

OPEN ACCESS

Volume: 9

Special Issue: 1

Month: March

Year: 2022

P-ISSN: 2321-4643

E-ISSN: 2581-9402

Impact Factor: 3.122

Received: 28.01.2022

Accepted: 19.02.2022

Published: 19.03.2022

Citation:

Alagupandian, V., et al.
“Funds and Investment
Management of
Virudhunagar Cooperative
Urban Bank LTD.”
*Shanlax International
Journal of Management*,
vol. 9, no. S1, 2022,
pp. 108–17.

DOI:

[https://doi.org/10.34293/
management.v9iS1-
Mar.4899](https://doi.org/10.34293/management.v9iS1-management.v9iS1-Mar.4899)

Funds and Investment Management of Virudhunagar Cooperative Urban Bank LTD

Dr. V. Alagupandian

Faculty, ICM, Madurai

Dr. P. Murugesan

Associate Professor of Commerce, Head

Department of Business Administration, MK University College, Madurai

S. Kather Meeran

Part Time Research Scholar

Department of Commerce, MK University, Madurai

Abstract

There are many Primary Urban Cooperative Banks (UCBs), forming a heterogeneous size and spread group. Many of these banks are very small in size and reach. They compete with more significant participants in the same banking space. Over the years, many urban cooperative banks became weak and non-viable, thus posing a systemic risk to the UCB sector. They lack avenues for raising capital funds since they cannot go for public issues of shares, nor can they issue shares to members at a premium. At the same time, there are many UCBs in the sector which is financially solid and viable. This sector in the recent past has witnessed significant developments that have far-reaching implications for the banking sector that is savings banking interest rate has been deregulated. It shows that the RBI gives a lot of freedom and autonomy for the smooth functioning of the UCBs. Hence, the virudhunagar UCB, by using independence and liberty, should bring in qualitative improvement in the method of functioning and altitudinal transformation and increase in per-employee Productivity, which will result in achieving the objectives of inclusive growth and sustainable development. This study, therefore, analyses Funds and Investment Management of Virudhunagar Urban Bank.

Introduction

There are many Primary Urban Cooperative Banks (UCBs), forming a heterogeneous size and spread group. Many of these banks are very small in size and reach. They compete with more significant participants in the same banking space. Over the years, many urban cooperative banks became weak and non-viable, thus posing a systemic risk to the UCB sector. They lack avenues for raising capital funds since they cannot go for public issues of shares, nor can they issue shares to members at a premium. At the same time, there are many UCBs in the sector which is financially solid and viable.

Statement of Problem

Finance is considered corporate lifeblood. It is one of the bases for every kind of Business. If the organization can operate smoothly, it is deemed financially sound. Usually, profit is the primary goal of any business. Its financial position determines the company's profit, liquidity, and solvency. It acts as a standard for assessing the Management's competence and efficiency. Therefore, profit planning is an essential component of Management that performs various functions and is an integral part of budgeting. Bank profitability has been under severe strain in recent years. Return is regarded as a barometer of financial health. The term "profitability" refers to a measurement of a company's efficiency. Poor business performance could indicate poor sales of bank products. The lack of control over expenditure may lead to lower Profitability.

Banks are called upon to generate adequate income to meet increased funding costs. Rentability is a crucial area of results here; survival is directly and virtually affected by performance and results. This study, therefore, analyses Funds and Investment Management of Virudhunagar Urban Bank.

Objectives of the Study

- To study the management practices for controlling banking and administrative expenses of the bank.
- To examine the Productivity of employees regarding the total Business of the bank.
- To offer suggestions based on the findings of the study.

Methodology of the Study

The research is based on secondary information. The information needed for the study has been gathered from the annual reports of Virudhunagar Urban Bank Limited, journals, government publications, websites, etc.

Period of Study

The study of the project is confined to a period starting from the year 2010 - 2011 to 2019 – 2020.

Plan of Analysis

The researcher applied the following tools to analyse the funds and investment of Virudhunagar Cooperative Urban Bank.

- Growth Rate
- Compound Growth Raye
- Correlation coefficient
- A ratio analysis

General Profile of a 394 Virudhunagr Urban Cooperative Bank LTD

Origin and Development of a 394 Virudhunagr Urban Cooperative Bank LTD

The Society was registered on 24th March 1919 and began to function on the same day. It is situated in the city's center, and the address is "316, Theppam west bazaar, Virudhunagar. The registration no of the Society is A 394. The Society comes under the Administrative control of the Managing director, a Cooperative Sub Registrar.

Area of Operation

The operation area of the Society is five panchayats - Paavali, Kooraikundu, Rosalpatti, Chathirettiypatti, and Virudhunagar town area of the district.

Membership

The following table reveals the total numbers of members in the Society and their paid-up share capital.

	Particulars	No. of Members	Paid-up Share Capital (Rs.)
1	Individuals	10934	11,17,21,626/-
	Total	10934	11,17,21,626/-

Share Capital

Share capital is one of (the essential sources of own fund. To improve the share capital, the urban cooperative banking sector follows share linking to borrowings. As per the RBI directives, while advancing secured loans, 2.5 percent of the loan amount will be transferred to share capital, and in case of unsecured loans, 5 percent of the loan amount will be transferred to share capital. Hence, the amount of share capital increases both when admitting the members and at the lending time. The share capital mobilized by the Virudhunagar Urban Co-operative bank is given in Table – 1.

Table 1 Share Capital (Rs. in lakhs)

Year	Share Capital	Growth Index
2010-11	56.79	-
2011-12	67.21	18.35
2012-13	76.43	13.72
2013-14	90.39	18.27
2014-15	98.55	9.03
2015-16	106.81	8.38
2016-17	112.33	5.17
2017-18	113.94	1.43
2018-19	117.22	2.88
2019-20	121.32	3.50

Table - 1 shows the share capital mobilized by the bank, and it has recorded positive growth during the period of study. However, the growth rate from one period to another has to be improved to achieve the capital adequacy norms.

Reserve Fund

The State Co-operative Societies Act says that not less than 15 percent of the Net profit should be earmarked as a reserve. The bank feels that it should make only a provision of 15 percent as a statutory reserve. Making more provisions than the required level (more than 15 percent) will strengthen the reserve fund and the own fund position. The virudhunagar Urban Co-operative Bank is not making more provisions than the limit prescribed by the Cooperative Societies Act. The reserve fund position of the bank is presented in Table - 2.

Table 2 Reserve Funds (Rs. in lakhs)

Year	Reserve Funds	Growth Index
2010-11	935.43	-
2011-12	988.25	5.65

2012-13	1065.85	7.85
2013-14	1020.96	-4.21
2014-15	1123.54	10.05
2015-16	1343.04	19.54
2016-17	1465.16	9.09
2017-18	1498.76	2.29
2018-19	1569.88	4.75
2019-20	1622.91	3.38

The above Table highlights the reserve fund position of the bank. It has recorded a growth of -4.21 percent and 19.54 percent during 2013-14 and 2015-16, respectively. Though the bank has made fluctuating growth, the difference in the growth rate is only marginal.

Own Fund

In most of the urban cooperative banks, the own fund position is not very sound. Strengthening their fund position will enable banks to achieve the capital adequacy norms, improving their net worth position and the like. To enhance their fund position, the urban cooperative banks should increase their share capital and the percentage of net profit to be transferred to the reserve fund. The urban cooperative banks are permitted to lend 75 percent of their fund. It is more advantageous to lend from one's own funds rather than from a bank's deposit. Profitability and profitability can be increased by increasing the own fund position. In Table 3, the bank's fund position is shown.

Table 3 Own Fund (Rs. in lakhs)

Year	Share Capital	Reserve	Owned Fund	Growth Index
2010-11	56.79	935.43	992.22	-
2011-12	67.21	988.25	1055.46	6.37
2012-13	76.43	1065.85	1142.28	8.23
2013-14	90.39	1020.96	1111.35	-2.71
2014-15	98.55	1123.54	1222.09	9.96
2015-16	106.81	1343.04	1449.85	18.64
2016-17	112.33	1465.16	1577.49	8.80
2017-18	113.94	1498.76	1612.7	2.23
2018-19	117.22	1569.88	1687.1	4.61
2019-20	121.32	1622.91	1744.23	3.39

The above Table reveals the own fund position of the bank, and it has made steady progress during the period 2009-10 to 2011-12.

Deposit Mix

The deposits are generally classified as demand deposits and term deposits, and based on the cost factor; the deposits are classified into low-cost and high-cost deposits. The Current Account Deposits and Savings bank Account Deposits (CASA) are billed as a low-cost tie posit, and the lei m deposit is called a high-cost deposit. To improve the profit and profitability position, the CASA deposit should be more than 30 percent mid the term deposit should be less than 30 percent of

the total deposit. The proportion the both CASA and the term deposit of the bank is presented in Table - 4.

Table 4 Deposit Mix (Rs in lakhs)

Year	CASA Deposit	% To Total	Term Deposit	% To Total	Total Deposit
2010-11	467.27	19.39	1942.33	80.61	2409.6
2011-12	465.8	16.20	2409.7	83.80	2875.5
2012-13	515.3	13.91	3190.2	86.09	3705.5
2013-14	576.05	13.57	3670.15	86.43	4246.2
2014-15	777.66	19.45	3219.74	80.55	3997.4
2015-16	879.01	22.00	3117.19	78.00	3996.2
2016-17	1035.57	25.07	3095.62	74.93	4131.19
2017-18	922.97	24.20	2890.84	75.80	3813.81
2018-19	920.14	24.83	2785.76	75.17	3705.9
2019-20	964.39	25.79	2775.51	74.21	3739.9

The above Table brings both the CASA and the term deposit mobilized by the bank. The bank has mobilized more amount of high-cost deposits and less amount low-cost deposits. If the term deposit constitutes more than 74 percent of the total deposit, it will increase the financial obligation of the bank. Hence, it will undoubtedly affect the profit and profitability position of the bank.

Loans and Advances

The only way to improve the profit and profitability position is to strengthen the lending operations more effectively and efficiently. It was observed that the banks are much concerned about the NPA and its provisioning, and due to this reason, they are paying much more attention to investment operation than on lending operation. This attitude will impair the profitability position. Hence, the urban cooperative banks should concentrate more on lending operations rather than on investment operations. By lending more, the urban cooperative banks can increase the credit deposit ratio. An increase in the credit deposit ratio is the perfect indication of an increase in the profitability position.

Table 5 Loans and Advances (Rs in lakhs)

Year	Loans and Advances	Growth Index
2010-11	2398.48	-
2011-12	2845.08	18.62
2012-13	3451.69	21.32
2013-14	3594.07	4.12
2014-15	3740.07	4.06
2015-16	3495.69	-6.53
2016-17	3330.26	-4.73
2017-18	3175.23	-4.66
2018-19	3143.34	-1.00
2019-20	3573.59	13.69

The above Table explains the loans and advances made by the bank, and it has made steady progress, but the growth rate did not show much variation.

Credit Deposit Ratio

The credit deposits ratio is the credit-to-deposit ratio. Credit refers to loans made by banks to their customers. A deposit is a money that has been entrusted to a bank for safekeeping and investment purposes.

Table 6 Credit Deposit Ratio Of UPM Urban Bank (Rupees in Lakhs)

Year	Credit (Advances)	Deposits	CD Ratio (%)
2010-11	2398.48	2409.6	99.54
2011-12	2845.08	2875.5	98.94
2012-13	3451.69	3705.5	93.15
2013-14	3594.07	4246.2	84.64
2014-15	3740.07	3997.4	93.56
2015-16	3495.69	3996.2	87.48
2016-17	3330.26	4131.19	80.61
2017-18	3175.23	3813.81	83.26
2018-19	3143.34	3705.9	84.82
2019-20	3573.59	3739.9	95.55

During the study period, urban banks' credit deposit ratios ranged from 80.61 percent to 99.54 percent. The highest credit deposit ratio was 99.54 percent in 2010-11, and the lowest was 80.61 percent in 2016-17.

Cost of Deposit

Deposits are funds that customers have entrusted to banks. It is the customers' savings. Furthermore, bankers collect the funds from customers and use them to make advances. The deposit cost is the minimum amount that must be paid in the form of interest on deposits.

Table 7 The Cost of Deposit of Virudhunagar Urban Bank (Rupees in Lakhs)

Year	Interest Paid	Deposits	Cost of Deposits (%)
2010-11	154.45	2409.6	6.41
2011-12	217.44	2875.5	7.56
2012-13	307.85	3705.5	8.31
2013-14	365.79	4246.2	8.61
2014-15	384.36	3997.4	9.62
2015-16	595.94	3996.2	14.91
2016-17	296.53	4131.19	7.18
2017-18	249.91	3813.81	6.55
2018-19	228.57	3705.9	6.17
2019-20	222.06	3739.9	5.94

Table 7 shows the ratio of interest paid to total deposits at the urban bank. This bank’s deposit interest rate was fluctuating. It was determined that the deposit cost ranged from 5.94 percent to 14.91 percent.

Gross NPA to Total Advances Ratio

The relationship between Urban Bank Ltd’s gross NPA and total advances is expressed as a ratio of gross NPA to total advances.

$$\text{Gross NPA to Total Advances Ratio} = (\text{Gross NPA} / \text{Total Advances}) \times 100$$

Table 8 Gross NPA (Rs. in lakhs)

Year	GrossNPA	Total Advances	Gross NPA as a percentage to total advances
2010-11	7.69	2398.48	0.32
2011-12	3.22	2845.08	0.11
2012-13	7.70	3451.69	0.22
2013-14	20.23	3594.07	0.56
2014-15	17.22	3740.07	0.46
2015-16	16.70	3495.69	0.48
2016-17	28.25	3330.26	0.85
2017-18	29.53	3175.23	0.93
2018-19	24.64	3143.34	0.78
2019-20	29.62	3573.59	0.83

Table 8 shows Urban Bank’s gross NPA to total advances ratio. During the study period, this ratio fluctuated from 0.11 percent in 2011-12 to 0.85 percent in 2016-17.

The Virudhunagar Urban Bank’s Quantitative Variables and Profitability:

Using the co-efficiency technique of correlation, the current study attempted to analyse the influence of interest income, other income, interest expenses, operating and other expenses, and the Profitability of urban banks.

Correlation

Correlation is the relationship that exists between two variables. The quantitative economic variables presented were compared to the Profitability of the Virudhunagar urban bank over the years under consideration. The queue of the correlation coefficient formula is

$$r = \frac{\sum dxdy - \frac{(\sum dx)(\sum dy)}{n}}{\sqrt{\sum dx^2 - \frac{(\sum dx)^2}{n}} \sqrt{\sum dy^2 - \frac{(\sum dy)^2}{n}}}$$

The researcher in this study uses the correlation technique to ascertain the relationship between the following:

- Interest earned and profits.
- Other income and profits.
- Interest Paid and Profits
- Operating and others expenses to Profits

Table 9 Below Depicts the Relationship between Quantitative Variables and Virudhunagar Urban Bank's Profitability

S. NO	Quantitative Variables	Correlation
1	Interest earned and Net Profit.	0.72
2	Other income and Net Profit.	0.288
3	Interest Paid and Net Profit	0.70
4	Operating and others expenses to Net Profit	-0.36

- There is a high degree of a positive relationship between interest earned and Profitability.
- There is a low degree of Positive relationship between other income and Profitability.
- There is a high degree of positive relationship between interest paid and Profitability.
- There is a moderate degree of a negative relationship between operating and other expenses to Profitability.

Table 10 Business Growth (Rs. in lakhs)

Year	Total Business (Deposit and Loan)	Growth in business
2010-11	4808.08	-
2011-12	5720.58	18.98
2012-13	7157.19	25.11
2013-14	7840.27	9.54
2014-15	7737.47	-1.31
2015-16	7491.89	-3.17
2016-17	7461.45	-0.41
2017-18	6989.04	-6.33
2018-19	6849.24	-2.00
2019-20	7313.49	6.78

The above Table reveals that the bank's business growth during the period is fluctuating trend under study. The RBI expects that a minimum of 20 percent growth in the Business every year. The increase in the Business of the virudhunagar urban bank is above 20 percent in the year 2012-13.

Per Employee Productivity

Productivity is one of the essential factors in determining the profit and profitability position of the bank. The per-employee Productivity in the position of the bank is presented in table 11.

Year	Total Business	Number of Employees	Per Employee Productivity
2010-11	4808.08	15	320.54
2011-12	5720.58	15	381.37
2012-13	7157.19	15	477.15
2013-14	7840.27	15	522.68
2014-15	7737.47	15	515.83
2015-16	7491.89	15	499.46

2016-17	7461.45	15	497.43
2017-18	6989.04	11	635.37
2018-19	6849.24	11	622.66
2019-20	7313.49	11	664.86

The above Table explains the per-employee productivity position of the bank, and it is showing an increasing trend during the entire period under study.

Summary of Findings

- The share capital mobilized by the bank and has recorded positive growth during the period of study.
- The reserve fund position of the bank. It has recorded a growth of -4.21 percent and 19.54 percent during 2013-14 and 2015-16, respectively. Though the bank has made fluctuating growth, the difference in the growth rate is only marginal.
- The own fund position of the bank and it has made steady progress during the period 2009-10 to 2011-12.
- The bank has mobilized more amount of high-cost deposits and less amount low-cost deposits. If the term deposit constitutes more than 74 percent of the total deposit, it will increase the financial obligation of the bank. Hence, it will undoubtedly affect the profit and profitability position of the bank.
- The bank’s loans and advances have made steady progress, but the growth rate did not show much variation.
- Urban banks’ credit deposit ratios ranged from 80.61 percent to 99.54 percent. The highest credit deposit ratio was 99.54 percent in 2010-11, and the lowest was 80.61 percent in 2016-17.
- The ratio of interest paid to total deposits at the urban bank. This bank’s deposit interest rate was fluctuating. It was determined that the deposit cost ranged from 5.94 percent to 14.91 percent.
- The growth in the Business of the bank during the period is fluctuating trend under study.
- The per-employee productivity position of the bank and is showing an increasing trend during the entire period under study.
- The total income of the urban bank in 2010-11 was Rs.348.4 lakhs, to Rs.667.11 lakhs in 2015-16. The proportion of interest received to the bank’s total income shows a fluctuating trend that varied between 61.13 percent in 2015-16 and 76.20 percent in 2014-15.

Suggestions

- The Virudhunagar UCB must take the appropriate steps to strengthen its fund’s status. It can use the measures listed below to improve its financial position.
- When advancing secured loans, 2.5 percent of the loan amount is transferred to share capital, according to (RBI directives). 5.00 percent of the loan amount is converted to share capital in the event of unsecured loans, which is insufficient. It needs to be raised.
- By increasing the percentage of the statutory reserve, the bank may be able to strengthen the reserve fund position.
- For the rural poor, banks should conduct loan payback and saving habit education programmes.
- Current deposits, on the other hand, pay no interest. As a result, banks must concentrate on increasing current deposit mobilisation.
- Banks should also make attempts to cut operating costs in a variety of ways.
- The bank should take the required steps to investigate new opportunities for non-fund-based

business. The Virudhunagar UCB needs to take necessary initiatives to improve its fund's position. To strengthen its fund position, it may follow the methods given below.

- The bank is incurring very high interest expenses, mainly due to reduced low-cost deposits mobilized by the bank. An increase in the low-cost deposit will increase the profit and profitability position. Hence, the bank may take steps to mobilize more low-cost deposits, or a prudent mix of both low-cost deposits and high-cost deposits becomes the need of the hour.

Conclusion

As of late, the savings banking interest rate has been deregulated, a significant step for the banking sector. For the smooth operation of UCBs, the RBI allows a lot of freedom and autonomy. Through its independence and freedom, the Virudhunagar UCB should be able to improve the way of operation, achieve an upward transition, as well as raise employee productivity, resulting in the achievement of inclusive growth and sustainable development objectives.

References

1. Cooperation in India Mathur, B.S.
2. Annual reports of A394 Virudhunagar Cooperative urban bank Ltd.
3. Firmansyah E (2015). Performance Measurement Using Balanced Scorecard Concept On Cooperatives: Implication In Indonesia. *International Journal Of Scientific & Technology Research*, 4(12), 121-124.
4. Gupta N(2019). Structure and function of district cooperative banks in Haryana. *Research Review International Journal of Multidisciplinary*, 4(5), 2056-2058.
5. Selvaraj N & Balaji Kumar P (2015). A Study on the Deposit Mobilization Pattern of the Dindigul District Central Co-operative Bank Limited. *Tourism & Hospitality*, 4(1), 1-8.
6. Suwendra I. W., Sujana I. N. and Haris I. A. (2018). An Analysis of Cooperative Performance Using Balanced Scorecard Method. *Advances in Economics, Business and Management Research*, (69), 222-230
7. Other relevant records and Registers.
8. http://www.en.wikipedia.org/wiki/Cooperative_Movement_in_India
9. https://www.rbi.org.in/scripts/fun_urban.aspx