

## A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE OF URBAN COOPERATIVE BANKS IN DAVANGERE DISTRICT, KARNATAKA

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### ABSTRACT

The Cooperative activities in India is has a rich history, which started much before independence. More than one hundred years ago, Kanchipuram in the present day Tamil Nadu laid the roots for the Cooperatives. Since then, it has grown from strength to strength and has become a key member in the Indian Financial System.

Karnataka has its share of contribution in the cooperative movement. It has been active in almost every major urban and semi-urban location. The state has registered a deposit base of almost Rs. 35000 Crores for 2017.

Davangere is an important district in Central Karnataka, located about 300 Kms from Bangalore. It was once a major producer of cotton. This town hosts a few Urban Cooperative Banks. The financial performance of these banks is analyzed based on certain key parameters with certain predictions vis-à-vis actual results.

**Keywords**-Urban Cooperative Banks, financial performance, predictions, Davangere, Karnataka.

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### INTRODUCTION

A cooperative bank is a financial institution that finely blends the principles of cooperative with banking activities. Urban Cooperative Banks are cooperative banks located at urban and semi-urban locations. Maharashtra, Gujarat and Karnataka are considered leaders in these financial institutions.

Davangere is a semi-urban pocket in central Karnataka, located on the Bangalore-Mumbai route. It was once called the textile town of the erstwhile Mysore State due to the presence of once-thriving Davangere Cotton Mills. However, after the closure of Davangere Cotton Mills, except for a handful of units, little is known about the cotton industry in this town.

However, Davangere continues to be famous throughout Karnataka for its native variety of Dosa made using butter, called “Davangere benne dose”. This dish continues to be a delight for the natives of Karnataka, and a plethora of outlets have mushroomed throughout the State offering Davangere benne dose.

According to Bangalore-based Karnataka State Cooperative Urban Banks Federation Ltd., Urban Cooperative Banks in Davangere recorded a total deposit of Rs. 1307.8 Crores for 2016-17. Otherwise, little is known about the Urban Cooperative Bank’s landscape in this town. This sector grew in their formative years along with the thriving cotton industry. However, with the passage of time, these banks made way for the State-run District Cooperative Banks and other commercial banks in the banking business.

## **OBJECTIVES**

1. To understand the relationship in the share capital of Davangere-based Urban Cooperative Banks.
2. To analyze the changes in the deposits garnered by Urban Cooperative Banks based in Davangere district, Karnataka.
3. To examine the investment patterns by Davangere-based Urban Cooperative Banks.
4. To understand the credit pattern of Urban Cooperative Banks of Davangere.
5. To analyze the profitability of the Urban Cooperative Banks based out of Davangere.

## **RESEARCH METHODOLOGY**

The main tool used for analysis is the “Forecast” function of MS-Excel. Secondary data collected from Karnataka State Cooperative Urban Banks Federation Ltd. in Bangalore has been used.

## **HYPOTHESIS**

1.  $H_0^1$ : There is no significant relationship in the share capital of Davangere-based Urban Cooperative Banks.
2.  $H_0^2$ : There is no significant relationship in the deposits received by Urban Cooperative Banks in Davangere.

3.  $H_0^3$ : There is no significant relationship in the investments made by Urban Cooperative Banks of Davangere.
4.  $H_0^4$ : There is no significant relationship in the credit created by Davangere-based Urban Cooperative Banks.
5.  $H_0^5$ : There is no significant relationship in the profitability of Urban Cooperative Banks of Davangere.

### SCOPE

1. All the selected Urban Cooperative Banks are from Davangere district only.
2. Only the following parameters are considered for analysis:
  - a. Share Capital
  - b. Deposits
  - c. Investments
  - d. Credit
  - e. Net Profit
3. The analysis is performed for the years 2015-17 only.

### LIMITATIONS

1. The research is conducted for financial years 2015-17 only. Other years have been excluded.
2. The current findings within the said period may not be applicable to other periods.
3. The data for financial year 2012-13 is not available.

### ANALYSIS AND INTERPRETATION

The following data is considered for analysis

**Table 1: Overall Results 2015-17.**

Parameters	2014-15	2015-16	2016-17
Share Capital	3389.91	3885.31	3826.31
Deposits	106257.2	115409.3	130783.8
Investments	61564.4	66095.13	75670.19
Credit	58814.3	62252.44	69083.05
Net Profit	3428.76	1422.12	1436.92

Source: The Karnataka State Cooperative Urban Banks Federation Ltd., Bangalore.

**Table 2: Findings for 2014-15**

**(Forecast vs Actual)**

Parameters	2011-12	2013-14	Forecast	Actual
			2014-15	2014-15
Share Capital	2613.38	3183.59	3468.70	3389.91
Deposits	76954.68	102079.00	114641.16	106257.17
Investments	65578.50	42648.33	31183.24	61564.40
Credit	45580.48	53337.34	57215.77	58814.30
Net Profit	839.61	1227.34	1421.21	3428.76

From Table 2, there is a variation both ways on performance parameters. While there is a reduction in share capital and deposits received, investments, credit creation and profits earned have performed beyond predicted.

**Table 3: Findings for 2015-16**

Parameters	2013-14	2014-15	Forecast	Actual
			2015-16	2015-16
Share Capital	3183.59	3389.91	3596.23	3885.31
Deposits	102079.00	106257.17	110435.34	115409.28
Investments	42648.33	61564.40	80480.47	66095.13
Credit	53337.34	58814.30	64291.26	62252.44
Net Profit	1227.34	3428.76	5630.18	1422.12

From Table 3, the results have been mixed. There has been an increase in the share capital and deposits garnered, the actual investments, credit and profits earned have been way below expectations.

**Table 4: Findings for 2016-17**

Parameters	2014-15	2015-16	Forecast	Actual
			2016-17	2016-17
Share Capital	3389.91	3885.31	4380.71	3826.31
Deposits	106257.17	115409.28	124561.39	130783.76
Investments	61564.40	66095.13	70625.86	75670.19
Credit	58814.30	62252.44	65690.58	69083.05
Net Profit	3428.76	1422.12	-584.52	1436.92

The outcome for the financial year 2016-17 has been largely encouraging, as mentioned in Table 4. Except for share capital, the outcome of all parameters has been very encouraging.

**Table 5: Forecast vs Actual - Share Capital**

S. No.	Year	Forecast	Actual
1	2014-15	3468.70	3389.91
2	2015-16	3596.23	3885.31
3	2016-17	4380.71	3826.31

The coefficient of correlation between the forecasted share capital and actual share capital for the same period is 0.52. Therefore, there is a significant relationship between the share capital forecasted and the actual share capital. Null hypothesis is rejected and alternative hypothesis is accepted.

**Table 6: Forecast vs Actual - Deposits**

S. No.	Year	Forecast	Actual
1	2014-15	114641.16	106257.17
2	2015-16	110435.34	115409.28
3	2016-17	124561.39	130783.76

Based on the forecasted value of deposits vis-à-vis actual deposits, their coefficient of correlation is 0.78. This denotes that there is a strong relationship between the deposits forecasted and the actual deposits. Therefore, null hypothesis is rejected and alternate hypothesis is accepted.

**Table 7: Forecast vs Actual - Investments**

S. No.	Year	Forecast	Actual
1	2014-15	31183.24	61564.40
2	2015-16	80480.47	66095.13
3	2016-17	70625.86	75670.19

The coefficient of correlation between the forecasted investments and the actual investments is 0.61. Therefore, there is a significant relationship between the investment forecasted and the actual investments made. Thus, null hypothesis is rejected and alternate hypothesis is accepted.

**Table 8: Forecast vs Actuals - Credit**

S. No.	Year	Forecast	Actual
1	2014-15	57215.77	58814.30
2	2015-16	64291.26	62252.44
3	2016-17	65690.58	69083.05

Between the credit forecasted and the actual credit disbursed, the coefficient of correlation is 0.85. This denotes a very strong relationship between the credit forecasted and the actual credit creation. Therefore, null hypothesis is rejected and alternate hypothesis is accepted.

**Table 9: Forecast vs Actual – Net Profit**

S. No.	Year	Forecast	Actual
1	2014-15	1421.21	3428.76
2	2015-16	5630.18	1422.12
3	2016-17	-584.52	1436.92

The coefficient of correlation between profits forecasted and the actual profits earned is -0.21. Therefore, there is an inverse relationship between the two. Thus, the null hypothesis is accepted and alternate hypothesis is rejected.

## FINDINGS AND SUGGESTIONS

- Findings

1. The share capital has largely remained less susceptible to changes. Therefore, this factor has not changed much.
2. The forecasted deposits and actual deposits have almost been in sync.
3. The investments saw a drastic variation between forecasted and actual values. However, a relationship between the two values is established due to a two-way fluctuation.
4. Credit creation between the forecasted values and actuals are in complete synchronization. The forecasted credit value and the actual credit created have been very close.
5. Profitability has been unpredictable. While the banks have recorded profits in all the three years, a loss was predicted during 2016-17.

- Suggestions

1. Banks should focus on maintaining existing credit creation strategies.
2. Banks should explore profitable investment avenues, much beyond the minimum stipulated requirements.
3. Banks should focus on earning profits consistently.

## **CONCLUSION**

To conclude, Urban Cooperative Banks in Davangere have been performing well due to its profitability factor. However, fluctuation in key parameters makes these banks vulnerable to a dip in their earnings.