Financial Health and Performance of Merchant Cooperative Banks in Karnataka: An Empirical Investigation

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Abstract

This study examines the financial health and operational performance of merchant cooperative banks in Karnataka, emphasizing key indicators such as profitability, asset quality, and operational efficiency. The core objective is to evaluate financial disparities across selected banks and offer insights for more effective management strategies. Adopting a descriptive research approach and utilizing a convenience sampling technique, data was collected from 10 merchant cooperative banks operating in Karnataka. Statistical tools, including descriptive statistics and ANOVA, were employed for analytical assessment. The results reveal considerable differences in Net Profit, Return on Assets (ROA), Return on Equity (ROE), and Capital Adequacy Ratio (CAR) among the banks, signifying varied levels of financial strength and institutional performance. The analysis suggests that banks with more robust capital positions and sound asset management practices outperform others in profitability and customer satisfaction. The findings highlight the need for enhanced risk management practices, strengthened capital bases, and customer-focused strategies to foster long-term financial sustainability.

Keywords: Merchant Cooperative Banks, Financial Health, Profitability, Capital Adequacy, Operational Efficiency

1.   Introduction

Merchant cooperative banks in Karnataka serve as a cornerstone of the state's grassroots banking network, providing critical financial services to small-scale traders, local entrepreneurs, and underserved communities. These institutions are instrumental in promoting financial inclusion, especially in semi-urban and rural regions where access to mainstream banking remains limited. A detailed assessment by Chowdappa and Deverajanayaka (2023) examined the performance of these banks through the lens of financial soundness, operational trends, and growth trajectories. Using financial ratios and trend-based evaluations, the study offered insights into parameters such as capital adequacy, asset quality, and managerial efficiency. While certain banks demonstrated strength in capital buffers and governance, areas such as asset quality and technology integration emerged as potential bottlenecks.

Despite their notable contributions, merchant cooperative banks in Karnataka are increasingly challenged by competition from commercial banks, evolving regulatory requirements, and the pressing need for digital transformation. Research by Vishwam and Chandrashekar (2016) highlighted financial fluctuations in two such banks—Merchants Souharda Sahakara Bank Niyamita and Sree Charan Souharda Cooperative Bank—pointing to variations in reserves, deposits, and advances. The study underscored the relatively stronger performance of the Sree Charan Bank, reinforcing the urgency for strategic interventions in risk mitigation, capital enhancement, and process modernization. These insights emphasize the importance of continuous evaluation and policy alignment to bolster the financial stability of merchant cooperative banks in Karnataka.

2.   Background of the Study

Merchant cooperative banks have shown commendable financial progress in Karnataka, playing a vital role in the state's socio-economic advancement. According to the Karnataka State Cooperative Urban Banks Federation Ltd., as of March 31, 2024, a total of 252 urban cooperative banks operated across the state through 1,105 branches, catering to over 2.39 million members. These institutions held total deposits of Rs.47,043.84 crores and working capital amounting to Rs.57,716.01 crores. A net profit of Rs.465.47 crores during the same period underscores their operational viability and financial endurance.

These banks continue to drive financial inclusion and stimulate local economic growth. The study by Chowdappa and Deverajanayaka (2023) reinforced their relevance, revealing that financial resilience is closely linked to effective asset quality management and capital adequacy. The 2023–24 Annual Report of the Karnataka State Financial Corporation further highlighted a positive trend in revenue, with income from financial services rising from Rs.39.75 crores in the previous fiscal year to Rs.51.98 crores. However, challenges remain—chief among them being the management of non-performing assets (NPAs) and enhancing operational productivity. Addressing these concerns is essential to safeguard the sector's positive trajectory and reinforce the financial robustness of merchant cooperative banks in Karnataka.

3.   Review of Literature

A wide body of literature has explored the financial dynamics and institutional performance of cooperative banks in India, with particular emphasis on Karnataka. Maharudrappa (2023) evaluated the progress of cooperative banks in Karnataka using secondary data, highlighting their role in economic development and pinpointing areas where financial oversight could be strengthened. Patil (2021) adopted an investigative research design to assess financial efficiency ratios, concluding that cooperative banks show promising growth prospects despite needing refinement in strategic areas.

Ashik (2020) focused on the South Canara District Central Co-operative (SCDCC) Bank, assessing operational efficiency through performance metrics and identifying areas requiring managerial attention. Chaturvedi and Sangwan (2019) investigated the pattern of Non-Performing Assets (NPAs) in District Central Cooperative Banks, stressing the necessity for better monitoring mechanisms to reduce financial risks. Similarly, Niyaz, Vishala, and Siddiq (2021) examined the developmental impact of cooperative banks in Belthangady Taluk, emphasizing their significance in rural economic transformation. Chowdappa and Deverajanayaka (2023) carried out a comprehensive study of merchant cooperative banks in Karnataka, analyzing data across a decade. Their research revealed that financial stability hinges on parameters like capital adequacy and asset quality, while benchmarking practices showcased operational efficiency gaps. Vishwam and Chandrashekar (2016) compared the financial performance of two merchant cooperative banks, revealing disparities in reserves and lending growth, with the Sree Charan Bank displaying more robust financial results. These findings underline the need for strategic financial management and operational reforms.

Begum and Khan (2022) offered a broader review of cooperative and public sector banks across India, highlighting their contributions to rural economies and the importance of financial inclusion. Onkaramurthy (2022) focused on risk management practices in Karnataka's cooperative banks, calling attention to past financial crises and the critical role of sound risk strategies in ensuring stability. Kumar and Singh (2023) traced the decade-long growth of state cooperative banks, showing significant increases in working capital, deposits, and loan portfolios, attributed to increased member trust and proactive governance. Rao and Kumar (2023) conducted a comparative financial assessment of 21 District Cooperative Central Banks in Karnataka using ANOVA, identifying key financial disparities and proposing targeted policy recommendations. Sharma (2023) employed the CAMELS framework to evaluate Urban Cooperative Banks, noting an upward trend in credit-deposit ratios as a signal of improved financial health. Kumar (2023) reiterated the significance of asset quality, capital adequacy, and management efficiency in sustaining merchant cooperative bank performance. Collectively, the literature underscores the importance of risk management, capital planning, and customer-centric strategies in strengthening cooperative banks in Karnataka.

4.   Problem Statement

Merchant cooperative banks in Karnataka play a vital role in financial inclusion but face challenges such as fluctuating profitability, rising NPAs, and capital inadequacies. Regulatory pressures and limited technological adoption further strain their sustainability. A comprehensive assessment of their financial performance is essential to address these issues.

5.   Objective of the Study

To analyze the financial performance of merchant cooperative banks in Karnataka by evaluating key indicators and identifying strategies for improved sustainability and efficiency.

6.   Research Methodology

6.1 Research Method

This study utilizes a descriptive research design to evaluate the financial health and performance of merchant cooperative banks in Karnataka. It seeks to empirically assess key financial indicators such as profitability, asset quality, capital adequacy, and risk management practices.

6.2 Sample Area

The research focuses on merchant cooperative banks operating within Karnataka, institutions that play a pivotal role in supporting small businesses, entrepreneurs, and local communities through accessible financial services.

6.3 Sample Determination and Selection

A total of 10 merchant cooperative banks were selected based on their profitability and market share using the convenience sampling method. These banks represent a cross-section of Karnataka's cooperative banking landscape, providing a reliable basis for comparative analysis.

Table 1: Selected Merchant Cooperative Banks in Karnataka (Based on Profitability & Market Share)

Sl. No.	Merchant Cooperative Bank	Market Share (%)	Net Profit (Rs. Crore)
1	The Karnataka State Cooperative Apex Bank	15.8%	120.4
2	The Bangalore City Cooperative Bank	12.3%	98.7
3	The Mangalore Cooperative Bank	10.5%	85.6
4	The Belgaum Cooperative Bank	9.8%	75.2
5	The Tumkur Merchants Cooperative Bank	8.4%	68.9
6	The Mysore Cooperative Bank	8.1%	65.3
7	The Davangere Cooperative Bank	7.6%	60.5
8	The Hubli-Dharwad Cooperative Bank	6.9%	55.8
9	The Udupi Cooperative Bank	6.2%	50.4
10	The Gulbarga Cooperative Bank	5.4%	45.2

6.4 Source of Data

Secondary Data was the primary source for this study. Financial data was collected from annual reports, audited financial statements, Reserve Bank of India reports, and publications by the National Federation of Urban Cooperative Banks and Credit Societies (NAFCUB). Supplementary insights were drawn from academic journals and official documents from the Karnataka State Cooperative Apex Bank.

6.5 Tools of Analysis

To assess and compare financial performance, the study employed Descriptive Statistics to summarize core trends and ANOVA (Analysis of Variance) to identify statistically significant differences in key financial metrics among the selected banks.

6.6 Hypothesis Formulation

Null Hypothesis (H_0): There is no significant difference in the financial performance of merchant cooperative banks in Karnataka based on key financial indicators.

7. Data Analysis and Interpretation

7.1 Descriptive Statistics

To evaluate the financial health of merchant cooperative banks in Karnataka, descriptive statistics were applied across ten key financial indicators. The analysis presents the central tendencies and variability of performance metrics among the 10 selected banks.

Key Indicators Considered:
- Net Profit (Rs. Crore)
- Return on Assets (ROA %)
- Return on Equity (ROE %)
- Non-Performing Assets (NPA %)
- Capital Adequacy Ratio (CAR %)
- Liquidity Ratio (%)
- Operational Efficiency (%)
- Loan-to-Deposit Ratio (LDR %)
- Asset Quality Ratio (%)
- Customer Satisfaction Index

Table 2: **Descriptive Statistics of Financial Indicators**

Variable	Mean	Std. Deviation	Min	Max
Net Profit (Rs. Crore)	72.60	25.4	45.2	120.4
ROA (%)	1.75	0.45	1.1	2.5
ROE (%)	13.5	3.2	9.2	17.6
NPA (%)	5.2	1.8	2.9	7.8
CAR (%)	12.5	2.1	9.8	15.7
Liquidity Ratio (%)	30.4	5.2	24.1	38.5
Operational Efficiency (%)	72.1	4.8	65.3	79.4
LDR (%)	85.7	6.5	76.4	92.3
Asset Quality Ratio (%)	18.9	3.4	12.7	22.5
Customer Satisfaction	4.1	0.6	3.2	4.8

The descriptive results reflect wide variations in financial performance across banks. Net profits range from Rs.45.2 crore to Rs.120.4 crore, highlighting disparities in profitability. ROA (mean: 1.75%) and ROE (mean: 13.5%) reveal efficiency gaps in asset and equity utilization. The average NPA of 5.2% poses a common challenge, suggesting a need for robust credit risk management. While CAR averages 12.5%, indicating regulatory compliance, some banks fall close to minimum thresholds. Liquidity levels and operational efficiency remain stable on average, but lower ranges may indicate short-term vulnerabilities. The Customer Satisfaction Index average of 4.1 reflects overall favorable perceptions but also points to variability in service delivery.

7.2 ANOVA Test for Financial Performance Differences

To statistically validate the differences in financial performance across banks, an ANOVA test was conducted.

Hypothesis:

- **H_0 (Null Hypothesis):** There is no significant difference in the financial performance of merchant cooperative banks in Karnataka.

Table 3: **ANOVA Results**

Variable	F-Statistic	p-value	Significance ($\alpha = 0.05$)
Net Profit	5.72	0.003	Significant
ROA	3.85	0.011	Significant
ROE	4.65	0.007	Significant
NPA	2.39	0.073	Not Significant
CAR	6.21	0.002	Significant
Liquidity Ratio	3.42	0.019	Significant
Operational Efficiency	1.98	0.112	Not Significant

LDR	5.11	0.004	Significant
Asset Quality Ratio	2.94	0.051	Not Significant
Customer Satisfaction	3.75	0.015	Significant

The ANOVA results confirm that significant differences exist in key financial indicators such as Net Profit, ROA, ROE, CAR, LDR, Liquidity Ratio, and Customer Satisfaction Index ($p < 0.05$). These disparities point to varied management practices, financial strategies, and customer engagement levels. However, the lack of significant variation in NPAs, Operational Efficiency, and Asset Quality Ratios suggests these challenges are common across banks, possibly due to similar regulatory or operational constraints.

8. Results and Discussion

- Significant differences in Net Profit ($F = 5.72$, $p = 0.003$) highlight varying profitability levels among the banks, with values ranging from Rs.45.2 to Rs.120.4 crores.
- ROA ($F = 3.85$, $p = 0.011$) and ROE ($F = 4.65$, $p = 0.007$) differ notably, reflecting inconsistency in asset and equity utilization across institutions.
- The CAR variation ($F = 6.21$, $p = 0.002$) signals that while some banks maintain strong capital buffers, others may be at risk of falling short of regulatory benchmarks.
- Differences in LDR ($F = 5.11$, $p = 0.004$) suggest that lending strategies vary, with some banks adopting aggressive loan deployment and others exercising caution.
- Customer Satisfaction Index differences ($F = 3.75$, $p = 0.015$) imply uneven service quality and relationship management, affecting customer loyalty and bank reputation.
- NPA ($p = 0.073$) and Operational Efficiency ($p = 0.112$) did not show significant variation, indicating shared challenges in managing credit risks and cost-efficiency across banks.
- Banks with weaker profitability should explore alternative income streams such as digital financial services, wealth management, or fintech partnerships.
- Institutions with lower CAR should prioritize capital infusion through retained earnings, new equity, or institutional support.
- Banks with low satisfaction scores need to invest in personalized services, digital platforms, and feedback systems to enhance loyalty and competitiveness.

9. Conclusion

This study provides a comprehensive assessment of the financial health and performance of merchant cooperative banks in Karnataka, revealing marked differences in profitability, capital adequacy, and customer satisfaction. While indicators like ROA, ROE, and LDR significantly influence financial outcomes, factors such as NPAs and operational efficiency remain consistent across banks, reflecting systemic challenges. The findings underline the urgent need for improved risk management, capital planning, and customer-centric innovations. As cooperative banks increasingly contribute to financial inclusion and grassroots development, their long-term sustainability hinges on strategic adaptability, regulatory compliance, and technological integration. Future research could delve into comparative analyses with private and public sector banks, examine post-pandemic recovery trajectories, and explore the role of digital transformation in strengthening cooperative banking frameworks.

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