

A Study of Profitability Ratio's of Vaidyanath Urban Co-operative Bank, Parli-Vaijanath

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Abstract

Vaidyanath bank is one of the leading urban co-operation bank situated, head office, at Parli-vaijanath, Dist. Beed. It is established in 1966 to help local people in the forms of deposits and loans and advances. At present, the Vaidyanath bank has forty-one branches spread through all over Maharashtra state and total 49082 are the members of bank. The present study will focus on net profit and non-performing asset position and various profitability ratios of the bank.

The study of profitability is carried on to describe net profit and non-performing assets position of banks. The efficiency of net profit is checked with the help of various other ratios also. Non-performing asset is one of the key indicators of banking sector to measure the efficiency of performance of banks. A high level of non-performing asset leads to large number of credit defaults which affect the profitability and wealth of banking companies. The profitability ratio includes- ratio of net profit and working capital, ratio of net profit and total income, ratio of total income to working capital, spread ratio and burden ratio.

Keywords: Profitability, Non-Performing Asset, Evaluation of Vaidyanath Urban Co-operative Bank, net profit.

Introduction

Vaidyanath bank is one of the leading urban co-operation bank situated, head office, at Parli-vaijanath, Dist. Beed. It is established in 1966 to help local people in the forms of deposits and loans and advances. At present, the Vaidyanath bank has forty-one branches spread through all over Maharashtra state and total 49082 are the members of bank. The present study will focus on net profit and non-performing asset position and various profitability ratios of the bank.

The word 'Profitability' is the combination of two words: Profit plus Ability. Profit of banks means allocation and operational efficiency. Ability of banks means capacity of banking institutions to earn profit. Allocational efficiency means to have optimum utilization of funds and services rendered to gain something more (in the form of money) for the present existence and future growth. Operational efficiency means earnings (in the form of interest) from difference between the rates at which the funds are raised and distributed.

The study of profitability is carried on to describe net profit and non-performing assets position of banks. The efficiency of net profit is checked with the help of various other ratios also. Non-performing asset is one of the key indicators of banking sector to measure the efficiency of performance of banks. A high level of non-

performing asset leads to large number of credit defaults which affect the profitability and wealth of banking companies. The profitability ratio includes- ratio of net profit and working capital, ratio of net profit and total income, ratio of total income to working capital, spread ratio and burden ratio.

Objectives of the Study

The main objective of the study is:

- 1) To study the net profit position of Vaidyanath Urban Co-operative Bank.
- 2) To study the non-performing asset position of Vaidyanath Urban Co-operative Bank.
- 3) To study the various profitability ratios of Vaidyanath Urban Co-operative Bank.

Data Collection

The study is based on secondary data collection. The researcher has used information from annual reports collected from head office of Vaidyanath Urban Co-operative Bank.

Period of the Study

The study of profitability analysis is completed of last five years period from 2014-15 to 2018-19.

Data Analysis of the Study

1) Net Profit Position of Vaidyanath bank

The net profit shows sound financial position of the bank. There are many up and down position of net profit of Vaidyanath bank shown in table no. 1.1.

Net Profit Position of Vaidyanath Bank

Table No. 1.1

Year	Net Profit Amount (Rs. In Lakhs)
2014-15	551.81
2015-16	777.27
2016-17	364.04
2017-18	301.76
2018-19	407.94
Mean	480.56

Source: Data Compiled from yearwise Annual Reports of Vaidyanath Bank.

In 2014-15, the amount of net profit of bank is Rs. 551.81 lakhs. It was increased by 40% in 2015-16. But, net profit of the year 2016-17 shows Rs. 364.04, 54% decreased. Again, in 2017-18, it was decreased by 62%. In 2018-19, the vaidyanath bank has taken the efforts and raised a net profit of Rs. 407.94, 35% increase from previous year's net profit. The average net profit of Vaidyanath bank of last five years is Rs. 480.56 lakhs.

2) Non-Performing Asset Position of Vaidyanath Bank

An asset becomes non-performing when it ceases to generate income for the bank. A loan or an advance becomes a non-performing asset when:

- i) Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan.
- ii) The account remains out of order for a period of more than 90 days, in respect of an overdraft/cash credit, (OD/CC).
- iii) The bill remains overdue for a period of more than 90 days in case of bill purchased and discounted.
- iv) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Non-performing asset position of Vaidyanath bank under study for five years period i.e. 2014-15 to 2018-19 is displayed in table no. 1.2.

Non-Performing Asset Position of Vaidyanath Bank

Table No. 1.2

Year	Non-Performing Asset (in %)	Net Amount of Non-Performing Asset (Rs. In Lakhs)
2014-15	0.00	----
2015-16	2.12	1216.84
2016-17	12.15	7513.98
2017-18	13.59	7519.68
2018-19	5.50	3168.91

Source: Data Compiled from year-wise Annual Reports of Vaidyanath Bank.

The non-performing asset position of bank till 2014-15 was nil, best financial position maintained by Vaidyanath bank. But, in 2015-16, the bank has non-performing asset of Rs. 1216.84 lakhs, 2.12%. In 2016-17 and 2017-18, there is a high non-performing asset position of Vaidyanath bank, Rs. 12.15% and 13.59% respectively. There is a huge loss of amount of Rs. 7513.98 lakhs and Rs. 7519.68 lakhs in these two years only.

The Vaidyanath bank has taken the efforts to curb the non-performing asset position. It was Rs. 3168.91 lakhs, 5.50% in 2018-19.

3) Ratio of Net Profit to Working Capital

The ratio of net profit to working capital can also be called as Return on Working Capital (ROW). It shows the relationship between net profit and working capital. As per Reserve Bank of India (RBI), the minimum standard ratio of net profit to working

capital is 1%. Higher ratio indicates a higher net profit during the said year. Hence, higher ratio of Vaidyanath bank is preferable.

The ratio of net profit to working capital of Vaidyanath bank is displayed in Table no. 1.3. It is noteworthy that in none of the year, Vaidyanath bank has achieved the target of minimum standard.

Ratio of Net Profit to Working Capital

Table No. 1.3

Year	Net Profit (Rs. In Lakhs)	Working Capital (Rs. In Lakhs)	Ratio (in %)
2014-15	551.81	84303.48	0.65
2015-16	777.27	105697.29	0.73
2016-17	364.04	111079.34	0.32
2017-18	301.76	123484.13	0.24
2018-19	407.94	158022.81	0.25
Mean	480.56	116517.41	0.43

Source: Data Compiled from year-wise Annual Reports of Vaidyanath Bank.

In 2014-15 and 2015-16, the net profit position was increased. So, the ratio of net profit to working capital was also increased from 0.65% to 0.73% respectively. But, from 2016-17 to 2018-19, there is a continuous decline in the said ratio. The bank has not achieved even 50% of standards also. It is too much hard for the bank to conserve the situation. The mean of the said ratio is 0.43%, less than the standard ratio.

4) Ratio of Total Income to Working Capital

The ratio of total income to working capital represents how much total income is earned as a percentage of working capital. As per Reserve Bank of India norms, the standard ratio of the bank is 11%. Higher ratio indicates that the funds are utilized in a proper manner.

Ratio of Total Income to Working Capital

Table No. 1.4

Year	Total Income (Rs. In Lakhs)	Working Capital (Rs. In Lakhs)	Ratio (in %)
2014-15	9834.33	84303.48	11.66
2015-16	11313.75	105697.29	10.70
2016-17	12629.66	111079.34	11.37
2017-18	11690.95	123484.13	9.46
2018-19	12073.91	158022.81	7.64
Mean	11508.52	116517.41	10.16

Source: Data Compiled from year-wise Annual Reports of Vaidyanath Bank.

The table no. 1.4 indicates the ratio of total income to working capital for five years study period from 2014-15 to 2018-19. The bank has achieved the target ratio only in 2014-15 and 2016-17, 11.66%

and 11.37% respectively. But, in the remaining three years, there is a continuous declining position. The said ratio has declined up to 7.64% in 2018-19. It clearly displays that the share of total income in the

working capital is very less. The mean ratio of total income to working capital of the bank is 10.16%, not even achieved the minimum standards.

5) Ratio of Net Profit to Total Income

The ratio of net profit to total income shows the share of net profit in total income. As per Reserve Bank of India norms, the minimum standard ratio is 8.30%. Higher ratio indicates higher share of net profit in the total income and vice-versa.

Ratio of Net Profit to Total Income

Table No. 1.5

Year	Net Profit (Rs. In Lakhs)	Total Income (Rs. In Lakhs)	Ratio (in %)
2014-15	551.81	9834.33	0.65
2015-16	777.27	11313.75	0.73
2016-17	364.04	12629.66	0.32
2017-18	301.76	11690.95	0.24
2018-19	407.94	12073.91	0.25
Mean	480.56	11508.52	0.43

Source: Data Compiled from year-wise Annual Reports of Vaidyanath Bank.

The ratio of net profit to total income of Vaidyanath bank for the five years period from 2014-15 to 2018-19 is displayed in table no. 1.5. It clearly shows that in none of the year, the bank has achieved the minimum standard ratio. There is a continuous declining position of the bank. There is a moderate loss of bank during the study period. The mean ratio of the bank is only 4.26%. It shows that financial position of the bank is very poor.

6) Spread Ratio

The spread ratio can be expressed as the relationship between interest spread and working capital of the bank. Interest spread is the difference between interest income and interest expenses. Interest income includes interest earned on investment and on loans and advances. Interest expenses include interest paid on deposits and on borrowings. Generally, interest incomes are more than the interest expenses. Higher the ratio, better it is. Spread ratio can be expressed symbolically as –

$$\frac{\text{Interest Spread} * 100}{\text{Working Capital}} \quad \text{OR} \quad \frac{\text{Interest Income} - \text{Interest Expenses} * 100}{\text{Working Capital}}$$

Spread Ratio

Table No. 1.6

Year	Interest Spread (Rs. In Lakhs)	Working Capital (Rs. In Lakhs)	Spread Ratio (in %)
2014-15	3353.16	84303.48	3.97
2015-16	3395.23	105697.29	3.21
2016-17	2870.63	111079.34	2.58
2017-18	3690.53	123484.13	2.98
2018-19	2670.98	158022.81	1.69
Mean	3196.10	116517.41	2.74

Source: Data Compiled from year-wise Annual Reports of Vaidyanath Bank.

The table no. 1.6 clearly shows the spread ratio position of the bank for five years study period

i.e. 2014-15 to 2018-19. There is a continuous decrease in the spread ratio of the Vaidyanath bank.

It was 3.97% in 2014-15 and declined up to 1.69%. The spread ratio of the bank is lower than the minimum standards. The average spread ratio is 2.74%.

7) Burden Ratio

Burden ratio is the ratio of burden to working capital of the bank. Burden is the difference between non-interest expenses and non-interest income. Non-interest expenses includes rent, taxes, insurance charges, printing and stationery,

advertising, postage, telephone charges, etc. Simply, non-interest expenses are expenses other than interest income. Non-interest income includes commission, service charges, brokerage etc. simply, non interest income is income other than interest income. Generally, non-interest expenses are more than non-interest income. So it is called burden. This burden must be reduced. It will improve profitability of the bank. Thus, lower burden ratio is preferable. Symbolically, burden ratio can be expressed as –

$$\frac{\text{Burden Ratio} * 100}{\text{Working Capital}} \quad \text{OR} \quad \frac{\text{Non-interest Expenses} - \text{Non-interest Income} * 100}{\text{Working Capital}}$$

Burden Ratio
Table No. 1.7

Year	Burden Interest (Rs. In Lakhs)	Working Capital (Rs. In Lakhs)	Burden Ratio (in %)
2014-15	1373.73	84303.48	1.63
2015-16	1425.70	105697.29	1.35
2016-17	1386.40	111079.34	1.25
2017-18	2184.56	123484.13	1.77
2018-19	1284.35	158022.81	0.81
Mean	1530.94	116517.41	1.31

Source: Data Compiled from year-wise Annual Reports of Vaidyanath Bank.

The table no. 1.7 shows burden ratio of the bank during the study period from 2014-15 to 2018-19. The average burden ratio is 1.31%. During the study period, the ratio lies between 0.81% to 1.77%. There is a high burden ratio of the bank in the year 2017-18, 1.77% and the lower in 2018-19, 0.81%.

8) Capital Adequacy Ratio

Urban co-operative banks must maintain minimum 9% capital risk asset ratio to absorb

unforeseen anticipated losses. It is one of the important tool which protects the depositors of the bank and also prevents banks from going into bankruptcy. Higher ratio strengthens the banks position. The position of Vaidyanath urban co-operative bank regarding capital adequacy ratio is displayed in the following table no. 1.8.

Capital Adequacy Ratio

Table No. 1.8

Years	Capital Adequacy Ratio (In %)
2014-15	14.05
2015-16	14.82
2016-17	12.98
2017-18	14.18
2018-19	13.48
Mean	13.90

Source: Data Compiled from year-wise Annual Reports of Vaidyanath Bank.

In the last five years, the Vaidyanath bank has maintained capital adequacy ratio as per reserve bank of India norms. The highest ratio was in the year 2015-16, 14.82%. On the other hand, the lowest ratio is in the year 2016-17, 12.98%. In the remaining period of the study also, the Vaidyanath bank has properly maintained the capital adequacy ratio. The average ratio of last five year is 13.90%.

9) Credit Deposit Ratio (c/d ratio)

C/D ratio means credit deposit ratio. This ratio indicates how much deposits are mobilized for loans and advances. The maximum adequate deposits should be utilized by every bank. C/D ratio shows solvency or financial strength of bank to operate deposits effectively. Higher ratio indicates efficiency of bank to attract depositors and earn maximum on loans and advances. On the other hand, lower ratio indicates declining performance of bank.

Credit Deposit Ratio

Table No. 1.9

Years	Loans & Advances (Rs in Lakhs)	Deposits (Rs in Lakhs)	C/D Ratio (In %)
2014-15	47387.75	69660.29	68.02
2015-16	60466.82	91689.19	65.94
2016-17	65395.25	96086.75	68.05
2017-18	59668.36	108532.63	54.97
2018-19	61796.24	103691.96	59.59
Mean	49055.48	93932.16	63.31

Source: Data Compiled from year-wise Annual Reports of Vaidyanath Bank.

The table no. 1.9 displays the credit deposit ratio of Vaidyanath bank, Parli. In respect of loans and advances, it shows many up and down position of the bank. The loans and advances increases from 2014-15, Rs. 47387.75 lakhs to 2016-17, Rs. 65395.25 lakhs. But, from the year 2017-18, it shows declining position up to Rs. 59668.36. Again, in the next year, 2018-19, it has increased up to Rs. 61,796.24 lakhs. The average loans and advances for last five years study period is Rs. 49055.48 lakhs.

The table no. 1.9 also displays deposit position of Vaidyanath bank. It shows continuously increased in total deposits of the bank. It rises from Rs. 69660.29 lakhs in the year 2014-15 to Rs. 108532.63 lakhs, 2017-18. Considering the previous year, the deposit position of the year 2018-19 is declined up to Rs. 103691.96 lakhs. The average deposits of last five years study period is Rs. 93932.16 lakhs.

Again, credit deposit ratio of the Vaidyanath bank is displayed in the table no. 1.9. There is a maximum utilization of deposits is in the year 2014-15 and 2016-17, the ratio is 68.02% and 68.05%. In the year 2016-17, there is a huge losses has occurred in the bank. The effect of it was in the next year, 2017-18, the bank has disbursed few loans among

the society. Therefore, the credit deposit ratio was only 54.97%, lower in the last five years study period. The bank has also disbursed 59.59% of deposits in 2018-19. The average credit deposit ratio is 63.31%, shown in the above table.

Conclusions

The following points are noteworthy from each table:

- i) The net profit of the bank is continuously decreased except in 2018-19.
- ii) The non-performing asset of the bank is higher during the year 2016-17 and 2017-18. But, in 2018-19, the non-performing asset was reduced.
- iii) The ratio of net profit to working capital has shown a declining position. It has not achieved the target of minimum ratio during the study period.
- iv) The ratio of total income to working capital has also decreased. It has achieved minimum standard ratio in only two study periods, 2014-15 and 2016-17. In the remaining years, it shows the declining position.
- v) In none of the year, the ratio of net profit to total income has achieved the target ratio. It shows poor financial position of the bank.

- vi) There is a continuous decrease in spread ratio of the bank. It indicates declining position of the bank.
- vii) The bank has high burden ratio during the study period.
- viii) The bank has maintained properly capital adequacy ratio in last five years study period.
- ix) The bank has high credit deposit ratio in the year, 2014-15 and 2016-17. But, in the remaining years, it has shown declining position.

Suggestions

- i) The bank must take efforts to increase the net profit in future. So, it will help to increase various other profitability ratios and also maintain sound financial position of the bank.
- ii) The bank must be strict regarding recovery of loans and advances. So, it will help to reduce non-performing asset in future.
- iii) The bank must strive hard to increase various sources of total income.

- iv) The bank must try hard to increase the spread ratio and decrease the burden ratio.
- v) The capital adequacy ratio of the bank must also be maintained in future.
- vi) The bank has to strive hard to disburse the loans from deposits and earns the profit from it.

References

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