

FUNDAMENTAL ANALYSIS OF HANUMANTHA NAGAR COOPERATIVE BANK LTD AND COMPARISON WITH URBAN COOPERATIVE BANKS IN INDIA

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Abstract: Fundamental Analysis is extremely important for any organization in order to find out the financial health and the stability of it. When it comes to Bank it's even more important since bank does not only deal with its owner's capital, but also with the money of the Public. It is an obligation of the Banks to undergo a thorough Fundamental Analysis in order to let know its members and customers the financial condition the bank is in.

The present study is about the Fundamental Analysis of Hanumanthanagar co-operative bank. There is a need to understand the banks financial stability since it is necessary for the members to understand it. In the present study we have taken various factors of the Bank to understand it in detail. Starting with the Analysis of the Financial Statements, using CAMEL rating and then comparing it with the Urban cooperative Banks in India, We have made an attempt to see whether the Bank is improving and how sensitive it is with the change in the industry.

Keywords: Fundamental Analysis, Urban Cooperative Banks, CAMEL rating

INTRODUCTION

Banks are the financial institutions that help the country's economy to run smoothly. The primary function of the Bank is to lend and borrow. Apart from these primary functions banks also perform various other functions to its clients and customers.

Scheduled and Nationalized banks are under the supervision of Reserve Bank of India, Cooperative banks have also come under this purview recently. Cooperative banks are those banking organization which are owned by its members, unlike the nationalized and other retail banks. Every bank coming under the RBI regulations has to go through a Mandatory audit and publish their financial statements to the public.

Similarly Cooperative banks too have the obligation to undergo thorough scrutiny of their internal and financial operations and has to be submitted to their members on an annual basis. The present chosen bank goes in to Audit from the qualified Chartered Accountant, and the financial statements are published in their annual Books of Reports.

Apart from the regular audit, it is important to scrutinize the bank and its performance on other key factors such as financial statement analysis, Ratio analysis, CAMELS rating method etc. This gives us the clear picture about what are the areas that the banks are improving in and what needs to be focused on to better their performance.

LITERATURE REVIEW

Literature review 1

Study of Urban cooperative banks in Belgaum district, Sabannavar, Jayavant Parappa, This study is an empirical study about the fundamental factors of the cooperative banks across the Belagaum district, in this study the researcher focus on key elements such as change in Memberships, reserves, Growth in Working capital, and also the growth of net profit. They have also focused on deposit mobilization and have classified loans and advances. They have also analyzed the investment portfolio and various

Literature review 2

Cooperative banks and local economic growth, Volume 55, 2021 - Issue 2. This paper analyses the impact of cooperative banks on local economic development. Italian municipality data indicate that cooperative banks – more than conventional banks – are associated with enhanced income, employment and firms' growth rates. This evidence is consistent with several other studies indicating a distinct role of cooperative banks in supporting traditional credit provision to local borrowers.

Literature Review 3

A study on the performance of the district Cooperative Banks in Tamil Nadu in comparison with Commercial Banks, submitted by P. Jayaraman to University of Madras. This study primarily focuses on the Growth of Cooperative Banks in Tamil Nadu and its comparison with the growth and performance of the Commercial Banks of Tamil Nadu. It also focuses on the performance and the extension of the Cooperatives in Tamil Nadu. The author uses survey method for the study and collects data from various authorities by discussing with them about various aspects of Banking. They have used various statistical hypothesis in understanding the comparative analysis

Literature Review 4

Management of district central cooperative banks in Maharashtra, Deshmukh, Prasanna Ganpatrao, In this study the researchers have focused on finding out the capital as the source of funds, utilization of funds, Outstanding loans and advances, Consumption loans and overall summary. Along with these they have analysed on the organization structure and management patterns of the bank.

Literature review 5

A Study On The Financial Performance Of The District Central Cooperative Banks In Tamil Nadu State, A.Mahendran. Submitted to the Bharathiar University. The researcher focuses on analyzing various financial performance parameters to see where the bank stand. The Researches does so by analyzing on Profitability, Liquidity and Operational ratios and comparing it with the performance of the previous years.

OBJECTIVES OF THE STUDY:

- To determine how safe, the funds of the depositors in the bank
- To evaluate how profitable is the deposit or investment in this bank
- To compare and analyze, the financial statements between different periods to see the growth or decline of bank
- To find out the liquidity, capital sufficiency, how effective the investment decisions of bank using financial ratios

METHODOLOGY**Type of research:**

Secondary data sources have been referred in order to understand the key factors of the Industry such as Growth, Size and innovations in the industry. Secondary data that is provided by the Bank has been used to understand and analyses of the financial information of the bank to understand the key factors for affecting growth and profitability.

Reference period: The data is taken for a period of 60 months of last 5 year i.e., from 1st April 2016 to 31st March 2021

Tools used for analysis

1. Trend analysis to find out the growth or decline of the variables in the financial statements
2. Graphs have been used to find out the similarity or difference of trends between HNRCB and Urban Cooperative Banks in India
3. Co-relation has been used to find the strength of dependency or relationship between the variables
4. Hypothesis testing has been used to find out the strength and accuracy of the correlation
5. Ratio analysis has done to find out the key financial performance of the bank

ANALYSIS AND INTERPRETATION

- From the analysis of Financial Statement which is Profit and Loss account we can see that the Gross profit of the Banks has been increasing in the first three years but hinders back in the fourth year and then picks up back again in the fifth year. But the net profit and the expenses of the bank are fluctuating year after year with the same trend
- From trend analysis, the major expenses impacting the Net profit are the Management, Administrative and the Staff expenses which are controllable in nature. To find out the strength of its impact we have done a correlation which resulted in Strong Negative correlation, meaning the net profit is highly impacted by these controllable expenses.
- Same is the result for the Controllable expenses of the Urban cooperative Banks in India, which has the correlation value of -0.72 which is strong negative correlation. From this we can say that the bank follows similar industry trend in this.
- From the Balance Sheet we can see that the Trend of the selected bank is increasing where as the trend of the Urban cooperative Banks in India is nearly stagnant. From which it can be concluded that the trend of the Bank in share capital is better than that of the industry.

- Reserves and Surplus of the Bank has been stable for both the bank and the urban cooperative banks for the first 2 years, but later on it went on increasing for the selected bank but kept fluctuating for the urban cooperative banks
- From the correlation analysis and the hypothesis testing between the variables reserves and surplus and the fixed assets we came to a conclusion that there is no impact on fixed asset due to increased reserves and surplus
- The trend in deposits of the selected bank and the urban cooperative is pretty much following the same trend, they have both seen increase in the second year but has remained stable around for the remaining years in the selected period
- Looking at the trend of the Loans issued in the selected bank and the urban cooperative banks, we can see that the bank has increased the loan issued in the second year where as it falls down in the third year, then it went on increasing exponentially, where as for Urban cooperative banks, the trend fluctuated between 106% to 115%
- While analyzing the NPA of the urban cooperative banks we can see that it had reached to the maximum of 5.34% and remained at 4.57% in the final year, where as in the selected bank the NPA has been suddenly raising to 15% in the second year from 2% in the first year, then suddenly fall down to 5.88%, then again rose to 16% then fell to 11%. The NPA of the bank has been uncontrollable and the bank went on increasing the issue of loans without considering NPA.
- The correlation value between the loans issued and NPA is at 0.9541 which is strongly positive compared to that of the urban cooperative banks which is 0.81%, the hypothesis testing has also given out the conclusion that there is a significant relationship between Loans issued and increasing NPA of the bank
- The deposit made by the selected bank is pretty fluctuating which has risen up to 147% in the first year and then fall down to 76%, then again increased to 138% then down to 89%, finally increased to 120%, where as for urban cooperative banks has seen the fluctuation between minimum of 76% to maximum of 117%.
- The correlation between the interest on investments made by the selected bank is better than that of the investment made by the urban cooperative banks in total, hence, we can say that the selected bank has made a profitable investments compared to that of the urban cooperative banks
- The capital adequacy ratio of the selected bank has remained between 13%-24%, which is better than the BASEL norm which is 8%, and the RBI specified 9%, whereas more than 86% of the urban cooperative banks has more than 12% of the CRAR in all the five years.
- The return on asset of the selected has not reached the extent of urban cooperative bank in the last 5 years, hence the bank has underperformed in ROA compared to UCBs
- The net interest margin of the selected bank has been between 30%-34% in the last 5 years where as it has stayed between 3%-8% for the urban cooperative banks, from which we can say that the bank has earned better interest from its lending and spent less on interest expenses.
- The loan to deposit ratio of HNRCB, has been 90% in the first year 78 in the second year, 42 in the third and fourth year and 77% in the final year. For UCB the LDR has been 69.7% in the first year, 62.7 in the second year, 59.83 in third year, 64.05 in the fourth year and 68.49% in the fifth year. From this we can see that there is higher liquidity in HNRCB is higher compared to industry.

Below is the table representing the ratings of the CAMEL:

TYPE	RANK				
	1	2	3	4	5
Capital adequacy	11<	8-11	4-8	1-4	1>
Asset quality	1.5>	1.5-3.5	3.5-7	7-9.5	9.5<
Management quality	25%>	26-30	31-38	39-45	46<
Earnings quality	1.50<	1.25-1.5	1.00-1.25	0.75-1.00	<0.75
Liquidity	<60%	60-65	65-70	70-80	80<

Below is the CAMEL Rating of the HNRCB based on its performance analysis:

The rating system gives out rating based on the each of the above factors with One being the best and Five being the worst in the performance of the above factors

TYPE	YEAR				
	2016-17	2017-18	2018-19	2019-20	2020-21
Capital adequacy	1	1	1	1	1
Asset quality	1	5	3	5	5
Management quality	5	5	5	5	5
Earnings quality	5	5	5	5	5
Liquidity	4	4	3	4	5

- The Capital adequacy Ratio of the banks stands at 1 which is the best across all the five years
- The asset quality of the bank is very much of the volatile in nature as it is fluctuating suddenly from best to being the worst
- The management quality of the bank has been worst across all the five years of the bank which needs to be focused on carefully
- Earnings quality of the bank has also remained in the worst across five years which indicates the bad earning capability of the bank
- The liquidity of the bank has never crossed above 3 which is neither good for the bank nor for the depositors, bank need to take care of this factor also.

CONCLUSION

The current project was a great learning experience, It improved my research skills and helped me understand the quicker and accurate ways of searching for the information.

This study from the beginning of the process till the end of the report gave me an immense knowledge about how banks work and what are the various procedures they use. It helped me understand how valuable the experience of working in a bank is.

This study gave me an insight of working methods of the Cooperative Banks, how they act as the facilitators between borrowers and lenders. It also helped me understand how important a strong management in keeping the bank profitable To conclude the present study below are the key points from which it can be concluded that:

The bank has Volatility and in Its gross profit and the Net profit mainly because of the Increasing Management and the Administration Expenses.

The net interest margin which is the major source of income to the Bank has been better in the selected Bank compared to that of the Urban Cooperative Banks

The Banks trend in Share Capital and reserves and Surplus has been increasing compared to that of the Urban Cooperative Banks

The bank has to work on its credit policies, which can stabilize the issuance of loans and better control over the NPA can be gained through this, in which the UCBs are better

The Bank should also work on the adequate utilization of Assets and resources in order to gain return from it, which indicates that the ROA of the UCBs are better

This study gave me a fair understanding of the various financial metrics that are used in measuring the profitability, consistency and growth of the banks over the years. The Knowledge about various Products and services offered by the banks have been descended to me throughout the project period.

This study helped me improve my communication, methods of preparation of the reports in a professional manner. I would like to wholeheartedly thank Department of Management Studies and Research Centre, BMS College of Engineering, Basavanagudi, Bangalore. for giving me this opportunity to excel my skills and have an experience of preparing the report formally and also I would like to convey my heartfelt thanks to the Management of Hanumanthanagar Cooperative Bank in providing all the necessary guidance and materials that were helpful for the study.

**SUGGESTIONS**

- i. The bank should embrace current banking technologies to improve customer service and the bank's development.
- ii. The foregone interest income which the bank is relied from this source, can be earned through reducing the other avoidable expenses
- iii. The facility of education loan was not found in the bank, it would make the bank look more member friendly.
- iv. The interest expense of the bank is very high which is impacting the net income returns from interest, reducing the interest expense would be a suitable measure to retain more profits within the bank
- v. Bank should work on its credit policies and credit collection methods in order to reduce the NPA
- vi. It is recommended that the banks should focus more on collecting more funds through current account and savings account deposits as compared to that of other forms of deposits to maintain liquidity
- viii. The company's or customers' credit ratings must be updated on a regular basis.
- ix. In order to oversee and manage the borrower's credit risk, the bank should apply a credit rating model.
- x. They should raise knowledge about the numerous lending packages established by banks through advertising.

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