IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

# "AN ASSESSMENT OF ASSET QUALITY AND FINANCIAL PERFORMANCE OF THE SHIMOGA ARECAUNUT MANDI MERCHANTS COOPERATIVE BANK LTD. SHIMOGA".

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**ABSTRACT:** The present study titled "an assessment of asset quality and financial performance of the shimoga arecaunut mandi merchants cooperative bank ltd. Shimoga" aims to assess the financial performance and asset quality of the bank. Cooperative banks play an important role in mobilizing savings and providing credit facilities to various sections of society. Therefore, evaluating their asset quality and financial performance is essential for understanding their operational efficiency and financial stability.

The study primarily focuses on two objectives. First, it assesses the asset quality and Non-Performing Asset (NPA) position of Shimoga Gramin Credit Merchants Cooperative Bank Limited, Shimoga, by analyzing the Gross Non-Performing Asset (GNPA) Ratio, Net Non-Performing Asset (NNPA) Ratio, and Provision Coverage Ratio (PCR). Second, it analyzes the bank's financial performance with reference to net profit, shareholders' equity, dividend percentage, and Return on Equity (ROE).

The study adopts a descriptive and analytical research methodology and is based mainly on secondary data collected from the bank's annual reports, financial statements, and other relevant published sources. Appropriate financial ratios and analytical techniques are used to evaluate the bank's asset quality, profitability, and shareholders' returns over the selected study period.

The study is expected to provide insights into the bank's NPA management, asset quality, profitability, dividend performance, and efficiency in utilizing shareholders' funds. The findings may be useful to the management of the bank, members, depositors, researchers, and other stakeholders in understanding the financial strengths and areas requiring improvement. The study also contributes to a better understanding of the financial performance and operational challenges of cooperative banking institutions.

**Key constructs:** Financial performance, efficiency, Asset quality, profitability, dividend performance, return on equity and risk management practices.

**1.1 Introduction & Meaning:** Cooperative banks in India are financial institutions that are owned and operated by their members, who are usually individuals or small businesses. These banks function on the cooperative principles of self-help, mutual assistance, and democratic decision-making.

**Meaning:** A cooperative bank is a financial institution that is owned and operated by its members. It operates on the cooperative principles of self-help, mutual assistance, and democratic decision-making. The primary objective of a cooperative bank is to provide banking services to its members, who are usually individuals or small businesses.

**1.2 Evolution of cooperative banks in India:** The evolution of cooperative banks in India spans over a century and can be traced back to the early 20th century. The evolution of cooperative banks in India can be traced back to the Cooperative Credit Societies Act of 1904, which was enacted to address the financial needs of rural and agricultural sectors. Here are the key stages:

- **Cooperative Credit Societies Act of 1904:** The foundation for cooperative banks in India was laid with the enactment of the Cooperative Credit Societies Act in 1904. This act aimed to address the financial needs of rural and agricultural sectors by encouraging the formation of cooperative credit societies.
- **Early Stages:** In the initial years, cooperative banks started as small credit societies primarily focused on providing credit to farmers and rural communities. These societies operated on the principles of self-help and mutual assistance, allowing members to pool their resources and provide financial support to one another.
- **Formation of Urban Cooperative Banks (UCBs):** As urban areas began to grow and industrialization took place, there was a need for banking services in urban regions. To cater to the financial needs of urban and semi-urban areas, urban cooperative banks (UCBs) emerged. The first UCB, The Cooperative Bank of Madras, was established in 1905.
- **Cooperative Societies Act of 1912:** The Cooperative Societies Act of 1912 provided a legal framework for the functioning and regulation of cooperative societies in India.

**1.3 Cooperative Banks in Karnataka:** In Karnataka, there are various cooperative banks operating at different levels to cater to the financial needs of individuals, farmers, small businesses, and communities.

- **Karnataka State Cooperative Apex Bank Limited (KSC Apex Bank):** KSC Apex Bank is the apex bank for the cooperative sector in Karnataka. It serves as the central financing institution for district central cooperative banks (DCCBs) and other cooperative institutions in the state. KSC Apex Bank provides financial assistance, refinancing, and guidance to the cooperative banking sector in Karnataka.
- **District Central Cooperative Banks (DCCBs):** Karnataka has several DCCBs operating at the district level. DCCBs provide banking services, including deposits, loans, and other financial products, primarily to the rural population and farmers in their respective districts.
- **Urban Cooperative Banks (UCBs):** Karnataka has numerous urban cooperative banks operating in urban and semi-urban areas of the state. These UCBs provide banking services to individuals, small businesses, and urban communities. Some popular UCBs in Karnataka include Karnataka State Cooperative Apex Bank, The Bangalore City Cooperative Bank, The Mysore Merchants Cooperative Bank, and others.
- **Primary Agricultural Credit Societies (PACS):** PACS are the primary cooperative credit institutions operating at the village or block level. They play a vital role in providing credit facilities to

farmers and rural communities in Karnataka. PACS provide agricultural loans, crop loans, and other financial assistance to meet the credit requirements of farmers.

➢ **Karnataka State Women's Cooperative Finance Corporation (KSWCFC):** KSWCFC is a cooperative institution in Karnataka that focuses on providing financial assistance and support to women entrepreneurs and self-help groups. It aims to empower women economically and promote their participation in entrepreneurship and development activities.

**1.4 Merchant Cooperative Banks operating in Karnataka:** Merchant cooperative banks in Karnataka refer to cooperative banks that primarily cater to the banking needs of merchants, traders, and businesses. While there may not be specific "merchant cooperative banks" in the state of Karnataka, there are cooperative banks that serve the banking requirements of the merchant community and businesses in general. These banks provide a range of financial services to meet the needs of merchants, traders, and industrial cooperatives. While they may not be exclusively categorized as "merchant cooperative banks," they specialize in providing banking services to merchants, traders, and businesses. Requirements of merchants, traders, and businesses in the region, offering various products such as current accounts, term deposits, working capital loans, and trade finance services.

**The Shimoga Arecanut Mandy Merchants Cooperative Bank Ltd Shimoga:** This cooperative bank is located in Shimoga and serves the merchant community in the region. It provides banking services to traders, merchants, and businesses, including savings accounts, loans, and trade-related facilities.

**1.5 Evaluation of the financial performance of Cooperative banks:** When evaluating the financial performance of cooperative banks, several parameters are commonly used to assess their stability, profitability, asset quality, liquidity, and efficiency. Here are some key financial performance evaluation parameters for cooperative banks:

❖ **Non-Performing Assets (NPA) Ratio:** NPA ratio represents the proportion of non-performing assets, such as bad loans, in relation to total assets. It reflects the quality of the cooperative bank's loan portfolio and its ability to manage credit risk. The formula for NPA ratio is: **NPA Ratio = (Gross Non-Performing Assets / Gross Advances) x 100**

Gross Non-Performing Assets are the total value of loans that are in default or have a high risk of default. Gross Advances represent the total value of loans given by the bank. A lower NPA ratio indicates better asset quality and effective credit risk management.

❖ **Provision Coverage Ratio (PCR):** PCR measures the cooperative bank's ability to cover potential losses by comparing provisions for bad loans to the actual bad loans. It assesses the adequacy of provisions and risk management practices. The formula for PCR is:

**PCR = (Provisions for Bad Loans / Gross Non-Performing Assets) x 100**

Provisions for Bad Loans represent the funds set aside by the bank to cover potential losses from non-performing assets. A higher PCR indicates better risk management and provision adequacy.

❖ **Return on Equity (ROE):** ROE measures the bank's profitability relative to its shareholders' equity. It reflects the return generated for the shareholders' investment. A higher ROE indicates better profitability and efficient utilization of equity capital.

**1.6 Objective:**

➢ To appraise Asset Quality and NPA scenario through Gross non-performing asset (GNPA) ratios, Net non-performing asset (NNPA) ratios & provisioning coverage ratios, and practices of the Shimoga Arecanut Merchants' Cooperative Bank Ltd., Shimoga

➢ To analysis of Net Profit, Equity, Dividend Percentage, and ROE of The Shimoga Arecanut Merchants' Cooperative Bank Ltd., Shimoga

**1.7 Hypotheses:**

**1.** There is no significant variation in asset quality, as measured by the Gross Non-Performing Assets (GNPA %) on loans and advances, over the years and among Merchant Cooperative Banks operating in Karnataka**.**

2. There is no significant variation in profitability, as measured by the return on working funds (equity & deposits), over the years and among merchant cooperative banks operating in Karnataka.

**1.8 Research Methodology:** The study follows "Analytical and Descriptive research" methodology Descriptive research is a quantitative research method that attempts to collect quantifiable information for statistical analysis of the population sample. It is a popular research tool that allows us to collect and describe the phenomena. Analytical research is a specific type of research that involves critical thinking skills and. the evaluation of facts and information relative to the research being conducted.

**1.9 Sampling Technique** & **Sources of Data Collection:** The current study draws the data from the primary source i.e., Reserve Bank India's published annual report by name "Hand book on Indian Economy" & Annual reports of the Shimoga Arecanut Merchants' Cooperative Bank Ltd., Shimoga. Annual series data for the period 08 years commencing from FY 2016 -17 to FY 2023-24 will be used for analysis.

**1.10 Data Analysis Tools:** The researcher will be using various statistical techniques such as ANOVA, Multiple regression based predictive analysis model F test, Descriptive statistics tools etc. which are explained below.

**1.11 Scope of the study:** The scope recognizes the borders of the study in term of topics, objectives, facilities, area, time frame, and the issues to which the research is focused. The study aims to appraise Asset Quality and NPA scenario and to evaluate the Profitability**,** for the period 08 years commencing from FY 2016-17 to FY 2023-24.

**1.12 ANALYSIS AND INTERPRETATION:**

**Table 1: Analysis of GNPA, NPA Provisioning, and Net NPA (2017–2024) of The Shimoga Arecanut Merchants' Cooperative Bank Ltd., Shimoga.**

| Year | GNPA | GNPA % | Balance Provisioning for NPA | NNPA |
|---|---|---|---|---|
| 2016-2017 | 36.53 | 0.93% | 109.96 | 0 |
| 2017-2018 | 25.96 | 0.54% | 103.97 | 0 |
| 2018-2019 | 11.18 | 0.22% | 127.26 | 0 |
| 2019-2020 | 11.18 | 0.19% | 127.26 | 0 |
| 2020-2021 | 11.18 | 0.18% | 137.1 | 0 |
| 2021-2022 | 73.15 | 1.06% | 220 | 0 |
| 2022-2023 | 73.15 | 1.00% | 208 | 0 |
| 2023-2024 | 127 | 1.42% | 233 | 0 |
| Mean | 31 | 0.31% | 248 | 0 |
| SD | 41.68522 | 0.004758 | 52.81 | 0.00 |
| CV | 134.47% | 152.38% | 21.29% | 0.00% |
| CAGR | 16.85% | 5.48% | 9.84% | 0.00% |

The Gross Non-Performing Assets (GNPA) data from 2017 to 2024 indicates significant fluctuations, with a notable rise in recent years. GNPA increased from ₹36.53 crore in 2017 to ₹127 crore in 2024, registering a Compound Annual Growth Rate (CAGR) of 16.85%. Alongside this, the provisioning for NPA also showed substantial growth, increasing from ₹109.96 crore in 2017 to ₹233 crore in 2024, with a CAGR of 9.84%. Despite the rising GNPA, the absence of Net NPA (NNPA) across all years implies full provisioning, showcasing a strong risk management strategy.

The GNPA % has shown fluctuations from 0.93% in 2017 to 1.42% in 2024. The mean GNPA % stands at 0.31%, with a standard deviation of 0.0048%, reflecting high variability. The highest GNPA % of 1.42% in 2024 highlights a period of increased asset quality challenges, while the lowest of 0.18% in 2021 demonstrates successful asset management and reduced risk. The coefficient of variation (CV) for GNPA % is 152.38%, indicating significant volatility, which is typical for institutions managing risky assets.

The rise in GNPA and increased provisioning underscore the need for continued vigilance in risk management. While full provisioning eliminates Net NPA, maintaining asset quality remains crucial for financial stability. To address the rising GNPA, the institution should implement robust risk assessment frameworks and explore diversification of lending portfolios to reduce concentration risk. Moreover, leveraging technology for early detection of potential NPAs can improve proactive management and reduce future provisioning needs.

**Table 2: Analysis of Net Profit, Equity, Dividend Percentage, and ROE (2016–2024) of The Shimoga Arecanut Merchants' Cooperative Bank Ltd., Shimoga.**

| Year | Net profit | Equity | Dividend Percent | ROE |
|---|---|---|---|---|
| 2016-2017 | 157.63 | 978.6 | 12 | 16.11% |
| 2017-2018 | 127.05 | 1101.41 | 12 | 11.54% |
| 2018-2019 | 190.24 | 1194.53 | 12 | 15.93% |
| 2019-2020 | 174.72 | 1356.4 | 12 | 12.88% |
| 2020-2021 | 190.53 | 1529.79 | 12 | 12.45% |
| 2021-2022 | 270.15 | 1700.27 | 12 | 15.89% |
| 2022-2023 | 305.75 | 1941.96 | 12 | 15.74% |
| 2023-2024 | 321.63 | 2235.48 | 12 | 14.39% |
| Mean | 191.10 | 1259.98 | 12.00 | 15.61% |
| SD | 69.47 | 502.94 | 0.00 | 2.39% |
| CV | 36% | 40% | 0% | 15% |
| CAGR | 9.3% | 10.9% | 0.0% | -1.4% |

Table 4.72 provides a comprehensive **Analysis of Net Profit, Equity, Dividend Percentage, and Return on Equity (ROE) from 2016–2017 to 2023–2024** for The Shimoga Arecanut Merchants' Cooperative Bank Ltd, Shimoga, offering crucial insights into the bank's profitability and shareholder value creation over the years. During the period under review, the bank's **net profit** consistently grew, reflecting its strengthening financial performance. In 2016–2017, the net profit stood at **₹157.63 lakh**, which gradually increased to **₹321.63 lakh** by 2023–2024, showcasing a **Compound Annual Growth Rate (CAGR) of 9.3%**. Although there were minor fluctuations such as a dip in 2017–2018 to **₹127.05 lakh** the overall trend remained positive, particularly with strong profit growth seen after 2020.

Alongside profitability, the **equity base** of the bank also expanded significantly, increasing from **₹978.60 lakh** in 2016–2017 to **₹2235.48 lakh** in 2023–2024, reflecting a **CAGR of 10.9%**. This steady expansion of equity indicates continuous reinvestment of earnings and sound financial management aimed at strengthening the capital base. Notably, despite this growth in both net profit and equity, the **dividend percentage remained stable at 12%** throughout the entire period, underscoring the bank's consistent commitment to rewarding its shareholders while retaining sufficient profits for growth.

In terms of **Return on Equity (ROE)**, the bank maintained strong and relatively stable returns, though a slight declining trend is noticeable. ROE, which was **16.11%** in 2016–2017, dipped to **11.54%** in 2017–2018, reflecting a temporary reduction in profitability relative to equity. However, it recovered in the following years, reaching highs of **15.93%** in 2018–2019 and **15.89%** in 2021–2022, before slightly declining to **14.39%** in 2023–2024. The **mean ROE** over the period stood at **15.61%**, which is healthy by industry standards, although the **CAGR of ROE registered a marginal negative growth of -1.4%**, signalling the need for attention to maintaining high returns as the equity base continues to grow.

The **standard deviation** of ROE at **2.39%** and the **coefficient of variation (CV) at 15%** indicate moderate fluctuations, suggesting a fairly stable return pattern. Meanwhile, the **coefficient of variation for net profit and equity** stood at **36% and 40%** respectively, implying relatively higher variability in these two areas compared to the very stable dividend payout (CV of 0%).

In summary, the analysis clearly shows that The Shivamoga Arecanut Merchants Cooperative Bank Ltd has delivered **consistent profitability, robust equity growth, and stable dividend payouts**, all of which point to prudent financial management and a strong value proposition for its members. However, the slight downward trend in ROE emphasizes the importance of improving operational efficiencies and profit margins to sustain and enhance shareholder returns in the future.

**Findings:**

✓ **Asset Quality (GNPA)**: The bank's GNPA showed fluctuations, increasing in recent years (CAGR of 16.85%). However, provisions for NPAs increased steadily, and the bank managed to cover non-performing assets fully, maintaining a stable NNPA.

✓ **Profitability and ROE**: The net profit grew steadily (CAGR of 9.3%), and equity showed consistent growth (CAGR of 10.9%). However, the ROE declined slightly over the years, with a negative CAGR of -1.4%, indicating some reduction in return on equity despite stable profitability.

**Suggestions:**

❖ **Maintain Stable Asset Quality**: The Gross Non-Performing Assets (GNPA) increased from ₹36.53 lakh (0.93%) in 2016-2017 to ₹127 lakh (1.42%) in 2023-2024. The mean GNPA over the period is ₹31 lakh with a coefficient of variation (CV) of 134.47%, indicating significant fluctuations. To improve asset quality, the bank should aim to reduce GNPA below ₹50 lakh (0.50%) within the next 2-3 years by strengthening credit assessments and recovery processes.

❖ **Improve Return on Equity (ROE)**: ROE has declined from 16.11% in 2016-2017 to 14.39% in 2023-2024, with a negative CAGR of -1.4%. To reverse this trend, the bank should focus on enhancing profitability and capital efficiency. Targeting an ROE of 16-18% could be a realistic goal by improving capital utilization and focusing on higher-margin products.

❖ **Strengthen Risk Management Framework**: The fluctuations in CRAR and GNPA indicate a need for enhanced risk management. The bank should consider investing in data analytics and stress-testing tools to better predict potential risks and optimize its asset-liability management (ALM) strategy. A target reduction of GNPA by 50% over the next 2 years could be achieved by strengthening risk monitoring and management frameworks.

❖ **Dividend Policy Review**: The bank has consistently paid a 12% dividend, with no fluctuation over the years. While this demonstrates stability, it may be worth reviewing the dividend payout policy. If the bank aims to enhance its capital position or fund future growth initiatives, it could consider reducing the payout ratio to 10-11% in certain years, reinvesting the difference into business expansion or capital reserves.

**Conclusion:**

The Gross Non-Performing Assets (GNPA %) analysis highlighted a stable trend over time but revealed significant differences among banks. While the overall asset quality has not deteriorated year-on-year, the stark variation among institutions indicates that some banks face much higher credit risk. These banks must intensify efforts in loan recovery, credit appraisal processes, and portfolio diversification to control and reduce GNPA levels for improved asset quality.

Profitability, measured through the return on working funds, showed no major fluctuations across years but significant differences across banks. This again underscores the role of operational efficiency, strategic focus, and market positioning in driving bank-specific financial outcomes. Banks with lower profitability need to critically evaluate their cost structures, revenue streams, and investment strategies to enhance their financial performance sustainably.

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