

A Study On Risk Towards Working Capital With Reference To City Union Bank

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ABSTARCT

Decisions relating to working capital and short term financing are referred to as working capital management. The purpose of the study is to concentrate on risk towards working capital with City union bank. This study attempted to find out whether CUB have performed well or not. The main objective of the study is to evaluate the risk exposure of the bank in the last five years and to predict the future performance of the bank. For this purpose a balance sheet of five years was analysed using ratio analysis and Z score model. The conclusion is that the risk towards deposits of the bank is much higher when compared to the advances and as a whole the performance and profitability of the banks are satisfactory.

Keywords: Working capital, Risk management and Financial Performance.

INTRODUCTION

Risk management has long been the focus of governments, regulatory authorities and financial institutions. Contemporary economy is basically a credit economy which has been based on the trusts of different entities. By trust, the lender has the ability that based on the repayment of book value and interest in a certain time or period, to receive money, goods or service (Wu, 2002). Government bonds, enterprise loans, consumer loans, credit swaps are typical examples of credit products used under a credit economy. No doubt, a credit economy is born with risks. Default occurs when, for example, the bond issuers could not meet their promised obligations or the quality of the bonds has been changed due to other reasons in the market. Serious breach of credit contracts can lead to the loss of banks and even bankruptcy. The study is to analyse the impact of risk towards working capital of City union bank.

STATEMENT OF THE PROBLEM

The banking sector is one of the core sectors in the economic development of India. So the purpose of the study is to concentrate on financial performance of City union bank. The profitability may be defined as the ability of given investment to earn a return from its use. Profitability is one of the main criteria to judge the extent to which management has been successful in maximizing its profits or minimizing its risks. Profit and risk is the measure which indicates the efficiency and effectiveness with which the business has been operated. Therefore profits and risk are the test of efficiency and a measure of a control to the management and a measure of worth of their investment to its owner and investors, a measure of tax paying capacity and the basis of legislative action to the government. Hence a business enterprises is expected to discharge its obligations to the various segments of society only through profits. Moreover, profitability and risk analysis is essential for project evaluation, for valuation of shares and goodwill, and to assess the dynamism, vitality and growth potential of the bank. This study attempted to find out whether CUB have performed well or not.

OBJECTIVES OF THE STUDY

- To evaluate the risk exposure of the bank in the last five years.
- To analyse the financial performance of the bank.
- To study about the impact of profitability towards performance of the bank.
- To predict the future performance of the bank.

SCOPE OF THE STUDY

This study helps to identify the overall performance of financial for the past five years. To know the business ethics followed by the bank in financial activity in garment sector. The liquidity and activity positions of the firm are analyzed using liquidity and turnover ratio using current liabilities. The solvency position of the bank is also analyzed using ratios.

LIMITATIONS OF THE STUDY

- It is difficult to decide on the proper basis for comparison.
- The price level changes make the interpretations of ratios invalid.
- The differences in the definitions of items in the balance sheet and income statement make the interpretation of ratios difficult.
- The ratios calculated at a point of time are less informative and defective as they suffer from short-term changes.

RESEARCH METHODOLOGY

Research design: Analytical research has been adopted towards analyzing the secondary data.

Data collection: Secondary data was collected for the purpose of the study.

Period of study: The study was carried out from 2015-2019 for the period of five years.

Source of data: The present study is based on the secondary data only. The secondary data were those data collected from the published books, journals, magazines, and the like. To understand the lending and financial performance of the bank the researcher has used only secondary data. The researcher has made adequate care to test the reliability of the data. The relevant data is collected and analyzed for the fulfillment of the objectives of the study.

Data analysis: Data analysis refers to the certain measures along with searching for patterns of relationship that exist among data groups.

The tool used for calculation of financial performance analysis is following Statistical tools were applied to analyze the statistical data collected.

- ❖ Ratio analysis
- ❖ Trend regression

Ratios used for the study: Liquidity risk ratio, Credit risk ratio, Interest rate risk ratio, Capital risk ratio, Current ratio, Absolute liquidity ratio, Ratio of ROI, Ratio of profit to total deposits, Net profit ratio, Ratio of profit on spread, Interest earned ratio, Interest paid ratio, Ratio of return on equity, Ratio of cash to deposits, Credit to deposit ratio, Gap model and Altman's Z-Score Model.

ANALYSIS AND INTERPRETATION**LIQUIDTY RISK**

Liquidity risk	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Loans	17,965.50	21,056.92	23,832.70	27,852.79	32,673.34
Deposits	24,074.96	27,158.13	30,115.74	32,852.62	38,447.95
Ratio	0.75	0.78	0.79	0.85	0.85
Current assets	793.18	1,052.97	1,312.57	1,345.78	1,660.03
Total deposits	24,074.96	27,158.13	30,115.74	32,852.62	38,447.95
Ratio	0.03	0.04	0.04	0.04	0.04

Liquidity risk ratio	22.65	20.00	18.16	20.70	19.68
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Interpretation

The above table shows about the liquidity risk ratio of the bank for the past five years were the ratio was high in the year 2015 at 22.65 and was low in the year 2017 at 18.16. The ratio got declined and there was a gradual growth towards the liquidity of the bank. But further the bank has to increase their liquidity in future period of time which leads to increase in turnover with the bank.

CREDIT RISK RATIO

Credit risk	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Earnings before tax	401.89	451.65	510.22	624.68	720.33
Total asset	27,871.13	31,251.97	35,270.78	39,937.26	45,258.88
Ratio	0.01	0.01	0.01	0.02	0.02
Non Performing assets	335.82	511.98	681.98	856.55	977.05
Total asset	27,871.13	31,251.97	35,270.78	39,937.26	45,258.88
Ratio	0.01	0.02	0.02	0.02	0.02
Credit risk ratio	1.20	0.88	0.75	0.73	0.74

Interpretation

The above table shows about the credit risk ratio of the bank for the past five years were the ratio was high in the year 2015 at 1.20 and was low in the last financial year 2019 at 0.74. The ratio got declined in the last five years as a result the credit risk was increasing.

INTEREST RATE RISK RATIO

Interest rate risk	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Interest sensitive asset	2,698.86	2,944.21	3,173.79	3,402.42	3,767.17
Liability	27,871.14	31,251.97	35,270.78	39,937.24	45,258.89
Interest rate risk ratio	0.10	0.09	0.09	0.09	0.08

Interpretation

The above table shows about the interest rate risk of the bank for the past five years were the ratio was high in the year 2015 at 0.10 and was low in the last financial year 2019 at 0.08. It reveals that the liability was increasing than the interest rate difference (difference between the lending rate and barrowing rate) as a result it may cause a higher risk towards liquidating the funds in future.

CURRENT RATIO

Current ratio	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Current asset	793.18	1,052.97	1,312.57	1,345.78	1,660.03
Current liabilities	931.83	929.29	1,053.84	1,185.51	1,489.27
Current ratio	0.85	1.13	1.25	1.14	1.11

Interpretation

The above table shows about the current ratio of the bank for the past five years were the ratio was low at 0.85 in the year 2015 and was high in the year 2017 at 1.25. But the ratio got declined in the last two years to 1.11. It reveals that the current ratio of the bank is not as per the norms (2:1) in the last five years. For this, the bank has to increase the current asset and has to decrease the floating liabilities to stabilize the liquidity of the bank.

ABSOLUTE LIQUIDITY RATIO

Absolute liquidity ratio	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Cash and marketable securities	1,233.51	1,362.57	1,484.19	1,861.80	1,993.12
Current liabilities	931.83	929.29	1,053.84	1,185.51	1,489.27
Absolute liquidity ratio	1.32	1.47	1.41	1.57	1.34

Interpretation

The above table shows about the absolute liquidity ratio of the bank for the past five years were the ratio was low at 1.32 in the year 2015 and was high in the year 2018 at 1.57. It reveals that the bank is trying to stabilize the liquidity in the last four years and as a result a positive impact is there towards the liquidity of the bank.

RATIO OF ROI

ROI	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Net profit	401.89	451.65	510.22	624.68	720.33
Investment	6,365.27	6,324.45	7,031.45	7,879.11	7,712.20
Ratio of ROI	0.06	0.07	0.07	0.08	0.09

Interpretation

The above table shows about the rate of interest ratio of the bank for the past five years were the ratio was low at 0.06 in the year 2015 and was high in the last financial year at 0.09. It reveals that the profitability of the bank is increasing as per the investment made by them.

RATIO OF PROFIT TO TOTAL DEPOSITS

Profit to total deposits	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Net profit	401.89	451.65	510.22	624.68	720.33
Deposits	24,074.96	27,158.13	30,115.74	32,852.62	38,447.95
Ratio of profit to total deposits	0.02	0.02	0.02	0.02	0.02

Interpretation

The above table shows about the profit to total deposits ratio of the bank for the past five years were the ratio was the same in the last five years which shows that the profitability of the bank is as per the deposits of the bank which is a good sign for the bank.

NET PROFIT RATIO

NP ratio	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Net profit	401.89	451.65	510.22	624.68	720.33
Total income	3,113.85	3,354.19	3,657.74	3,934.52	4,281.56
Net profit ratio	0.13	0.13	0.14	0.16	0.17

Interpretation

The above table shows about the net profit ratio of the bank for the past five years were the ratio was low at 0.13 in the year 2015 and was high at 0.17 in the last financial year which

shows that the profitability of the bank has increased gradually in the last five years based on the income of the bank.

RATIO OF PROFIT ON SPREAD

Ratio of profit on spread	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Net profit	401.89	451.65	510.22	624.68	720.33
Interest earned	2,698.86	2,944.21	3,173.79	3,402.42	3,767.17
Interest paid	1,891.49	1,963.17	1,975.02	1,972.12	2,155.68
Spread	807.37	981.04	1,198.77	1,430.30	1,611.49
Ratio of profit on spread	0.50	0.46	0.43	0.44	0.45

Interpretation

The above table shows about the ratio of profit on spread of the bank for the past five years were the ratio was low at 0.43 in the year 2017 and was high at 0.50 in the last financial year which shows that the profitability of the bank has decreased when compared to 2015 and as a result the bank has to look after the lending rate and barrowing rate to stabilize the profitability and the bank may look after the operating cost to increase the profit as per the spread.

INTEREST EARNED RATIO

Interest earned ratio	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Interest earned	2,698.86	2,944.21	3,173.79	3,402.42	3,767.17
Total income	3,113.85	3,354.19	3,657.74	3,934.52	4,281.56
Interest earned ratio	0.87	0.88	0.87	0.86	0.88

Interpretation

The above table shows about the interest earned ratio of the bank for the past five years were the ratio was low at 0.86 in the year 2018 and was high at 0.88 in the last financial year and the same ratio was in the year 2016 which shows that the income of the bank was increasing as per the interest rate which is a good sign for the bank.

INTEREST PAID RATIO

Interest paid ratio	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Interest paid	1,891.49	1,963.17	1,975.02	1,972.12	2,155.68
Total income	3,113.85	3,354.19	3,657.74	3,934.52	4,281.56
Interest paid ratio	0.61	0.59	0.54	0.50	0.50

Interpretation

The above table shows about the interest paid ratio of the bank for the past five years were the ratio was low at 0.50 in the last financial year 2019 and was high at 0.61 in the year 2015. It shows that the interest paid towards the total income was getting reduced in the last five years which is a good sign towards the bank.

MATURITY GAP MODEL:

2015: The bucket wise distributions of maturity gaps depicts that in the financial year 2015 the bank has been following a positive gap strategy from 1 day to 15-28 days were the short term assets were higher than the liabilities. Meanwhile, the bank is following a negative gap strategy, were long term assets are lesser than the liabilities from 3 months to 5 years.

2016: The bucket wise distributions of maturity gaps depicts that in the financial year 2016 the bank has been following a positive gap strategy with all the time frames which includes from 1 day till 5 years but the bank is following a negative gap strategy were long term assets are lesser than the liabilities over 5 years.

2017: The bucket wise distributions of maturity gaps depicts that in the financial year 2017 the bank has been following a positive gap strategy with all the time frames which includes from 1 day till 5 years but the bank is following a negative gap strategy were long term assets are lesser than the liabilities from 3 years to more than 5 years.

2018: The bucket wise distributions of maturity gaps depicts that in the financial year 2018 the bank has been following a positive gap strategy with all the time frames which includes from 1 day till 5 years but the bank is following a negative gap strategy were long term assets are lesser than the liabilities from 3 years to more than 5 years. And also in between the bank was following a negative strategy towards the bucket between 6 months to 1 year.

2019: The bucket wise distributions of maturity gaps depicts that in the financial year 2019 the bank has been following a positive gap strategy with all the time frames which includes from 1 day 6 months but the bank is following a negative gap strategy were long term assets are lesser than the liabilities from 3 years to more than 5 years. And also in between the bank was following a positive strategy between 1- 3 years and negative strategy towards the bucket between 6 months to 1 year.

ALTMAN’S Z-SCORE MODEL

Particulars	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Working capital	-138.65	123.68	258.73	160.27	170.76
Current asset	793.18	1052.97	1312.57	1345.78	1660.03
Current liabilities	931.83	929.29	1053.84	1185.51	1489.27
Total asset	27871.13	31251.97	35270.78	39937.26	45258.88
X1	0.69	0.49	1.90	0.64	0.64
X2					
	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Net income	384.13	444.69	502.77	592.00	682.85
Equity Share Dividend	65.62	71.78	0.00	19.84	21.96
Tax On Dividend	13.36	20.71	0.00	4.04	4.51
Retained earning	305.15	352.20	502.77	568.12	656.38
Total asset	27871.13	31251.97	35270.78	39937.26	45258.88
X2	0.01	0.01	0.01	0.01	0.01
X3					
X3	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
EBIT	384.13	444.69	502.77	592	682.85
Total asset	27871.13	31251.97	35270.78	39937.26	45258.88
X3	0.01	0.01	0.01	0.01	0.02
X4					
X4	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19

Total book equity	28,255.27	31,696.67	35,773.56	40,529.27	45,941.75
Total liabilities	27,871.14	31,251.97	35,270.78	39,937.24	45,258.89
X4	1.01	1.01	1.01	1.01	1.02
Z Score	5.72	4.41	13.66	5.43	5.44

Interpretation

The above table shows that the banks Z score was at 5.72 in the year 2015, 4.41 in the year 2016, 13.66 in the year 2017, 5.43 in the year 2018 and 5.44 in the year 2019 were the Z score value is greater than 2.99. It reveals that the is in risk free zone for the past five years.

FINDINGS

Liquidity risk ratio: The ratio was high in the year 2015 at 22.65 and was low in the year 2017 at 18.16. The ratio got declined and there was a gradual growth towards the liquidity of the bank.

Credit risk ratio: The ratio was high in the year 2015 at 1.20 and was low in the last financial year 2019 at 0.74. The ratio got declined in the last five years as a result the credit risk was increasing.

Interest rate risk ratio: The liability was increasing than the interest rate difference (difference between the lending rate and barrowing rate) as a result it may cause a higher risk towards liquidating the funds in future.

Current ratio: The ratio was low at 0.85 in the year 2015 and was high in the year 2017 at 1.25. But the ratio got declined in the last two years to 1.11. It reveals that the current ratio of the bank is not as per the norms (2:1) in the last five years.

Absolute liquidity ratio: The bank is trying to stabilize the liquidity in the last four years and as a result a positive impact is there towards the liquidity of the bank.

Ratio of ROI: The ratio was low at 0.06 in the year 2015 and was high in the last financial year at 0.09. It reveals that the profitability of the bank is increasing as per the investment made by them.

Ratio of profit to total deposits: The ratio was the same in the last five years which shows that the profitability of the bank is as per the deposits of the bank which is a good sign for the bank.

Net profit ratio

The ratio was low at 0.13 in the year 2015 and was high at 0.17 in the last financial year which shows that the profitability of the bank has increased gradually in the last five years based on the income of the bank.

Ratio of profit on spread: The ratio was low at 0.43 in the year 2017 and was high at 0.50 in the last financial year which shows that the profitability of the bank has decreased when compared to 2015

Interest earned ratio: The ratio was low at 0.86 in the year 2018 and was high at 0.88 in the last financial year and the same ratio was in the year 2016 which shows that the income of the bank was increasing as per the interest rate which is a good sign for the bank.

Interest paid ratio: The interest paid towards the total income was getting reduced in the last five years which is a good sign towards the bank.

SUGGESTIONS

- The bank has to increase their liquidity in future period of time which leads to increase in turnover with the bank.
- The bank has to increase the current asset and has to decrease the floating liabilities to stabilize the liquidity of the bank.
- The bank has to look after the lending rate and barrowing rate to stabilize the profitability and the bank may look after the operating cost to increase the profit as per the spread.
- The expenses of the bank has to controlled in future period of time.

CONCLUSION

The conclusion is that the risk towards deposits of the bank is much higher when compared to the advances and as a whole the performance and profitability of the banks are satisfactory.

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