

## A Descriptive Study on Financial Performance of Nagaland State Co-operative Bank Ltd

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### ABSTRACT

The Nagaland State Co-operative Bank Ltd. (NStCB) is a Government of Nagaland undertaking. The foundation of the bank, as an Apex Credit Cooperative Society was laid on 25<sup>th</sup> October 1966 by Late Akum Imlong, the then Hon'ble Minister for Cooperation. Thereafter, upon granting license by Reserve Bank of India on 6<sup>th</sup> April 1967, the Apex Credit Cooperative Society was transformed to "The Nagaland State Cooperative Bank Ltd." and was formally inaugurated on 21<sup>st</sup> April 1967 with its registered office at Dimapur. The registered office was the only branch of the bank in the state. It was headed by a General Manager with 6 other employees. From a humble beginning, today the bank had made its presence felt in the state with 21 branches across the state. Through a huge network of affiliated Primary Agriculture Cooperative Societies (PACs), the bank have its existence in every village in the state. The bank had to face many challenges and overcome them to get where it is today. During its inception, when most commercial banks could not venture out to the then inaccessible areas that were also unviable from the business point of view besides having their presence in Dimapur-the commercial hub of the state, the Nagaland State Cooperative Bank Ltd. tirelessly worked for delivering banking services in the unbanked areas of the state. This paper intends to study the performance of the Nagaland State Co-operative Bank with special reference to the financial sector by using the audited financial reports of 5 years period 2015 to 2019. The study will be descriptive based on secondary data and will emphasize on the financial performance of the bank.

*How to cite this paper:* Ms. Riweu Kenye | Dr. J. Suresh Kumar "A Descriptive Study on Financial Performance of Nagaland State Co-operative Bank Ltd" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-6 | Issue-3, April 2022, pp.1366-1373, URL: www.ijtsrd.com/papers/ijtsrd49720.pdf



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**KEYWORDS:** Cooperative Banks, finance, financial performance

### INTRODUCTION:

Co-operative banks have led India to a new dawn of progress by taking banking to the common people in both rural and urban areas. India follows a federal structure of co-operative banking system. Besides improving the operational efficiency, the co-operative bank plays a dynamic role in enhancing the performance of the financial sector. Financial performance of the bank refers to the firm's ability to make the best utilization of banking assets from its ordinary banking business. It also refers to the firm's overall financial health in a given period of time. The Nagaland State Co-operative Bank Ltd. (NStCB) plays an important role in the co-operative credit structure of the state. Taking into account the need of

the farmers, investors and entrepreneurs, the bank accepts deposits and provides various types of loans.

The bank aims to encompass the Co-operative principles and a financial system that is friendly with the customs and traditions of the state. The bank provides technical and commercial know-how to entrepreneurs. NStCB encourages investors and entrepreneurs to participate in various sectors of the economy such as development of infrastructure, housing, power, transport, health care, warehousing, information technology, fruits and vegetables processing, meat processing, floriculture, horticulture and a host of agro-based industries. The bank has contributed a lot in changing the socio and economic

life of the people in the state. It has brought an improvement in the quality of Internal Audit and Inspection and has improved its Pre & Post Disbursement and Supervision of loans. The bank is enrolled as member of Deposit Insurance and Credit Guarantee Corporation (DICGC). It is awarded Self Help Group Promoting Institution (SHPI) status by NABARD.

## REVIEW OF LITERATURE

Hiremath (2015) undertook an analysis of the financial performance of all the 20 Co-operative Banks in Bijapur District, Karnataka State for the period from 2008-09 to 2012-13. Statistical tools such as the financial ratios were used to compare the financial performance of all the co-operative banks. The study found that SSCB & BDCCB banks were the best performing bank. The result of the ANOVA test disclosed that there is a statistically significant difference in all the ratios among different co-operative banks under study. The study also suggested improvement of the performance of cooperative banks.

Premier (2018) measured the financial performance of the Thane District Central Co-operative Bank from 2013-2015. The study found that the deposit ratio shows an increase in the financial conditions of the bank, equity share holders, net profit margin ratio shows a decreasing trend which indicate poor performance of the bank. Results showed that the profitability of the bank was strongly and negatively influenced by the deposits and advances. The study also recommends measures that could be adopted by bank to ensure soundness in its operations. The study may help decision makers to pay more attention on the major banking activities that may help in improving the financial performance and setting up plans and financial strategies.

Rajesh and Prakash (2018) studied the performance and evaluation of District Central Co-operative Banks in India through the application of Data Envelopment Analysis (DEA) and Banker Charnes Cooper (BCC) Output - oriented model allowing variable returns to scale (VRS). The study found that 18 banks are efficient and 1 bank namely Karnataka bank is inefficient which can become efficient only through the improvement of its output.

Elayabharathi, et al. (2019) in their study "A study on Financial Performance Analysis with Reference to TNSC Bank, Chennai" analyzed the comparative financial statement of the TNSC bank. The study found that the financial performance is good, the liquidity and assets of the bank is in an increasing trend. The study suggested more steps to be taken in order to increase the current assets and liabilities to

achieve its objectives and to meet its short term obligations.

Subeesh and Nagi (2019) explored the financial performance, profitability liquidity and position of District Cooperative Bank Ltd. Kasargod by using financial ratios and secondary data. The study found that the liquidity and profitability position of the bank was satisfactory.

Jeshi and Geevitha (2019) measured the overall financial performance of Kozhinjampara service cooperative bank limited by using descriptive and inferential statistical tools. The techniques used in the study are CASA ratio, Net interest margin Ratio, Return on Equity, Credit / Deposits Ratio and Capital Adequacy Ratio. The study found that the overall financial performance of the bank was satisfactory.

Aarathi et al. (2020) estimated the budgetary presentation of Bharat Cooperative Bank by using the CAMEL model. The study found that the state of capital adequacy was satisfactory while asset quality and management efficiency were not up to the level. The general earning capacity and the liquidity position of the bank were found satisfactory.

## Objective of the Study: The study has the following Objectives

- To study the profile and operational trends of Nagaland State Co-operative Bank Ltd.
- To analyze the financial performance of Nagaland State Co-operative Bank Ltd.
- To suggest policy measures and implication.

## Methodology

The study is descriptive and based on secondary sources. The period of the study covers from the year 2015 to 2019 (5 years). The financial year starts from 1st April of a year and ends on 31st March of next year.

## RESULTS AND DISCUSSIONS

### Profile and Operational Trends of Nagaland State Co-operative Bank Ltd.

The Nagaland State Cooperative Bank (*NStCB*) is sponsored by Government of *Nagaland*. It is the second largest bank in the state, giving service to the people since 21<sup>st</sup> April, 1967. The bank is on Core Banking Solutions (CBS) platform and operating through a network of 21 branches spread all over the state. The Nagaland State Co-operative Bank Ltd. adopts up to date banking techniques such as Automated Teller Machine (ATM), National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), Direct Benefit Transfer (DBT), Public Financial Management System (PFMS), E-Commerce and Point of sale (POS). The Mobile ATM Van was launched with the celebration of

Golden Jubilee on 10<sup>th</sup> November 2017. The bank extends conventional lending to its affiliated cooperative societies, and non-conventional finance such as financing of Self Help Groups, Joint Liability Groups, Farmers Club, Village Development Board linked and Church based projects, loan to Kisan Credit Card(KCC) holders, backed ended subsidy linked Animal Husbandry Schemes i.e., Dairy Entrepreneurship Development Scheme (DEDS) and Entrepreneurship Development and Employment Generation Scheme(EDEG) of Government Of India /National Bank for Agriculture and Rural Development.

Under financial inclusion plan (FIP), there has been great flow of entrepreneurial credit for non-farm sector to local micro vendors, small shops, street vendors, small business, individuals etc. in the urban and semi-urban areas with issuance of General Credit Card (GCC). (Registrar of Co-operative Societies.)

The coming of the digital age in 2011, pushed the NStCB to Core Banking Solutions (CBS) with the introduction to Centralized Payment System (CPS) for National Electronic Fund Transfer (NEFT) & Real Time Gross Settlement (RTGS), Magnetic Ink Character Recognition (MICR) technology for cheque processing, Inter-connectivity among bank Branches and implementation of Automated Teller Machine (ATM) Channel. Under the sponsorship of National Bank for Agriculture and Rural Development (NABARD) the bank introduced ATM Vans project which is the first of its kind in the state. The ATM Vans are deployed in areas where the bank has no coverage or at the place where any state government agencies request for its deployment during special events.

The bank has already purchased 25 Micro-ATM machines to roll out the *Business* Correspondent Agents (BCA) project. On finalization of the selection process for Business Correspondent Agent (BCA) the Micro-ATM machines shall be given to the bank sakhil/SHG/retail businessmen to deliver basic banking services to the people in the state. With cyber fraud & hacks becoming imminent with the integration of more and more technologies into its CBS, the bank has established a Cyber Security Operation Centre (CSOC) at its Head Office in Dimapur. With CSOC in place the bank does not only protects the customer's personally identifiable information (PII) but also protects the trust of their customers and other financial institutions.

Keeping pace with rapid transformation in payment system since 2016, powered by various digitally-enabled government-approved banking platforms, the bank has registered in Mandate

Management System (MMS), Public Financial Management System (PFMS), Immediate Payment Service (IMPS), Bharat Bill Payment System (BBPS), etc. The bank is also under the process of providing services of FASTag, Internet Banking and Mobile Banking within the next calendar year. On integration of these technologies the bank would be able to provide unprecedented customer experience at par with the other banks in the country.

### **Position of Credit Risks, Capital Adequacy, Assets & Liabilities, Level of NPA and Reserves**

#### **Credit Risk:**

- Loans being the largest and most obvious source of credit risk, the bank assess risk-return aspects meticulously before launching any new scheme. As such at the time of sanctioning the loan, the bank need to assess only the risks relating to the borrower which includes a comprehensive credit appraisal and internal credit rating procedures.
- The internal credit rating serves as a key input in the sanction of the loan as well as post-sanction credit processes as the bank continue reviewing rating of every borrower annually. However, with the mounting amount of Non-Performing Assets (NPAs) the bank has put in place a credit risk-based asset review framework wherein the frequency of reviewing the borrower especially for cases with higher exposure and/or lower internal credit rating was made a monthly exercise since for the past several years.
- As the NPA continued increasing inspite of the comprehensive framework adopting different countermeasures & controls, the bank decided to proceed with loan compromise process through Lok Adalat. In this regard appropriate directives were issued to all the branch to compulsorily participate in the Lok Adalat quarterly beginning from the quarter July-September 2021. The bank evaluated the loan compromise process through Lok Adalat and on finding the impact satisfactory, prioritize this countermeasure and accordingly provided a guideline to the branches to participate in the Lok Adalat every quarter.

#### **Capital Adequacy**

The Capital Adequacy Ratio (CAR) also known as Capital to Risk Weighted Asset Ratio (CRAR) of the bank is 22.83 % as on 31.03.2021 which is much above the RBI stipulation of 9 %.

#### **Assets and Liabilities:**

The liabilities of the bank at Rs 1094,20.01 Lacs does not exceed its realizable value of Assets at Rs 1187,79.21 Lacs as on 31.03.2021 and consequently



the estimated Real and Exchangeable Value (REV)/ Net worth of paid-up capital together with free reserves stand at 93,59.20 Lacs.

#### Level of NPA:

The net NPA of the bank as on 31.03.2020 Rs 4558.00 Lacs (7.97 %). The net NPA as on 31.03.2021 was Rs 4895.00 Lacs (8.48 %) which is much higher than the RBI's tolerable limit of 5 %.

#### Reserves:

As per Reserve Bank of India directives, every bank is required to maintain on a daily basis certain

percentage of their Demand and Time Liability (DTL) in two reserves viz., Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) in the form of cash and Government approved securities. In case of shortfall in maintenance of the CRR & SLR requirement, RBI impose penal interest at the rate of three per cent per annum above the Bank Rate. The current rate of CRR is 4% and SLR is 18%. The NStCB has always maintained CRR & SLR on a higher side and has never defaulted in its maintenance so far.

**Table 1.1: Key Performance of NStCB from 2015-16 ended 31<sup>st</sup> March, 2019**

(Rs.inLakh)

Financial Indicators	Paid Up Capital	Working Fundss	Deposits	Investments	Loans Issued	Growth in Business	Per Branch Business	Net Worth	CRAR %
2015-2016	5951.71	56469.13	49089.70	22355.10	16645.72	10200.37	3731.70	(+) 2674.17	(+) 9.97
2016-2017	6243.39	68183.67	58602.57	31173.15	12353.51	12561.51	4507.55	(+) 3968.87	(+) 12.52
2017-2018	6415.45	80522.51	68627.22	35046.14	15433.02	16497.42	5293.13	(+) 5636.54	(+) 16.11
2018-2019	6666.74	91828.77	78446.80	38892.78	17337.49	17726.78	6137.27	(+) 7092.73	(+) 19.59

Source: Nagaland State Co-operative Bank Limited, 50<sup>th</sup> Annual Report (ended 31<sup>st</sup> March 2019)

**FINANCIAL PERFORMANCE:** The above table has shown the level of financial performance of the Nagaland State Cooperative Bank Ltd. The indicators such as owned funds, working fund, deposits, investments, loans issued, growth in business, per branch business, net worth, Capital to Risk Assets Ratio etc. has been shown.

The bank's owned funds in 2015-2016 is Rs.6671.35 lakhs and it has increased to Rs. 8122.98 lakhs in 2018-2019. The working funds in 2015-2016 are Rs. 56469.13 lakhs which has increased to Rs. 91828.77 lakhs in 2018-2019. The deposits made by the bank in 2015-2016 are Rs.49089.70 lakhs and it has increased to Rs.78446.80 lakhs in 2018-2019. The bank invested Rs. 22355.10 lakhs in 2015-2016 and it has increased to Rs. 38892.78 lakhs in 2018-2019.

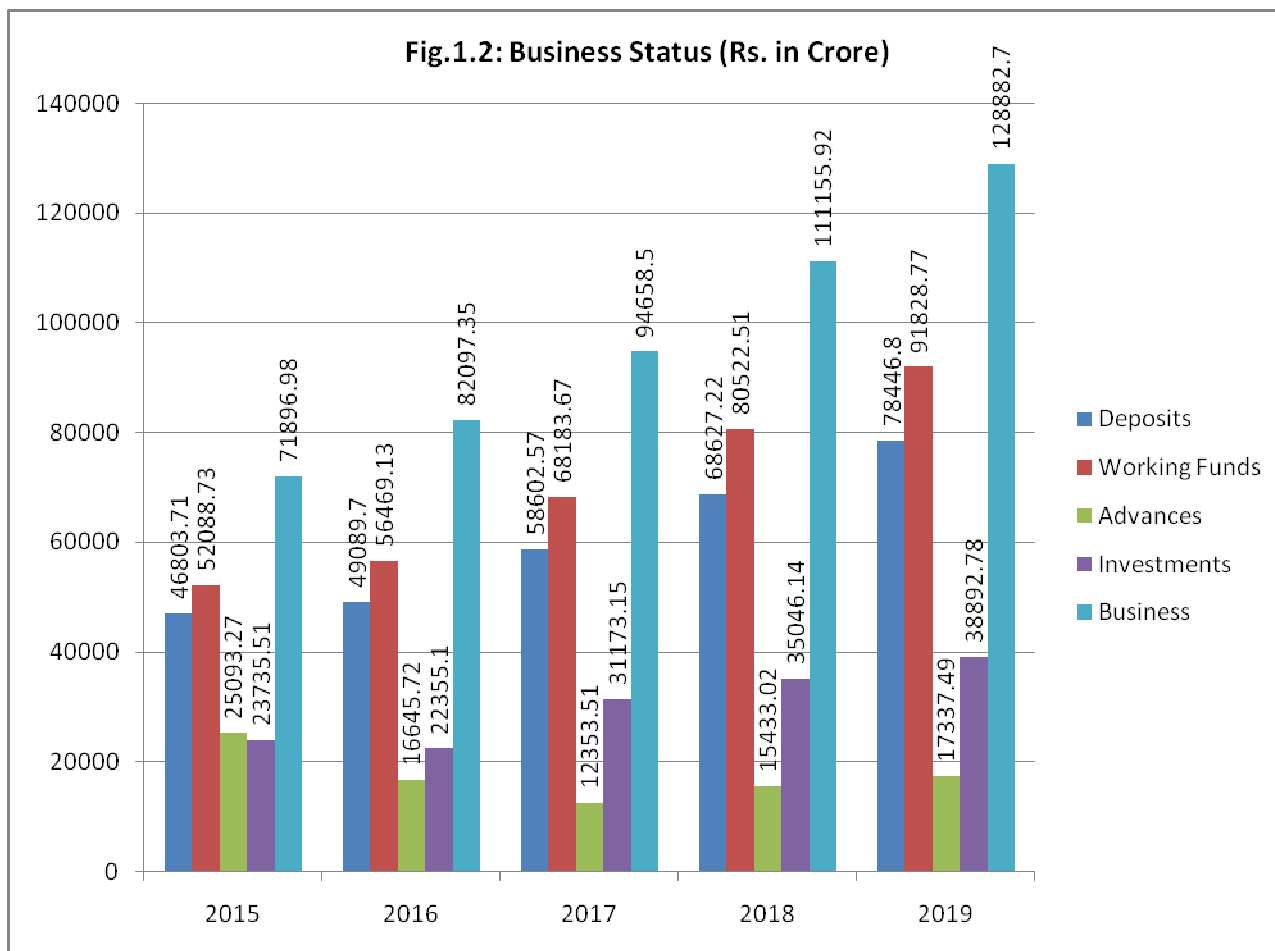
The bank issued credit facilities of Rs. 16645.72 lakhs in 2015-2016 and it has increased to Rs. 17337.49 lakhs in 2018-2019. The growth of bank's business is Rs. 10200.37 in 2015-2016 and it has increased to Rs. 17726.78 in 2018-2019. The per branch business is Rs. 3731.70 in 2015-2016 and it has increased to Rs. 6137.27 2018-2019. The bank's net worth was Rs. (+) 2674.17 in 2015-2016 and it has increased to Rs. (+) 7092.73 in 2018-2019. The CRAR % of the bank was. (+) 9.97 in 2015-2016 and it has increased to (+) 19.59 in 2018-2019. The year 2018-2019 shows the best performance in comparison to the previous years. Therefore, it has been observed that the performance of the bank is significantly progressing over the years and the result is satisfactory.

**Table 1.2: Business Status of NStCB from 2015 ended 31<sup>st</sup> March, 2019**

(Rs. in lakh)

Financial Indicators	Deposits	Working Funds	Advances	Investments	Business
2015	46803.71	52088.73	25093.27	23735.51	71896.98
2016	49089.70	56469.13	16645.72	22355.10	82097.35
2017	58602.57	68183.67	12353.51	31173.15	94658.50
2018	68627.22	80522.51	15433.02	35046.14	111155.92
2019	78446.80	91828.77	17337.49	38892.78	128882.70

Source: Nagaland State Co-operative Bank Limited, 50<sup>th</sup> Annual Report (ended 31<sup>st</sup> March 2019)



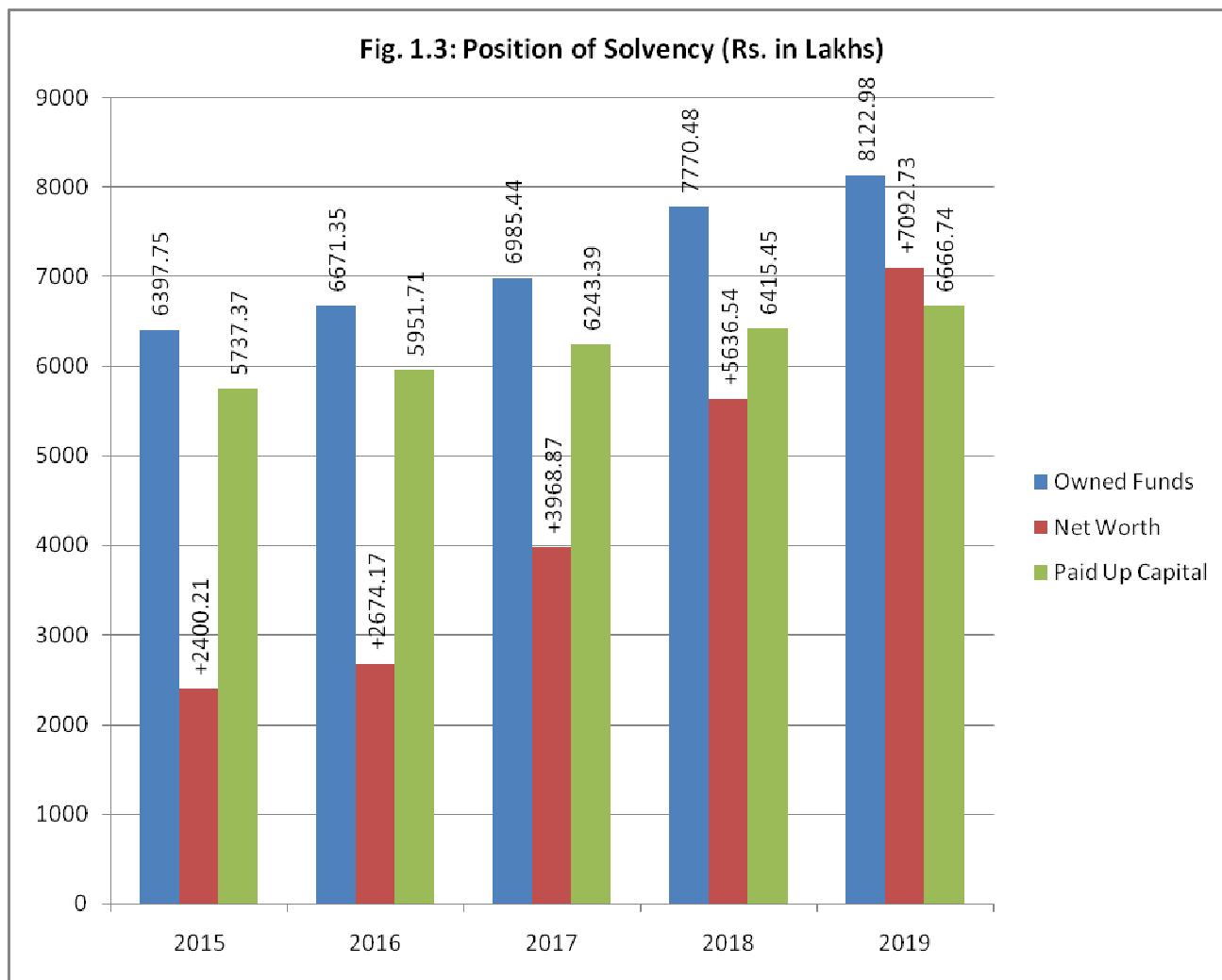
Source: Nagaland State Co-operative Bank Limited, 50<sup>th</sup> Annual Report (ended 31<sup>st</sup> March 2019)

From the above table, it can be observed that the bank’s working fund in the year 2015 is Rs. 52088.73 lakhs which has increased to Rs. 91828.77 lakhs in 2019. The deposit made by the bank in 2015 is Rs. 46803.71 lakhs and it has increased to Rs. 78446.80 lakhs in 2019. In the year, 2015, the bank sanctioned Rs. 25093.27 lakhs as loans and advances. However loan disbursement amount decreased to Rs. 17337.49 lakhs in 2019. The bank invested Rs. 23735.51 lakhs in 2015 and it has increased to Rs. 38892.78 lakhs in 2019.

Table 1.3: Position of Solvency of NStCB (Rs. in Lakhs)

Financial Indicators	Owned Funds	Net Worth	Paid Up Capital
2015	6397.75	(+) 2400.21	5737.37
2016	6671.35	(+) 2674.17	5951.71
2017	6985.44	(+) 3968.87	6243.39
2018	7770.48	(+) 5636.54	6415.45
2019	8122.98	(+) 7092.73	6666.74

Source: Nagaland State Co-operative Bank Limited, 50<sup>th</sup> Annual Report (ended 31<sup>st</sup> March 2019)



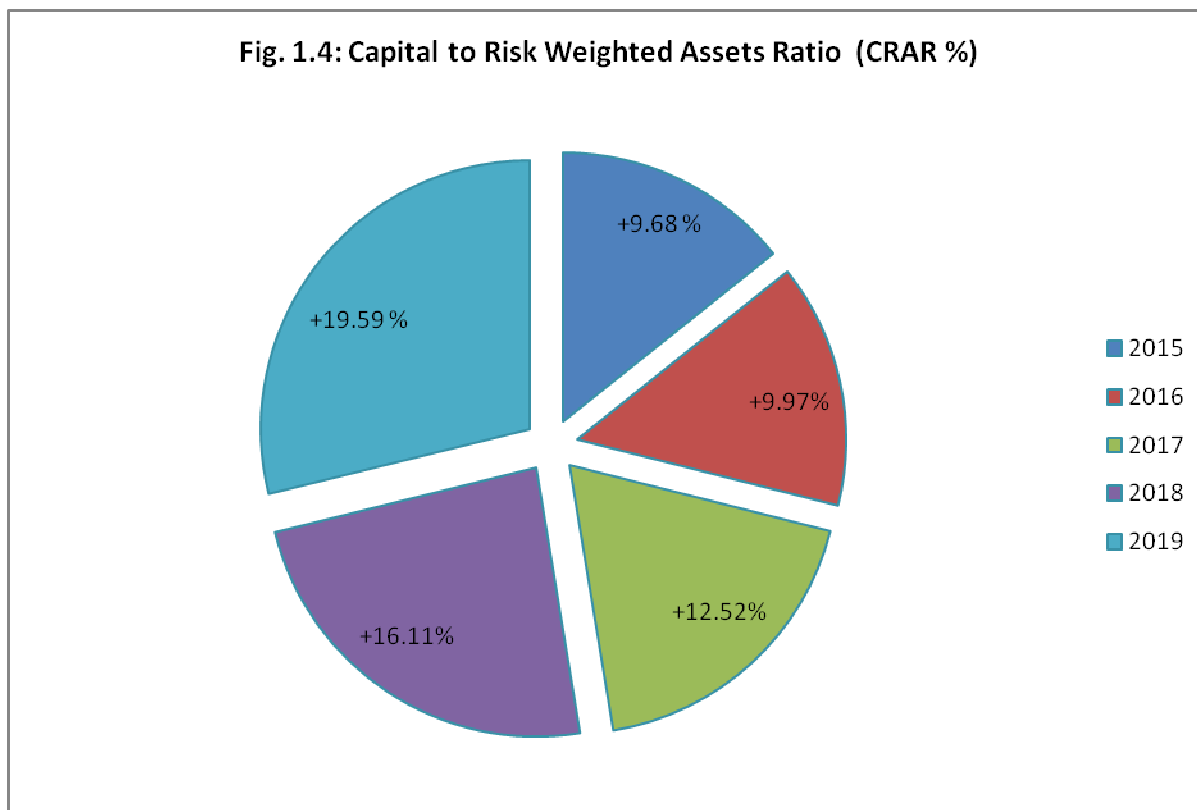
Source: Nagaland State Co-operative Bank Limited, 50<sup>th</sup> Annual Report (ended 31<sup>st</sup> March 2019)

It is inferred from table 1.3 that owned fund of NStCB in the year 2015 is Rs.6397.75 lakh and it has increased to Rs.8122.98 lakh in 2019. The bank’s net worth was Rs. 2400.21 lakh in 2015 and it has increased to Rs. (+) 7092.73 lakh in 2019. The bank’s paid up capital is Rs. 5737.37 lakh and it has increased to Rs. 6666.74 lakh in 2019. The table clearly shows an increase in the bank’s owned funds, net worth and paid up capital in all the years i.e., fro 2015 to 2019.

Table 1.4: Capital to Risk Weighted Assets Ratio (CRAR %) percentage of Nagaland State Co-operative Bank Ltd.

YEAR	2015	2016	2017	2018	2019
CRAR %	(+) 9.68	(+) 9.97	(+) 12.52	(+) 16.11	(+) 19.59

Source: Nagaland State Co-operative Bank Limited, 50<sup>th</sup> Annual Report (ended 31<sup>st</sup> March 2019)



**Source: Nagaland State Co-operative Bank Limited, 50<sup>th</sup> Annual Report (ended 31<sup>st</sup> March 2019)**

The CRAR % of the bank was. (+) 9.97 in 2015-2016 and it has increased to (+) 19.59 in 2018-2019. The financial performance of the bank in the year 2018-2019 shows the best performance in comparison to previous years. The above table and figure depicts that financial performance of the bank is significantly progressing over the years and the result is satisfactory.

**Suggestions**

- To expand banking penetration in the state.
- To increase the establishment of cooperative branch networks in the state.
- To introduce new schemes to attract new customers while satisfying the present ones.
- To enhance banking facilities to meet the demands of more customers.

**Limitations**

- The provided data are of the previous years.
- There is limited time period to gather information

**Findings: The study derives the following findings.**

- The overall financial performance of the Nagaland State Cooperative Bank Ltd. was found to be satisfactory.
- The key indicators such as owned funds, working fund, deposits, investments, loans issued, growth in business, net worth etc. are found to be positive and significantly increasing over the years.
- The net profit to total asset was found to be satisfactory.
- CRAR ratio of the bank indicates an increasing rate from 9.97% in 2015-2016 to 19.59 % in 2018-2019.

**Policy Implication and Conclusion**

The present study can be concluded that the financial performance of Nagaland State Co-operative Bank Ltd. stands sound on select study area i.e., 2015-16 to 2018-19. The study is based on secondary data. For the purpose of the study, audited financial reports of the period 2015-16 to 2018-19 were selected and various financial indicators such as owned funds, working fund, deposits, investments, loans issued, growth in business, net worth, Capital to Risk Assets Ratio etc. were included. The study found that the level of financial performance of the bank is satisfactory. On the basis of the findings, suggestions have been made for various initiative and programs to strengthen the financial position of the state co-operative bank so as to be at par with other public and private sector banks.

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