Comparative Study between Kalupur Bank and Nutan Nagrik Co-operative Bank

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ABSTRACT *The present study which is based on the primary as well as secondary data has been initiated to examine profitability, financial efficiency of selected UCBs. It also suggests measures to make their role more effective in their services to people and also managing their stability. For analyzing the performance of selected urban co-operative banks, the data related to all the 18 Urban Co-operative Banks for the past 10 years viz. 2001-02 to 2011-2012 have been collected and various techniques of measuring performance like, Trend Analysis, Primary Data Analysis on the basis of Questionnaire and several statistical techniques like, descriptive statistics, Regression analysis and chi-square test have been applied to analyze and draw conclusions.*

Key words: *banks, comparative study.*

1. INDIAN FINANCIAL SYSTEM

Meaning

The economic development of any country depends upon the existence of a well-organized financial system. It is the financial system which supplies the necessary financial inputs for the production of goods and services which in turn promote the well-being and standard of living of the people of a country.

Thus, the financial system is a broader term which brings under its fold the financial markets, financial instruments and the financial institutions which supports the system.

- "A Financial System is a composition of various institutions, markets, regulations and laws, practices, money manager, analysts, transactions and claims and liabilities."

- "A well-developed financial system offers a variety of instruments that enable economic agents to pool, price and exchange risk."
- "It Facilitates efficient life-cycle risk-bearing by households, and it allows for the separation of the providers of working capital for real investments (i.e., personnel, plant and equipment) from the providers of risk capital who bear the financial risk of those investments."

Nature of Financial System

The basic requirements for any financial system to be efficient are:

- **Efficient Monetary System-**indicates an efficiency medium of exchange for goods and services.
- **Facilities for the creation of the capital-**to meet the demands of the economy. The capital will be necessary to undertake the production activities. The financial system helps to meet such demands by mobilizing the savings of the surplus units to the demanding units.
- **Efficient financial markets-**and methodologies, which facilitate the process of transfer of resources and the conversion of financial claims into money. Indian Financial System
- Complexities in the functions of the financial system, especially when the **requirements of the savers and those of the borrowers** did not match, created a need to enhance the financial system.
- **The growth of an economy indicates the growth of the Financial System**

- The evolution or the growth of the financial system in any economy can be classified into three major phase, namely;
  i. Active government intervention-
  ii. Soon after independence Partial liberalization
  iii. Total liberalization-1990's Indian Financial System

Role/Performance/Functions of Financial System

There are two **main Functions** of Financial System:

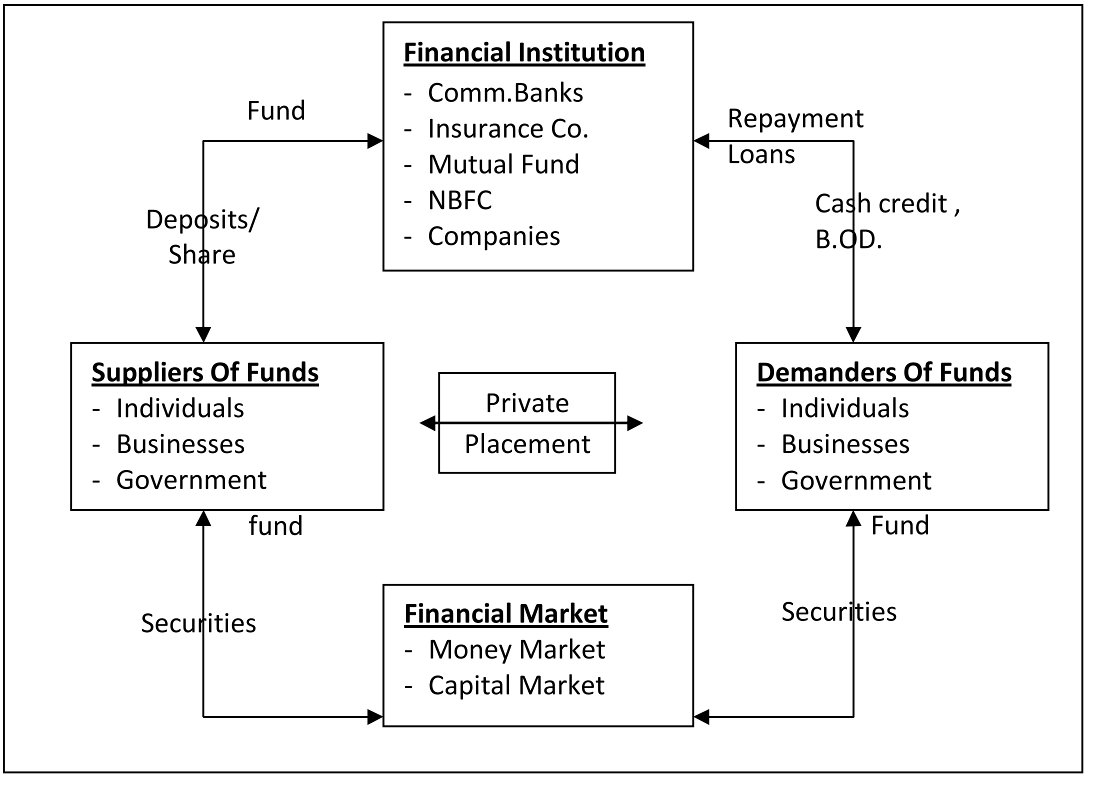
- Provision of Liquidity
  Liquidity is necessary for the production for goods and services, financial system helps to build up liquidity or money circulation in Financial market through financial institutions by financial intermediaries via financial instrument.
- Mobilization of Savings
  For promoting savings and channelize to invest them into productive activities there are different financial instruments is prevailing in the market, less risky is provided by financial institutions more risky is available in the financial market.

Other Functions

- It enables the pooling of funds for undertaking large scale enterprises.
- It provides mechanism for spatial and temporal transfer of resources.
- It provides a way for managing uncertainty and controlling risk.
- It generates information that helps in co-coordinating decentralized decision-making.
- It helps in dealing with the problem of informational symmetry.

Financial Institutions as a Component of Financial system:

Structure of Indian Financial System



Financial Instruments

It start a range from the common (coins, currency notes, demand deposits, corporate debentures, gilt-edged securities, equity shares, units(Mutual Funds),agro bonds) to the more exotic (Future & Option, International Instruments like ADRs, GDRs, FCCBs, ECBs). It may be viewed as financial Assets and Liabilities. Financial Instrument is of 3 types:

(i) Money Market Instruments,
(ii) Capital Market Instruments
(iii) Hybrid Instrument.

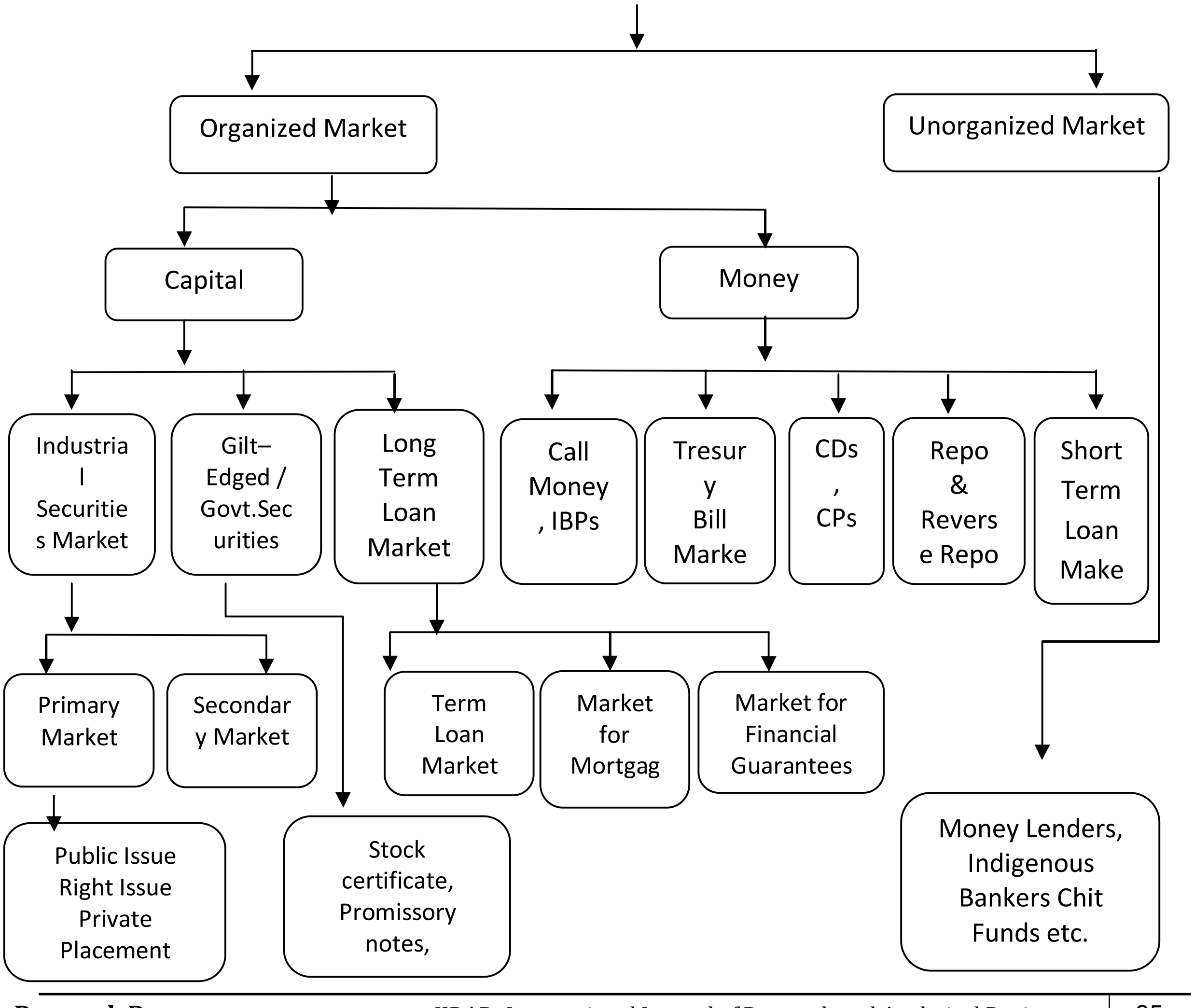
Financial Markets:

There is no specific place or location to indicate a financial market. Wherever a financial transaction (issue of equity stock, purchase of bonds or debentures, deposit of money, transfer of funds, granting of loan) takes place, it is deemed to have taken place in the financial market.

Sometimes, we do find the existence of a specific place or location for a financial market as in the case of stock exchange.

- "Financial Markets, which exist wherever financial transactions occur, are equally pervasive."
- A Financial Market can be defined as the market in which financial assets are created or transferred.

Classification of financial markets



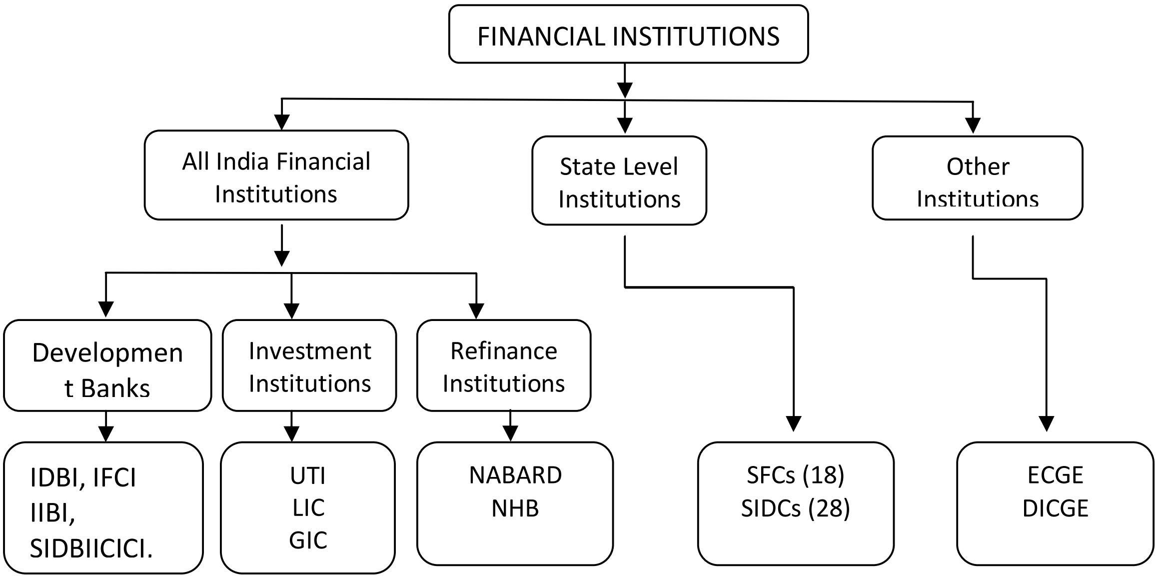
Where,

CDs = Certificate of Deposits

CPs = Commercial Papers

IBPs = Inter Bank Participatory

Financial Institutions

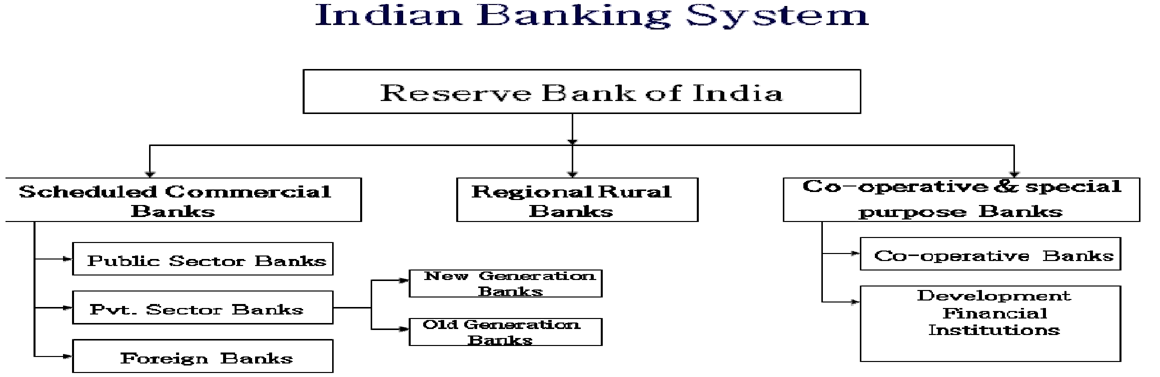


IIBI –	Industrial Investment Bank of India Ltd.
NHB –	National Housing Bank
SFC –	State Financial Corporations
SIDC –	State Industrial Development Corporations
ECGE –	Export Credit Guarantee Corporation
DICGE –	Deposit Insurance and Credit Guarantee Corporation

3. Indian Financial System Design:

The design of financial system is depend on country's system like structure of economy, social, political, technical and cultural system. But generally there are two financial system design identified with prominent polar designs.

Bank dominated system:



This kind of system is adopted by Germany, Japan, France, Italy, Sri Lanka, Pakistan, Bangladesh where a few large banks play a dominant role and the stock market is not important. According to Kunt and Levine, In bank-based financial systems, bank play a pivotal role in mobilizing savings, allocating capital, overseeing the investment decisions of corporate managers and providing risk management facilities. Bank based systems tend to be stronger in countries where governments have a direct hand in industrial development. In India, banks have traditionally been the dominant entities of financial intermediation. The nationalization of banks, an administered interest rate regime, and the government policy of favoring banks led to the predominance of a bank-based financial system.

Advantages:

i. Close relationship with parties
ii. Provide tailor-made contracts
iii. Efficient inter temporal risk-sharing
iv. No free-rider problem

Draw backs:

i. Retards innovation and growth
ii. Impedes competition

Market-dominated system:

Nature of Claim	Debt Market
	Equity Market
Maturity of Claim	Money Market
	Capital Market
Seasoning of Claim	Primary Market
	Secondary Market
Timing of Delivery	Cash or Spot Market
	Forward or Future Market
Organizational Structure	Exchange Traded (Forex) Market
	Over-the-counter Market
	Credit Market

1. Cash or Spot Market – is one where the delivery occurs immediately.
2. Forward Or Future Market -is one where the delivery occurs at a predetermined time in future.
3. Forex Market -deals with the multicurrency requirements, which are met by the exchange of currencies. Depending on the exchange rate that is applicable, the transfer of funds takes place in this market. This is one of the most developed and integrated market across the globe.
4. Over-the-counter Market -is a decentralized market with customized procedures.
5. Credit Market-Credit market is a place where banks, FIs and NBFCs purvey short, medium and long-term loans to corporate and individuals.

As in the US, UK, Singapore, Malaysia, Korea, Brazil, Mexico, Turkey etc. where financial markets play an important role while the banking industry is much less concentrated. According to Kunt and Levine, in market-based financial systems, the securities markets share Centre stage with banks in mobilizing the society's savings for firms, exerting corporate control, and easing risk management. There is tendency for a financial system to become more market-oriented as the country becomes richer.

4. Urban Co-operating Banking System

Introduction

UCBs Originated and developed as a result of the Co-operative movement to provide self-help to need, sections of society. The co-operative movement came in to existence in the late 1700s in England where "Robert Owen" a great philosopher advocated the establishment of Co-operative Communities to mitigate the suffering of the exploited class in the wake of industrial revolution and charics Fourier (1772-1837) of France to think of an alternative system of economy. But the modern or actual co-operative movement began in 1844 near Manchester, England, when 28 flannel weavers established "The Rochdale Society of Equitable Pioneer " to increase their wages.(on 24th October ,1844)

In India the co-operative movement was introduced as a remedy for the proverbial poverty of the small agriculturist. It was the Government of Madras who grasped the possibilities of a co-operative movement in India. During the past 100 years, the movement has entered several sectors like Credit, Banking, Processing, Housing, Warehousing, Irrigation, Transport and even Industries. It is because of the credit co-operatives that it was possible to weaken the strong hold of money lenders on thousands of poor families and free them from their bondage. The co-operative movement has made remarkable progress in several societies in India can be traced to the close of 19th century. Inspired by the Urban Co-Operative Credit Institutions organized in Germany by Mr.HermanSchuke (1860) and in Italy by Prof. Luigi Luzzatti (1866).The first Urban

Co-operative Credit Society named "ANYONA SAHAKARI MANDALI" was established in Baroda on Feb. 5 1889, under the guidance of Shri V.L. Kavthekar. But the co-operative credit societies which received legal sanctity in the year 1904 when the Government of India passed the first Co-operative Credit Societies Act 1904 with a view to encourage thrift, eradicate, rural indebtedness and provide credit to the needy and weaker families of the societies in rural areas. This act has widened the scope of Co-operative enterprises in India.

5.History of Banks

The Kalupur Commercial Co-Op Bank Ltd

The bank had a very humble, but very inspiring beginning on 5th December 1970. The Bank is a professionally managed "Financial Institution" a benchmark of transparency, credibility and innovation. The Bank is founded by Late Shri BaldevbhaiDosabhai Patel, Late Shri GopaldasShivlal Patel and Shri ArvindbhaiJivanlalSaheba. The Bank has nurtured its traditional values in business practices and in serving the small businessmen. These were the people with deep and abiding ideas, faith, vision, optimism and entrepreneurial skills with commendable sense of service and duty.

The dynamism infused by the Board of Directors, affectionate loyalties of clients and devotion of staff members has created the sound foundation of The Kalupur Commercial Co-operative Bank Ltd and has emerged as one of the leading Multi Sate Scheduled Co-operative Bank in the country. The Bank has adopted new technologies and advanced Banking tools to add value to its services. The Kalupur Bank has earned a name in co-operative Banking sector due to its rich heritage, integrity and adherence to prudent banking practices, technology advancement customized products and services. The Kalupur Bank believes that "Customer Delight" is the ultimate goal and has a strong belief that customers and all shareholders, wholehearted support, absolute faith and their patronage coupled with hard work of the staff members has been largely responsible for its noteworthy and appreciable growth. The Kalupur Bank is committed to provide banking services with speed, comfort and convenience. The Kalupur Bank has a visionary growth plan focusing all business strategies. The Bank has 38 branches of which 33 are situated in Bank's own premises. These branches are spread over Ahmedabad, Sanand, Bareja, Bavla, Anand, Khambhat, Vadodara,Surat, Gandhinagar and Mumbai.

Nutan Nagarik Sahakari Bank Limited

NutanNagarikSahakari Bank Limited was established in Ahmedabad on 4th October, 1971 under the Chairmanship of Late Shri AtmaramBhogilalSutaria and Managing Directorship of Late Shri KalyanbhaiP.Fadia. The Bank started functioning in very small rented premises at Maskati market in the area of about 15 X 16 feet. The Bank got Banking License No. UBD GJ 627 P on 30th October, 1986.

The Banks has got "Scheduled Bank" status from RBI on 29th January, 2000 and has also been registered under Multi State Societies Act, 1984. (Now MSCS Act,2002).w.e.f.13/11/2000 with registration No. MSCS CR/114/2002.

Bank has started diversified activities like,

- Demat since 2001
- Franking of Non-judicial Stamps of Gujarat State Govt. since 2005
- RTGS & NEFT facility
- Core Banking solution services
- e Payment of Taxes

NutanNagarikSahakari Bank Limited has 18 Branches in Ahmedabad City. The Administrative Office of the Bank and most of the branches are functioning in beautiful buildings owned by the Bank. All the branches are situated in very prominent business or residential areas of Ahmedabad. Ten branches of the Bank is having Safe Deposit Vault facility. All branches are provided with modern and comfortable furniture, latest office equipments, computers and fax machines so that customers can conduct their business in pleasant and comfortable surroundings. The Bank has started core banking services since March, 2008.

The Board of Directors of the Bank includes very prominent businessmen, industrialists, social workers and leading citizens. The chairman, Vice-Chairmen and all Board of Directors are giving honorary services to the bank. Customers of the Bank includes Manufacturers, Wholesalers, traders and retailers dealing in textiles, chemicals, machine tools, plastics , cars, papers, computers, jewelers etc. Advances against cars and trucks are given to large number of customers. Professionals such as doctors, lawyers, chartered accountants, engineers etc. receive loans for buying premises for their clinics, office, equipments, computers etc. Women entrepreneurs receive special encouragement from the Bank for starting small business or industry. The Bank gives loan against gold ornaments also.

6. Objective:

To examine the profitability and operating efficiency regarding saving and advances of the Urban Co-operative Banks (UCBs) of Ahmedabad Municipal corporation zone

- ✓ A comparative study of the profit efficiency and working capital on the basis of financial statement and find out the ratios of Urban Co-op Banks of Ahmedabad zone
- ✓ To analysis the financial statement and examine the source of Funds and its efficiency.
- ✓ To examine whether the funds of the banks have been vitalized in an efficient and profitable manner.
- ✓ To study the advancing patterns in the UCBs.
- ✓ To suggest ways the Banks in relation to increase profitability and find out the areas which are reduced expenses.
- ✓ To suggest to improve efficiency of Urban Co-operative Banks.
- ✓ To examine the financial problems faced by the UCBs.

7.Data Analysis:

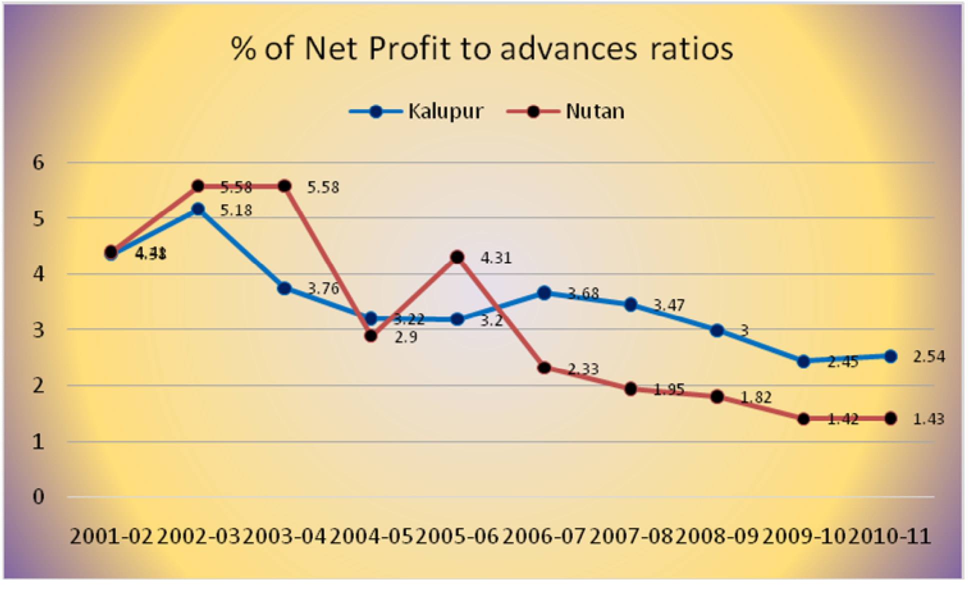
7.1 % of Net Profit to advances ratio :

In this ratio Net profits are divided by advances and multiplied by 100. This ratio shows the profit yielded on advances.

% of NP to total income: N.P/advances x 100

This ratio is shows how much profit we have earned from the advances.

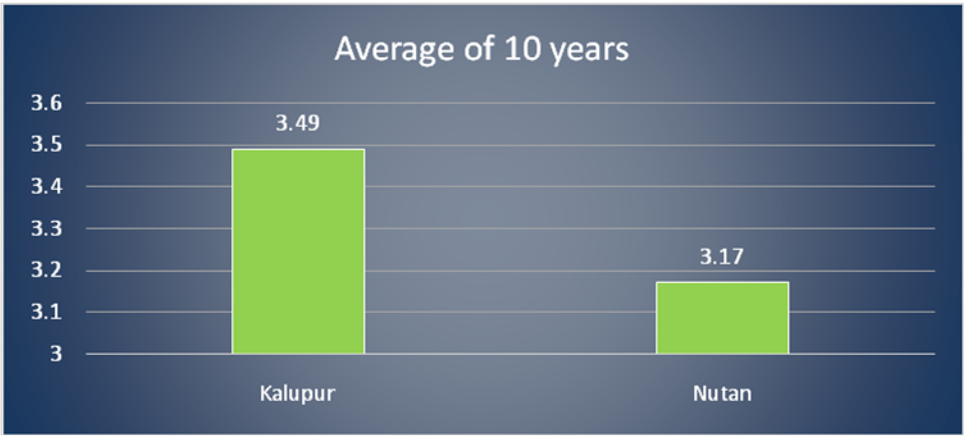
Year	Kalupur	Nutan
2001-02	4.38	4.41
2002-03	5.18	5.58
2003-04	3.76	5.58
2004-05	3.22	2.9
2005-06	3.20	4.31
2006-07	3.68	2.33
2007-08	3.47	1.95
2008-09	3.00	1.82
2009-10	2.45	1.42
2010-11	2.54	1.43



From the above table and graph find we can easily that from the year 2001-02 to 2003-04 Net Profit to advances ratio of Nutan bank is quite higher than the ratio of Kalupur bank. But from the year 2004-05 to 2010-11 the ratio of Kalupur bank is higher than Nutan Bank. It shows that kalupur bank has earned much profit from the advances than the Nutan bank.

Bank	Kalupur	Nutan

Average of 10 years	3.49	3.17

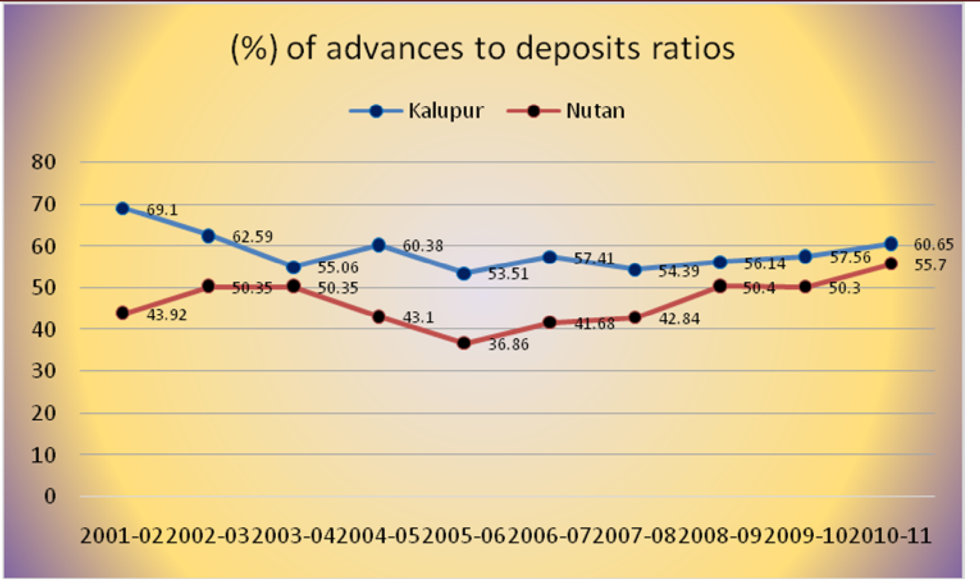


7.2 % of advances to deposits ratio :

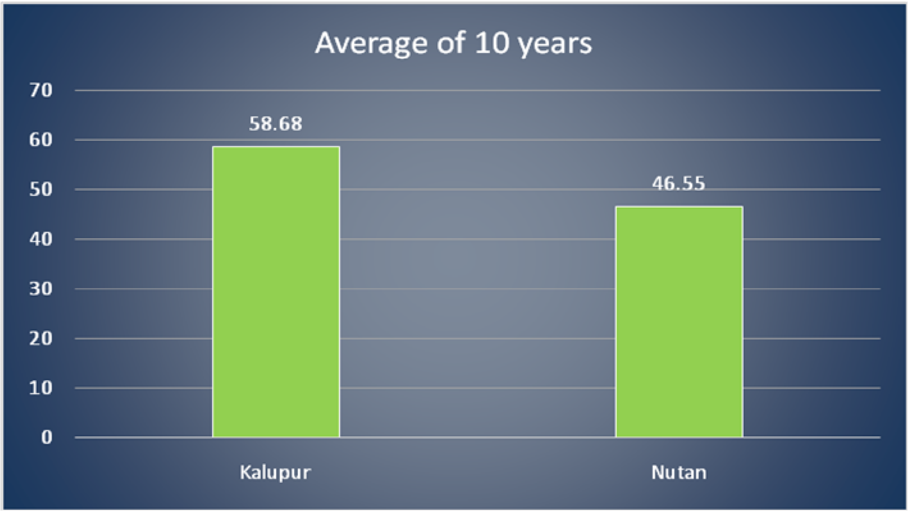
Deposits are debts which the bank has to pay to the deposit holders whereas advances are the amount which is recoverable from the borrower. A healthy bank should have enough Deposits. This shows that the bank is possessing funds. In this ratio Advances are divided by deposits and multiplied by 100. The standard ratio is between 60 to 70%. If this ratio is very high or very low then we interpret that financial management of bank is not proper.

$$\text{\% of Advances to deposit} : \frac{\text{Advances} \times 100}{\text{Deposit}}$$

Year	Kalupur	Nutan
2001-02	69.1	43.92
2002-03	62.59	50.35
2003-04	55.06	50.35
2004-05	60.38	43.1
2005-06	53.51	36.86
2006-07	57.41	41.68
2007-08	54.39	42.84
2008-09	56.14	50.4
2009-10	57.56	50.3
2010-11	60.65	55.7



Bank	Kalupur	Nutan
Average of 10 years	58.68	46.55



From the above table and graph we can easily find that from the year 2001-02 to 2010-11 advances to deposits ratio of Kalupur bank is higher than the ratio of Nutan bank. It shows that kalupur bank is healthy bank and have enough Deposits. This shows that the bank is possessing funds.

The ratio is nearer to 60%. Thus we can interpret that financial management of Kalupur bank is quite proper.

7.3 % of own funds to deposits ratio :

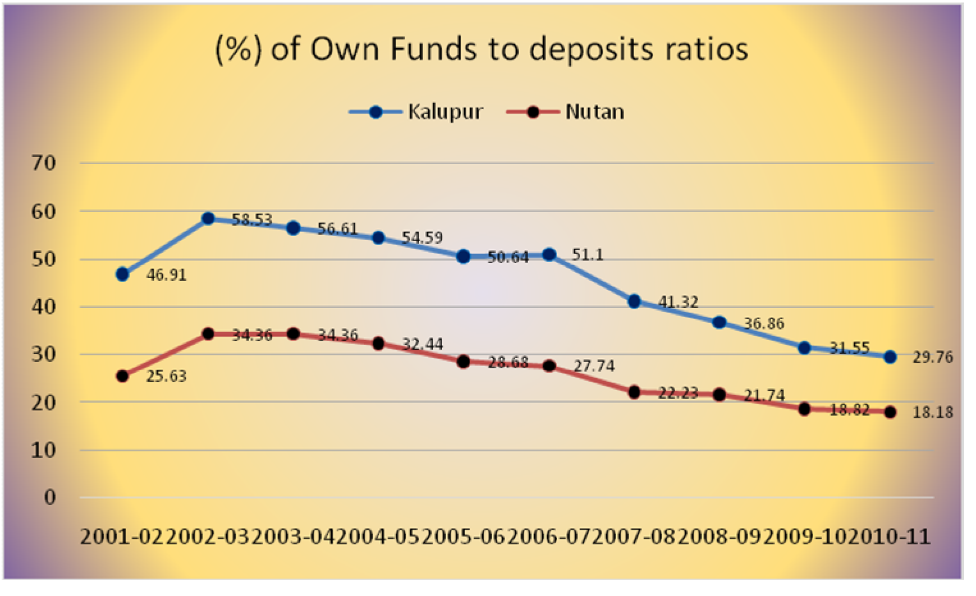
This ratio represents financial position of bank.

This ratio is found by dividing own funds to deposits and multiply the result by 100.

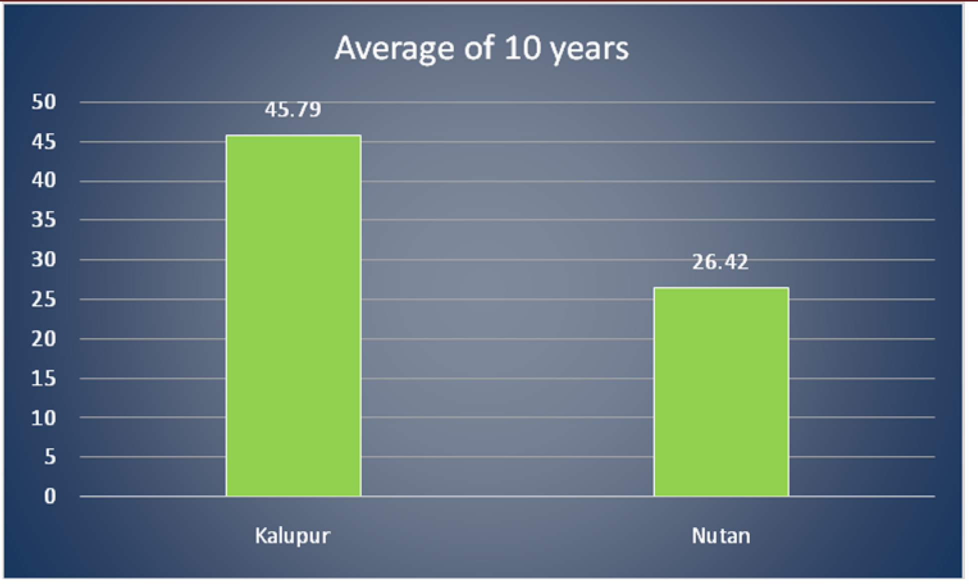
Own funds includes share capital, reserves, etc. Higher the ratio, better the financial position of bank.

% of own fund to deposit: **wn funds x 100**
Deposit

Year	Kalupur	Nutan
2001-02	46.91	25.63
2002-03	58.53	34.36
2003-04	56.61	34.36
2004-05	54.59	32.44
2005-06	50.64	28.68
2006-07	51.1	27.74
2007-08	41.32	22.23
2008-09	36.86	21.74
2009-10	31.55	18.82
2010-11	29.76	18.18



Bank	Kalupur	Nutan
Average of 10 years	**45.79**	**26.42**



From the above table and graph we can easily find that from the year 2001-02 to 2010-11 own funds to deposites ratio of Kalupur bank is higher than the ratio of Nutan bank. It reveals that “Higher the ratio, better the financial position of Kalupur bank.”

7.4 % of Total income to Working Capital ratio

In this ratio total incomes are divided by working capital and multiplied by 100. This ratio interpret amount of income is generated against its working capital. . If the ratio is higher then profitability is more and if it is lower then profitability is less.

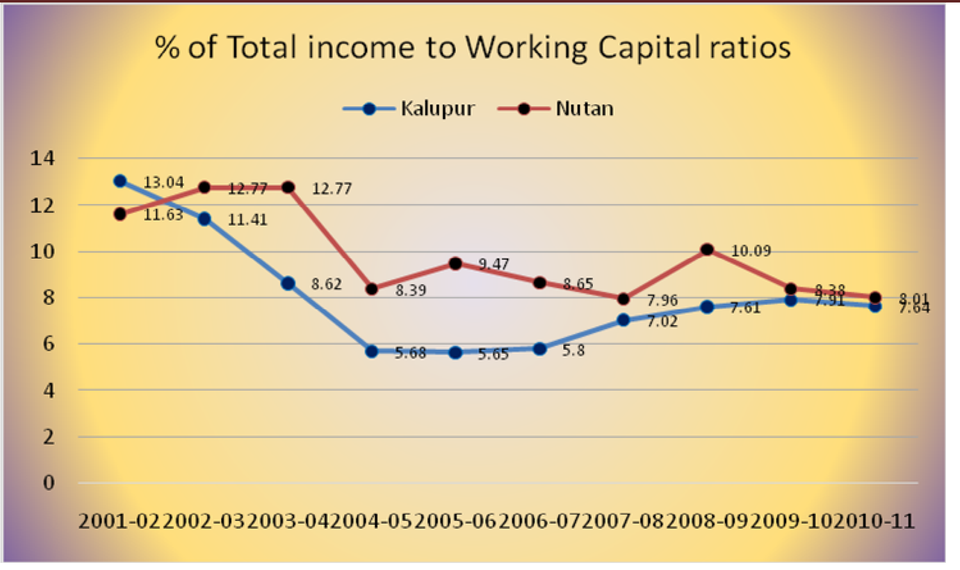
% total income to working capital : Total income/W.C x 100

- Above mention table no 4.1.4.2 precence and average of 10years ratio.
- By concidering such mentioned average grand mean has been calculated as follows:

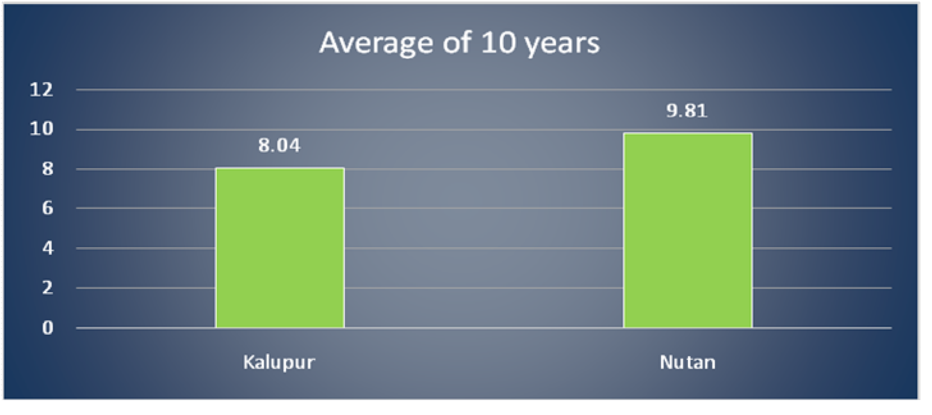
Grand mean= **Average of all ratio**

No of banks

Year	Kalupur	Nutan
2001-02	13.04	11.63
2002-03	11.41	12.77
2003-04	8.62	12.77
2004-05	5.68	8.39
2005-06	5.65	9.47
2006-07	5.8	8.65
2007-08	7.02	7.96
2008-09	7.61	10.09
2009-10	7.91	8.38
2010-11	7.64	8.01



Bank	Kalupur	Nutan
Average of 10 years	8.04	9.81



From the above table and graph we can easily find that from the year 2001-02 to 2010-11 ratio of Kalupur bank is lower than the ratio of Nutan bank. It reveals that Kalupur bank has generated less income against its working capital. As ratio is lower it means the profitability of Kalupur bank is lesser than Nutan bank.

7.5 % of NP to Working Capital ratio :

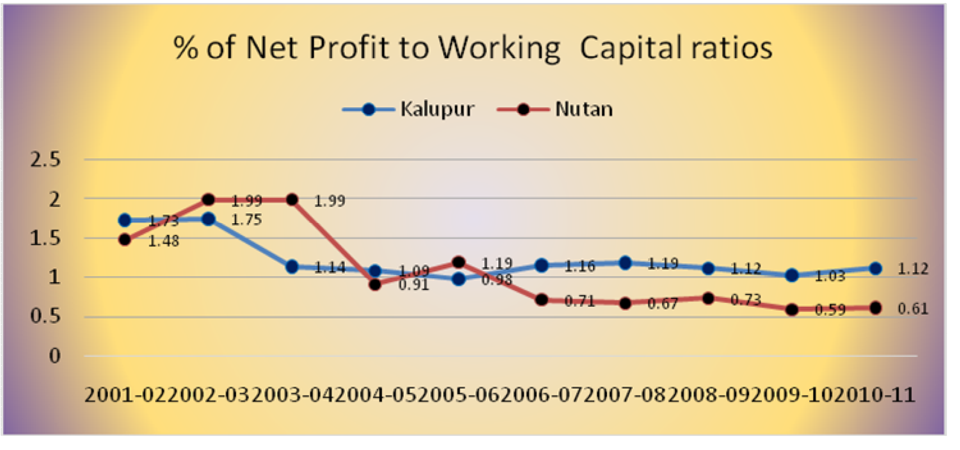
The net income to working capital ratio is the net income divided by the working capital. Net income means profit or loss after deducting all expenses from sales. The working capital is difference between company's current assets and current liabilities. Current assets include liquid assets, such as cash, accounts receivable and inventory. Current liabilities include debt with maturities of less than one year.

Financial ratios express relationships between financial statement items. Management and investors rely on ratios to analyze a company's historical performance and compare companies to their industry peers. The net income to working capital ratio measures the efficient use of working capital. Like most other ratios, a standalone number is not meaningful. However, a high or low ratio compared to historical trends or industry averages is significant. In this ratio, Net profit is divided by working capital and multiply by 100. This ratio shows earnings on working capital. With the help of this ratio we interpret profitability of bank.

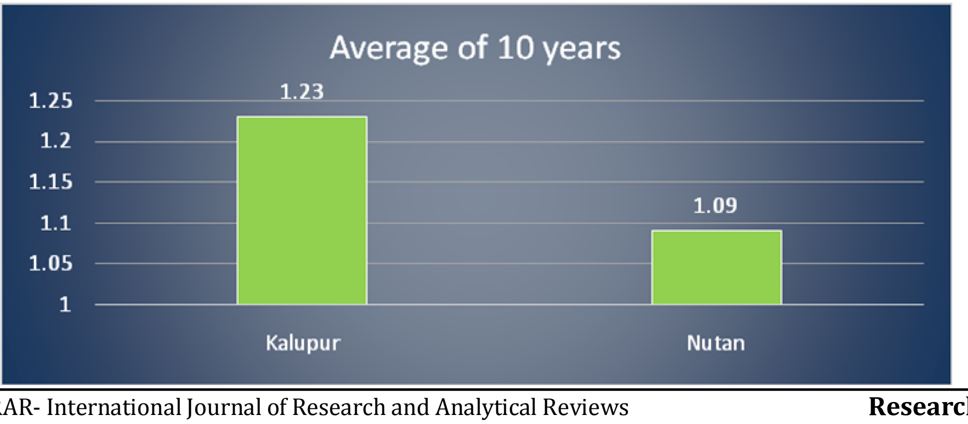
If the ratio is higher than profitability of the bank is more and if it is lower than profitability of the bank is less.

% of NP to working capital: $\frac{NetProfit}{WorkingCapital}$ **x 100.**

Year	Kalupur	Nutan
2001-02	1.73	1.48
2002-03	1.75	1.99
2003-04	1.14	1.99
2004-05	1.09	0.91
2005-06	0.98	1.19
2006-07	1.16	0.71
2007-08	1.19	0.67
2008-09	1.12	0.73
2009-10	1.03	0.59
2010-11	1.12	0.61



Bank	Kalupur	Nutan
Average of 10 years	1.23	1.09



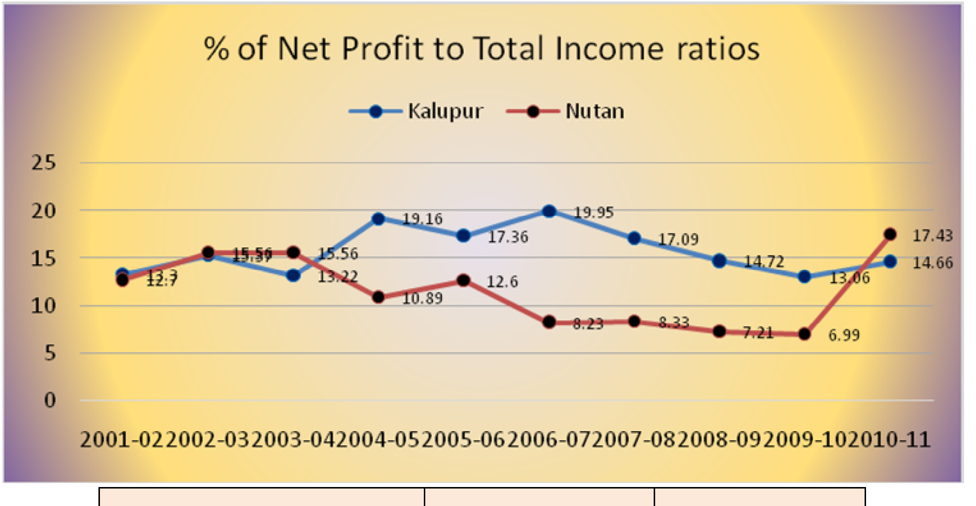
From the above table and graph we can easily find that from the year 2001-02 to 2010-11 ratio of Kalupur bank is higher than the ratio of Nutan bank. Thus it reveals that Kalupur bank has used its working capital more efficiently than the Nutan Bank.

7.6 % of NP to Total Income ratio :

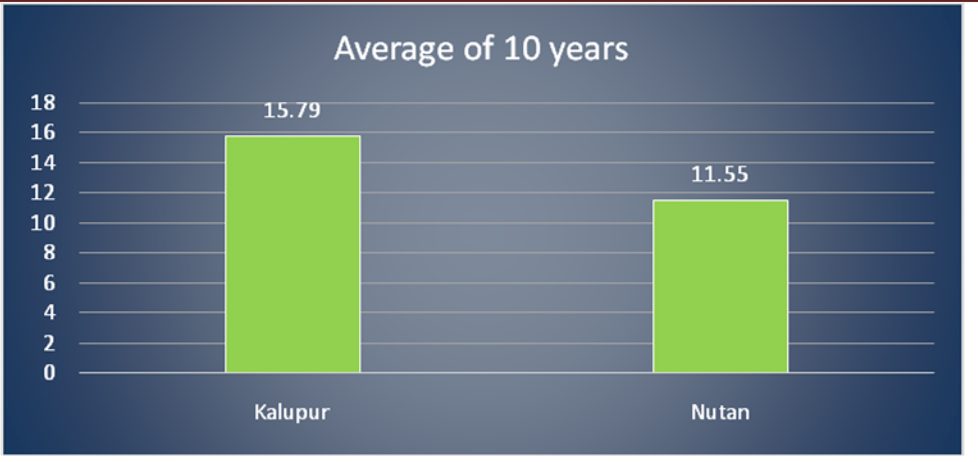
Net Income means difference between the Total Revenue, Gains and the Expenses, Losses. Total Revenue is the selling price of the company's products times the quantity sold.In this ratio Net profit are divided by working capital and multiplied by 100. The ratio interpret profit earn on total income. Its show that how much amount of total income convert in net profit. If the ratio is higher than profitability is more and expenses are less. Looking at the earnings of a company often doesn't tell the entire story. Increased earnings are good, but an increase does not mean that the profit margin of a company is improving. For instance, if a company has costs that have increased at a greater rate than sales, it leads to a lower profit margin. This is an indication that costs need to be under better control.

% of NP to total income: N.P/Total income x 100

Year	Kalupur	Nutan
2001-02	13.3	12.7
2002-03	15.37	15.56
2003-04	13.22	15.56
2004-05	19.16	10.89
2005-06	17.36	12.6
2006-07	19.95	8.23
2007-08	17.09	8.33
2008-09	14.72	7.21
2009-10	13.06	6.99
2010-11	14.66	17.43



Bank	Kalupur	Nutan
Average of 10 years	15.79	11.55



From the above table and graph we can easily find that from the year 2001-02 to 2010-11 ratio of Kalupur bank is higher than the ratio of Nutan bank. It reveals that Kalupur bank has converted its total income into net profit very effectively than the Nutan Bank. As ratio is higher, it means the profitability of Kalupur bank is higher than Nutan bank.

8. Findings and conclusion:

1. we can easily that from the year 2001-02 to 2003-04 Net Profit to advances ratio of Nutan bank is quite higher than the ratio of Kalupur bank. But from the year 2004-05 to 2010-11 the ratio of Kalupur bank is higher than Nutan Bank. It shows that kalupur bank has earned much profit from the advances than the Nutan bank.
2. we can easily find that from the year 2001-02 to 2010-11 advances to deposits ratio of Kalupur bank is higher than the ratio of Nutan bank. It shows that kalupur bank is healthy bank and have enough Deposits. This shows that the bank is possessing funds.
   The ratio is nearer to 60%. Thus we can interpret that financial management of Kalupur bank is quite proper.
3. we can easily find that from the year 2001-02 to 2010-11 own funds to deposites ratio of Kalupur bank is higher than the ratio of Nutan bank. It reveals that “Higher the ratio, better the financial position of Kalupur bank.”
4. we can easily find that from the year 2001-02 to 2010-11 ratio of Kalupur bank is lower than the ratio of Nutan bank. It reveals that Kalupur bank has generated less income against its working capital. As ratio is lower it means the profitability of Kalupur bank is lesser than Nutan bank.
5. we can easily find that from the year 2001-02 to 2010-11 ratio of Kalupur bank is higher than the ratio of Nutan bank. Thus it reveals that Kalupur bank has used its working capital more efficiently than the Nutan Bank.
6. we can easily find that from the year 2001-02 to 2010-11 ratio of Kalupur bank is higher than the ratio of Nutan bank. It reveals that Kalupur bank has converted its total income into net profit very effectively than the NutanBank.As ratio is higher, it means the profitability of Kalupur bank is higher than Nutan bank.

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