

A Glance in Financial Performance and Retail Banking Products of Maharashtra State Co-op. Bank

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ABSTRACT

Retail banking is a mass-market banking where the banking products are specially designed at customers segment and their relation. Retail banks provides e-banking facilities for their high net worth and techno-savvy customers which enables to do the banking transactions from anywhere in the world without physically going down to the branch. An attempt has been made under this research study to observe the improvements in retail banking and financial performance of MSC Bank from 2006 to 2010 through Camel Model, a recognized statistical tool. The total income of the MSC Bank has also shown a good performance since last 5 years from Rs.1442 crores to Rs. 1536 crores including interest income during the period from 2006 to 2010. The banks have shown comparatively good and remarkable achievement. The net profits of the state co-operative banks are Rs. 221 crores in 2008 and Rs. 314 crores in 2009 which has increased almost 42%. The co-operative banks have shown very good performance as far as the retail banking products are concerned. If we look at the glance of the financial operations, one may find that Deposits, Investments, Loans and Advances and total business have been increased. Retail Banking in India has fast emerged as one of the key drivers of enormous growth and development in the banking industry.

Keywords: Financial performance, Retail banking products, Capital adequacy, Non-performing assets, mass market and Trend line.

INTRODUCTION

After privatization and liberalization the Indian Banking sector developed and diversified at individual reach is very appreciable. The RBI also nationalized the good amount of commercial banks and co-operative banks for providing socio-economic services at micro-level. All around the world Retail Banking has been an established market, however its rise in emerging economies like India has been of recent origin. India's retail banking is rising continuously during the 2010-11 retail contributed almost 30% of overall credit growth.

Banking as a whole is undergoing change and consumer is getting transacted into a larger demand for retail banking products and services. Major product segments of retail credit include housing finance, auto finance, personal loans, consumer durables loan, credit card

etc. In India all the retail Banking segments are expected to witness a tremendous growth owing to the low cost of borrowing, changing customer's attitudes towards borrowing and optimism regarding economic growth. Retail lending constitutes just 18% of the Indian banking system. Retail banking in India has to be developed in the Indian way, notwithstanding the long queues in front of the teller counters in the public sector banks. Micro finance has been another important component of the financial inclusion process under retail banking in India. Micro finance is provision of thrift, credit and financial services and products of very small amount to poor income group to raise their income levels, and improving living standard. The self help group bank linkage programme, under which started in 1992. In 2009-10, 1.59 million new SHGS were credit lined with banks and Bank Loan of Rs. 14,453 crores loans was disbursed.

The total income of the MSC Bank has also shown good performance since last 5 years from Rs.1442 crores from 2006 to Rs. 1536 crores including interest income. The banks have shown comparatively good and remarkable achievement. The net profits of the state co-operative banks are Rs. 221 crores in 2008 and Rs. 314 crores in 2009 which has increased almost 42%. The Net profits of the Urban Co-operative Banks are Rs. 3,461 crores in the year 2008-09 and Rs. 3,116 crores in the year 2009-10. The co-operative banks have shown very good performance as far as the retail banking products are concerned. If we look at the glance of the financial operations, one may find that deposits of public to the co-operative banks have increased from Rs. 1, 57,041 crores to Rs. 1, 82,862 crores in the year from 2009 to 2010; the investments of the co-operative banks have increased from Rs. 65,104 crores to Rs. 85,347 crores in the year from 2009 to 2010 where as loans and advances have also been increased from Rs. 96,234 crores to Rs. 1, 10,303 crores in the year from 2009 to 2010. In the year 2009-10, the regional rural banks showed accelerated growth of 22.2% as compared to 16.5% during the previous year. The Credit Deposit ratio of Regional Rural Banks in 2009-10 stood as 57.6%.

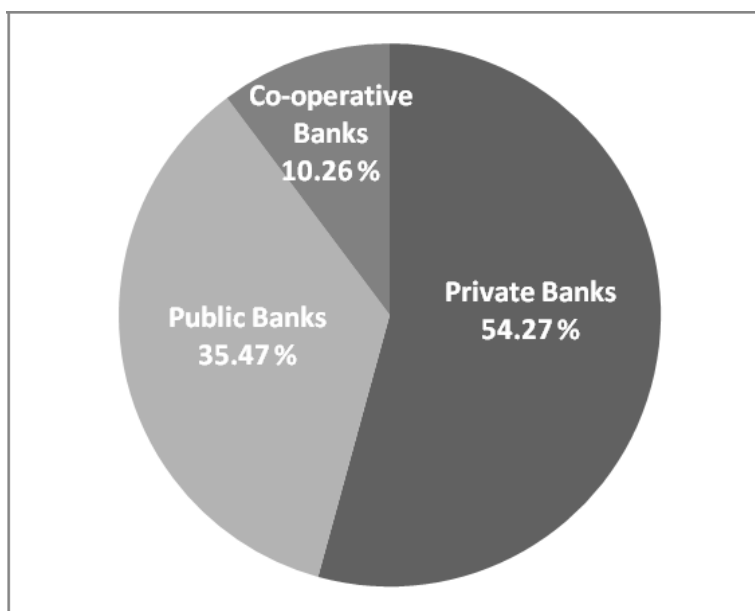
Reasons behind to enter into Retail Banking

Ever increasing & intense competition between private, public sector and co-operative banks in retail banking products and profitability have let to reach to individual customer through retail banking products. Retail banking products could substantially increase the number of customers and volume of profits of the banks. Another important reason banks tempt to retail banking products by having excess quantity of deposits. Financial business to bank's performance can pave in a number of ways, as briefly outlined below:

- **Increased Income generation:** Retail banking products can increase income generation source which help to raise profitability and efficiency of the bank.
- **Increased number of products:** Retail banking products helps to increase new products and services to utilize the bank's capital resources at optimal level.
- **Increased number of customers:** Retail banking products approaches individual contacts which helps to increases the new customers and retain old customers with bank.
- **Optimum utilization of Bank resources:** Increase in the works and products helps to utilize banks resources at optimum level.

- **Customer’s preferences for banking transactions.** Retail banking products changes the preferences of customers from corporate sector to low income group level which create popularity of the bank among the customers market.

Global expenditure on retail banking technology has increased tremendously and will account total US \$ 132 billion, making a 24% growth over the next 5 years, within the region. Japan will account largest share at US\$ 9 billion, China US\$ 7.8 billion, Indian US\$ 2.7 billion, Australia US \$ 2.7 billion and South Korea US \$ 1.5 billion in retail banking technology.



Source: Compiled from the information available on rbi.org.in.

Chart 1. Market share of Retail Banking Products

Indian banking sector mainly depends on consumer savings and lending, registered decline in share of 5.02% during the year 2009-10. The private bank’s registered about 54.27% share, Public sector banks contributed 35.47% share and other co-operative banks contributed 10.26% share in retail banking during the first quarter of 2009-10. Private sector banks dominate the market share in banking business and transactions.

Table 1. Highlighting the Retail banking share of MSC Bank

Year	Total Business (Rs.)	Retail Banking Business (Rs)	Outstanding Retail Banking Business
2006	21,270 crores	23.82 Crores	39.04 Crores
2007	24,084 Crores	24.58 Crores	54.53 Crores
2008	25,840 Crores	16.70 Crores	70.70 Crores
2009	29,697 Crores	10.59 Crores	78.69 Crores
2010	29,418 Croress	06.00 Crores	76.81 Crores

Sources: Compiled from the Annual Report of MSC Bank

Retail Banking business of MSC Bank is increased up to Rs. 24.58 Crores in the 2007 but thereafter it decreased up to Rs. 6.00 crores in the year 2010. Total outstanding business in Retail banking has continuously increased during the period from 2006 to 2010.

Table 2. Major Banks in India and their share of Business through Retail banking products

Sr. No	Banks	Business through Retail Banking (%)
Public Sector Banks:		
1.	State Bank of Hyderabad	81.84%
2.	Andhra Bank	42.17%
3.	Punjab National Bank	35.14%
4.	Indian Bank	38.01%
5.	UCO Bank	37.42%
Private Sector Banks:		
1.	Ing Vysha Bank	80.20%
2.	Kotak Mahindra Bank	75.36%
3.	HDFC Bank	74.82
4.	ICICI Bank	53.52
5.	Axis Bank	47.16

Source: Report on Trend & Progress of Banking in India 2009-10

The table 2 shows in public sector banks, State Bank of Hyderabad is contributing almost 82% business through retail banking out of its total business in the year 2010 whereas in private sector bank, ING. Vysha Bank contributing 80% business through retail banking out of its total business.

Statement of the Problem

Today banking business is diversified from traditional approaches to individual approach. With the shift in customer preference from deposits in banks to investments, ever increasing competition and number of banking facilities to customers at their doorstep, there is tendency that the profit margins of the banks are divided and declined. Now-days almost all banks in India have started retail banking products and value added services along with their traditional banking products. It has become imperative for all the banks to retain the old customers and attract the new customers by providing more value added services and banking incentives under single window system as well as to find alternative ways to generate more income. Another important factor led to utilize the excess deposit through large quantities of customers and create image about banks quality products. MSC Bank started retail banking products due to customer's demand and utilization of excess deposits and generate income. In this contest, it is very important to find whether MSC Bank benefited due to retail banking avenues by way of financial analysis.

OBJECTIVES OF THE STUDY

The main objective of the study is to make analysis on the financial performance of MSC Bank in Retail Bank with available retail banking products. This study also aims to find out the contribution of retail banking to the overall progress of the MSC Bank.

RESEARCH METHODOLOGY

This study is based on only secondary data. In this study, MSC Bank, an apex co-operative bank in the state was taken as a sample. The annual report and banks profile has been used for making an analysis on the financial performance of MSC Bank in retail banking and the data pertinent to retail banking has been collected from research journals, Magazines, reference books as well as the internet.

CAMEL Model, a recognized statistical tool is used for measuring the financial performance of a MSC Bank in retail banking products. Ratio analysis, one of the most important statistical techniques of financial statement analysis is generally used to find out the financial performance in CAMEL model. With the help of ratio analysis technique, an attempt has been made under this study to observe the improvements in performance or development in retail banking products of MSC Bank.

CAMEL Model

RBI has introduced a rating methodology technique to judge the financial viability of banks is known as CAMEL (Capital adequacy, Asset Quality, Management Performance, Earning Performance, Liquidity) Mode. CAMEL model also can be used by making use of the publicly available accounting data. In short, CAMEL model is designed to reflect a bank's financial performance.

MSC Bank in Retail Banking Products

Over the years, due to increase in working funds and fierce competition in co-operative banks, MSC Bank has explored in new avenue of Retail Banking products and Services from 2004. MSC Bank's retail banking products includes Housing loan, Vehicle Loan, Consumer loan, Personal loan, Gold loan, Education loan, Loan against LIC policy, NSC, Cash Credit etc. Retail banking services includes Franking services, Stamp duty services, Collection & Payment of bills, DD, TT, RTGS, NEFT and D-mat services.

In Retail Banking avenue, under the '*Shikshak Samrudhi Scheme*' MSC Bank has outstanding loan amounted to Rs. 37.56 crores, under '*Grih Swapnapurti*' housing schemes, outstanding loan amounted to Rs. 13.42 crores , under Cash credit Rs. 23,81 crores and under vehicle loan scheme outstanding loan amounted to Rs. 2.02 crores as on 31st March 2010. Thus as on 31st March 2010, MSC bank has total outstanding loans against retail banking products is Rs. 76.81 crores.

Data Analysis of Retail Banking Products of MSC Bank by using Camel Model

For evaluating the financial performance in retail banking, it is very needful to analyze the effect of some important variables which have direct relationship with retail banking performance and come under each category of camel model, by using the financial ratios in different years.

Table 3. Financial Indicators of the Camel Model is shown below

Sr. No.	Financial Indicators	Effect on Improvement in MSC Bank's Performance
1.	Capital Adequacy & Solvency Ratio:	
	a) Capital Adequacy Ratio (CAR)	Decrease
	b) Capital Gearing Ratio	Decrease
2.	Asset Quality Ratio:	
	a) Return on Assets (ROA)	Decrease
	b) Non-performing Assets (NPA to Net Advance)	Decrease
3.	Management Performance Ratio:	
	a) Staff Cost to Net Income	Increase
	b) Staff Cost to Operating Expenses	Increase
	c) Business Per Employee	Increase
	d) Profit Per Employee	Decrease
	e) Non-fund Income to Total Income	Increase
	f) Operating Cost to Total Income	Increase
4.	Earning Performance Ratio:	
	a) Earnings per Share	Decrease
	b) Net Profit to Total Income	Decrease
	c) Spread to Total Income	Increase
	d) Interest Paid to Total Income	Decrease
5.	Liquidity Management Ratio:	
	a) Credit Deposit Ratio	Decrease
	b) Time Deposit to Total Deposit	Increase
	c) Liquid asset to short term Liabilities	Decrease

Source: compiled from the Annual Reports and Bank Profile of the MSC Bank

Brief Description of the Camel Model

Capital Adequacy Ratio:

Capital Adequacy ratio is a measure of the bank's capital which expresses the percentages of risk weighted credit exposures. This ratio also called as Capital to Risk Weighted Asset Ratio (CRAR). This ratio determines the capacity of the bank in terms of meeting the time liabilities and other risks like credit risk, operational risk etc. As per the RBI guidelines for the banks, the CAR of the bank should not be less than 10%. As per Chakrabarty Committee report in respect of CRAR of Regional Rural Banks is 7% as on 31.3.1011. (*Reference: Report on Trend & Progress of Banking in India 2009-10, submitted by Central Government*)

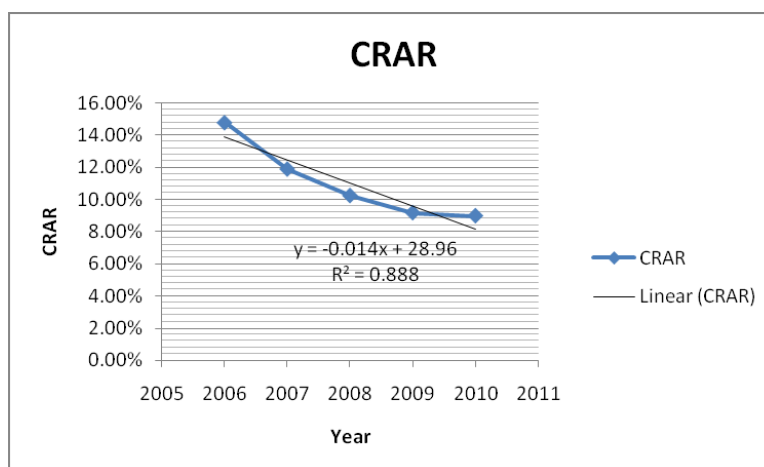
MSC Bank’s CAR Ratio decreases from 14.8% to 8.98 % during the year from 2006 to 2010. But still it is above standard level and it is also published in the London periodical journal ‘The Banker’ as contribution of MSC Bank in the top 1000 banks of the world in financial soundness.

Formula: Capital Adequacy Ratio = Total Capital Funds / Risk Weighted Assets & contingents x100

Table 4. Capital Adequacy Ratio of MSC Bank from 2006 to 2010

Year	2006	2007	2008	2009	2010
CRAR	14.8%	11.9%	10.24%	9.17%	8.98%

Source: Compiled from the annual Report of MSC Bank



Source: Compiled from the Annual Report of MSC Bank

Chart 2. CRAR of MSC Bank from 2006 to 2010

Table 4 and Chart no. 2 show that the Capital adequacy of MSC Bank declined and trend line equation indicate the negative slope, $y = 0.014x + 28.96$ at end of March 2010 over the period. The decline in capital adequacy was mainly on account of higher increase in investments as compared with marginal increase in capital and reserves.

Return on Assets:

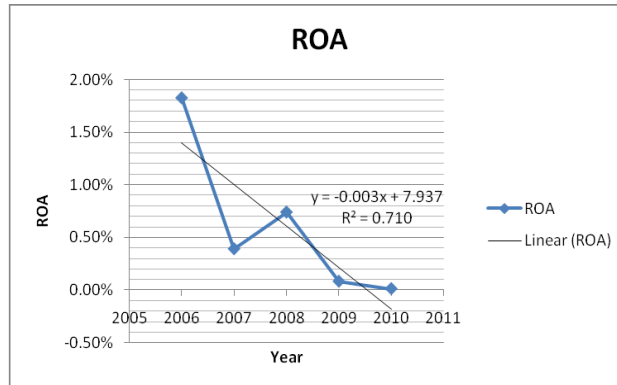
This ratio expresses the productivity and optimal use of the assets. ROA reveals how much income management has been able to squeeze from each rupees worth of company’s assets. The best operating system of banks, which undertakes retail banking products and value added services which can increase its returns on assets and capital infrastructures.

Formula: Return on Assets = Net Income / Average Total Assets.

Table 5. Return on Asset of MSC Bank from 2006 to 2010.

Year	2006	2007	2008	2009	2010
ROA	1.83%	0.39%	0.74%	0.08%	0.01%

Source: Compiled from the annual Report of MSC Bank



Source: Compiled from the annual Report of MSC Bank

Chart 3: ROA of MSC Bank from 2006 to 2010

Return on assets indicates continuous decreases from 1.83% to 0.01% during the period from 2006 to 2010. The asset quality of MSC Bank improves in the absolute term but in percentages terms it's declined. The trend line equation of ROA shows flexible changes during the period which shows $Y = 0.03x + 7.937$.

Non-Performing Assets to Net Advances:

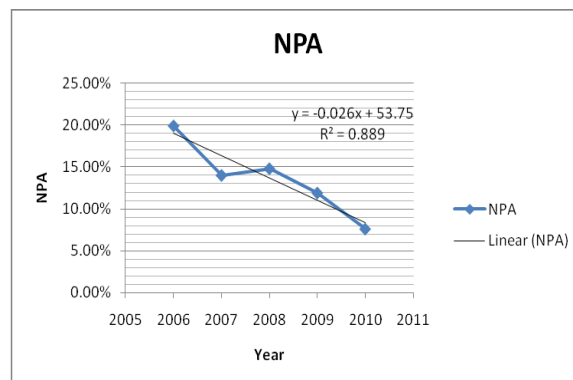
This ratio is used to find out the weaknesses and losses in the recovery procedures of bank against their loan credit. According to RBI prescription bank should have minimum level of non-performing asset. This ratio expresses the profitability and expansion of business growth. It also impacted on the operation of MSC Banks.

Formula: Non-Performing Assets Ratio= Non-Performing Assets/ Net Advances x 100

Table 6. Non-Performing Assets to Net Advances of MSC Bank from 2006 to 2010

Year	2006	2007	2008	2009	2010
NPA	19.9%	14.0%	14.8%	11.9%	07.6%

Source: Compiled from the annual Report of MSC Bank



Source: Compiled from the annual Report of MSC Bank

Chart 4: NPA of MSC Bank from 2006 to 2010

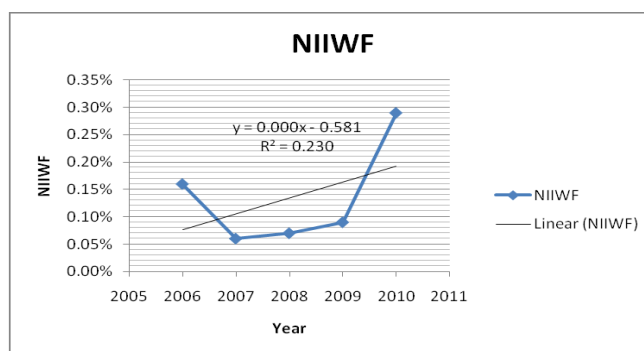
Now a day the major problems of the co-operative banks and public sectors banks are the increasing level of the non-performing assets. It hampers the financial performance of the banks. It impacts drastically to the working of the banks. The RBI has also tried to develop many schemes and tools to reduce the non-performing assets by introducing internal checks, control schemes, relationship manager and early warnings system etc. Special efforts will have to be made by the banks to manage non-performing assets and liquidity besides improving customer services through business process re-engineering. Non-Performing Loan showed that highest decline in the period from 2006 to 2010 which is sound and strong financial sound position of the MSC bank. The trend line equation shows downward slope $Y = 0.026x + 53.75$.

Non-Interest Income to Working Fund:

Table 7. Non-Interest Income to Operating profit of MSC Bank from 2006 to 2010

Year	2006	2007	2008	2009	2010
NIIWF	0.16%	0.06%	0.07%	0.09%	0.29%

Source: Compiled from the annual Report of MSC Bank



Source: Compiled from the annual Report of MSC Bank

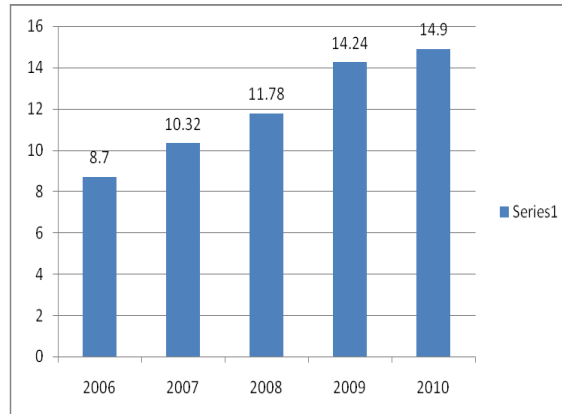
Chart 5: NIIWF of MSC Bank from 2006 to 2010

Non-interest Income to operating profit of MSC Bank showed decreased in the year 2007 but thereafter it showed continually increase up to 2010. The trend line equation shows positive sign of profitability which is $y = 0.000x - 0.581$.

Business per Employee:

Table 8. Business per Employee of MSC Bank from 2006 to 2010

Year	2006	2007	2008	2009	2010
Business per Employee	08.70 crores	10.32 crores	11.78 crores	14.24 crores	14.90 Crores



Source: Compiled from the annual Report of MSC Bank

Chart 6: Business per Employee of MSC Bank from 2006 to 2010

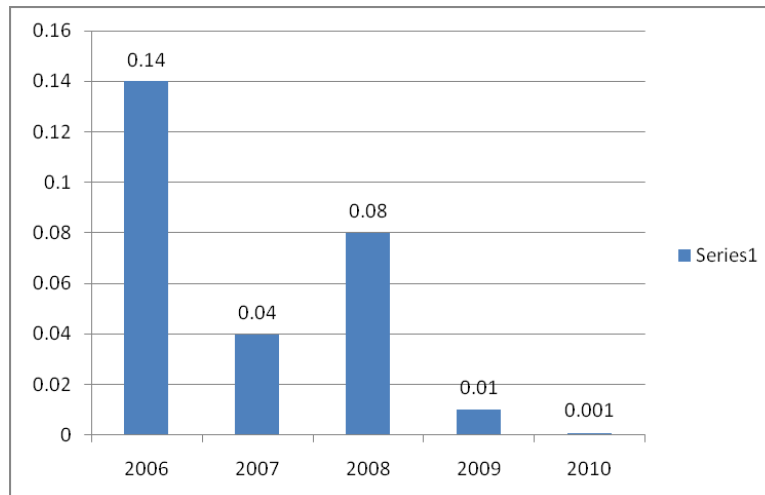
Business per employee of MSC Bank is continuously increased from 2006 to 2010. It seems that human resources are used at optimum basis.

Net Profit per Employee:

Table 9. Net Profit per Employee of MSC Bank from 2006 to 2010

Year	2006	2007	2008	2009	2010
Net Profit per Employee	0.14 crores	0.04 crores	0.08 crores	0.01 Crores	0.001 Crores

Source: Compiled from the annual Report of MSC



Source: Compiled from the annual Report of MSC Bank

Chart 7: Net Profit per Employee of MSC Bank from 2006 to 2010

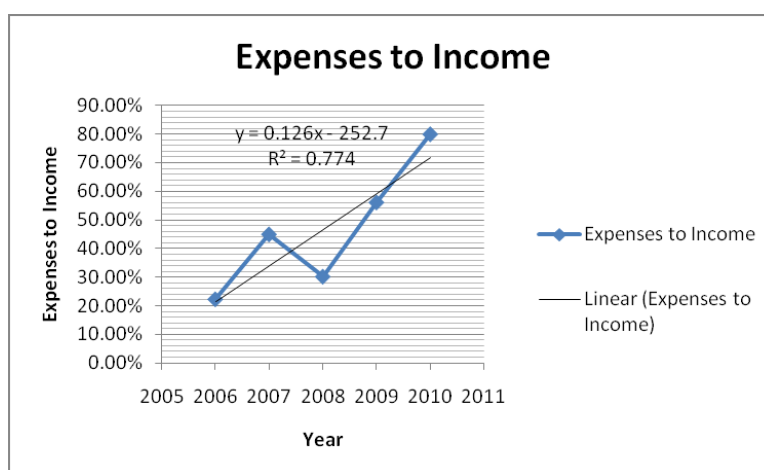
Net profit per employee of MSC Bank showed a decreasing trend from the year 2006 to 2010. It seems that MSC Bank operating and administrating expenses are uncontrolled.

Operating Expenses to Total Income:

Table 10. Operating Expenses to Total Income of MSC Bank from 2006 to 2010

Year	2006	2007	2008	2009	2010
Exp. to Income	22.28%	44.90%	30.16%	56.04%	79.77%

Source: Compiled from the annual Report of MSC Bank



Source: Compiled from the annual Report of MSC Bank

Chart 8: Expenses to Income ratio of MSC Bank from 2006 to 2010

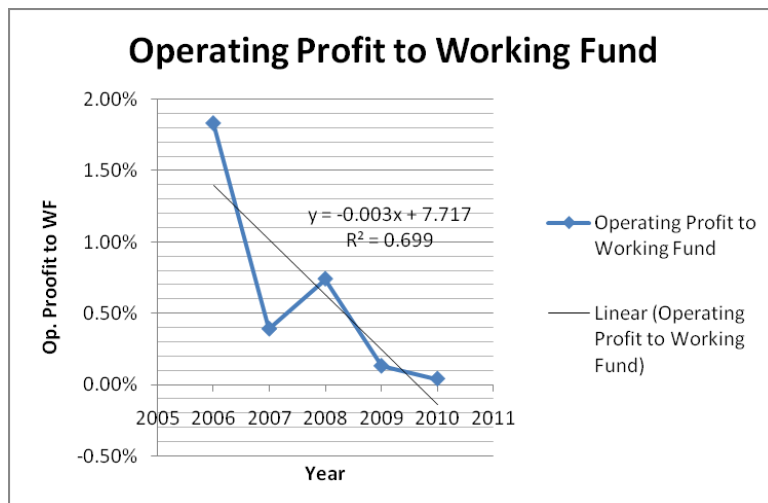
Operating expenses to total income of MSC Bank has drastically increased from 2006 to 2010 which results in decrease in profitability of the bank. The trend line equation shows speedily raising upward I e $y = 0.126x - 252.7$.

Operating Profit to Working Fund:

Table 11. Operating Profit to WF of MSC Bank from 2006 to 2010

Year	2006	2007	2008	2009	2010
Op. Profit to WF	1.83%	0.39%	0.74%	0.13%	0.04%

Source: Compiled from the annual Report of MSC Bank



Source: Compiled from the annual Report of MSC Bank

Chart 9: Operating Profit to Working Fund of MSC Bank -2006 to 2010

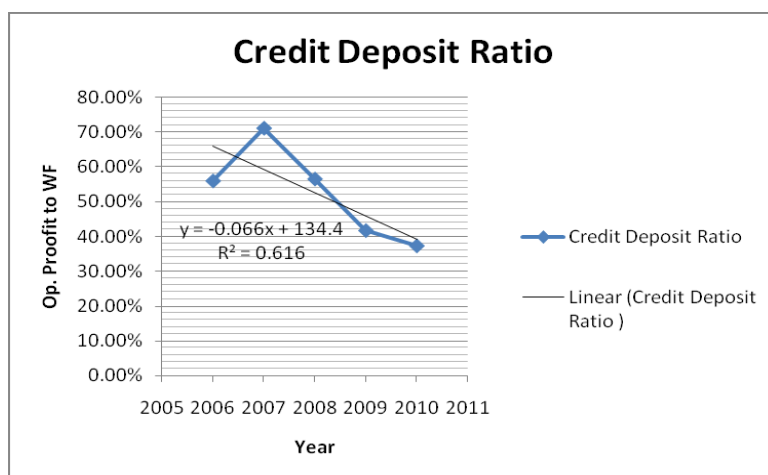
Operating profit to Working fund of MSC Bank declined from 2006 to 2010. It indicates that the utilization of deposit is not at optimal basis due to quality risk management and poor credit policy. The trend line equation represents by $Y = -0.003x + 7.717$

Credit Deposit Ratio

Table 12. Credit Deposit Ratio of MSC Bank from 2006 to 2010

Year	2006	2007	2008	2009	2010
Credit Deposit Ratio	55.98%	71.12%	56.52%	41.72%	37.33%

Source: Compiled from the annual Report of MSC Bank



Source: Compiled from the annual Report of MSC Bank

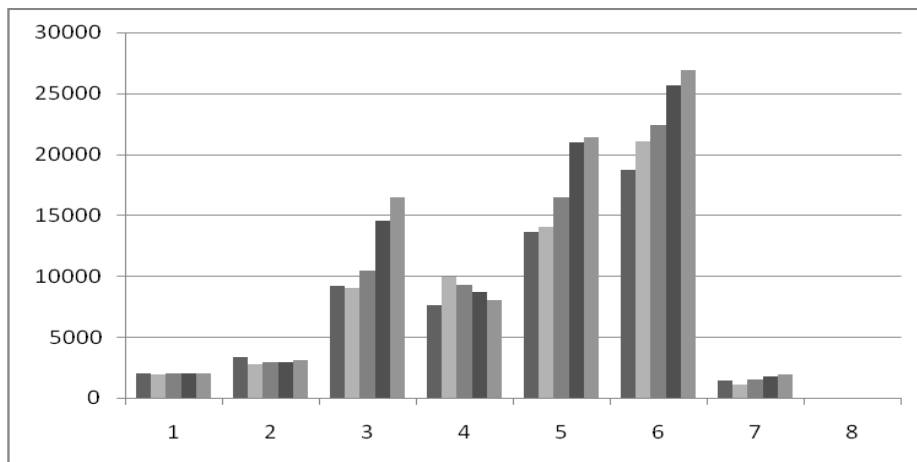
Chart 10: Credit Deposit Ratio of MSC Bank from 2006 to 2010

The credit deposit ration of MSC Bank is also decreasing from 2007 to 2010 and it representation in trend line equation is $y = 0.066x + 134.4$.

Table 13. Showing the Financial Performance and Growth of MSC Bank during the period from 2006 to 2010

Year	Own Fund	Investments	Advances	Deposits	Working Funds	Income	Net Profit
2006	3,316	9,202	7,634	13,635	18,742	1,442	01.50
2007	2,793	9,102	10,010	14,074	21,082	1,137	51.46
2008	2,936	10,431	9,331	16,509	22,360	1,536	24.31
2009	2,954	14,563	8,743	20,954	25,681	1,745	17.78
2010	3,060	16,444	7,998	21,421	26,892	1,894	02.87

Source: Compiled from the Annual report and profile of MSC Bank From 2005 to 2010.



Source: Compiled from the Annual Report of MSC Bank

Chart 11: Showing the Financial Performance and Growth of MSC Bank From the period 2006 to 2010

The Financial performance of MSC Bank improved as at the end of March 2010 over the previous years in terms of Investments, Deposits, Working Funds and Income. However net profit, Advances and Owned Funds declined at the end of March 2010 over the previous years due to accounts of higher growth in interest expenses, Investments and Operating expenses as compared with growth in income. It is also due to provisions and contingencies.

OBSERVATIONS

1. To improve NPAs each bank should be motivated to introduce their own precautionary steps like proper utilization of loan, feasible and financial and operational prospective results of the borrowing individuals.
2. The net profit of the MSC Bank shows lots of up and down during the period from 2006 to 2011. This is due to main objective of MSC Bank is to promote and

propagate the creation of a co-operative commonwealth through socio-economic transformation of the community by following co-operative principles and adopting democratic means rather than profit.

3. MSC Bank is increasing its business and resources- Share Capital increased by 33.36%, Investment by 102.47%, Advances by 4.75%, Working Fund by 43.48%, and Deposit by 57.09 % and Income by 31.37% during the period from 2006 to 2010. MSC Bank suffers from low and weak quality of loan assets that bank is unable to inspire confidence in the potentials members, depositors and borrowers.
4. Loans and Advances are too low ranging from Rs. 7,634 crores to Rs. 7,997.53 crores than the Investments from Rs. 9,202 crores to Rs. 16,443.51 crores during the period from 2006 to 2010, which indicates the lack of proper credit policy and capacity of accepting risk. It indicates that MSC Bank is not doing lending operations as major activity which affects on the profitability of the bank.
5. It is utmost important that MSC Bank actively involves itself in Retail Banking products and services due to customers in their response have desires for various retail banking products and excess balance of deposits. Increase in retail banking products will not only satisfy customers but it will also accelerate the funds and profit of the bank.
6. MSC Bank has huge scope to promote the Retail Banking products and services on the basis of increasing deposits and other potentials like high Capital Adequacy Ratio, Strong agro based setup & three-tier co-operative structure, an excellent credibility in co-operative sector and as apex bank in co-operative sector.
7. Credit deposit ratio of MSC Bank is below 50% which indicates the low profitability and low performance due to poor credit risk policy.
8. Financial performance of MSC Bank in Retail Banking products is not satisfactory as compared to Public sector Banks and Private sector banks.

CONCLUSIONS

The increase in the net non-interest income, profit per employee, business per employee, capital adequacy ratio and decrease in the operating expenses, staff cost level of non-performing assets by the bank for the last few years indicates that the financial performance of the MSC Bank in retail banking products has been good and retail banking has also contributed well to overall progress of the MSC Bank. So there is every reason to be optimistic that Retail Banking in India will play a major role in the profitability and productivity of every bank. RBI has taken a series initiatives to facilitate use of electronic mode for various retail and large value transactions through RTGS and NEFT. MSC Bank should follow and implement Dr. Vaidynathan committee reports and guidelines and as an apex bank in co-operative sector, should follow quality risk management and maintain profit motives along with co-operatives and service motives to enhance the profitability and performance of bank.

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