



Liquidity Management of Urban Co-Operative Banks in Namakkal District

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Abstract

To analyze the liquidity position and profitability of the selected urban co-operative banks. There is no significant difference in working capital turnover ratio of Urban Co-operative Banks under study. The present study is based on secondary data taken from published annual reports of Urban Co-operative Banks have been collected from the Registered and Corporate offices of respective banks. The present study is made for ten years from 2003-2004 to 2012-13. For the present study, Ratio analysis, ANOVAs, Mean, and Standard deviation has been used for analysis of the liquidity of the Urban Co-operative banks. The urban co-operative banks are established to serve the poor people through the primary co-operative banks in their jurisdiction. The urban co-operative banks also perform their duties successfully to the customers in their areas. The management of liquidity of the urban co-operative banks has grown steadily throughout the study periods. Among the liquidity funds, owned funds are less than the borrowed funds.

Keywords: Liquidity Management, Urban, Namakkal, Co-operative Bank.

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Introduction

Finance is like blood in our body. So long as blood-circulates properly in the body, human beings feel healthy and have capacity to work. If circulation is not proper, it will put effect on the functioning of the body. Similarly it will be difficult for business concerns to take financial decision related to the determination of the amount of long-term finance required and the sources from which such finance is to be raised. Thus, in the modern business atmosphere financial experts have to consider a minimum amount of liquid capacity in the business management in estimating property that prospects needs. Insufficient liquid resources may cost a black shadow on goodwill of the concern because the ability to pay short-term liability may be doubted by the external parties. Thus, the concept of liquidity comes in the light of proper financial functioning to the business.

The importance of liquidity management is reflected in the fact that financial managers spend a great deal of time in managing current assets and current liabilities. The key issues in liquidity management are as to how much must be invested in each component of liquidity management and how to manage these components effectively and efficiently. Proper management of liquidity is very important for the success of an enterprise. The manner of management of liquidity to a very large extent determines the success of the operation of concern.

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Objectives of the Study

The specific objectives of the present study are given below.

1. To analyze the liquidity position and profitability of the selected urban co-operative banks.
2. To make suggestions for the improvement of financial soundness.

Hypotheses for the Study

There is no significant difference in working capital turnover ratio of Urban Co-operative Banks under study.

Data Source and Collection

The present study is based on secondary data taken from published annual reports of Urban Co-operative Banks. The published annual reports of Urban Co-operative Banks have been collected from the Registered and Corporate offices of respective banks. The present study is made for ten years from 2003-2004 to 2012-13.

Sampling Design

The following five Urban Co-operative Banks have been chosen for the study

1. Komarapalayam Urban Co-operative Bank (KUCB)
2. Namakkal Urban Co-operative Bank (NUCB)
3. Rasipuram Urban Co-operative Bank (RUCB)
4. Tiruchengode Urban Co-operative Bank

5. (TUCB)
6. Velur Urban Co-operative Bank (VUCB)

Tools for Analysis

For the present study, Ratio analysis, ANOVAs, Mean, and Standard deviation has been used for analysis of the liquidity of the Urban Co-operative banks.

Limitations of the Study

1. This present study is based on secondary data taken from published annual reports of selected Urban Co-operative Banks.
2. The different views have been applied in the calculation of different ratios to working capital.

1. Working Capital Turnover Ratio:

In order to test the efficiency with which

working capital is used the working capital turnover ratio is calculated. The ratio is computed by dividing the amount of sales by net working capital.

$$\text{Working capital turnover ratio} = \frac{\text{Net Sales (Income)}}{\text{Net working capital}}$$

A close relationship exists between sales and net working capital. With any increase in sales volume there is a corresponding increase in the working capital. Therefore, a good amount of net working capital may be needed to support the increase in sales. The turnover of net working capital is computed to test the efficiency with which net working capital is utilized. In other words, the ratio helps to assess the degree of efficiency in the use of short- term funds for generating sales.

Table I. Working Capital Turnover Ratio

Ratio in Times

Year / Company	KUCB	NUCB	RUCB	TUCB	VUCB	Pooling Ave
2003-04	0.38	0.52	0.78	0.61	0.85	0.63
2004-05	0.43	0.63	0.75	0.52	0.82	0.63
2005-06	0.40	0.65	0.76	0.63	0.88	0.66
2006-07	0.39	0.62	0.71	0.64	0.89	0.65
2007-08	0.45	0.64	0.68	0.63	0.92	0.66
2008-09	0.46	0.62	0.78	0.65	0.91	0.68
2009-10	0.47	0.61	0.79	0.66	0.93	0.69
2010-11	0.52	0.64	0.80	0.67	0.95	0.72
2011-12	0.51	0.67	0.81	0.62	0.96	0.71
2012-13	0.53	0.68	0.82	0.61	0.94	0.72
Mean	0.45	0.63	0.77	0.62	0.91	0.68
S.D.	0.05	0.04	0.04	0.04	0.05	0.03
C.V.(%)	11.98	6.99	5.78	6.68	4.98	5.02
Max	0.53	0.68	0.82	0.67	0.96	0.72
Min	0.38	0.52	0.68	0.52	0.82	0.63

Source : Compiled from annual reports

Above table showed the working capital turnover ratio urban co-operative banks. The ratio of KUCB ranged between 0.38 in 2003-04 and 0.53 in 2012-13 with an average of 0.45. The highest ratio was 0.68 and lowest ratio was 0.52 in NUCB during the year of 2003-04 and 2012 -13. The minimum ratio in RUCB was 0.68 in 2007-08 and maximum ratio was 0.82 in 2012-13 with an average of 0.77 times. In TUCB ratio ranged between 0.52 and 0.67 during the year 2003-04 to 2012-13 with an average of 0.62. The VUCB ratio ranged between 0.63 and 0.72 during the year 2003-04 to 2012-13 with an average of 0.68.

Working capital turnover ratio (ANOVA Test)

Null Hypothesis: There is no significant difference in working capital turnover ratio of urban co-operative banks under study.

Alternative hypothesis: There is a significant difference in working capital turnover ratio of urban co-operative banks under study.

Level of Significance: 5 percent

Critical value: 2.579

Degree of freedom: 49

Table II. One Way ANOVA Test of Working Capital Turnover Ratio

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1.152	4.000	0.288	135.605	0.000	2.579
Within Groups	0.096	45.000	0.002			
Total	1.248	49.000				

Since $F_{cal} > F_{critical}$ (at 5% significance level), the null hypothesis is accepted and alternative hypothesis is rejected and hence it is concluded that the working capital turnover ratio does not differ significantly.

Suggestions

The following measures are suggested to improve the performance of the urban co-operative banks:

1. Generally, the customers are expecting new services from the urban co-operative banks, like computerized passbook entry, money transfer, ATM services, etc.
2. Usually corporate sector and other private companies do not accept the cheques issued by the urban co-operative banks. So the apex bank should also take steps to get recognition for urban co-operative banks cheques equal to other commercial banks cheques.

Conclusion

The urban co-operative banks are established to

serve the poor people through the primary co-operative banks in their jurisdiction. The urban co-operative banks also perform their duties successfully to the customers in their areas. The management of liquidity of the urban co-operative banks has grown steadily throughout the study periods. Among the liquidity funds, owned funds are less than the borrowed funds.

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