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Analysis of Financial Performance of Sanmati Sahakari Bank Ltd.: A Case Study

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(I) Introduction and Research Methodology

1.1: Introduction

The co-operative banking has traversed a long since it was fathered by Robert Owen in late 1700s in England. In Indian economy, the co-operative banking sector holds a distinct identity, as it is the only institution of micro credit dispersion. UCBs, as important segment of co-operative banking, have shown the phenomenal growth and deep penetration in urban, sub-urban and rural areas. They have been proved as the best for supplying un-exploitative, cheap, sound and dynamic credit to small borrowers, professionals, artisans and the weaker sections of society. However, due to certain changes in the banking sector and new economic policies, the co-operative sector in general and urban co-operative banks in particular, has undergone a sea change. Moreover, the failure of some well flourished urban cooperative banks has raised the question of security of their investment and deposits. Furthermore, recently, the scams in co-operative sector, failure and closure of unviable branches, imposition of penalty by the regulators and payment of heavy money claims due to bankruptcy of co-operative banks etc. are few significant reasons which persuade to inquire into the financial affairs of urban cooperative banks.

The analysis of financial performance of a bank occupies an important place in financial management, as it is a close and critical scrutiny of ultimate financial results of its business operations. All the policies, strategies and decisions, both financial and non-financial, of a bank collectively get reflected in its financial achievements. The financial analysis of a bank over a period of time gives correct idea about how well the bank manages its collection and disbursement functions, which has a significant impact on its overall performance.

The financial data of a bank is intertwined into the fabric of its accounting system and published annually in the form of Annual Reports. Such an abridged Balance Sheet and Profit and Loss Account form an integral part of the Annual Report of the bank, which are duly audited by Chartered Accountant. However the information provided in such reports cannot be of much use unless the meaningful conclusions are drawn from them about the overall financial performance of the bank. The financial statements of the bank provide the ground level information about the financial exercise of the bank. However, when the figures recorded in the financial statements are rearranged, regrouped and analyzed with the help of analytical tools, they become conveniently comparable with the given standards and give the authentic idea about how the bank has performed financially. The time series analysis exhibits the trend of financial performance of bank that may be static, increasing or declining.

1.2: SanmatiSahakari Bank Ltd. Ichalkaranji

The prosperity of textile business has given the impetus to the development of a number of ancillary and other businesses. The banking industry started spreading its roots in Ichalkaranji to meet the financial requirements of the developing industrial sectors. In 1929, The Ichalkarnji Central Co-operative Bank Ltd. (Now Urban Co-operative Bank Ltd.) started providing finance to the needy people. To meet the ever-increasing financial requirements, since then, a number of banks in public sector, private sector and co-operative sector opened their shutters in Ichalkarnji. Presently, there are in all 37 banks operating in public, private and co-operative sectors, in Ichalkaranji. Since some recent decades, the middle class has been expanding in Ichalkarnji by leaps and bounds. With the twin objectives of inculcating the habit of saving among these people and meeting the financial needs of enterprising persons from middle class, the then social worker, Honourable Mr. Suresh BhausoHonshette, with their reliable peers founded Sanmati Sahakari Bank Ltd. in 1996. It is registered by the number KPR/HLE/BNK (O) 117/1996-97 dt: 09/02/1996.

The bank made spectacular growth in various segments under the able leadership of ex-chairman Late Mr. MahavirManere since its inception. Now under the captainship of existing chairman respected Mr. Sunil Patil, the bank is striving, with one branch at Abdul-Lat, for the upliftment of middle class and the weaker section of the society. Presently Sanmati Bank is functioning through its 9 branches with 9684 members, 44526 depositors and 1941 borrowers. The bank has the regular deposit products like CASA, Call or Demand Deposits, Term Deposits, Retirement Deposits, Recurring and Pigmy Deposits etc. and provides short-term, medium-term and long-term loan for, self-employment, small-scale industries, allied sector, auto , *Pashudhan Yojana* (Livestock Scheme) SSI Business Loan etc.

The bank had gained four awards in the competition held 2008 by Kolhapur District Urban Co-operative Banks Co-operative Association Ltd., Kolhapur, through the category of Small Banks having deposits below 50 crore (i) The Best Banking Management (ii)The Best Chief Executive Officer (Ashok Patil) (iii) The Best Bank in IT Sector (iv) The Best Recovery Management. In every subsequent year the bank has won awards, five awards in 2012-13, two each in 2013-14 and 2014-15 and three in 2015-16. Such a small-sized award-winning urban co-operative bank is selected for study.

1.3: Objectives of the Study

The study is carried out with the following objectives.

1) To analyze the Capital Adequacy of SanmatiSahakari Bank
2) To study the Assets Quality of SanmatiSahakari Bank
3) To examine the Management Efficiency of SanmatiSahakari Bank
4) To analyze the Earning Capacity of SanmatiSahakari Bank
5) To analyze the Liquidity of SanmatiSahakari Bank
6) To study the impact of CD ratio and management efficiency on the profitability of SanmatiSahakari Bank

1.4: Hypotheses of the Study

1) The CD ratio of Sanmati Sahakari Bank has positively affected its profitability.
2) Profitability of Sanmati Sahakari Bank is dependent on efficiency of its management.

1.5: Period of the Study

The present study covers the period of five consecutive years from 2011-12 to 2015-16. This is considered the substantial period to draw meaningful conclusions.

1.6: Data Collection

The study has used secondary data in particular, however the primary data wherever required is also used.The secondary data are collected through published annual reports of Sanmati Sahakari Bank and the data absent in the report are collected from office records of the bank by the permission of the manager of Head Office. The information relating the environment for the co-operative banks in the last five years and the steps so far taken by the management to improve the performance is collected through questionnaire structured for the manager of the bank. The data analyzed in the studypertains to head office (Main Branch) of SanmatiSahakari Bank.

1.7: Frame-work of Data Analysis

The present paper analyses the financial performance of a bank using the CAMEL approach, which is a short-form of five parameters of measuring the financial performance of a bank namely Capital adequacy

(C), Asset Quality (A) , Management Efficiency (M) , Earning Quality (E) and Liquidity (L). It is the method of financial analysis of a bank approved by RBI, though bank's rating in accordance with the CAMEL parameters has been discontinued since April, 2016.For applying this model, five main parameters of the performance (Capital Adequacy, Assets Quality, Management Efficiency, Earning Capacity and Liquidity) are assessed using certain ratios.In all 21 ratios are computed and grouped under five parameters of CAMEL as shown below.

(I) Capital Adequacy: In order to knowwhether the bank has enough capital to absorb unexpected losses the Capital Adequacy was assessed with the help of following three ratios. (a) Capital Adequacy Ratio (CAR), (b) Debt-Equity Ratio (DER) and (c) Total Advances to Total Assets Ratio (TATAR)

(II) Asset Quality: To know the component of NPA compared to total assets the Asset Quality of sample UCBs was checked by using following three ratios. (a) Gross NPA to NET Advances Ratio (GNNAR), (b) Net NPAs to Net Advances Ratio (NNNAR) and (c) Total Investment to Total Assets Ratio (TITAR)

(III) Management Efficiency: Management's efficiency is reflected in its decisions and actions as regards converting deposits into performing advances, utilization of human resources and enhancing returns on net worth, which was examined with the help of four ratios as mentioned herebelow. (a) Total Advances to Total Deposits Ratio (TATDR)/Credit-Deposit Ratio, (b) Business per Employee (BPE) , (c) Business per Branch (BPB), (d) Profit per Employee (PPE), (e) Total Income per Employee (TIPE), (f) Per Employee Burden (PEB) and (g) Per Employee Spread (PES)

(IV) Earning Quality: It was used to detect as to how much income was earned by UCBs from core banking activity-i.e income from lending operations. The following ratios were computed to for that.(a) Operating Profit to Average Working Funds Ratio (OPAWFR), (b) Net Interest Marginto Total Assets Ratio (NIMTAR), (c) Return on Net Worth (RNOW) , (d) Net Profit to Average Asset Ratio (NPTAAR) , (e)Interest Income to Total Income Ratio (IITIR)

(V) Liquidity: To study the liquidity of UCBs, the following ratios were computed. (a) Liquid Assets to Total Assets (LATAR), (b) Liquid Assets to Total Deposits Ratio (LATDR) and (c) G-Sec. Investments to Total Assets Ratio (GSITAR)

1.8: Statistical Tools

To explain the chief features of data, the descriptive statisticsi.e simple arithmetic mean, standard deviation and coefficient of variance (C.V.) is used. For testing the hypotheses Karl Pearson's Correlation Coefficient (*r*) and the Students' '*t*' Test are used.

2. Data Analysis And Hypotheses Testing

The following table presents the CAMEL analysis of Sanmati Sahakari Bank Ltd. for the period of five years from 2011-12 to 2015-16. The descriptive statistics of the ratios is also incorporated in the table.

Table-2.1: Analysis of Financial Performance of Sanmati Sahakari Bank

Year/ Ratio	2011-12	2012-13	2013-14	2014-15	2015-16	Mean	S.D	C.V. (%)
Capital Adequacy								
CAR	15.45	15.76	14.15	12.85	13.82	14.19	1.07	7.56
DER	28.83	22.42	21.30	21.17	24.54	23.65	2.86	12.08
TATAR	59.47	57.44	52.85	56.02	54.84	56.12	2.25	4.01
Asset Quality								
GNNAR	0.93	0.99	2.39	2.44	3.51	2.05	0.98	47.68
NNNAR	---	---	0.09	0.32	0.83	0.41	0.31	75.42
TITAR	27.34	31.43	32.74	30.81	33.33	31.13	2.10	6.74

Management Efficiency								
CDR	67.00	64.00	60.00	63.00	63.00	63.40	2.24	3.54
BPE	325.44	329.69	321.90	343.27	344.44	332.94	9.25	2.78
BPB	3498.49	3231.04	3165.44	3187.55	2985.10	3213.52	165.33	5.14
PPE	2.38	2.78	1.80	1.86	1.96	2.16	0.37	17.23
TIPE	18.36	20.18	18.84	20.86	20.02	19.65	0.92	4.66
PEB	-6.82	-8.51	-3.62	-7.22	-7.81	-6.80	1.69	24.80
PES	16.68	17.90	16.51	23.28	7.81	16.44	4.97	30.22
Earning Quality								
OPAFR	2.04	2.29	1.61	1.71	1.92	1.91	0.24	12.64
NIMTAR	3.15	3.78	2.85	3.13	3.23	3.23	0.30	9.42
RONW	21.10	18.90	11.94	11.47	14.00	15.49	3.85	24.85
NPAAR	1.16	1.33	0.87	0.83	0.89	1.07	0.19	18.27
IITIR	98.80	99.32	99.14	99.09	99.26	99.12	0.18	0.18
Liquidity								
LATAR	50.41	55.27	59.92	55.92	40.67	52.44	6.61	12.61
LATDR	56.03	62.40	68.07	63.85	46.45	59.36	7.52	12.67
GSTIR	52.09	48.96	54.12	53.95	52.67	52.36	1.86	3.56

Source: *Annual Reports of Sanmati Sahakari Bank Ltd.*

2.2: Testing of Hypotheses

At this juncture, the hypotheses of the study are tested.

Hypothesis No.1: ***The CD ratio of Sanmati Sahakari Bank has positivelyaffected its profitability***

For testing the above-mentioned hypothesis, the CD Ratios are taken as independent variable while Net Profit in absolute rupee term is taken as the dependent variable and at first the correlation between these two variables is calculated and then it is tested by using the Students' '*t*' test. Its result is presented in the following table.

Table 2.2: Testing of Hypothesis (No. 1)

CD Ratio	Net Profit
67.00	102.45
64.00	136.29
60.00	106.50
63.00	120.87
63.00	153.28
'*r*'	*-0.099*
'*t*' test	0.17
As the calculated value of '*t*'(0.17) is less than its table value (2.132) at 4dof at 5% level of significance the hypothesis that *'CD ratioof Sanmati Sahakari Bankhas positively affected its profitability'* is accepted. This means that the CD ratio of the bank maintained during the study period has not adversely affected its net profit.	

Hypothesis No.2*:* ***Profitability of Sanmati Sahakari Bank is dependent on efficiency of its Management.***

For testing this hypothesis, Business per Employee is taken as proxy for Management Efficiency of Sanmati Sahakari Bankand Return on Net Worth is taken as the proxy for its Profitability. Then first Karl Pearson's Correlation Coefficient (*r*) is computed to understand the correlation between two and Students' '*t*' test is applied to test the above mentioned hypothesis the result whereof is presented in Table 2.3 here below.

Table-2.3: Testing of Hypothesis (No. 2)

Management Efficiency (Business per Employee)	Profitability (Return on Net Worth)
325.44	21.10
329.69	18.90
321.90	11.94
343.27	11.47
344.44	14.00
'*r*'	***-0.41***
'*t*' test	0.77
As the calculated value of '*t*'(0.77) is less than its table value (2.132) at 4 dof at 5% level of significance the hypothesis that *'Profitability of Sanmati Sahakari Bank is dependent on efficiency of its Management'* is accepted.	

(III) Findings, Conclusions And Suggestions

The findings and conclusions of the study are presented in this part along with the suggestions.

3.1:Findings of the Study

From the above analysisrevealed that---

(I) Capital Adequacy:

i)Sanmati Bank has maintained its Capital Adequacy Ratio above RBI Statutory norms of 9%.

ii) The bank has used more borrowed funds than its own funds for doing banking business. However the bank has tried its level best to reduce the burden of borrowed capital

iii) The bank has disbursed nearly 56% of its total assets as advances which shows the bank's intent to increase its lending business.

(II) Asset Quality:

i) The bank has kept its Gross and Net NPA under control as particularly Net NPA has not gone beyond 1 % during the study period.

ii) The bank has provided for a high cushion as a guard against unexpected increase in NPA which is revealed by its 31.13% safe investment from its total assets.

(III) Management Efficiency:

i) On an average the bank has converted 63% of its total deposits into interest-generating loans and advances.

ii) The bank has increased the number of employees year after year as well as it has also achieved corresponding growth in its total business (i.e. deposits + loans and advances) which is indicated by mean Business per Employee Ratio of Rs. 332.94 lakh.

iii) During the study period, the number of branches of Sanmati Bank has gone from 4 to 9. The bank has also achieved the growth in its business, which is evident from the ratio of Business per Branch (Rs. 3213.52 lakh)

iv) There is declining trend in Profit per Employee. It has reduced by CAGR of -3.81%

v) The average Total Income per Employee is found to be Rs. 19.65 lakh. It is achieved at the CAGR of + 1.75%

vi) The burden has increased year after year, which signifies that non-interest expenditure is more than non-interest income. It has increased at the CAGR of + 2.75%

vii) The bank has the average Per Employee Spread of Rs. 16.44 lakh, which has dramatically failed in 2015-16 to Rs. 7.81lakh. It has reduced at the CAGR of -14.08%

(IV) Earning Quality

i) Operating profit of Sanmati Bank has shown the declining trend during the study period. It has dropped as low as to 1.61% in 2013-14. It has reduced by the CAGR of -1.21 during the study period.

ii) The bank has achieved the average Net Interest Margin to Total Assets Ratio is found to be 3.23%.at the CAGR of 0.5%

iii) Return on Net Worth is maintained above 11% during the study period. Bank's RONW is improving.

iv) The bank has average Net Profit to Average Assets Ratio of 1.07% reduced at the CAGR of -5.16 over the study period.

v)The bank has successfully maintained Interest Income to Total Income Ratio above 99% which is much higher than the ideal norm of 85%

(V) Liquidity

i) The fluctuating trend in found in bank's LiquidAssets to Total Assets Ratio. The average ratio is 52.44%

ii) The bank has succeeded in maintaining Liquid Assets to Total Deposit Ratio at the average of 59.36% during the study period despite the CAGR of -3.68%

iii) Out of total investment, the bank has invested above 52% funds in Government Securities which are safer mode of investment.

The statistical analysis of ratios reveals that Sanmati Bank has achieved the consistent growth in Interest Income to Total Income Ratio as shown by its lowest C.V. of 0.18%Parameter-wise analysis shows that in case of Capital Adequacy, the bank has achieved consistent growth in Total Advances to Total Assets Ratio (TATAR) as indicated by its C.V. of compared to4.01% , while there is more variability in Debt-Equity Ratio (DER) as denoted by its C.V. of 12.08%In respect of Asset Quality, there was consistent growth in Total Investment to Total assets Ratio (TITAR) (C.V. 6.74%) and the more variability is found in Net NPA to Net Assets Ratio (NNNAR) (C.V.: 75.42%) As regards Management Efficiency, the bank has consistently achieved growth in Business per Employee (BPE) as shown by its lowest C.V. of 2.78% whereas the highest C.V. of 30.22% denotes the volatility in Per Employee Spread (PES) In respect of Earning Quality, the lowest C.V. of 0.18% is found in Interest Income to Total Income Ratio (IITAR) while more variability is found in Return on Net Worth (RONW) as depicted by its highest C.V. of 24.85%As regards Liquidity parameter, there is more consistency in the growth of G-Sec. Investment to Total Investment Ratio (C.V.: 3.56%) and more variability in Liquid Assets to Total Deposits Ratio (C.V.: 12.67%)

3.2: Conclusionsof the Study

Based on the above findings, it is concluded that:

i) Sanmati Bank has maintained adequate capital to absorb the unexpected shocks in future. The substantial cushion for future contingencies has been provided by the bank. The bank has been striving to provide good protection to its depositors by reducing the burden of borrowed capital year by year.

The ratios Capital Adequacy, Debt to Equity and Total Advances to Total Assets ensures higher safety against bankruptcyand moreprotection to its depositors.

ii)Sanmati Bank has a very good asset quality as it has rigorously controlled its Non-Performing Assets and provided for the enough cushion of investment to guard against NPAs. Sanmati bank has been very efficient in assessing the credit risk and very cautious in disbursement (lending) and very alert in recovery of loan. This has improved its asset quality.

iii)The management of Sanmati Bank is quite efficient as it has converted major portion of bank's deposits into interest-generating loans and advances. It has optimally utilized bank's human resource in increasing the total business of the bank. All the nine branches are run efficiently. Total income of the bank is also increased. The bank has been increasing its banking business rapidly.

However, the Non-interest Income, the Net Profit and Spread have been declining which has resulted in increased burden and declining Net Interest Margin. However, on the whole, the management of Sanmati Bank is efficient. The policies and decisions of Sanmati'smanagement have been proven beneficial for the growth and development of the bank.

iv) Declining trend in operating profit has reduced a bank's earning behind every rupee spent on working funds. However, the bank has efficiently used its assets to generate more and more interest income. Sanmati Bank has concentrated fully on core banking business (i.e. collecting deposits and distributing loans), which is reflected in 99% of interest income component in its total income.

However, the reduction non-interest income has increased the burden per employee. Improving Return on Net Worth is a good symbol of its earning ability.

v) More funds have been invested in Government securities which has strengthened the financial soundness of the bank. By doing this, Sanmati Bank has taken enough care in hedging liquidity risk to ensure its own liquidity under all rational conditions. On the whole, the liquidity position of the bank is satisfactory.

3.3: Suggestions

i) The dependence on borrowings may be reduced year after year.

ii) Some more portion of deposits may be converted into advances so that core business may further be extended. More borrowing accounts would generate more profit for the bank, though there would be reduction in investment.

iii) The management of the bank may strive to increase its net profit.

iv) The bank may find different various sources of earning other income. In present environment the bank can have number of sources of earning income such as card business, distribution of mutual funds, transactions on commission basis. This would hopefully increase its non-interest income and help to reduce burden.

v) More concentration is required on improving the Return on Net Worth.

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