



IMPACT OF WORKING CAPITAL MANAGEMENT ON THE PROFITABILITY OF DISTRICT CENTRAL CO- OPERATIVE BANKS(DCCBs) IN KARNATAKA

¹Prof. Dr.M.S. Nigam and ²Mr.Madesh Prabhu

¹Department of Commerce, Bundelkhand University, Jhansi, Uttar Pradesh

²Lecturer, Department of Commerce, Government First Grade College,
Koppa

Abstract

The Co-operative banking structure in India is a three –tier system,with District Central Co-operative Banks(DCCBs) acting as the vital link between the State Co-operative Bank and Primary Agricultural Credit Societies(PACS). In Karnataka DCCBs are the engines of rural credit.This study investigates the critical relationship between Working capital Management(WCM) and the financial profitability of District Central Co-operative Banks in Karnataka.In a sector where liquidity is often volatile due to agricultural seasonability,managing short –term assets and liabilities is vital for institutional survival.

Keywords ;DCCBs, Working Capital Management, Profitability, Agricultural credit, Liquidity.

Introduction

The Co-operative banking sector in India serves as the financial backbone of the rural economy and within this system,the District Central Co-operative Banks(DCCBs) occupy a pivotal position.In a state like Karnataka,where agriculture remains a primary livelihood,DCCBs serve as the bridge between the State Co-operative Bank and the Primary Agricultural credit Societies(PACS).Working capital management in DCCBs involves maintaining a delicate balance between Liquidity and Profitability.Unlike manufacturing firms,a bank's inventory is cash and its receivables are loans if funds are tied up in non-



recovering loans, the working capital cycles breaks leading to financial distress.

Objectives of the study

* The study is to analyse the efficiency of Working Capital Management and its impact on the profitability of DCCBs.

* To measure the bank's ability to meet its short term obligation.

Methodology

The study is analytical in nature covering the impact of working capital and profitability on DCCBs. The study is purely based on Secondary data. The secondary sources are RBI reports, Research article, journals websites etc

Review of Literature

Bhattacharya(2001); In his seminal work on working capital, Bhattacharya emphasizes the Operating Cycle approach. He argues that the efficiency of a firm is not just about having assets, but about the velocity with which those assets are converted back into cash. For banks, this means how quickly a loan is disbursed, interest is collected and the principal is recovered to be lent again.

Chandra(2011); Prasanna Chandra highlights the "Liquidity-Profitability Trade-off". He suggests that excessive liquidity acts as a safety net but comes at the cost of potential interest earnings, thereby dragging down the Return On Assets (ROA)

Swamy (1997): Conducting research in the Dakshina Kannada district of Karnataka, Swamy observed that rural co-operative banks frequently struggle to maintain a balance between liquidity and profitability. His findings suggested that these banks often suffered from interest burden-paying high interest on deposits while money remained idle or stuck in non-recovering agricultural loans.



Mayil Murugan(2009); In an empirical analysis of central co-operative Banks, Murugan found that Capital Adequacy Ratios significantly influence liquidity. His study argued that banks with stronger capital bases were more resilient to shocks in the working capital cycle caused by delayed agricultural recoveries

Organisational Structure of DCCBs in Karnataka

The Organisational structure of DCCBs in Karnataka is designed as a federated system, acting as the crucial middle tier of the three-tier short-term co-operative credit structure. Before 2013, this structure was characterized by a blend of democratic member-led governance and professional administrative management.

1. The Three-Tier Context

In Karnataka, the DCCB does not operate in isolation. It occupies the district level position in the following hierarchy

Tier 1 (Apex); Karnataka State Co-operative Apex Bank (Bangalore)

Tier 2 (Middle); 21 DCCBs (each serving one or more districts)

Tier 3 (Base); Primary Agricultural Credit Societies (PACS), which are the actual members and owners of the DCCB.

2. Internal Governance Structure

The governance of a DCCB is democratic, governed by the Karnataka Co-operative Societies Act, 1959

A. The General Body

The highest authority of the bank. It consists of delegates from all affiliated Primary Societies and individual shareholders. They meet annually to approve budgets, audits and elect the board.

B. The Board of Directors

The Board is responsible for policy making and strategic oversight. Before 2013, a typical board in Karnataka consisted of



Elected Directors;-Representatives from the affiliated PACS(usually one from each Taluk)

Ex-Officio/Nominated Directors

The Registrar of Co-operative Societies or a nominee..A representative from the Karnataka State Co-operative Apex Bank.A nominee from NABARD(often as an observer)

Leadership; The Board elects a President and a Vice President from among its members.

3.Administrative Structure

While the Board handles policy,the day –to-day operations are managed by professional staff led by a Chief Executive Chief Executive Officer(CEO)-Usually a General Manager(GM) level officer,often on deputation from the State Apex Bank or the Co-operation Department.He/She is the link between the Board and the Staff.

General Manager(GM);-Head specific departments like credit and Opertions,Administration or Accounts.

Deputy/Asst General Managers;manage Specialized cells such as NPA Recovery,Refinance and Inspection.

Branch Managers;Responsible for the performance of individual district branches and overseeing the PACS ceded to that branch.

4.Department Division

Typical departments within a Karnataka DCCB include

1.Banking Section;Handles public deposits,RTGS/NEFT(post-2010) and locker facilities

2.Credit/Loan section ; The largest department,managing Short term and medium term agricultural loans.

3.Supervision and Inspection;-Conducts audits of the primary societies to ensure the funds provided by the DCCB are being used correctly.

4.Information Technology;By 2012,most DCCBs were transitioning toward Core Banking Solutions.



In Karnataka, the administrative control lies with the Registrar of Co-operative Societies, while the banking regulations are governed by the Reserve Bank of India under the Banking regulation Act 1949.

Functions of DCCBs in Karnataka

The District Central Co-operative Banks in Karnataka serve as the financial lings of the rural economy. Their functions are unique because they must balance the commercial requirements of a bank with the social mandate of a co-operative institution.

1. Financial and banking Functions

As a licensed banking entity under the RBI, the DCCB performs all traditional banking activities but with a rural focus

*Deposit Mobilization; They accept various types of deposits (savings, Fixed, Recurring and current) from both the member societies and the general public.

*Credit Disbursement; They provide Short-Term and Medium-Term loans. In Karnataka, these are often disbursed at highly subsidized interest rates.

*Non-Agricultural Lending; Beyond farming, they provide gold loans, housing loans and vehicle loans to rural and semi-urban residents to diversify their income streams.

*Banking Services; They provide modern facilities like RTGS, locker services and more recently mobile and ATM banking to rural populations.

2. Intermediary and Balancing center Functions

This is the most critical structure role of a DCCB within the three-tier system

- Linkage; They act as the bridge between the Karnataka State Co-operative Apex Bank and the Primary Agricultural credit Societies.
- Balancing center; They serve as a reservoir for the surplus funds of some primary societies and divert those funds to other societies that are facing a credit shortage.



- Refinance Channel: They channel funds from NABARD and the apex Bank down to the grassroots level, ensuring that global and national credit reaches the individual farmer.

3. Promotional and Supervisory Functions

DCCBs in Karnataka are responsible for the health of the entire cooperative movement in their district

*Supervision of PACS; They inspect and audit the records of the primary societies to ensure that loans are being used for productive agricultural purposes.

*Leadership and Guidance; They provide administrative and legal guidance to the directors and secretaries of village societies, helping them comply with the Karnataka Co-operative Societies Act.

*Implementation of Government Schemes; They are the primary agencies for executing state-sponsored welfare programs, such as Yashaswini and various crop insurance schemes.

* Financial inclusion; They work to bank the unbanked by encouraging the formation of Self-help groups and Joint Liability Groups (JLGs).

Conclusion

The study concludes that Working Capital Management significantly impacts the profitability of DCCBs in Karnataka. Efficient management is not about having cash it is about the velocity of funds. By reducing the duration of the credit-recovery cycle and optimizing the deposit mix DCCBs can transform from social lenders into financially sustainable institutions capable of driving the rural economy forward.

By the end of 2012, DCCBs in Karnataka were handling nearly 65% of the total agricultural credit in their respective districts. The era concluded with a shift toward Core Banking Solutions and the professionalization of management to compete with the rising presence of private and public sector commercial banks in rural areas.



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