

An analytical study of Working Capital Management of Purvanchal Urban Co-operative Bank in Ghazipur district

¹Priyanka, ²Archna Singh

¹Research Scholar, ²Professor

^{1, 2} Department of Applied Economics, University of Lucknow, India,

Abstract: The objective of this article is to study the performance of Purvanchal Urban Co-operative bank on the basis of ratio analysis. The basic parameter to that determines the success of any organization is how effectively they utilize their financial resources. Ratio analysis is the best way to determine the performance of any banking institution, which further generates return for stakeholders. In banks there should be proper management of resources, if not properly managed will lead to reduction in benefits through short term investments and over burden of unnecessary expenses. A balanced capital management is said when there is not neither excessive allocation of funds nor too low allocation of funds, so that banks may miss the opportunity of profitable investments as well as short term liquidity crisis. Profitability and liquidity is the two basic objective of any bank, which can only be obtained by adequate management of working capital. On the other hand, every bank has to follow fixed norms of central banks in order to safeguard the interest of common people as well as nation. Hence from the above prospective the study is important.

Key Words: Current Ratio Absolute liquid ratio, Quick Ratio.

1. INTRODUCTION:

1.1 Urban Co-operative Banks: The term Urban Co-operative bank is not properly defined in any Act, they are consider as a financial institutions deals in deposits and loans in semi urban and semi urban areas. It provides a voluntary support o lower and middle class people, with no profit objective. But these banks have darker side also. These banks suffer from a constant loss year after year, because there are huge political interference as well as duality of control both by RBI and State Co-operative Federation. After 1996, co-operative banks were permitted to lend money to agricultural and allied sector also. The working field of co-operatives are now widen to a large extend with increased population coverage.

1.2 History of UCB in India: Since early 17th century, there was successful development of co-operative societies in UK and Germany, which further spread to other countries also. As influenced by the success these co-operative in UK and Germany, the first mutual aid co-operative society was founded in the erstwhile princely state of Baroda, named Anyonya Sahakari Mandal in 1889 under the guidance of Vithal Laxman. As per name suggests, its main function was all voluntary association for welfare of common and needy people. In 1904, it provided legal status. In its formative phases it came as organized community to meet the needs of their members. It generated the habit of thrift by salary earners as well as generated habit of savings by both lower and middle class people. And till date UCBs have been mobilizing savings from middle and lower income people and provide credit facilities to member mostly belong to weaker section.

1.3 Objective of Study: The following are the objective of this study.

- To study the beginning of Urban C-operative Banks.
- To study the Liquidity position of Purvanchal Urban Co-operative Bank.
- To study the financial position PUCB in selected duration.
- To provide suitable findings, suggestions and conclusion for the bank.

2. METHODOLOGY:

In this study secondary data has been used. The secondary data is collected from the balance sheet published by bank, annual audit and report publish by Reserve Bank of India.

2.1 Period of study: The time period selected for study is 2012-13 to 2017-18.

2.2: Limitations of study: The data used is secondary, which may be sometime biased in nature. The period of study is only for five years, which may sometime do not provide suitable result. Another major limitation was with availability of data, as UCBs of Uttar Pradesh does not have proper data available.

3. DATA ANALYSIS AND DISCUSSION:

Table 1
Growth of Urban Co-operative Banks in India

As on March 31	No. of UCBs	Deposits (Crore)	Advances (Crore)
2007-08	1770	1384.96	889.81
2008-09	1721	1587.33	979.82
2009-10	1674	1828.28	1103.03
2010-11	1645	2099.49	1351.04
2011-12	1618	2415.82	1679.44
2012-13	1606	2856.12	1781.44
2013-14	1589	3106.54	1932.15
2014-15	1579	3600.92	2124.11
2015-16	1574	3922.66	2449.05
2016-17	1562	4437.68	2612.24
Mean	1633.80	2723.98	1690.21
S.D.	68.85	1037.02	604.27
C.V.	4.21	38.07	35.75

Source: Annual Report RBI

From the above table, it is analyzed that, the number of UCBs keeps on decreasing, but on the other side, there is an increase in deposits and loan and advances over the period of 10 years. In year 2007-08 the number of UCBs was 1770 which reduced to 1562 in 2016-17 with a fall of 208 UCBs. The deposit in 2007-08 was Rs.1384.96 crore which increased to RS. 4437.68 crore, whereas the loan and advances in 2007-08 was Rs. 889.81 crore which increased to Rs. 2612.24 crore.

Current Ratio:

Current Ratio is the important ratio which determines the liquidity position of any organization as well as analyzes the short term financial position of organization. Current ratio is the relationship between current assets and current liabilities.

Table 2:
Current Ratio

Year	Current Assets	Current Liabilities	Ratio
2013-14	3725.71	2066.51	1.8028
2014-15	3779.37	2545.07	1.4849
2015-16	3962.30	2736.36	1.4480
2016-17	4679.84	2886.52	1.6212
2017-18	4892.89	3237.40	1.5113

Source: Annual Report

The table above determines the current ratio of Purvanchal Urban Co-operative Bank during the study period of five year 2013-14 to 2017-18. The current ratio of PUCB shows a fluctuating increase and decrease of current ratio during the study period.

Quick Ratio or Liquid Ratio:

It is also known as Acid-test ratio. Liquid ratio affects creditability and credit rating of any firm. Liquid Ratio is calculated by dividing total liquid assets to total current liabilities. Liquid ratio helps to determine the financial stability of any firm. Higher the ratio, the more the firm will be easily encounter its current as well as liquid liabilities.

Table- 3
Quick Ratio or Liquid Ratio

Year	Liquid Asset	Current Liabilities	Ratio
2013-14	2116.78	2066.51	1.0243
2014-15	2215.54	2545.07	0.8705
2015-16	2356.32	2736.36	0.8611
2016-17	2540.21	2886.52	0.8800
2017-18	2850.63	3237.40	0.8805

Source: Annual Report

From the above table, it is inferred that there is a constant increase in liquid assets of PUCB during the study period, which also leads to a constant increase in quick ratio after a decrease from the year 2014-15.

Absolute Liquid ratio:

The standard liquid ratio should be 1:2 i.e. 0.50. Absolute liquid assets account cash in hand, cash at bank, and marketable securities and temporary investments, hence it is called Absolute Liquid for banks.

Table-4
 Absolute Liquid ratio

Year	Absolute liquid Assets	Current Liabilities	Ratio
2013-14	1088.72	2066.51	0.5268
2014-15	1095.12	2545.07	0.4302
2015-16	1178.41	2736.36	0.4306
2016-17	1206.75	2886.52	0.4181
2017-18	1411.36	3237.40	0.4360

Source: Annual Report

As from above table indicates that there is an increase in Absolute liquid assets during the study period, where as the Absolute liquid ratio shows the gradual increase from the period 2014-15 to 2017-18, after a decrease from the 2013-14.

Current Assets to Net worth Ratio:

This ratio indicates the percentage of proprietor’s fund investment in current assets. Higher the proportion of current assets to proprietor’s fund to fixed assets to proprietor’s fund indicates the strength of business.

Table-5
 Current Assets to Net worth Ratio

Year	Current Assets	Net Worth	Ratio
2013-14	3725.71	499.63	7.46
2014-15	3779.37	445.99	8.47
2015-16	3962.30	471.95	8.39
2016-17	4679.84	477.87	9.79
2017-18	4892.89	493.47	9.92

Source: Annual Report

The above table calculates the current assets to net worth ratio of PUCB during the study period of 2013-14 to 2017-18. The ratio shows steady increase as both the current assets and net worth of bank increases during the study period.

Current Liabilities to Net worth Ratio:

The ideal ratio should be 1:3. It indicates the relative contribution of short term creditors and owners to capital of firm. The ratio is more than it will be difficult for PUCB to obtain long term fund for business.

Table-6
 Current Liabilities to Net worth Ratio

Year	Current Liabilities	Net Worth	Ratio
2013-14	2066.51	499.63	4.14
2014-15	2545.07	445.99	5.71
2015-16	2736.36	471.95	5.80
2016-17	2886.52	477.87	6.04
2017-18	3237.40	493.47	6.56

Source: Annual Report

The above table indicates that there is an increasing trend in Current Liabilities to Net Worth ratio during the study period. Since there is an increasing trend in both current liabilities as well as net worth during the selected duration of time.

Table-7
 Financial Performance of Purvanchal Urban Co-operative Bank

Year	Share Capital	Reserves	Deposits	Working Capital	Loan and Advances
2012-13	212.02	236.23	3398.65	4213.77	1770.19
2013-14	243.90	255.73	3675.76	4254.05	1999.61
2014-15	237.57	208.42	3725.71	4278.19	2066.51

2015-16	246.94	225.01	3779.37	4284.93	2545.07
2016-17	300.16	227.98	3962.30	4513.45	2736.36
2017-18	305.92	192.86	4679.84	5476.86	2886.52
Mean	257.75	224.37	3865.27	4503.54	2334.04
S.D.	37.22	21.84	436.64	488.31	449.92
C.V.	14.44	9.73	11.29	10.84	19.28

Source: Annual Report by Purvanchal Urban Co-operative Bank

From the above table, it is determined that, in PUCB, the deposits and loan and advances are increasing with the years, whereas, the reserve maintain by this bank is decrease from Rs. 236.23 crore to Rs. 192.86 crore. This is due the bank's maximum operating expenses as well as, poor investment policies. Since the working Capital is comprises of share capital, reserve & other funds, deposits and borrowings etc, hence its value increases with the passage of time.

5. FINDINGS:

- Current ratio of PUCB shows ups and down during the study period with initial year decline.
- The liquid ratio of bank decline initially but afterward becomes stable. Since the bank was able to maintain its standard liquid ratio.
- The bank unable to maintain the standard Absolute liquid asset except in 2013-14.
- The current assets to net worth ratio increased during the study period.
- The current liabilities to net worth also increased every year during the study period.
- PUCB should maintain deposit to advance ratio maintained, in order to maintain liquidity.
- PUCB should reduce its unwanted operating expenses, to secure its reserve, which acts as cushion at the time of risk.
- PUCB should opt some investment plans to get a constant liquidity.
- PUCB also try not to opt borrowing as an option to fulfill its liabilities.

6. CONCLUSION:

Suggestions and Conclusions:

- From above we found that bank is unable to maintain its standard current ratio i.e. 2:1, hence bank has to more focus on all available sources of current assets.
- It is also suggested that the bank has to also focus on improving its working capital through increasing its investments in short term activities.
- Hence, bank has to maintain adequate working capital for its day to day operations made in cash only.
- Bank has to focus on improving its trust in its consumers, so as more deposits can be available for bank, there will be some improvement in net worth of bank.

From the above study we found that Purvanchal Urban Co-operative Bank was unable to maintain its current ratios which reveal that the bank has minimum working capital to meet its all liquid activities. And bank also has to make affords to improve its solvency position.

REFERENCES:

1. Dr. P Payalyannan Structural Reform-implications on UCBs, Journal co-peraive perspective Jan-June-1997.
2. Dr. C Rangarajan (1997)- Importance of Co-operative Banking under the changed scenario, Ex-Governor, RBI, The Banker, September 1997, p-17.
3. Jagadish Capoor UCB's Problems and Prospectus. Journal Urban Credit June-2000.
4. Ramu, N, Working Capital Management of Sri Lakshminarayan Urban Co-operative Bank Ltd., Tiruvarur, October 2014.
5. Rural Financial System: A major challenges to uarl developmet, BIRD's Eye View December, 2000.
6. Dr. M. Mohsim Khan Impact of globalization on Indian Banking Industry. Journal-Banking Finance-2004.
7. Dutta Uttam and Basak Amit (2008), "Appraisal of financial performance of Urban C-operative Banks- a case study, March, 2008.
8. Report of the Expert committee n Licensing of New Urban Co-operative Banks 2011.
9. G. Sharma, Performance Appraisal of Urban Co-Operative Bank, Sunrise Publications, 2011
10. Dr. G. S. Kamat, Co-Operative Management-New Dimensions of Cooperative Management, Himalaya Publishing House, 2011
11. Rais Ahmad, Co-operatives & Rural Development in India, New Century Publications, 2013
12. Somalkar Prakash, Urban Co-Operative Banks in India, LAP Lambert Academic Publishing, 2014.