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## AN ANALYTICAL STUDY OF FINANCIAL ANALYSIS OF RAJARSHI SHAHU SAHAKARI BANK LTD.



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### ABSTRACT :

The Urban Co-operative Banks now playing a vital role in economic system as they have reached to needy and low income group people. The analysis of financial statements i.e. calculation of various ratios are beneficial to management for taking various decisions in the bank. In this study the researcher has tried to analysis the financial statements of Rajarshi Shahu Sahakari Bank Ltd. for a period from 1st April 2006 to 31st March 2014. In this study eighteen ratio have been calculated. Out of these ratios two important Hypothesis is tested by using the Annova Test. Finally the outcome of analysis is that the profitability of the Rajarshi Shahu Sahakari Bank Ltd. is depends upon the Capital Adequacy Ratio and Credit Deposit Ratio increases the Profit of the bank also increases.

**KEYWORD:** Capital Adequacy Ratio, Credit-Deposit Ratio, Debt-Equity Ratio, Financial Analysis, Urban Co-operative Bank

## INTRODUCTION:

The Co-operative banks have a history of almost 100 years. The Co-operative banks are an important constituent of the Indian Financial System, judging by the role assigned to them, the expectations they are supposed to fulfill, their number, and the number of offices they operate. Co-operative Banks have to make a many of important decisions which will be imperative to their future survival. The financial services landscape has changed beyond all recognition, and banks need to change their modus operandi to regain the trust of their customers, their partners and their shareholders. Even if the some co-operative banks have following the guidelines of RBI & Audit Norms of Commissioner for co-operation, theses banks will undoubtedly be looking into how the best more than idle can be maintained for that, improvement in the current analysis increase the share in market. This is why researcher believes that there is a need to search for improvements in analysis of different ratios and analyze ratios that match current prevailing economic condition & suitable to urban co-operative banks for survival and success.

Researcher wants to help banks to get the most to increase the overall profitability & to reduce the unnecessary expenditure.

## IMPORTANCE OF THE STUDY:

Ratio Analysis is important tool of financial statement analysis. It is also important to judge the efficiency of the bank in terms of its operations and management. It also locates inefficient centers so that management can take remedial measures to overcome them.

This study is important, because it is observed that even though idle ratios are given as per RBI guidelines, some banks are unable to maintain optimum ratio as per guidelines due to this it affects the percentage of profitability of the business.

## Brief History of Rajarshi Shahu Sahakari Bank Ltd.

In the year of 1968 Arjunrao Laxmanrao Jaher Patil passed in B. E. (Mech.) from Marathwada University Aurangabad. He received orders for jobs but as per wish of his father Late Laxmanrao Jaher Patil, he didn't joined service but started the Marathwada Udyog Mandal on 1st Oct 1968 to give services to all needy people under one roof with partnership; but later all partners were left and he started business on propriety basis. In 1970 When Arjunrao Jaher Patil needed money for business, he approached all leading banks in city but none of them gave finance assistance. Bank of Maharashtra sanctioned him a loan of RS. 5,000/- but due to some or other reasons, it was not disbursed. Then again he approached to State Bank of Hyderabad, they had sanctioned him a loan of Rs.1,800/- as Overdraft. After struggling to get financial assistance, he has decided to start a financial institute, Then he called a meeting in Shahu Nagar area regarding to start bank in the name of Shri Chhatrapati Rajarshi Shahu Urban Co-Op Bank Ltd. Because Rajarshi Shahu Maharaj was a helping hand to the poor and needy people.

Shri Chhatrapati Rajarshi Shahu Urban Co-op Bank Ltd., Beed. was established on 5th October 1994 & got the license from Reserve Bank of India on 1st April 1985. By people committed to social cause in Beed city. The bank has always kept the goal of helping economically weaker section of the society.

The head office of the bank is situated at 'Shahu Complex', 597, Shukrawar Peth, Shivaji Road, Pune 411 002. Today the bank has a wide network of 30 branches across 9 districts of Maharashtra & area of operation is entire Maharashtra State. The bank has implemented Core Banking Technology in 2008 to give prompt and accurate services to customers

**OBJECTIVES OF THE STUDY**

- 1.To study the different ratios of Rajarshi Shahu Sahakari Bank Ltd.
- 2.To Find out Various ratios of Profit & Loss Account
- 3.To find out various ratios of Balance Sheet
- 4.To suggest remedies for maintaining minimum acceptable ratio as per Audit norms of Co-operative banks.
- 5.To suggest guidelines for improving profitability of Urban Co-operative Bank.

**METHODOLOGY OF THE STUDY:**

The researcher has collected the Annual Reports of Rajarshi Shahu Sahakari Bank Ltd. for the period from 2006-07 to 2013-14. On the basis of published Profit & Loss A/c and Balance Sheet he tabulated these reports in the Standard form, calculated the various ratios by using Microsoft Excel Software. He also calculated the Mean, S.D. of these ratios. For review purpose circular of RBI for Capital Adequacy Ratio and various books of Financial Management have been reviewed.

**REVIEW OF LITERATURE:**

M Y Khan & P K Jain (2010) in his book of "Financial Management" stated the meaning of financial statements, ratio analysis, trend analysis, Common size Statements. Types of ratios & importance and limitations of Ratio Analysis have also been explained.

Dr. R.S. Shirasi (2012) in his article "A Study of Financial Working and Operational Performance of Urban Co-operative Banks in Pune District" has examined the financial working of the UCBs in Pune district with regards to banking parameters viz., membership, paid up capital, deposits, advances, NPAs and CD ratio. He also analyzed the operational performance with regards to cost efficiency parameters viz, income analysis, expenses analysis and profit analysis. In additional he analyzed the strength of the customer service of selected UCBs. In this study he has observed that All UCBs under study maintained minimum CRAR. In terms of geographical area the UCBs are unevenly distributed. All UCBs under study are more dependent on deposits as compare to other sources. Finally he has suggested the success of the bank depends upon the range and quality of services offered to its customers.

**Financial Analysis of Rajarshi Shahu Sahakari Bank Ltd.**

For the Period from April 1, 2006 to March 31, 2014

No.	Ratios	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Mean	S.D.	C.V.
1	Operating Profit Ratio	23.59	29.05	31.74	22.90	28.94	30.97	25.28	22.87	26.92	3.68	13.66
2	Return on Capital Employed	11.4	15.31	17.65	11.79	13.63	17.49	16.86	17.34	15.18	2.59	17.09
3	Cost of External Funds Ratio	5.65	5.38	6.01	6.04	5.42	5.56	6.37	6.75	5.90	0.49	8.24
4	Credit Deposit Ratio	70.01	71.85	67.27	53.02	59.19	75.46	64.6	68.64	66.26	7.22	10.89
5	Operating Expenses to Gross Income	76.41	70.95	68.26	77.1	71.06	69.03	74.72	77.13	73.08	3.68	5.03
6	Debt Equity Ratio	3.86	4.19	4.11	4.48	4.21	4.54	5.59	6.24	4.65	0.83	17.76
7	Capital Adequacy Ratio	22.86	22.66	21.45	21.20	21.99	21.80	20.57	18.28	21.35	1.45	6.78

Source: Above Ratios are calculated from the Published Annual Reports i.e. Profit & Loss Account and

## Balance Sheet of Rajarshi Shahu Sahakari Bank Ltd.

### FINDINGS:

- 1.The average Operating Profit of the RSSBL 26.92. The highest Operating Profit Ratio found in the year 2008-09 is (31.74) and Lowest in the year 2013-14 is (22.87).
- 2.Average Return on Capital employed is found 15.18. The highest Return on Capital Employed of the bank is found in the year 2008-09 is (17.65) lowest in the year 2006-07 is (11.40).
- 3.The Average Cost of External Funds Ratio is 5.90. The Cost of External Funds Ratio found to be highest in the year 2013-14 is 6.75 and lowest in the year 2007-08 is 5.38.
- 4.The Average Credit Deposit Ratio of the bank is 66.26. The Credit-Deposit Ratio of the bank found highest in year 2011-12 is 75.46 and lowest in the year 2009-10 is 53.02.
- 5.The Average Operating Expenses to Gross Income Ratio found is 73.08. The highest Operating Expenses to Gross Income Ratio found in the year 2013-14 is 77.13 and lowest in 2008-09 is 68.26.
- 6.The Average Debt-Equity Ratio is 4.65. The Debt-Equity Ratio is highest in the year 2013-14 is 6.24 and lowest in the year 2006-07 is 3.86.
- 7.The bank has maintained Capital Adequacy Ratio (more than 9%) as guided by RBI and Basel Committee guidelines.
- 8.The Average Capital Adequacy Ratio of the bank is found is 21.35. The Capital Adequacy Ratio of the bank is highest in the year 2006-07 is 22.86 and is lowest in the year 2013-14 is 18.28.
- 9.It is found that there is relationship in the Capital Adequacy Ratio and Debt-Equity Ratio. In the year 2006-07 when the Capital Adequacy Ratio found highest (22.86) and the Debt Equity-Ratio found lowest (3.86). In the same way the in the year 2013-14 the Capital Adequacy Ratio found Lowest (18.28) and the Debt-Equity Ratio found highest (6.24).
- 10.Is also found that in the year 2011-12 when the Credit-Deposit Ratio (75.46) is highest the Operating Profit Ratio is also highest (30.97) in the same way, in the year 2009-10 when the Credit-Deposit Ratio (53.02) is Lowest, the Operating Profit Ratio (22.90) is also Lowest. It short we can say if Credit Deposit Ratio increases Operating Profit also increases and vice-versa.
11. It is found that there is inverse relationship between Operating Expenses to Gross Income Ratio and Operating Profit Ratio. When Operating Expenses to Gross Income Ratio is higher the Operating Profit will lower and vice-versa. In the above analysis in the year 2013-14 it is found that the Operating Expenses to Gross Income Ratio (77.13) is highest and the Operating Profit (22.87) is lowest. In the same way in the year 2008-09 the Operating Expenses to Gross Income Ratio (68.26) is lowest and the Operating Profit Ratio (31.74) is Highest.
- 12.It is also found that there is positive relationship between Debt-Equity Ratio and Return on Capital Employed. In the year 2013-14 when the Debt-Equity Ratio (6.24) is high the Return on Capital Employed (17.34) is also high In the year When Debt-Equity Ratio (3.86) is low, the return on Capital Employed (11.4) is also low.

### SUGGESTIONS:

- 1.The bank should try to reduce the Operating expenses to increase the operating profit of the bank.
- 2.Since 2006-07 Capital Adequacy Ratio is constantly decreasing, bank should try to increase or at least not to decrease the Capital Adequacy Ratio.
- 3.The cost of external funds ratio is constantly increasing year by year; bank should not increase the rates of interest on deposit. Bank should try to increase the low cost deposit like Savings Deposits, Current Deposits etc.



4.To get adequate returns Bank must maintain the Credit-Deposit Ratio around 70%.

5.The Credit-Deposit Ratio should not fall 70% and should not cross 70%. If Credit-Deposit Ratio increases the bank may face the problem of liquidity, in the same manner if this ratio goes below 70% bank will not be in a position to earn sufficient income in the form of Interest on Deposits and will fail to meet operating expenses which result in the low returns on capital and funds.

#### CONCLUSION:

Now days Urban Co-operative Banks are competing the Private Sector Banks they are giving services like other private sector banks. To sustain in the globalized market co-operative banks must focus on the financial analysis. In order to increase the profit the operating expenses must be reduced and banks should try to attract the customers to avail the low cost deposits. All co-operative bank must keep the Capital Adequacy Ratio minimum to 9%. The Credit-Deposit ratio must be balance around 70%.

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