Managing Cash and Ensuring Profitability in Co-Operative Bank

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ABSTRACT- Efficient cash management is vital for ensuring profitability and financial stability in cooperative banks. This study analyses the cash management practices and profitability performance of a co-operative bank over a five-year period using secondary data from audited financial statements and analysing using selected financial tools. The results indicate fluctuations in profitability due to changes in interest income, operating expenses, and provisioning requirements. Although the bank maintains adequate liquidity, challenges remain in optimal fund utilization and consistent profit generation. The study concludes that effective cash management and cost control are essential for improving long-term financial sustainability in cooperative banks.

Keywords: Cash Management, Profitability, Cooperative Banks, Credit, Deposits, Financial Performance.

I. INTRODUCTION

Cash management and profitability are critical determinants of financial stability in the banking sector. Banks must maintain adequate liquidity to meet operational requirements while ensuring effective deployment of funds to generate sustainable profits. Inefficient cash utilization can lead to liquidity stress or reduced earning capacity.

In cooperative banks, this balance is particularly important due to their dual objective of providing affordable banking services and maintaining financial viability. The Co-operative is a government-controlled cooperative bank, has been serving the local community for several decades. This study examines the bank's cash management practices and analyzes their impact on profitability over a five-year period.

II.OBJECTIVES OF THE STUDY

2.1 PRIMARY OBJECTIVE:

1. To analyse the profitability and the cash management efficiency of the Co-operative bank.

2.2 SECONDARY OBJECTIVE:

1. To study the trends of income and expenses over the five – year period using trend analysis.
2. To evaluate how effectively the bank utilizes and manages cash for lending, investments and operational activities using cash flow statements and cash management ratios.
3. To check the profitability and the bank's performance using profitability ratios, comparative and common – size statements.

III. REVIEW OF LITERATURE

3.1 Performance Evaluation of Urban Co-Operative Banks in India – Dr. K.V.S.N. Jawahar Babu

This study examines the growth and challenges of Urban Co-operative Banks in India. While UCBs have expanded deposits and advances, issues such as weak governance, high NPAs, and poor loan appraisal have affected performance. The study highlights the need for stronger regulation and efficient cash management to ensure sustainability.

3.2 Jain & Reddy (2024) – Role of Cash Management in Enhancing Financial Stability of Cooperative Banks in South India

This study analyzes the impact of cash management on the financial stability of cooperative banks in South India. It finds that irregular cash flows and delayed loan recovery strain liquidity. The authors conclude that centralized cash control and automation improve liquidity and profitability.

3.3 Profitability Analysis of District Central Co-Operative Banks in Haryana –Ruchi

The study evaluates profitability performance of District Central Co-operative Banks in Haryana over thirteen years. Results reveal wide variations in profitability across banks due to differences in financial efficiency. The study emphasizes the need for improved financial management to achieve long-term sustainability.

IV. RESEARCH METHODOLOGY

4.1 Research Design: This research follows an analytical research design which interpret financial data and draw relevant conclusion on profitability and cash management.

4.2 Period of Study: The study covers a five-year period**:** From 2019–20 to 2023–24.

4.3 Data Collection: Secondary data is used for this study- Audited Balance Sheets and Profit & Loss Accounts**.**

4.4 Financial Tools Used in the study

1. Comparative Income Statement
2. Common-size Income Statement
3. Trend Analysis
4. Ratio Analysis - Profitability Ratios & Cash Management Ratios
5. Cash Flow Statement (Direct)

V. DATA ANALYSIS AND INTERPRETATION

5.1 PROFITABILITY AND CASH MANAGEMENT RATIOS

TABLE 1: NET PROFIT RATIO (2019-2024)

YEAR	NET PROFIT	NET TURNOVER	NET PROFIT RATIO (%)
2019-2020	-2,55,09,260.02	24,33,45,271.15	-10.48
2020-2021	-4,84,74,220.92	20,56,13,964.94	-23.58
2021-2022	-48,40,866.14	18,47,55,801.17	-2.62
2022-2023	-1,27,72,298.70	15,99,75,371.18	-7.98
2023-2024	-2,74,85,806.55	15,44,06,644.46	-17.80

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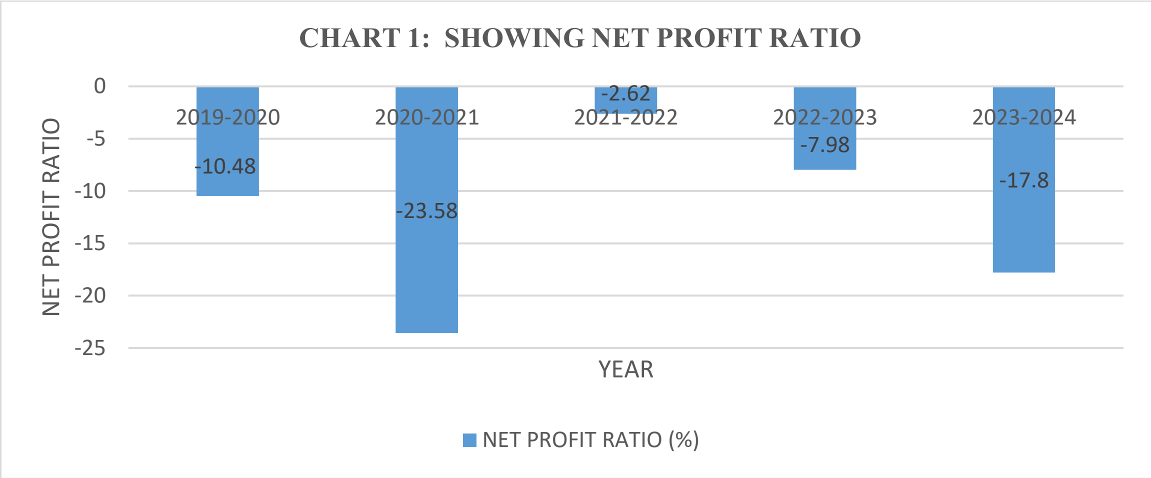
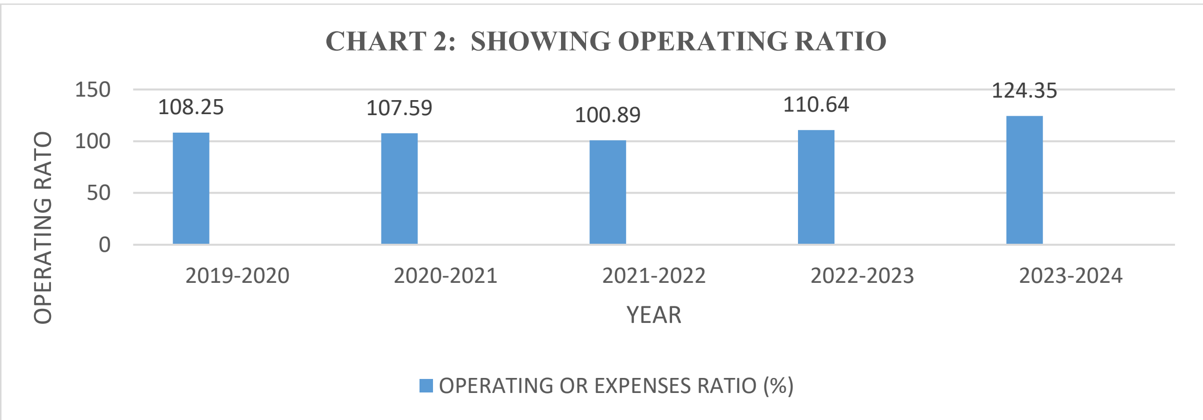


INTERPRETATION

The Net Profit Ratio remained negative throughout the study period, indicating continuous losses incurred by the bank. Although losses narrowed significantly in 2021–22, profitability deteriorated again in subsequent years. This reflects weak income generation and high cost pressures affecting overall financial performance.

TABLE 2: OPERATING COST RATIO (2019-2024)

YEAR	OPERATING COST	NET TURNOVER	OPERATING OR EXPENSES RATIO (%)
2019-2020	26,34,18,343.17	24,33,45,271.15	108.25
2020-2021	22,12,11,255.23	20,56,13,964.94	107.59
2021-2022	18,64,01,612.31	18,47,55,801.17	100.89
2022-2023	17,70,00,314.88	15,99,75,371.18	110.64
2023-2024	19,20,07,039.01	15,44,06,644.46	124.35

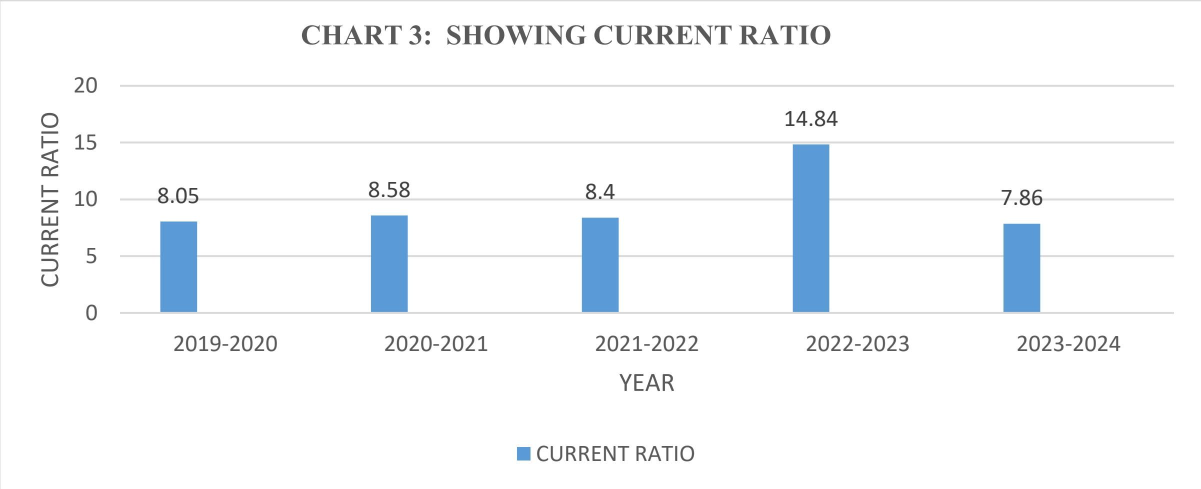


INTERPRETATION

The Operating Cost Ratio exceeded 100% in all five years, showing that operating expenses were consistently higher than operating income. The ratio increased sharply in 2023–24, indicating rising cost inefficiencies. This persistent cost burden is a major factor contributing to the bank's negative profitability.

TABLE 3: CURRENT RATIO (2019-2024)

YEAR	CURRENT ASSET	CURRENT LIABILITY	CURRENT RATIO
2019-2020	66,48,65,275.98	8,25,63,717.28	8.05
2020-2021	78,77,44,376.47	9,18,07,238.28	8.58
2021-2022	82,36,07,840.76	9,80,48,000.53	8.40
2022-2023	1,44,13,79,374.24	9,71,56,127.53	14.84
2023-2024	87,54,18,343.65	11,14,07,283.53	7.86

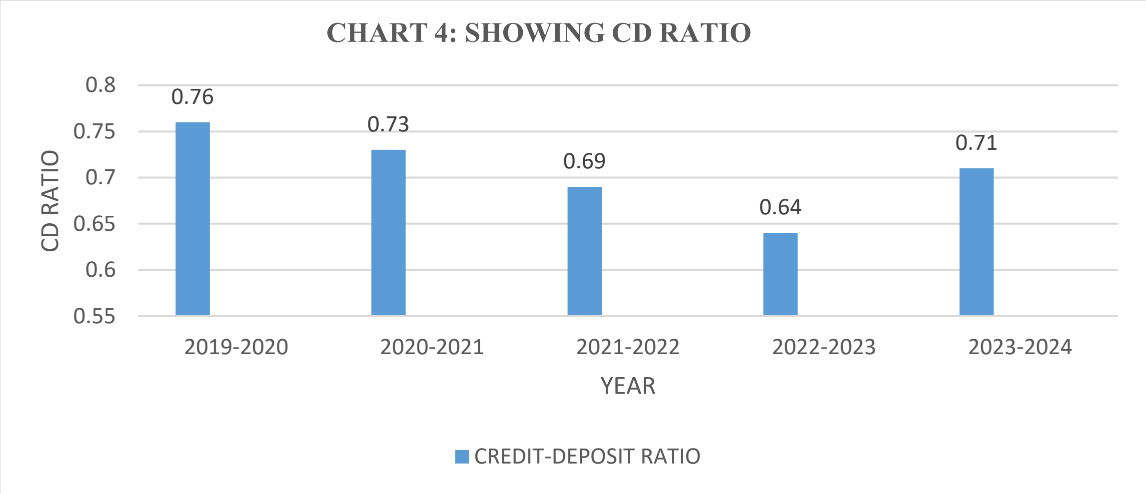


INTERPRETATION

The Current Ratio remained significantly high during the study period, indicating strong short-term liquidity. However, excessively high ratios, particularly in 2022–23, suggest inefficient utilization of current assets. While liquidity is adequate, surplus idle funds may have adversely affected profitability.

TABLE 4: CREDIT DEPOSIT RATIO (2019-2024)

YEAR	TOTAL CREDIT	TOTAL DEPOSITS	CREDIT-DEPOSIT RATIO
2019-2020	1,24,04,84,785.74	1,64,29,07,787.44	0.76
2020-2021	1,13,77,72,058.74	1,55,43,37,774.42	0.73
2021-2022	98,72,43,438.74	1,42,18,17,148.66	0.69
2022-2023	85,05,70,078.00	1,31,92,00,982.26	0.64
2023-2024	87,06,76,514.19	1,23,09,64,515.71	0.71



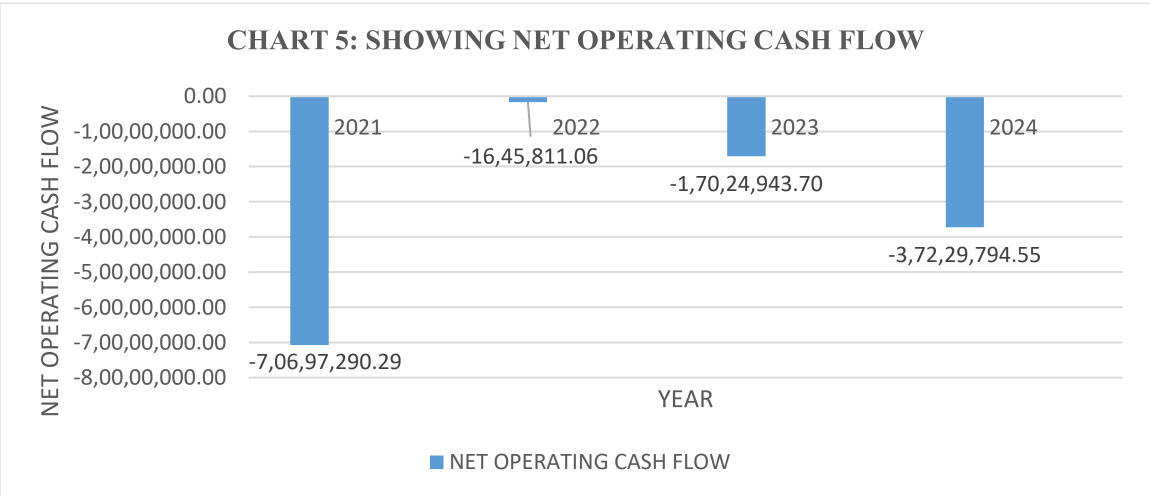
INTERPRETATION

The Credit–Deposit Ratio declined from 0.76 in 2019–20 to 0.64 in 2022–23, showing that a smaller portion of deposits was used for giving loans. Although there was a slight improvement in 2023–24, the ratio remained low, indicating that available funds were not fully used. This cautious lending approach reduced the bank's ability to earn income from its operations.

5.2 ANALYSIS OF CASH FLOW FROM OPERATING ACTIVITIES

TABLE 5: NET OPERATING CASH FLOW (2021-2024)

YEAR	NET OPERATING CASH FLOW
2021	-7,06,97,290.29
2022	-16,45,811.06
2023	-1,70,24,943.70
2024	-3,72,29,794.55



INTERPRETATION

Net operating cash flow remained negative throughout the period, indicating the bank's inability to generate sufficient cash from core banking operations. Although the magnitude of negative cash flow fluctuated, persistent outflows reflect challenges in loan recovery, income realization, and operational efficiency. This adversely impacts liquidity sustainability and profitability.

VI. FINDINGS

1. The Net Profit Ratio remained negative throughout the study period, ranging from **–23.58% in 2020–21** to **–2.62% in 2021–22**, indicating continuous losses despite a temporary improvement in profitability.
2. The Operating Cost Ratio exceeded **100% in all five years**, increasing sharply from **100.89% in 2021–22** to **124.35% in 2023–24**, showing that operating expenses consistently surpassed operating income.
3. The Current Ratio was exceptionally high, peaking at **14.84 in 2022–23**, which indicates strong liquidity but also reflects inefficient utilization of current assets and excess idle funds.
4. The Credit–Deposit Ratio declined steadily from **0.76 in 2019–20** to **0.64 in 2022–23**, before marginally improving to **0.71 in 2023–24**, suggesting underutilization of deposits for lending purposes.
5. Net Cash Flow from Operating Activities remained negative throughout the period, worsening from **–₹16.46 lakh in 2022** to **–₹3.72 crore in 2024**, indicating persistent inability of core banking operations to generate positive cash inflows.

VII. SUGGESTIONS

1. It has been found that the Net Profit Ratio remained negative throughout the period (ranging from –23.58% in 2020–21 to –17.80% in 2023–24), therefore, it is suggested that the bank control salary increments, reduce overtime, and limit administrative expenditure to bring the profit ratio to a positive level.
2. It has been found that the Operating Cost Ratio exceeded 100% in all five years, reaching as high as 124.35% in 2023–24, therefore bank should implement strict cost-control measures, including rationalization of administrative expenses and better control over operating overheads.
3. The consistently high Current Ratio, particularly 14.84 in 2022–23, indicates excess idle funds; therefore, it is suggested that the bank invest the surplus liquidity in treasury bills and short-term RBI-approved investments to improve profitability.
4. It has been found that there is decline in the Credit–Deposit Ratio from 0.76 in 2019–20 to 0.64 in 2022–23. Therefore, it is suggested that the bank introduce new small business and education loan schemes to increase credit allocation.
5. It has been found that the Net Cash Flow from Operating Activities remained negative throughout the period, worsening to –₹3.72 crore in 2024, Therefore, it is suggested that the bank introduce new services like mobile banking app registration charges and credit card bill collection services to increase the cash inflows.

VIII. CONCLUSION

The study shows that the co-operative bank faced continuous losses during the study period due to high operating expenses and weak profit performance. Although the bank maintained good liquidity, excess cash was not used effectively to earn income. The credit–deposit ratio declined, indicating that a smaller portion of deposits was used for lending activities. Negative operating cash flows throughout the years highlight difficulties in generating cash from regular banking operations. The study concludes that better cost control, improved loan recovery, and effective use of available funds are necessary to improve profitability and financial stability.

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