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Current Status of Financial Soundness in Almora Urban Co-operative Bank Ltd. (Largest UCB of North India)

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ABSTRACT: Past few years were full of challenges for Urban Co-operative Banks in India, where Punjab and Maharashtra Co-operative Bank (PMC) scam was exposed in September 2019, due to which the UCBs are still struggling to survive. On the other hand the COVID-19 impacts on economy has resulted fall in demand, lowers incomes, production shutdowns and low interest rate scenario will adversely affect the collections, profitability and financial health of these banks. At the same time the failure of some good UCBs has also attracted the attention of the people and raised the question of security of their funds. In such difficult circumstances, it becomes even more necessary to evaluate the present financial soundness of these UCBs. Keeping this in mind, the present study is an attempt to know the financial soundness of the largest urban cooperative bank of North India i.e. Almora Urban Co-operative Bank Ltd., Almora. From the study it is found that out of 7 parameters of soundness, AUCB Ltd, Almora succeeds to maintain Net NPA (Non-performing Assets) ratio, NIM (Net Interest Margin), CRAR (Capital to Risk weighted Assets Ratio) and CASA (Current Account Saving Account) Ratio as per prescribed norms for FWSM (Financially Sound and Well Managed) UCBs. In terms of Gross NPA and ROA (Return on Assets) ratio, the performance of the bank in the year 2020-21 alone was not against the standards whereas in the matter of CD (Credit to Deposit) Ratio, the bank struggled against the norms throughout the study period.

Keywords: UCB, AUCB Ltd., NPA, CASA, CD Ratio, FSWM, ROA, NIM, CRAR

INTRODUCTION

Headquatered in Almora the cultural city of Uttarakhand, Almora Urban Co-operative Bank Ltd. started banking business in August, 14, 1991. The bank started with its first branch in Chauk Bazar, Almora. By satisfying with the progress and performance of the bank, in 1997 permission was extended by RBI to expand the area of operation to the entire Kumaun Region of Uttarakhand. After merging Garhwal Co-operative Bank Ltd., Rishikesh with itself, the bank got an opportunity to pave the way for its entry into the Garhwal division as well.With 50 branches and 26 ATMs in the state of Uttarakhand the bank offers wide range of products and services to individual customers, commercial enterprises, public bodies and institutional customers. Banks total business as of 31st March, 2021 stood at Rs. 4171.28 crore, comprising Rs. 2938.62 crore deposits and Rs. 1232.66 crore of advances. With its consistent good performance the bank has emerged as the largest urban cooperative bank across North India, which is a matter of great pride for a small and limited income state like Uttarakhand.

REVIEW OF LITERATURE

Arya, V. K. (2018) in his research paper "A CAMEL model analysis of Leading UCBs in Uttarakhand State- a case study of The KNSB Ltd., Nainital" found that the capital adequacy, assets quality, management efficiency and liquidity of the bank was satisfactory but it is need to improvement in earning quality of the bank. **Arya, V. K. and Kumar, V. (2021)** in their research paper "A comparative study of deposit and advances of UCBs of Uttarakhand" investigated that there is need for higher incremental CD ratio in both the banks and for this bank should encourage the bank branches as well as employees to increase loans efficiently according to deposit mobilized. **Chander and Chandel (2010)** in their research paper "Financial viability of an Apex Cooperative Credit Institution- A case study of the HARCO bank" 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. **Dutta and Basak (2008)** in their research paper "Appraisal of financial performance of urban co-operative banks a case study" 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. **Pal and Malik (2007)** investigated the differences in the financial characteristics of 74 (public, private and foreign) banks in India based on factors, such as profitability, liquidity, risk and efficiency. It is suggested that foreign banks were better performers, as compared to other two categories of banks, in general and in terms of utilization of resources in particular.

OBJECTIVES OF THE STUDY

1. To measure the current financial soundness of AUCB Ltd.
2. To compare the actual financial ratio of AUCB Ltd. with standard norms prescribed by RBI for Financially Sound and Well Managed UCBs of India.
3. To make suggestions to improve the financial soundness of AUCB Ltd.

RESEARCH METHODOLOGY

The study is mainly based on secondary data drawn from the published annual reports of the bank and for which the data of 3 years (2018-19 to 2020-21) has been considered. To measure the financial soundness, under ratio analysis technique, 7 key ratios have been used which are capable of revealing the soundness of any bank.

DATA ANLYSIS AND INTERPRETATION

1. **Credit to Deposit Ratio:** A credit to deposit ratio is the ratio of how much a bank lends out of the deposit it has mobilized. The ideal Credit to Deposit Ratio is between 65%-70%. Lending is the main business of the bank so this ratio should be at a significant level. Therefore the banks regulators are required to stipulate these ratios. The formula of this ratio is exactly as its name implies, Loans divided by deposits in terms of percentage.

TYPE	IDEAL	2018-19	2019-20	2020-21
CD RATIO	**(65 -70%)**	43.84 %	43.81 %	41.95 %

Table No. 1 (Source: Annual Reports of AUCB Ltd.)

As shown in Table No. 1, during study period there is a continuous decline in CD ratio of the bank it means the bank may not be lending as much as they should be in relation to total deposits. For AUCB Ltd. the CD ratio ranges from 41.95% to 43.84% which is far below from ideal ratio. This may be definitely going to affect banks earning in future.

2. **Gross Non-Performing Assets Ratio:** Gross NPAs are the total of all loan assets that are classified as Non-performing assets as per RBI guidelines. It shows how much of a bank's loans are in danger of not being repaid. The ratio is to be counted in terms of percentage with the help of following formula: Gross NPAs divided by Gross Advances.

TYPE	IDEAL	2018-19	2019-20	2020-21
GROSS NPA	**(Below 7% for FSWM UCBs)**	3.22 %	4.34 %	9.49 %

Table No. 2 (Source: Annual Reports of AUCB Ltd.)

Table no.2 shows that, during the study period gross non-performing asset ratio of AUCB Ltd. is showing an upward trend. However, till the year 2019-20 the ratio was beyond standards norms (7%) prescribed by RBI for FSWM UCBs but in the year 2020-21, this ratio has crossed the limit and reached its highest level (9.49%), which is definitely a matter of concern.

3. **Net Non-Performing Assets Ratio:** Net NPAs are those types of NPAs in which the bank has deducted the provision regarding NPAs. (Net NPAs is Gross NPAs – Provisions). Net NPA is a better indicator of the soundness of the bank. It shows the actual burden of the bank. A higher level of NPA increases the amount of provision thereby impacting the profitability of the bank. It also impacts the Net interest margin of the bank. The ratio is to be counted in terms of percentage with the help of following formula: Gross NPAs – Provisions on Gross Advance divided by Gross Advances.

TYPE	IDEAL	2018-19	2019-20	2020-21
NET NPA	**(Below 3% for FSWM UCBs)**	0.00 %	0.00 %	0.00 %

Table No. 3 (Source: Annual Reports of AUCB Ltd.)

Table No. 3 gives better picture of the quality of advance indicating the credit risk. During the study period, AUCB Ltd., consistently maintained the Net NPA ratio to 0% (far below prescribed norms 3% for FSWM UCBs) which is greatly appreciable. It shows the high efficiency of bank regarding asset management.

4. **Net Interest Margin Ratio:** It is the difference between the interest income generated by the bank on loans and the amount of interest paid out to their lenders on savings accounts and deposits, relative to the amount of their Interest earning assets. The ratio is computed by dividing bank's Net Interest Income from Total Assets in terms of percentage.

TYPE	IDEAL	2018-19	2019-20	2020-21
NIM	**(3.5% and above)**	3.75 %	3.57%	4.39 %

Table No. 4 (Source: Annual Reports of AUCB Ltd.)

Table No.4 shows that, fluctuating trend was seen in net interest margin of AUCB Ltd. during the study period. It was slightly decreased from 3.75% in 2018-19 to 3.57% in 2019-20 but at the end increased to 4.39% in 2020-21. The ratio was consistently more than prescribed ideal ratio of above 3.5%, indicates the investment efficiency as well as liquidity position of bank.

5. **Return on Assets Ratio:** Return on Assets Ratio is the net profit generated by the bank on its Total Assets. It helps to know how management is using its assets to generate more income. The higher the portion of average earnings assets, the better would be the resulting returns on total assets. A low or declining Return on Assets ratio means that the bank is not able to utilize its assets efficiently. It is computed by dividing Net profit from Total working funds in terms of percentage.

TYPE	IDEAL	2018-19	2019-20	2020-21
ROA	**(1 % and above)**	1.02 %	1.31 %	0.81 %

Table No. 5 (Source: Annual Reports of AUCB Ltd.)

Table No. 5 reveals the return on assets ratio of AUCB Ltd, showed a fluctuating trend during the study period. Till 2019-20, this ratio of the bank remained above the standard norm of 1% but in 2020-21 ratio came down to below standard norms.

6. **Capital to Risk Weighted Assets Ratio:** Capital Adequacy Ratio is the ratio of a bank's Total capital (tier 1 + tier 2) in relation to its risk-weighted assets. Capital acts as a buffer in times of crisis or poor performance by a bank. Sufficiency of capital also instills depositor's confidence. As per latest RBI norms UCBs shall maintain a minimum CRAR of 9% (10% for FWSM UCBs) on an ongoing basis.

TYPE	IDEAL	2018-19	2019-20	2020-21
CRAR	**(Minimum 9% and 10% for FWSM UCBs)**	23.53 %	28.95 %	29.90 %

Table No. 6 (Source: Annual Reports of AUCB Ltd.)

Table No. 6 shows; there is a steady growth in CRAR of AUCB Ltd. The ratio stood at 29.90% in 2020-21 against 23.53% in 2018-19 from this it appears that the bank is in a better position to deal with unexpected losses due to availability of adequate capital.

7. **Current Account Saving Accounts Ratio:** CASA stands for Current Account and Saving Account. It is the ratio of deposits in current and saving accounts to the total deposits. A casa has a lower interest rate than term deposits like fixed and recurring deposits, thus a cheaper source of funds for the banks. A higher CASA ratio means lower costs because banks usually do not pay interest on current accounts. Interest rates on saving accounts are low and fluctuate around 2.5% to 3% but very few banks that offer more than 5%.

TYPE	IDEAL	2018-19	2019-20	2020-21
CASA	**(Above 30%)**	36.04 %	35.05 %	35.87

Table No. 7 (Source: Annual Reports of AUCB Ltd.)

Table No. 7 shows the efforts of banks in obtaining and maintaining CASA deposits. The CASA ratio for AUCB Ltd. was ranges from 35.87% to 36.04% which reveals the consistency of bank in maintaining its low cost deposits at a good level against minimum norms of above 30% during study period.

FINDINGS AND SUGGESTIONS

The average CD Ratio of bank was around 43% during the study period which is far below from ideal CD Ratio i.e. 65% to 70%. This may be definitely going to affect core income of the bank in future. Therefore bank should try to maintain a good level of aggressiveness towards credit deployment. It is observed that, the assets quality of bank was very good in terms of Net NPA but increasing trend in Gross NPA is serious problem for bank. However in 2018-19 and 2019-20, this ratio remained in line with the standards, but the sudden increase of 9.49% against prescribed norms of 7% (for FWSM UCBs) in 2020-21 is a matter of concern. If the bank does not show any activeness in loan recovery in the coming years, then definitely profitability will be affected. Similar behavior was also seen in case of Return on Assets ratio of bank, till 20219-20 ratio remained above standards norms of 1% but in 2020-21, ratio has come down from its standard, one of the main reasons for which may be the increase of gross non-performing assets in 2020-21. AUCB Ltd. maintained a sound (above 30%) balance of CASA deposit during the study period, which helped the bank to keep its NIM above standard norms of 3.5%. The performance of the bank in terms of Capital to Risk Weighted Assets ratio was very commendable throughout the study period. During the study period, this ratio of the bank was not only consistently increased but also averaged around 27% against the mandatory demand of 9% (10% for FWSM UCBs) by RBI. From the study it is found that, AUCB Ltd, Almora succeeds to maintain Net NPA ratio, Net Interest Margin, Capital to Risk weighted Assets and CASA ratio as per prescribed norms. In terms of Gross NPA and ROA ratio, the performance of the bank in the year 2020-21 alone was not against the standards whereas in the matter of CD Ratio, the bank struggled against the norms throughout the study period. To improve CD Ratio, bank needs to make every effort to increase loan and advances at branch as well as employee level. There is a need to make close monitoring of loans along with speedy recovery as well to control overdue and NPAs. Overall, despite being from a small state like Uttarakhand, its performance as the largest bank in the whole of North India was commendable. Surely the bank should try to spread its business all over the country by getting permission of Multi-state UCB license from RBI.

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