volumes. It can well increase its CD ratio, if it adopts lenient lending policy keeping in mind credit worthiness of borrowers.

– The Net Profit/Gross Profit ratio has not been rising continuously. The reason is that the bank had been enjoying the tax holiday under Sec. 80 (P) of income tax act, which has been withdrawn by the Government during the year 2006-07. Now the bank's profit has been taxed @ 30 %.

– Net Profit/AWF ratio or Return on Assets (ROA) has not been according to >1% of RBI. It has been declining year after year due to removal of tax holiday structure of the bank as well as skeptical approach adopted by the bank in its lending activity.

– The bank has been quiet successful in keeping its operating expense well below the standard norms of 2% set by RBI. Operating Expense/AWF ratio was 1.10 in the year 2010-11 than 1.14 in the previous year. The bank has been successful in it due its low cost of labour as well as low expenditure per branch.

– Operating Expense/Gross Profit ratio of the bank is also below the standard norms of 30% due to low operating expense in comparison to other private, foreign and nationalized banks.

– The bank has been successful in maintaining its priority sector target of 60% almost during all the years under study. The bank has maintained it by keeping its NPA at the low level.

– The NPA/Ney Advance ratio of the bank is well below the standard norms of 10% of RBI during all the years under study. The reason is its cautious approach in lending as well as less amount of lending in comparison to other nationalized banks. Due to fear of NPA the bank seems to lend its borrowers at strict norms which also hamper its opportunity to earn more interest income.

– Capital adequacy ratio (which is the ratio of risk weighted assets to its capital funds) is well above the standard norms of 12% set by RBI under Basel II norms. It is above 12% under all the years under study.

– Interest Income/AWF ratio of the bank showed haphazard growth during all the years under study. It was 7.85% in the year 2005-06, afterwards it showed declining trend. It could have been well above than the present level if the bank would have maintained its CD ratio up to standard norms of 60%. The growth of interest income showed declining trend initially but afterward it showed wayward growth.

– Interest spread ratio (difference between interest earned and interest paid) was 2.09% in the year 2010-11 than 1.66% in the year 2009-10.

– The business per employee of the bank has been rising regularly with Rs 333.94 Lakh in the year 2009-10 as against Rs 277.78 Lakh in the year 2008-09. It has declined a bit in the year 2010-11 due to increase in the number of employees during the year from 65 to 89.

Conclusion :

It is observed that bank, since inception has adopted too much of 'Play It Safe' policy and continues to function with the mindset of a traditional money lenders resulting in its unattractive growth both in terms of volumes of deposits, advances and branch penetration. Given vast geographical

area and huge population still lying unexposed to localized and personalized UCB banking practices in district Lakhimpur Kheri, the UCB need to wake up from its slumber and make whole hearted efforts to actualize its potential by increasing business both through growth in volumes as well as branch expansion. Corporate strategic thinking is what the bank needs most at this juncture.

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