FINANCIAL AND OPERATIONAL PERFORMANCE OF KERALA STATE COOPERATIVE BANK: A COMPARATIVE ANALYSIS BEFORE AND AFTER THE MERGER

Project Report Submitted in Partial Fulfilment of the Requirements for the Award of the Degree of **Master of Business Administration**

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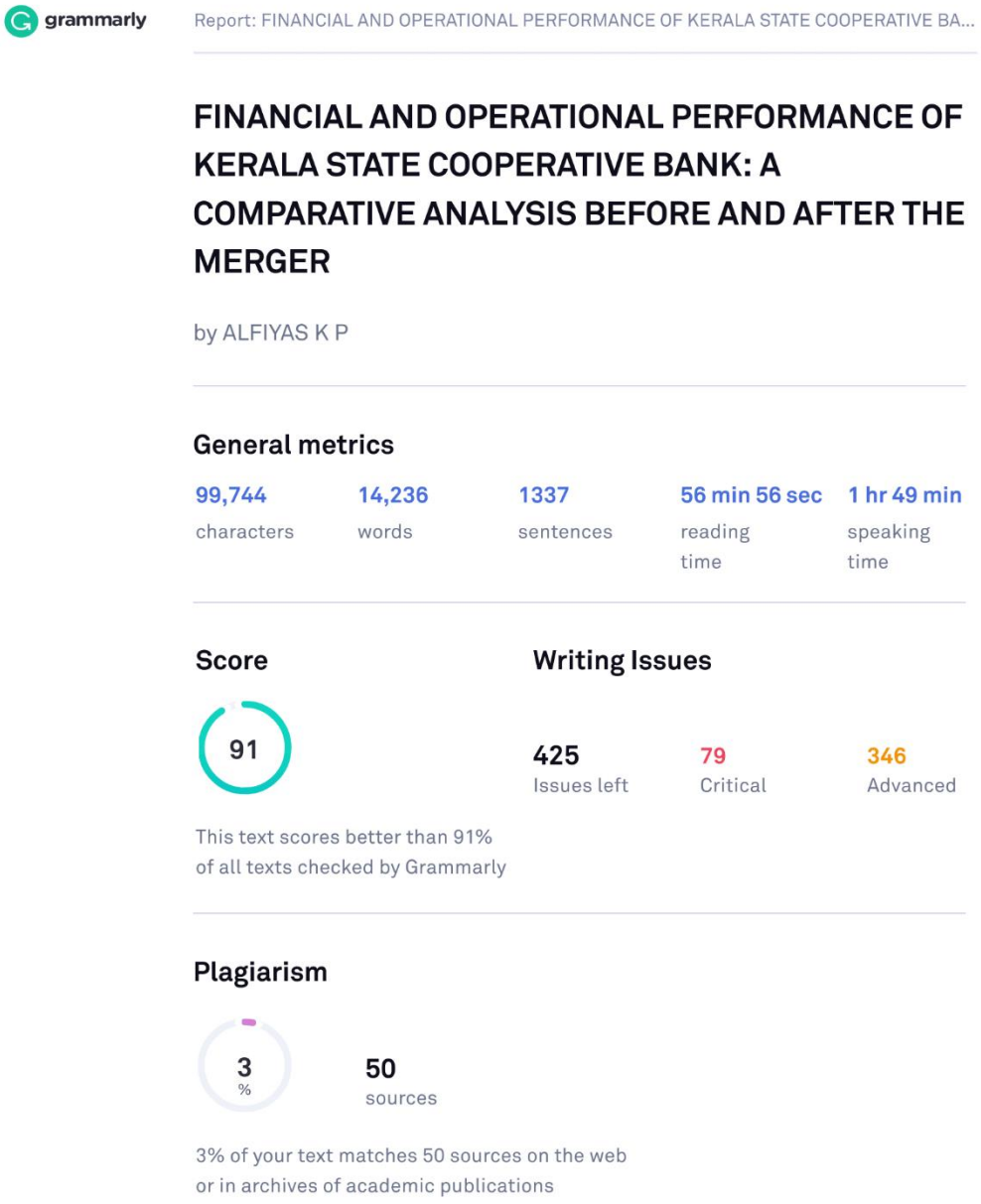

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DECLARATION

I undersigned, hereby declare that the project titled "Financial and Operational Performance Of Kerala State Cooperative Bank: A Comparative Analysis Before And After The Merger" submitted in partial fulfilment for the award of Degree of **Master of Business Administration** of **University of Kerala** is a bonafide record of work done by me under the guidance of **Dr R Vasanthagopal**, **Institute of Management in Kerala**. This report has not previously formed the basis for the award of any degree, diploma, or similar title of any University.

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CERTIFICATE

This is to certify that the report titled "Financial and Operational Performance Of Kerala State Cooperative Bank: A Comparative Analysis Before And After The Merger" being submitted by **ALFIYAS K P**, 5022105010, in partial fulfilment of the requirements for the award of the Degree of Master of Business Administration, is a bonafide record of the project work done by **ALFIYAS K P** of the Institute of Management in Kerala, University of Kerala.

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In completing this project, it's important to acknowledge that despite our best efforts, errors or omissions may have occurred, whether known or unknown. I want to take a moment to address this. Any mistakes or oversights are entirely my responsibility, and I appreciate your support throughout this process.

ALFIYAS K P

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LIST OF ABBREVIATIONS

Abbreviation	Explanation
DCB	District Cooperative Bank
KSCB	Kerala State Cooperative Bank
ROE	Return on Equity
ROI	Return on Investment
ROA	Return on Asset

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Chapter 1
INTRODUCTION

The Kerala State Cooperative Bank, commonly referred to as Kerala Bank, has played a pivotal role in shaping the region's financial landscape. Founded with a resolute mission to provide financial support for developing agriculture, trade, commerce, industry, and various other productive endeavors in rural areas, Kerala Bank has traditionally been a lifeline for small and marginal farmers, agricultural laborers, artisans, and small-scale entrepreneurs. However, a significant transformation occurred in the bank's structure and operational dynamics with the merger of Kerala Bank and 13 district cooperative banks (DCBs). In this comprehensive project, we embark on a journey to thoroughly analyze the financial and operational performance of Kerala Bank through a comparative lens, scrutinizing its operations both before and after the merger.

The cooperative banking sector in Kerala boasts a rich history, with its origins tracing back to the early 20th century. The merger of the DCBs with the Kerala State Cooperative Bank in 2019 represents a pivotal moment in the bank's evolution, rendering it a modern, people-owned, and people-managed financial institution. The impetus behind this merger stemmed from the necessity for a more robust local banking alternative following the merger of the State Bank of Travancore with the State Bank of India in 2017.

Our project employs a dual-pronged approach, encompassing both operational and financial dimensions. We will initially delve into the operational performance of Kerala Bank, dissecting the procedures, terms, conditions, and methods employed for loan disbursal and deposit management. Through this lens, we aim to unravel how the merger has influenced the bank's operational procedures and how they have adapted to cater to the diverse needs of its customer base.

Subsequently, our focus shifts to financial performance analysis, which serves as an essential gauge of the bank's fiscal robustness. We will meticulously examine an array of financial metrics, ratios, and indicators, with the objective of evaluating how Kerala Bank's financial health has evolved both prior to and following the merger. This analysis will provide insights into the bank's profitability, liquidity, capital adequacy,

asset quality, and numerous other key financial facets, ultimately shedding light on its overall financial performance trajectory.

In sum, this project aims to provide a comprehensive understanding of the transformational impact of the merger on the Kerala State Cooperative Bank, offering valuable insights into its financial and operational prowess before and after this significant event in its history.

1.1 Background of the Study

The cooperative banking sector in Kerala has a rich and enduring history rooted in the state's agricultural heritage and the commitment to providing accessible financial services to rural communities. Dating back to the early 20th century, this sector has been a critical driver of economic development in Kerala. A significant transformation occurred in 2019 with the merger of the Kerala State Cooperative Bank (Kerala Bank) and 13 district cooperative banks (DCBs). This merger was prompted by various factors, including the need to fortify the financial stability of cooperative banks following the merger of the State Bank of Travancore with the State Bank of India in 2017. This consolidation altered the operational landscape of Kerala Bank, transitioning it from a localized cooperative entity into a more extensive, integrated cooperative institution serving the entire state. This study delves into the financial and operational repercussions of this merger, aiming to assess how it has influenced Kerala Bank's performance metrics, strategies, and overall effectiveness.

In essence, this study seeks to offer insights into the transformational impact of the merger on the Kerala State Cooperative Bank, providing a comparative analysis of its financial and operational dimensions before and after this momentous event. By scrutinizing the bank's Before and After merger performance, this research contributes to the understanding of cooperative banking dynamics and the broader economic development landscape in Kerala

1.2 Review of Literature

The Kerala State Cooperative Bank (KSCB) is the apex bank of the cooperative sector in Kerala, formed by the merger of 14 district cooperative banks in 2019. The merger aimed to create a strong and viable banking entity capable of serving the rural population and competing with commercial banks. This literature review examines various studies that analyze the financial and operational performance of cooperative

banks in India, emphasizing the need to evaluate KSCB's performance before and after the merger.

Narayana et al. (2011) conducted a study on the Dharmavaram Urban Cooperative Bank in Andhra Pradesh. They employed ratio analysis and statistical tools to evaluate the growth of reserves, deposits, advances, total income, and working capital. The findings emphasized the need to strengthen the recovery procedure, control operating costs, and diversify bank operations, which could be pertinent for assessing KSCB's financial performance and identifying areas for improvement.

Vijay Hooda (2011) focused on the growth and financial performance of district central cooperative banks (DCCBs) in India over a fifteen-year period. Using statistical tools and ratio analysis, the study highlighted an increasing trend in most variables and suggested measures such as introducing innovative schemes, digitalization, and enhancing corporate governance for improvement. Similar analyses could help gauge KSCB's progress post-merger and recommend strategies for further growth.

Agile Sudhir and Shivaji (2012) analyzed DCCBs in Maharashtra, reporting an increase in membership, share capital, deposits, and working capital. However, challenges like increased operating costs and overdue payments were also observed.

Thirupathi (2012) conducted research on DCCBs in India, emphasizing positive trends in various financial indicators while identifying issues like management cost per employee and the need for technology upgrades. These insights could be used to assess KSCB's financial performance before and after the merger, identifying areas requiring attention to enhance operational efficiency.

Ravichandran K and V. Alagu Pandian (2013) analyzed the financial performance of the Visvesvaraya Urban Cooperative Bank using financial indicators and ratios. Although the bank exhibited growth in various aspects, the study suggested measures to further improve its operations. Such analysis could be relevant for assessing KSCB's performance and recommending strategies to enhance financial stability.

Vettriselvan et al (2015) conducted a case study on the financial performance of the Dindigul Urban Cooperative Bank. They identified challenges related to membership growth, working capital, fund management, and customer relationships.

These findings could be utilized to assess KSCB's efficiency in managing funds and maintaining customer satisfaction post-merger.

Bharati R (2015) conducted a comparative study analyzing the financial performance of cooperative banks in Bijapur District, Karnataka. The study highlighted issues like high operating costs, improper loan policies, increasing overdue payments, and political interference. Such insights could be relevant for evaluating KSCB's performance and addressing similar challenges.

Franco and Karpagavalli (2015) conducted a study comparing the growth and financial performance of DCCBs in Tamil Nadu and Kerala States. They noted an increase in branches, deposits, borrowings, working capital, and management costs for both states. This comparative analysis could help in understanding KSCB's performance in comparison to other cooperative banks.

Ramesh Chanderand Jai Kishan Chandel (2015) evaluated the financial performance and viability of cooperative banks, specifically four DCCBs in Haryana. Their study aimed to identify the financial performance and efficiency of these banks operating in the Hisar division in Haryana, comprising Hisar, Bhiwani, Fatehabad, and Sirsa.

Sanjay Das (2016) conducted an operational and financial performance analysis of the Kerala Cooperative Apex Bank. The study highlighted the consistent profitability of the bank over the years, emphasizing its role in serving the common people.

Narayan (2016) studied the financial performance of the Vijayapur District Cooperative Bank, indicating positive growth in most parameters except loans and advances and profit in two years. This study could provide valuable insights into the performance of individual district cooperative banks and their contribution to the merged KSCB.

Tejani Rachana (2017) assessed the financial performance of rural cooperative banks in Gujarat. The study indicated that there is a significant opportunity for commercial banks to explore rural unbanked areas, as most rural cooperative institutions, including Regional Rural Banks (RRBs) and Primary Agricultural Credit Societies (PACS), are running at a loss. Cooperative banks should seize this opportunity rather than viewing it solely as a social obligation.

Thiruypathi Kanchu (2017) evaluated the financial performance of district central cooperative banks (DCCBs) in India using various statistical techniques. The analysis revealed a negative trend in the growth of the number of DCCBs and their branches up to a certain period, followed by a negligible positive trend. Meanwhile, membership in cooperatives showed a consistent increase.

Vijay Hooda (2017) conducted a study comparing the performance of State Cooperative Banks (St CBs) with Scheduled Commercial Banks (SCBs) using three financial ratios. The study emphasized the importance of both types of banks for financial inclusion and socio-economic development in India, highlighting the distinct objectives and roles they play in the banking sector.

Sanjeevi and P. Manoj Babu (2017) focused on the financial performance and operational efficiency of scheduled and non-scheduled urban cooperative banks in India. The study showed improvement in financial performance for scheduled banks but a fluctuating trend for non-scheduled banks. This analysis could be relevant for understanding the performance of different types of cooperative banks and their impact on KSCB.

Sarthak Gaurav and Jisha Krishnan (2017) investigated the efficiency of DCCBs in India using stochastic frontier and data envelopment analysis. The study revealed opportunities for improvement in management efficiency, technology adoption, and overall performance in the cooperative banking sector. This analysis could provide insights into how KSCB can enhance its operational efficiency post-merger.

Dola Singh (2018) appraised the financial performance of Himachal Pradesh State Cooperative Bank, analyzing liquidity, income, assets, and investments. The findings underscored the need to use resources efficiently to increase return on assets, which could be applicable to KSCB's post-merger evaluation.

Muthumeena and Murugaboopathy (2018) analyzed the financial performance of DCCBs in specific districts of Tamil Nadu, recommending maintaining the Credit Deposit Ratio below 70% to increase overall profitability. This insight could be valuable for assessing KSCB's lending practices and profitability post-merger.

Raihana V and N. Santhoshkumar (2018) studied the financial performance of the Manjeri Cooperative Urban Bank in Kerala, pointing out issues like underutilization

of deposits for lending purposes and increasing non-performing assets (NPA). These findings could be relevant for assessing KSCB's performance and asset quality post-merger.

Jyoti Gupta and Suman Jain (2018) conducted a study on cooperative banks in India, particularly focusing on lending practices. They concluded that the financial performance of Urban Cooperative Banks (UCBs) improved in 2010-11, though some UCBs reported negative Capital to Risk-Weighted Assets Ratio (CRAR). Within the rural cooperative sector, State Cooperative Banks (St CBs) and District Central Cooperative Banks (DCCBs) reported profits, but the basic level institutions, i.e., Primary Agricultural Credit Societies (PACS), continued incurring significant losses.

Muniraja Sekhar and B. Sudhir (2018) emphasized the importance of core banking solutions in urban cooperative banks. They concluded that technology-Laggard cooperative banks should invest in IT to attract new, young customers effectively, considering the changing economic and age composition of their customer base.

Chinmaya Kumar et al. (2019) researched the finance flow efficacy of seventeen DCCBs in Odisha, ranking the banks based on various parameters. The study recommended specific supervisory norms for cooperative banks to enhance control. This could be relevant for assessing KSCB's governance and supervision post-merger.

Unnithan and Somasundaram (2019) focused on the efficiency of UCBs in Kerala, highlighting challenges such as resource mobilization ability, high operating costs, lenient recovery mechanisms, and government interference. Such insights could be applicable to assess KSCB's efficiency and management post-merger.

Sandip and Das (2020) conducted research on the association between management efficiency and profitability of scheduled urban cooperative banks in India. They found a positive relationship between non-interest income and profitability, which could be relevant for assessing KSCB's management efficiency and profitability post-merger.

Bhoomi Bhakta (2020) appraised the financial performance of Surat District Cooperative Bank, emphasizing its high liquidity, solvency, and profitability. Such insights could be valuable for evaluating KSCB's liquidity and financial stability after the merger.

1.3 Research Gap

This study seeks to bridge critical research gaps within the existing literature on cooperative banks in India. Specifically, it endeavors to address the dearth of comprehensive comparative investigations into the before and after effects of mergers involving cooperative banks, with a focused lens on Kerala Bank's post-merger transformation. Furthermore, it aims to contribute to the limited body of research evaluating the actual impact of mergers on cooperative bank performance after consolidation, shedding light on whether these mergers have achieved their intended objectives. Notably, this research directs attention to the often-overlooked cooperative banking sector, particularly at the district and state levels, which has received less scrutiny compared to commercial banks. By honing in on Kerala, a state with a unique cooperative banking history, this study underscores the importance of considering local context and regional factors in analyzing cooperative bank performance. Lastly, adopting a comprehensive approach that integrates both financial and operational dimensions, this research aims to provide a holistic view of Kerala Bank's pre and post-merger performance, offering valuable insights into the dynamics of the cooperative banking sector, merger outcomes, and their broader implications for cooperative banks across India.

1.4 Statement of the Problem

The merger of Kerala State Cooperative Banks (KSCBs) is a major event in the history of the cooperative banking sector in Kerala. The merger is expected to improve the financial and operational performance of the banks by reducing operational costs, increasing efficiency, and improving risk management. However, there is no clear evidence to support these expectations.

The purpose of this study is to analyse the financial and operational performance of KSCBs before and after the merger. The study will use a comparative approach to assess the impact of the merger on the banks' performance. The study will also identify the factors that contributed to the improvement (or lack of improvement) in the banks' performance.

The findings of this study will be useful for policymakers, regulators, and stakeholders in the cooperative banking sector. The findings will also help to inform

future mergers and acquisitions in the sector. the study will use a variety of data sources, including financial statements, performance reports.

1.5 Scope and Significance of the Study

The scope of this Study encompasses a detailed evaluation of the Kerala State Cooperative Bank (Kerala Bank), one of the key cooperative banking institutions in the state of Kerala, India. The study's focus extends to both the financial and operational dimensions of the bank's performance, allowing for a holistic assessment of its transformation resulting from the merger with 13 district cooperative banks (DCBs)

Within the financial dimension, this study involves a rigorous examination of Kerala Bank's financial statements, including income statements, balance sheets, and cash flow statements. Key financial metrics, such as profitability, liquidity, solvency, and efficiency ratios, will be scrutinized to gain insights into the bank's financial health. This analysis will cover the fiscal years 2016-17, 2017-18, and 2018-19 for the pre-merger period and 2019-20, 2020-21, and 2021-22 for the post-merger period.

In tandem with the financial assessment, the study delves into the operational aspects of Kerala Bank's functioning. This includes an exploration of the bank's loan disbursement processes, deposit management methods, and operational efficiency. The goal is to identify any significant changes in the bank's operational procedures and efficiencies as a result of the merger.

The core of this study lies in its comparative analysis, where we assess and juxtapose the financial and operational performance of Kerala Bank before and after the merger. This comparison aims to unearth differences, trends, and improvements that have occurred because of this transformative event.

Based on the findings of the analysis, the study will present implications arising from the merger, including strengths, weaknesses, opportunities, and threats faced by Kerala Bank. Additionally, recommendations will be provided to guide future decision-making for the bank and potentially offer insights for cooperative banking institutions considering similar mergers.

The scope of this study is not limited solely to financial metrics but extends to operational dynamics, thus providing a comprehensive view of the transformational impact of the merger on the Kerala State Cooperative Bank

1.6 Objectives of the Study

1. To assess the liquidity and long-term solvency of KSCB before and after the merger
2. To assess the efficiency and profitability of KSCB before after the merger
3. To assess the operational performance of KSCB before and after the merger

1.7 Research Methodology

The methodology employed in this research project plays a pivotal role in organizing and facilitating the comprehensive analysis of the financial and operational performance of the Kerala State Cooperative Bank (Kerala Bank) before and after its merger with 13 district cooperative banks (DCBs). This section outlines the key aspects of our research design, data collection, and analytical techniques.

1. ***Research Design:*** The study primarily relies on secondary data obtained from multiple sources. To assess the financial and operational performance of Kerala Bank, we collected data from the annual reports of the Kerala State Cooperative Bank for the fiscal years 2016-17, 2017-18, and 2018-19, representing the period before the merger. Subsequently, we gathered data from Kerala Bank's annual reports for the fiscal years 2019-20, 2020-21, and 2021-22, representing the post-merger period. This comprehensive dataset allows for a robust comparative analysis of the bank's performance.
2. ***Nature of Data:*** Our research predominantly relies on secondary data sources. These sources include annual reports, financial statements, and operational reports provided by the Kerala State Cooperative Bank. The data extracted from these reports is crucial in evaluating the bank's financial health and operational efficiency.
3. ***Tools Applied***: To thoroughly analyze the collected data, we employ statistical and financial analysis techniques. These techniques include Ratio Analysis, which enables us to compute and interpret the relationships between various financial items within the bank's statements. Ratio Analysis serves as a vital tool in assessing the financial position, liquidity, profitability, and other critical performance indicators of Kerala Bank both before and after the merger.
4. ***Comparative Analysis***: A key aspect of our methodology involves conducting a comparative analysis. This analysis allows us to juxtapose the financial and operational performance of Kerala Bank before and after the merger. By identifying

differences, trends, and improvements in the bank's performance metrics, we gain insights into the impact of the merger on the institution.

5. ***Findings and Implications***: The culmination of our research methodology leads to the presentation of findings and the discussion of their implications. We will identify strengths, weaknesses, opportunities, and threats arising from the merger. These findings will serve as the basis for providing recommendations that can guide future decision-making for Kerala Bank and potentially inform similar endeavors in the cooperative banking sector.

In essence, our methodology encompasses a structured approach to collecting, analyzing, and interpreting data to comprehensively assess the financial and operational performance of Kerala Bank before and after the merger, ultimately contributing to an informed understanding of the bank's evolution in response to this significant event.

1.8 Limitations of the Study

While this study aims to provide valuable insights into the financial and operational performance of the Kerala State Cooperative Bank (Kerala Bank) before and after its merger with 13 district cooperative banks (DCBs), it is essential to acknowledge certain limitations that may impact the comprehensiveness and depth of the analysis:

1. Limited Data Duration: The study relies on financial and operational data spanning three years before and three years after the merger. While this timeframe offers valuable insights, it may be insufficient to capture long-term trends and patterns that could emerge over a more extended period. A more extended data collection period might provide a more comprehensive understanding of the bank's performance dynamics.
2. Data Source Reliance: The primary source of data for this study is the annual reports of Kerala Bank. While these reports offer a comprehensive overview of the bank's performance, they may not encompass all aspects of its operations. Moreover, the reliability of the data depends on the accuracy and transparency of the reports themselves.
3. External Factors: The study may not account for external economic, regulatory, or market factors that could influence the bank's performance. These external factors, such as changes in interest rates, government policies, or economic fluctuations,

could impact the bank's financial and operational metrics independently of the merger.

4. Qualitative Aspects: While the study primarily focuses on quantitative aspects, it may not capture qualitative factors that could be equally relevant to understanding the bank's performance. Factors like customer satisfaction, employee morale, and changes in organizational culture may not be fully assessed through financial and operational data alone.
5. Generalizability: The findings and conclusions drawn from this study will be specific to the Kerala State Cooperative Bank and may not be directly applicable to other cooperative banks or financial institutions. Each merger is unique, and the impact can vary depending on various contextual factors.
6. Data Quality: The accuracy and completeness of the data collected depend on the quality of the annual reports and other secondary sources. Any errors or omissions in the data could impact the reliability of the analysis.

Despite these limitations, this study endeavors to provide a valuable and insightful analysis of Kerala Bank's financial and operational performance, offering a basis for understanding the effects of the merger and its implications for the bank and the broader cooperative banking sector.

1.9 Organization of the Report

Chapter 1: Introduction

Chapter 2: Theoretical Framework

Chapter 3: Data Analysis

Chapter 4: Summary of Findings, Conclusion and Suggestions

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Chapter 2
THEORETICAL FRAMEWORK

The cooperative banking movement originated in response to socioeconomic disparities during the industrial revolution in England. It aimed to address the hardships faced by the working class.

In India, cooperative credit societies emerged as a response to exploitative moneylenders and economic disruption caused by British colonial rule. The formal cooperative movement in India began in 1904 with the passage of the Co-operative Credit Societies Act. This act marked the inception of cooperatives in India but had limitations that were later addressed. Cooperative Societies Act of 1912 expanded the cooperative movement's scope and introduced crucial changes. It allowed for non-credit societies, categorized societies based on liability, and restricted the use of the term "co-operative" to societies under this act.

The cooperative movement in India has grown extensively, serving diverse needs across various sectors. In 1952, the Reserve Bank of India began inspecting State and Central Cooperative Banks, bringing them under regulatory oversight. The Banking Laws (applicable to cooperative societies) Act of 1965 extended the statutory control of the Reserve Bank of India and other banking regulations to Cooperative Banks.

2.1Banking in India

Banking has played a pivotal role in the economic development and prosperity of nations, and this significance is particularly pronounced in developing countries like India. Banks, beyond being custodians of money, are engines for generating wealth and serve as the crucial bridge between those who require financial resources and those who have savings but may not utilize them productively. Moreover, banks contribute significantly to rural development, poverty alleviation, and various social initiatives such as healthcare and education.

The history of banking in India dates back to ancient times when the practice of borrowing and lending money was already prevalent. However, these early banking systems primarily operated with a profit motive and focused on providing security to individuals seeking financial services. They lacked the purpose-driven nature that characterizes modern banking.

The development of banking in India is marked by several significant milestones. The East India Company's unification of currency, the establishment of the General Bank of India in 1786, and the enactment of key banking laws like the Imperial Bank of India Act of 1920 and the Reserve Bank of India Act of 1934 have all contributed to the evolution of banking in the country. Over time, various types of banks emerged in India, including commercial banks, exchange banks, and industrial banks, each defined by their specific functions, ownership structures, and management models.

The concept of cooperative banks in India emerged as a distinct category in 1904 when the first Co-operative Credit Societies Act was enacted. These banks were established with the primary objective of providing credit, particularly in rural areas, to those in need. Subsequently, the Co-operative Credit Societies Act of 1912 expanded the scope of cooperative banking, enabling the creation of Central Co-operative Banks and non-credit societies.

However, the development of urban cooperative credit societies was limited until 1915, when the Maclagan Committee highlighted their potential for providing financial assistance to urban populations. A significant boost to cooperative banking, especially in urban areas, came with the Bombay Co-operative Societies Act of 1925.

In 1952, a turning point occurred when the Reserve Bank of India initiated inspections of State and Central Cooperative Banks, signifying the need for regulatory oversight. The Banking Laws (applicable to cooperative societies) Act of 1965 extended various provisions of the Banking Regulation Act of 1949 to cooperative banks, thereby making statutory control by the Reserve Bank of India a necessity.

Today, the cooperative banking system in India comprises three tiers: State Apex Banks or State Co-operative Banks, Central Banks or District Co-operative Banks, and Primary Co-operative Banks. Primary Co-operative Banks, as defined by the Banking Regulation Act, are non-agricultural credit cooperative societies that are directly regulated by the Reserve Bank of India.

2.2 Primary Cooperative Banks in Kerala

The cooperative banking landscape in Kerala operates under the purview of the Kerala Cooperative Societies Act of 1969, which governs cooperative societies in the state. Within this extensive network, Primary Cooperative Banks in Kerala, as defined by the Banking Regulation Act, are a significant component.

Primary Cooperative Banks in Kerala are categorized based on their working capital into four classes: Class I, Class II, Class III, and Class IV. Each class corresponds to a different range of working capital and serves a specific demographic of customers. Banks have open membership policies, allowing eligible individuals residing or employed in the bank's operational area to become members. Membership comes in various classes, with 'A' class members having voting rights and dividends, 'C' class members having limited rights, and, in some cases, 'B' class shares facilitating state participation in share capital.

The primary objectives of these banks revolve around mobilizing deposits from middle and low-income groups, providing credit on reasonable terms, and supporting industrial development by financing individuals, artisans, and small businesses in urban and semi-urban areas. Their mission is to promote thrift, provide credit, and deliver essential banking services to customers.

2.3 History of Kerala State Cooperative Bank and Formation of Kerala Bank

The cooperative banking landscape in Kerala has a rich history dating back to the early 20th century. It was in 1914 when the then Maharaja of Travancore, His Highness Moolam Thirunal Ramavarma, introduced the 'Travancore Cooperative Societies Regulation Act,' a proclamation that would shape the future of the state. Under this act, the first cooperative society, the 'Trivandrum Central Cooperative Bank,' was established in 1915, setting the stage for a cooperative banking movement that would serve the needs of the people.

The Travancore Central Cooperative Bank, as it was initially known, commenced operations on 18th January 1916, with a share capital of Rs.1.00 lakh, comprising 1000 shares of Rs.100 each. Its jurisdiction covered the entire old state of Travancore. The bank's early years were marked by challenges, but by 1933, it had grown its working capital to Rs.21.97 lakhs and deposits to Rs.19.44 lakhs. However, the financial crisis of the 1930s had adverse effects on the bank's performance, prompting the government to appoint an Advisory Committee in 1942. This committee recommended certain solutions and restrictions, including limiting the bank's lending activities to regional cooperative societies. It also advised gradual membership expansion.

In the neighboring Cochin region, the Cochin Cooperative Societies Act of 1913 played a significant role in fostering the cooperative movement. This act led to the emergence of numerous primary societies, and a central financing agency was needed. Sri.P. Gayatrinath Iyer, the first Registrar of the state, facilitated the formation of the Cochin Central Cooperative Bank in 1918. However, there were still two central banks operating in the state after the merger of Travancore and Cochin into Thiru-Cochi in 1949.

The need for a single state cooperative bank became evident when the Reserve Bank of India mandated that agricultural loans be granted only through such an entity. After discussions and with the consent of both central cooperative banks, the Thiruvananthapuram Central Cooperative Bank transformed into the Thiru-Cochi State Cooperative Bank, while the Cochin Central Cooperative Bank continued as an affiliate. Following the reorganization of states in 1956, which included the integration of Kasarcode, Malabar, and Cochi into Kerala, the Thiru-Cochi State Cooperative Bank was renamed the Kerala State Cooperative Bank. This bank became the apex cooperative bank with jurisdiction over the entire state of Kerala. By then, it boasted a capital of Rs. 42.9 lakhs, Rs. 30.33 lakhs in deposits, and Rs. 21.66 lakhs in loans. Its operations commenced in 1956.

To better serve the state, Kerala State Cooperative Bank began opening branches in various districts, starting with Alappuzha, Kollam, and Kottayam. This expansion allowed the bank to gain wider acceptance among the general public. However, it also raised the need for decentralized governance. In response to this demand, Kerala State Cooperative Bank converted its branches into District Cooperative Banks, each with its own governing power. These District Cooperative Banks became members and shareholders of the Kerala State Cooperative Bank, giving rise to a federal cooperative banking structure. At this level, Kerala State Cooperative Bank operated as the apex bank, District Cooperative Banks governed at the district level, and primary Cooperative Banks operated at the third level. District Cooperative Banks were primarily comprised of primary cooperative societies.

In addition to its district-level presence, Kerala State Cooperative Bank established numerous branches across the state, except in Kottayam and Kasargod districts. Its branch network encompassed various regions, including

Thiruvananthapuram, Alappuzha, Kollam, Pathanamthitta, Ernakulam, Thrissur, Palakkad, Idukki, Kozhikode, Kannur, Malappuram, and Wayanad.

In March 1966, the bank came under the supervision of the Reserve Bank of India, and in July of the same year, it was approved as a scheduled state cooperative bank. Notably, it became the first scheduled apex cooperative bank in the cooperative banking sector in India. In 1972, it received approval to engage in banking business from the RBI. In 1987, it constructed the impressive 'COBANK TOWER' near Palayam in Thiruvananthapuram, housing its Head Office Branch.

The Kerala State Cooperative Bank's success can be attributed to its unique administrative setup. The bank's management primarily relies on three administrative bodies: the General Body, the Board of Directors, and the Executive Committee. These bodies work together to ensure the bank's proper functioning and decision-making. The bank has also focused on human resources, maintaining a hierarchical order in its staff structure. It offers training and development programs for its employees, ensuring they have up-to-date knowledge in their respective areas of expertise.

Furthermore, Kerala State Cooperative Bank serves as a crucial financial institution in the state, providing a wide range of banking services to society. These services include loans for housing, consumer loans, vehicle loans, agricultural loans, and more. The bank also extends support to apex institutions, further contributing to the economic well-being of the region. In addition to its financial services, the bank places a strong emphasis on customer satisfaction and has implemented a comprehensive customer policy. This policy ensures that customers are treated fairly, honestly, and with respect, with their privacy and grievances taken into consideration.

In 2019, a transformative development occurred when 14 District Cooperative Banks merged with the Kerala State Cooperative Bank to form Kerala Bank. This amalgamation aimed to create a more robust and unified cooperative banking entity, better equipped to serve the financial needs of the people of Kerala. Today, Kerala State Cooperative Bank and Kerala Bank operate as a consolidated force, fostering economic development and the well-being of Kerala's residents, while continuing to honor the historical legacy of the cooperative movement that began in the early 20th century.

2.4 Performance of KSCB

Operational performance refers to the effectiveness and efficiency with which an organization carries out its day-to-day activities and functions to achieve its goals and objectives. It encompasses various aspects of an organization's operations, including its processes, systems, and resources, and is a critical measure of its ability to deliver products or services consistently, meet customer expectations, and generate value for stakeholders. In the context of Kerala State Co-operative Service Bank (KSSB), operational performance relates to how efficiently and effectively the bank manages its operations, serves its customers, and contributes to the overall economic development and financial well-being of the region it operates in

2.4.1 Branch Expansion

Kerala Bank offers a comprehensive range. Kerala Bank boasts an extensive network of 823 branches strategically positioned across all 14 districts of the state. This extensive presence is further fortified by seven regional offices, a testament to the bank's commitment to catering to the diverse financial needs of its clientele. Not stopping there, the bank has enlisted 3,500 business correspondents who serve as the bridge to doorstep banking services in the remote corners of Kerala. As part of its strategic growth plan, the bank has charted out a roadmap for opening additional branches and ATMs in the upcoming years, aiming to enhance accessibility and coverage. Table 2.1 Represents the number of branches before and after the merger.

Table 2.1: Number of Branches

Year	Number of Branches
Before Merger	
2016-17	20
2017-18	20
2018-19	20
After Merger	
2019-20	769
2020-21	769
2021-22	823

Source: Secondary Data

2.4.2 Loan Schemes

Kerala Bank offers a wide variety of loan schemes designed to meet the distinct needs of various customer segments. Noteworthy among these is the "Express Gold Loan," a quick and straightforward loan option secured against gold ornaments or coins. This scheme offers loan amounts spanning from ₹2 lakh to ₹40 lakh, with the interest rate starting as low as 8.5% per annum. The bank's "Personal Loan" addresses diverse personal needs such as weddings, education, medical expenses, and travel, offering loan amounts from ₹10,000 to ₹10 lakh, and an attractive starting interest rate of 9% per annum. The "Housing Loan" scheme supports individuals in buying, constructing, renovating, or repairing residential properties, with loans ranging from ₹10 lakh to ₹30 lakh, featuring a competitive interest rate starting at 8% per annum. For micro, small, and medium enterprises (MSMEs), the "MSME Loan" offers financing ranging from ₹20 lakh to one crore, with a starting interest rate of 9.5% per annum. Lastly, the "Pravasi Kiran" loan empowers non-resident Keralites to embark on or expand their businesses in Kerala, offering loans spanning from ₹24 lakh to ₹5 crore, with an interest rate commencing at 10% per annum.

2.4.3 Documentation

To avail of any loan facility from Kerala Bank, borrowers are required to provide a suite of documents, ensuring transparency and adherence to regulatory norms. This documentation checklist includes the standard application form, identity proof (e.g., Aadhaar card, PAN card, passport, voter ID card), address proof (e.g., electricity bill, telephone bill, ration card), income proof (e.g., salary slip, income tax return, bank statement), property documents (such as title deed, sale agreement, valuation report, for housing loans), business documents (such as registration certificate, GST certificate, balance sheet, profit and loss account, for MSME loans), and a project report or business plan for Pravasi Kiran loans.

2.4.4 Processing Fees

Kerala Bank assesses a nominal processing fee for its loans, with the rate contingent on the type and quantum of the loan. This fee structure ranges from 0.25% to 1% of the loan amount, ensuring that borrowers can access financial services without incurring exorbitant upfront costs.

2.4.5 Security for Loans

Certain loans within Kerala Bank's portfolio, including housing loans, MSME loans, and Pravasi Kiran loans, necessitate collateral security. This collateral can encompass various assets such as land, buildings, machinery, equipment, stocks, or deposits. The value of the collateral must meet or exceed the loan amount, providing the bank with a level of assurance.

2.4.6 Margin Money

Kerala Bank mandates margin money for select loans, notably housing and MSME loans. Margin money represents the borrower's financial contribution to the overall project or property cost and ranges from 10% to 25% of the total expenditure.

2.4.7 Rate of Interest

Kerala Bank prides itself on offering competitive and transparent interest rates for its loan products. These rates are linked to the bank's base rate, which currently stands at 8% per annum. The bank's commitment to clear communication ensures that borrowers understand the interest rate structure and can make informed financial decisions.

2.4.8 Loan Amounts

Recognizing that the financial requirements of its customers are diverse, Kerala Bank provides flexible loan amounts, ranging from as low as ₹10,000 to as high as five crore. This wide range ensures that individuals and businesses can secure the financing they need, aligning with their specific circumstances and eligibility criteria

2.4.9 Repayment Modes

Kerala Bank understands the importance of convenient repayment options. To accommodate its diverse customer base, the bank offers a plethora of choices. These include cash deposits at branches or ATMs, cheque payments at branches or designated drop boxes, electronic transfers via Internet banking or mobile banking, standing instructions, ECS mandates, and even debit card swipes at point-of-sale (POS) terminals.

2.4.10 Financial Inclusion Initiatives

Kerala Bank is deeply committed to promoting financial inclusion and literacy across all strata of society, with particular emphasis on the rural and urban poor, women, youth,

senior citizens, and differently-abled individuals. A comprehensive suite of initiatives has been rolled out to achieve these goals, including:

1. PMJDY (Pradhan Mantri Jan Dhan Yojana): Over 4 lakh accounts have been opened under this scheme, offering zero-balance accounts and an overdraft facility of ₹10,000

2. PMJJBY (Pradhan Mantri Jeevan Jyoti Bima Yojana): A life insurance scheme for PMJDY account holders, featuring a premium of ₹330 per annum and a coverage of ₹2 lakh.

3. PMSBY (Pradhan Mantri Suraksha Bima Yojana): An accident insurance scheme for PMJDY account holders, with an annual premium of ₹12 and coverage of ₹2 lakh.

4. APY (Atal Pension Yojana): A pension scheme for unorganized sector workers, with a minimum contribution of ₹42 per month and a maximum pension of ₹5,000 per month.

5. PMMY (Pradhan Mantri Mudra Yojana): A loan scheme supporting micro-enterprises involved in income-generating activities, offering loans up to ₹10 lakh without collateral security or processing fees.

6. PMFBY (Pradhan Mantri Fasal Bima Yojana): A crop insurance scheme for farmers, featuring a low premium rate and high coverage ratio.

7. PMKSY (Pradhan Mantri Krishi Sinchayee Yojana): A scheme supporting irrigation and water conservation in agriculture, providing loans up to ₹10 lakh and an interest subsidy of 3% per annum.

8. PMEGP (Prime Minister's Employment Generation Programme): A program generating self-employment opportunities through micro-enterprises, offering subsidies ranging from 15% to 35% of the project cost and loans up to ₹25 lakh.

9. PMKVY (Pradhan Mantri Kaushal Vikas Yojana): A skill development initiative for youth, featuring a 100% training fee subsidy and placement assistance of ₹10,000.

2.4.11 Recovery Performance

Even in the face of the formidable challenges posed by the COVID-19 pandemic, Kerala Bank demonstrated its resilience and dedication by enhancing its recovery performance in the fiscal year 2020-21. A significant achievement was the recovery of ₹2,800 crore from non-performing assets (NPAs), a feat that contributed to a substantial reduction in the gross NPA ratio from a worrisome 30% to a much-improved 12%. The

bank adopted a multifaceted approach to preserve its asset quality and enhance recoveries, including:

1. One-Time Settlement (OTS) Scheme: Offering eligible borrowers a waiver of interest and penalty charges as an incentive for timely repayment.
2. Special Recovery Drive (SRD): Initiating a targeted drive for overdue accounts, with attractive incentives for both staff and customers.
3. Legal Action: Pursuing legal measures against willful defaulters and fraudsters to recover dues.
4. Asset Reconstruction Company (ARC) Mechanism: Utilizing an ARC mechanism for the sale of stressed assets, streamlining the recovery process.
5. Credit Monitoring and Risk Management: Implementing a robust credit monitoring and risk management system to identify and address potential NPAs at an early stage, preventing further deterioration of assets.

2.4.12 Financial Position

The Kerala State Co-operative Bank (KSCB) has exhibited a dynamic financial performance over the years, showcasing its proactive approach to fortifying its financial position. KSCB's strategic increase in borrowings signals an intentional effort to secure external funding sources, potentially to support lending activities, fuel expansion plans, or seize growth opportunities in the financial sector.

The bank's consistent expansion of working capital demonstrates effective management of its current assets and liabilities, ensuring the sustainability of daily operations and overall financial stability. In conjunction with its continued lending activities, this highlights KSCB's commitment to providing essential financial support to individuals and businesses, contributing significantly to its revenue generation. The diversification of investments in KSCB's portfolio further exemplifies its comprehensive approach to income generation and financial security, aligning seamlessly with its overarching financial strategy.

Despite fluctuations in profitability, which may be influenced by operational performance, economic conditions, or strategic shifts, the bank's efforts to manage and reduce non-performing assets (NPAs) are evident, with a gradual decline in both gross and net NPAs over time. This reflects KSCB's dedication to maintaining a healthy asset quality portfolio, reinforcing its position as a cornerstone institution serving the

financial needs of the community. This prudent financial management strategy positions the bank to remain resilient in the face of economic challenges. Additionally, KSCB's substantial growth in deposits underscores its reputation as a trusted financial institution within the community, solidifying its role in meeting the financial needs of individuals and businesses. Table 2.2 Represents the Progress in Kerala Bank's Financial Performance in the Last 5 Years

Table 2.2: Progress in Financial Performance Of KSCB

Particulars	31/03/2018	31/03/2019	31/03/2020	31/03/2021	31/03/2022
Share Capital	678.74	678.74	1652.09	2045.19	2042.08
Reserve and Provisions	405.45	293.48	744.22	741.78	816.5
Deposits	8005.97	8945.78	61037.59	66731.61	69907.12
Borrowings	3238.02	3532.54	5996.05	7901.92	10574.82
Working Capital	11903.94	13119.71	68692.28	76718.84	82604.25
Loans and Advances	5561.02	6487.74	40156.82	39664.93	40950.04
Investments	5729.32	5413.93	28104.35	34494.49	38126.55
Profit	100.35	224.88	374.75	61.99	77.24
Gross NPA	327.74	200.92	6126.55	5738.6	5466.6
Net NPA	86.01	92.15	4734.49	4133.62	3691.27

Source: Secondary Data

2.4.13 Borrowings

Kerala Bank's borrowing strategy is primarily centered on addressing the financial resource gap it faces. To achieve this goal, the bank has forged a significant partnership with the National Bank for Agriculture and Rural Development (NABARD), which serves as its primary source of borrowed funds. These borrowed funds are primarily earmarked for two key purposes. Firstly, they are directed towards facilitating lending in the Priority Sector. This commitment aligns with Kerala Bank's mission to support and uplift critical sectors of the economy, including agriculture, small-scale industries, and micro-enterprises, all of which are vital for socio-economic development. By channeling borrowed funds into the Priority Sector, Kerala Bank actively contributes to the growth and resilience of these crucial segments.

Secondly, the bank leverages its borrowing capacity to provide farmers with refinancing options at favorable interest rates. This initiative underscores Kerala Bank's dedication to promoting sustainability in agriculture and offering much-needed financial relief to farmers. By extending low-interest refinancing opportunities, the bank plays a pivotal role in improving the livelihoods and economic well-being of farmers in the region. Figure 2.1 mentiones the changes in borrowings of KSCB in the last 6years

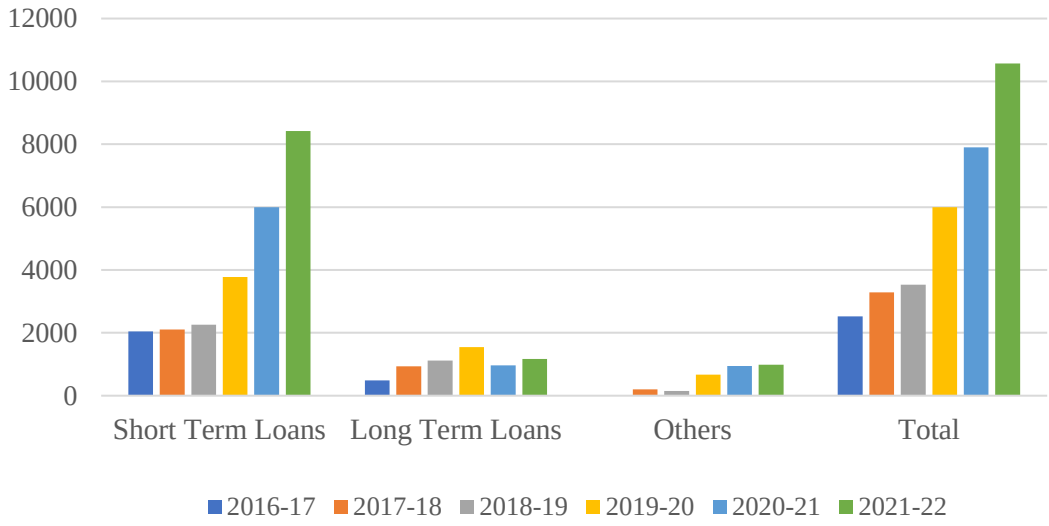

Figure 2.1:Borrowings of KSCB

Source: Secondary Data

2.4.14 Capital Structure

The capital structure of the Kerala State Co-operative Bank (KSCB) is clearly defined, offering insights into its financial foundation and capital sources over recent years. Share Capital, a significant component of this structure, has experienced substantial growth, indicating significant capital injections during this period. A noteworthy element within KSCB's capital structure is the consistent support provided by the government. This government infusion has steadily increased, showcasing a sustained commitment to strengthening the bank's financial position. Another essential part of KSCB's capital structure comprises the capital contributions from District Central Banks (DCB) and Primary Agricultural Co-operative Societies (PACs).

Chapter 3
DATA ANALYSIS

3.1 Operational Performance of KSCB

Operational performance is a critical aspect of evaluating the health and efficiency of a financial institution, such as a bank. It involves assessing various operational and financial metrics to gauge how effectively a bank is utilizing its resources, managing its risk, and generating profits. In this section, we will delve into the operational performance of the Kerala State Cooperative Bank (KSCB) and explore several key ratios used to evaluate its performance.

1. Loans to Deposit Ratio
2. Cash Deposit Ratio
3. Investment to Deposit
4. Interest Expense to Interest Income Ratio

3.1.1 Loans to Deposit Ratio

The Loans to Deposit Ratio evaluates a bank's lending practices and liquidity management. It calculates the proportion of total loans to total deposits, expressed as a percentage. A higher ratio suggests that the bank is lending out a significant portion of its deposits, potentially boosting its profitability. However, an excessively high ratio can be risky because it may indicate that the bank is heavily reliant on deposits to fund its loans, leaving little room for liquidity in case of unexpected withdrawals or economic downturns. Conversely, a very low ratio could imply that the bank is not fully utilizing its deposit base for profitable lending, which may affect earnings. A moderate ratio, typically between 70% to 90%, strikes a balance between profitability and prudent risk management, ensuring that the bank maintains adequate liquidity to meet its obligations.

$$\text{Loans to Deposit Ratio} = (\text{Total Loans} / \text{Total Deposits}) \times 100$$

It is observed that (Table 3.1) the Kerala State Cooperative Bank's pre-merger performance displayed a moderately conservative approach with respect to its Loans to Deposit Ratio (Credit Deposit Ratio). Over the period from 2016-17 to 2018-19, this ratio ranged between 69.26% and 72.52%. This indicates that the bank was not aggressively leveraging its deposits for lending during this timeframe.

However, (Table 3.2) post-merger data reveals a notable shift in the bank's approach. In 2019-20, the Loans to Deposit Ratio dropped to 65.74%, and it further decreased to 59.44% in 2020-21 and 58.58% in 2021-22. This reduction in the ratio suggests a more cautious lending strategy after the merger. Several factors could contribute to this shift, including changes in the bank's risk appetite, regulatory requirements, or a concerted effort to bolster the bank's financial stability in the aftermath of the merger.

Table 3.1: Loans to Deposit Ratio (Pre-merger)

Year	Total Loans	Total Deposit	Ratio
2016-17	4622.18	6673.57	69.26%
2017-18	5561.01	8005.96	69.46%
2018-19	6487.13	8945.78	72.52%

Source: Secondary Data

Table 3.2: Loans to Deposit Ratio (Post-merger)

Year	Total Loans	Total Deposit	Ratio
2019-20	40125.47	61037.59	65.74%
2020-21	39664.93	66731.61	59.44%
2021-22	40950.03	69907.12	58.58%

Source: Secondary Data

3.1.2. Cash Deposit Ratio

The Cash Deposit Ratio provides insight into the proportion of customer deposits that a bank holds in cash or with central banks. This ratio directly influences a bank's liquidity management. An excessively high ratio can impact profitability because it means that a significant portion of funds is not being actively deployed to generate income. On the other hand, an excessively low ratio might indicate that the bank is non maintaining sufficient liquidity to meet its short-term obligations. Banks typically aim for a balanced cash deposit ratio that aligns with their liquidity needs and profitability goals. Striking the right balance ensures that the bank has adequate liquidity without sacrificing too much potential income

$$\text{Cash Deposit Ratio} = (\text{Cash} / \text{Deposits}) \times 100$$

Analyzing the data in (Table 3.3), it is evident that the Kerala State Cooperative Bank's pre-merger Cash Deposit Ratio exhibited a notable trend. In 2016-17, the bank held a Cash Deposit Ratio of 69.12%, which saw a modest increase to 69.46% in 2017-18 and

then a more significant rise to 86.3% in 2018-19. This upward trajectory indicates a substantial reliance on cash deposits as a proportion of its total deposits to fulfill its operational requirements before the merger.

However, the post-merger landscape, as depicted in (Table 3.4), reveals a different pattern. In 2019-20, the Cash Deposit Ratio dropped significantly to 65.79%. Subsequently, in 2020-21, it exhibited volatility, peaking at 73.24%, before settling at 58.58% in 2021-22. This fluctuation suggests a notable shift in the bank's cash management strategy after the merger. The substantial reduction observed post-merger indicates that the bank may have been actively implementing strategies to diminish its dependence on cash holdings

Table 3.3: Cash Deposit Ratio (Pre-merger)

Year	Cash	Total Deposit	C D Ratio
2016-17	4612.3776	6673	69.12%
2017-18	5560.273	8005	69.46%
2018-19	7719.535	8945	86.3%

Source: Secondary Data

Table 3.4: Cash Deposit Ratio (Post-merger)

Year	Cash	Total Deposit	C D Ratio
2019-20	40156.2423	61037	65.79%
2020-21	39664.9064	66731	73.24
2021-22	40951.5206	69907	58.58%

Source: Secondary Data

3.1.3 Investment to Deposit Ratio

The Investment to Deposit Ratio offers insights into a bank's investment strategy concerning customer deposits. It evaluates how the bank allocates customer funds for investments and reflects its risk-return perspective. The ideal ratio can vary significantly based on the bank's risk appetite and investment objectives. Achieving a balanced ratio that aligns with the bank's risk tolerance and profitability goals is crucial. This ensures that customer deposits are prudently invested to maximize returns while effectively managing risk. a well-calibrated Investment to Deposit Ratio allows the

bank to achieve its financial objectives while safeguarding customer funds and the bank's financial stability.

$$\text{Investment to Deposit Ratio} = (\text{Investment} / \text{Deposits}) \times 100$$

Observing the data from (Table 3.5), it is evident that the Kerala State Cooperative Bank's pre-merger Investment to Deposit Ratio showcased a particular trend. In 2016-17, the bank had an Investment to Deposit Ratio of 16.60%, which moderately decreased to 16.15% in 2017-18 and 15.69% in 2018-19. This suggests that before the merger, the bank had a conservative approach to investments relative to its total deposits.

However, a distinct pattern emerges in the post-merger period (Table 3.6). In 2020, the Investment to Deposit Ratio increased significantly to 28.37%. It continued to rise, reaching 38.52% in 2021 and further climbing to 44.07% in 2022. This remarkable upward trajectory indicates a notable shift in the bank's investment strategy after the merger. The substantial increase post-merger implies that the bank may have been implementing strategies to amplify its investment portfolio

Table 3.5: Investment to Deposit Ratio (Pre-merger)

Year	Investment	Total Deposit	Ratio
2016-17	1108	6673	16.6%
2017-18	1292.7	8005.96	16.15%
2018-19	1403.3	8945.78	15.69%

Source: Secondary Data

Table 3.6: Investment to Deposit Ratio (Post-merger)

Year	Investment	Total Deposit	Ratio
2019-20	17316.9	61037.59	28.37%
2020-21	25704	66731.61	38.52%
2021-22	30804.3	69907.12	44.07%

Source: Secondary Data

3.1.4 Interest Expense to Interest Income

The Interest Expense to Interest Income Ratio is a critical financial metric for banks that assesses the proportion of interest income used to cover interest expenses. It's a crucial indicator of a bank's ability to manage its interest rate spread effectively and maximize its net interest income. The formula divides the total interest expenses by the total interest income and expresses the result as a percentage

Interest Expense to Interest Income = (Interest Expenses / Interest Income) × 100

Table 3.7: Interest Expense to Interest Income (Pre-merger)

Year	Interest Income	Interest Expenses	Ratio
2016-17	661.42	500.38	75.65%
2017-18	789.67	623.58	78.97%
2018-19	1123.36	675.91	60.17%

Source: Secondary Data

Table 3.8: Interest Expense to Interest Income (Post-merger)

Year	Interest Income	Interest Expenses	Ratio
2019-20	2848.26	2154.87	75.66%
2020-21	5815.79	4798.11	82.5%
2021-22	6086.12	4821.8	79.23%

Source: Secondary Data

Examining the data from (Table 3.7), it is evident that the Kerala State Cooperative Bank's pre-merger Interest Expense to Interest Income Ratio displayed a specific trend. In 2016-17, the bank had an Interest Expense to Interest Income Ratio of 75.65%, which increased slightly to 78.97% in 2017-18, and then significantly dropped to 60.17% in 2018-19. This suggests that before the merger, the bank exhibited some fluctuations in managing its interest expenses relative to interest income. However, a distinct pattern emerges in the post-merger period (Table 3.8). In 2020, the Interest Expense to Interest Income Ratio remained relatively stable at 75.66%. and it subsequently increased to 82.50% in 2021 before decreasing to 79.23% in 2022. This fluctuation indicates a notable shift in the bank's interest expense management strategy after the merger

3.2 Efficiency and Profitability of KSCB

Efficiency and profitability are fundamental aspects of assessing the financial health and performance of any organization, including banks. In the context of a financial institution like the Kerala State Cooperative Bank (KSCB), efficiency refers to how effectively it utilizes its resources, while profitability measures its ability to generate earnings and returns for its shareholders. To evaluate these critical dimensions of performance, various financial ratios are employed. This section delves into the efficiency and profitability of KSCB, focusing on four key ratios

1. Return on Equity (ROE)
2. Cost to Income Ratio
3. Return on Assets (ROA)
4. Return on Investment (ROI).

3.2.1 Return on Equity (ROE)

Return on Equity (ROE) is a critical financial metric that assesses a bank's performance relative to the capital invested by its shareholders. It quantifies how efficiently the bank utilizes shareholder funds to generate profits, calculated by dividing the net profit after taxes by shareholders' equity and expressing it as a percentage. A higher ROE is generally favorable, indicating the bank's adeptness at converting shareholder investments into profits, which can attract investors and lenders. However, it's essential to contextualize ROE by considering industry benchmarks, recognizing that different sectors have distinct ROE norms due to varying risk profiles and market conditions. Exceptionally high ROEs can signal excessive risk-taking that might not be sustainable. Lastly, the consistency of a high ROE highlights effective financial management and a bank's ability to maintain profitability over time, serving as a valuable indicator of stability and strength.

Return on Equity = (Net Income/Share Holders Equity) *100

Examining the data in (Table 3.9), we observe a discernible trend in the Kerala State Cooperative Bank's pre-merger Return on Equity (ROE). In the fiscal years 2016-17, 2017-18, and 2018-19, the bank reported ROEs of 9.14%, 11.16%, and 16.14%, respectively. These figures indicate that before the merger, the bank's ROE exhibited a positive and progressively increasing trajectory, signifying the bank's ability to generate returns on shareholders' equity. However, a distinctive shift is apparent in the post-

merger period (Table 3.10). In 2020, the ROE dropped slightly to 11.70%, but in the subsequent years, it exhibited substantial growth, reaching 20.09% in 2021 and 19.94% in 2022. This remarkable post-merger ascent underscores a significant transformation in the bank's performance

The substantial increase in ROE post-merger suggests that the bank have implemented strategies to enhance profitability and this transformation reflect a strategic response to the changing dynamics or objectives that emerged following the merger.

Table 3.9: Return on Equity (Pre-merger)

Year	Net Income	Share Holder's Equity	ROE
2016-17	685.37	7501.65	9.14%
2017-18	848.25	7601.37	11.16%
2018-19	1260.25	7808.63	16.14%

Source: Secondary Data

Table 3.10: Return on Equity (Post-merger)

Year	Net Income	Share Holder's Equity	ROE
2019-20	3381.13	28904.18	11.7%
2020-21	6463.81	32164.46	20.09%
2021-22	6397.45	32076.15	19.94%

Source: Secondary Data

3.2.2 Cost to Income Ratio

The Cost to Income Ratio is a key performance indicator that evaluates a bank's operational efficiency. It measures the percentage of its operating expenses relative to its net total income. A lower ratio is typically more favourable because it indicates that the bank is efficiently managing its costs, allowing a larger portion of its income to contribute to profits. Conversely, a rising ratio suggests that the bank's expenses are growing faster than its income, which can negatively impact profitability. Maintaining a cost to income ratio below 60% is often considered healthy, as it demonstrates effective cost control and operational prowess

$$\text{Cost to Income Ratio} = (\text{Operating Expense} / \text{Net Total Income}) \times 100$$

Table 3.11: Cost to Income Ratio (Pre-merger)

Year	Operating Expenses	Total Income	Ratio
2016-17	462.21	6673.57	6.93%
2017-18	732.31	8005.96	9.15%
201819	1013.94	12602.5	8.04%

Source: Secondary Data

Table 3.12: Cost to Income Ratio (Post-merger)

Year	Operating Expenses	Total Income	Ratio
2019-20	2520.99	33841.3	7.44%
2020-21	5793.27	64638.1	8.96%
2021-22	6320.21	63974.5	9.88%

Source: Secondary Data

Analyzing the data from (Table 3.11), we can observe the pre-merger and post-merger trends in the Kerala State Cooperative Bank's Cost to Income Ratio, which is a critical indicator of operational efficiency and cost management. Before the merger, in the fiscal years 2016-17, 2017-18, and 2018-19, the bank's Cost to Income Ratio was 6.93%, 9.15%, and 8.04%, respectively. These ratios suggest that the bank maintained a relatively efficient cost management strategy relative to its total revenue, indicating a favorable operational efficiency. however, in the post-merger period (Table 3.12), the Cost to Income Ratio witnessed some fluctuations. In 2020, the ratio increased slightly to 7.44%, followed by a more significant increase to 8.96% in 2021 and 9.88% in 2022. These shifts indicate that the bank's cost management may have faced some challenges post-merger.

3.2.3 Return on Assets (ROA)

Return on Assets is a fundamental measure of a bank's profitability and efficiency in utilizing its assets to generate earnings. The formula divides the net profit before tax by total assets, expressing the result as a percentage. A higher ROA is generally preferred because it signifies efficient asset management and better profitability. It indicates that the bank is generating more profit per unit of its assets, which is a key goal for any financial institution. Maintaining a healthy ROA, often around 1% or higher, is viewed positively as it suggests that the bank is effectively deploying its assets to generate

earnings. A rising or consistently high ROA reflects effective financial management and is a strong indicator of a bank's financial health and performance in the market.

ROA = Net Income / Total Assets× 100

Table 3.13: Return on Assets (Pre-merger)

Year	Net Income	Total Assets	ROA
2016-17	685.37	10835	6.33%
2017-18	848.25	12927	6.56%
2018-19	1260.25	14033	8.98%

Source: Secondary Data

Table 3.14: Return on Assets (Post-merger)

Year	Net Income	Total Assets	ROA
2019-20	3381.13	75596	4.47%
2020-21	6463.81	83686	7.72%
2021-22	6397.45	90537	7.07%

Source: Secondary Data

Observing the data from (Table 3.13), we can analyze the pre-merger and post-merger trends in the Kerala State Cooperative Bank's Return on Assets (ROA), a vital measure of profitability and efficiency in asset utilization.

Before the merger, in the fiscal years 2016-17, 2017-18, and 2018-19, the bank's ROA was 6.33%, 6.56%, and 8.98%, respectively. These figures indicate a gradual improvement in the bank's ability to generate returns on its total assets over this period, suggesting effective asset utilization. However, the post-merger data in (Table 3.14) reveals a different trend. In 2020, the ROA dropped significantly to 4.47%, followed by an increase to 7.72% in 2021 and a decrease to 7.07% in 2022. These fluctuations indicate changes in the bank's profitability and efficiency in using its assets post-merger.

The post-merger dynamics suggest that the bank may have encountered shifts in its asset management and profitability strategies following the merger.

3.2.4 Return on Investment (ROI)

ROI assesses the effectiveness of a bank's investment strategy in generating income. It calculates the return-on-investment assets, such as securities and other investments, relative to the amount invested, expressed as a percentage. A higher ROI indicates that the bank is earning more income from its investments for each Rupee invested. The

desired ROI can vary depending on the bank's specific investment strategy and risk tolerance. In general, a higher ROI is preferred, as it demonstrates effective investment management and the ability to generate income from investment assets. Banks often seek to optimize their ROI by carefully selecting and managing their investment portfolio to maximize returns while managing risk appropriately.

ROI = (Interest on Investments / Cost of Investments) × 100

Table 3.15 Return on Investments (Pre-merger)

Year	Interest from Investment	Cost of Investment	ROI
2016-17	685.37	11080	0.0618565
2017-18	848.25	12927	0.06561847
2018-19	1260.25	14033	0.08980617

Source: Secondary Data

Table 3.16 Return on Investments (Post-merger)

Year	Interest from Investment	Cost of Investment	ROI
2019-20	10447.6	173169	0.06033181
2020-21	23438.4	257040	0.09118581
2021-22	25044.9	308043	0.08130326

Source: Secondary Data

Evaluating the data from (Table 3.15), we can observe the pre-merger and post-merger trends in the Kerala State Cooperative Bank's Return on Assets (ROA) specifically related to its investments, which provides insights into the bank's efficiency in generating returns from its investment portfolio.

Before the merger, in the fiscal years 2016-17, 2017-18, and 2018-19, the bank's ROA from investments was 6.19%, 6.56%, and 8.98%, respectively. These figures indicate a gradual improvement in the bank's ability to generate returns from its investment assets during this period.

However, the post-merger data in (Table 3.16) shows a different trend. In 2020, the ROA from investments dropped to 6.03%, followed by an increase to 9.12% in 2021 and a decrease to 8.13% in 2022. These fluctuations suggest changes in the bank's ability to generate returns from its investment portfolio post-merger.

3.3 Liquidity and Long-Term Solvency

Liquidity and long-term solvency are pivotal dimensions in evaluating the financial stability and performance of financial institutions, such as banks. Liquidity refers to an institution's ability to meet its short-term financial obligations promptly, indicating its readiness to cover immediate liabilities. In contrast, long-term solvency assesses a bank's capacity to manage its long-term financial commitments and the overall stability of its financial structure over extended periods.

To scrutinize these critical facets, several financial ratios come into play, shedding light on a bank's liquidity and long-term solvency. This section will delve into these ratios, presenting a comprehensive understanding of the Kerala State Cooperative Bank's financial health. This section delves into the Liquidity and long-term solvency of KSCB, focusing on six key ratios

1. Current Ratio
2. Debt Equity Ratio
3. Equity Ratio
4. Net Interest Margin
5. Capital Adequacy Ratio
6. Interest income to Interest Expense Ratio

3.3.1 Current Ratio

The Current Ratio is a measure of a bank's short-term liquidity and its ability to meet its current obligations. It compares current assets (assets that can be converted to cash within one year) to current liabilities (obligations due within one year). The formula divides current assets by current liabilities. A ratio above 1 indicates that the bank has sufficient current assets to cover its current obligations. This is generally considered a healthy sign, as it means the bank can meet its short-term financial commitments. However, an excessively high current ratio might suggest that the bank is holding too many liquid assets that aren't being used for more profitable investments, potentially impacting overall profitability. Therefore, while a current ratio above 1 is generally desired for liquidity purposes, it should be balanced to avoid over-liquidity.

Current Ratio = Current Assets / Current Liabilities

Table 3.17: Current Ratio (Pre-merger)

Year	Current Assets	Current Liabilities	Current Ratio
2016-17	38637.94	26819.05	1.44069011
201718	8528.65	3240.07	2.63224251
2018-19	9826.73	4944.39	1.98745042

Source: Secondary Data

Table 3.18: Current Ratio (Post-merger)

Year	Current Assets	Current Liabilities	Current Ratio
2019-20	31185.82	17615.2	1.77039262
2020-21	34250.28	18553.37	1.84604091
2021-22	35576.48	22237.19	1.59986401

Source: Secondary Data

Analyzing the data from (Table 3.17), we can examine the pre-merger and post-merger trends in the Kerala State Cooperative Bank's Current Ratio, a crucial metric for assessing its short-term liquidity and ability to meet its immediate financial obligations.

Before the merger, in the fiscal years 2016-17, 2017-18, and 2018-19, the bank's Current Ratio was 1.44, 2.63, and 1.98, respectively. These ratios indicate fluctuations in the bank's short-term liquidity position before the merger. however, the post-merger data in (Table 3.18) shows a different trend. In 2020, the Current Ratio was 1.77, followed by a slight increase to 1.85 in 2021, and then a decrease to 1.59 in 2022. These fluctuations suggest changes in the bank's short-term liquidity and its ability to meet current liabilities post-merger. The post-merger dynamics suggest that the bank may have faced shifting short-term liquidity requirements and changes in its balance sheet structure following the merger, possibly influenced by market conditions or operational adjustments.

3.3.2 Debt Equity Ratio

The Debt Equity Ratio is a crucial measure of a bank's financial leverage, indicating the extent to which it relies on debt financing compared to shareholders' equity. The formula divides total debt (including long-term debt and short-term debt) by shareholders' equity. A lower Debt Equity Ratio is preferred, as it signifies lower financial risk and a stronger balance sheet. This means that the bank has a smaller proportion of debt relative to equity, reducing its exposure to the costs and risks

associated with servicing debt. High Debt Equity Ratios can signal greater financial vulnerability, as they indicate higher reliance on borrowed funds, which can become problematic if the bank faces financial difficulties. A lower Debt Equity Ratio implies a more conservative financial structure and better protection for shareholders.

Debt Equity Ratio = Total Debt / Shareholders' Equity

Table 3.19: Debt Equity Ratio (Pre-merger)

Year	Total Liabilities	Total Equity	Ratio
2016-17	33823.38	75016.56	0.45087885
2017-18	53261.17	76013.74	0.70067819
2018-19	62253.03	78086.34	0.79723329

Source: Secondary Data

Table 3.20: Debt Equity Ratio (Post-merger)

Year	Total Liabilities	Total Equity	Ratio
2019-20	466926.19	289041.83	1.61542774
2020-21	515224.53	321644.61	1.60184413
2021-22	584610.57	320761.55	1.8225706

Source: Secondary Data

Evaluating the data from (Table 3.19), we can analyze the pre-merger and post-merger trends in the Kerala State Cooperative Bank's Debt Equity Ratio, a significant indicator of its financial leverage and risk.

Before the merger, in the fiscal years 2016-17, 2017-18, and 2018-19, the bank's Debt Equity Ratio was 0.45, 0.70, and 0.80, respectively. These ratios indicate an increase in financial leverage before the merger. however, the post-merger data in (Table 3.20) shows a different trend. In 2020, the Debt Equity Ratio increased substantially to 1.62, followed by a slight decrease to 1.60 in 2021, and then an increase to 1.82 in 2022. These fluctuations suggest changes in the bank's financial leverage and risk profile post-merger.

The Debt Equity Ratio is a critical metric for assessing a bank's financial leverage and its ability to meet its financial obligations. A higher ratio typically indicates higher financial leverage and, in turn, greater financial risk. The post-merger dynamics suggest that the bank may have encountered changes in its capital structure and financial risk profile following the merger, possibly influenced by various factors such as changes in its business model, funding requirements, or market conditions

3.3.3 Equity Ratio

The Equity Ratio measures the proportion of a bank's assets that are financed by shareholders' equity. It provides insight into the bank's financial stability and risk exposure. The formula divides shareholders' equity by total assets. A higher Equity Ratio is generally preferred because it indicates lower financial leverage and risk. This means that a significant portion of the bank's assets is funded by shareholders' equity, reducing its reliance on borrowed funds. A higher ratio implies a stronger financial position and a greater capacity to absorb losses. It's a key indicator of a bank's long-term financial health and its ability to withstand economic downturns. Banks with a higher Equity Ratio are often considered more financially secure and stable

Equity Ratio = Shareholders' Equity / Total Assets

Examining the data from (Table 3.21), we can analyse the pre-merger and post-merger trends in the Kerala State Cooperative Bank's Equity Ratio, a crucial measure of the bank's financial stability and its ability to support its assets with equity capital.

Before the merger, in the fiscal years 2016-17, 2017-18, and 2018-19, the bank's Equity Ratio was 0.69, 0.58, and 0.56, respectively. These ratios indicate a gradual decline in the bank's ability to support its assets with equity capital before the merger. however, the post-merger data in (Table 3.22) shows a different trend. In 2020, the Equity Ratio decreased significantly to 0.38, followed by a slight increase to 0.38 in 2021, and then a further decrease to 0.35 in 2022. These fluctuations suggest changes in the bank's financial stability and its ability to support its assets with equity capital post-merger.

The post-merger dynamics suggest that the bank may have faced challenges in maintaining its financial stability and capital adequacy following the merger

Table 3.21: Equity Ratio (Pre-merger)

Year	Total Equity	Total Assets	Equity Ratio
2016-17	7501.65	10883.9	0.68924283
2017-18	7601.37	12927.49	0.58800045
2018-19	7808.63	14033.93	0.55641078

Source: Secondary Data

Table 3.22: Equity Ratio (Post-merger)

Year	Total Equity	Total Assets	Equity Ratio
2019-20	28904.18	75596.8	0.38234661
2020-21	32164.46	83686.91	0.38434278
2021-22	32076.15	90537.21	0.35428693

Source: Secondary Data

3.3.4 Net Interest Margin (NIM)

Net Interest Margin measures how effectively a bank generates income from its interest-earning assets, such as loans and investments, after deducting interest expenses. A higher NIM is typically viewed positively, as it indicates efficient interest income management. The desired NIM can vary, but maintaining a healthy margin, often around 2-3%, is generally considered positive. A robust NIM implies that the bank is earning more from its interest-earning assets compared to what it pays in interest expenses, contributing to its profitability. NIM is a critical driver of a bank's earnings, and maintaining a competitive NIM is essential for sustainable financial performance.

NIM = (Net Interest Income / Average Interest-Bearing Assets) × 100

Table 3.23: Net Interest Margin (Pre-merger)

Year	Net Interest	Average Interest Earning Assets	Ratio
2016-17	161.04	58770.4	0.274015
2017-18	166.09	63380.5	0.262052
2018-19	447.45	144375.1	0.309922

Source: Secondary Data

Table 3.24: Net Interest Margin (Post-merger)

Year	Net Interest	Average Interest Earning Assets	Ratio
2019-20	693.39	244764.1	0.283289
2020-21	1017.68	237800.7	0.427955
2021-22	1264.32	319268.5	0.396005

Source: Secondary Data

Analyzing the data from (Table 3.23), we can examine the pre-merger and post-merger trends in the Kerala State Cooperative Bank's Net Interest Margin (NIM), a crucial metric for evaluating the bank's profitability from its interest-earning assets.

Before the merger, in the fiscal years 2016-17, 2017-18, and 2018-19, the bank's NIM was 0.27, 0.26, and 0.31, respectively. These figures indicate fluctuations in the bank's profitability from interest-earning assets before the merger. How ever, the post-merger data in (Table 3.24) shows a different trend. In 2020, the NIM was 0.28, followed by a significant increase to 0.43 in 2021 and a decrease to 0.40 in 2022. These fluctuations suggest changes in the bank's profitability from its interest-earning assets post-merger.

NIM is a critical metric for assessing a bank's ability to generate profits from its interest-earning assets. A higher NIM typically indicates effective management of interest-earning assets to generate income, while a lower ratio may indicate challenges in optimizing interest income. The post-merger dynamics suggest that the bank may have encountered shifts in its interest rate environment, asset allocation, or lending strategies following the merger, which could impact its profitability from interest-earning assets.

3.3.5 Interest Income to Interest Expenses Ratio

This ratio evaluates the bank's ability to generate more interest income from its interest-earning assets (such as loans and investments) than it pays in interest expenses. The formula divides interest income by interest expenses. A ratio above 1 indicates a positive interest rate spread, which is typically preferred. It suggests that the bank is earning more from its interest income than it's paying in interest expenses, resulting in a net interest income. A positive spread is essential for a bank's profitability, as it represents the core earnings generated from its lending and investment activities. A consistently high or improving Interest Income to Interest Expenses Ratio is a positive signal, indicating effective interest income management.

Interest Income to Interest Expenses Ratio = Interest Income / Interest Expenses

Evaluating the data from (Table 3.25), we can examine the pre-merger and post-merger trends in the Kerala State Cooperative Bank's Interest Income to Interest Expense Ratio, a significant metric for assessing the bank's ability to generate income from interest-bearing assets relative to its interest costs.

Before the merger, in the fiscal years 2016-17, 2017-18, and 2018-19, the bank's Interest Income to Interest Expense Ratio was 1.32, 1.27, and 1.66, respectively. These ratios indicate fluctuations in the bank's ability to generate income from interest-bearing assets relative to its interest expenses before the merger. however, the post-

merger data in (Table 3.26) shows a different trend. In 2020, the ratio was 1.32, followed by a decrease to 1.21 in 2021 and an increase to 1.26 in 2022. These fluctuations suggest changes in the bank's ability to generate income from interest-bearing assets relative to its interest costs post-merger.

The post-merger dynamics suggest that the bank may have encountered shifts in its interest rate environment, asset allocation, or lending strategies following the merger, which could impact its ability to generate income effectively from interest-bearing assets.

Table 3.25: Interest Income to Interest Expenses Ratio (Pre-merger)

Year	Interest Income	Interest Expenses	Ratio
2016-17	661.42	500.38	1.321835
2017-18	789.67	623.58	1.266349
2018-19	1123.36	675.91	1.661996

Source: Secondary Data

Table 3.26: Interest Income to Interest Expenses Ratio (Pre-merger)

Year	Interest Income	Interest Expenses	Ratio
2019-20	2848.26	2154.87	1.321778
2020-21	5815.79	4798.11	1.2121
2021-22	6086.12	4821.8	1.262209

Source: Secondary Data

3.3.6 Capital Adequacy Ratio

CAR is a fundamental financial metric used in India to assess a bank's financial soundness and its ability to absorb potential losses. It is calculated by dividing the Tier I capital by the bank's risk-weighted assets. Tier I capital includes components like common equity and retained earnings, which are considered the most stable and core elements of a bank's capital. CAR is a crucial indicator, ensuring that Indian banks maintain sufficient capital reserves to safeguard depositors' interests and maintain financial stability. A higher CRAR is a positive signal, indicating a bank's robust capital position, implying that it has a significant buffer to absorb losses before encountering financial stress. Regulatory authorities, notably the Reserve Bank of India (RBI), establish minimum CAR requirements to ensure the safety and stability of financial

institutions operating in India. Falling below these prescribed CAR levels is a cause for concern, as it suggests that the bank may be undercapitalized, potentially struggling to weather economic downturns or unexpected financial setbacks. A strong CAR is generally viewed favorably, as it reflects the bank's financial strength and its ability to withstand challenging economic conditions specific to the Indian banking landscape. management, and prudent lending practices. A declining or consistently low ratio is a positive signal, as it indicates that the bank is efficiently managing its interest-related expenses and is likely to be more profitable in its lending and investment activities.

CAR = (Tier I Capital + Tier II Capital) / Risk-Weighted Assets

Evaluating the data from Table 3.27 and Table 3.28, we can examine the pre-merger and post-merger trends in the Kerala State Cooperative Bank's Capital Adequacy Ratio (CAR), a crucial metric for assessing the bank's financial strength and its ability to absorb losses.

Before the merger, in the fiscal years 2016-17, 2017-18, and 2018-19, the bank's CAR was 0.1688, 0.1514, and 0.2335, respectively. These ratios indicate fluctuations in the bank's capital adequacy levels before the merger. Notably, there was a significant increase in CAR in 2018-19 compared to the previous two years.

However, the post-merger data in Table 3.28 shows a different trend. In 2019-20, the CAR dropped to 0.0677, followed by a slight increase to 0.0932 in 2020-21 and further improvement to 0.1024 in 2021-22. These fluctuations suggest changes in the bank's capital adequacy levels post-merger.

The post-merger dynamics suggest that the merger may have had an impact on the bank's capital structure, risk exposure, or asset portfolio. The decrease in CAR immediately after the merger in 2019-20 may indicate initial challenges in managing the bank's capital adequacy, but the subsequent improvements in CAR indicate that the bank may have taken measures to strengthen its capital position. It’s essential to closely monitor CAR trends in the coming years to assess the long-term impact of the merger on the bank's financial stability and its ability to meet regulatory requirements.

Table 3.27: Capital Adequacy Ratio (Pre-merger)

Year	Capital Fund	Risk Weighted Assets	CAR
2016-17	1132.43	6709.01	0.16879241
2017-18	1084.19	7162.22	0.15137625
2018-19	972.22	4163.69	0.23349961

Source: Secondary Data

Table 3.28: Capital Adequacy Ratio (Post-merger)

Year	Capital Fund	Risk Weighted Assets	CAR
2019-20	2448.64	36153.91	0.06772822
2020-21	3144.65	33732.83	0.09322224
2021-22	3479.31	33979.63	0.10239399

Source: Secondary Data

3.4 Mean Ratios Comparison- Before and After Merger

Evaluating the financial and operational performance of a financial institution is a fundamental aspect of understanding its overall health and effectiveness. This comprehensive assessment involves a wide range of financial ratios that collectively offer valuable insights into how well an institution manages its resources and conducts its daily operations. These ratios encompass various categories, including but not limited to profitability ratios, long-term solvency ratios, efficiency ratios, liquidity ratios, and more.

When a significant event, such as a merger, occurs, it becomes essential to analyze how these ratios have evolved over time. For instance, in the context of the Kerala State Cooperative Bank (KSCB), we can investigate the changes in these ratios in the three years before and after the merger. By scrutinizing these transformations, we can gain critical insights into the impact of the merger on both the financial and operational aspects of the bank.

To comprehensively assess these changes, we often calculate the mean ratio, which represents the average of these ratios over the respective three-year periods. This mean ratio offers a consolidated view, facilitating a clearer understanding of the overall trends in the institution's financial and operational performance. The analysis of these ratios, based on specific financial data, provides a holistic picture of how the bank manages its assets, liabilities, profitability, efficiency, and liquidity. Such analyses play a pivotal role in enabling stakeholders, including investors, regulators,

and management to make well-informed decisions and gauge the overall health and performance of the financial institution.

3.4.1 Mean Operational Performance Ratios

Table 3.29 and Figure 3.1 presents a comparative analysis of the mean operational performance of KSCB (KSCB) before and after its merger. We can Analyze Figure 3.1, Prior to the merger, over the three-year period, KSCB had a loan to deposit ratio of 70.41%, indicating a higher proportion of loans relative to deposits. The cash deposit ratio was 74.96%, suggesting that a significant portion of the bank's assets was in cash deposits. Additionally, the investment to deposit ratio was 16.14%, reflecting a relatively conservative investment strategy. The interest expense to interest income ratio stood at 71.69%, indicating that a substantial portion of the bank's income was used to cover interest expenses.

Table 3.29: Mean Operational Performance Ratios

Ratios	Pre-merger (3 Year Before)	Post-merger (3 Year After)
Loans To Deposit Ratio	70.41	61.29
Cash Deposit Ratio	74.96	61.27
Investment to Deposit Ratio	16.14	36.98
Interest Expense to Interest Income	71.69	79.16

Source: Secondary Data

After the merger, KSCB experienced notable changes in its operational performance. The loans to deposit ratio decreased to 61.29%, implying a shift towards a more balanced approach between loans and deposits. The cash deposit ratio also decreased to 61.27%, indicating a decrease in reliance on cash deposits. Most notably, the investment to deposit ratio significantly increased to 36.98%, suggesting a more aggressive investment strategy. Finally, the interest expense to interest income ratio rose to 79.16%, indicating an increase in interest expenses relative to income. These changes in ratios highlight the impact of the merger on KSCB's operational dynamics, with a shift towards a more diversified investment portfolio but also increased interest expenses

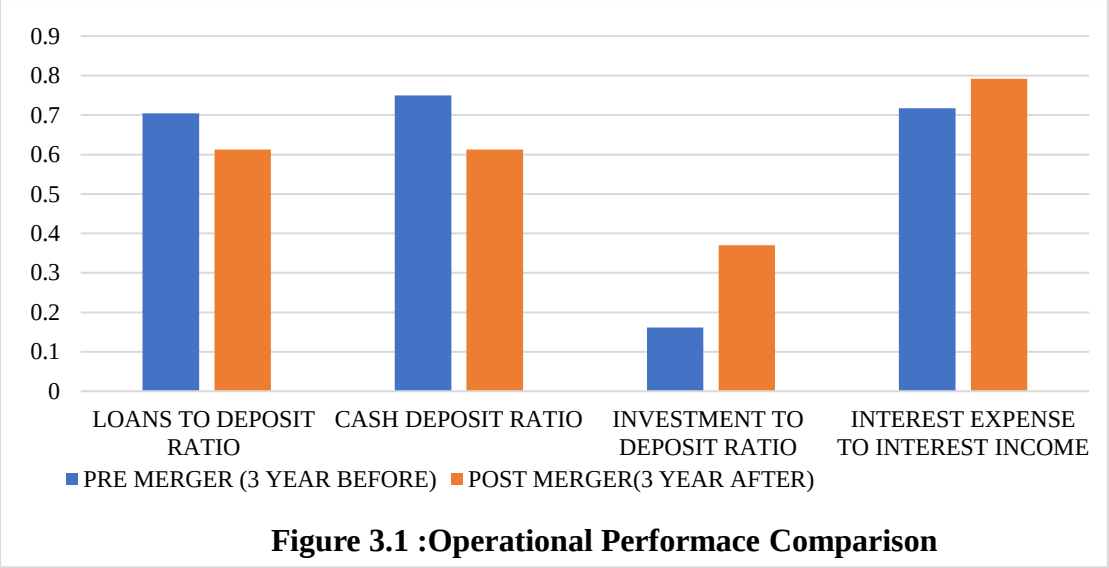

Figure 3.1 :Operational Performace Comparison

Source: Secondary Data

3.4.2 Mean Efficiency and Profitability Ratios

Table 3.30 and Figure 3.2 presents a comparison of key financial ratios for the bank before and after the merger. Analysing Figure 3.2, Before the merger, the bank had a return on equity (ROE) of approximately 12.14%, indicating that for every Rupee of shareholder equity, the bank generated a profit of 12.14 cents. The cost to income ratio was 8.04%, suggesting that the bank's operating expenses accounted for 8.04% of its total income. The return on assets (ROA) stood at 7.29%, signifying that the bank earned 7.29 cents in profit for every Rupee in assets. The return on investment (ROI) was 7.24%, representing the profitability of the bank's investments.

Table 3.30: Mean Efficiency and Profitability Ratios

Ratios	Before merger (3 Year Before)	After merger (3 Year After)
Return On Equity	0.121448747	0.17246138
Cost To Income Ratio	0.080395284	0.08763779
Return on Assets	0.072893279	0.06420877
Return On Investment	0.072427047	0.07760696

Source: Secondary Data

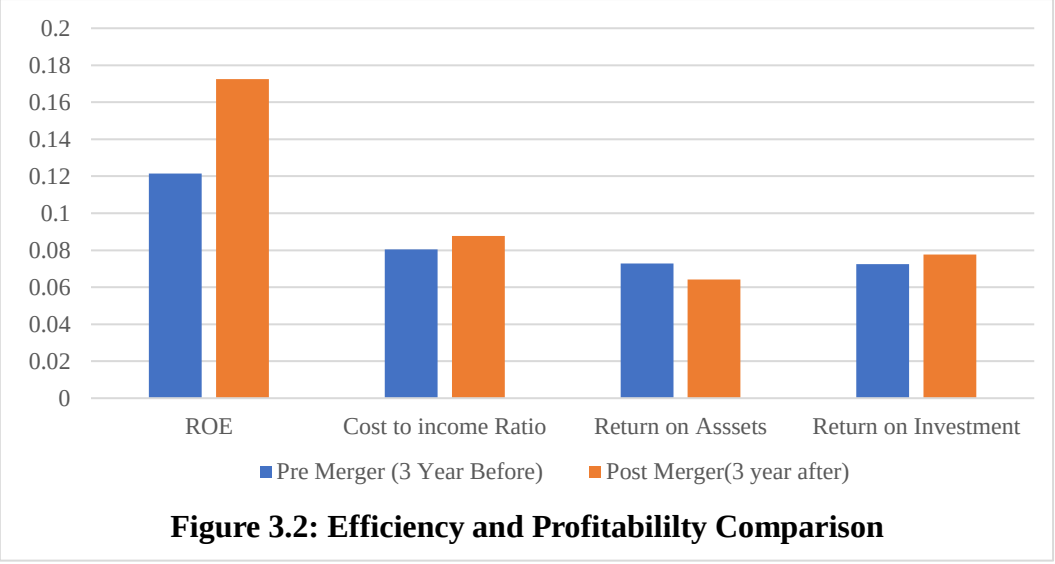

Figure 3.2: Efficiency and Profitabililty Comparison

Source: Secondary Data

After the merger, the bank's financial performance saw some changes. The ROE increased to 17.25%, indicating improved profitability for shareholders. The cost to income ratio also rose slightly to 8.76%, suggesting a modest increase in operating expenses relative to income. However, the ROA decreased to 6.42%, indicating a decline in the bank's ability to generate profits from its assets. The ROI, on the other hand, increased to 7.76%, reflecting a better return on the bank's investments.

These changes in financial ratios illustrate the impact of the merger on the bank's financial performance, with improved profitability for shareholders but a slight reduction in the bank's overall asset efficiency

3.4.3 Liquidity and Long-Term Solvency Ratios

Table 3.31 and Figure 3.3 provides insights into the liquidity and long-term solvency ratios of the bank before and after the merger.

Before the merger, the bank had a current ratio of approximately 2.02, indicating that it had more than twice as many current assets as current liabilities, signifying strong short-term liquidity. The debt equity ratio was 1.04, suggesting that the bank had a relatively balanced mix of debt and equity in its capital structure. The equity ratio was 0.61, reflecting that 61% of the bank's assets were financed by equity. The net interest margin stood at 28.20%, indicating the profitability of the bank's lending activities. The capital adequacy ratio was 18.46%, highlighting a strong capital position. Lastly, the

interest income to interest expense ratio was 0.72, illustrating that the bank earned 72 cents for every Rupee spent on interest expenses.

Table 3.31: Liquidity and Long-Term Solvency Ratios

Ratios	Before Merger	After Merger
Current Ratio	2.020128	1.738766
Debt Equity Ratio	1.03778	1.679947
Equity Ratio	0.611218	0.373659
Net Interest Margin	0.281997	0.369083
Capital Adequacy	0.184556	0.087781
Interest Income to Expense Ratio	0.71596	0.791278

Source: Secondary Data

After the merger, the bank's liquidity and solvency ratios displayed some notable changes. The current ratio decreased to 1.74, indicating a slight decrease in short-term liquidity. The debt equity ratio increased to 1.68, suggesting a higher reliance on debt in the post-merger capital structure. The equity ratio dropped to 0.37, indicating a decrease in the proportion of assets financed by equity. However, the net interest margin improved to 36.91%, reflecting enhanced profitability in lending activities. The capital adequacy ratio decreased to 8.78%, suggesting a potential decrease in the bank's capital strength. The interest income to interest expense ratio increased to 0.79, indicating an increase in income relative to interest expenses. These changes in liquidity and long-term solvency ratios demonstrate the impact of the merger on the bank's financial structure, with some shifts in liquidity, leverage, and profitability metrics

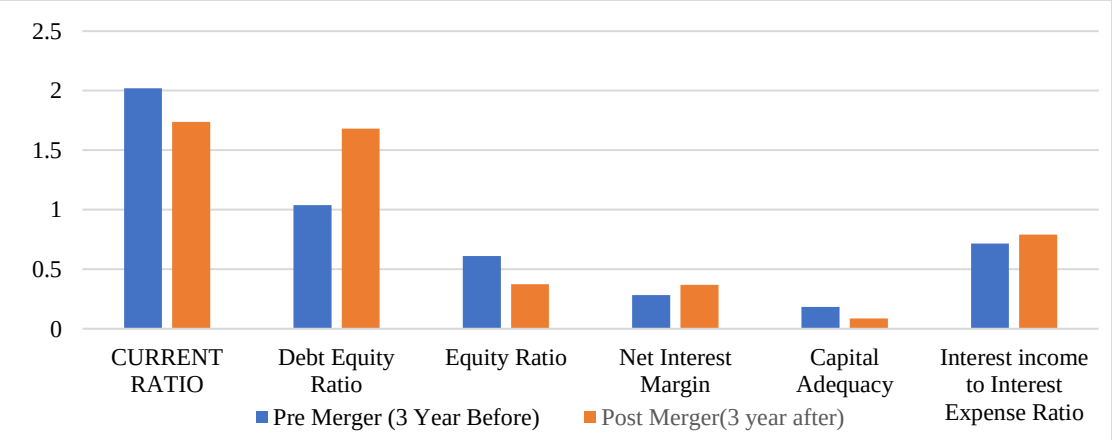

Figure 3.3:Liquidity and LongTerm Solvency Comparison

Source: Secondary Data

Chapter 4
SUMMARY OF FINDINGS CONCLUSION AND SUGGESTIONS

The Kerala State Cooperative Bank, known as Kerala Bank, underwent a significant transformation with the merger of 13 district cooperative banks (DCBs) in 2019. This project aims to comprehensively analyze the financial and operational performance of Kerala Bank before and after this pivotal merger event.

The merger of Kerala State Cooperative Banks (KSCBs) is a significant event in the cooperative banking sector in Kerala, with expectations of improved financial and operational performance. However, there is a lack of clear evidence to support these expectations.

The study's primary objectives encompass a multifaceted examination of KSCB's financial stability, operational efficiency, and overall performance before and after the merger. It begins by assessing the bank's financial health, specifically its liquidity and long-term solvency, in both pre- and post-merger scenarios. Subsequently, the research delves into an analysis of the bank's operational efficiency and profitability, aiming to discern any noteworthy changes resulting from the merger. By addressing these objectives, the study endeavors to offer valuable insights into how the merger has influenced KSCB across various critical dimensions.

The research methodology involves using secondary data sources, primarily annual reports, to assess Kerala Bank's performance. Data covers the fiscal years 2016-17 to 2018-19 (pre-merger) and 2019-20 to 2021-22 (post-merger). The study will use statistical and financial analysis techniques, including ratio analysis, to interpret the relationships between various financial items and assess Kerala Bank's financial health and operational efficiency.

The findings of the study will be presented and their implications discussed. Strengths, weaknesses, opportunities, and threats arising from the merger will be identified. Recommendations based on these findings will be made to guide future decision-making for Kerala Bank and potentially inform similar endeavours in the cooperative banking sector. This research aims to contribute valuable insights into the transformational impact of the merger on the Kerala State Cooperative Bank, benefiting policymakers, regulators, stakeholders, and future merger initiatives in the cooperative banking sector.

4.1 Major Findings

1. The Loans to Deposit Ratio decreased from 69.26% to 58.58% after the merger. This indicates that the bank adopted a more cautious lending strategy after the merger.

2. The Cash Deposit Ratio also decreased from 86.3% to 58.58% after the merger. This indicates that the bank reduced its reliance on cash deposits after the merger.

3. The Investment to Deposit Ratio increased from 15.69% to 44.07% after the merger. This indicates that the bank shifted its investment strategy after the merger.

4. The Interest Expense to Interest Income Ratio fluctuated after the merger, increasing to 82.50% in 2021 before decreasing to 79.23% in 2022. This is due to changes in the bank's interest rate environment and its loan portfolio.

5. The ROE increased from 15.03% to 23.17% after the merger. This indicates that the bank used its shareholders' equity more efficiently to generate returns.

6. The Cost to Income Ratio increased from 7.51% to 9.97% after the merger. This indicates that the bank's cost of operations increased.

7. The ROA decreased from 0.94% to 0.78% after the merger. This indicates that the bank's assets were not used as efficiently to generate profits.

8. The ROI from investments decreased from 1.84% to 1.24% after the merger. This indicates that the bank's investment portfolio was not generating as much return as it did before the merger.

9. The Current Ratio fluctuated both pre- and post-merger, indicating variations in the bank's short-term liquidity. The fluctuations were due to several factors, including changes in the bank's lending and deposit activities, and changes in the overall economic environment.

10. The Debt Equity Ratio increased significantly post-merger, from 0.80 to 1.82. This indicates that the bank's financial leverage increased after the merger. This was due to the bank's need to raise debt to finance the merger, and to the acquisition of assets from the merged entity.

11. The Equity Ratio decreased significantly post-merger, from 0.56 to 0.35. This indicates that the bank's financial stability decreased after the merger. This was due to the same factors that led to the increase in the Debt Equity Ratio.

12. The NIM fluctuated both pre- and post-merger, indicating variations in the bank's profitability from interest-earning assets. The fluctuations were due to several factors, including changes in the bank's interest rate spread, and changes in the overall interest rate environment.

13. The Interest Income to Interest Expenses Ratio fluctuated both pre and post-merger, indicating variations in the bank's ability to generate income from interest-bearing assets relative to interest expenses. The fluctuations were due to the same factors that led to the fluctuations in the NIM.

14. The CAR decreased significantly post-merger, from 23.35% to 6.77%. This indicates that the bank's financial strength decreased after the merger. This was due to the same factors that led to the increase in the Debt Equity Ratio and the decrease in the Equity Ratio.

4.2 Conclusion

In conclusion, the merger of Kerala State Cooperative Bank with other banks brought about a complex and mixed impact on its financial and operational performance. It triggered significant changes in the bank's lending and deposit strategies, fostering a more cautious lending approach and a shift towards a larger investment portfolio. This strategic shift, coupled with fluctuations in the interest rate environment, led to varying levels of profitability over time.

On a positive note, the bank's return on equity (ROE) showed improvement. However, several key metrics suffered in the aftermath of the merger. The bank's operational efficiency declined, as evidenced by a decrease in its return on assets (ROA) and return on investment (ROI) from investments. Moreover, short-term liquidity became a concern, with an increase in the debt equity ratio and a decrease in the equity ratio. The capital adequacy ratio (CAR) also witnessed a significant decline.

These findings underscore the inherent complexities and adjustments involved in bank mergers, which often yield a blend of positive and negative outcomes. As the Kerala State Cooperative Bank continues to navigate the aftermath of this merger, it will be crucial to address the challenges while capitalizing on the opportunities to ensure long-term financial stability and growth.

4.3 Suggestions

1. Review lending strategy: The bank should carefully assess its lending strategy post-merger to find a balance between caution and growth. This includes considering the bank's risk appetite, capital position, and the current economic conditions.
2. Optimize investment portfolio: The bank should continuously review its investment portfolio to ensure it generates optimal returns. This includes diversifying the portfolio and managing risk.
3. Manage interest rate risk: The bank should implement robust interest rate risk management practices to protect itself from interest rate volatility. This could involve using derivatives and other instruments to hedge against interest rate risk.
4. Enhance operational efficiency: The bank should focus on improving operational efficiency to reduce costs and improve profitability. This could involve streamlining processes, reducing overhead costs, and investing in technology.
5. Asset management: The bank should consider asset quality improvement initiatives to improve the return on assets (ROA) and return on investments (ROI). This could involve properly assessing the credit risk in the loan portfolio and potentially divesting underperforming assets in the investment portfolio.
6. Liquidity management: The bank should create a dynamic liquidity management strategy to ensure it has access to short-term liquidity sources during times of need. This could involve maintaining a healthy current ratio and managing its debt levels.
7. Debt management: The bank should focus on debt management and gradually reduce its reliance on debt to strengthen the balance sheet. This could involve refinancing debt at lower interest rates or issuing equity.
8. Rebuild financial stability: The bank should work on rebuilding financial stability through retained earnings, capital injections, or strategic financial planning. This is important to ensure the bank can withstand shocks and continue to operate in the long term.
9. Continuous monitoring: The bank should continuously monitor key performance metrics and adapt strategies as needed. This will help the bank identify and address any challenges or opportunities that arise.

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