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A STUDY ON FINANCIAL PERFORMANCE USING RATIO ANALYSIS OF KUMBAKONAM CENTRAL CO-OPERATIVE BANK

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Abstract
The main objective of this paper is to analyse the overall financial position of the bank using ratio analysis. It shows whether the firm is improving or worsening in past years. The secondary data is used for the entire study i.e. the last five years annual reports of KCCB. Ratio analysis provides a basis for both intra-firm as well as inter-firm comparisons. The pictorial representations are used for better understanding. Ratios are useful tool for various stakeholders like management, financiers, shareholders and creditors etc. Various types of ratios include liquidity ratios, profitability ratios, solvency ratios are analyzed in this study. This paper tells that not only about the financial position of the firm but also helps to identify the problems and offer suggestions to improve its performance.

Keywords:
Financial Analysis, Ratio Analysis, Stability and Profitability

1. INTRODUCTION

Ratio analysis is the process of determining and interpreting the various aspects of financial statements. Financial statements are generally insufficient to provide information to investors on their own, the numbers contained in those documents need to be put into context so that investors can better understand different aspects of the company's operations.

Ratio analysis is one of the methods an investor can use to gain that understanding. Ratio analysis is a foundation for evaluating and pricing credit risk and for doing fundamental company valuation. Ratio analysis helps to evaluate the performance of the firm in terms of profitability, efficiency and risk. Financial ratios allow big and small companies to evaluate and improve their financial position [1].

A financial ratio, or accounting ratio, is derived from a company's financial statements and is a calculation showing the relative magnitude of selected numerical values taken from those financial statements. Financial ratios may be used internally by managers within a firm, by current and potential shareholders and creditors of a firm, and other audiences interested in understanding the strengths and weaknesses of a company, especially compared to the company over time or compared to other companies.

2. REVIEW OF LITERATURE

The financial durability of the bank was measured and data were presented on the long –term financial strength, debt to equity ratio, fixed assets to net worth ratio, the short- term financial performance, and the current ratio. It was concluded that the financial position of the bank was not sound, with liabilities exceeding equity [2].

In [3], the authors analyzed the profitability of ten selected commercial banks in India. The researcher suggested that the position of operating cost can be improve with the introduction of high level technology as well as by improving the per employee productivity.

In [4], the authors indicated that all the selected scheduled commercial banks were found to be different in terms of total assets, share capital, capitalization ratio and efficiency factors. Much difference in the profitability performance of banks was found due to human resources efficiency as measured in terms of business per employee.

In [5], the authors showed a reduction in the operational efficiency of the selected PACS during the post-reform period compared to the pre-reform period. The selected PACS showed a decline in their current liquidity ratio, rate of return on assets, return on owner's equity, and marginal efficiency of capital.

In [6], the authors in their study on Liquidity Management analyses the liquidity management during 1995 – 1996 with the help of selected ratios. They concluded that there was inadequacy of funds due to a high contribution of inventory in current assets.

In [7], the authors focused on examining the structure of liquidity position leverage and profitability. The study has also pointed out that the companies rely more on internal financing and the overall profitability has been increasing at a moderate rate.

In [8], the authors conducted a study on Financial Information it deals with measures of liquidity, solvency and fund flows and describes how to establish standards against which a company's financial ratios can be compared.

Financial ratio is one of the tools used to assess the financial condition and performance. It's a major tool used for the investment decision based on a company financial report analysis, because it will evaluate various aspect of firm's financial condition through the value on the financial statement.

In [9], the authors divides financial ratios into five basic categories, which are: liquidity, activity, debt, profitability, and market ratios. The ratios gives valuable insight into the health of a firm, the financial condition and profitability.

In [10], the authors investigated the South Africa's performance of commercial banking sector period for 2005 - 2009. The result indicated that the deterioration in profitability due to some reasons like increasing bank's operating costs, reduction in income etc.

The authors highlighting areas of good and bad performance, ratios can assist management to identify where their strengths and weaknesses are and where further effort should be directed.

The study tries to evaluate the profitability and financial position of selected companies of Indian automobile industry using statistical tools like, ratio analysis, mean, standard deviation, correlation. The study reveals the positive relationship between profitability, short term and long-term capital.

3. RESEARCH METHODOLOGY

3.1 OBJECTIVES OF THE STUDY

- To study the financial performance of the Kumbakonam central Co-operative bank using ratio analysis.
- To identify the profitability and liquidity position of the bank.
- To analyze the financial strengths and weaknesses of the firm.

3.2 METHOD OF DATA COLLECTION

Secondary Data: It refers to the data collected by someone other than the user i.e. the data is already available and analyzed by someone else. Common sources of secondary data includes books, magazines, newspapers, journals etc. In this study, secondary data collection was used.

3.3 NATURE OF DATA

The information available for this study has been collected from secondary sources. The sources includes: annual reports of the bank, websites, and journals.

3.4 LIMITATIONS OF THE STUDY

- This study is about single bank only.
- The study was limited to only five years financial data (2014-2019).
- The study is purely based on secondary data.

4. DATA ANALYSIS AND INTERPRETATION

4.1 CURRENT RATIO

The Table.1 shows that, the ratio is fluctuating every year. The ideal value of current ratio is 2:1. In the years 2014-15, 2017-18, 2018-19 the ratios are 2.17, 2.25 and 2.32, respectively. Those ratios are nearly equal to ideal value indicates that the liquidity position was good in those years. In order to maintain liquidity, the bank must try to improve its current ratio.

Table.1. Current Ratio

Year	Current Assets	Current Liabilities	Ratio
2014-2015	776,16,43,734	357,10,75,532	2.17
2015-2016	760,37,67,562	255,44,79,380	2.98
2016-2017	678,47,75,691	269,93,30,814	2.51
2017-2018	691,33,15,884	307,07,68,509	2.25
2018-2019	795,30,26,336	343,10,80,464	2.32

4.2 QUICK RATIO

The ideal value of quick ratio is 1:1. From the Table.2, it is observed that the ratio is between to 3.03 for the years 2014-15 to 2018-19 it shows that the ratio is higher than ideal value. It means that the bank has enough quick assets to pay off its quick or current liabilities.

Table.2. Quick Ratio

Year	Quick assets	Quick Liabilities	Ratio
2014-2015	776,16,43,734	3500333131	2.22
2015-2016	760,37,67,562	2512065521	3.03
2016-2017	678,47,75,691	2654631305	2.6
2017-2018	691,33,15,884	3021740574	2.29
2018-2019	795,30,26,336	3382577420	2.35

4.3 RETURN ON CAPITAL EMPLOYED

The ideal ratio of ROCE is 15%. From the Table.3, it is inferred that, from the year 2014-15 to 2018-19 the ratios are between 6% and 9%. This shows that the bank's profitability is not in a good position. So, the bank must take some necessary steps to increase its profitability which will increase its value among shareholders.

Table.3. Return on Capital Employed

Year	EBIT	Capital Employed	Ratio (in %)
2014-2015	96,75,27,278.6	10744656926.4	9
2015-2016	87,24,87,951.1	11931605951.6	7.3
2016-2017	81,09,75,283.7	12799498809.4	6.3
2017-2018	104,35,26,644	13939975214.9	7.5
2018-2019	91,63,73,556	15069163663.7	6.1

4.4 RETURN ON ASSETS RATIO

The Table.4 shows that the ROA is fluctuating. Here 2017-18 the ratio was 0.83 higher than other years. Then 2018-19 again the ratio came to 0.43. Higher ratio is good for the bank that indicates that the bank using its assets in an effective manner. Increasing ROA suggests the profitability of the bank is increasing.

Table.4. Return on Assets Ratio

Year	Net Income	Total Assets	Ratio (in %)
2014-2015	7,34,98,927.21	14315732458.40	0.51
2015-2016	2,22,76,886.69	14486085331.64	0.15
2016-2017	5,65,75,720.18	15498829623.38	0.4
2017-2018	14,11,29,989.42	17010743723.87	0.83
2018-2019	7,95,35,108.91	18500244127.71	0.43

4.5 INTEREST COVERAGE RATIO

The Table.5 shows that the interest coverage ratio is higher in the year 2017-18 i.e. 5.58 times when compared to other years. Higher the ratio, greater the ability of the bank to pay interest out of its profit. A higher coverage ratio is better, although the ideal ratio may vary by industry.

Table.5. Interest Coverage Ratio

Year	EBIT	Interest Payable	Ratio (Times)
2014-2015	96,75,27,278.6	18,65,37,156.09	5.19
2015-2016	87,24,87,951.1	18,33,15,537.40	4.76
2016-2017	81,09,75,283.7	18,44,03,070.69	4.40
2017-2018	104,35,26,644	18,69,29,233.47	5.58
2018-2019	91,63,73,556	19,28,93,998.98	4.75

4.6 CASH RATIO

From the Table.6 it is observed that, the cash ratio is in fluctuating trend. In the year 2015-16, the ratio was 0.18 higher than other years. If a firm's cash ratio is greater than 1, the firm has more cash and cash equivalents than current liabilities. But here the ratios are less than 1, so the bank contain more liabilities than cash and cash equivalents. Bank must take some steps to reduce the current liabilities or to increase cash and cash equivalents.

Table.6. Cash Ratio

Year	Cash and Cash Equivalents	Current Liabilities	Ratio
2014-2015	35,85,20,906	357,10,75,532	0.10
2015-2016	46,37,14,311.6	255,44,79,380	0.18
2016-2017	44,96,54,931.1	269,93,30,814	0.17
2017-2018	48,97,51,142.2	307,07,68,509	0.16
2018-2019	55,05,32,375.3	343,10,80,464	0.16

5. FINDINGS

From the study it is found that, the Return on Assets Ratio is in a fluctuating trend. In the year 2017-18 ROA shows that the bank's profitability position was good but next year it again came down. Return on Capital employed ratio is less than the ideal value in all the years. This indicates that the profitability position of the bank is not good. Interest Coverage Ratio is in a fluctuating trend. In the year 2017-18 the ratio was higher than all remaining years. Higher ratio indicates that the bank has the ability to pay interest out of its profit. Current ratio is in a fluctuating trend, it shows that the bank's liquidity position was good in particular years. Cash ratio is fluctuating every year. The bank contains more liabilities than cash and cash equivalents it is not good for the bank. Quick ratio has higher than its ideal value in all years shows that the bank has sufficient quick assets in hands to pay off its liabilities.

6. SUGGESTIONS

- The bank must take some necessary steps to improve its cash position because the cash ratio is not good it is fluctuating.
- The bank should try its best to increase its profitability position because ROCE and ROA ratios are not good.
- Interest coverage ratio have to be maintained properly to pay its interest effectively.
- The liquidity position of the bank is not satisfactory because the current ratio is fluctuating and liquid assets to total assets ratio is in a decreasing trend. This indicates that the bank should try to improve its liquidity position to meet its short-term obligations.

7. CONCLUSION

The study was conducted in Kumbakonam Central Co-Operative Bank Ltd, to find out the financial performance of the bank using ratio analysis. After analyzing the bank's five years financial reports it is concluded that the overall financial performance of the bank is good. Based on the findings it is clear that the bank's investment on government securities increases and the bank has to take some necessary actions to improve its cash position and profitability. However, the bank utilizing and managing its money in a proper way. This paper was very useful to analyze the financial performance of the bank using its financial statements. The results indicates that the financial performance has been improving every year but the bank has to put some more effort to make it more effective.

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