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An Inquiry of Profitability & Sustainable Growth of Credit and Consumer Cooperative Mandali Ltd for Employees of the Khedbrahma Arts & Commerce College

The biggest challenge in cooperative sector is consistency, efficiency and bankruptcy now days but it has increase more risk for credit cooperative society or Sharafi Mandali than others. The most cases of insolvency are due to inefficiency in risk management (operation, credit & market risk), lack of operating efficiency, over lending, poor enforcement of creditor's rights, low credit quality and weak legal environment. Thus, it has most essential to focus on strength of financial stability, liquidity, operating efficiency, profitability & consistence growth rate of organization during period. The present paper is most research study on analysis of financial performance & growth of credit & consumer cooperative Mandali Ltd on applied orientation.

Key Words: *Profitability, Growth, Banking, Cooperative, Efficiency, Risk Management*

I. Introduction:

The Credit & Consumer Cooperative Mandali Ltd for Employees of Khedbrahma Arts & Commerce College established on 22nd August, 1989 under cooperative society act by 20 members and initial funds of 3,000 Rs along with 50/Rs of face value of initial shares. It has main aim to provide encouragement to saving, to provide economical helps to members when they have requirement, to progress under subject of socially & educationally by adopting different activities, to encouragement of healthful habits with providing medical facility for maintain health of members, to provide economic helps for helpless family of member under accidental circumstances. So overall abstracting from object is welfare of its member in areas of economical, social, health etc.

The determination of profitability of any financial organization has require to focus on the credit risk, higher return on assets, return on assets to capital as well as retained earnings. The financial stability and consistency also depends on returns on organization assets, equity and net interest rate margins under assess to operating efficiency during the period. As per **Ho and Saunders (1981),** the macroeconomic volatility and regulations have a significant impact on bank interest rate margins so that respect it has important trade-off between ensuring bank solvency which indentify by high capital to asset ratios, and lowering the cost of financial services to consumers, as measured by low interest rate margins.

The net interest positively related to core capital, non-interest bearing reserves and management quality while it has negatively related to liquidity risk. In the other words, for ensuring bank solvency has prior requirement of high capital to assets ratio and minimizing the cost of financial services to consumers as decide by interest rate margin. So operating management of borrowing and gainful investment has directly affect to gross profit of organization and ultimately it reach at final profit on which consistency and stability are most depends.

The net interest margin is significant along with the cost structure or distribution of expenditure in minimize level otherwise net interest margin is satisfactory but highly costing like salaries, buildings, returns in management would generate constraint against profit margin. The consistency also considering to reinvestment of profit in organization where higher profit margin has opportunities to cumulative adding in their investment while lower profit has declining in rate of new investment as well as arises question of sustain organization under old investment against paying return to their creditors.

The different empirical results are identify that the procurement of profitability by bank has require to generate new standards for risk management with quantify qualitative credit and also on operating efficiency so here significant factors are risk and returns against operational risk, credit risk and market risk too.

II. Objective of Research Study:

The present empirical study has main object to study & analysis of financial position of Mandali as well as measure determinants of profitability during financial period. Moreover, identify sustainability by measure sustain growth of Mandali. In other words there are predicting model for sustainable growth as well as identification of cost, revenue, profit equation. So the overview of object would leads to index of growth rate with analyzing different impact on it.

II. Literature Review:

The identification of growth and profitability has most concentration on assets & equity as well as net interest income margins where they most affected to overall performance of any financial institution during period. **Gelos (2006)** research study of bank of Latin America with most attention to identify interest margin as income of bank. This study has most contexts on inflation, macroeconomics risks, policies & governance impact etc. The research study has concluding to overall efficiency of bank is not enough as underperforming so it has require to higher reserve than what they current holding.

The **Sufian (2007)** has study on home & foreign banks in Malaysia with observation of input output methods where use labour, fixed assets and deposit as input variable whereas total loans and total income uses as output during that period. The research study has conclude to efficiency of home banks are greater than foreign banks in Malaysia. The most reason behind that proper operation management, cost control, technical up gradation and quality of credit. The **Berger & Mester (1997)** has empirical study on risk management as black box where it indicate that financial capital is main base of the risk of insolvency because it could not enough funds for absorb losses due to gray debts then it would directly affect to cost and ultimately influence to profit of the bank or financial institutions. The intermediate approach is most commonly using in research study of efficiency of banking and **Sealey & Lindley (1977)** one of them in their research study employ four inputs and three outputs specification. The fixed assets, staff, deposits, borrowing, capital, reserve-surplus are proxies for physical capital, labour, loanable funds and equity under analysis of efficiency. The study has concludes to higher borrowing of financial institution and it has not appropriate operational or investment uses so return could lower than what paying against borrowing during period.

III. Data & Methodology:

The profitability and growth is matter of consistency in different financial side during consistence period so here, we have considering the secondary data of 2012-13 to 2016-17 as last five years in form of final reports, balance-sheet, income-expenditure, profit & loss statement etc. in this way the structure of present research study has secondary & quantitative approach. The present research study has consider systematic approach under data analysis where firstly identifying the position of organization by ratio analysis while second stage consider the affectivity, efficiency and consistence growth identification by different statistical methods like regression, correlations, t-test, z-test as well as other necessary tools adopt for analyzing the whole phenomenon during the period.

IV. Empirical Results:A. Financial Position of Mandali:

Table: 1 Financial Capability & Performance of Mandali

Particular	2012-13	2013-14	2014-15	2015-16	2016-17
ROAA %	8.797623402	12.1300837	8.365148604	6.737597833	9.039995071
EPS	11.34512911	17.42384152	12.79832387	11.4475442	15.80664881
PE_Actual	4.407177698	2.869631243	3.906761582	4.367749022	3.163225843
Divi_Pay_R %	66	47	58	63	48
Divi_Per_Share	7.493231659	8.172896542	7.416091954	7.264505566	7.618998558
Divi_Yield_R	7.493231659	8.172896542	7.416091954	7.264505566	7.618998558
ROE %	22	35	25	22	31
Net Income to Total Assets %	1.466270567	2.021680617	1.394191434	1.122932972	1.506665845
ROI %	1.466270567	2.021680617	1.394191434	1.122932972	1.506665845
RRA %	46	48	47	41	51
Current_Ratio	1.420682854	1.31077742	1.327385762	1.305271662	1.199417704
GP_Margin %	39	41	34	32	36
Net_Income_ Margin %	14	18	13	12	12
Debt to Equity	13.4938674	15.07122107	16.1163881	18.08106352	18.25644206
Long-Term Debt to Equity	10.07958377	12.24705726	12.9247762	14.80112115	16.58481214

The **Table: 1** has focus on different dimension of financial performance of Mandali during last five years. Here, most essential reflecting on net margin percentage is consistently decline and that would also reflect on ratio of net income to total assets also declining after 2013-14 which indicating to per resources of Mandali decline in their net earnings.

The current ratio is the classic measure of liquidity. It indicates whether the business can pay debts due within one year out of the current assets where this ratio of 1.5:1 would mean that a Mandali has 1.19 Rs of current assets for every 1 Rs of current liabilities so it has maintain little lower than standards of 2 Rs assets per 1Rs liability. The current ratio of Mandali is consistently decline which leading to currant liability would more marginally increases than current assets which will be create the issue of liquidity under one of the risk.

Figure: 1

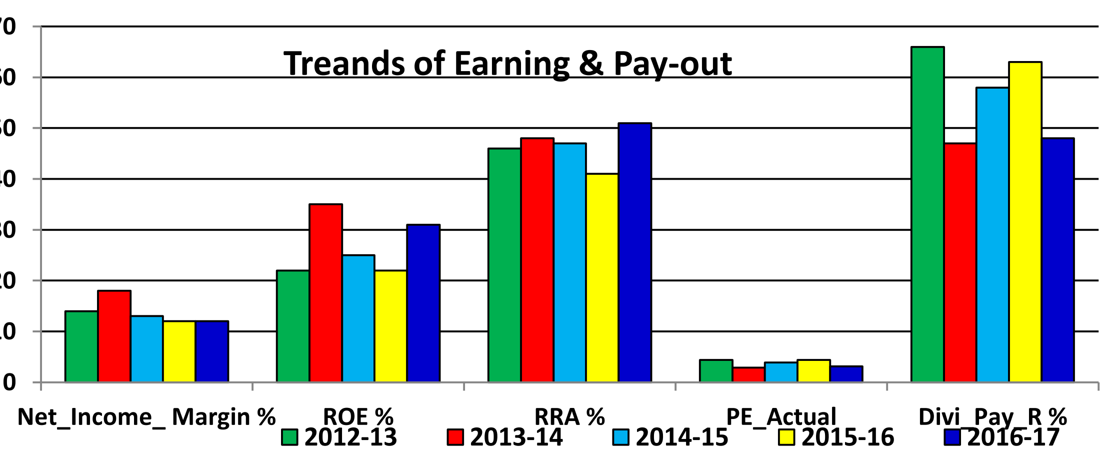
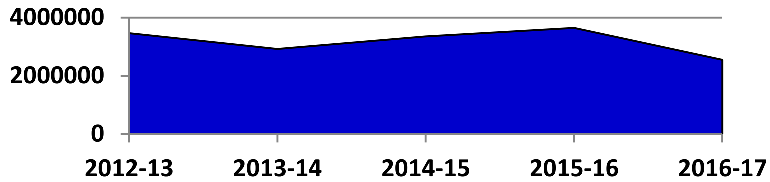


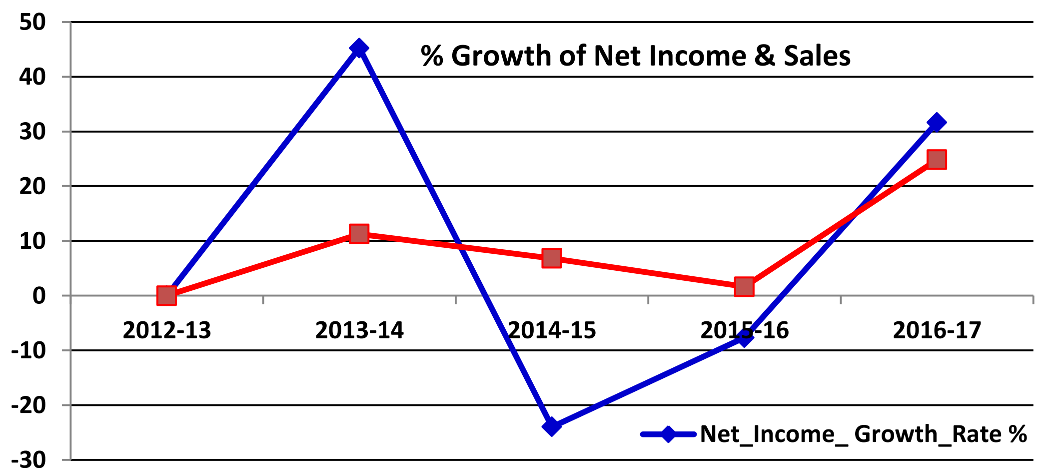
Figure: 2 Decline Working Capital



The return on equity ratio or ROE is a profitability ratio that measures the ability of a firm to generate profits from its shareholders investments. Where here the return on equity ratio shows 31 Rs gain against each 100 Rs of common stockholders' equity. There are 9 percent hike in last year against previous year while highest hike in 2013-14 by 13 percent which implies to higher variability under the ROE.

Moreover, on the liquidity point of view, there are also rise question of the shortage of working capital against their current liability like in this figure showing consistently going downward where also previously affect to current ratio during period of time.

Figure: 3



There are another positive relationship emerging between the sales growth and net income growth during period which showing under **figure: 3**. The relationship between net income growth and sales growth is positively but here, net income has huge variability & vitality against change in sales of Mandali. Initially, 10 percent increase in sales growth would leads more than 45 percent change in net income growth in 2013-14 while only 2 percent decline in sales in 2014-15 which can leads negative growth rate of net income by 60 percent decreased and net income growth rate reach at -20 percent. In 2015-16, the net income growth standing at negative around -7 percent against sales growth near to 0. This point is most nearer for both sales & net income growth rate. After 2015-16, sales growth is reach at 25 percent while in response net income growth reach more than 30 percent so this whole phenomenon has indicating to high magnitude change in net income rate against even smaller change in sells growth of Mandali during financial period.

B. Prediction of Profitability:

The profitability of any organization depends on that consistency in profit earning throughout during period and it has most constraints is what is the revenue against its cost so here, first of all identifying equation for cost and income respect to their relation in Mandali as follow:

X= income y= cost
Mean x ($\bar{x}$): 1455684
Mean y ($\bar{y}$): 1252778
Intercept (a): -114101.8970528
Slope (b): 0.9389949309416
Regression line equation: y=0.9389949309416x-114101.8970528

This model has prior indicating to negative relation between the income and cost of the Mandali where **Cost = -114102 + 0.9390 (Income)** which indicating to 0.93 change with per unit change in income as x independent factor while intercept value is fixed with -114102 Rs against whatever income generate during period. So the Mandali has BEP decided to 114102 so it has required attaining more revenue than it's because it's a benchmark for profit. Moreover, the average of both variables implies to cost to income ratio is 0.860611 which implies to 0.86 RS cost against every 1 Rs of income of Mandali overall during period in another word, there are 86 percent cost against revenue so there are 14 percent probability left for the margin of profit.

The reflecting regression coefficient for prediction and model for profit of Mandali where ANOVA regression explaining to H1 hypothesis highly significance at 0.05 level against reject the null hypothesis of equal variance during period. The prediction of regression model identify coefficient of total cost has negative value against total income for prediction of profit. The model significance explain the constant level at-0.006349 fixed while total income has 1.000001319 against 1 unit change in total income whereas -1.000001689 (negative) respect to 1 unit change in total cost. So model prediction is highly significance at level of 0.05.

C. Prediction of Sustainable Growth:

The main aim after profitability is sustainable growth of organization where it would be calculation on basis of financial position of Mandali with help of different financial equation for last five years.

Year	SGR %	Size	Spread	Retention Rate %
2012-13	7.5	16.3	204278.0	34.0
2013-14	18.6	16.3	283753.0	53.1
2014-15	10.5	16.4	233613.2	42.1
2015-16	8.0	16.6	251754.0	36.5
2016-17	16.1	16.5	407075.0	51.8

The sustainable growth rate has indicating larger vitality in last five years where highest growth at 18 percent while 7 percent lowest in 2012-13 financial years. The average SGR is 12.13 percent against Std deviation of 5 while coefficient of variation is 40 percent variability to its Std deviation to mean. The another factor as size has average 16 percent constant which impaling that there are no variation under total assets of Mandali. The spread has greater vitality within five years with Std deviation of 78698 against coefficient variation is 28 percent to deviation variation. The average retention rate is 43 percent while its Std deviation to mean is 8 where as 20 percent variation in deviation by coefficient of variation during period.

Table: 2	**Correlation coefficient for SGR**					
	SGR	Size	EPS	PE_Actual	Divi_Pay_R %	ROE
Pearson Correlation	1	0.009551	.998**	-.998**	-.989**	.998**
Sig. (2-tailed)		0.98784	0.000134	8.99E-05	0.001398	0.000134
Sum of Squares and Cross-products	0.009402129	0.000235	0.527355	-0.13541	-0.01668	0.010547
Covariance	0.002350532	5.88E-05	0.131839	-0.03385	-0.00417	0.002637
N	5	5	5	5	5	5

(Significance Level 0.05)

The **Table: 2** has explaining the correlation coefficient matrix for SGR where EPS, PE, Dividend payout and ROE has highly significant correlation with SGR at 0.05 level of significance. Here, EPS & ROE has highly positive correlation while PE & Dividend payout has highly negative relation with SGR. So Mandli has this factor has greater impact on sustainable growth than others.

The correlation & coefficient for prediction of growth benchmark rate where correlation coefficient indicating the significant relationship for predict benchmark growth rate. The most correlation has significance negatively where long term debt has negative relation with RRA & Dividend yield rate while highly positive to GP margin.RRA has also negative relation with GP margin while dividend yield has negative with GP margin. The coefficient model has explain through un standardized coefficient in regression where constant intercept is negative to -1.095 as fixed while dividend yield has one unit change 0.150 in prediction of benchmark growth rate. Whereas RRA & long term debt has significant positive impact on BRG but GP margin has negatively impact.

V. Conclusion:

The profitability is not subject of one time profit but it has required to consistently with significant profit margin. There are also pay attention on what investment of organization and what return against it. Under the profitability measure of Mandali, there are identify different affecting factor where ROI reflecting with less margin against what per Rs of invested by Mandali during period. The debt rate against equity has consistently increases but profit margin declining with decreasing rate thus obviously we showing negative effect on overall profitability during period.

The sells growth is highly sensitive as high vitality seen which reflect to less stability in its growth which negatively affect to profitability of Mandali. The another profitability matter is net income where it consistently decline against total wealth or assets of the Mandali where last five years, the assets have less variable or very negligible but net income is highly sensitive. The Mandali has require to increase their average assets with higher return because the investment return less ratio in net income would decline overall return rate against their assets. Moreover, Mandali has less return on their borrowing so that less margin under net profit during period while cost ratio increases against revenue and profit to total revenue would decline so its highly impact on profitability where they all are determinants of profitability of Mandali.

The SGR for overall period is 12.13 percent and it's a less than SGR index of 0.286742628 which given to benchmark for profitability and SGR consistency for Mandali. The implication of SGR index is the Mandli has require to 28 percent increase in sales as well as under profit margin, total assets to net sales, ROI etc under financial policy for achieve SGR in future. Moreover, SGR has most negative determinants are EPS, PE, Dividend Payout and ROE while positive determinants are size, spreads and retention rate.

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Dr. Mahendra B. Parmar
H.O.D. of Commerce Department
Associate Professor
D.D.Thakar Arts & K.J.Patel Commerce College
Khedbrahma