

## Comparative Performance Evaluation Of Himachal Pradesh Co-Operative Bank And Kangra Central Co-Operative Bank

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### ABSTRACT

*Co-operative structure is a very important part of our financial system especially in rural financing. On grass root level a lot of cooperative societies' function, which help in solving the financial needs of the rural population. District co-operative banks help these societies to raise money by way of loans. Ultimately state co-operative banks are there to finance the needs of the District co-operative banks. This three tier system is working reasonably well in India. This is parallel channel available to rural population to help them in solving their financial issues. Co-operative institutions have their own merits and demerits. Recently we have observed the fall of so many co-operative banks due to their poor financial health. This paper is an attempt to study the performance of two major co-operative banks which are operating in Himachal Pradesh viz. Himachal Pradesh State Co-operative Bank Ltd. and Kangra Central Co-operative bank Ltd. This paper aims to compare the performance of these two banks on certain parameters which would be very helpful to judge the existence and potential of these banks in future.*

**Key Words:** District Central Co-operative bank, Himachal Pradesh State Co-operative Bank Limited, Kangra Central Co-operative Bank Limited.

### I INTRODUCTION

Co-operative structure plays an important role in Indian financial system. In India three tier co-operative structure is followed. The basic principle of co-operation is followed in this structure. At the grass root level various Primary co-operative societies are formed. Members pool in their funds and needy members are given financial assistance from the pool. At district level District Central Co-operative banks are formed. These banks give financial assistance to the primary co-operative societies which fall under their area. These banks ultimately get financial assistance from State co-operative banks. A state

co-operative bank is apex bank for rural credit in any state. At present Himachal Pradesh has presence of quite a good number of Commercial banks, Co-operative Banks and RRB. The state had a network of 1925 branches as on 31.03.2015. Out of which 1539 branches are in rural areas, 300 branches in Semi-urban areas and 86 branches in Urban Areas. As far as rural credit is concerned Himachal Pradesh State Co-operative bank (HPSCB) is the apex bank for rural financing in the state. There are three main co-operative banks operating in the state, One is the HPSCB which is operating in six districts namely, Shimla, Mandi, Bilaspur, Kinnaur, Sirmour as District Co-operative bank, Second bank is Kangra Central Co-operative Bank (KCCB) which is operating in

another 5 districts namely Hamirpur, Kangra, Una, Chamba, Lahaul and Spiti, Third bank is Jogindra Central Co-operative Bank which is operating in Solan district only.

## II REVIEW OF LITERATURE

Dayanandan and Shashi Kumar (1993) conducted a study on performance evaluation of District Central Cooperative Banks in the state of Kerala. They concluded that the growth of co-operative banks in Keralais affected adversely due to the problem of over dues.

Thirupati Rao (1995) carried study on Fund Management of the District Central Cooperative Bank of Srikakulam in Andhra Pradesh. He concluded that financial planning and control techniques were not adequate in the bank to manage the financial activities, due to which its rating went down.

Joshi (2001) made a thorough appraisal of the cooperative system in India. She concluded that financial performance of cooperative banks is not uniform some states are having sound structure e.g. Gujarat, Andhra Pradesh, Maharashtra etc. whereas in UP & Bihar this system is not functioning well.

Ramudu and Rao (2006) conducted a study on the fundamentals of the Indian banking sector by taking samples from ICICI, SBI and HDFC Bank. They compared these three banks on certain parameters and found that SBI was the best amongst these three banks followed by ICICI and HDFC Bank.

Reddy and Prasad (2011) compared the performance of Regional Rural banks in Andhra Pradesh to check the viability of the banks. They concluded that Andhra Pragathi Grameena Bank is performing better than the other co-operative banks.

Ravindra & Narayana Murthy (2013) analyzed the performance of urban co-operative banks in India and concluded that in the last six years the performance of the UCB's had improved a lot.

## III OBJECTIVES OF THE STUDY

The main objectives of the study are:

1. To analyze the position of shareholders' funds, deposit mobilization and advances of Himachal Pradesh State Co-operative Bank and Kangra Central co-operative Bank.
2. To study the financial and operational performance of these two banks.

## IV RESEARCH METHODOLOGY

The present study has been conducted to compare the performance of two co-operative banks i.e. HPSCB and KCCB operating in the state of Himachal Pradesh. Secondary data have been collected from the published annual reports for the last five years i.e. from 2009-10 to 2013-14. The various parameters on which the comparison is made are: Shareholders' funds, deposit mobilization, advances, recovery position, operational performance and financial performance. The statistical tools used are arithmetic mean, standard deviation, t-test etc. The important ratios like Liquidity, Profitability and Management Efficiency have also been used to analyze the overall financial and operational performance of these banks in the state.

### HYPOTHESIS

The various parameters are tested based on the following hypothesis:

H0: There is no significant difference between two banks with respect to their performance.

H1: There is significant difference between two banks with respect to their performance

## V ANALYSIS AND INTERPRETATION

### 5.1 SHAREHOLDERS' FUNDS

Shareholders' funds show how much money the investors have accrued till date. Increasing funds

would mean that the value of the investors is going up. These values have been calculated by adding the share capital and reserves and surpluses figures for both the banks. Table 1 shows that for the last three years both the banks are showing decreasing growth rate. In case of KCCB in 2013-14 it reached to 0.62.

**Table 1: Growth in Shareholders' Funds (Rs. '000) for the period 2009-14**

Year	HPSCB	Growth %	KCCB	Growth %
2009-10	4,080,784	--	6,096,474	--
2010-11	4,453,384	9.13	6,726,935	10.34
2011-12	5,076,152	13.98	7,023,907	4.41
2012-13	5,591,912	10.16	7,186,430	2.31
2013-14	6,050,066	8.19	7,230,856	0.62

Source: Data compiled from the annual reports of the banks

Table 2 shows mean growth rate for HPSCB is 10.37% and for KCCB it is 4.42% with S.D. of 2.54 and 4.24 respectively. The 't' value comes out to be 2.4. At 0.05 level of significance the Table value is 2.447.

**Table 2: 't' Value of the Data**

Bank	Mean	SD	't' Value
HPSCB	10.37	2.54	2.40
KCCB	4.42	4.24	

Since calculated 't' value is less than the table value so null hypothesis is accepted. But we need to consider that it is marginally less than the table value. So it can also be inferred that the performance of HPSCB is better than the KCCB in this parameter.

**5.2 DEPOSITS** Deposits are the back bone for any bank. Its main source of funds is deposits from the public. In this parameter HPSCB has not done so well. Table 3 indicates that the growth rate of HPSCB has been less than the KCCB.

**Table 3: Growth in Deposits (Rs. '000) for the period 2009-14**

Year	HPSCB	Growth %	KCCB	Growth %
2009-10	49,417,825	--	38,086,362	--
2010-11	50,055,231	1.29	43,934,586	15.36
2011-12	52,421,907	4.73	52,006,742	18.37
2012-13	58,179,232	10.98	59,824,826	15.03
2013-14	63,279,258	8.77	66,145,143	10.56

Source : Data compiled from the annual reports of the banks

In fact the growth rate of KCCB is also going down marginally year on year. The mean growth rate for HPSCB is 6.44% with S.D. of 4.30 and for KCCB it is 14.83% with S.D. of 3.22. So it clearly indicates that KCCB has performed better in deposit mobilization.

**Table 4: 't' Value of the Data**

Bank	Mean	SD	't' Value
HPSCB	6.44	4.30	-3.12
KCCB	14.83	3.22	

The calculated 't' Value is -3.12 and at 0.05 level of significance ('t' value 2.447) the difference is significant. Therefore the Null Hypothesis stands rejected and we chose alternate hypothesis i.e. performance of KCCB is better in this parameter as compared to HPSCB.

### 5.3 ADVANCES

In advances both the banks are performing reasonably well. As per Table 5 and Table 6 average growth rate of HPSCB in advances is 16.89% with S.D. of 12.08 as compared to KCCB where average growth rate is 20.63% with S.D. of 9.41. S.D. of HPSCB is very high because of inconsistent growth rate.

**Table 5: Growth in Advances (Rs. '000) for the period 2009-14**

Year	HPSCB	Growth %	KCCB	Growth %
2009-10	16,444,127	--	14,973,022	--
2010-11	22,104,313	34.42	18,256,890	21.93
2011-12	23,616,669	6.84	24,215,833	32.64
2012-13	26,537,487	12.37	28,553,370	17.91
2013-14	30,231,368	13.92	31,417,787	10.03

Source: Data compiled from the annual reports of the banks

**Table 6: 't' Value of the Data**

Bank	Mean	SD	't' Value
HPSCB	16.89	12.08	-0.49
KCCB	20.63	9.41	

Statistically there is not much difference between the two banks in this parameter. 't' Value is -0.49 as shown in Table 6, which is very less as compared to Table value at 0.05 level of significance which is +/-2.447. So the Null hypothesis is accepted which means both the banks are performing equally in terms of advances.

#### 5.4 NET PROFITS

The performance of any organization is decided on the basis of its profit earning capacity. Table 7 below shows the growth % in Net profits for both the banks during the period under review. If we calculate CAGR it is 3.76% for HPSCB and -20.6% for KCCB. After considering these numbers it is observed that both the banks are facing difficulty in improving the profitability.

**Table 7: Growth in Net Profits (Rs. '000) for the period 2009-14**

Year	HPSCB	Growth %	KCCB	Growth %
2009-10	355,308	--	471,463	--
2010-11	400,278	12.66	558,452	18.45
2011-12	414,236	3.49	292,682	-47.59
2012-13	504,620	21.82	258,665	-11.62
2013-14	406,829	-19.38	187,322	-27.58
	CAGR	3.76		-20.6

Source: Data compiled from the annual reports of the banks

Table 8 shows that average growth rate in Net Profits in case of HPSCB is 4.65% with S.D. of 17.68 and in case of KCCB it is -17.09% with S.D. of 27.89.

**Table 8: 't' Value of the Data**

Bank	Mean	SD	't' Value
HPSCB	4.65	17.68	1.32
KCCB	-17.09	27.89	

't' Value here is less than 2.447 which shows that both the means are not significantly different. This means that the performance of both the banks is very poor especially KCCB in Net Profit parameter.

#### 5.5 NET INTEREST MARGIN

Net Interest Margin is the difference between Interest earned during a year and Interest expended during the year. The table 9 below shows the growth rate in this parameter

**Table 9: Growth in NIM (Rs. '000) for the period 2009-14**

Year	HPSCB	Growth %	KCCB	Growth %
2009-10	1,208,247	--	1,018,728	--
2010-11	1,465,038	21.25	1,210,488	18.82
2011-12	1,466,832	0.12	1,246,607	2.98
2012-13	1,817,9	23.94	1,352,6	8.51

	21		96	
2013-14	2,158,055	18.71	1,525,204	12.75

Source: Data compiled from the annual reports of the banks

for both the banks. Average Growth rate for HPSCB is 16.01% with a S.D. of 10.80 and for KCCB it is 10.77% with S.D. of 6.70. 't' Value comes out to be 0.82 which is less than 2.447 ('t' value at 0.05 level of significance) which means there is no significant difference in the growth rates of both the banks.

**Table 10: 't' Value of the Data**

Bank	Mean	SD	't' Value
HPSCB	16.01	10.80	0.82
KCCB	10.77	6.70	

## 5.6 OPERATING EXPENSES

Another important parameter while analyzing the profitability of the banks is operating expenses. This parameter explains how efficiently the bank is running. Table 11 below shows the growth rate of this parameter for both the banks. HPSCB is little better in this parameter as compared to KCCB. Average

**Table 11: Growth in Operating Expenses (Rs. '000) for the period 2009-14**

Year	HPSCB	Growth %	KCCB	Growth %
2009-10	654,164	--	602,192	--
2010-11	733,979	12.20	695,952	15.57
2011-12	801,637	9.22	998,627	43.49
2012-13	946,565	18.08	1,140,561	14.21
2013-14	1,181,641	24.83	1,394,144	22.23

Source : Data compiled from the annual reports of the banks

growth rate of HPSCB is 16.08% with S.D. of 6.90 whereas for KCCB it is 23.88% with S.D. of 13.54. This shows that operating expenses of KCCB are not being controlled properly.

Statistically 't' Value comes out to be -1.03, which is again less than 2.447 the Table value, which means statistically there is not much

difference in the performance of both the banks in this parameter also.

**Table 12: 't' Value of the Data**

Bank	Mean	SD	't' Value
HPSCB	16.08	6.90	-1.03
KCCB	23.88	13.54	

## 5.7 IMPORTANT RATIOS

In order to properly judge performance of these banks certain ratios are calculated for three main parameters, i.e. Liquidity, Management Efficiency and Profitability.

### Liquidity Ratios

Bank needs to have sufficient liquid funds to meet the demand of the people. Banks are always in a dilemma whether to put funds in high interest earning illiquid assets or in liquid assets which yield very low returns. Banks have to do the trade off between these twin objectives.

**Table 13: Liquidity ratios for the period 2009-14 and 't' Value**

Ratio	Bank	Mean	S.D.	't'-Value Statistic	't' Value at 0.05
Liquid Assets/Total Assets	HPS CB	27.64	4.35	-2.25	2.306
	KCC B	32.76	2.67		
Liquid Assets/Demand and Deposits	HPS CB	129.62	24.50	-2.30	
	KCC B	156.50	9.16		
Liquid Assets/Time Deposits	HPS CB	57.13	2.38	0.96	
	KCC B	55.15	3.95		

Source: Data taken from annual reports and compiled in MS-Excel

Table 13 shows the various liquidity ratios calculated to judge the liquidity position of the banks. Liquid assets to total assets ratio explains



that what percentage of total assets is held by the bank in liquid form. Higher the ratio better it is for the liquidity of the bank. HPSCB has average ratio of 27.64% and KCCB has 32.76%. Both the banks are having very good percentage of assets in the form of liquid assets. A 5% significance level if we test the difference between the two ratios we find the 't' Value of -2.25, which is marginally less than the tabular value of 2.306. Which means that theoretically both the banks are equal in this parameter but it seems that KCCB is better than HPSCB in this parameter.

Similarly both the banks are having very good Liquid Assets to Demand deposits ratio. This ratio tells us how much liquid assets banks have against the Demand Deposits, both the banks are having very high ratio. This suggests that both the banks will have no major problem in repaying the demand deposits. 't' Value again is less than the tabular value but again marginally which again tells us that KCCB is better as compared to HPSCB in this ratio also.

For Liquid Assets to Time Deposits again the ratio is very good and 't' Value again suggests that both banks are having almost same ratios.

So we can summarize that the liquidity position of both the banks is very good and they don't have to worry on this front.

### Management Efficiency Ratios

These ratios tell us how efficiently the banks are being run by the management. Table 14 summarizes the various ratios.

Credit Deposit Ratio or CD ratio tell us how much % of deposits have been given as advances. Higher the ratio will mean that most of the deposits have been used for the purpose these are taken. Average ratio of HPSCB bank is 43% as compared to 44% of KCCB. Statistically there is no real difference between these two ratios as 't' Value is very less.

**Table 14: Management Efficiency ratios for the period 2009-14 and 't' Value**

Ratio	Bank	Me an	S.D .	't'- Value Statis tic	't' Val ue at 0.05
Credit Deposit Ratio	HPS CB	43.1 7	5.6 9	-0.44	2.30 6
	KCC B	44.5 3	3.8 5		
Advances to Total Assets	HPS CB	30.4 7	7.3 3	-1.75	
	KCC B	36.7 8	3.4 0		
Govt. Sec./Total Assets	HPS CB	20.6 5	1.6 8	5.02	
	KCC B	13.2 7	2.8 2		
Govt. Sec. / Investments	HPS CB	58.5 2	22. 16	0.29	
	KCC B	55.3 8	9.8 9		

Source : Data taken from annual reports and compiled in MS-Excel

Advances to Total Assets ratio tells us how much proportion of total assets is used to give advances. Higher the ratio will imply that the management is using the assets efficiently. In this parameter also both the banks are having similar ratios. Though the average of KCCB is higher but 't' Value indicates that difference is not significant.

Government securities to Total Assets ratio and Government securities to Investments ratio tells us about the risk taking capacity of the bank. Higher these ratios will mean that the bank is not very aggressive in investing and investing in safer government securities, rather than risky but high yield giving securities. In Government securities to Total assets ratio the difference between the two banks is statistically different. Which means HPSCB is not very much aggressive as far as choosing non government securities are concerned.

### Profitability Ratios

Profits are something for which all the organizations work. Certain ratios are calculated below to judge the profitability aspect of these banks.

**Table 15: Profitability ratios for the period 2009-14 and 't' Value**

Ratio	Bank	Mean	S. D.	't'- Value Statistic	't' Value at 0.05
Interest Income/Total Income	HPSC B	98.13	0.86	-2.00	2.306
	KCC B	98.95	0.32		
Non Interest Income/Total Income	HPSC B	1.87	0.86	2.00	
	KCC B	1.05	0.32		
Net Profit To Total Assets	HPSC B	0.53	0.10	-0.51	
	KCC B	0.62	0.38		

Source: Data taken from annual reports and compiled in MS-Excel

Interest Income to Total Income ratio and Non Interest Income to Total Income ratio tells us about the sources of the income of the bank. Both the banks are earning basically from Interest income i.e. non interest income is very less. Statistically also 't' Value is less at 5% level of significance which shows that there is no significant difference between the two bank in this parameter.

Net Profit and Total assets ratio shows the ability of the bank to generate profits from the assets. Higher the ratio will imply that the bank is able to generate more net profits from the total assets employed in the business. The 't' value is showing that both the banks are performing at the same level.

## VII CONCLUSION

The present study made an attempt to evaluate both the banks from different angles so that their

relative performance can be gauged. After going through all the parameters it is concluded that HPSCB has been able to increase the shareholders wealth during the period under study, as shareholders funds have increased at a good rate during this period. KCCB is almost consistent in this parameter. In terms of deposits KCCB has performed very well and its average growth rate during the period under study is almost 15%, which is commendable. HPSCB performance in this regard is also reasonably well with 6% average growth. Financial position of both the banks is good during the study period. The study further observed that net profits of HPSCB though average during the period under review looks satisfactory at 5% but during the year 2013-14 its profits have decreased. This is area of concern for the bank. Net Profits of KCCB is consistently going down for the last 3 years. During the year 2013-14 the profitability of both the banks has got hit due to heavy increase in operating expenses. Both the banks need to check the extent of these expenses to improve the profits. Liquidity position of both the banks is very good. Both are having good amount of liquid assets to cope up in case of any emergency. Efficiency level of both the banks is good. They are having favorable CD ratio, advances to total assets ratios etc. Lastly the study concludes that profitability is the area of concern for both the banks and so, both the banks need to check their operating expenses and need to look for alternate channels for earning revenue as their non interest income is very less. Both the banks may venture into Third Party products selling in order to boost their profits.

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