
**EVALUATION OF PROFITABILITY OF PUNJAB STATE
COOPERATIVE AGRICULTURAL DEVELOPMENT BANK**

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ABSTRACT

State Co-operative agricultural and rural development banks are playing an important role in meeting credit requirement of rural population. Present study make an attempt to evaluate the profitability of state co-operative agricultural and rural development bank in Punjab by applying Statistical tools i.e. ratio analysis over the period of thirteen years (1999-2000 to 2011-2012). From the overall analysis of profitability of the bank, it is observed that is fluctuating throughout the study period. So, proper steps should be taken by the concerned quarters. Though cooperative banks are meant for service motive, they must also earn some profit for their existence. Punjab state co-operative agricultural and rural development bank is apex bank in the State; it can control Primary Co-operative agricultural and rural development banks under its vast umbrella.

Key Words:-Analysis, Burden, Profitability, Ratios and Spread.

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INTRODUCTION

In India, the co-operative banking sector plays an important role in providing credit to agriculture sector. The structure of the co-operative banking sector in India is two fold. The urban areas are served by urban co-operative banks and the rural areas are served by two distinct sets of the institutions extending short-term and long-term credit. The short-term co-operative credit institutions have a three-tier structure comprising State co-operative banks at the apex level, district central co-operative banks at intermediate level and primary agricultural societies at the base level. The long-term co-operative credit institutions have, generally, a two tier structure comprising the State co-operative agriculture and rural development banks (SCARDBBs) at the state level and primary agricultural and rural development banks (PCARDBs) at district or block level. As on 31st March, 2007, the long term co-operative credit structure, consisted of 20 state co-operative agriculture and rural development banks and 697 primary co-operative agriculture and rural development banks.

The Punjab State Cooperative Agricultural Development Bank Limited was established on 26/02/1958 under the provisions of Punjab Cooperative Land Mortgage Banks Act, 1957. The basic objective of the bank was to eliminate exploitations of the farmers by the money-lenders, by providing the farmers long-term loans at cheaper rates of interest, repayable in easy installments for redemption of mortgages. Over the period, the bank introduced many schemes and diversified its lending operations with repayment period range from 5-15 years, depending upon the purpose of the Loan. In the initial stage, the bank has started functioning through the central co-operative banks, by appointing them as its agents. The agency system was discontinued in the year 1962 when 14 Primary Cooperative Agricultural Development Banks (PADBs), previously known as primary cooperative land mortgage banks came into existence and got affiliated to the Punjab State Cooperative Agricultural Development Bank Limited, for the purpose of advancing long term loans to the farmers in the state.

The long term structure in the Punjab state, as such, is a federal structure having State Cooperative Agricultural Development Bank as an apex institution with Primary Cooperative Agricultural Development Bank as its members. As on 31st March, 2013, there were 89 PADBs. The management of the Punjab State Cooperative Agricultural Development Bank is vested in its board of directors, which is constituted, as per provision of bye law number 29 of the bye laws of the bank. The board of directors lay down the policy guidelines regarding the working of the

bank. The functioning of the head office of the bank is run through different branches. For the purpose of close supervision of the PADBs, the bank has 19 district offices at district headquarters, which are supervised by the assistant general managers and 3 regional offices, at Jalandhar, Faridkot, and Patiala by regional officers.

The sources of funds of the PSADB consist of shares, debentures, grants, subsidies, fees, deposits, loan from govt. and Reserve Bank of India. And the other sources as are approved by the registrar, cooperative societies viz.; cash credit from Punjab State Cooperative Bank and NABARD etc. However, the main source of raising funds with the banks is by way of floatation of debentures /loan system under the refinance facilities of NABARD. The PADBs advance loans to their members against the security of simple mortgage of agricultural land. The loans so advanced by the PADBs are reimbursed by Punjab State Cooperative Bank against the security of these mortgage deeds. The Punjab State Cooperative Bank in turn floats debentures against these mortgages and gets refinance from NABARD. As such the cycle of collecting funds and making advancements continues. The debentures are floated under the provisions of Punjab Co-operative Land Mortgage Banks Act, 1957 with approval of the Registrar, cooperative societies, Punjab, who is the trustee for the fulfillment of the obligations to the debenture holders of the of State cooperative Bank under Section 3 of the Act. To decrease its dependence on NABARD for its resources, the bank with the approval of the Registrar, cooperative societies, Punjab has introduced deposit mobilization scheme for collecting deposits from individuals and institutions. The bank at present accepts fixed and recurring deposits from public and institutions.

Initially, the Bank started advancing loans for the redemption of land and for purchase of land so as to make land holdings economically viable. After sometime, the Bank also started providing loans for the improvement of Banjar, Alkaline and Saline lands. Thereafter, the Bank played a substantial role in the mechanization of farming in the State by advancing loans for the purchase of Tractors, Agricultural Implements and installation of Tubewells etc. The substantial contribution of this Bank in ushering in Green Revolution in the State, has always been considered significant. After the Green Revolution, further, the Bank played its role for the diversification of agriculture loan by providing loans to the farmers for the various allied agricultural activities like Dairy, Poultry, Fishery etc. Bank has played a very important role in ushering in White and Blue Revolutions in the state. The Bank is also playing a vital role in elimination of unemployment in the State. In 1993-94, the Bank switched over to Non-Farm

Sector and started financing ventures of Self-Employment in Manufacturing, Processing and Service Activities with the objective of generating self-employment and business expansion/diversification.

OBJECTIVES, SCOPE AND METHODOLOGY

The main objectives of study are to study profitability and factors affecting profitability of PSCAD Bank Ltd. Chandigarh and to make suggestions on the basis of finding of profitability of the Bank. The study covers a period of Thirteen co-operative years 1999-2000 to 2011-12, data has been collected through secondary sources as annual reports of the Bank Bye- laws of the bank, Official records, Statistical Statements published by NABARD and personal discussion with the official of the bank. The analysis is made with the help of standard financial ratios of data to focus on the financial performance of each variable for Thirteen years.

Analysis of Data

Ratio analysis is used to analyze the financial performance of PSCAD Bank Ltd. Chanigarh. Further it gives the information to take decisions for planning and control of activities of the Bank. This analysis enables one to identify the nature and causes of changes in profits and profitability over the period of time and this helps in pinpointing the direction of action required for altering the prospects of the bank in future. Three sorts of ratios have been used to analyze the profitability of the PSCAD Bank Ltd. Viz, Spread Ratios, Burden Ratios and Profitability Ratios.

Spread Ratios

Spread is the difference between interest earned and interest paid by the banks. Spread plays a vital role in determining the profitability of banks. It is the net amount available to the banks for meeting their operating expenses with regard to administration and management of working funds. The following three spread ratios were employed.

TABLE-1

Spread Ratios of PSCAD BANK Ltd. Chandigarh

Rs. in crores

YEAR	INTEREST EARNED AS PERCENTAGE OF WORKING FUNDS			INTEREST PAID AS PERCENTAGE OF WORKING FUNDS			SPREAD AS PERCENTAGE OF WORKING FUNDS		
	INTEREST EARNED	WORKING FUNDS	RATIO IN PERCENT	INTEREST PAID	WORKING FUNDS	RATIO IN PERCENT	SPREAD	WORKING FUNDS	RATIO IN PERCENT
1999-00	182.42	1841.70	9.90	141.39	1841.70	7.68	41.03	1841.70	2.23
2000-01	194.08	2027.05	9.57	154.75	2027.05	7.63	39.33	2027.05	1.94
2001-02	200.50	1999.66	10.03	160.16	1999.66	8.01	40.34	1999.66	2.02
2002-03	169.23	1979.02	8.55	136.45	1979.02	6.89	32.78	1979.02	1.66
2003-04	189.60	2176.95	8.71	137.98	2176.95	6.34	51.62	2176.95	2.37
2004-05	177.72	2277.79	7.80	133.76	2277.79	5.87	43.96	2277.79	1.93
2005-06	172.36	2485.15	6.94	125.07	2485.15	5.03	47.29	2485.15	1.90
2006-07	166.37	2451.12	6.79	126.35	2451.12	5.15	40.02	2451.12	1.63
2007-08	181.80	2738.02	6.64	136.73	2738.02	4.99	45.07	2738.02	1.65
2008-09	196.94	2776.79	7.09	155.88	2776.79	5.61	41.06	2776.79	1.48

2009-10	198.51	2882.96	6.89	154.22	2882.96	5.34	43.91	2882.96	1.52
2010-11	193.00	2929.92	6.59	155.34	2929.92	5.30	37.66	2929.92	1.29
2011-12	<u>211.63</u>	3008.72	7.03	<u>162.60</u>	3008.72	5.40	<u>49.03</u>	3008.72	1.63

Source: Annual reports of Punjab State Co-operative Agricultural Development Bank from 1999-00 to 2011-12

(i) Interest Earned as Percentage of Working Funds

Interest earnings relate to funds based on income and represents the income from pure banking business. The major components of interest earnings consist of interest earned on loans and advances granted. It shows how far working funds are effectively utilised for profit making. The working funds denote the total of the balance sheet items except contra items.

Table 1 indicated the spread ratio of PSCAD Bank Ltd. It is observed from the table that interest earned as a percentage of working Bank Ltd. has been fluctuating between 6.59 and 10.03 per cent. There is a fluctuating the trends throughout the present of study. However throughout funds of the PSCAD the period of analysis it has only positive percentage. This shows that the bank has used the working funds but it requires more efficiently.

(ii) Interest paid as Percentage of Working Funds

Interest expenditure relates to funds based on expenditure and represents the cost of funds to the bank. The major items of interest expenditure consist of interest paid on deposits and interest paid on borrowing. It is an indicator of the rate at which a bank incurs expenditure by borrowing funds.

Interest paid as a percentage of working funds of PSCADB ban Ltd. for the thirteen years from 1999-2000 to 2011-2012 are also given in table 1. It fluctuates in between 4.99 percent and 8.01 per cent. But in the study period, it shows declining trend with some fluctuations. It is because of the decrease in the interest paid and increase in the working funds. It reflects the efficiency of the bank using maximum fund with lower cost.

(iii) Spread as Percentage of Working Funds

It is also one of the important indicators to determine the profitability of a bank. As already mentioned spread is calculated as the difference between the interests earned a percentage of

working funds and interest paid as percentage of working funds. This ratio is useful to know how the bank is maintaining the funds to meet the expensed of management and administration.

As seen in the table 1. the spread as percentage of working funds shows a fluctuating trend through out the study period. The ratio lies in between 1.29 percent and 2.37 percent. In the initial period it performed well some how there is a fluctuating trend during the period of study but in the middle of the study period it was quite poor and somehow slowly it rose in the last three years of the study period. It reflects that the bank is not properly maintaining the balance between procurement of funds and utilization of the available funds.

Burden Ratios

The non-interest expenditure not covered by non-interest income is known as burden this helps to meet out the expenses for manpower and other expenses of banks. It is to be noted that the non-interest expense cannot be reduced. Hence the profitability of the banks depends on the spread. The profit may be defined as the difference between spread and burden, instead of difference between total income and total expenditure. Therefore, an effort to improve the banks profitability will involve the management of burden. So, to reduce the burden, either the interest income should be increased or the non-interest expenditure should be reduced or by both. Therefore, the following three ratios have been employed to study the profitability of the PSCAD Bank.

TABLE-2

Burden Ratios of PSCAD Bank Ltd. Chandigarh

Rs. in crores

YEA R	NON-INTEREST INCOME AS PERCENTAGE OF WORKING FUNDS			NON-INTEREST EXPENSES AS PERCENTAGE OF WORKING FUNDS			BURDEN AS PERCENTAGE OF WORKING FUNDS		
	NON- INTERE ST INCOM E	WORKI NG FUNDS	RATIO IN PERCE NT	NON- INTERE ST EXPEN SES	WORKI NG FUNDS	RATIO IN PERCE NT	BURD EN	WORKI NG FUNDS	RATIO IN PERCE NT
1999-	0.010	1841.70	0.00054	20.68	1841.70	1.12	20.67	1841.70	1.12

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2000-01	0.010	2027.05	0.00049	19.28	2027.05	0.95	19.27	2027.05	0.95
2001-02	0.010	1999.66	0.00050	14.78	1999.66	0.74	14.77	1999.66	0.74
2002-03	0.010	1979.02	0.00051	12.02	1979.02	0.61	12.01	1979.02	0.61
2003-04	0.010	2176.95	0.00046	12.30	2176.95	0.57	12.29	2176.95	0.57
2004-05	0.020	2277.79	0.00088	13.10	2277.79	0.58	13.08	2277.79	0.58
2005-06	0.010	2485.15	0.00040	14.27	2485.15	0.57	14.26	2485.15	0.57
2006-07	0.031	2451.12	0.00126	15.02	2451.12	0.61	14.71	2451.12	0.61
2007-08	0.100	2738.02	0.00365	15.95	2738.02	0.58	15.85	2738.02	0.58
2008-09	0.130	2776.79	0.00468	16.53	2776.79	0.60	16.40	2776.79	0.60
2009-10	0.370	2882.96	0.01283	17.21	2882.96	0.60	16.84	2882.96	0.60
2010-11	0.160	2929.92	0.00546	18.50	2929.92	0.63	18.34	2929.92	0.63
2011-12	<u>0.630</u>	3008.72	0.02094	<u>28.95</u>	3008.72	0.96	28.32	3008.72	0.96

Source: Annual reports of Punjab State Co-operative Agricultural Development Bank from 1999-00 to 2011-12

(i) Non-Interest Expenditure as Percentage of Working Funds

Non-interest expenditure of banks denotes expenses on manpower and other expenses. The ratio non-interest expenditure as percentage of working funds expresses the effective management of funds. It shows the operational efficiency of the bank.

The table 2 shows the ratio of non-interest expenditure as a percentage of working funds of the PSCAD Bank Ltd. This ratio fluctuates in between 0.57 and 1.12 per cent. The highest ratio indicates that the funds management cost is high. Automatically it will affect that profitability of the bank. It is necessary to exercise control over the non-interest expenditure. There is fluctuating trend in the period of study.

(ii) Non-Interest Income as a percentage of working funds

Non-interest income of bank represents income earned by way of commission, exchanges, brokerage, service charges, and other miscellaneous receipts. Non-interest income is very nominal and inadequate to meet non-interest expenses and it may cause rise in burden. Efforts should be taken to improve the non-interest income ratio, so that burden could be reduced and profitability of the bank will be improved. If the bank diversified its activity, there is a possibility to improve the profitability.

It is noted from table 2 that non-interest income as a percentage of working funds lies between 0.00040 percent and 0.02094 percent. It is very meager amount, while compare with working funds. During the study period non interest income has increased along with increase in working funds, due to this there is increasing trend in Non-Interest Income as a percentage of working funds. It reduced burden and improve the profitability of the bank.

(iii) Burden as Percentage of working funds

The ratio of burden as percentage of working funds can also be calculated by taking the difference between the non-interest expenditure as percentage of working funds and non-interest income as percentage of working funds.

Burden as a percentage of working funds of PSCAB Bank Ltd. is also given in table 2. It had least percentage in 2003-2004 i.e. 0.57 percent. It gradually increased up to 1.24 percent in the year 2005-06 and then declined to 0.76 per cent later it was gradually increased throughout the period of analysis and showed the highest 1.71 percent in the year 2003-2004. It is suggested that the bank should have control over the non-interest expenditure and earn more-non-interest income, due to diversification of its activities. Burden as percentage of working funds lies between 0.59 to 1.12. Some how there was of Increasing. Burden except rise in Last year.

Profitability Ratios

To measure the financial performance of a bank, profitability ratios are the most important and reliable indicators, because the banks may improve their absolute profits by employing

additional resources, Profitability ratios serve as important indicators of the efficiency with which operation of the banks are carried on. The analysis of profitability ratio is extremely important for management, which is responsible for the ultimate sources of the banks

TABLE-3

Profitability Ratios of PSCAD BANK Ltd. Chandigarh

Rs. in crores

YEAR	NET PROFIT AS PERCENTAGE OF TOTAL INCOME			NET PROFIT AS PERCENTAGE OF TOTAL DEPOSITS			NET PROFIT AS PERCENTAGE OF WORKING FUNDS		
	NET PROFIT	TOTAL INCOME	RATIO IN PERCENT	NET PROFIT	TOTAL DEPOSITS	RATIO IN PERCENT	NET PROFIT	WORKING FUNDS	RATIO IN PERCENT
1999-00	20.36	183.43	11.10	20.36	58.82	34.61	20.36	1841.70	1.11
2000-01	20.06	194.09	10.34	20.06	69.49	28.87	20.06	2027.05	0.99
2001-02	25.56	200.51	12.75	25.56	42.02	60.83	25.56	1999.66	1.28
2002-03	20.75	169.24	12.26	20.75	36.17	57.37	20.75	1979.02	1.05
2003-04	39.32	189.61	20.74	39.32	41.02	95.86	39.32	2176.95	1.81
2004-05	30.87	177.74	17.37	30.87	62.04	49.76	30.87	2277.79	1.36
2005-06	33.01	172.38	19.15	33.01	84.38	39.12	33.01	2485.15	1.33
2006-07	25.32	166.68	15.19	25.32	59.14	42.81	25.32	2451.12	1.03
2007-	29.22	181.90	16.06	29.22	118.30	24.70	29.22	2738.02	1.07

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2008-09	24.66	197.07	12.51	24.66	126.11	19.55	24.66	2776.79	0.89
2009-10	27.45	198.88	13.80	27.45	153.22	17.92	27.45	2882.96	0.95
2010-11	19.32	193.16	10.00	19.32	226.50	8.53	19.32	2929.92	0.66
2011-12	20.71	212.26	09.76	20.71	263.53	7.86	20.71	3008.72	0.69

Source: Annual reports of Punjab State Co-operative Agricultural Development Bank from 1999-00 to 2011-12

(i) Net profit as percentage of total Income

Profitability of banks can be calculated through the net profit as percentage of total income earned by the banks. Net profit is nothing but balance of profit as per profit and loss account of the bank and total income includes interest and discount, commission, exchange, breakage and other miscellaneous receipts of the banks. This ratio represents the income generating capacity of the banks.

Ratio of net profit to total income of PSCADB Bank Ltd. is given in Table 3. It is clear from the table that this ratio has been fluctuating in between 9.76 percent to 20.74 percent. During the study period there is fluctuating trend in this ratio. From this It is easily identified that the profitability of the bank is not up to the mark and it requires more control over the cost and increasing the income.

(ii) Net Profit as percentage of total deposits

Another important measure of profitability of banks is profit as percentage of total deposits. Total deposits of bank include fixed deposits, Recurring deposits, deposit account with PADBS and other deposits from the public as well as from other institutions while net profit is the balance of the profit as per profit and loss account of the respective banks.

Table 3 also exhibits the ratio of net profit to total deposits of PSCAD Bank Ltd. It is fluctuated in between 7.86 per cent and 95.86 per cent. In the starting period it was fluctuating then increased, but in last four years it declines. It is due to fluctuations in profits because on the whole there is increase in deposits during the study period.

(iii) Net profit as percentage of working funds

The familiar analytical tool to determine the banks profitability is the ratio of net profit as percentage of working funds. This ratio indicates the efficiency with which a bank deploys its total working funds so as to maximize its profits. Hence, the ratio serves as an index to the degree of asset utilization of banks.

Ratio of net profit to working funds is also exhibited in Table 3. The analysis of the study period shows flexible trend because, it shows good performance in the year 1999-2000, 2001-2002 to 2007 2008. But in the rest of period of analysis, it shows very poor performance. The ratio lies in between 0.66 per cent and 1.81 percent.

CONCLUSION

From the overall analysis of profitability of the bank, it is observed that is fluctuating throughout the study period. So, proper steps should be taken by the Bank to improve its Profitability performance in different quarters. Through cooperative banks are meant for service motive, they must also earn some profit for their existence. Punjab state co-operative agricultural and rural development bank is apex bank in the State; it can control Primary Co-operative agricultural and rural development banks under its vast umbrella.

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