



AN ANALYSIS OF FINANCIAL PERFORMANCE OF SELECT PRIMARY AGRICULTURAL COOPERATIVE CREDIT SOCIETIES IN METTUR TALUK, SALEM DISTRICT

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Abstract

PACCS functioning at grass-root level have direct contact with the rural people and meet the financial requirements of 10.983 crore members. PACCS rely heavily on external support and have not yet been able to become self-reliant with respect to resources through deposit mobilization and internal accruals, affecting their growth and expansion of business activities. The present study explores the sources of funds of PACCS and the mobilization and deployment of funds. The suggestions given aim at helping the societies to improve their performance and achieve their objectives.

Key words

Sources of funds – mobilization – deployment – overdues – repayment – profit ration – turnover ratio – credit turnover ratio – cash to working capital ration – investment to working capital ratio - fixed assets to working capital ratio - share capital to working capital ratio - Loans and deposits to working capital ratio

Introduction

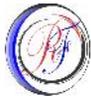
Cooperatives play an important role in the socio-economic development of rural masses. A small beginning was made with the enactment of first Cooperative Credit Societies Act in 1904 and now the cooperative movement has completed a century.

PACCS functioning at grass-root level have direct contact with the rural people and meet the financial requirements of 10.983 crore members. PACCS provide short-term loans for the cultivation of crops and for consumption purposes as well as medium-term loans for allied agricultural activities. With the increasing demand for rural credit, agricultural credit societies were transformed from single purpose to multi-purpose societies.

PACCS rely heavily on external support and have not yet been able to become self-reliant with respect to resources through deposit mobilization and internal accruals, affecting their growth and expansion of business activities. The present study presents the financial performance of the PACCS in Mettur Taluk.

Importance of the Study

In order to increase the tempo of economic development through financial stability of the cooperatives in general and cooperative credit societies in particular, steps had been taken to promote the development of various types of economic activities in the sphere of cooperation both in rural and urban areas. PACCS, being financial intermediaries, render financial services with the objectives of growth, profit and services. However, the financial stability of these societies has a direct bearing to the extent of mobilization of deposits and the collection of loans before they become overdues. If the overdues are not kept under control, they will have a crippling effect of curtailing the ability of the societies to recycle the funds and expand their business.



Review of Literature

Gurumoorthy.T.R (2001) revealed that the loan recovery would contribute to fresh loans that create new business and employment and interest income would meet establishment expenditure and profit requirement of the financial institutions. Sarthak Chowdhury and Prabuddha Ray (2001) found that women were not given equal opportunity in availing credit from the Cooperative Banks. A study conducted by Somorendra Singh (2001) identified that Self reliance, deployment of Resources, Member Utilization, participation and Economic Performance were the criteria for assessing the performance of PACCS. Veerakumaran G (2001) stated that the huge overdue, breaks the recycling of funds and thus adversely affects the profitability of the banks. Ravi Verma S (2003) revealed that among the different categories of the farmers, large and medium farmers are provided disproportionately higher amount of credit than their corresponding share in the number of accounts. Mariappan, V (2003) indicated that 75 percent of deposits come from high cost schemes such as fixed deposits, deposits doubling schemes etc. Ravichandran K. and Revathi Bala M. (2004) found that the dominance of the moneylenders could still be found in satisfying the credit needs of the members of the PACCS.

The Report of the Task Force on Revival of Cooperative Credit Institutions (2004) pointed out that the low recovery of loans obviously affected the profitability of the institutions and poor loan recovery had resulted in a peculiar phenomenon, often referred to as imbalances. It also viewed that PACCS were mainly conducting their business through borrowed funds. Mishra J.P. and Maurya S.K (2005) expressed that agricultural credit disbursed by coopearatives in Gola block of Gorakhpur District has increased production, productivity income and employment of borrowers in crop and milk production. Shacheendran V. (2007) indicated that Cooperatives showed a better performance in issuing Kisan Credit Cards than RRBs (Regional Rural Bank) and CBs (Commercial Bank). Deepak Shah (2007) made an attempt to measure the viability of PACCS during pre economic reform period and the post economic reform period.

Statement of the Problem

Low resource base has been a major constraint in the effective functioning of PACCS which necessitates augmenting the deposits and improving the performance of lending to reach smooth credit creation. Further, it paves the way to streamline the operations of PACCS and to set right the mismatches in the growth of PACCS throughout the country. With this background, the present study aims to build a knowledge base on the Financial Performance of Select PACCS. So it is pertinent to explore: What are the sources of funds? How the funds are mobilized and deployed profitably? What is the extent of overdues? How to make resource mobilization and deployment of funds effective? These questions would be answered through studies, which would help the societies to improve their performance and achieve their objectives. Hence, this present study entitled “A study on the Financial Performance of Select Primary Agricultural Cooperative Societies in Mettur Taluk”.

Objectives of the Study

The following are the objectives of the study:

1. To examine the profitability, liquidity and solvency position of the select PACCS in Mettur Taluk.
2. To compare the financial performance of the select PACCS.
3. To offer suggestions to improve the financial performance of the select PACCS.

Methodology

Survey method was followed for this study. Secondary sources of data were collected. Reports of National Cooperative Union of India, various Reports of National Bank for Agriculture



and Rural Development (NABARD) were referred to elicit data and details pertaining to the profile and extent of overdue. NABARD State Focus Paper, Tamil Nadu State Co-operative Bank (TNSC) Bank's Annual Report, Potential Linked Credit Plan for Mettur Taluk, Annual and Audit Reports of PACCS were referred to elicit data regarding the mobilization of deposits and deployment of funds in sample PACCS.

Sampling Technique

Multi stage sampling technique was followed for the study. In the First Stage, Mettur Taluk was purposively selected. There are 3 circles in Mettur Taluk viz., Mettur, Mechery and Tharamangalam. In the second stage, 15 percent of the PACCS have been randomly selected from each stratum. Sample size constitutes of 4 PACCS selected out of 26 PACCS functioning in the Taluk.

Tools Used for Analysis of the Data

The data has been analyzed by using the following tools.

- Ratio analysis
- Common – size statement

Progress of PACCS in India and Tamil Nadu

At all India level, there were 94950 PACCS with the average membership of 1384 in 2011-12 as against 91786 PACCS with the average membership of 34 in 1929-30. Working capital had increased from Rs.34.93 crores in 1929-30 to Rs.88106.85 crores in 2011-12 due to the increase in share capital and loans issued.

In Tamil Nadu, the total number of PACCS in 1929-30 was 12439. Over the years due to amalgamation and restructuring process, it has come down to 4582 PACCS in 2000-05. In the year 2011-12, there were only 4495 PACCS due to the winding up of loss making PACCS.

Performance Analysis of PACCS in Mettur Taluk

Among the 26 PACCS in Mettur Taluk, Mallikuththam and Manaththal PACCS are century old societies in Mettur Taluk. There are three sample PACCS functioning in Mettur Taluk with more than 103 years of operations. All other Societies are more than 45 years old. Mettur PACS have a potential and facilitating environment to bring out the best among cooperatives in the country and to carve out a niche as role model for the country.

Findings of the Study

The following are the major findings of the study.

- Gross Profit Ratio of Navappaty PACCS shows a continuous increase from 4.24% in 2004-2005 to 8.44% in 2011–2012. Gross profit ratio of Vanavasi PACCS fluctuates from 3.92% to 7.80% mainly due to fluctuations in net sales. A mixed trend is being noticed.
- Navappatty PACCS in the last two years showed a slight upward trend and ratio stood at 9.73% in 2011–2012. Vanavasi PACCS in the last two years showed a declining trend and took the ratio to 11.81% in 2011–2012. The net profit ratio of Navappatty PACCS was the highest at 27.34% and Kolathur PACCS stood as the lowest at -4.74% Kolathur PACCS has shown negative values in 3 years.
- Debtors turnover ratio of Navappatty PACCS has increased to 4.67% in 2009-2010 which further increased by 0.70% in 2011–2012. Debtors' turnover ratio of Vanavasi PACCS shows a wide fluctuating trend with a marginal difference. Kolathur PACCS's ratios stood at the highest as 29.73% during 2004-2005. Debtors' turnover ratio of Kaveripuram PACCS was the lowest and stood as 0.22% in 2007-2008.



- Creditors turnover ratio of PACCS was the highest at 30.85% in 2004-2005 and fluctuated very widely from 30.85% in 2004-2005 to 5.13% in 2011-2012. Lowest ratio of 3.14% in 2006-2007 has been recorded by Vanavasi PACCS.
- Current ratios of all the societies stood above the satisfactory level. The highest ratio of 10.54% in 2009–2010 has been recorded by Kaveripuram PACCS.
- Cash to working capital ratio of PACCS shows that the variations were less during the period of study. It varied from -2.82% to 1.67%.
- Investment to working capital ratio of PACCS indicates that Kolathur PACCS has shown the highest ratio of 24.94% in 2005–2006. The lowest ratio stood as -9.56% for Vanavasi PACCS in 2007-2008.
- Fixed assets to working capital ratio reveal that Navappatty PACCS has the highest ratio of 25.23% in 2004-2005 and Kaveripuram has shown the lowest ratio of -0.45% in the same year.
- Share capital to working capital ratio of PACCS disclose that Kolathur PACCS has recorded the highest ratio of 6.23% in 2005-2006 whereas the lowest percentage of -1.46% was registered in 2007-2008 by Vanavasi PACCS.
- Loans and deposits to working capital ratio of PACCS stood at the highest at 148.02% in 2004-2005 for Navappatty PACCS. The lowest ratio of -45.82% was shown by Vanavasi PACCS in 2007-2008.

Suggestions

Based on the analysis of Financial Performance of select PACCS the following suggestions are made:

Improving owned funds

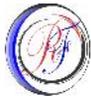
- The PACCS should strengthen their share capital and reserves in order to become self-reliant. Attracting new members and retaining the existing members pave the way to strengthen the share capital base for which it is very essential to extend the member enrollment programmes and cooperative education. As the effective performance maximizes the profit, the societies can set aside different kinds of reserves to meet the unforeseen contingencies.

Deposit Mobilization

- The societies should raise deposits to shine as democratic and self-reliant. The following steps are the need of the hour to raise the quantum of deposits.
 - ❖ Establishment of Deposit Mobilization Cell
 - ❖ Identification of potential investors in rural areas
 - ❖ Opening of branches
 - ❖ Effective implementation of Deposit Insurance Scheme
 - ❖ Attractive rate of interest
 - ❖ Relaxation should be given to PACCS by the Registrar of Cooperative Societies to mobilize more deposits by reducing the ceiling of 15 lakhs as owned funds.
 - ❖ The untapped rural savings must be attracted by raising the rate of interest on deposits when compared to other institutional agencies functioning in the area of operation of the concerned PACCS.

Deployment of funds

- PACCS should deploy funds in various investment avenues such as shares and securities, Government securities, bonds and deposit in various institutions offering high rate of interest.
- ❖ Need based and timely loans should be given after conducting in-depth survey in the area of operations of the society.



- ❖ Adequate recovery mechanism should be operated at the DCCB level to monitor the performance of concerned societies in their supervision. DCCBs should set up independent recovery and legal cell at their Head Office manned by well-qualified and competent Law Officers with adequate supporting staff for effective monitoring of recovery of accounts
- ❖ Jewel loan, Self Help Loan (SHG), micro credit loan and loan to monthly salaried people will make the societies prosper.

Management Information System

- Steps have to be taken for computerization of all PACCS in the district and stay connected to the apex level organizations. It is easy to monitor the loan accounts effectively and efficiently. PACCS should create a database of their overdues on well-designed formats to provide meaningful inferences, which would help in evolving effective strategies as well as account specific action plan for preventing overdues.

Produce Pledge Loan

- PACCS must provide produce pledge loan to the farmers. It will increase the income earning capacity of PACCS and fulfill the immediate financial needs of the farmers.

Marketing Arrangements

- PACCS and the Marketing Societies should jointly arrange for the sale of agricultural produces by adapting open auction system, secret tender system and outright purchase in the campus of PACCS. The income can be shared among the Marketing Societies and PACCS, which gives effect on the principle of “Cooperation among Cooperatives”.

Diversification in Lending

- The credit needs of the particular area should be properly identified to give loans for the needed purposes by conducting regular surveys along with Civil Society Organizations such as NGOs, Community Based Organizations, Local Panchayats, Universities etc., in the way to examine the local pulse of the people having thrust for credit.

Incentives to the honest repayment

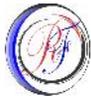
- Incentives can be given to honest repayers to create a better climate for repayment. The possibility of honouring best loanees and best employees during cooperative weak celebrations can be chalked out.

Role of Government Agencies

- The Government Departments / Organizations could play a vital role in creating right recovery climate, which in turn, facilitate the societies to reduce their overdues. Government should not announce any waiving schemes or loan melas. This approach of the Government spoils the banking environment and repayment culture. The Government should also implement the Model Cooperative Societies Act to ensure better support from the members.

Conclusion

PACCS are the kernel of cooperative movement in India. They are not only purveying rural credit but also empowering the farmers and the weaker sections of the society. But they suffer from poor financial health and chronic overdues. In order to make these societies as democratic, self-governing and financially well-managed institutions, proper mobilization and efficient deployment of resources are very essential. As the Mettur Taluk offers a good platform for the cooperatives, the present study analysed the financial performance of PACCS in the Mettur Taluk. As the management of working capital ensures effective flow of financial resources circulating of PACCS, the financial performance in PACCS has been measured by studying their relationship with the ratios in the present study.



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