An Impact on The Financial Performance of Employees Co-operative Thrift and Credit Societies

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Cooperatives are people-centric institutions, organized, operated and managed by people themselves on democratic principles, giving equality of rights, duties and privileges to each member irrespective of diversities of religion, culture or language and thus contributing to the goal of national integration and communal harmony. Establishment of Cooperatives is regarded as one of the instruments for economic, social and cultural developments as well as human advancement in developing countries. Cooperative movement was introduced in India as a State policy and owes its inauguration to the enactment of Co-operative Credit Societies Act, 1904.

Since independence, the cooperative sector has made remarkable progress. This has also resulted in certain weaknesses. If the cooperative sector fails to adopt itself to the new economic environment, it may not survive. The Globalisation of economy, deregulation of interest rates, rapid development of Information Technology and introduction of prudential norms have introduced a new element of competition. In the light of this changing scenario, cooperative societies have to prepare themselves to face these challenges.

Employees Cooperative Thrift and Credit society is a Non-Agricultural credit society, started mainly for saving the employees from the hands of moneylenders. Separate Employees Cooperative Thrift and Credit societies have been organised for different categories of workers. The objectives of the societies are to encourage thrift and cooperation among the members, to borrow funds from the members for being utilised as loans to members and to act as agents for the joint purchase of domestic and other requirements of the members. The successful financial performances of these societies are very essential to the employees to save their money and to escape from the hands of private money lenders.

STATEMENT OF THE PROBLEM

The societies are subjected to so many problems such as duel control, limited area of operation, lack of marketing view, limited resources, lack of proper support from government, problem of recovery, lack of computerisation and lack of transparency. In the competitive environment, the survival and future of the societies depend upon their performances.

OBJECTIVES OF THE STUDY

The study was conducted with the following objectives:

1.To evaluate the major sources of income and to assess the growth rate of income of the societies.

2.To know the expenditure pattern and to find out the trend of expenditure of the societies.

3.To analyse the trend of the profit and loss of the societies.

4.To assess the financial performance of the societies.

5.To offer valuable suggestions to uplift the financial efficiency of the societies.

AREA OF STUDY

The revenue divisions of Kanyakumari district are Nagercoil and Thuckalay. Total number of Employees Cooperative Thrift and Credit Societies are 26 and 15 at Nagercoil and Thuckalay respectively. Out of these societies, only 23 and 13 societies are keeping accounting information for the recent past twelve years. So only the societies which are keeping accounting facts are purposively selected for the study. The financial facts are collected only from the audit reports of the individual societies. The audit reports of the societies are available only up to the period of 2005-06. So the study covers a period of twelve years from 1994-95 to 2005-06.

TOOLS USED FOR ANALYSIS

Growth rate analysis and ratio analysis are used for analysing the financial facts.

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GROWTH RATE ANALYSIS

The statistical figures relating to various financial facts of E.C.T.C.S were compiled and analysed by fitting trend equation.

The equation is $y = a + bx$

Whereas y = financial fact

                   x = time

                   a = Intercept and

                   b = coefficient

Compound growth rates of these variables are estimated to ascertain the growth performance in the societies. The type of function fitted is in the form of

$$y = ab^t$$

where

                   y = Value of financial facts.

                   a = intercept

                   b = parameter

                   t = years

By taking logarithms of above equation on both sides, the exponential form gets reduced to linear form with (yt) as dependent variable and 't' as independent variable. The transformation is given as follows:

$$In\,Yt = In\,A + In\,B$$

The equation is solved by ordinary least squares method. The parameters 'a' and 'b' will indicate absolute investment in various financial facts. In order to obtain compound growth rate, it is necessary to take antilog of 'b' and subtract one from it. The so obtained value is multiplied by 100 to get percentage growth rate.

Compound growth rate = (Antilog of b-1) x 100

FINANCIAL PERFORMANCE

The financial performance of E.C.T.C.S in Kanyakumari district is analysed with the help of the financial statement analysis. The financial statements reflect the state of affairs of an organisation at a given point of time as well as its financial performance over a period. However, the accounting figures disclosed in the financial statement cannot be claimed as a true financial indicator of a firm's performance. Sometimes it is alluring to picture illusion figures in Balance Sheet or Income Statement, but after a detailed analysis, the study may end up with a dismal performance. Thus, there is a need to analyse the financial statements by determining the relationship between two figures. This is ascertained by a technique called Ratio Analysis, which expresses the numerical relationship between two mean values of accounting figures.

FINANCIAL AND OPERATIONAL INDICATORS

In the present study, the performance of the E.C.T.C.S. in Kanyakumari District is exhibited with the help of the mean values of various financial and operational indicators of 23 societies of Nagercoil Division and 13 societies of Thuckalay division. The annual and compound growth rates of the indicators have been computed.

SPREAD OF THE SOCIETIES

The spread indicates the difference between interest received and interest paid. It reveals the operational gain of the societies. Since the societies have borrowed funds from different sources, they have to pay the interest. At the same time, the societies receive interest from the members who have borrowed loans. The increase in spread will increase the profit of the concern. The important reason for the increase in spread is dispersal of large amount of loan which will increase the amount of interest received. Higher the difference between the interest received and interest paid, the higher will be the profit of the societies and it indicates the credit worthiness of the societies. So it is very essential to include the interest received, interest paid and spread. In the present study, the mean values of interest received, interest paid and the spread of the societies from 1994-95 to 2005-06 have been calculated and shown in **Table 1.**

The mean of interest received by societies at Nagercoil was increasing from Rs.6.09 lakh in 1994-95 to Rs.17.79 lakh in 2005-2006 whereas the mean of interest paid was increasing from Rs.2.91 lakh to Rs.10.41 lakh during the same period. The mean of spread was increasing from Rs.3.18 lakh in 1994-1995 to Rs.9.61 lakh in 2002-2003 and then it declined to Rs.7.38lakh in 2005-2006. The compound growth rates of interest received, interest paid and spread were 13.83, 15.01 and 11.44 respectively.

Table No. 1 : Mean Values of Interest Received, Paid and Spread of the Societies

Year	Societies at Nagercoil			Societies at Thuckalay		
	Interest Received (Rs.)	Interest Paid (Rs.)	Spread (Rs.)	Interest Received (Rs.)	Interest Paid (Rs.)	Spread (Rs.)
1994-95	6,09,324	2,91,030	3,18,294	5,03,966	2,80,386	2,23,500
1995-96	7,18,712	3,53,123	3,65,589	7,52,261	4,73,974	2,78,284
1996-97	8,15,447	4,07,443	4,08,004	11,22,956	6,97,788	4,25,168
1997-98	10,05,096	5,07,701	4,97,395	15,51,142	11,11,125	4,40,017
1998-99	11,37,952	5,93,804	5,44,148	17,71,739	10,99,856	6,71,883
1999-00	13,77,290	7,16,840	6,60,450	18,61,068	10,74,464	7,86,604
2000-01	15,55,090	8,04,640	7,50,450	19,84,465	11,22,785	8,61,680
2001-02	17,34,098	9,20,216	8,13,882	22,20,006	12,30,525	9,89,481
2002-03	19,95,133	10,34,214	9,60,919	22,91,470	16,17,874	6,73,596
2003-04	17,27,788	10,21,309	7,06,479	26,27,972	17,91,812	8,36,160
2004-05	18,08,913	10,96,373	7,12,540	27,03,045	18,23,042	8,80,003
2005-06	17,79,084	10,41,282	7,38,002	27,62,656	18,61,117	9,01,539
AGR	0.7021*	0.6543*	0.6183*	0.6086*	0.7516*	0.6944*
CGR (in per cent)	13.83	15.01	11.44	18.03	18.44	16.43

* Significant at 5 per cent level.
AGR- Annual Growth Rate
CGR- Compound Growth Rate

In the case of societies at Thuckalay, the mean of interest received was increasing from Rs.5.04 lakh in 1994-1995 to Rs.27.62 lakh in 2005-2006 whereas the mean interest paid was increasing from Rs.2.80 lakh to Rs.18.61 lakh during the same period. The mean of spread was increasing from Rs.2.24 lakh to Rs.9.01 lakh during the period of

Table No. 2: Mean Values of Other Incomes and Expenditures of the Societies

Year	Societies at Nagercoil		Societies at Thuckalay	
	Other Incomes (Rs.)	Establishment and Contingency Expenses (Rs.)	Other Incomes (Rs.)	Establishment and Contingency Expenses (Rs.)
1994-95	10,669	88,058	6,533	77,782
1995-96	13,132	99,403	10,921	120,598
1996-97	17,194	115,463	14,209	178,391
1997-98	18,775	1,38,107	15,911	2,00,598
1998-99	25,356	1,72,289	27,266	2,88,073
1999-00	23,870	2,01,468	29,650	3,01,313
2000-01	31,199	2,31,346	28,602	3,23,385
2001-02	29,611	2,50,215	38,072	3,37,683
2002-03	23,659	2,57,550	27,871	2,57,210
2003-04	24,063	2,81,588	50,518	3,53,843
2004-05	24,992	2,90,991	54,309	3,64,862
2005-06	25,108	3,11,423	59,682	3,71,089
AGR	0.9148*	0.9236*	0.9417*	0.9141*
CGR (in per cent)	14.24	11.18	22.03	16.42

* Significant at 5 per cent level.
AGR-Annual Growth Rate
CGR-Compound Growth Rate

the study. The compound growth rates of interest received, interest paid and spread were 18.03, 18.44 and 16.43 respectively.

INCOME AND EXPENDITURE OF THE SOCIETIES

The inflow of income to the societies is interest received and other incomes from various investments made by the societies. Similarly, the outflow of money is caused by the expenditures and also interest paid to the lenders. Since the interest received and interest paid have been discussed in the spread analysis, the present analysis covers only other incomes and establishment and contingent expenditures of the societies. In order to get a bird's view on the above aspects, the mean of other incomes and establishment and contingent expenditures have been calculated. The resulted mean values of the above said two important financial facts are presented in **Table 2.**

The mean of other incomes of the societies at Nagercoil was increasing from Rs.0.11 lakh in 1994-95 to Rs.0.25 lakh in 2005-06 whereas the mean of establishment and contingency expenses was increasing from Rs.0.88 lakh to Rs.3.11lakh in 2005-06. The compound growth rates of the above said two items of the societies were 14.24 and 11.08 per cent respectively. The mean of other incomes of the societies at Thuckalay was increasing from Rs.0.06 lakh to Rs.0.59 lakh during the period of the study. The mean of establishment and contingency expenses was increasing from Rs.0.78 lakh in 1994-95 to Rs.3.71 lakh in 2005-06. The compound growth rates of the above said two variables during the period of the study were 22.03 and 16.42 per cent respectively.

INTEREST DUE AND OVERDUE OF THE SOCIETIES

The interest due and overdues of the societies indicate income due to the societies. More amount of interest due and overdue will affect the circulation of the fund and the profit of the society. It also indicates the inefficiency of the society in collecting the due amounts. The mean values of the interest due and interest overdue have been calculated to exhibit the trend of interest due and overdue. The resulted mean values of interest due and overdue with their annual growth rates and compound growth rates are shown in **Table 3.**

Table No. 3 : Mean Values of Interest Due and Overdue

Year	Societies at Nagercoil		Societies at Thuckalay	
	Interest Due (Rs.)	Interest Overdue (Rs.)	Interest Due (Rs.)	Interest Overdue (Rs.)
1994-95	2,18,967	45,676	1,16,001	54,006
1995-96	2,71,097	57,842	2,11,173	57,745
1996-97	3,15,167	85,646	3,34,071	1,31,918
1997-98	3,38,830	1,38,360	2,30,286	2,12,976
1998-99	3,62,903	1,63,025	2,03,898	1,18,367
1999-00	4,36,969	1,52,129	2,44,490	1,49,754
2000-01	5,20,254	1,83,915	4,47,112	4,03,324
2001-02	6,11,299	2,51,867	5,06,408	4,48,680
2002-03	6,70,026	2,70,773	3,80,269	4,92,056
2003-04	6,59,516	2,74,824	3,47,195	7,25,722
2004-05	6,73,308	2,89,629	3,17,086	7,89,894
2005-06	6,91,442	3,04,147	3,02,919	8,43,336
AGR	0.9717*	0.9939*	0.7086*	0.9349*
CGR (in per cent)	12.93	23.17	11.24	33.46

* Significant at 5 per cent level.
AGR-Annual Growth Rate
CGR-Compound Growth Rate

The mean of interest due of the societies at Nagercoil was increasing from Rs.2.19 lakh in 1994-95 to Rs.6.91 lakh in 2005-06 whereas; the mean of interest overdue was increasing from Rs.0.46 lakh to Rs.3.04 lakh during the same period. The compound growth rates of the above two variables during the period of the study were 12.93 and 23.17 per cent respectively. In the case of the societies at Thuckalay, the mean of interest due was increasing from Rs.1.16 lakh in 1994-95 to Rs.3.03 lakh in 2005-06 whereas the mean of interest overdue was increasing from Rs.0.54 lakh to Rs.8.43 lakh during the same period. The compound growth rates of interest due and interest overdue in the societies at Thuckalay during the period of the study were 11.24 and 33.46 per cent respectively.

PROFIT AND UNDISTRIBUTED PROFIT OF THE SOCIETIES

The profit of the societies indicates the net profit of the societies. Out of the profit, the society declares the dividend to the members. A part of profit is not distributed to the members but accumulated as undistributed profit in the societies. Utilisation of the undistributed profit in proper way will increase the credit worthiness of the societies. Amount of undistributed profit reveals the business position. Since the profit is the important factor reflecting the financial performance of the society, it is included in the present study. The mean of total profit and undistributed profit of the societies from 1994-95 to 2005-06 have been computed and shown in **Table 4.**

The mean of profit of societies at Nagercoil was increasing from Rs.2.39 lakh in 1994-95 to Rs.8.03 lakh in 2005-06, whereas the undistributed profit was increasing from Rs.0.09 lakh to Rs.0.58 lakh during the same period. The compound growth rates of total profit and undistributed profit were 15.08 and 15.17 per cent respectively. The mean of profit of the societies at Thuckalay was increasing from Rs.1.03 lakh in 1994-95 to Rs.3.41 lakh in 2005-06, whereas the mean of undistributed profit was increasing from Rs.0.65 lakh to Rs.11.32 lakh during the same period. The compound growth rates of profit and undistributed profit during the period of the study were 14.08 and 37.36 per cent respectively. The compound growth rate of the undistributed profit of the societies at Thuckalay was greater than the compound growth rate of undistributed profit of the societies at Nagercoil, whereas the compound growth rate of profit was more or less similar in case of societies at Nagercoil and Thuckalay.

Table No. 4 : Mean Values of Total Profit and Undistributed Profit of the Societies

Year	Societies at Nagercoil		Societies at Thuckalay	
	Total Profit (Rs.)	Undistributed Profit (Rs.)	Total Profit (Rs.)	Undistributed Profit (Rs.)
1994-95	2,38,836	9,423	1,03,031	64,967
1995-96	2,48,703	22,192	94,982	66,841
1996-97	2,81,561	45,508	1,87,649	68,225
1997-98	3,15,826	23,714	2,08,685	1,40,146
1998-99	3,69,493	30,838	3,63,118	2,25,335
1999-00	5,13,176	30,163	4,12,948	3,73,266
2000-01	5,27,715	40,194	5,29,531	4,58,028
2001-02	5,83,091	53,227	6,76,486	4,75,463
2002-03	6,85,130	51,608	4,25,670	10,12,102
2003-04	7,41,770	53,750	3,69,784	10,37,741
2004-05	7,69,896	55,089	3,38,631	10,99,793
2005-06	8,03,065	58,114	3,41,426	11,32,089
AGR	0.9817*	0.8208*	0.7916*	0.9089*
CGR (in per cent)	15.08	15.17	14.08	37.36

* Significant at 5 per cent level.
AGR-Annual Growth Rate
CGR-Compound Growth Rate

FINANCIAL EFFICIENCY OF THE SOCIETIES

The financial efficiency of the societies was examined with the help of the profitability ratios of the societies. These ratios are:

i) Total expenses to Total income
ii) Net profit to Working capital
iii) Interest paid to Interest received and
iv) Non-interest expenses to Non-interest income

The ratio of total expenses to total income is calculated by

$$\frac{\text{Total Expenditure}}{\text{Total Income}} \times 100$$

The net profit to working capital ratio represents the society's efficiency in making higher returns out of the

working capital. The net profit should be enough to provide optimum returns on the working capital. This ratio is calculated by the formula:

$$\frac{\text{Net Profit}}{\text{Working Capital}} \times 100$$

The interest paid to interest received ratio has been worked out by the formula:

$$\frac{\text{Interest paid}}{\text{Interest received}} \times 100$$

The non-interest expense to non-interest income ratio is worked out to find out the society's expenses and income other than the interest paid and interest received.
The formula used for this ratio is

$$\frac{\text{Non-interest Expenses}}{\text{Non-interest Income}} \times 100$$

In the present study, the mean of the above said four ratios in the societies at Nagercoil and Thuckalay have been computed from 1994-95 to 2005-06. The standard deviation and the coefficient of variation of these ratios have also been calculated to reveal the consistency of the ratios during the period of the study. The computed ratios are displayed in **Table 5.**

Table No. 5 : Financial Efficiency of the Societies

(Ratios in percentage)

Sl. No.	Profitability Ratios	Societies at Nagercoil			Societies at Thuckalay		
		Mean	Standard Deviation	Coefficient of Variation	Mean	Standard Deviation	Coefficient of Variation
1.	Total expenses to Total income	62.45	15.97	25.57	82.33	5.08	6.17
2.	Net profit to Working capital	4.63	0.43	9.28	3.13	1.32	42.17
3.	Interest paid to Interest received	45.63	1.39	30.46	64.53	7.09	10.99
4.	Non-interest expenses to Non-interest income	816.08	173.09	21.21	1073.07	182.09	16.97

Table 5 shows that the mean of ratios between total expenses to total income of the societies at Nagercoil was 62.45 whereas the coefficient of variation was 25.57 per cent. In the societies at Thuckalay, the mean and coefficient of variation of these ratios were 82.33 and 6.17 per cent respectively. This ratio was comparatively less in the societies at Nagercoil because of the profitability of the societies. The higher ratios of total expenses to total income may be caused by a few loss making societies at Thuckalay. Apart from that, the high ratio means that the total expense is increasing at a rate higher than that of the total income.
It was found that the net profit to working capital ratio was higher in the societies at Nagercoil, since the respective mean of this ratio was 4.63 whereas the coefficient of variation was 9.28 per cent. In the case of the societies at Thuckalay, the mean and coefficient of variation of this ratio were 3.13 and 42.17 per cent respectively. The low ratio is caused by a few loss making societies.
The mean and coefficient of variation of the ratios of interest paid to interest received of the societies at Nagercoil were 45.63 and 30.46 per cent respectively. In the case of the societies at Thuckalay, these two were 64.53 and 10.99 per cent respectively. The higher ratio results in a gradual fall in profitability of the societies.
The mean of the ratios of non-interest expenses to non-interest income of the societies at Nagercoil was 816.08 per cent whereas in the societies at Thuckalay, it was 1073.07 per cent. The coefficient of variation of these ratios of the societies at Nagercoil and Thuckalay were 21.21 and 16.97 per cent respectively. The non-interest expenses of the societies were very high compared to non-interest income thus bringing down the profit margin.

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SUGGESTIONS FOR IMPROVING THE EMPLOYEES COOPERATIVE THRIFT AND CREDIT SOCIETIES:

Following are some of the suggestions for improving the financial performances of the societies

1. The Societies should adopt innovative strategies for increasing their income.
2. Income other than interest received [other income] should be enhanced to meet the expenditure other than interest paid. That is the contingency and establishment expenses.
3. The Societies should improve their marketing methods and practices.
4. Full freedom should be given to the societies to fix the interest rate and should be allowed to follow democratic practices in decision making.
5. For the bright prospects of these societies, the government should conduct survey to improve their functioning and to ascertain their role in the economic development of the nation.

CONCLUSION

The present study concludes that the financial performance of Employees Cooperative Thrift and Credit Societies in Kanyakumari District is noteworthy during the period of study.Such a financially viable society faces certain problems like lack of computerisation, lack of innovation in their business and high establishment charges. If the authorities concerned properly rectify the problems of the societies, the prospects of the societies will be exemplary.

INDIAN JOURNAL OF FINANCE

**Statement about ownership and other particulars about Newspaper
'INDIAN JOURNAL OF FINANCE'
to be published in the 3rd issue every year after last day of February.**

FORM IV

(see Rule 18)

1. Place of publication : **NEW DELHI**
2. Periodicity of Publication : **MONTHLY**
3. 4, 5, Printer, Publisher and Editor's Name : **S. GILANI**
4. Nationality : **INDIAN**
5. Address : **Y-21, HAUZ KHAS, NEW DELHI-16**
6. Name and Address of individual who owns : **ASSOCIATED MANAGEMENT**
   the newspaper and Partner of Share holder : **CONSULTANTS (P) LTD.**
   holding more than one percent. : **Y-21, HAUZ KHAS, NEW DELHI-16**

I, S. Gilani, hereby declare that the particulars given above are true to the best of my knowledge and belief.

Dated : 1st March, 2009

**Sd/-
S. Gilani**
Signature of Publisher