

# “An Analytical Study on Financial Performance of Co-Operative Banks With Special Reference to Karnataka State”

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## **Abstract:**

The concept of "Financial Inclusion" is integral in the structure of Cooperative Bank. As Urban Cooperative Banks are generally working in the rural and semi-urban areas. They are the back bone of banking system and contribute for growth of the nation. The researcher aims to investigate the financial performance of Cooperative banks of Karnataka State. The study employs investigative research design which relies on secondary data. The banks financial efficiency ratios showed that the growth and survival prospects of TBDCCB & VDCCB are excellent. As per financial ratios, these banks succeeded in maintaining an optimum level of financial efficiency.

**Keywords:** Financial efficiency, financial performance, financial inclusion etc.

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## **I. Introduction:**

The co-operative banking sector in the Indian economy holds a distinct identity, as it is the only institution of micro credit dispersion. The phenomenal growth of co-operative enterprise in recent years is a positive proof of the fact that among various financial institution agencies, they have been recognized as the best for supplying un-exploitative, cheap, sound and dynamic credit to small borrowers, professionals, artisans and the weaker sections of society.

### **1.1 NEED FOR THE STUDY**

Due to certain changes in the banking sector and new economic policies, the co-operative sectors underwent a crisis. At the same time the failure of some good schedule banks and urban banks has also attracted the attention of the people and raised the question of security of their funds. So that needs to find actual financial stability of the co-operative banks and assure investors about the operational efficiency of the co-operative banks.

### **1.2 STATEMENT OF THE PROBLEM**

The co-operative credit institutions have been facing innumerable prominent problems. Huge administrative expenses and lack of managerial skill of the employee are the major problems of the co-operative banks in India. This is because of lack of training and education to the employees. They are expected to provide better services on par with the nationalized banks and even better than them.

### **1.4 OBJECTIVES OF THE STUDY**

- To examine the financial efficiency of District Central Co-operative Banks, Karnataka State.
- To suggest improving efficiency of District Central Co-operative Banks, Karnataka State.

### **1.5 HYPOTHESIS TESTING**

#### **Null Hypothesis**

A) There is no significant difference in financial efficiency of District Central Co-operative Banks, Karnataka State.

### **1.6 SCOPE OF THE STUDY**

The scope of the study is defined in terms of performance aspects and period under focus.

1. The researcher has selected District Central Co-operative Bank for the study covering Vijapur, Gulbarga & Yatgiri, Bagalkot, Gadag, Dharwad and Hubli District.
2. The study is based on the secondary data through annual reports of the banks for a period of 5 years from 2014-15 to 2018-19.
3. The performance of the DCCBs were measured through liquidity & solvency and financial efficiency.

### 1.7 RESEARCH METHODOLOGY

**SOURCES OF DATA:** The study is based on secondary data.

#### SECONDARY DATA

The secondary information was obtained from the annual reports of selected banks, reports of RBI, websites, journals, and magazines.

**PERIOD OF STUDY:** The present study covers the span of five years i.e. from 2014-15 to 2018-2019.

**SAMPLING DESIGN:** In this study, the District Central Co-operative Banks of 6 districts have been included.

**Table 1.1 SAMPLE COMPOSITION**

Name of the District	Name of the Bank
Vijayapur	Vijayapur District Central Co-operative Bank (VDCCB)
Kalburgi and Yatgiri	Kalburgi and Yatgiri District Central Co-operative Bank (KYDCCB)
Bagalkot	The Bagalkot District Central Co-operative Bank (TBDCCB)
Dharwad	Karnataka Central Co-operative Bank (KCCB)
Hubli	
Gadag	

**FRAMEWORK ANALYSIS:** The functions of District Central Co-operative Banks of Karnataka state will be measured through 2 different techniques they are as follows:

A. **Accounting Techniques:** The functions of DCCB will be measured through comparative analysis and ratio analysis.

1. **Financial Efficiency Ratios:** Gross Ratio, Operating Ratio, Management Ratio, Establishment Ratio, Cash Return on Asset Ratio, Fixed Asset Turnover Ratio & Return on Investment Ratio.

A. **Statistical techniques:** F Test and ANOVA test applied for evaluating the performance of DCCBs.

### 1.8 LIMITATIONS OF THE STUDY

1. Researcher has only considered a sample of DCCBs, other co-operative banks private & foreign banks were not considered for the present study.
  2. The secondary data was taken from the annual reports of the DCCBs. It may be possible that the data shown in the annual reports may be window dressed which does not show the actual position of the banks.
  3. There are different methods to measure efficiency, effectiveness and profitability. In this connection views of experts differ from one another.
  4. The limitations of tools and techniques applied for the analysis are inherent in the present study.
  5. Inherent limitation of the person selected as sample is also subject to consideration.
  6. Financial statements are normally prepared on the concept of historical cost. They do not reflect values in terms of current cost. Thus, financial analysis on such financial statements or accounting figures would not portray the effects of price level changing over the period.
- Despite all these limitations this study throws light on the important challenging problems of the cooperative banks.

### 1.9 SCOPE FOR FUTURE RESEARCH

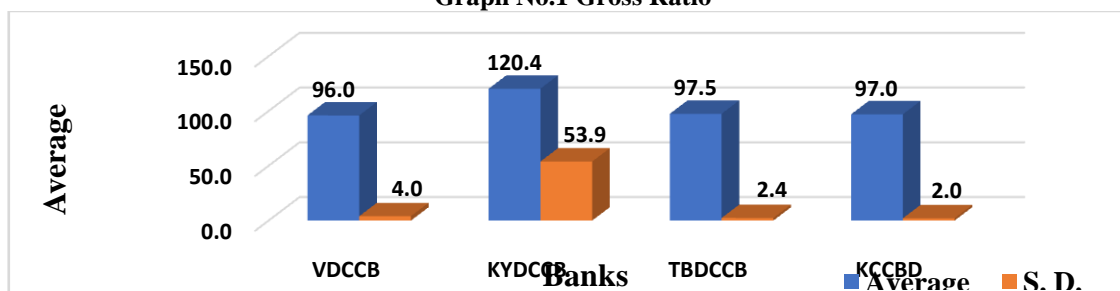
- a. Further, the scope of the study can be widened by using the public, private, foreign sector banks in India.
- b. Many internal & external factors affecting the financial performance of the co-operative banks can be analyzed to make the future studies more prominent and comprehensive.
- c. Researchers can obtain primary data to know the customers and employee's satisfaction level.

### 1.10 ANALYSIS OF FINANCIAL EFFICIENCY OF THE BANKS UNDER STUDY

**Table No.1 Gross Ratio**

Banks	2014-15	2015-16	2016-17	2017-18	2018-19	Average	S. D.
VDCCB	102.98	95.31	94.10	93.54	93.93	<b>95.97</b>	3.97
KYDCCB	94.30	93.83	98.47	98.52	216.64	<b>120.35</b>	53.87
TBDCCB	93.48	97.89	99.77	98.10	98.12	<b>97.48</b>	2.36
KCCBD	97.52	97.37	96.84	93.72	99.30	<b>96.95</b>	2.03

**Graph No.1 Gross Ratio**



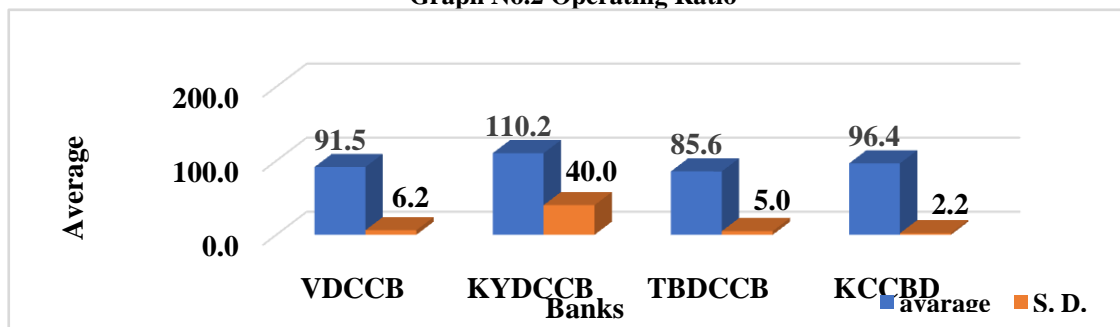
Graph 1 portrays that the average rate is the highest (i.e. 120.4%) in case of KYDCCB and followed by (97.5%) in case of TBDCCB, (97.0%) in case of KCCBD and it was the least (96.0%) in VDCCB.

On the other hand, the analysis of consistency in performance with regard to Gross ratio reveals that KCCBD has demonstrated the most consistent performance among all the selected banks by securing the least standard deviation (i.e. 2.0) which indicates the quantum of risk associated with Gross ratio of KCCBD.

**Table No. 2 Operating Ratio**

Banks	2014-15	2015-16	2016-17	2017-18	2018-19	Average	S. D.
VDCCB	100.98	93.11	84.88	87.54	91.21	<b>91.54</b>	6.17
KYDCCB	91.69	88.57	92.59	96.53	181.67	<b>110.21</b>	40.05
TBDCCB	79.41	87.33	91.00	88.94	81.51	<b>85.64</b>	4.96
KCCBD	97.24	97.37	95.16	93.41	98.97	<b>96.43</b>	2.17

**Graph No.2 Operating Ratio**



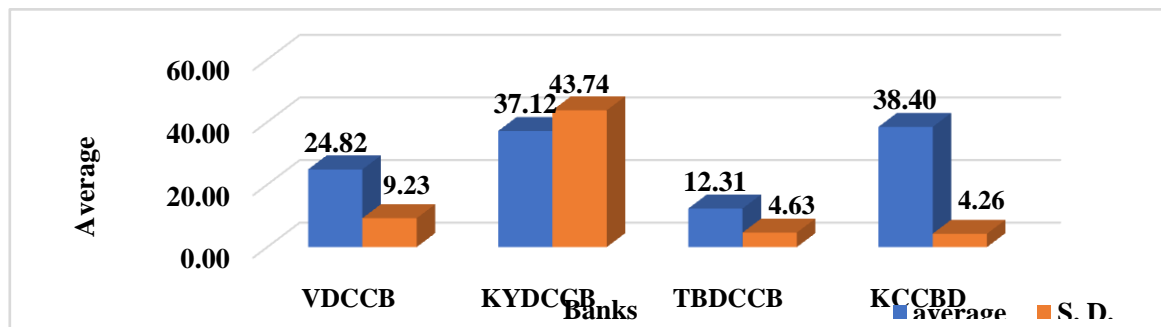
Graph 2 portrays that the average rate is the highest (i.e. 110.2%) in case of KYDCCB and followed by (96.4%) in case of KCCBD, (91.5%) in case of VDCCB and it was the least (85.6%) in TBDCCB.

On the other hand, the analysis of consistency in performance with regard to Operation ratio reveals that KCCBD has demonstrated the most consistent performance among all the selected banks by securing the least standard deviation (i.e. 2.2) which indicates the quantum of risk associated with Operation ratio of KCCBD.

**Table No. 3 Management Ratio**

Banks	2014-15	2015-16	2016-17	2017-18	2018-19	Average	S. D.
VDCCB	38.27	30.73	18.11	18.32	18.68	<b>24.82</b>	9.23
KYDCCB	15.18	15.38	11.44	29.15	114.43	<b>37.12</b>	43.74
TBDCCB	20.31	9.08	12.28	10.31	9.59	<b>12.31</b>	4.63
KCCBD	42.74	38.32	32.59	36.13	42.24	<b>38.40</b>	4.26

**Graph No. 3 Management Ratio**

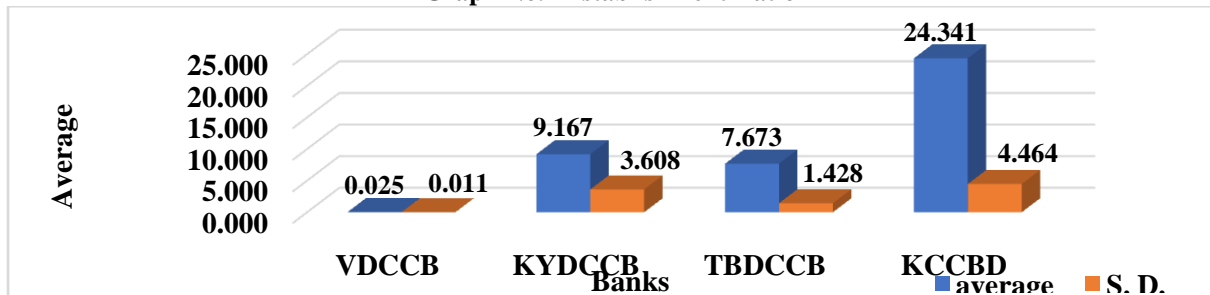


Graph 3 portrays that the average rate is the highest (i.e. 38.4%) in case of KCCBD and followed by (37.12%) in case of KYDCCB, (24.82%) in case of VDCCB and it was the least (12.31%) in TBDCCB. On the other hand, the analysis of consistency in performance with regard to Management ratio reveals that KCCBD has demonstrated the most consistent performance among all the selected banks by securing the least standard deviation (i.e. 4.26) which indicates the quantum of risk associated with Management ratio of KCCBD.

**Table No. 4 Establishment Ratio**

Banks	2014-15	2015-16	2016-17	2017-18	2018-19	Average	S. D.
VDCCB	0.02	0.02	0.02	0.02	0.04	0.02	0.01
KYDCCB	6.66	8.45	7.22	8.00	15.50	9.17	3.61
TBDCCB	5.65	8.27	8.22	9.34	6.88	7.67	1.43
KCCBD	18.89	23.06	25.16	23.41	31.18	24.34	4.46

**Graph No.4 Establishment Ratio**

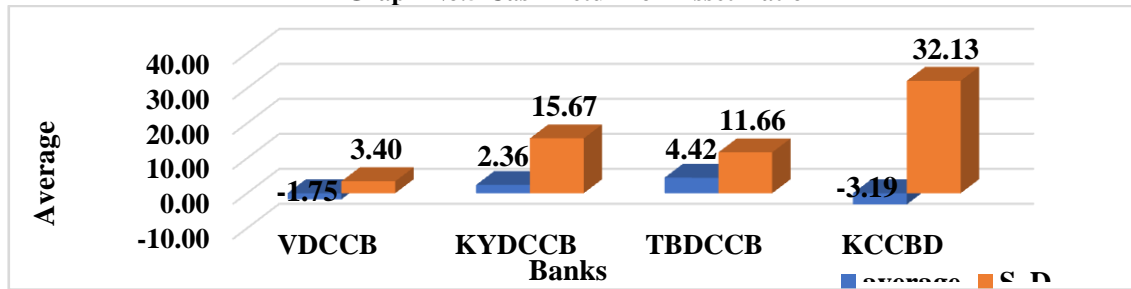


Graph 4 portrays that the average rate is the highest (i.e. 24.341%) in case of KCCBD and followed by (9.167%) in case of KYDCCB, (7.673%) in case of TBDCCB and it was the least (0.025%) in VDCCB. On the other hand, the analysis of consistency in performance with regard to Establishment ratio reveals that VDCCB has demonstrated the most consistent performance among all the selected banks by securing the least standard deviation (i.e. 0.011) which indicates the quantum of risk associated with Management ratio of VDCCB.

**Table No. 5 Cash Return on Asset Ratio**

Banks	2014-15	2015-16	2016-17	2017-18	2018-19	Average	S. D.
VDCCB	-0.92	-0.01	2.31	-6.50	-3.63	-1.75	3.40
KYDCCB	11.06	5.56	9.44	-25.38	11.12	2.36	15.67
TBDCCB	-2.28	24.21	5.84	-3.29	-2.39	4.42	11.66
KCCBD	-22.75	-41.14	44.19	4.20	-0.43	-3.19	32.13

Graph No.5 Cash Return on Asset Ratio



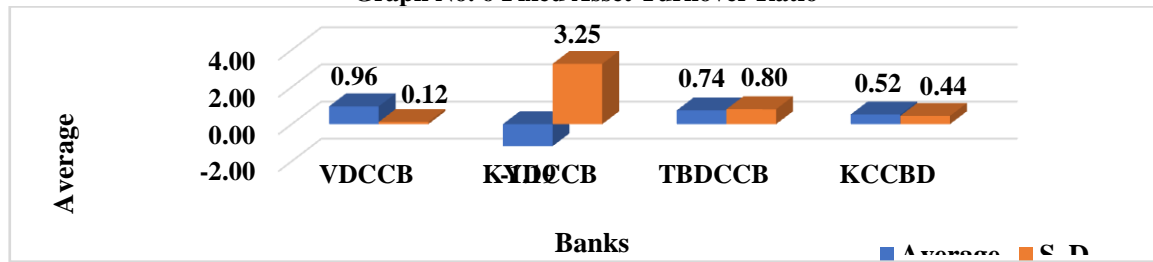
Graph 5 portrays that the average rate is the highest (i.e. 4.42%) in case of TBDCCB and followed by (2.36%) in case of KYDCCB, (-1.75%) in case of VDCCB and it was the least (-3.19%) in KCCBD.

On the other hand, the analysis of consistency in performance with regard to Cash return reveals that KCCBD has demonstrated the most consistent performance among all the selected banks by securing the least standard deviation (i.e. -3.19) which indicates the quantum of risk associated with Cash return on asset ratio of KCCBD.

Table No.6 Fixed Asset Turnover Ratio

Banks	2014-15	2015-16	2016-17	2017-18	2018-19	Average	S. D.
VDCCB	1.15	0.90	0.92	0.94	0.86	0.96	0.12
KYDCCB	0.44	0.35	0.12	0.13	-7.00	-1.19	3.25
TBDCCB	2.17	0.49	0.42	0.31	0.32	0.74	0.80
KCCBD	0.34	1.19	0.23	0.72	0.10	0.52	0.44

Graph No. 6 Fixed Asset Turnover Ratio



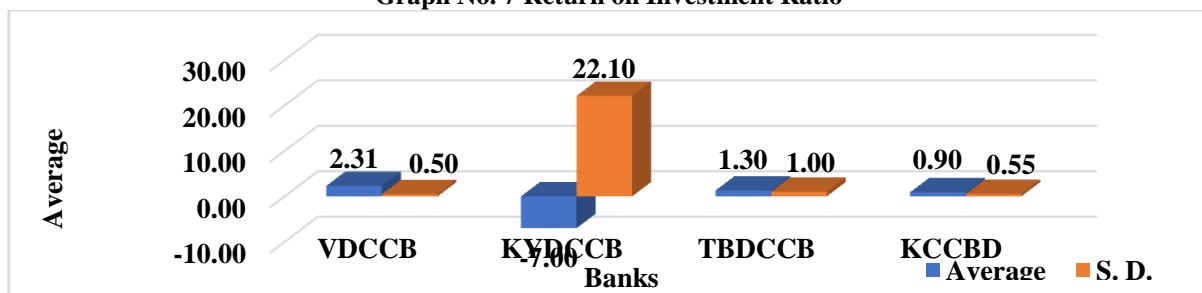
GraphNo. 6 portrays that the average rate is the highest (i.e. 0.96%) in case of VDCCB and followed by (0.74%) in case of TBDCCB, (0.52%) in case of KCCBD and it was the least (-1.19%) in KYDCCB.

On the other hand, the analysis of consistency in performance with regard to Fixed asset turnover ratio reveals that KYDCCB has demonstrated the most consistent performance among all the selected banks by securing the least standard deviation (i.e.-1.19) which indicates the quantum of risk associated with Fixed asset turnover ratio of KYDCCB.

Table No. 7 Return on Investment Ratio

Banks	2014-15	2015-16	2016-17	2017-18	2018-19	Average	S. D.
VDCCB	2.60	3.00	2.21	1.98	1.76	2.31	0.50
KYDCCB	5.46	4.06	1.27	0.58	-46.38	-7.00	22.10
TBDCCB	3.09	0.78	0.91	0.83	0.90	1.30	1.00
KCCBD	0.83	1.10	0.76	1.67	0.16	0.90	0.55

Graph No. 7 Return on Investment Ratio



GraphNo.7 portrays that the average rate is the highest (i.e. 2.31%) in case of VDCCB and followed by (1.30%) in case of TBDCCB, (0.9%) in case of KCCBD and it was the least (-7.0%) in KYDCCB.

On the other hand, the analysis of consistency in performance with regard to Return-on-investment ratio reveals that KYDCCB has demonstrated the most consistent performance among all the selected banks by securing the least standard deviation (i.e., -7.0) which indicates the quantum of risk associated with Return-on-investment ratio of KYDCCB.

**ANOVA TEST**

ANOVA test is employed to analyze the significant difference among the District Central Co-operative banks under the present study in respect of their financial efficiency ratios owing to the effect factors simultaneously. The following hypotheses are set:

**Null Hypothesis (H<sub>0</sub>):** *“There is no significant difference among the District Central Cooperative Banks in respect of their financial efficiency ratios”*

**Alternative Hypothesis (H<sub>a</sub>):** *“There is a significant difference among the District Central Cooperative Banks in respect of their financial efficiency ratios”*

The result of ANOVA Test at 5% (0.05) level of significance is portrayed in Table 6.8

**Table 8 ANOVA Test for Financial Efficiency Ratios**

Ratios	Banks	Sum of Squares	Df	Mean Square	F	Sig.	Rem
Gross Ratio	Between Banks	2086.264	3	695.421	.950	.440	Non Sig.
	Within Banks	11710.774	16	731.923			
	Total	13797.038	19				
Operating Ratio	Between Banks	1646.640	3	548.880	1.314	.304	Non Sig.
	Within Banks	6684.531	16	417.783			
	Total	8331.172	19				
Management Ratio	Between Banks	2236.937	3	745.646	1.463	.262	Non Sig.
	Within Banks	8152.943	16	509.559			
	Total	10389.880	19				
Establishment Ratio	Between Banks	1554.551	3	518.184	59.272	.000	Sig.
	Within Banks	139.879	16	8.742			
	Total	1694.429	19				
Cash Return on Asset Ratio	Between Banks	187.266	3	62.422	.175	.912	Non Sig.
	Within Banks	5702.859	16	356.429			
	Total	5890.125	19				
Fixed Asset Turnover Ratio	Between Banks	14.439	3	4.813	1.687	.210	Non Sig.
	Within Banks	45.647	16	2.853			
	Total	60.086	19				
Return on Investment Ratio	Between Banks	276.657	3	92.219	.753	.537	Non Sig.
	Within Banks	1960.403	16	122.525			
	Total	2237.060	19				

Sources: Compiled from table

The analysis of ANOVA Test Table 8 reveals that for the establishment ratio, the calculated F value is greater than table value, hence null hypothesis is rejected and alternative hypothesis is accepted. It can be concluded that there is a significant difference of establishment ratio and there is a non-significant difference of remaining ratios among the selected banks under study.

**1.11 FINDINGS**

- 1. Gross Ratio:** This ratio helps to ascertain how efficiently the gross income of the bank was earned. The maximum average ratio (i.e. 120.4%) in case of KYDCCB and it was the least (96.0%) in VDCCB.
- 2. Operating Ratio:** The maximum average is (i.e. 110.2%) in case of KYDCCB which indicates a decline in the efficiency of the bank. it was the least (85.6%) in TBDCCB.
- 3. Management Ratio:** This ratio indicates the proportion of gross income being used for meeting the management expenses. The maximum average ratio is (i.e. 38.4%) in case of KCCBD which indicates a decline in the efficiency of the bank. It was least (12.31%) in TBDCCB.
- 4. Establishment Ratio:** This ratio indicates the proportion of gross income being used for meeting the establishment expenses. The maximum average ratio is (i.e. 24.341%) in case of KCCBD which indicates a decline in the efficiency of the bank. It was the least (0.025%) in VDCCB.

**5. The Cash Return on Assets:** This ratio is used to benchmark a business's performance with other businesses in the same industry. The average ratio was highest (i.e. 4.42%) in case of TBDCCB and it was the least (-3.19%) in KCCBD.

**6. Fixed Asset Turnover Ratio:** This ratio measures a bank's ability to generate net revenue from its fixed-asset investments, namely property, plant, and equipment. The average ratio was highest (i.e. 0.96%) in case of VDCCB and it was the least (-1.19%) in KYDCCB.

**7. Return On Investment Ratio:** Return on Investments estimates what you receive back as compared to what you invest. The maximum average ratio was highest (i.e. 2.31%) in case of VDCCB and it was the negative (-7.0%) in KYDCCB. There is a non-significant difference of all the financial ratios except establishment ratio among the selected banks under study

### **1.12 SUGGESTIONS:**

The efficiency ratio indicates that the expenses were less than the gross income for all the years during study period.

The gross ratio of KYDCCB, the operating ratio of KYDCCB, the management ratio of KCCBD and the establishment ratio of KCCBD were found to be increased. It is advised to decrease all the above financial efficiency ratios to all the above banks to either decrease cost or increase revenue during the study period.

VDCCB & KCCBD were negative CROA ratio which indicates that these banks were poorly generating cash from its asset investments. It is advised to increase the ratio for more generating cash from its asset investments.

The KYDCCB was advised to increase the FAT ratio to reduce overinvested in plant, equipment, or other fixed assets.

In case of ROI ratio KYDCCB was found to be low as compared with other banks which indicates inefficiency of the management in utilizing funds entrusted to them and poor is the financial position of bank. These banks are advised to improve the ratio which is useful for management to take investment decisions in the form of deposits in a particular bank and judging the prospects or stability of the bank

### **1.12 CONCLUSION:**

Economic development of any country is mainly influenced by the growth of the banking industry in that country. The present study has been conducted to examine the functioning of the selected District Central Co-operative Banks of six districts in Karnataka state. The banks financial efficiency ratios showed that the growth and survival prospects of TBDCCB & VDCCB are excellent. As per these ratios, these banks succeeded in maintaining an optimum level of financial efficiency. The other financial ratios like CROA, FAT & ROI used to measure the financial efficiency in this study; the researcher has found that the performance of TBDCCB & VDCCB were good for managing the funds efficiently; having the sufficient cash in future & less money tied up in fixed asset for generating revenue.

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