A comparative Study on the growth of Banking sector

By : Dr Ketulkumar I Sheth

Shree J D Gabani commerce college & S A S College of MGT, varachha road surat

Introduction to Banking Sector in India

The growth and development of an economy largely depends upon the amount of growth of the banking and financial institutions in that country. It can be said that the banking sector is the backbone of an economy. Banking sector helps the development of other important sectors of the economy. The development of agriculture sector, industrial sector, service sector and infrastructure is possible only when there is sufficient development of banking and finance sector in the economy. The Indian banking sector can also be proud of such development, but in the process of development, Indian banking sector has to pass through several difficulties, sufferings and pains of partition. Today Indian banking sector can be proud of the remarkable growth and development. But, before 20th century, there was prevailing the system of money lenders and sahukars. They lent money at the high rate of interest. The entry of government banks, joint stock banks, co-operative banks and private sector banks have taken over a good deal of business from the money lenders and sahukars, although they still exist, they have lost their looming position. In the Indian baking system, besides commercial banks, the co-operative banks have also played a supporting role in providing need based finance especially for agricultural and agriculture-based operations including farming, cattle, milk, hatchery, personal finance etc. along with some small industries and self-employment driven activities. Generally, co-operative banks are governed by the respective co-operative acts of state governments. But, since 1966, the co-operative banks are also being regulated by RBI as a result of amendment in Banking Regulation Act, 1949. The Reserve Bank is responsible for licensing of banks and branches, and it also regulates credit limits to state co-operative banks on behalf of primary co-operative banks for financing SSI units. According to the Indian banking structure, banks can be classified into two broad segments, commercial banks and co-operative banks. Commercial banks can subdivided into nationalized banks, state bank group, private sector banks, foreign banks, etc. The commercial banks account for a significant share of the banking business, the co-operative banks also hold an important position in Indian banking sector. Initially, the co-operative banks were set up to supplement the domestic sources of credit, but now-a-days these banks mainly serve the requirement of agriculture and allied activities, rural industries and trade and services of urban areas. The co-operative banks have three tier structures, which includes primary co-operative societies, district co-operative banks and state co-operative banks. This research work focuses on the evaluation of financial statements of co-operative banks in context of South region of Gujarat state.

History of Indian Banking Sector:

The history of Indian banking sector is very vast and fascinating. It shows the life style of Indian people during that time. The *Vedas* speak about the usage of gold coins, silver coins, copper and bronze coins. Late *Vedic* text speaks about the use of tin, lead and iron coins. A money economy existed in India since the time of Buddha.

In ancient India, during the Maurya dynasty (321 to 185 B.C.), an instrument called 'adesha' was used. It was an order on banker desiring him to pay the money of note to the third person. The 'adesha' corresponds to the system of bill of exchange as we use today. During the period of Buddha, this instrument was widely used. Merchants in large towns used this bill of exchange widely.

Trade guilds acted as bankers. They accepted deposits and granted loans. The large temples served as bankers. In the south regions, village community provided loans to the peasants. There were many professionals who worked as bankers. They were called 'Sethi'. The word 'Sethi' means the 'Chief'. In the North India, this word still survived as 'Seth'. The indigenous banking grew up in the form of rural banking in which certain individuals used their private fund for the banking activities. The scriptures mark that 'Vaishya' played principal role in the development of banking in India. The scriptures also mark that the bills of exchange were also used in India which were known as 'Hundi'.[1]

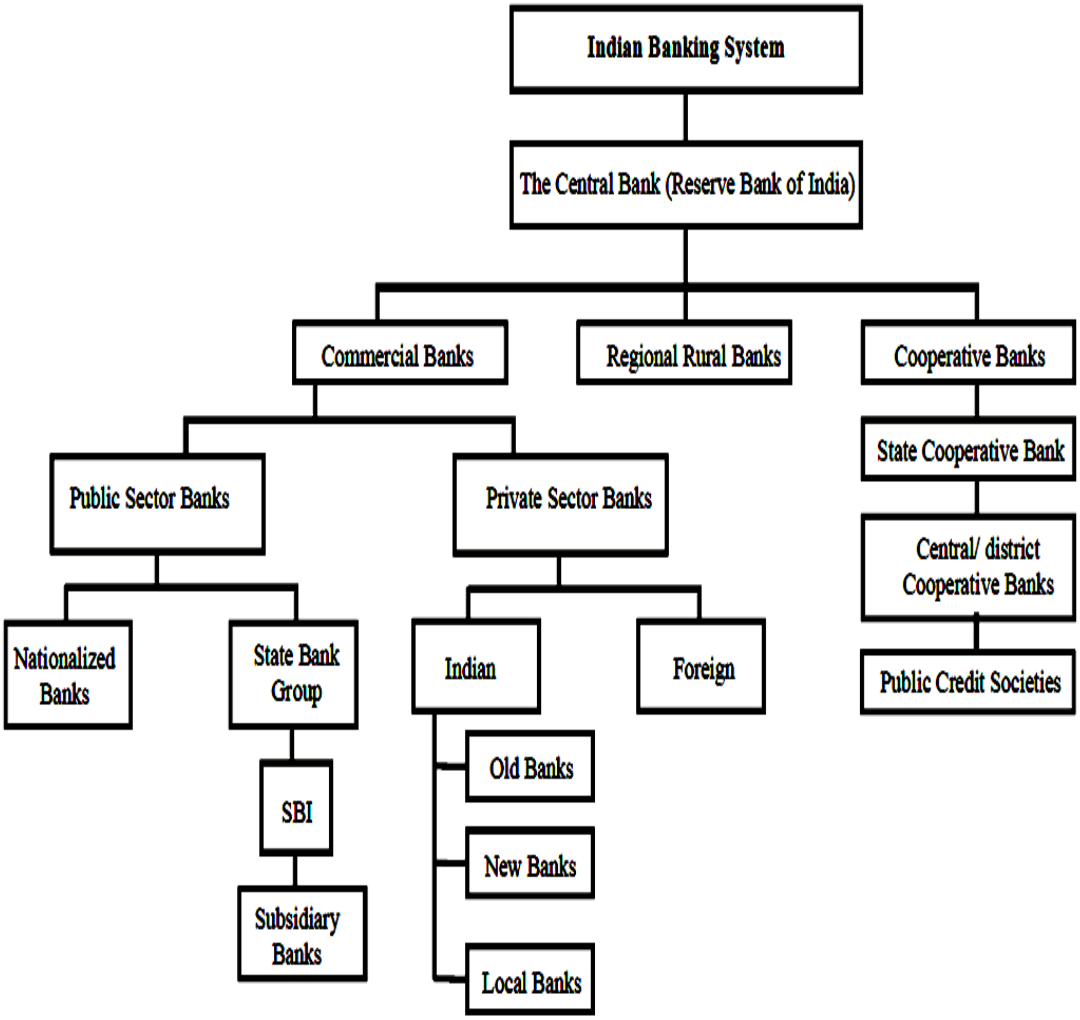
Kautilya's Arthashastra mentions about the currency known as 'panas' during the rule of Aryans, Muhammad Tughlaq issued copper coins as counters and by an imperial decree made them pass at the value of gold and silver. The people paid their expenses in terms of copper rather than gold and they used to purchase all their necessaries and luxuries with the same coins. However, these coins were not accepted in the counties where Muhammad's decree did not run

The Structure of Banking in India:

The Indian financial system comprises of a large number of commercial banks, co-operative banks, specialized banks, etc. the banking system is the heart of Indian financial system. The Indian banking structure is headed by the Reserve Bank of India. It is the central bank of the country. Under RBI, there are commercial banks, public sector banks, private sector banks, foreign banks, regional rural banks, co-operative banks etc. The structure of Indian banking sector can be seen from the following figure.

Figure – 1.1

A Figure Showing the Structure of Indian Banking System



Understanding of Financial Performance Analysis

The word "Performance" is derived from the work "Parfourmen". It means "To do", "To carry out" or "To render". It refers to the act of performing, execution, accomplishment, fulfillment, etc. In broader sense, performance refers to the accomplishment of a given task according to the preset standards of accuracy, cost, speed, etc.

Financial performance refers to the act of performing financial activities. In short, financial performance means the act of measuring how well the financial objectives are achieved. Measuring financial performance requires to measure firm's financial results in monetary terms. The financial performance of a firm means the overall financial health of the firm over a period of time. The measurement of financial performance is useful for making comparison of financial health of two similar companies in the same industry or making an investment decision.

In short, the analysis of financial performance of a company gives answers to two questions:

(1) What is the financial performance of a company at a given point of time?

(2) What is the financial performance of a company during the given period of time?

To answer the above given questions, the analysis of financial performance is done using various financial statements. These financial statements can be Balance Sheet, Income Statement, Cash Flow Statement, Sources and Usage of Fund Statement, Financial Ratios, Partial Budget, Net Present Value, Enterprise Budget, etc.

This is not the all inclusive list. Besides the above listed statements and tools, there can be several other tools with which the analysis of financial performance of an organization can be possible.

Various Statements for Performing Financial Analysis:

As said in the introduction, there can be several statements and tools that can be used for performing the analysis of financial statements. Here is given the explanation of some of them.

- **Balance Sheet:**

Balance Sheet is also known as Net Worth Statement. It shows the financial snapshot of the company at a particular point of time. It is one of the principal statements used for the financial performance analysis. Balance sheet can be prepared in various methods but all of them ultimately convey the same thing. The balance sheet gives information about three critical points – Assets, Liabilities and Equity. Assets refer to the overall magnitude of investment in terms of rupees. Liabilities refer to what is owed by the business. It means the assets which are not owned by the business but by the creditors. Equity or the net worth reflects the owner's share in the business. In this manner, we can say that equity is the difference between the assets and liabilities.

Assets and liabilities are classified as current and non-current. Current assets are those which can be easily converted into cash in the normal process of the business within a year. Non-current assets are those resources used to support the production that are not typically expected to be sold during the normal year.

Current liabilities are those debts that are due within a year. Current liabilities are accounts payable, accrued interest, principal due on term loans, etc. Non-current liabilities are the longer term debts. Non-current liabilities are land mortgaged building and equipment loans, etc.

Since balance sheet represents the assets and liabilities of a business at a specific point of time, a single balance sheet has no value in determining the financial performance of the business. For this purpose, one should make the comparative analysis of the balance sheets for a longer period. However, a single balance sheet is useful in making the decision regarding investment.

- **Income Statement** The income statement is a financial statement used for measuring the performance of the business over a period of time in terms of net income or net profit. The income statement can be prepared on yearly basis, quarterly basis or monthly basis. the income statement is often referred to as a profit and loss statement, operating statement, or income and expense statement. There can be many forms of Income statement. The common thing in the income statement is one section contains income and the other section contains expenses. The difference between the two is considered as net income (or loss).

Income statement can be prepared on cash basis as well as on accrual basis. When income statement is prepared on cash basis, it includes the income received and expenses paid during the period being analyzed. If the income statement is prepared on accrual basis, it includes the income earned and the expenses incurred in the time period, regardless of whether or not they are actually received or paid.

- **Cash Flow Statement:**

A) Another financial statement that is useful for financial reporting is the cash flow statement. The cash flow statement is the recording of cash coming in and going out of the business during a specified time period, say a month, a quarter or a year. It shows how well the business is capable of meeting its cash requirements during the period of analysis. Cash inflows include the cash coming into the business in the form of income from sales or loans etc. Cash outflows include the cash going out of the business in the form of payment of expenses, principal and interest payments, cash withdrawals, etc. Cash flow statement can be either historical or projected. When it is historical, it records all the transactions that have actually taken place during the period of analysis. When it is projected, it records the transactions to be done in the future time period on the projection basis. **On the Basis of Users of Financial Analysis:**

On the basis of users of financial analysis, there can be two types of financial analysis i.e. External Analysis and Internal Analysis.

- **External Analysis:**

This analysis is generally performed by the external parties of the business. The external parties include investors, creditors, government, agencies, and other parties who are interested in knowing the financial performance of the company. These parties use published financial statements. They may use the annual reports, balance sheets, profit and loss accounts, etc. This can serve limited purpose of such parties.

- **Internal Analysis:**

This analysis is used performed by the persons such as executives, accountants and other employees of the organization. Sometimes, the officials appointed by the government, bank or court also use this type of financial analysis. They use the financial statements in order to come to the conclusion about the financial health of the business.

B) On the Basis of Methods Used:

On the basis of methods used for financial analysis, it can be categorized into two sections such as Horizontal Analysis and Vertical Analysis.

- **Horizontal Analysis:**

When financial statements of different years are reviewed and analysed, it is called the horizontal analysis. The figures of current year are compared with the figures of standard or base year. The differences are usually shown in percentages. This analysis is helpful to the management to know the strengths and weaknesses of the company over the time period. This analysis is also known as dynamic analysis because it is based on the data from various years.

- **Vertical Analysis:**

In this analysis, comparison is made of quantitative relationships of various items of financial statements on particular date. This analysis is useful when we want to compare performance of several companies in the same industry. This can be useful to compare the performance of different departments or divisions of the company. This analysis is not useful for the measurement of improvement in financial position of the organization because it depends on the data of only one period. This type of analysis is also called static analysis because it is based on the data of one date or one period.

Review of Literature

Following are the various literatures reviewed for this thesis:

Alamelu, and Devamohan, (2010), in their study titled, "Efficiency of Commercial Banks in India" calculated the business ratios, such as interest income to average working funds, non-interest income to average working funds, operating profit to average working funds, return on assets, business per employee and profit per employee for public sector banks, private sector banks and foreign banks for the period 2004-05 to 2008-09. It was observed that the foreign banks and new generation private banks have superior business ratios. They effectively leverage technology, outsourcing and workforce professionalism which helped them to protect their bottom line. On the other hand, the public sector banks are yet to exploit fully the advantages of vast branch network and large workforce. That's why they have unimpressive business ratios. Old generation private banks do not have impressive business ratios, as they are constrained by small size and conservatism[2].

Anand, G., S., (1984), evaluated the performance of the Grape Growers' Marketing and Processing Co-operative Society in Bangalore. He applied the solvency, liquidity, turnover, total sales to fixed assets and total sales to owned funds ratios to examine the performance of the society[3].

Anand, S., K., (1981), employed the solvency, stock turnover, working capital and profitability ratios to evaluate the financial position and performance of the state consumer's co-operative federation, Maharashtra[4].

Asaithambi, K., (1988), analyzed the performance of Andaman and Nicobar State Co-operative Bank for the period from 1982- 83 to 1985-86. The performance indicators selected for the study were membership, share capital, working capital, deposits, and loans outstanding and overdue. The results of the analysis showed that the bank has been maintaining high degree of efficiency in all the vital aspects of its operations[5].

Bankim, C., (1996), the author examined the performance of Maharashtra State Co-operative Bank for the period 1989- 90 to 1992-93. The variables for the study were: working capital structure and composition, deposit mix, credit mix, credit-deposit ratio, loan outstanding, overdue and profitability. The findings of the study were: the working capital mix indicated a major share of deposits and borrowings; deposits contributed 70 percent in working capital and among various deposits, the fixed deposits alone contributed 69 percent; the credit mix was rational; high degree of relationship between the credit and the deposits; excellent performance in recovery and an upward trend in profit[6].

Babu, C., V., (1997), analysed the liquidity, profitability and business strength of three urban co-operative banks in Thrissur district of Kerala state for the period 1980-81 to 1989-90. For the purpose of analysis, the author used the various ratios viz. profitability performance ratios (developed by Varsha S. Varde and Sampat P.Singh) liquid assets to deposit ratio, cash asset to deposit ratio, credit-deposit ratio, and owned fund to borrowed fund ratio and overdue - demand ratio[7].

Research Methodology

Title of the Present Research:

To conduct present research, the researcher has analysed different ideas and dimensions of research the problems and finalized the title of the present research. The title of the present research study is mentioned as below:

"Financial Performance Statement Analysis – A Study of Urban Co-Operative Banks in South Gujarat"

Period of the Study:

The present research is focused on analysis of financial performance of various Co-operative Banks for the period of 5 years from 2009-10 to 2013-14. There is no special reason to consider this period as the period of study. But to derive perfect conclusion of the study and to cover all aspects of changes in financial performance, this period seems to be quite appropriate. So, to make the present study fruitful, the researcher has selected the above mentioned period.

Scope of the Present Study:

This study aims to analyze financial performance statements of urban cooperative banks provide financial services within the sphere of South Gujarat region. The financial statement of any bank is desired to analyze periodically with a view to assess the past and current performance, prediction of profitability and growth prospects, prediction of bankruptcy and failure and assessment of the operational efficiency. This study covers seven leading cooperative banks of South Gujarat region for the purpose of their financial statements analysis.

Population and Sample of the Study:

Surat is known as the birth place of UCBs of South Gujarat as India's first registered UCB named "The Surat Peoples Co-operative Bank Ltd." was established by the late Shri Vrindavandas C. Jadav on March 10, 1922 in Surat (South Gujarat).Today it commands the largest market share in urban banking in Surat with utmost satisfaction of the customers. The progress of the UCBs in Surat took place slowly and steadily. Prior to independence, only 3 UCBs were registered in Surat. Only 3 UCBs were established from 1951 to 1965, while during 30 years from 1966 to 1995 only 10 UCBs were established. But majority of the UCBs were established after 1995. By the year ended 31st March 2012, Surat could boost 34 UCBs with a network of 199 branches having Rs. 10707 crores total business. So, out of this population of 199 UCBs, in this research work the researcher has focused on 7 UCBs. The list of these banks is given below

Table – 1.1
A Table Showing the Sample of the Study

No.	Name of Bank	Head Office
1	The Surat People`s Cooperative Bank Ltd	Surat
2	Surat Mercantile Cooperative Bank Ltd	Surat
3	Surat National Cooperative Bank Ltd	Surat
4	The Varachha Cooperative Bank Ltd	Surat
5	Prime Cooperative Bank Ltd	Surat
6	The Sutex Cooperative Bank Ltd	Surat
7	The Sarvoday Sahkari Bank Ltd	Surat

Type of the Study:

The present research is empirical in nature. It provides basis for external validation. The empirical study is based on observation or experience alone; it is also known as data based research. It is capable of being verified by observation or experiment. The researcher has made an attempt to answer the questions raised in quantitative investigation. So, the present research may be defined as quantitative and analytical research. It is a functional study by nature and it focuses on the different aspects of financial performance of the Co-operative banks selected as sample of this study.

Method of Data Collection

The present research is mainly based on secondary source of data. To justify the research title and to achieve the objectives of the study, it is necessary to collect the required data/information at par. The present research is mainly based on secondary sources of data as to analyze the financial performance of Co-operative banks. For this purpose, financial information and profitability figures are required.

The researcher has collected the required information from the published annual reports of the selected sample units over the period of time and used different websites viz. websites of the selected Co-operative banks, moneycontrol.com, fundoodata.com, etc.

Objective of the Study:

Every study must have an objective without which no research can be conducted and no result can be obtained. Objectives act as guidelines which give direction to conduct the research process and to keep it in proper track. Thus the present study also has a general objective and a few specific objectives

General Objective:

To undertake study on the functioning of UCBs to find its operational efficiency, preparedness and future strategies in the post economic reform era

Specific Objectives:

- To assess the current position of urban cooperative banks in context to south Gujarat region
- To predict the profitability and growth prospects of urban cooperative banks in context to South Gujarat region.
- To assess the operational efficiency of urban cooperative banks in context to South Gujarat region.
- To examine short-term financial strength of the UCBs through liquidity analysis
- To examine long -term financial strength of the UCBs through liquidity analysis
- To examine whether the funds of banks have been utilized in an efficient and profitable manner

Hypotheses of the Study:

To justify the title of the present research study and broad objectives defined by the researcher, the researcher has made a few hypotheses. The hypotheses made by the researcher are mentioned in the table, as given below:

Table – 1.2

A Table Showing Hypothesis of the Present Study

No.	Hypotheses
1	**Null Hypothesis (H_0):** There is no significant difference in 'Interest Income as % of Working-Fund' among the sampled banks, during the period of study.
2	**Null Hypothesis (H_0):** There is no significant difference in 'Non-Interest Income as % of Working-Fund' among the sampled banks, during the period of study.
3	**Null Hypothesis (H_0):** There is no significant difference in 'Return on Assets' among the sampled banks, during the period of study.
4	**Null Hypothesis (H_0):** There is no significant difference in 'Operating Profit as % of Working Fund' among the sampled banks, during the period of study.
5	**Null Hypothesis (H_0):** There is no significant difference in 'Business per Employee' among the sampled banks, during the period of study.
6	**Null Hypothesis (H_0):** There is no significant difference in 'Profit per Employee' among the sampled banks, during the period of study.
7	**Null Hypothesis (H_0):** There is no significant difference in 'Capital to Risk Weighted Assets Ratio' among the sampled banks, during the period of study.
8	**Null Hypothesis (H_0):** There is no significant difference in 'Dividend to Shareholders' among the sampled banks, during the period of study.
9	**Null Hypothesis (H_0):** There is no significant difference in 'Gross NPA's to Total Advances Ratio' among the sampled banks, during the period of study.
10	**Null Hypothesis (H_0):** There is no significant difference in 'Average Cost of Deposit' among the sampled banks, during the period of study.
11	**Null Hypothesis (H_0):** There is no significant difference in 'Net Profit per Branch' among the sampled banks, during the period of study.
12	**Null Hypothesis (H_0):** There is no significant difference in 'Business per Branch' among the sampled banks, during the period of study.

Analysis And Interpretation of the Data

Introduction:

After the systematic collection of data for the research, there is a requirement to arrive at the conclusion regarding the financial performance of the Co-operative banks selected in the sample. To arrive at the conclusions, the systematic analysis of the data is necessary. In this chapter, the researcher has made the analysis of the data and on the basis of that analysis; the researcher has given interpretations there from.

Interest Income as % of Working-Fund:

It is one of the measures to determine profitability. In this ratio, the interest income is calculated as a percentage of working fund. It shows what percentage of working fund is made up of interest income. For a bank, the higher the ratio, the better it is.

$$\frac{\textbf{Interest Income}}{\textbf{Working Fund}}\ \textbf{X 100}$$

Following table shows the Interest Income as % of Working Fund ratio of all the banks taken in the sample.

Table – 1.3

A Table Showing Interest Income as % of Working Fund

YEAR	VCCB	SUTEX	SPCB	SNCB	SMCB	TSCB	PCB
2009-10	6.2	8.39	8.57	7.91	5.15	7.85	7.56
2010-11	7.2	8.63	8.69	7.35	8.62	8.36	8.16
2011-12	8.01	9.35	9.56	8.54	8.61	9.07	8.64
2012-13	8.06	9.63	10.35	8.73	9.46	8.96	8.31
2013-14	7.65	9.58	10.2	8.94	8.84	9.41	9.34

Non-Interest Income as % of Working-Fund:

It is one of the measures to determine profitability. In this ratio, Non-interest income is shown as a percentage of working fund. This ratio shows how much is the part of non-interest income in the working fund. The higher the ratio, the better it is for the bank.

$$\frac{\textbf{Non} - \textbf{Interest Income}}{\textbf{Working Fund}}\ \textbf{X 100}$$

Following table provides the information about the Non-Interest Income as % of Working Fund ratio of the banks taken in the sample.

Table – 1.4
A Table Showing Non-Interest Income as % of Working Fund

YEAR	VCCB	SUTEX	SPCB	SNCB	SMCB	TSCB	PCB
2009-10	0.50	0.50	0.59	0.47	0.38	0.45	0.67
2010-11	0.69	0.52	0.87	0.35	0.38	0.40	0.45
2011-12	0.57	0.45	0.43	0.39	0.31	0.53	0.54
2012-13	0.52	0.45	0.44	0.33	0.38	0.43	0.42
2013-14	0.63	0.45	0.35	0.35	0.47	0.42	0.46

Summary, Findings and Suggestions

This research work focuses on the financial performance of Co-operative banks in South Gujarat Region. So, in the first chapter, the researcher has given the introduction to the banking sector in India. The researcher has stated that banking sector helps the development of other important sectors of the economy. The development of agriculture sector, industrial sector, service sector and infrastructure is possible only when there is sufficient development of banking and finance sector in the economy. The Indian banking sector can also be proud of such development, but in the process of development, Indian banking sector has to pass through several difficulties, sufferings and pains of partition. According to the Indian banking structure, banks can be classified into two broad segments, commercial banks and co-operative banks. Commercial banks can sub divided into nationalized banks, state bank group, private sector banks, foreign banks, etc. The commercial banks account for a significant share of the banking business, the co-operative banks also hold an important position in Indian banking sector.

The researcher has said that the history of Indian banking sector is very vast and fascinating. It shows the life style of Indian people during that time. The *Vedas* speak about the usage of gold coins, silver coins, copper and bronze coins. Late *Vedic* text speaks about the use of tin, lead and iron coins. A money economy existed in India since the time of Buddha.

The researcher has mentioned that Indian banking sector underwent the drastic changes and reforms especially after the independence. The government of India passed the State Bank of India Act in 1955 and nationalized the Imperial Bank of India. The government gave extensive powers and facilities to this bank especially for the rural and semi urban areas. The government of India made SBI the principal agent of RBI. SBI is empowered to handle the banking activities for the state and for the union.

After that the researcher has given the details of nationalizations of banks in India. The researcher says that there was utter neglect of priority sector. The government did not see any growth in the priority sector. To resolve this problem, the government took the decision of nationalization of some major private sector banks. With effect from 1st February, 1969, 14 private sector banks were nationalized. And on 19th July, 1969, there were 14 nationalized banks in India.

BIBLIOGRAPHY

- Alamelu, and Devamohan, (2010), “Efficiency of Commercial Banks in India”, Professional Banker, ICFAI University Press, Hyderabad
- Anand, G., S., (1984), “Performance Appraisal of the Bangalore Grape Growers Marketing and Processing Co-operative Society Ltd., Lalbagh Bangalore: A Case Study”, M.Sc. Thesis (Unpub.), UAS, Bangalore
- Anand, S., K., (1981), "The Ratio Analysis", Aspects of a State Consumers Co-operation Federation, Maharashtra, Indian Cooperative Review, 18(3) NCUI, New Delhi
- Asaithambi, K., (1988), “Performance Appraisal of Andaman and Nicobar State Co-operative Bank”, Indian Co-operative Review, Vol., XXV No.4, PP. 395-402, NCUI, New Delhi

- Bankim, C., (1996), “Maharashtra State Co-operative Bank: An examination of its performance”, Indian Co-operative Review (24) (3) PP., 137-144 NCUI, New Delhi
- Babu, C.,V., (1997), “Liquidity, Profitability and Business Strength Analysis of Urban Co-operative Banks”, Indian Co-operative Review, Vol. XXXV, No.1, PP., 56-70, NCUI, New Delhi
- Bagchi, (2006), “Agriculture and Rural Development are Synonymous in Reality: Suggested Role of CAs in Accelerating Process”, The Chartered Accountant, Journal of Institute of Chartered Accountants of India, Vol. 54, No.08, New Delhi
- Bhatt, B., V., Shiyani R., L., and Patil, N., M., (1989) “Credit Deposit Ratio: A case study of Junagarh District Central Co-operative Bank”, Indian Co-operative Review, Vol. XXVI No.3, PP 306-311, NCUI, New Delhi
- Bhattacharya, D., K., (2009), Research Methodology, Excel Books, pp. 160-169
- Bhatia, R.C. (1978), “Banking Structure and Performance - A Case Study of the Indian Banking System”, An un published Ph.D. Thesis submitted to West Virginia University
- Brynjolfsson, E., and Hitt, L., (1996), “Paradox Lost?- Firm-Level Evidence on the Returns to Information Systems Spending”, Management Science, 42(4), PP., 541-558
- Carlos, P., B., Nicolas, P., and Jonathan, W., (2005), “Productivity Changes in European Co-operative Banks”, Journal of Economic Literature, 2005 Classification G-21 and D-24, IDEAS