



To analyze the loans and advances verses recovery of loans of Hyderabad district co-operative central bank

¹ Yasmeen Banu, ² Dr. Varun Kumar

¹ Research Scholar, Arunachal University of Studies, Arunachal Pradesh, India

² Research Supervisor, Assistant Professor, Arunachal University of Studies, Arunachal Pradesh, India

Abstract

The institutional credit has been one of the key inputs for employment generation and poverty alleviation. There has been an impressive increase in the institutional credit for agriculture and rural non-farm sector in India. This has largely been possible due to the fast expansion of bank network and role of financing banks under rural credit and other supportive policy initiatives such as compulsory stipulation to lend to the priority sector, weaker sections and the coordination of activities of financial institutions with development agencies and availability of refinance.

Lending is one of the most important functions of co-operative banks since it constitutes the primary source of income. As a matter of fact, co-operative banks came into being with the avowed objective of providing credit in rural areas. It provides credit to both agricultural and non-agricultural sectors. Most of the credit extended by the co-operative banks come under priority sector. The current article analyzes the loans & advances and recovery of loans of Hyderabad district co-operative central bank.

Keywords: loan, bank, sector

Introduction

Central Co-operative Banks form an important part in the short-term and medium-term structure of co-operative credit institutions. Central Co-operative Banks provide indirect finance through member societies to borrowers and direct finance through its branches to the individuals and member societies. Central Co-operative Banks have been providing loans to agriculture and non-farm activities. But recently the Central Co-operative Banks have been permitted to diversify their lending activities to housing, educational loan, professional loan to doctors and engineers, consumer loan and road transport vehicle loan.

Hyderabad District Central Co-operative Bank, being the leader of the cooperative movement in Andhra Pradesh, fulfils the credit requirements of member societies and people living in the area of operation. Hence, an attempt has been made in this chapter to analyze loans and advances, recovery performance, and loans outstanding. Comparison is made between loans and advances of the bank and total loans and advances of all CCB's in Andhra Pradesh and total loans and advances issued in the operational area by commercial banks, regional rural banks and co-operative banks.

In order to compare and analyze the issues under different sources over a period of time, percentage methods are used. To study the stability of the loans issued over the periods, coefficient of variation has been computed. In order to analyze the trend of recovery of various loans, linear trend was fitted using the least square method separately, for each under different sources.

The following form of semi-log trend equation was used:

$$\text{Log } Y = a + bt$$

Where,

Y= Actual value of receipt,

t = Time variable and a and b are constants to be estimated.

The following formula was used to compute the compound growth rate.

$$\text{Compound Growth Rate} = [(Anti \log b - 1) \times 100]$$

In order to determine the nature and strength of relationship between issue of loans and advances and recovery and loans outstanding and overdue, the coefficient of correlation has been applied. The following formula has been used to compute the co-efficient of correlation:

Analysis of Loans and Advances

Hyderabad District Central Co-operative Bank sanctions loans and advances to the beneficiaries in the form of short-term loans, medium-term loans and long-term loans.

Short-term Loans

Short-term loans are granted for agricultural operations, purchase of agricultural implements, marketing of agricultural produce, industrial purposes and consumer loans. The period of loan ranges upto 15 months.

Medium-term Loans

Medium-term loans are issued for construction of wells, minor irrigation projects, purchase of Pumpsets, agricultural implements, Reclamation of land, Preparation of lands for orchards, plantations and purchase of carts, bullocks and milch animals. The period of loan ranges between 15 months and 5 years.

Long-term Loans

Long-term loans are granted for purchase of tractors, winnowing machines, redemption of land, payment of old debt and sinking of wells. An attempt has been made to analyse the overall performance of the bank in providing short-term, medium-term and long-term loans as well as analyse the share of these loans to the total amount of loans issued by the Bank.

The average loan issued and its stability over a period are presented in Table 1

Table 1: Average and Stability of Various Types of Loans and Advances to Total Loans Issued By Hyderabad District Central Co-Operative Bank

Particulars	Short-term Loan	Medium Term Loan	Long-term Loan	Total
Mean (\bar{X})	37502.60	2073.76	96.49	39672.86
Standard Deviation (SD)	10493.19	956.04	56.98	11287.99
Co-efficient of Variation (CV) %	27.98	46.10	59.05	28.45

It is inferred from Table 1 that the mean value of short-term loans issued by Hyderabad District Central Co-operative Bank during the period was found to be higher than other term loans. The average amount over a period from 2004-05 to 2014-15 was Rs.37,502.60 lakh for short-term loans, Rs.2,073.76 lakh for medium loans and Rs.96.47 lakh for long-term loans.

The values of coefficient of variation indicate that the amount issued by Hyderabad District Central Co-operative Bank under short-term loan was relatively stable over the period of 10 years.

The trend and growth of various types of loans are given in Table 2

Table 2: Trend and Growth of Various Types of Loans to Total Loans Issued By Hyderabad District Central Co-Operative Bank during the Period 2004-05 to 2014-15

Particulars	Trend Co-efficient		\bar{R}^2	Compound Growth Rate (%)
	a	b		
Short-term Loan	6.718	0.1473* (5.523)	0.40	15.879
Medium-term Loan	3.615	0.1398* (2.308)	0.76	15.009
Long-term Loan	10.090	0.9702* (5.047)	0.81	10.188
Total	7.406	0.0905* (5.999)	0.83	9.477

Figures in brackets represent t-values

* Significant at 5 per cent level

It is found from Table 2 that the trend co-efficient was found to be statistically significant for short-term loan, medium-

term loan, long- term loan and total loan by the Bank. It indicates, on an average, it had increased by 97.02 per cent for long term loan, 14.73 per cent for short term loan, 13.98 per cent for medium term loan and 9.05 for total loans per annum. The growth rates are found to be 15.87 per cent, 15.00 per cent, 10.19 per cent and 9.48 per cent for short-term, medium-term, long-term loan and total loans issued by the Hyderabad District Central Co-operative Bank.

The value of R^2 indicates that the variations in short-term loans (0.40), medium term loans (0.76) and long-term loans (0.81) explain variations in total loans issued to the extent of 40 per cent, 76 per cent and 81 per cent respectively.

Analysis of Short-Term Loan

Short-term loans form part of more than 90 per cent of total loans issued by the Bank. Short-term loans are issued in the form of crop loan, jewel loan, overdraft and cash credit to various co-operative institutions and other loans which include produce pledge loan and short-term consumer loan.

This section attempts to analyze the proportion of various components of short-term loan namely crop loan, jewel loan and institutional loan to the total short term loan over the period of ten years.

Crop loans issued by the bank had increased from Rs.1,601.26 lakh in 2004-05 to Rs.4,108.25 lakh in 2014-15 and it declined to Rs.3,265.14 lakh in 2014-15. The decline in the crop loan during 2014-15 was due to drought in the study area. The share of crop loans to short term loans varied between 5.75 per cent and 9.15 per cent during the study period.

Table 3 shows the average loans of various components of short-term loans and their stability during the study period.

Table 3: Average and Stability of Various Components of Short term Loan Issued By Hyderabad District Central Co-Operative Bank during the Period 2004-05 to 2014-15

Particulars	(Rs. in lakh)				
	Crop Loan	Jewel Loan	Institutional Loan	Other Loans	Total
Mean (\bar{X})	2817.37	6044.33	19565.01	9075.89	37502.60
Standard Deviation (SD)	797.19	3501.55	6902.99	464.61	10493.19
Co-efficient of Variation (CV) %	28.30	57.93	35.28	51.14	27.98

It is inferred from Table 3 that institutional loan issued by Hyderabad District Central Co-operative Bank, on an average, over the period was found to be higher than other types of loan. The average amount issued from 2004-05 to 2014-15 was Rs.2,817.37 lakh for crop loan, Rs.6,044.33 lakh for jewel loan, Rs.19,565.01 lakh for institutional loan and Rs.9,075.89 lakh for other loans.

The coefficient of variation of crop loan, jewel loan, institutional loan and other loans were 28.30 per cent, 57.93 per cent, 35.28 per cent and 51.14 per cent respectively. The values indicate that the issue of crop loan was more stable than other components of short-term loan.

The calculated values of trend and growth of various components of short-term loans are presented in Table 4.

Table 4: Trend and Growth of Various Components of Shortterm Loans Issued By Tirunelveli District Central Co-Operative Bank during the Period 2004-05 to 2014-15

Particulars	Trend Coefficient		\bar{R}^2	Compound Growth Rate (%)
	a	b		
Crop Loan	7.114	0.2480* (6.397)	0.944	28.145
Jewel Loan	9.134	0.1242* (11.677)	0.234	13.229
Institutional Loan	9.537	-0.1076* (-1.569)	0.733	-10.205
Other Loans	9.969	0.0942* (4.688)	0.285	9.877

Figures in brackets represent t-values

* Significant at 5 per cent level

It is found from Table 4 that the trend coefficient indicates, on an average, crop loan, jewel loan, institutional loan, other loans and total loans issued were 2.48 per cent, 12.42 per cent, 10.76 per cent, -9.42 per cent and 4.29 per cent respectively. The higher growth rate was observed in crop loan followed by jewel loan. The trend coefficient of crop loan, jewel loan, and other loan were found significant positively, but component of institutional loans was found to be negatively significant. R^2 value shows that the time variable explains the variations in dependent variables to the extent of 23 per cent to 94 per cent.

Recovery of Loans and Advances

Recovery is a prime factor for recycling of funds. Recovery of loans means realization of loans and advances issued. If the rate of recovery is high, it shows the efficiency of the Bank in credit operations. If the recovery is low, the Bank has to mobilize additional deposits or resort to borrowings for carrying on its banking operations. Thus, the recovery of loans advanced to the societies has a direct bearing on the economic survival, efficiency and prosperity of the CCBs.

The average and stability of recovery of loans and advances over a period are presented in Table 5

Table 5: Average and Stability of Recovery of Loans and Advances by Hyderabad District Central Co-Operative Bank during the Period 2004-05 to 2014-15

Particulars	(Rs. in lakh)			
	Recovery of Short-Term Loan	Recovery of Medium - Term Loan	Recovery of Long-Term Loan	Total
Mean (\bar{X})	34579.93	1735.93	62.71	36378.57
Standard Deviation (SD)	9877.85	588.53	24.05	10281.97
Co-efficient of Variation (CV) %	28.57	33.90	38.35	28.26

It is found from Table 5 that the short-term loan was found higher, on an average of Rs.34,579. 93 lakh compared to other term loans during the period 162 under study. It is also found that there was less fluctuation in recovery of shortterm loan since it has lesser coefficient of variation than other loans. Average recovery over a period of 10 years was Rs.34,579.93 lakh for short-term loan, Rs.1,735.93 lakh for medium-term loan and Rs.62.71 lakh for long-term loan. The coefficient of

variation of short-term, medium-term and long-term recoveries of loan are 28.57 per cent, 33.90 per cent and 38.35 per cent respectively.

Table 6 shows the trend and growth of recovery of loans and advances during the study period

Table 6: Trend and Growth of Recovery of Loans and Advances Issued By Hyderabad District Central Co-Operative Bank during the Period 2004-05 to 2014-15

Particulars	Trend Coefficient		\bar{R}^2	Compound Growth Rate (%)
	a	b		
Recovery of Short-term loan	6.878	0.9630* (4.889)	0.71	10.109
Recovery of Medium- term loan	3.490	0.1060* (4.443)	0.76	11.188
Recovery of Long-term loan	9.930	0.0957* (5.039)	0.97	10.044
Total	9.254	0.1203* (19.11)	0.70	12.794

It is seen from Table 6 that the trend coefficient of all components of recovery of loans namely, short-term and medium-term loan, long-term and total 163 were found to be statistically significant at 5 per cent level and they are positive. The average recovery of all the variables namely, short-term, medium term, long term and total increased at the rate of 96.30 per cent, 10.60 per cent, 9.57 per cent and 12.03 per cent per year respectively.

The higher growth rate was observed in long-term loan, followed by short-term loan. The compound growth rates are 10.11 per cent for recovery of short-term loan, 11.19 per cent for medium-term loan, 10.04 per cent for long-term loan and 12.79 per cent for total.

Conclusion

The study reveals that the short-term loans dominate the total loans issued at more than 92 per cent during the study period. In recovery of loans, short-term loans account for nearly 93 per cent to 97 per cent. But in the case of loans outstanding, the share percentage of medium and long-term loans declined considerably. The proportion of overdues of short-term loan ranges from nearly 59 per cent to 86 per cent to the total overdues.

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