A Critical analysis of the financial performance of Employees' Credit Cooperative Societies

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Abstract

In the recent years it has been very often heard that the financial performance of Employees' Credit Cooperative Society (ECCS) has been by and large not satisfactory and liberalized new economic policies have posed threat to the survival and growth of the co-operatives. On this background, it is prime time to know that, how Employees' Credit Cooperative Societies in Ahmednagar District are coping with the drastic changes presented by free economy. The Employees' Credit Cooperative Society work for the benefits of Employees .The employee has no other source of income other than salary. This paper is an attempt to examine the nature and financial analysis of ECCS in Ahmednagar district. Ratio analysis tool is used for interpretation of the financial performance of the ECCS. The researcher has analyzed the ratios i.e. liquidity, profitability, solvency and operating efficiency according to the standards prescribed by The Department of Co-operation, Maharashtra State. It is also observed that most of the ECCS are successful in achieving the standard results in spite of their unawareness of financial management techniques. It may be due to their concentration on earning more profits and to fulfill members' needs.

Key Words: Liquidity, profitability solvency, operational efficiency, working capital, returns on equity, investment, Credit Deposit ratio, debt equity ratio.

1. Introduction:

The co-operative organizations are suitable, especially for the people who do not have sufficient capital for full satisfaction of their needs. Co-operative is regarded as one of the most powerful instruments for reconstructing and remodeling the economic structure of the underdeveloped countries. The 'world co-operative movement' is essentially an economic movement with a great moral background. Maximization of profits and distribution of high rate of dividend is not the aim of co-operative society but the aim is to earn reasonable profit and imparting the social benefits to its members. The Employees' Credit Cooperative Society (ECCS) is one of the types of Non-agricultural Credit Cooperative Societies.

The first Urban Co-operative Credit Society was registered in 1904 at Kanjeevaram in Madras. The first factory workers' credit co-operative society was established at Bhadoch. Another factory workers' co-operative credit society was established in the year 1912. The number of Employees' Credit Co-operative Societies in India in 1946 was 639. Later on, the number of the ECCS

has rapidly grown. As far as the number of societies is concerned, there were 7211 ECCS in Maharashtra in March, 2007, out of them 215 (2.98%) ECCS were in Ahmednagar district.

In recent years it has been very often heard that the performance of ECCS has been by and large not satisfactory and liberalized new economic policies have posed threat to the survival and growth of the co-operatives. On this background, it is prime time to know that, how ECCS in Ahmednagar District are coping with the drastic changes presented by free economy. This paper is an attempt to examine the financial performance of ECCS in Ahmednagar district.

2. Nature of ECCS:

The ECCS work for the benefits of employees' who get a regular monthly salary. The employee has no other source of income than salary. Out of the reasonable monthly salary the employee has to meet his/her basic requirements. There is no sufficient balance left to fulfill the causal expenditure i.e. marriage of the son or daughter, their Education, Medical Expenditure, etc. for the fulfillment of such expenditure, they require loan. Loan is necessary to complete such casual requirements of the employee. Banks cannot sanction loan to employee without any mortgage. 'Salary' is the basic source of income and is also considered as the mortgage for loan. Employee's salary is considered as Mortgage in the Employees' Credit Cooperative Society. The ECCS is registered to provide the loan facility to employee with reasonable rate of interest. Quite often emergency loans are advanced very promptly, besides the ECCS motivates and many times compels them to save from their monthly salary with a view to increase their credit- worthiness and have reasonable saving at the time of retirement. Most of the Employees' join the society as a member to borrow loan till their retirement.

3. Importance of the Study

The present study is most significant because it was throws light on many important aspects related to ECCS functioning in Ahmednagar District. This study will come out with the listing of constraints and difficulties encountered in financial matter of the ECCS. The suggestions will be helpful for improving the overall performance of these ECCS and also will guide others. The conclusions of this study will be useful to improve the financial performance of the ECCS in the District, State and Country. The topic is chosen with a view to study the financial efficiency of the ECCS

4. Objective and Research Methodology

The basic objective of this study is to trace out the scope and nature of Employees' co-operative credit societies and understand financial performance of ECCS in Ahmednagar District with the help of ratios. Ratio analysis tool is used for interpretation of the financial performance of the ECCS. The researcher has analyzed the ratios i.e. liquidity, profitability, Solvency and operating efficiency according to standards prescribed by The Department of Co-operation, Maharashtra State. In order to fulfill such objective survey method is adopted. There are 215 Employees' Credit Co-operative Societies in Ahmednagar District. Out of them, the researcher has chosen 22 ECCS, as a sample. The ECCS sample represents all types of Profession, Vocation, Employment, Ownership Patterns, Location and Size. The sample has various characteristics i.e. Taluka, Nature, Age and Sizewise. These sample ECCS include the largest, the medium size and the smallest. Thus, the sample comprehensively covers all characteristics and provides a good basis for the present study. Primary data was collected through questionnaire and the personal discussion with chairpersons, directors and staff of the selected ECCS. The secondary data was collected through financial statement of sample ECCS published in their annual reports for a period of five years, viz. 2002-03to 2006-07and their books of accounts and records. Thus a five year span was chosen for the study. The Researcher has classified the sample ECCS into six groups as A, B, C, D, E and F. This grouping was based on the capitals of the units. The researcher has calculated the ratios by analyzing the overall average of five years and the same method has been followed while preparing every ratio. The researcher has considered the hypothesis that the financial performance of the ECCS in terms of liquidity, profitability, solvency and operational efficiency in Ahmednagar district are satisfactory. All the above ratios seem to be satisfactory. The

researcher has used various statistical tools, techniques and methods such tabulation, graphic presentation, percentage, average. Descriptive and inferential analysis such as correlation, regression analysis, one Sample 't'test, ANOVA and MANOVA test, which have been done through two computerized software (SPSS and Gretel).

5. **Theoretical background of financial analysis**

Every organization prepares a financial statement every year. The financial statement is the end product of the financial reporting. It provides the financial result of the business by recording, classifying and summarizing the business transactions, which may be used for decision making and policy formulation. The balance sheet is one of the principal financial statements. It provides true and fair picture, in which all the income and expenses causing changes in the owner's interest in the business are recorded in Profit and Loss account. Hence, the statements and accounts must be based on correct information so as to assess the financial strengths and weaknesses of the firm. Appraisal of financial statement totally depends on the present financial position in background of past earning. Hence, it is better to use audited financial statement in this regard. In the words of Bierman J. R. and Drebin "Financial statements are primarily prepared for decision making". The statement is not an end in itself but must be useful in a decision-making context.

The ratio analysis is universally accepted technique of analyzing the financial statements. Helfert has rightly stated that the ratio analysis provides guidance and clues, especially in spotting trends towards better or poor performance. Both comparison and competition have a great significance in organizational development whereas ratios are used in inter- organization and intra- organizations comparison. Thus, one of the best possible and popular tools of financial analysis is the ratio analysis.

6. **Analysis and Interpretations of Ratios**

The researcher has calculated these ratios by analyzing the overall average of five years i.e. the period under study and has stated upon these and the same method has been followed while preparing every ratio. The ratios used in this analysis are grouped under the four broad categories. i.e. Liquidity, Profitability, Solvency and Operational efficiency The financial analysis of the ratios and the general observations are as follows:

1) RATIO USED FOR ASSESSING LIQUIDITY:

Liquidity refers to the ability to pay in cash the obligations that are due. If the sufficient liquidity is not maintained by the ECCS, then it is considered technically insolvent and faces the financial embarrassment of re-negotiating its obligations to creditors. Vanhorne has concluded that, 'the higher the liquidity the lower the profitability'. A higher financial liquidity would generally mean a lower risk of technical insolvency showing capability of ECCS to pay the current debts as and when they become due. To measure the liquidity performance of the sample ECCS in Ahmednagar district three liquidity ratios as current ratio, debt-equity ratio and Credit Deposit Ratio have been calculated.

The following given table reveals the group wise comparison of overall liquidity position of the sample ECCS during the period under study.

Table No. 1.01 Overall Liquidity Ratio of Sample ECCS

Type of Group	Current Ratio (2:1)	Debt Equity Ratio (1:1)	Credit Deposit Ratio (60-70%)
A	1.37	3.73	218.62
B	1.78	1.39	64.55
C	1.91	1.55	109.43
D	2.86	2.10	125.83
E	2.54	0.78	155.28

F	3.55	1.08	81.34

Source: Compiled from Annual Reports of the ECCS.

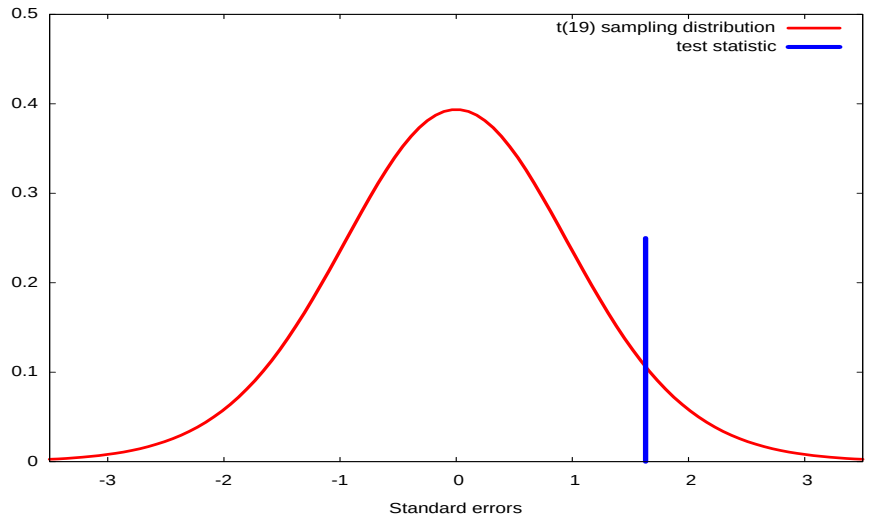
a. In case of current ratio, if the standard of 2:1 is considered; the A, B and C groups have shown Current Ratio less than the prescribed standard. Whereas D, E and F groups were having current ratios of more than the standard. The groups which have more capital, they have shown lesser current ratios and on the other hand groups having lesser capital base have more current ratios.
b. In case of Debt Equity Ratio the situation is mixed. The Groups B, C, E and F have recorded D/E Ratio at below the standard, while the A and D groups showed D/E Ratio more than the standard. It can be observed that ECCS rely more on their own capital.
c. In case of CD Ratio, only group 'B' was able to maintain the desired level (64.55%), barring this all other were found not able to maintain the desired level. The researcher has observed and remarked about the implacability of this ratio to ECCS and has suggested separate norms for these type of societies.

For testing this determinant, the researcher utilized one Sample 't'test, therefore, it can be observed that the actual mean is 2.150; it is greater than the elementary mean where the value of t was 1.630, which means that it is accepted. Hence, the value of t is significant. I.e. the value of this factor is more than the standard level of the ratio, which explores that the liquidity ratio lies within the acceptable level. This availability resulted from the current ratio and debt equity ratio where the value of t was 8.500 and 0.890, while the weakness resulted from credit deposit ratio where the all cases where within the adverse level. Therefore, the alternative hypothesis is rejected and the null hypothesis is accepted, which states that;"The financial performance of ECCS in term of liquidity is satisfactory".

Table 1.02 One-Sample Statistics

Ratio	N	Mean	Std. Deviation	t	df	Sig. (1-tailed)	Status
CR1	19	2.895	0.459	8.500	18	0.000	Accepted
DER1	20	2.200	1.005	0.890	19	0.192	Accepted
CDR1	15	1.000	0.000				Adverse
Liquidity Ratio	20	2.150	0.411	1.630	19	0.060	Accepted

Figure No. 1.01 **One Sample 't'** Test for Liquidity Ratio



The researcher has analyzed the financial statements of sample ECCS and has found that like other Business Organizations, the question of liquidity is not crucial for ECCS, considering the nature of the ECCS. Though they lend, most of the ECCS have not accepted deposits from outsiders, hence the need for maintaining liquidity did not arise.

2) Ratio used for assessing Profitability:-

Under this group Return on Equity (ROE), Net Profit to Total Income, Net Profit to Loan, Net Profit to Working Capital and Total Income to Working Capital ratios are considered to ascertain profitability of ECCS. The following table reveals the group wise comparison of overall profitability position of the sample ECCS during the period under study.

Table No. 1.03 Overall Profitability Ratio of Sample ECCS

Type of Group	Return on Equity Capital	Net Profit to Total Income (10%)	Net Profit to Loan (5%)	Net Profit to Working Capital (1%)	Total Income to Working Capital (11%)
A	15.46	24.79	3.22	2.59	10.50
B	14.47	35.99	6.51	4.19	11.66
C	13.19	47.09	5.79	4.73	10.49
D	13.00	45.38	6.09	4.19	9.82
E	13.24	45.41	6.50	4.81	10.66
F	326.29	48.02	9.66	5.99	11.02

Source: Compiled from Annual Reports of the ECCS.

a) The ROE shown by all the groups were in range of 13 to 15.46%, thus there was not much variation found in return on capital. Only one ECCS in Group F i.e. Shree Sai Sanstha's ECCS, Shirdi has shown abnormal ROE of 326.29%. This is due to very low capital base and high earnings due to other allied activities.

b) Net Profit to Income: All the groups have shown this ratio in the range of 25% to 48%. All the groups have shown the ratio at more than the standard set.

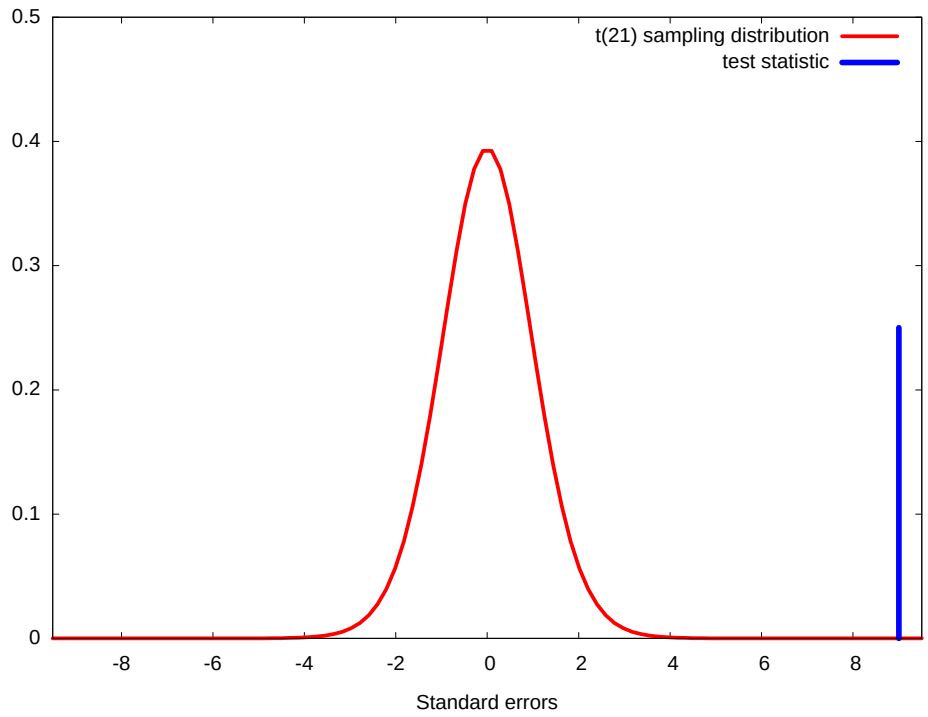
c) Net Profit to Loan: The group A has shown less than the standard set (3.22%), while all other groups have shown this ratio in the range of 5.79% to 9.65%.
d) Net Profit to Working Capital: All the groups have found to be adhered to the set standard. Actually all have bettered the same by about 1%.
e) Total Income to Working Capital: The groups A, C, D and E have maintained the ratio below the desired standard and were found to be in the range of 9.82% to 11.66%. whereas B and F have excelled than the desired standard.

For testing this determinant, the researcher utilized one sample t test. Therefore, it can be observed that the actual mean is 2.705, it is greater than two (elementary mean) where the value of 't'was 9.003 greater than t_α = 1.040 (see Figure2.03) .Hence, the value of 't' is significant. i.e. the value of this determinant is 2.705, which explores that this determinant is located within the acceptable level. This availability resulted from the all determinants of it, which are Net Profit to Total Income, Return on Equity Capital, Net Profit to Loan, and Net Profit to Working Capital where the value of t was 100, 6.521, 0.418 and 10.000 successively. Consequently, the alternative hypothesis is rejected and the null hypothesis is accepted, which states that;"The financial performance of ECCS in term of profitability is satisfactory."

Table 1.04 One-Sample Statistics

Ratio	N	Mean	Std. Deviation	t	df	Sig. (1-tailed)	Status
NPTI1	22	3.000	0.000	100			**Accepted**
REC1	22	2.818	0.588	6.521	21	0.000	**Accepted**
NPL1	22	2.091	1.019	0.418	21	0.340	**Accepted**
NPWC1	22	2.909	0.426	10.000	21	0.000	**Accepted**
Profitability Ratio	**22**	**2.705**	**0.367**	**9.003**	**21**	**0.000**	**Accepted**

Figure No. 1.02 One Sample't' Test for Profitability Ratio



3) Ratio used for assessing Solvency:-

Under this Share Capital to Working Capital, Loan to Working Capital, Investment to Deposit, Own Fund to Loan, Deposit to Working Capital and Investment to Working Capital are considered. The following given table reveals the group wise comparison of overall solvency position of the sample ECCS during the period under study.

Table No.1.05 Overall Solvency Ratio of Sample ECCS

Type of Group	Share Capital to Working Capital (2%)	Loan to Working Capital (65-70%)	Investment to Deposit (20%)	Owned Fund to Loan	Deposit to Working Capital (80%)	Investment to Working Capital (20-25%)
A	17.43	81.55	92.25	34.16	55.00	15.93
B	28.88	68.28	85.16	69.69	22.38	16.51
C	35.70	80.44	50.96	62.19	39.03	15.68
D	30.07	75.14	16.78	84.89	54.70	14.57
E	37.02	75.53	58.98	67.01	29.38	17.33
F	17.27	65.65	337.90	63.20	3.33	24.00

Source: Compiled from Annual Reports of the ECCS.

Table 1.06 One-Sample Statistics

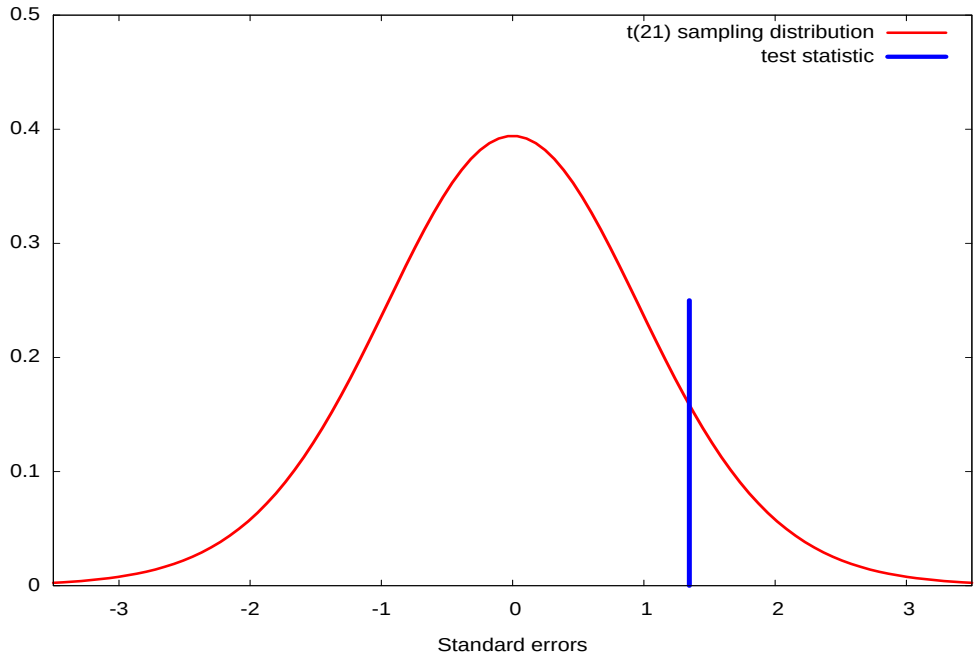
Ratio	N	Mean	Std. Deviation	t	df	Sig. (1-tailed)	Status
SCWC1	22	2.909	0.426	10.000	21	0.000	Accepted
LWC1	22	2.546	0.858	2.982	21	0.004	Accepted
ID1	15	2.200	1.014	0.764	14	0.229	Accepted
OFL1	22	2.273	0.985	1.299	21	0.104	Accepted
DWC1	18	1.111	0.471	-8.000	17	0.000	Adverse
IWC1	22	1.273	0.703	-4.856	21	0.000	Adverse
Solvency Ratio	22	2.096	0.333	1.346	21	0.097	Accepted

It is observed that

a) Share capital to working capital is found to be above the standard set by all the groups.
b) In case of Loan to Working Capital all the groups except group B (68.28%), have excelled the standard.
c) In case of Investment to Deposits, all groups except the Group D (16.78%) have excelled the ratio. The group D consists of two ECCS (Unit nos. 17 and 22) which have not accepted deposits at all.

d) Own Fund to Loans: All the groups have shown results in the range of 60% to 85%. The only exception is the group 'A' (34.16%), this is obvious as under this group the ECCS having more capital are grouped.
e) Deposit to Working capital: All the groups have shown ratio below standard. This is obvious as the ECCS generally do not accept deposits. Only Group F has shown exceptionally low ratio of 3.33%.
f) Investment to Working Capital: All the groups have shown ratios below the standard set. F group has shown 24% which is the only group which could adhere to the standard. It was found that most of the ECCS have not any idle funds to invest.

Figure No. 1.03 One Sample 't' Test for Solvency Ratio



In respect of analyzing solvency ratio clarifies that the actual mean is 2.096, it is smaller than 2 (elementary mean) where the value of "t" was 1.346 hence, the level of availability of this determinant was greater than the standardized value, which indicates that this determinant belonged to the acceptable level. This result came from Share Capital to Working Capital, Loan to Working Capital, Investment to Deposit and Own Fund to Loan where the value of t was 10.000, 2.982, 0.764 and 1.299 successively, while Deposit to Working Capital and Investment to Working Capital ratios are weak., this factor where the value of "t" was -8.000 and -4.856. Therefore, the alternative hypothesis is rejected and the null hypothesis is accepted, which states that;"The financial performance of ECCS in term of solvency is satisfactory."

4) Ratio used for assessing Operating Efficiency:

Under this category Interest Earned to Total Income, Interest Paid to total Income, Total Expenses to Total Income, Total Income to Working Capital and Total Expenses to Working Capital are considered.

Table No.1.07 Overall Operating Ratio of Sample ECCS

Type of Group	Interest Earned to Total Income (95to100%)	Interest paid to Total Income (35 to50%)	Total Expenses to Total Income	Total Income to Working Capital (11%)
A	73.72	65.99	75.21	10.50
B	91.84	47.31	64.01	11.66

C	95.73	23.80	53.06	10.49
D	66.34	42.55	54.93	9.82
E	90.94	37.18	57.79	10.66
F	64.39	38.92	48.98	11.02

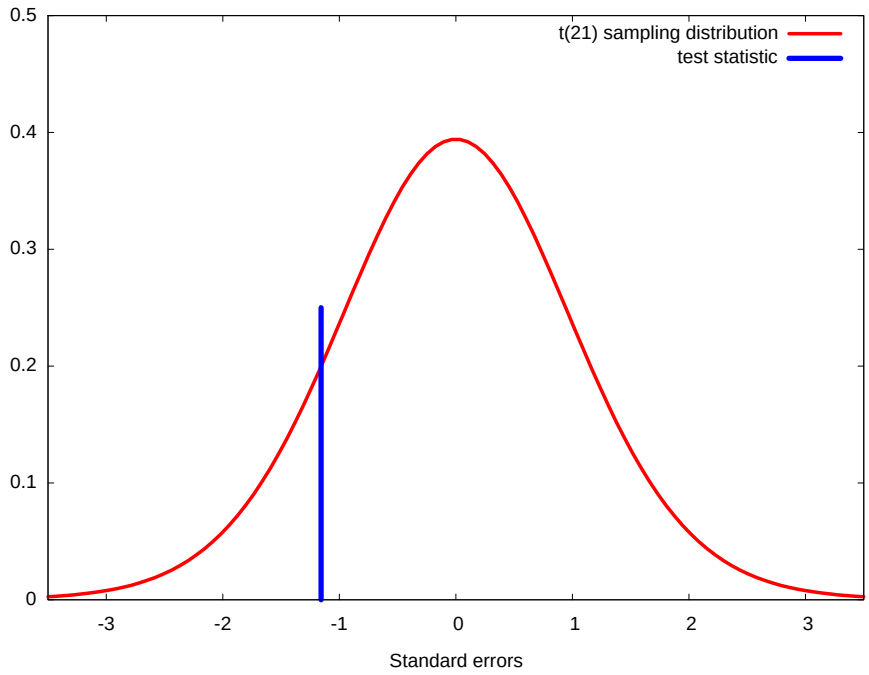
Source: Compiled from Annual Reports of the ECCS.

a) Interest Earned to Total Income: Out of the groups B, C and E were within the standard set. Other groups were just below the standard.
b) Interest paid to Total Income: Out of the groups B, D, E and F were within the standard and remaining Group A (65.99%) has shown the maximum ratio. Whereas minimum ratio is shown by Group C (23.80%)
c) Total expenses to Total Income: Out of the sample ECCS all the groups have shown maximum ratios, it indicates the less operating efficiency and profitability. All the groups have shown results in the range of 48.98 % to 75.21%.The group having greater capital shows greater ratio. Group A (75.21%) has recorded the maximum ratio whereas minimum was shown by Group C (48.985).
d) Total Income to Working capital: All the groups have shown results in the range of 9.82% to 11.66%. The group 'B' has recorded the maximum ratio as 11.66% and the group D has shown 9.82%during the period under study. Almost all the ECCS have registered the ratio nearest to the standard. These ECCS utilized their available funds in order to gain more income.

Table 1.08 One-Sample Statistics

Ratio	N	Mean	Std. Deviation	t	df	Sig. (1-tailed)	Status
ITI1	22	1.636	0.953	-1.789	21	0.044	Adverse
IPTI1	22	1.455	0.858	-2.982	21	0.004	Adverse
TETI1	22	2.818	0.588	6.521	21	0.000	Accepted
TIWC1	22	1.636	0.953	-1.789	21	0.044	Adverse
Operating Ratio	22	1.886	0.461	-1.156	21	0.130	Adverse

Figure No. 1. **One Sample 't'** Test for Operational Efficiency



For testing this determinant, the researcher utilized one Sample 't'test. It has been explored in Table 1.08 in which it can observe that, the actual mean is 1.886, it is smaller than 2 (elementary mean) where the value of t was -1.156 smaller than t_{α} -1.040 (see figure No. 1.04). Hence, the value of t is significant. i.e. the actual value of this determinant is 1.886, which explores that this determinant is located below the acceptable level. This value resulted from the all determinants except Total Expenses to Total Income where the value of ' t' was 6.521and. Consequently, the null hypothesis is rejected and the alternative hypothesis is accepted, which states that; "The financial performance of ECCS in term of operational efficiency is unsatisfactory."

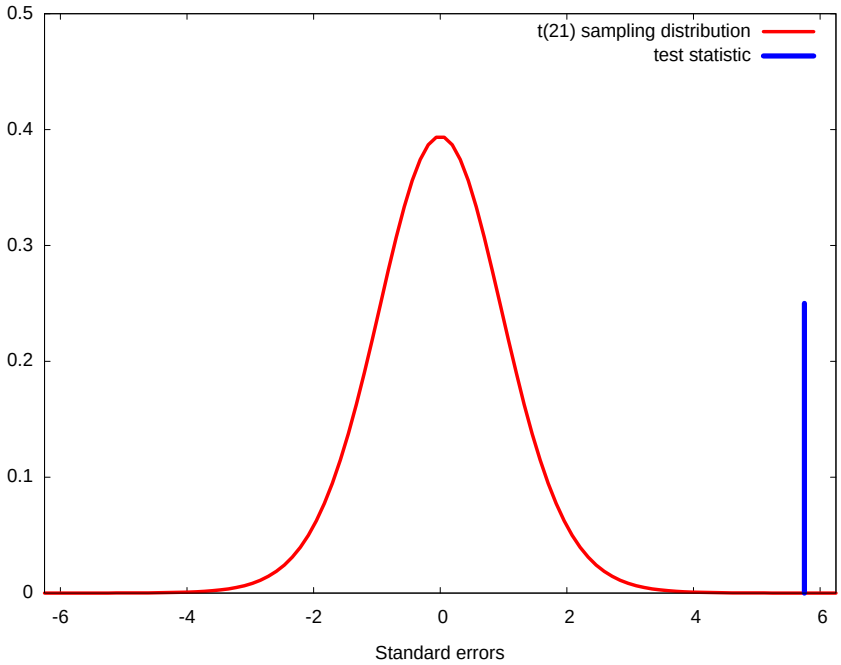
5. **Overall financial performance of the ECCS in Ahmednagar District**

It has been observed that the actual mean is 2.215, it is greater than 2 (elementary mean) where the value of t was 5.751 greater than ′ □,□ 1.040. Hence, the level of this determinant was 2.215, which indicates that this determinant is belonged to the acceptable level. This result came from Liquidity, Profitability and Solvency Ratio where the value of t was 1.630, 9.003 and 1.346 successively and the weakness resulted by Operating Ratio where the value of 't' was -1.156. Consequently, the alternative hypothesis is rejected and the null hypothesis is accepted. It shows that; "The financial performance of ECCS in terms of liquidity, solvency, profitability, and operational efficiency all together is satisfactory".

Table 1.09 One-Sample Statistics

Ratio	N	Mean	Std. Deviation	t	df	Sig. (1-tailed)	Status
Liquidity Ratio	20	2.150	0.411	1.630	19	0.060	Accepted
Profitability Ratio	22	2.705	0.367	9.003	21	0.000	Accepted
Operating Ratio	22	1.886	0.461	-1.156	21	0.130	Accepted
Solvency Ratio	22	2.095	0.333	1.346	21	0.096	Accepted
The Financial Performance of ECCS	22	2.215	0.175	5.751	21	0.000	Accepted

Figure No. 1.05 **One Sample 't'** Test for Hypothesis



According to the test of the study hypothesis through using 't' test the researcher has found that the financial performance of the ECCS in terms of liquidity, profitability, solvency and operational efficiency in Ahmednagar district are satisfactory. All the above ratios seem to be satisfactory.

7. Conclusions

It is observed that the ECCS under study were not aware of any standards except CD ratio. For better financial management and control, proper training and dissemination of information and knowledge related to these ratio analysis techniques is necessary. Out of these groups it was found that group 'F' (Minimum own Capital) is very different than other groups, in terms of capital, deposits etc., hence while commenting upon the techniques of financial management, this group is not considered much. It is also observed that most of the ECCS under study were successful in achieving the standard results in spite of their unawareness of financial management techniques. It may be due to their concentration on earning more profits and to fulfill members' needs. Some of them have failed to

achieve the desired standards as due to either they do not accept deposits or were dependent upon borrowed funds.

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