

## **A STUDY ON CO-OPERATIVE BANKS WITH SPECIAL REFERENCE TO HIMACHAL PRADESH STATE COOPERATIVE BANK LTD.**

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### **Abstract**

Performance analysis of any banks is the key elements of a country's financial condition. Cooperative banks in India are playing various roles in both rural as well as urban areas. This paper explores the financial growth and performance of apex bank of Himachal Pradesh which is the largest co-operative bank in the state. Performance analysis is done by using different variables like share capital, deposits, loans and advances, borrowing, profit and others. This analytical study demonstrates that there is continuous positive growth in the business of the HPSCB. For improving its performance, it has to concentrate on loan portfolio because interest income from advances is less than income from investment.

**Keywords: HPSCB (Himachal Pradesh State Cooperative Bank Ltd.), Financial Performance, growth, improvement and largest.**

### **I. Introduction**

Cooperative is a unique form of economic organisation in which people willingly associate together so that they can get equal opportunities for the promotion of their economic interest themselves. This is movement of the people, by the people and for the people. It is contributing toward employment, GDP, export and poverty alleviation. The United Nations estimated in 1994 that the livelihood of nearly half of the world population was made secure by cooperative enterprise. These are playing significance economic and social upliftment of the communities. Historically, England is the birth place of the cooperative movement, where the first cooperative

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society was founded called “Rochdale Equitable pioneer” society was set by 28 weavers. Ccooperatives are based on the holy ideals of self-responsibility, democracy, equality, honesty, openness, social responsibility, team- work and caring for others. But principles of cooperative were evolved after a long time. Principles of this society had been recognized as International Cooperative principles by the International Cooperative Union in 1937 meeting. Later, these principles were reorganised in 1966. Finally, we have seven cooperative principles viz. voluntary and open membership, democratic control, cooperation among cooperatives, autonomy and independence of cooperative organisation etc.

State Cooperative Banks are like other financial units which belong to its members, who are at the same time the owners and the customers of the bank. These are owned by local people generally. Govt. is also shareholder of these banks. Cooperatives are not confined to agriculture but these are giving a tough competition to the commercial banks. Nowadays these banks are fulfilling various requirements of customers by providing innovative and wide range of banking and financial services along with basic banking services like granting loans and accepting deposits.

### **I.I Financial Performance Analysis**

The term ‘performance analysis’ is the analysis and detailed study of financial statements. It establishes a strong relationship between financial variables in order to find out some meaningful information from data given in Balance Sheet and Profit and Loss Account. It is a process of evaluating the relationship between various components of financial statements. With the help of analysis, we can draw significant conclusions and project future of the bank. We can come to know about profitability, solvency, liquidity and soundness of bank by comparing data given in financial statements of different years.

### **I.II About Himachal Pradesh state Cooperative Bank Ltd.**

Himachal Pradesh ‘Abode of God’ comprises twelve districts, is situated in northern India. The Himachal Pradesh State Co-operative Bank is playing crucial role in the financial wellbeing of the state. We have three tier cooperative structure in 6 districts and two tier in rest of the districts. At the apex level of short term credit structure there is State Cooperative Banks followed by District Central Cooperative Banks. At the grass root level, there are number of Primary Co-

operative Societies are formed. In Himachal Pradesh at the time of attaining independence, Mahasu Central Co-operative Bank, The Mandi Central Co-operative Bank Ltd. and The Chamba Central Co-operative Bank Ltd. were functioning. In 1953, these three Central Co-operative Banks were merged and a new bank was formed namely Himachal Pradesh State Co-operative Bank Ltd. The Registration of Himachal Pradesh State Co-operative Bank was done in August, 1953, under the Co-operative Society Act, 1912. The Himachal Pradesh State Co-operative Bank Ltd. started functioning on 15<sup>th</sup> March, 1954 with a share capital of Rs. 7 lakh and with 10 business outlets. In the year 1955 one Joint Stock Bank i.e., Bank of Sirmour was merged in this bank. Nowadays, this bank is functioning as an apex bank in short term credit structure of the state as well as Central bank in six districts of Himachal Pradesh with is 241 brick and mortar branches/ extension counters, working capital of Rs. 12082.87 crore, share capital of Rs. 8.76 crore, own funds of Rs. 984.60 crore, deposits of Rs. 9092.83 crore and loans of Rs. 4758.27 crore as on 31<sup>st</sup> March, 2017. Apart from this, the Bank is extending banking services to the people in rest of six districts through its two- affiliated District Central Cooperative Banks viz. The Kangra Central Coop. Bank working in five districts and the Jogindra Central Coop. Bank Ltd. which is working in one district. The Himachal Pradesh Cooperative Bank is serving the people of the state in the rural as well urban areas and in difficult terrain also. It is garnering resources to meet the credit requirements of farm and non-farm sector. HPSCB brings the convenience of banking at your fingertips through innovative products e.g. Himpesa and Net Banking etc.

## **II. Objectives**

- To understand the financial statements of Himachal Pradesh State Cooperative Bank Ltd.
- To study the growth and performance of Himachal Pradesh State Cooperative Bank Ltd.
- To analyze the profitability of Himachal Pradesh State Cooperative Bank Ltd.

## **III. Methodology**

The study is analytical in nature. It is based on secondary data. The secondary data was collected from the bank's annual reports and various websites. Availability of the data is the limitation of this study. Data up to 31<sup>st</sup> March, 2017 is taken for the analysis of financial performance of HP State Cooperative Bank. Statistical tools like ratio analysis and percentage methods are used for the present study. For interpretation, tables, graphs, column and line charts etc. are used.

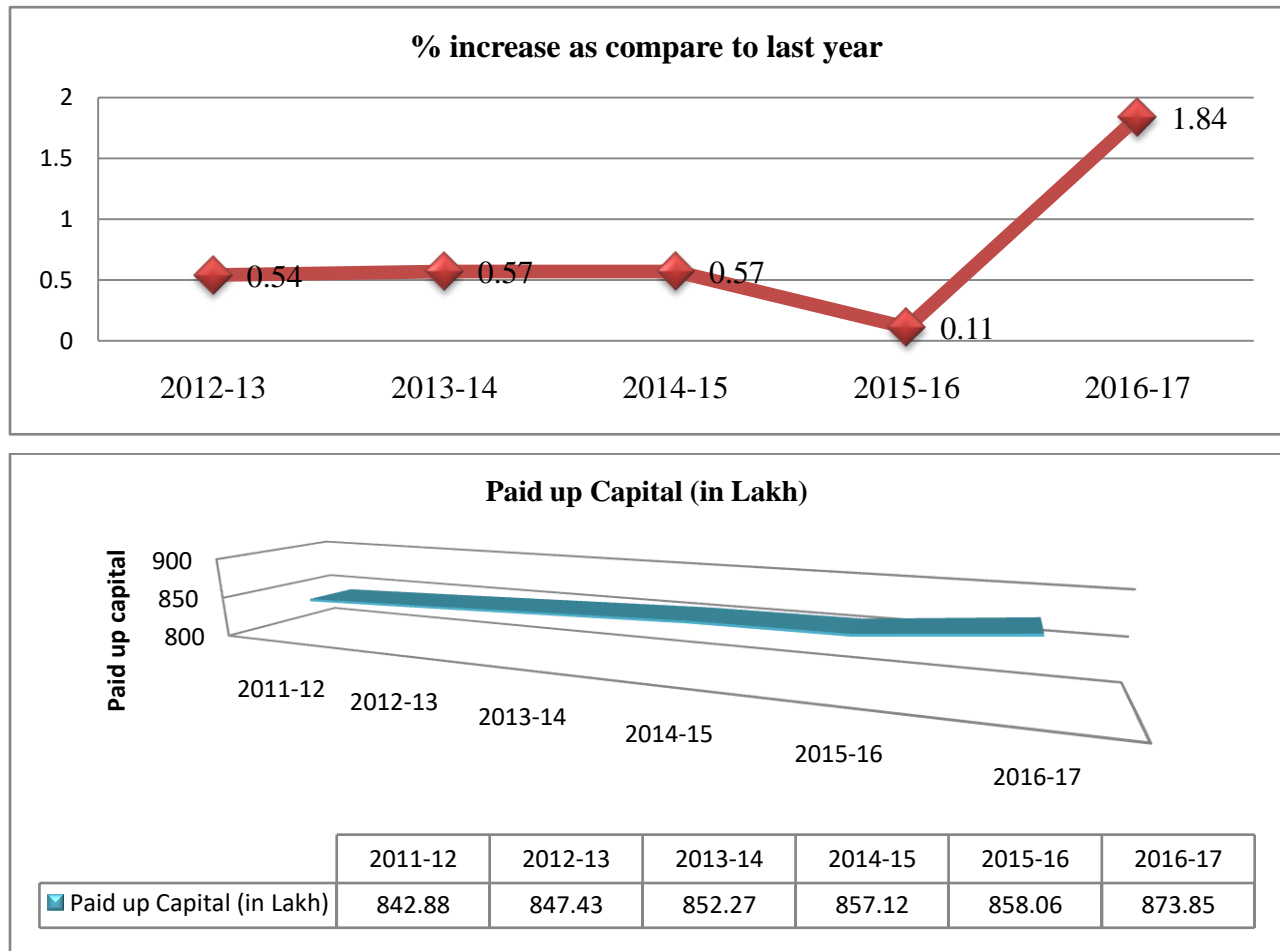
#### IV. Data Analysis and Interpretation

**Table 1: Performance of bank at a glance**

The key financial indicators of The Himachal Pradesh State Cooperative Bank Ltd. for the last six years are exhibited here:

**(Rs. in Lakh)**

Sr. no.	Particulars	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
1	Paid up capital	842.88	847.43	852.27	857.12	858.06	873.85
2	Owned Funds	62409.94	67692.24	76414.43	84873.06	89134.26	102860.67
3	Deposits	524219.07	581792.32	632792.6	715988.7	819766.93	909284.02
4	Borrowings	74927.31	48887.79	59616.29	86652.87	109609.57	178518.77
5	Loans and Advances	236166.68	265374.87	302313.7	359175.6	436150.47	475826.58
6	Investment	393093.75	397344.04	426834.4	471023.4	526532	655266.61
7	Net Profit	4142.35	5046.2	4068.3	5985.46	5390.28	9320.56
8	Interest earned	54302.18	61664.92	67723.14	76192.69	82062.47	88460.2
9	Interest Expended	39633.87	43485.71	46142.59	51876.5	53151.86	59422.15
10	Profit per employee	3.42	3.72	2.67	3.92	3.46	5.45
11	Per Employee Business	628	625	613	705	805	810
12	NPA	29788.88	29724.3	31313.22	30968.15	28967.56	27344.11
13	Gross NPA % of Total Advances	12.61	11.2	10.36	8.62	6.64	5.75
14	Net NPA % of Net Advances	5.87	5.06	3.79	2.57	1.99	1.61
15	CD Ratio	45.05	45.62	47.78	50.17	53.2	52.33
16	Return on assets	8.57	9.06	9.17	0.73	8.5	7.88
17	CRAR %	18.21	17.78	18.49	15.5	13.54	16.92
18	Penalty for RBI violation	0	0	0	0	0	0

**Figure 1: Paid up Share Capital****Figure 2**

From the above data it has been found that maximum percentage increase as compare to last year was in 2016-2017 i.e. 1.84 % and minimum percentage increase in share capital as compare to last year was in 2015-2016 i.e. 0.11%. As against the authorised share capital 10,00,00,000 which is divided into 1000000 shares of Rs.100 each. There are no calls unpaid and no forfeiture of shares. The paid up capital of the bank stood at 873.85 Lakh in 2016-2017.

**Table 2: Reserve and Other Funds**

year	Reserve & Surplus (Rs. In Lakh)	Annual Growth (%)
2011-12	49918.65	---
2012-13	55071.69	110.32
2013-14	59648.39	108.31

2014-15	66142.68	110.89
2015-16	72102.14	109.01
2016-17	82194.49	114.00

Table No.2 reveals the reserve and other funds of Himachal Pradesh State Cooperative Bank Ltd. for six years. After analyzing above table it is found that maximum annual growth rate of share capital of reserve and other funds was in the year 2016-2017 and minimum annual growth rate of reserve and other funds was in the year 2013-2014 i.e. 108.31 %. Reserve and other funds comprise statutory reserve, capital reserve, balance in profit and loss account, revenue reserve and others.

**Figure 3: CD ratio**

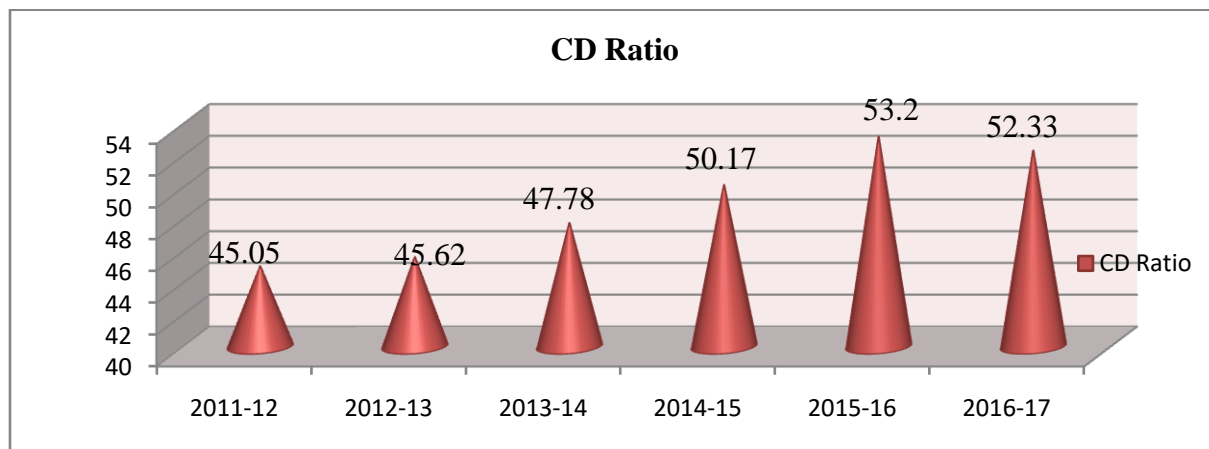
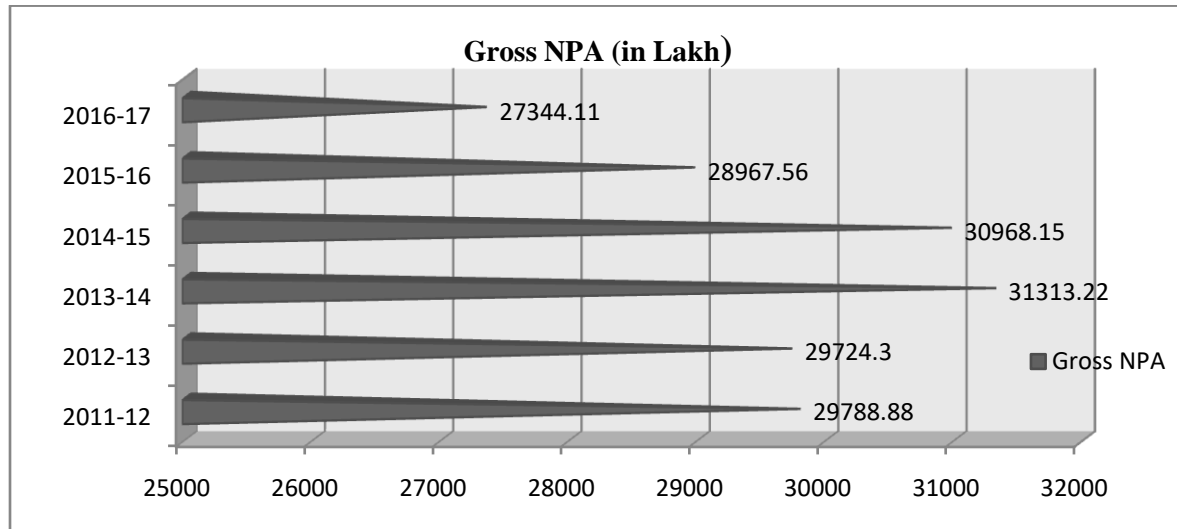


Figure No.3 shows the CD ratio of Himachal Pradesh State Cooperative Bank. The credit to deposit ratio is the portion of loan assets which are generated by banks from its deposits. Higher ratio shows the higher percentage of loan assets created from the deposits of a bank. Here, CD ratio depicts the efficiency with which banks is utilizing its deposits received. The HP state cooperative Bank has maintained a certain portion of deposits as reserves through the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). Amount left after that can be utilized for granting loans. It is clear from the above data that CD ratio was 45.05 in 2011-12 which has been increased to 45.62 in 2012-13, 47.78 in 2013-14, 50.17 in 2014-2015 and 53.2 in 2015-2016. Further, it has been decreased to 52.33 in 2016-2017. However, there is continuous increase in CD Ratio since 2011-2012 except in 2016-2017. A low CD ratio is an indication of

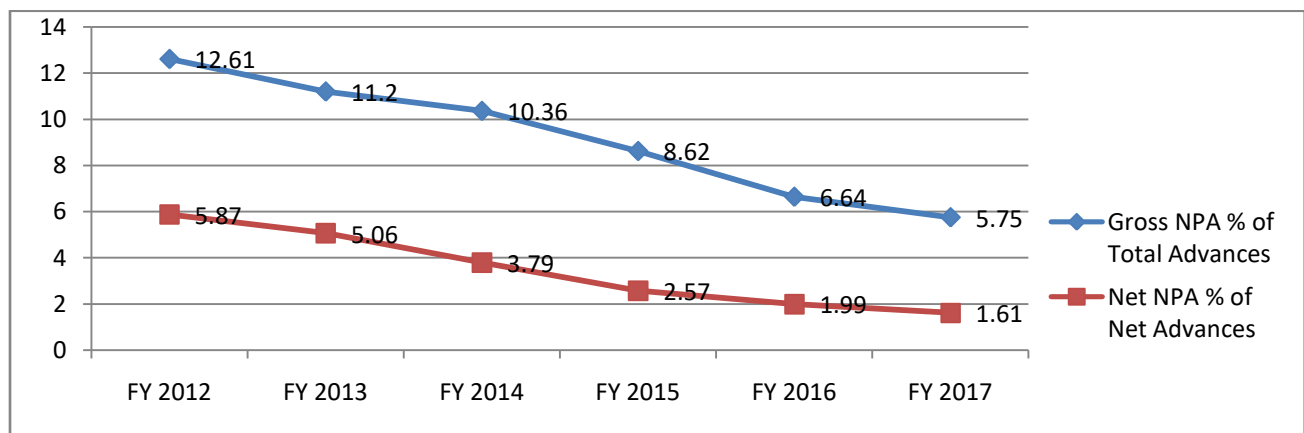
non-utilization of deposits and a very high CD ratio is considered alarming due to undue pressure on resources of a bank. Therefore, we can say that bank is properly utilizing its deposits.

**Figure 4: Gross NPA**



The above figure depicts the amount of Gross NPA of Himachal Pradesh State Cooperative Bank Ltd. Gross NPA was 29788.88 Lakh in 2011-12 which has been decreased to 29724.3 Lakh in 2012-13. Further, in 2013-14, it has been increased to 31313.22 Lakh. In FY 2015, FY 2016 and FY2017, it has been reduced to 30969.15 Lakh, 28967.56 Lakh and 27344.11 Lakh respectively whereas loans and advances of the bank are increasing every year. Gross NPA of Himachal Pradesh State Cooperative Bank is fluctuating. But it is showing a downward trend during FY 2016 and after that.

**Figure 5: Percentage of Gross NPA to Total Advances and Net NPA to Net Advances**



The above figure portrays the trend of percentage of gross NPA to total advances and percentage of net NPA to net advances. Percentages data for the period of 6 years i.e. from 2011-12 till 2016-2017 is showed in the figure. The x-axis represents the years whereas y-axis represents the percentage of gross NPA to total advances and percentage of net NPA to net advances. It is clear from the above data that the percentage of gross NPA to total advances was 12.61 % in 2011-12 which has been decreased to 11.2 % in 2012-13, 10.36% in 2013-14, 8.62% in 2014-2015, 6.64% in 2015-2016 and 5.75% in 2016-2017. Further, percentage of net NPA to net advances was 5.87 % in 2011-12 which has been decreased to 5.06 % in 2012-13, 3.79% in 2013-14, 2.57% in 2014-2015, 1.99% in 2015-2016 and 1.61% in 2016-2017. We can observe here that the gross and net NPA has been showing downward trend which are very good indications of present and future financial position of Himachal Pradesh State Cooperative Bank. Current Indian economic scenario depicts us a sad picture of banking which is facing the problem of rising NPA. On the other hand Himachal Pradesh State Cooperative Bank is performing marvellously.

**Table 3: CRAR**

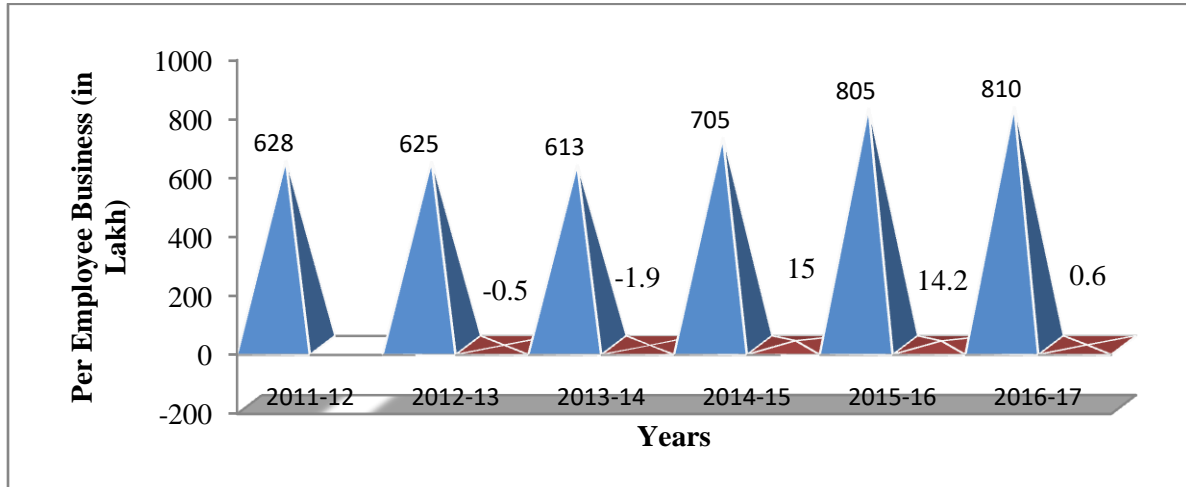
Year	CRAR (%)
2011-12	18.21
2012-13	17.78
2013-14	18.49
2014-15	15.5
2015-16	13.54
2016-17	16.92

Table 3 shows the CRAR of Himachal Pradesh State Cooperative Bank for last six years. CRAR is the acronym for capital to risk weighted assets ratio which is addition of tier one and tier two capital and division of that total amount by risk weighted assets. According to RBI state cooperative banks are advised to achieve a minimum capital to risk weighted assets ratio of 9% in a phased manner. As on March 31, 2015 state cooperative banks must have CRAR of 7% and as on March 31, 2017 – state cooperative banks must have minimum 9%. Capital to risk weighted assets ratio of Himachal Pradesh State Cooperative Bank is much higher than



minimum requirement which shows that risk bearing capacity of this bank is more than satisfactory.

**Figure 6: Per Employee Business**



Above figure shows the per employee business of the bank for last six years. It is calculated by total business divided by number of employees. Here, business means sum total of deposits and advances. Per employee business of a bank was 628 Lakh in 2011-12 which has been decreased to 625 Lakh in 2012-13. Per employee business of a bank has been reduced to 613 Lakh in 2013-14 whereas it has been increased to 705 Lakh in 2014-2015, 805 Lakh in 2015-2016 and 810 Lakh in 2016-2017. Maximum percentage increase in per employee business as compare to previous years is in 2014-2015 This indicates the satisfactory level of staff productivity in the bank.

**Figure 7: Per Employee Profit**

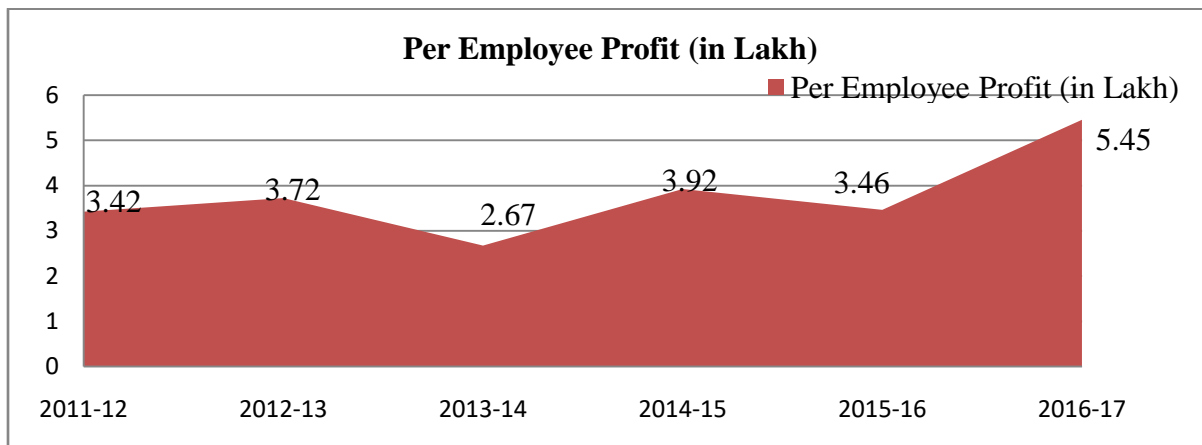


Figure 7 indicates the per employee profit of Himachal Pradesh State Cooperative Bank. Per employee profit of a bank was 3.42 Lakh in 2011-12 which has been increased to 3.72 Lakh in 2012-13. Per employee profit of a bank has been reduced to 2.67 Lakh in 2013-14 whereas it has been increased to 3.92 Lakh in 2014-2015. Next year it has been reduced to 3.46 Lakh in 2015-2016. But in FY 2016-2017 it was maximum i.e. 5.45 Lakh. This indicates that per employee profit is fluctuating. However, we can see increasing trend after FY 2016.

**Table 4: Investments and Deposits with other Banks**

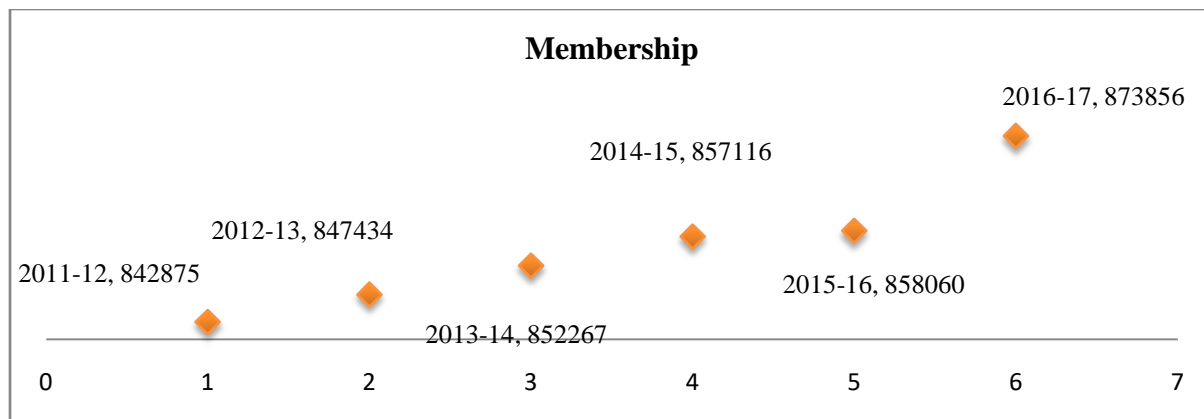
Year	Investments & Deposits with other banks & investment in percentage (Rs. In Lakh)	Annual Growth (%)
2012-13	397344.04 (50.18%)	---
2013-14	426834.36 (45.91%)	107
2014-15	471023.26 (39.93%)	110
2015-16	526532.00 (39.17%)	111
2016-17	655266.61 (38.54%)	124

Above table shows that investment and other deposits of the bank. After analyzing above table it is found that maximum annual growth rate of investments & deposits with other banks was in the year 2016-2017 i.e. 124 % as compared to last year and minimum annual growth rate of reserve and other funds was in the year 2013-2014 i.e. 107 % as compared to last financial year. Percentage of investment out of total Investments & deposits with other bank was 50.18%, 45.91%, 39.93%, 39.17% and 38.54% in 2012-13, 2013-14, 2014-15, 2015-16 and 2016-2017. Therefore, it is clear that investment & deposits with other banks are increasing every financial year.

**Table 5: Deposits and Borrowings**

Year	Deposits (Rs. In Lakh)	Borrowings (Rs. In Lakh)	Annual Growth (Deposits)	Annual Growth (Borrowings)
<b>FY 2012</b>	524219.07	74927.31	.....	.....
<b>FY 2013</b>	581792.32	48887.79	110.98	65.25
<b>FY 2014</b>	632792.60	59616.29	108.77	121.95
<b>FY 2015</b>	715988.70	86652.87	113.15	145.35
<b>FY 2016</b>	819766.93	109609.57	114.49	126.49
<b>FY 2017</b>	909284.02	178518.77	110.92	162.87

Above table shows the growth in deposits and loans & advances. It is clear that deposits as well as borrowings are increasing year after year. Amount of deposits were always higher than borrowings. Maximum annual growth rate in deposits was in the year 2015-2016 i.e. 114 % as compared to last year and minimum annual growth rate was in financial year 2013-2014 i.e. 108 % as compared to last financial year. In case of borrowings maximum annual growth was in the year 2016-2017 i.e. 162 % as compared to last year and minimum annual growth rate was in financial year 2012-2013 i.e. 65.25 % as compared to last financial year. Overall deposits and borrowings are increasing.

**Figure 8: Membership (No. of outstanding shares)**

Above figure shows that membership of bank is increasing every year. These are number of issued and subscribed capital. There are no calls unpaid. No shares had been forfeited by the bank so far because there are no calls unpaid. Value of one share is fixed i.e. Rs.100/-. Authorised capital of bank is 10,00,00,000 divided in 1000000 shares of 100 each. No. of shares outstanding on 31.03.2012 was 842875 which has been increased to 847434, 852267, 857116, 858060, 873856 on 31.03.2013, 31.03.2014, 31.03.2015, 31.03.2016, 31.03.2017 respectively. It shows that no. of outstanding shares are increasing and there is good flow of capital. Shareholders are not defaulting in payment for shares.

**Figure 9: Bifurcation of Total Income**

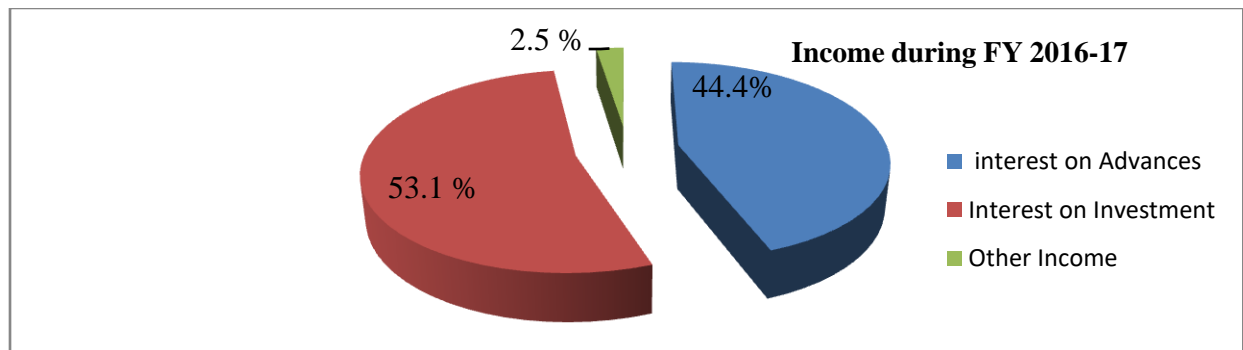


Figure 9 shows the ramification of total income. Interest on investment contributes maximum in total income earned by the bank in FY 2016-17 i.e. 53.1% followed by interest on advances i.e. 44.4%. Other income is in very small proportion i.e. 2.5% only. It shows that interest on investment is higher than other sources of income.

**Figure10: Net Profit**

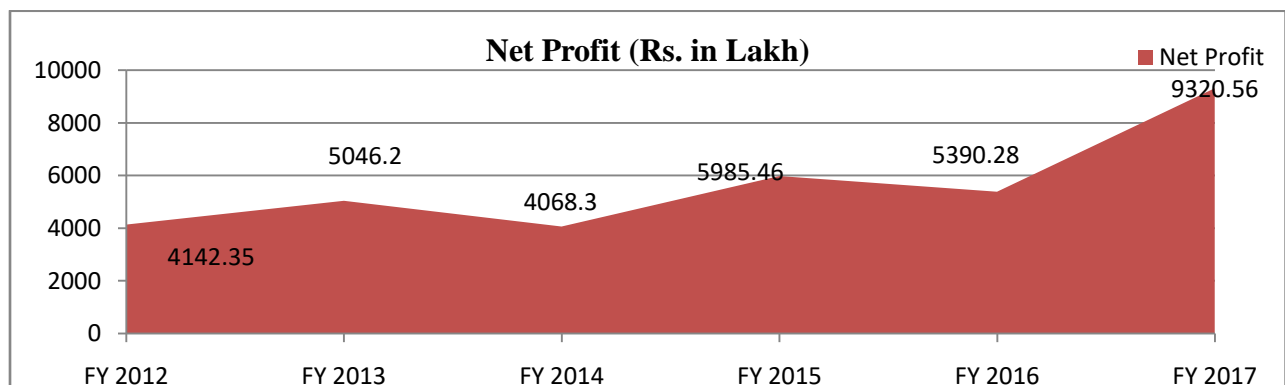


Figure 10 illustrates the net profit of Himachal Pradesh State Cooperative Bank Ltd. Net profit of the bank was Rs.4142.35 Lakh in FY 2012 which has increased to Rs.5046.2 Lakh in FY 2013. There is negative growth in net profit in FY 2014 and FY 2016. However, there was increase in net profit in FY2015 and profit for the year was Rs.5985.46 Lakh. There is positive growth in net profit in FY 2013, FY2015 and FY2017 i.e 21.81%, 47.12% and 72.91% respectively. Therefore, maximum increase in profit is during the FY2016-2017 which is Rs.3930 Lakh. Overall bank is earning profit continuously.

### **Conclusion**

The Himachal Pradesh State Cooperative Bank Ltd. achieved tremendous growth over the past six years. Bank is in good financial conditions to meet its short term obligations as well as long term obligations. As far as NPA is concerned bank is performing better than many commercial banks. NPA of the bank is showing a decreasing trend. Deposits of the Bank are increasing along with loaning which is also increasing i.e. a good sign for the future of the bank. Bank has good return average assets i.e.7.88%. It is also found that major source of income of the bank is interest income from investment followed by interest on advances. Bank is also providing many innovative banking products to beat other stronger competitors. Bank has succeeded in creation and nourishment of trust among its customers as well as regulatory authorities. All in all, The Himachal Pradesh state cooperative bank is a bank with sound fundamentals which is growing at a really fast pace but there are so many challenges which it must prepare itself for to sustain and successes.

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