IJRESM
International Journal of Research in Engineering, Science and Management
Volume-3, Issue-6, June-2020
www.ijresm.com | ISSN (Online): 2581-5792

A Comparative Study of Financial Performance of H.P. State Co-Operative Bank Ltd.

Jyoti Sondhi
Professor, Department of Management, Abhilashi University, Mandi, India

***Abstract*: The financial statements are the results of the accounting process which begins with regarding of transactions. The accounting process involves recording, classifying and summarizing business transactions in a systematic way. The term 'Financial Analysis' is also known as analysis and interpretation of financial statements. It refers to the process of determining the financial strengths and weakness of a firm by establishing strategic relationship between the items of the balance sheet, profit &loss account and other operative data. The Financial Statements are generally prepared for the measurement of financial position of a particular company for a particular period of time. The financial statements i.e. (i) Profit and loss account and (ii) Balance sheet provide useful information regarding financial situation of company. The information has its own value, but if someone wants to have better judgment of the concern, he has to analyses them. This paper provides the guidelines about analysis of financial performance of H.P. state Co-operative Bank Ltd.**

***Keywords*: Financial performance**

1. Introduction

Co-operative structure plays an important role in Indian financial system. In India three tier cooperative structures 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 31.03.2019. 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.

2. Objective of study

1. To study the progress of HPSCB.
2. To know the growth of membership and share capital in the HPSCB.
3. To analyze the growth and composition of Cash and Cash Deposit Ratio (CDR) in HPSCB.
4. To study the growth and composition of Working capital in HPSCB.
5. To analyze the growth and composition of Income and Expenditure of HPSCB.
6. To study the Trends in Profits and Earnings per shareholder of HPSCB.

3. Research methodology

The research article is based upon exploratory research. Secondary data such as Balance sheets with schedule and profit and loss account of HPSCB were collected for the period 2013-14 to 2017-2018. Some of the data were collected from statistical department publication; Indian banks association publications, Published journals, newspapers and Books.

Tools used for analysis of data Analysis of data is made using certain tools and techniques such as Ratio Analysis. Profitability and Management Efficiency have also been used to analyze the overall financial and operational performance of these banks in the state.

4. Financial statement analysis

Interpretation

- The capital of bank increased by 14% in 2015-16,0.8% in2016-017,17% in 2017-18, and .04 % in 2018-19.This shows that there is fluctuation in the rate of increase in the capital. In 2015-16 and 2017-18 the rate of increase in capital is more than that of 2016-17 and 2018-19.
- There is a huge fluctuation in the rate of increase in reserves and surplus also. This shows that bank is effectively utilizing its reserves and surplus.
- In 2015-16 deposits increase by 65%, in 2016-17, it increased by 40%, and an increase of 6% in 2017-18.in 2018-19 deposits fall by 11%.this shows that the bank has repaid its deposits in this year.
- The borrowings are also showing a fluctuating rate of increase in 2018-19 the borrowings have increased at

Table 1
Comparative Balance Sheet of HPSCB From 2015-2016 to 2018-2019

PARTICULARS	(Rs. in crores)							
	2015-2016		**2016-2017**		**2017-2018**		**2018-2019**	
	Absolute Change	**% of Change**	**Absolute change**	**% of change**	**Absolute Change**	**% of Change**	**Absolute Change**	**% of Change**
Capital and liabilities								
Capital	153.08	14	9.51	0.8	213.34	17	0.61	.04
Reserves and	9502.96	80	2097.76	10	21943.61	94	3062.2	7
Surplus								
Deposits	65264.39	65	65427.02	40	13920.86	6	(26083.23)	(11)
Borrowings	4977.41	15	12734.12	33	14392.4	28	1675.26	2.5
Other Liabilities and Provisions	3831.71	18	13000.76	51.5	4666.75	12	851.04	2
Total capital and liabilities	**83729.55**	**50**	**93269.17**	**37**	**55136.96**	**16**	**(20494.12)**	**(5.1)**
ASSETS:								
Investments	21060.04	42	19710.45	27.5	20196.5	22	(8396.03)	(7.5)
Advances	54757.96	60	49702.49	34	29750.48	15	(7305.23	(3.25)
Fixed assets	(57.32)	(1.4)	(57.3)	(1.4)	185.47	5	(307.27)	(7.5)
Capital Work in Progress	51.64	54	41.72	28.2	(189.66)	-100	0.00	0.00
Current assets	7917.23	37	23871.8	81	5194.17	10	(4485.58)	(8)
Total assets	**83729.55**	**50**	**93269.16**	**37**	**55136.96**	**16**	**(20494.11)**	**(5.1)**

Table 2
Comparative Income statement of HPSCB bank from 2015-2016 to 2018-2019

PARTICULARS	2015-2016		2016-2017		2017-2018		2018-2019	
	Absolute change	% of change	Absolute change	% of change	Absolute change	% of change	Absolute change	% of change
INCOME:								
Operating Income	5491	46.3	10156	54.1	10676	37	(902.84)	(2.3)
Expenditure								
Interest expended	3026.56	46	6761.05	70.4	7125.74	43.5	(758.31)	(3)
Operating expenses	1180.36	36	2211.05	49.3	1463.62	22	(1109.07)	(14)
Total expenses	4206.92	43	8972.1	64	8589.36	37.2	(1867.38)	(5.9)
Operating profit	1734.67	59	1183.73	25.2	2086.29	35.5	964.54	12.1
Provision and contingencies	1199.8	126.1	613.58	28.5	1038.78	37.5	1364.54	36
Net profit for the year	534.87	27	570.15	22.4	1047.51	34	(399.6)	(10)
Extraordinary items	0.00	0.00	0.00	0.00	0.00	0.00	(0.58)	0.00
Profit brought forward	135.13	254.5	105.22	56	704.83	21	1438.05	144
TOTAL PROFIT/LOSS:	670	32.55	675.37	25	1752.34	51.4	1037.87	20

a very low rate. This shows that bank has repaid a large amount of borrowings in this year and thereby reducing the dependence on outside debt.

- The investments are also increasing but with lower rates compared to the preceding years.
- Similarly advances rose by 60% in 2015-16, an increase of 34% in 2016-17,15% increase in 2017-18 and finally decreased by 3.25% in 2018-19.
- There has been a consistent decline in the fixed assets over years. In 2015-16 and 2016-17 it decreased by 1.4 %, increased by 5% in 2017-18 and again decreasing by 7.5% in 2018-19. This is mainly due to increase in the rate of depreciation in the subsequent years.
- A huge fluctuation is revealed from current assets. It increased by 37% in 2015-16, rate of increase rose to 80% in 2016-17 and then it increased at a much lower rate i.e. at 10%. This shows that the bank is effectively utilizing its working capital. there is a fall in current assets in 2018-19 by 8 %. This is mainly due to the repayment of deposits in the years 2017-18.

International Journal of Research in Engineering, Science and Management
Volume-3, Issue-6, June-2020
www.ijresm.com | ISSN (Online): 2581-5792

Interpretation

- The net profit shows a fluctuating trend i.e. it increased by 27% in 2015-16,22.4% increase in 2016-17, and increased by 34% in 2017-18 and finally if falls by 10% in2018-19. This may be due to decline in operating income and increased tax liability in the year 2018-19.
- The interest expenses from the period 2014 to 2017 showed an increasing trend but decreased in 2018-19 due to repayment of borrowings.

A. Trend analysis

Table 3
Trend Percentage of HPSCB from 2014-2015 to 2018-2019

(Base year 2014 -15)		Percentage (%) figures			
Particulars	2015	2016	2017	2018	2019
Deposits	100	165	231	245	219
Advances	100	160	214	247	239
Net profit	100	127	155	207	187

Interpretation

- There is a continuous increase in the deposits till the year ending 2018 followed by a downfall in the year ending 2019 due to repayment or deposits in this year.
- Similarly advances also shows as increasing trend till the year ending 2018 followed by a slight downfall in the year ending 2019.
- The overall performance of the bank is satisfactory.

B. Ratio analysis

Current ratio:

An indication of a company's ability to meet short-term debt obligations; the higher the ratio, the more liquid the company is. Current ratio is equal to current assets divided by current liabilities. If the current assets of a company are more than twice the current liabilities, then that company is generally considered to have good short-term financial strength. If current liabilities exceed current assets, then the company may have problems meeting its short-term obligations.

Current Ratio = Current Assets / Current Liability

Table 4
Current ratio

Year	Current Assets (Rs. In crores)	Current Liabilities (Rs. In crores)	Current Ratio
2015	21632.56	21396.16	1.01
2016	29549.79	25227.88	1.17
2017	53421.59	38228.64	1.39
2018	58615.76	42895.38	1.36
2019	54130.18	43746.43	1.23

Interpretation:

- An ideal solvency ratio is 2. The ratio of 2 is considered as a safe margin of solvency due to the fact that if current assets are reduced to half (i.e.) 1 instead of 2, then also the creditors will be able to get their payments in full.
- But here the current ratio is less than 2 and more than 1 which shows that the banks have current assets just equal to the current liabilities which are not satisfactory as the safety margin is very less or zero. Therefore, the bank should keep more current assets so that it can maintain a satisfactory safety margin.

Liquid ratio:

Liquid ratio is also known as ‘Quick’ or ‘Acid Test ‘Ratio. Liquid assets refer to assets which are quickly convertible into cash. Current Assets other stock and prepaid expenses are considered as quick assets.

Table 5
Liquid ratio

2015	12929.97	21396.16	0.60
2016	17040.22	25227.88	0.67
2017	37121.33	38228.64	0.97
2018	38041.13	42895.38	0.88
2019	29966.56	43746.43	0.68

Earnings per share:

In order to avoid confusion on account of the varied meanings of the term capital employed, the overall profitability can also be judged by calculating earnings per share with the help of the following formula:

Earning Per Equity Share = Net Profit after Tax –Preference

Dividend No. of Equity shares

The earnings per share of the company help in determining the market price of the equity shares of the company. A comparison of earning per share of the company with another will also help in deciding whether the equity share capital is being effectively used or not. It also helps in estimating the company’s capacity to pay dividend to its equity shareholders.

Table 6
Earning per share

Year	Net Income Available for Shareholders (Rs. in crores)	No. of Equity Shares (Rs. in crores)	EPS
2015	2005.2	73.6716	27.22
2016	2540.07	88.9823	28.55
2017	3110.22	89.9266	34.59
2018	4157.73	111.2687	37.37
2019	3758.13	111.325	33.78

Interpretation

Earnings Per Share is the most commonly used data which reflects the performance and prospects of the company. It affects the market price of share. Here the Earning Per Share is shows a persistent increase till the year 2018 after that in the year 2019. Earnings Per share is followed by a downfall due to decline in profits.

Dividend per share:

It is expressed by dividing dividend paid to equity shareholders by no. of equity shares. This shows the per share dividend given to equity shareholders. It is very helpful for potential investors to know the dividend paying capacity of the company. It affects the market value of the company.

Dividend Per Share = Dividend Paid to Equity Shareholders

No. of Equity Shares

Table 7
Dividend per share

Year	Dividend Paid (Rs. in crores)	No. of Equity Shares (Rs. in crores)	DPS
2015	632.96	73.6716	8.59
2016	759.33	88.9823	8.53
2017	901.17	89.9266	10.02
2018	1227.7	111.2687	11.03
2019	1224.58	111.325	11

Interpretation

Here the Dividend per Share is increasing year after year except a little decline in 2018.otherwise the dividend per share ratio of the bank is quite satisfactory which shows the bank has a good dividend paying capacity.

Net profit ratio:

This ratio indicates the Net margin on a sale of Rs.100. It is calculated as follows:

Net Profit Ratio = Net Profit X 100

Net Sales

This ratio helps in determining the efficiency with which affairs of the business are being managed. An increase in the ratio over the previous period indicates improvement in the operational efficiency of the business. The ratio is thus on effective measure to check the profitability of business.

Table 8

Year	Net Profit (Rs. In crores)	Sales (Rs. In crores)	Net Profit Ratio (in %)
2015	2005.2	9409.9	21.3
2016	2540.07	13784.49	18.42
2017	3110.22	22994.29	13.52
2018	4157.73	30788.34	13.5
2019	3758.13	31092.55	12.08

Interpretation

Although both the sales and net profit have increased during the above period but the Net Profit Ratio of the bank is declining continuously. This is because of the reason that net profits have not increased in the same proportion as of the sales.

C. Operating profit ratio

This ratio is calculated as follows:

Operating Profit Ratio = Operating Profit X100

Net Sales

The difference between net profit ratio and net operating profit ratio is that net operating profit is calculated without considering non-operating expenses and non-operating incomes. If we deduct this ratio from 100, the result will be operating ratio. Higher operating profit ratio enables the organization to recoup non-operating expenses out of operating profits and provide reasonable return.

Table 9

Year	Operating Profit (Rs. In crores)	Sales (Rs. In crores)	Operating Profit Ratio (in %)
2015	2956	9409.9	31.41
2016	4690.67	13784.49	34.02
2017	5874.4	22994.29	25.54
2018	7960.69	30788.34	25.85
2019	8925.23	31092.55	28.7

Interpretation

In the year 2015 & 2016 the operating profit is 31.41% & 34.02% respectively. After that it has been consistently declined from the year 2017 till 2018 and again gaining momentum in 2019. This may be due to the reason that operating expenses have been increased more as compared to sales during the above period consequently reducing the operating profits. Therefore, the bank should check on unnecessary operating expenses to correct this situation and to provide a sufficient return.

D. Return on net worth:

It measures the profitability of the business in view of the shareholders. It judges the earning capacity of the company and the adequacy of return on proprietor’s funds. Shareholders and potential investors are interested in this ratio. It is calculated as below:

Return on Net worth = Net Profit after Interest and Tax x 100
Shareholder’s Funds

Table 10

Year	Net Profit After Interest and Tax (Rs. In crores)	Shareholder's Fund (Rs. In crores)	Return On Net Worth (in %)
2015	2005.2	12899.97	15.54
2016	2540.07	22555.99	11.26
2017	3110.22	24663.26	12.61
2018	4157.73	46820.21	8.88
2019	3758.13	49883.02	7.53

Interpretation:

The net profit after interest and tax have increased slowly till the year 2018 followed by a downfall due to high interest payments, operating expenses and taxation liability. Consequently, the net worth ratio has declined considerably and has reduced to more than half in the year 2019 than it was in 2015.

E. Return on capital employed

It establishes relationship between profit before interest and tax and capital employed. It indicates the percentage of return on the total capital employed in the business. This ratio is also known as Return On Investment. It measures the overall efficiency and profitability of the business in relation to investment made in business. It also shows how efficiently the resources are used in the business. Comparison of one unit with that of the other or performance in one year with that of the same unit is possible. It is calculated as below:

Table 11

Year	Net Profit Before Interest and Tax (Rs. In crores)	Capital Employed (Rs. In crores)	Return on Capital Employed (in %)
2015	9098.09	146263.25	6.22
2016	12694.05	226161.17	5.61
2017	20006.54	306429.48	6.52
2018	28540.34	356899.69	7.99
2019	27842.9	335554.53	8.29

Interpretation

The above table exhibits the return on capital employed ratio of the bank for last five years. This ratio measures the earning of the net assets of the business. The ratio was 6.22% in year 2015. After that it raised to the tune of 5.61%, 6.52%, 7.99% and 8.29% in year 2016, 2017, 2018 and year 2019 respectively. It leads to the conclusion bank rising but very little proportion of return on capital employed.

F. Debt- equity ratio

The Debt-Equity ratio is calculated to find out the long- term financial position of the firm. This ratio indicates the relationship between long-term debts and shareholder's funds. The soundness of long-term financial policies of a firm can be determined with the help of this ratio.

It helps to assess the soundness of long-term financial policies of a business. It also helps to determine the relative stakes of outsiders and shareholders. Long-term creditors can assess the security of their funds in a business. It indicates to what extent a firm depends upon lenders to meet its long- term financial requirements. A low Debt-Equity ratio is considered better from the point of view of creditors.

Table 12

Year	Debt (Rs. In crores)	Equity (Rs. In crores)	Debt Equity Ratio
2015	154759.45	12899.97	11.99
2016	228832.96	22555.99	10.14
2017	319994.86	24663.26	12.97
2018	352974.87	46820.21	7.53
2019	329417.94	49883.02	6.6

Interpretation

The ratio shows the extent to which funds have been provided by long-term creditors as compared to the funds provided by the owners. Here the Debt-Equity ratio for the above period is always high. This shows that the bank is more relying on outside funds as compared to internal sources of capital, in its capital structure. From the long-term lenders point of view this ratio is not satisfactory.

G. Proprietary ratio

It is also called shareholders equity to total equity ratio or net worth to total assets ratio or equity ratio. It compares the shareholder's funds to total assets. It is calculated by dividing shareholder's funds by total assets.

Proprietary Ratio = Shareholder's Fund

Total Assets

It helps to determine the long-term solvency of a company. This ratio measures the protection available to the creditors. Higher the ratio, lesser is the likelihood of insolvency in future, as the management has to use lesser debts and vice versa. Thus, this ratio is of great importance to the creditors.

Table 13

Years	Shareholder's Funds (Rs. In crores)	Total Assets (Rs. In crores)	Proprietory Ratio
2014	12899.97	167659.4	0.07
2015	22555.99	251388.95	0.08
2016	24663.26	344658.11	0.07
2017	46820.21	399795.07	0.12
2018	49883.02	379300.96	0.13

Interpretation

Above table exhibits the proprietary ratio of the bank for last five years. It was 7% in 2014, after that was 8% in year 2015. Similarly, it was once again reduced to 7 % in the year 2016. After 2016 it registered increase and was 12% and 13% in the year 2017 and 2018 respectively. Hence it leads to the conclusion owners have less than 13% stake in the total assets of the bank. It is not a good sign as far the long term solvency is concerned.

H. Fixed assets turnover ratio

It is also called as Sales to Fixed Assets Ratio. It measures the efficient use of fixed assets. This ratio is a measure of efficient use of fixed assets. It is calculated as:
Fixed Assets Turnover Ratio = Cost of goods sold or Sales

Net Fixed Assets

It measures the efficiency and profit earning capacity of the business. Higher the ratio, greater is the intensive utilization of fixed assets and a lower ratio shows under utilization of the fixed assets. This ratio has a special importance for manufacturing concerns where investment in fixed assets is very high and the profitability is significantly dependent on the utilization of these assets.

Table 14

Year	Sales (Rs. In crores)	Net Fixed Assets (Rs. In crores)	Fixed assets Turnover Ratio
2015	9409.9	4038.04	2.33
2016	13784.49	3980.72	3.46
2017	22994.29	3923.42	5.86
2018	30788.34	4108.89	7.49
2019	31092.55	3801.62	8.17

Interpretation

Here the fixed assets employed in the business shows a

International Journal of Research in Engineering, Science and Management
Volume-3, Issue-6, June-2020
www.ijresm.com | ISSN (Online): 2581-5792

Table 16

	2015	2016	2017	2018	2019
Profit before tax	2,527.20	3,096.61	3,648.04	5,056.10	5,116.97
Net cash flow-operating activity	9,131.72	4,652.93	23,061.95	-11,631.15	-14.188.149
Net cash used in investing activity	-3,445.24	-7,893.98	-18,362.67	-17,561.11	3,857.88
Net cash used in fin. Activity	-1,227.13	7,350.90	15,414.58	29,964.82	1,625.36
Net inc/dec. In cash equivalent	4,459.34	4,110.25	20,081.10	683.55	-8,074.57
Cash and equivalent begin of year	8,470.63	12,929.97	17,040.22	37,357.58	38,041.13
Cash and equivalent and of year	12,929.97	17,040,22	37,121.32	38,041.13	29,966.56

decreasing trend except in the year 2008 where fixed assets have again increased. This may be due to increase in rate of depreciation in subsequent years. Nevertheless, the fixed assets turnover ratio has been consistently increasing. It indicates that fixed assets have been effectively used in the business without much additional investment in the period of study and also the capital is not blocked in fixed assets.

I. Credit deposit ratio

This ratio is very important to assess the credit performance of the bank. The ratio shows the relationship between the amount of deposit generated by the bank has well as their deployment towards disbursement of loan and advances. Higher credit deposit ratio shows overall good efficiency and performance of any banking institution.

$$\textit{Credit Deposit Ratio} = \frac{\text{CREDIT}}{\text{DEPOSIT}} \times 100$$

Table 15

Year	Advances (Rs. In crores)	Deposits (Rs. In crores)	Credit Deposit Ratio in %
2015	91405.15	99818.78	91
2016	146163.11	165083.17	88
2017	195865.6	230510.19	84
2018	225616.08	244431.05	92
2019	218310.85	218347.82	99

Interpretation

Above table exhibits credit deposit ratio of the bank during last 5 years. In the year 2015 ratio was 91% and it declined to 88% and 84%in the year 2016 and 2017 respectively. In the year 2018 and 2019 ratio was increased to 92% and 99% respectively. it leads to conclusion that credit performance of the bank is very good

J. Cash flow statement of HPSCB

Interpretation:

- *Dividend on equity shares:* Since the dividend per share has shown a promising increase for the period under study. It shows that the bank is following a sound dividend policy and is capable of distributing higher dividends in this way the investors will feel investing in capital of the bank a much beneficial option and will be reluctant to withdraw capital for a long time.
- *Earnings per share:* The earnings per share for the period under study also show a promising increase. It suggests that bank has better profitability position and in future it can be a better or attractive channel of investment for shareholders.
- *Higher trends of credit deposit ratio – A positive sign:* High trends of credit deposit ratio reveals that bank has performed satisfactorily as regard to granting loans and advances to generate income. It suggests that credit performance is good and the bank is doing its business good by fulfilling its major objective as regards to granting loans and accepting deposits.

5. Conclusion

On the basis of various techniques applied for the financial analysis of HPSCB we can arrive at a conclusion that the financial position and overall performance of the bank is satisfactory. Though the income of the bank has increased over the period but not in the same pace as of expenses. But the bank has succeeded in maintaining a reasonable profitability position.

The bank has succeeded in increasing its share capital also which has increased around 50% in the last 5 years. Individuals are the major shareholders. The major achievement of the bank has been a tremendous increase in its deposits, which has always been its main objective. Fixed and current deposits have also shown an increasing trend.

Equity shareholders are also enjoying an increasing trend in the return on their capital. Though current assets and liabilities (current liquidity) of the bank is not so satisfactory but bank has succeeded in maintaining a stable solvency position over the years. As far as the ratio of external and internal equity is concerned, it is clear that bank has been using more amount of external equity in the form of loans and borrowings than owner's equity. Bank's investments are also showing an increasing trend. Due to increase in advances, the interest received by the bank from such advances is proving to be the major source of income for the bank.

References

[1] Annual reports of Himachal Pradesh State Co-operative Bank Ltd (2015-19)
[2] Annual reports of Kangra Central Cooperative Bank Ltd. (2015-19)
[3] Pandey I. M.: Financial Management, p. 425.
[4] www.hpscb.com
[5] www.moneycontrol.com
[6] www.managementparadise.com