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# **WORKING CAPITAL MANAGEMENT OF SRI LAKSHMINARAYANA COOPERATIVE URBAN BANK LTD., TIRUVARUR**

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## **Abstract**

In fact, under the new competitive pressures in Urban Cooperative Banks (UCBs) to enhance their overall efficiency pose serious challenges. Since the operational efficiency of the UCB is crucial in ensuring adequate and timely flow of credit to urban and semi-urban people for diverse purposes, intensive observation on their performance deserves serious consideration. In this context, present study examined management of resources of the Sri Lakshminarayana Cooperative Urban Bank Ltd. (SLNCUB), Tiruvarur. The study revealed that the deposits (86.26%) was the major sources of resources of SLNCUB. The share of fixed deposits in the total deposits was 83.12%. This bank do not depend on borrowings for mobilizing resources. The accumulated reserves are 3.39 times of the share capital and increasing trend of membership during the study period. Working capital of the bank, has shown on an average growth rate of 11.66% under the study period. The study suggests strengthening share capital base and offering new product such as insurance linked savings bank account. Besides this, the study urged for reducing the share of high cost deposits in the total deposits and concentrate more on low cost deposits. The repeal of individual ceiling for collection of share capital from members at the time of borrowings is warranted.

## **Introduction**

Working capital of Urban Cooperative Banks (UCBs) comprises both internal (owned funds consist of share capital plus reserves) and external (borrowed funds consisting of deposits plus borrowings) sources of funds plus some other sundry sources. The study of its growth will fairly present an idea about the bank's performance of management of resources in a broader perspective. The cost of funds of the bank depends mainly on the cost of deposits and the cost of borrowings. Proper funds management is the Achilles heel of many urban banks.

### **Sri Lakshminarayana Cooperative Urban Bank Ltd. (SLNCUB), Tiruvarur-A profile**

This bank was registered on 17.3.1915 and started its operation on 7.4.1915 with 17 members and paid up share capital of `245/-. The area of operation of the bank comprises entire Tiruvarur district of Tamil Nadu. The main object of the bank is to borrow funds from members and non-members and advance loans to its members for useful purposes. The bank has been at a profit from its inception and had gained the confidence of the members. Centralized air conditioner facility available in the bank.

This bank has been authorized by the Exchange Control Department, R.B.I. to open and maintain N.R.E./N.R.O./N.R.N.R. accounts from 9.1.1996. The bank has introduced the following modern technologies (i) Installation of computers, (ii) Ultra violet lamp at all cash counters to easily identify the fake notes, (iii) Currency counting machine, (iv) Banding machine (single cross) as advised by RBI to comply with the clean note policy, and (v) Burglar alarm system with smoke sensor. This bank was selected as the best bank of Tamil Nadu in 2003-04.

### **Objectives of the study**

The specific objectives of the research study are:

1. To examine the sources of working capital or resources of the sample bank
2. To analyze the working capital components of sample bank
3. To study the sources and types of deposits of sample bank
4. To suggest feasible measures for the efficient management of resources

### **Methodology**

Since the study has been undertaken to evaluate management of resources of SLNCUB, Tiruvarur, it is based on the secondary data. The data required for the purpose of the study were collected from the audited reports of the bank. The data have been collected for a period of six years from 1998-99 to 2003-04.

### **Components of resources**

The Reserve Bank concept of calculating working capital can be symbolically put in the form of the following equation (Tannan, 1995):<sup>1</sup>

$$WC = X-(Y+Z)$$

where

WC = working capital

X = total liabilities of the balance sheet

Y = contra items which are in the nature of off-setting each other

Z = other intangible and fictitious asset mainly accumulated losses

Particulars of the resource of SLNCUB is shown in Table 1. The table presents cumulative total components of working capital, the percentage share of each of the components in total working capital, year-wise growth in terms of working capital of the bank under study period. The each components of working capital are discussed below:

### **Share capital**

Share capital is the primary source of funds. In the case of UCBs admission of members is restricted to individuals and governments. As per section 5 of the Banking Regulation Act, 1949 (CCV) no other cooperative societies shall be admitted as a member of the UCB. There is no participation of Tamil Nadu government in the share capital of SLNCUB. The SLNCUB mainly depend on individual's for share capital, by admitting them as regular "A" class members. The share value at `25/- each. Table 1 reveals that there has been increase in share capital from `55.30 lakhs in 1998-99 to `113.43 lakhs in 2003-04 i.e. 2.05 times of increase over the period. The share of paid up share capital to the total working capital is much insignificant, accounting for less than 2%. On an average its constitute 1.49% only.

### **Strengthening the share capital base**

The face value of share of an UCB as suggested by RBI<sup>2</sup> is ordinarily not more than `25/- so that persons of small means can become members of the bank. Share capital base can be strengthened in two ways:

1. By increasing membership-making it broad based to all eligible aspirants, and
2. By introducing a suitable linking of shareholding to borrowings.

Table 2 shows the growth of membership in sample bank during the study period. There has been a substantial growth in membership from 17790 in 1998-99 to 22115 in 2003-04,

indicating about 24.3% increase in membership of the sample bank. The actual year-wise growth varied between 673 and 966 whereas the year-wise percentage growth varied between 3.3 and 5.4. There is an increasing trend of membership in SLNCUB from 1999 to 2004. Now, the second method of raising share capital base is the linking of shareholding to borrowings.<sup>3</sup> Hence, the RBI has prescribed the norms for linking of shareholding to borrowings (RBI, 1978). In UCBs, the members have to contribute a minimum of 2.5% of secured advance and 5% of unsecured advance towards their share capital. As there is no share-linking to borrowings in commercial banks in India, the UCBs are put in disadvantageous position.

### **Reserves**

The reserve fund generated out of net profit is a zero cost source which will reinforce the earning power without incurring extra cost. Reserves like statutory reserve fund, general reserve fund, common good fund, dividend equalization, fund and building fund form the free reserves of the bank, they form the Tier-1 capital. Generally, reserve fund is upto 25% of the total annual net profit.

Table 1 show that the reserves have exceeded paid-up capital in SLNCUB under the study period. High ratio of reserves to owned funds indicates to some extent the efficiency of the institution in the past in earning sizeable profits, as contribution is made to reserves only out of profits every year. The accumulated reserves are 3.39 times the share capital in SLNCUB. High proportion of reserves to owned funds will reduce average cost of funds. The percentage share of owned funds constitute on an average 6.39% in the total working capital of SLNCUB under the study period.

### **Deposits**

“Deposits are the mainstay of a bank and they constitute its lifeblood.”<sup>4</sup> It is rightly observed that deposits form the breath of air for a bank and its survival and growth is totally dependent on how much deposits the bank is able to get from its members. Table 1 reveals that the deposits has increased from `3380.52 lakhs to 5830.30 lakhs over a period of six years, showing an increase of 1.72 times. The share of deposits to working capital ranges between 85.71 to 87.85%. The share of deposits in the total working capital is high mainly due to the low borrowings. The study reveals that the sample bank in Tamil Nadu has shown more dependence

on deposits than other sources. Since deposits involves interest cost, the SLNCUB should make concerted efforts to augment their owned fund component.

### **Types of deposit accounts**

The types of deposits offered by the SLNCUB are shown in Table 3. This bank has been accepting deposits from non-resident Indians. The fixed deposits rose from `2863.46 lakhs in 1999 to `4679.05 lakhs by 2004, registering about 1.63 times increase over the period of six years. On an average percentage share of fixed deposits in total deposits is 83.12% over a period. It can be seen that the share of non-resident deposits in the total deposits balances ranges between 3.38% and 5.31%. The share of savings and current deposits in the total deposits was fluctuating during the period of study mainly because of influence of fixed deposits. The share of low cost deposits in the total deposits (savings and current deposits) ranged from 10.46% in 1999 to 12.78% in 2004. The call deposits of the bank were nil in the year 2000 and 2001 but it increased to `150, `155, and `155 lakhs in 2002, 2003 and 2004.

From the above analysis, it is clear that the share of fixed deposits is more than three fourths of the total deposits of the bank. It signifies that the semi-urban investors are inclined towards fixed deposits because of higher rate of return. The current deposits of SLNCUB constitute a meagre share in the total deposits. The tale also reveals that the members and more confidence in fixed deposits than in other types of deposits. Such a swing towards fixed deposits in the deposit-mix of the bank cannot be reckoned as a healthy sign because it raises the cost of funds.

### **Sources of deposits**

The sources of deposits in UCBs are individuals, institutions, and other cooperative banks (CCBs) and societies. Particulars of the volume of deposit balances and the percentage of contribution by individuals, institutions, and cooperative societies are shown in the Table 4. From the figures given, it can be seen that SLNCUB was collecting deposits from cooperative societies from 1998-99 to 2000-2001. Source-wise deposits from individuals and institutions constitute the core component, registering 1.7 times increase. SLNCUB has stopped depending

on the deposits from cooperative societies since 2001-02. From the analysis, it is clear that SLNCUB depend on individuals for their deposit mobilization.

### **Borrowings**

The maximum borrowings power of cooperative bank is restricted by bye-laws. The share of borrowings in total resources of SLNCUB is very insignificant, that is between 0.02 and 0.06 (Table 1). It clearly shows that the SLNCUB do not depend on borrowings for mobilizing resources.

### **Working capital**

Table 1 reveals that the working capital of SLNCUB has increased from `3939.56 lakhs in 1998-99 to `6793.20 lakhs in 2003-04, registering 1.72 times increase. The year-wise percentage growth in working capital, ranges between 0.99 and 15.78, on an average growth rate of 11.66% was achieved under the study period.

### **Inferences and policy implications**

The entire analysis on the functioning of SLNCUB in terms of management of resources brought us closer to the following major observations/issues:

- (a) Undoubtedly, during the study period SLNCUB has shown considerable increases in its numerical strength of membership, share capital, reserves, deposits, and working capital.
- (b) But the share of paid-up share capital to the total resources is much insignificant, accounting for less than 2%, on an average its constitute 1.49% only. Capital to Risk Assets Ratio (CRAR) compels the banks to increase their membership. The linking of shareholding to borrowing definitely enhance the membership and volume of share capital but the fixing of ceiling of `10,000 for collection of such share capital will make adverse effect. This will act as hindrance to cope with CRAR requirement. The High Power Committee on UCBs is also in favour of removing the quantitative ceiling of individual share holding.<sup>5</sup> The next alternative to enhance membership is motivating depositors become “A” class members, because they are supplying money whereas

borrowers can't raise their voices against the management while the depositors have that average.

- (c) The accumulated reserves are 3.39 times the share capital in SLNCUB. It indicates to some extent the efficiency of institution in the past earning sizeable profits. The High Power Committee on UCBs recommends minimum of 50% of net profit to be allocated to reserve fund to enhance the CRAR.<sup>6</sup> Hence, the SLNCUB should take steps to strength their reserves further.
- (d) The SLNCUB has made good progress in deposit mobilization over a period. One of the significant features in deposit mobilization, worth mentioning is that the bulk of the deposits of SLNCUB had been received from persons of small means.
- (e) Although it had been reported in the audited records of SLNCUB that on an average the percentage share of fixed deposits in the total deposits is 83.12% under study period, the same could neither hold good in the case of cost of funds as whole nor for long period of survival. Instead of offering higher rates of interest on deposits, SLNCUB may mobilize more current and savings deposits through better service with a view to reducing the cost of funds. New deposit products such as insurance linked savings bank accounts may be introduced.
- (f) It is clear that SLNCUB depend mainly on individuals for their deposit mobilization. SLNCUB has stopped depending on the deposits from cooperative societies since 2001-02. No urban bank can survive without the patronage of individuals.
- (g) On the positive side, records of the banks under study clearly indicated that SLNCUB do not depend on borrowings for mobilizing resources. It is apparent that the SLNCUB is self-reliant institution. Borrowing is not to be discouraged. What is relevant is the rate of interest at which borrowings are made. There are special schemes like refinance facilities from the RBI under section 17(2) bb of the RBI Act, 1984 for financing small scale and cottage industries and schemes of refinance and bill rediscounting by Industrial Development Bank of India.<sup>7</sup> But SLNCUB has not utilized the schemes of RBI and IDBI.
- (h) It clearly indicates that the major sources of working capital of SLNCUB depends on owned funds and deposits. Average working capital per bank in Tamil Nadu is



₹2277.44 lakhs as on 31<sup>st</sup> March 2004. SLNCUB has exceeded the average working capital of Tamil Nadu state during the study period.

In general, the nine decades of experience of SLNCUB stands as an example of better financial health in terms of deposits, owned funds, working capital, etc. SLNCUB has the advantage that they are self-reliant institution stand on its own legs without support from the Government. This strength of the bank should be duly capitalized on and supplemented by a carefully chalked out reform agenda encapsulating all facets of the cooperative domain.

Table 1: Components of working capital in (₹ lakhs) SLNCUB during 1998-99 to 2003-04

S. N.	Year	Share capital	Reserves	Deposits	Borrowings	Other liabilities	Working capital	% growth of working capital
1.	1998-99	55.30 (1.40)	170.28 (4.32)	3380.52 (85.80)	1.22 (0.03)	332.24 (8.43)	3939.56 (100)	-
2.	1999-00	65.76 (1.44)	168.39 (3.69)	3942.59 (86.44)	3.03 (0.06)	381.27 (8.37)	4561.04 (100)	15.78
3.	2000-01	76.01 (1.47)	210.15 (4.07)	4427.35 (85.94)	2.26 (0.04)	435.65 (8.48)	5151.42 (100)	12.94
4.	2001-02	88.50 (1.47)	248.46 (4.13)	5282.09 (87.85)	1.58 (0.03)	391.42 (6.51)	6012.05 (100)	16.71
5.	2002-03	98.51 (1.46)	388.50 (5.77)	5765.30 (85.71)	1.83 (0.03)	472.62 (7.03)	6726.78 (100)	11.89
6.	2003-04	113.43 (1.67)	502.54 (7.39)	5830.30 (85.82)	1.32 (0.02)	345.61 (5.10)	6793.20 (100)	0.99
	Average	82.92 (1.49)	281.39 (4.90)	4771.35 (86.26)	1.87 (0.04)	393.14 (7.32)	5530.70 (100)	11.66

Note : Figures in parentheses refer to percentage to total

Source: Annual Reports of the Bank

Table 2: Growth of membership of SLNCUB during 1998-99 to 2003-04

S. N.	Year	No. of members (A class)	Actual growth
1.	2	3	4
1.	1998-99	17790 (100)	-
2.	1999-00	18756 (105.4)	966 (5.4)
3.	2000-01	19637 (110.4)	881 (4.7)
4.	2001-02	20504 (115)	867 (4.4)
5.	2002-03	21177 (119)	673 (3.3)
6.	2003-04	22116 (124.3)	938 (4.4)

Note: 1. Figures in parentheses at column 3 indicate % increase over 1998-99

2. Figures in parentheses at column 4 indicate % increase over growth.

Source: Annual Reports of SLNCUB.

Table 3: Types of deposits in SLNCUB

S. N.	Type of deposit	1998-99	% to total	1999-00	% to total	2000-01	% to total	2001-02	% to total	2002-03	% to total	2003-04	% to total
<b>I.</b>	<b>Domestic deposits</b>												
1.	Fixed deposits	2863.46	84.70	3319.19	84.19	3726.28	84.17	4311.96	81.63	4831.37	83.80	4679.05	80.25
2.	Savings deposits	318.02	9.41	422.43	10.71	490.91	11.09	598.09	11.32	650.43	11.28	698.56	11.98
3.	Current deposits	35.36	1.05	31.44	0.80	42.06	0.95	43.95	0.83	26.49	0.46	46.41	0.80
4.	Call deposits	1.25	0.04	-	-	-	-	150.00	2.84	155.00	2.69	155.00	2.66
<b>II.</b>	<b>NRE A/c</b>												
5.	Fixed deposits	61.36	1.81	88.24	2.24	112.03	2.53	110.65	2.09	26.46	0.46	7.36	0.13
6.	Savings deposits	101.07	2.99	81.19	2.06	55.97	1.21	67.44	1.29	75.57	1.31	243.92	4.18
	Total	3380.52	100.00	3942.59	100.00	4427.35	100.00	5282.09	100.00	5765.32	100.00	5830.00	100.00

Source: Annual Reports of SLNCUB.

Table 4: Sources of deposits in SLNCUB

S. N.	Year	Individuals and institutions	Cooperative	Total
1.	1998-99	3369.48 (99.6)	12.38 (0.4)	3384.86 (100.0)
2.	1999-00	2930.21 (99.6)	12.38 (0.4)	3942.59 (100.0)
3.	2000-01	4414.63 (99.7)	12.38 (0.3)	4427.01 (100.0)
4.	2001-02	5282.08 (100.0)	-	5282.08 (100.0)
5.	2002-03	5765.32 (100.0)	-	5765.32 (100.0)
6.	2003-04	5830.30 (100.0)	-	5830.30 (100.0)

Note: Figures in brackets refer to percentage to total

Source: Annual Reports of SLNCUB

### References

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