

Financial aspects of Nellore District Co-operative Central Bank

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Abstract

The District Co-operative Central Banks (DCCBS) form an integral part of the short and medium term cooperative credit structure. They provide a connecting link between the small and scattered primary societies in the district and the Apex Bank at the State level. Besides being balancing center for primary societies, DCCB act as a financier, a friend, a philosopher and a guide to all cooperative organizations at the District Level.

Sri Potti Sriramulu Nellore District Co-operative Central Bank Ltd., Nellore, was registered and started its functioning from 11.01.1918 and this is having a long cherished history of 97 years. The area of the operation of the Bank extends to Five Revenue Divisions covering 46 Revenue Mandals of the District. The Bank is providing financial assistance through 99 PACS affiliated to the Bank and 348 other type of Societies through the network of 18 Branches. Now the Nellore DCCB has come to be regarded as strategic leader of cooperative movements at the district level.

Bearing in mind the functions assigned to the Bank, an attempt has been made in this chapter to evaluate the performance of the NDCCB in owned funds, share capital reserve fund, deposit mobilization and borrowings for a period of Ten years i.e., from 2004-05 to 2013-14.

The present paper is an attempt to bring out the financial performance in term of composition of funds, Deposits and Borrowings of Nellore District Co-operative Central Bank.

Keywords: Financial aspects, Co-operative Central Bank, Nellore District

Introduction

District Co-operative Central Banks (DCCBS) form an integral part of the short and the medium term cooperative credit structure. They provide a connecting link between the small and scattered primary societies in the district and the Apex Bank at the State level. Besides being balancing center for primary societies, DCCB act as a financier, a friend, a philosopher and a guide to all cooperative organizations at the District Level^[1]. The organization of DCCBS dates back to 1912 when the cooperative societies Act, 1912 was passed. The main object of organizing DCCBS was to finance the primary societies in the District and to act as balancing centers for them. Though formed in early 1900's they could not become viable and effective even by 1950's. 'The All India Rural Credit Survey Committee (AIRCSC) observed that most of the DCCBS were small in size, financially weak, and their financial performance was extremely unsatisfactory^[2]. On the recommendations of AIRCSC, the Government and the RBI extended active support to DCCBS and with the result the banks have made rapid strides in many fields.

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The main objectives of the DCC Bare as follows^[3].

- a) To finance cooperative societies registered under the cooperative societies Act, 1964,
- b) To raise funds for the purpose of financing co-operative societies, and
- c) To establish branches in suitable centers and to carry on general banking according to the Banking Regulation Act, 1919, but with the in population of the cooperative societies Act.

Since the provisions of Banking Regulation Act, 1949 are applicable to DCCBS, they have to maintain the prescribed liquidity of their assets and they are also subject to inspection by the Reserve Bank of India.

Cooperative capital structure and the types of funds to which they have access are greatly influenced by their business and objectives besides government regulations^[4]. The capital structure consists of owned funds and borrowed funds. Share capital and reserves from the owned funds, while deposits and loans from outside represent the borrowed funds.

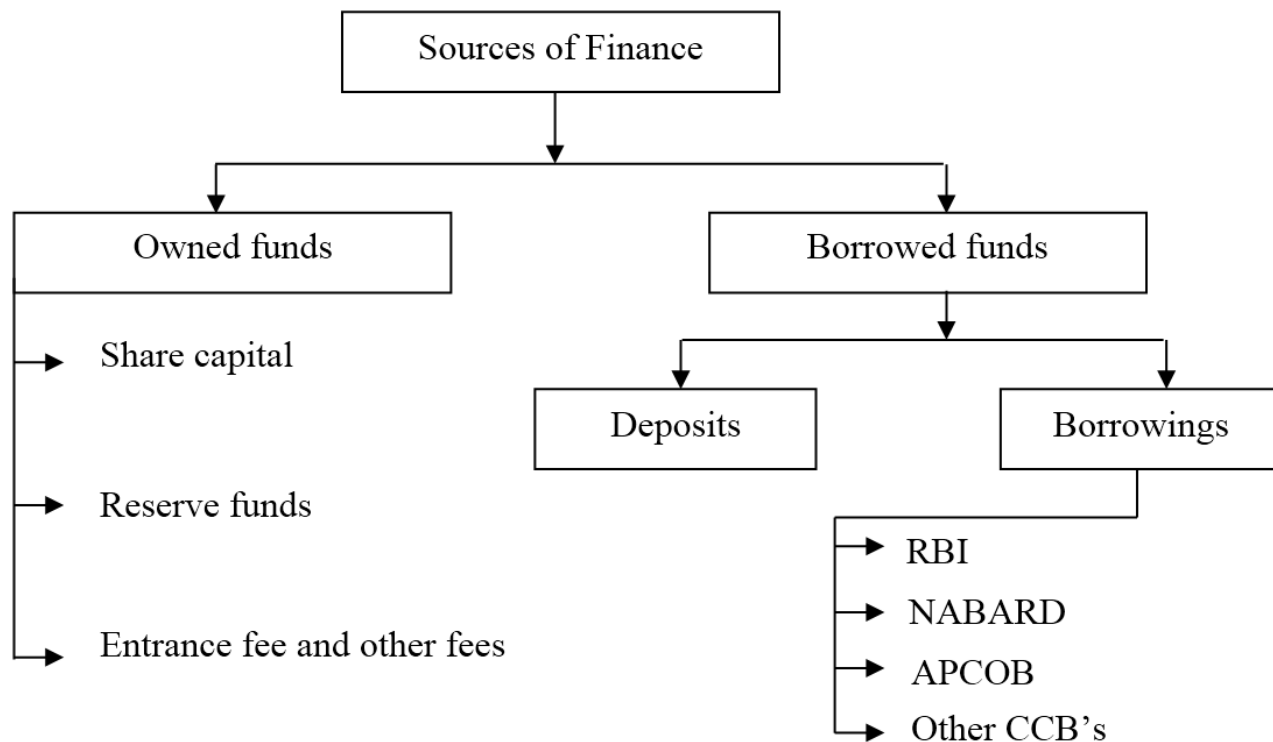


Chart 1.1: Shows the sources of Finance

Owned funds

Owned fund consists of share capital and reserves. They constitute a very important component of resource since the strength of the DCCB is based on them. They serve as a base for raising further resources by way of borrowings and deposits, because the maximum borrowing power of the DCCB is fixed

in relation to owned funds. The owned funds further act as an internal sources for absorbing over dues and bad debts if any in the DCCB. Further, the eligibility of credit limit from NABARD is determined on the basis of the owned funds. Table 1.1 reveals the trends in owned funds in Nellore District Co-operative Central Bank.

Table 1.1: Owned Funds (Rs. Lakhs)

Composition of owned funds			
Year	Share capital	Reserve fund	Owned fund
2004-05	4646.52 (96.21)	182.79 (3.79)	4829.31 (100)
2005-06	4746.37 (91.76)	426.26 (8.24)	5172.83 (100)
2006-07	4841.01 (92.93)	368.48 (7.07)	5209.49 (100)
2007-08	4933.28 (92.88)	478.18 (7.12)	5311.46 (100)
2008-09	5032.69 (90.71)	515.27 (9.29)	5547.96 (100)
2009-10	5329.94 (91.18)	515.27 (8.82)	5845.21 (100)
2010-11	5360.75 (70.67)	2224.95 (29.33)	7585.70 (100)
2011-12	5493.58 (73.94)	1936.34 (26.06)	7429.92 (100)
2012-13	5643.02 (74.22)	1959.57 (25.78)	7602.53 (100)
2013-14	5828.17 (70.15)	2479.35 (29.85)	8307.52 (100)
CGR (%)**	2.55	33.60	6.21
T-test calculated value	40.7440*	3.8388*	15.3796

Notes: Figures in parentheses represent percentages to total

** CGR = Compound growth rate in per cent

: * Significant at 1 per cent level.

Source: Annual reports of Nellore DCC Bank. (2004-2014).

It is evident from table 1.1 that owned funds increased from Rs.4829.31 lakhs in 2004-05 to Rs.8307.52 lakhs in 2013-14, thereby showing a positive growth of 72.02 per cent during the study period. The percentage share of share capital to the owned

funds was 96.21 per cent in 2004-05 which declined to 70.15 per cent by 2013-14. The proportion of Reserved fund to owned funds was 3.79 percent in 2004-05 and it went up 29.85 percent by 2013-14.

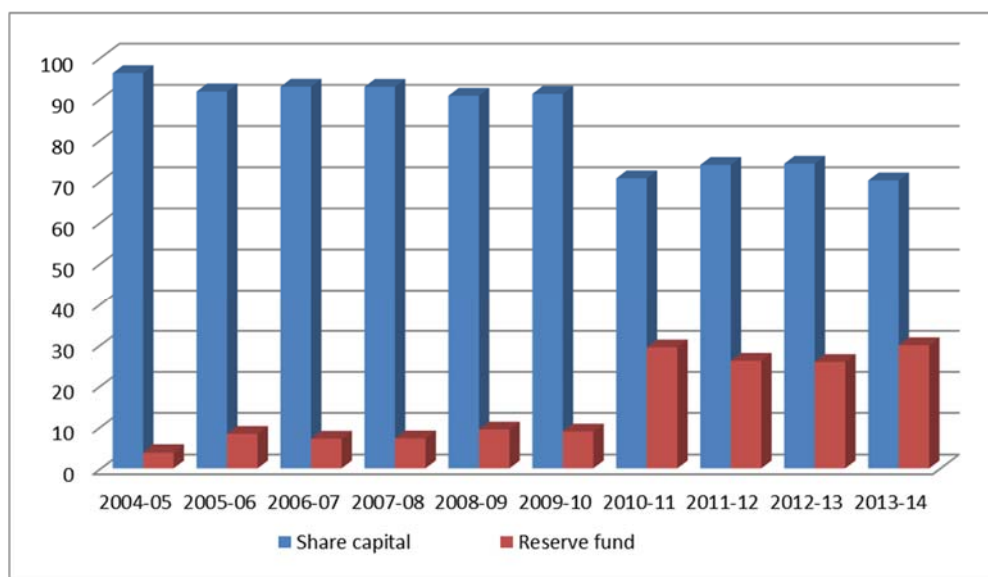


Fig. 1.1: Composition of Owned Funds

Share capital

The share capital is raised from three sources, namely, societies, the state Government and individual members. While the share capital from societies and individual members is related to the loan borrowings, the Government's share capital contribution is related to certain norms to be fulfilled by the DCCB. As regards capital structure of a district cooperative central Bank, the Government participation in share capital is essential. The

Banking commission visualized that the share capital contribution by the state Governments "as a powerful helping hand may be held out, capable of guarding the primary structure against dangers and weaknesses inherent in the present functions of the system as a whole [5]. The participation of the state Government not only strengthens the financial structure of the bank but also helps in creating confidence in the public about the bank.

Table 1.2: Share capital of NDCCB

Year	A' Class		B' Class	Total	Percentage change over proceeding year
	State Govt.	Socities	Individuals		
2004-05	3353.24 (72.17)	1248.73 (26.87)	44.55 (0.96)	4646.52 (100)	-
2005-06	3353.24 (70.65)	1349.20 (28.42)	43.95 (0.93)	4746.39(100)	+2.14
2006-07	3353.24 (69.27)	1444.16 (29.83)	43.61 (0.90)	4841.01 (100)	+1.99
2007-08	3353.24 (67.27)	1535.79 (31.13)	44.24 (0.90)	4933.27 (100)	+1.90
2008-09	3353.24 (66.63)	1634.00 (32.47)	45.46 (0.90)	5032.70 (100)	+2.01
2009-10	3353.24 (62.68)	1931.64 (36.11)	64.60 (1.21)	5349.48 (100)	+6.29
2010-11	3353.24 (62.55)	1942.71 (36.24)	64.80 (1.21)	5360.75 (100)	+0.21
2011-12	3353.24 (62.55)	2077.44 (36.31)	62.90 (1.14)	5493.58 (100)	+2.48
2012-13	3353.24 (62.55)	2235.30 (36.49)	54.48 (0.96)	5643.02 (100)	+2.72
2013-14	3353.24 (62.55)	2474.93 (36.41)	60.52 (1.04)	5828.17 (100)	+3.28
CGR (%)	NA	7.90	3.46	2.55	
T-cal. value	NA	13.8952*	17.6858*	40.6762*	

Notes: Figures in parantheses are percentages to the total
: NA= Not applicable

: * significant at 1 per cent level

Source: Annual Reports of Nellore DCCB (2004-14).

It is increasingly that share capital of NDCCB has been steadily increasing throughout the study period. The share capital reached the figure of Rs.5828.17 lakhs by the end of 2013-14 from Rs.4646.52 lakhs in 2004-05. Over a period of 10 years, Rs.1181.65 lakhs was augmented to share capital. However, an increase from year to year has been 0.21 percent and 6.29 percent during the years under study.

Increasing in share capital of the Bank was mainly due to the contribution of Andhra Pradesh State Government. Andhra Pradesh state government participation in the total share capital of Nellore DCCB stood at Rs.3353.24 lakhs in 2004-05 and this had not increased to Rs.3353.24 lakhs by 2013-14. The State

Government's share in total share capital has gone upto 72.17 percent from mere 62.55 percent. As per the RBI guide lines the State Government participation of DCC Bank [6]. With regard to the societies share in the share capital, there has been a continuous positive growth during the study period. The societies participation enlarged from 1248.73 lakhs in 2004-05 Rs.2474.93 lakhs by 2013-14, thus indicating an impressive growth of 26.87 percent. Thus share of societies participation stood 36.41 percent by the end of 2013-14. As far as individuals' participation is concerned from Rs.44.55 lakhs in 2004-05, it increased to Rs.60.52 lakhs by 2013-14.

Reserve Funds

A reserve fund is important not merely the point of view of members confidence but also that of creditors confidence. The motive to create the reserve fund is.

- To meet the unforeseen losses;
- To give financial strength; and
- To bolster out siders's confidence.

In this connection Eleanor Hough has remarked that "more important from the point of members' security is an adequate reserve fund [7]. The creation, maintenance and utilization of reserve fund shall be according to the promisions of Andhra Pradesh Cooperative Society Act of 1964. The DCCB maintains three types of reserves, namely, statutory reserve fund bad and doubt ful reserves and other reserves. The purpose of these reserves is to enable the DCCBS, when ever necessary, to write off the bad defts and to meet other unforeseen demands.

Table 1.3 provides the information relating to the progress of reserve fund in Nellore DCCB.

Table 1.3: Progress of Reserve Fund in Nellore DCCB

Year	Reserve fund	Percentage change over preceding year
2004-05	182.79	-
2005-6	426.46	+133.30
2006-07	368.48	-86.40
2007-08	378.18	+2.63
2008-09	515.27	+36.24
2009-10	515.27	+0.00
2010-11	222.49	-43.18
2011-12	193.63	-87.03
2012-13	195.95	+1.20
2013-14	247.93	+26.53
CGR (%)	3.44	
T-cal. value	7.7482*	

Note: Significant at 1 per cent level.

Source: Annual Reports of Nellore DCC Bank (2004-14)

A glance at Table 1.3 indicates that the Reserve fund which was Rs.182.79 lakhs in 2004-05 and rose strikingly to 247.93 lakhs by 2013-14, thus it signifies the negative growth of 35.64 percent during the study period. The decline and growth was not continuously over the study period, the positive trend and negative trend could be seen. However, there were changes in the growth of the Reserve fund, fluctuating between -87.03 percent and +133.30 percent. It is disheartening to note that accumulated had eraded the net profit leading to non-allocation of profits to reserve fund.

Deposits Mobilization

The deposit of the Bank is gradually increasing year after years. The Bank has focused special attention to mobilize the low cost deposits by adopting CASA methodology. The Bank has made self imposed targets to all Branches / Staff to open to organize and mobilize deposits, and it will be reviewed by the Board of Management of the Bank at regular intervals.

Deposits are one of the important sources of working capital of a central cooperative Bank. Mobilization of deposits forms an integral part of financial planning. The volume of deposits collected by a cooperative Bank in relation to deposit potential of its area is considered to be a reliable index of the performance of the Bank in this respect [8]. Increased deposits will enable the bank to reduce its dependence on external borrowings. It is the size of the deposits that largely decides the lending activities of a bank. Thus, the importance of deposit mobilization for a bank needs a great emphasis.

It has also gained further importance in view of the fact that Reserve Bank of India (RBI) has linked the concessional finance to the deposits mobilization performance of the central bank [9]. The public confidence is reflected in the volume of business [10]. The rural credit survey committee has expressed the view that the primary agricultural credit societies should be encouraged to deposit their funds with the central banks in order that the central cooperative Banks may have more deposits [11]. The mobilization of deposits is essential for the development of business and for meeting the financial requirements of Primary Agricultural credit societies. District Central Cooperative Banks mobilize various kinds of deposits from the members and non-members in the district. In mobilization of deposits it becomes necessary for these banks to compete with commercial banks. So, the central cooperative Banks are offering half a percent higher interest on various kinds of deposits, which is also permitted by the RBI [12].

Generally, the depositors particularly, low income group are more attracted to the higher interest rates. The guarantee from the state Government on fixed deposits for over three years of duration is given to the depositors. More ever, on each deposit up to Rs.30,000 deposit insurance coverage provided by deposit insurance and credit Guarantee corporation of India (CGCI) is also available. Hence Nellore DCCB has no problems in mobilizing various types of deposits.

The deposits accepted by Nellore DCCB can be divided mainly into fixed deposits, current deposits, saving deposits and miscellaneous deposits. The details of which are given in Table 1.4.

Table 1.4: Deposit Mobilisation (Rs. Lakhs)

Year	Fixed Deposits	Current Deposits	Saving Deposits	Miscellaneous Deposits	Total
2004-05	59.40 (15.21)	14.86 (3.80)	64.33 (16.33)	251.83 (64.50)	390.42 (100)
2005-06	49.14 (11.78)	80.92 (19.39)	64.00 (15.34)	223.06 (53.47)	417.12 (100)
2006-07	54.97 (12.96)	91.45 (21.56)	80.42 (18.96)	197.13 (46.49)	423.97 (100)
2007-08	51.88 (11.72)	19.27 (4.35)	79.37 (17.93)	292.01 (65.98)	442.53 (100)
2008-09	53.59 (7.05)	36.57 (4.81)	79.34 (10.44)	589.88 (77.67)	759.38 (100)
2009-10	54.82 (6.37)	29.54 (3.42)	79.77 (9.24)	698.87 (80.98)	863.00 (100)
2010-11	58.76 (7.30)	89.72 (11.14)	98.37 (12.22)	558.27 (69.34)	805.12 (100)
2011-12	67.48 (7.11)	91.12 (9.60)	97.11 (10.23)	693.62 (73.06)	949.33 (100)
2012-13	69.52 (7.12)	97.29 (9.96)	99.02 (10.14)	710.63 (72.78)	976.46 (100)
2013-14	74.79 (6.38)	102.45 (8.75)	118.48 (10.11)	875.97 (74.76)	1171.69 (100)
CGR (%)	2.59	23.93	7.02	14.86	12.99
T-cal. value	22.2686*	5.8136*	15.9652*	6.5326*	8.0677*

Notes : Figures in parentheses are percentage to the total

: * Significant at 1 per cent level

Source : Annual Reports of Nellore DCC Bank. (2004-14)

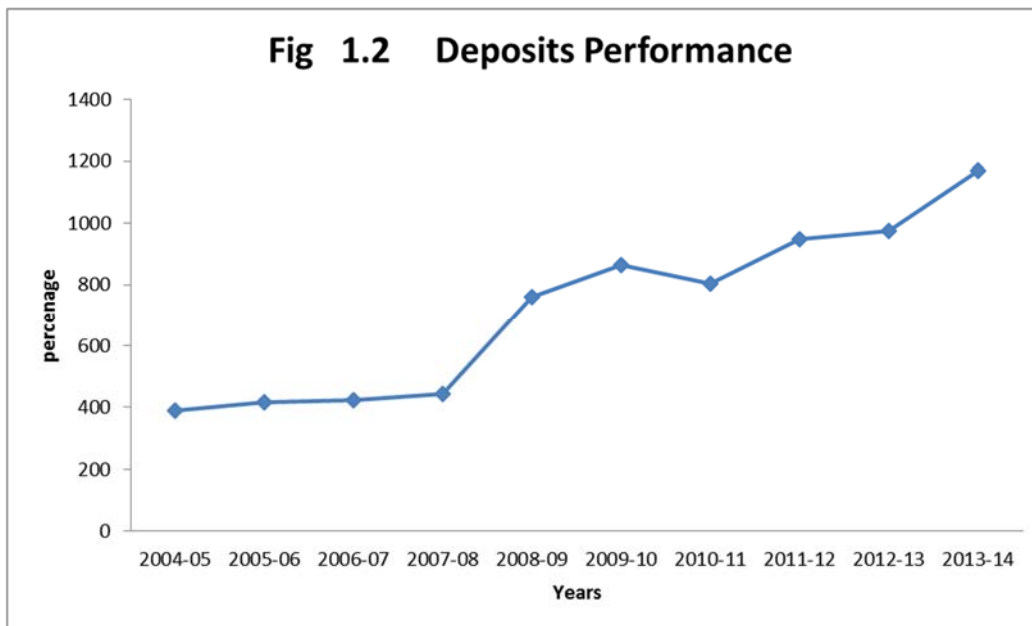


Fig.1.2: Deposits Performance

An analysis of the Table 1.4 points out that the total deposits in 2004-05 were Rs.390.42 lakhs and by 2013-14 they were increased up to Rs.1171.69 lakhs, thus indicating a positive growth of 200.11 percent during the study period. Barring 2010-11 (-6.71), a positive trend was shown in all the years under reference. However there were variations from year to year deposits mobilization, fluctuating between -6.71 percent and +19.99 percent.

As far as fixed deposits are concerned, they stood at Rs.59.40 lakhs in 2004-05 which increased to Rs.74.79 lakhs by 2013-14, revealing a positive growth of 2.12 percent during the study period. The percentage share in the total deposits during the said period ranged between 15.21 percent and 6.36 percent.

With regard to current deposits there was Rs.14.86 lakhs in 2004-05 which was increased to Rs. 102.45 lakhs, thus acknowledging a positive trend of 23.93 percent during the period. The positive growth could be seen in three out of 10 years. The quantum of saving deposits augmented from RS.64.33 lakhs in 2004-05 to Rs.118.48 lakhs in 2013-14. Significantly, the growth of 7.02 percent of the study period.

The miscellaneous deposits include societies thrift deposits, societies reserve fund employees security deposits and other deposits. The amount was Rs.251.83 lakhs in 2004-05 and rose to Rs.875.97 lakhs by 2013-14, thus signifying a positive trend of 14.86 percent during the study period

The percentage share of miscellaneous deposits to the total deposits fluctuated between 46.49 percent and 77.67 percent. Table 1.4 is also indicates the fact that the quantum of miscellaneous deposits was higher than that of the fixed, current and saving deposits. If the bank had taken steps to the increase the all deposits, the profits of the banks might have been stepped up further.

Borrowings

Borrowings is inevitable to the credit co-operative when the internal resources are not sufficient. The quantum of borrowed money depends upon the growth of internal funds and the repayment performance. To quote sivagnam and Srinivasan "The management of credit is more flexible and effective if the

co-operative credit institution depends less on resources borrowed ^[13].

The borrowings are limited to six times the aggregate paid up share capital plus reserve fund or such other enhanced limit as may be permitted by the registrar of co-operatives from time to time. The central bank has to transfer the mortgaged or charged properties and its other assets to the state co-operative bank ^[14]. When the internal resources of a central co-operative bank are not sufficient to meet its credit requirements, it becomes a normal feature of the bank to borrow from external sources. The volume of borrowings depends upon the magnitude of the banks own funds. The register of co-operative societies fixes the limits of borrowings from time to time. The NDCCB borrows from the Andhra Pradesh state co-operative bank as well as from the Reserve Bank of India.

Table 1.5: Progress in Borrowings (In lakhs)

Year	Borrowings	Yearly Growth
2004-05	17143.42	-
2005-06	18565.23	+8.29
2006-07	20374.04	+9.74
2007-08	17143.79	-15.14
2008-09	11015.68	-35.75
2009-10	18005.38	+63.45
2010-11	18570.23	+3.14
2011-12	19849.87	+6.82
2012-13	20649.92	+4.03
2013-14	22410.88	+8.53
CGR (%)	3.02	
T-cal. value	18.9013*	

Note: Significant at 1 per cent level.

Source: Annual reports of Nellore DCC Bank. (2004-14)

It is apparent that the borrowings have increased by 63.45 percent under the reference. The borrowings have both negative and positive growths during the period of 2004 to 2014, due to liberalization of loan policies and heavy over dues. But the overall growth of borrowings indicate that the bank had depended for finance more on the external funds.

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