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DETERMINANTS OF FINANCIAL PERFORMANCE: AN EVIDENCE FROM PRIMARY COOPERATIVE AGRICULTURE DEVELOPMENT BANKS, COIMBATORE

Dr. M. Prakash[1], Ms. M. Pavithtra[2]

[1]Professor, Department of Commerce CA, Dr. N.G.P. Arts and Science College, Coimbatore, Tamil Nadu, India.
[2]Student – II M. Com.(CA), Department of Commerce CA, Dr. N.G.P. Arts and Science College, Coimbatore, Tamil Nadu, India.

ABSTRACT

Financial performance refers to the act of carrying out financial activities and evaluating how well financial objectives have been achieved. It involves assessing the outcomes of a firm's policies and operations in monetary terms. Measuring financial performance helps determine a firm's overall financial health over a specific period. It allows comparisons between similar firms within an industry or across different sectors. This study aims to analyze the financial performance of the Central Co-Operative Bank, Theni, using an Analytical Research Design. The study uses financial data from 2019-2020 to 2023-2024 for evaluation. Various financial tools such as ratio analysis, comparative balance sheets, common-size balance sheets, and working capital changes are applied. These tools help assess the bank's financial stability, profitability, and liquidity. The asset utilization ratio, which measures efficiency in asset use, was 0.09 in 2019-20 but declined to 0.07 in 2023-24. A decline in this ratio indicates reduced efficiency in asset utilization. The study suggests that the bank's current assets have decreased over time. A decrease in current assets may affect the bank's ability to meet short-term financial obligations. To improve financial stability, the bank should take measures to strengthen its liquidity position. Increasing current assets and improving operational efficiency are necessary. Effective financial management and strategic planning can help enhance the bank's financial performance. Implementing these recommendations will help the bank sustain growth and meet its financial objectives.

KEYWORDS: *Economic value added, Financial Health Index, Z -score*

INTRODUCTION

Financial performance represents the financial condition of a business and its success under management. It assesses whether the firm's financial objectives have been achieved. It measures the results of a firm's policies and operations in monetary terms. Financial performance helps evaluate the overall financial health of an organization over time. It also allows comparison with other industries for better analysis. Financial statements serve as key analytical tools for business managers. Since finance is the foundation of business activities, analyzing financial performance is crucial.

STATEMENT OF PROBLEM

Financial performance plays a crucial role in a bank's sustainability and competitiveness. The financial success of Primary Cooperative Agriculture Development Banks (PCADBs) in Coimbatore is vital for the growth of the agricultural sector. However, these banks face several challenges in maintaining financial stability. Issues like poor capital structure, inefficient resource utilization, and weak credit management hinder their progress. External factors such as fluctuating interest rates, unstable agricultural markets, and policy changes add to financial difficulties. These challenges lead to reduced profitability and financial distress. Additionally, inefficiencies affect their ability to provide timely loans to farmers. Addressing these issues is essential for improving financial performance. Strengthening financial management and strategic planning can enhance their sustainability.

OBJECTIVES

1. To examine the influence of Economic Value Added (EVA) on the financial performance of Primary Cooperative Agriculture Development Banks in Coimbatore.
2. To assess the Financial Health Index (FHI) as a holistic indicator of financial stability in Primary Cooperative Agriculture Development Banks.
3. To evaluate the effectiveness of the Z-score model in predicting financial distress within Primary Cooperative Agriculture Development Banks.

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METHODOLOGY

Type of Research

It is a Descriptive Research

Period of Study

The study covers the period of 5 years i.e. from 2019 – 2024.

Nature of Data

The data are secondary in nature.

Source of Data

Data are collected from the annual reports of cooperative banks.

REVIEW OF LITERATURE

R. Uthayakumar (2018), the provision of money when needed. Every business, regardless of size, requires finance to operate and achieve its goals. It is considered the lifeblood of an enterprise, as no business can succeed without sufficient funds. Finance involves managing the flow of money within an organization. This study aims to analyze financial aspects such as the comparative balance sheet, operating performance, liquidity position, and long-term solvency of a company. However, the study primarily relies on secondary data, which may have limitations. Effective financial management is crucial for business sustainability. Proper analysis helps in making informed financial decisions.

R. Ramachandran (2019) conducted a study on the financial performance of Alangulam Primary Agriculture Co-Operative Credit Society (PACCS). In the era of Liberalization, Privatization, and Globalization, market competition has intensified, making financial evaluation crucial for business survival. Assessing financial performance helps determine a company's market position and areas for improvement. The study examines liquidity, profitability, efficiency, and leverage to draw meaningful conclusions. It is based on the financial performance analysis of PACCS using secondary data. The research relies on five years of annual reports from 2014 to 2019. The balance sheet serves as the primary source of financial data. Understanding financial trends helps PACCS enhance its future performance.

Alam et al. (2021) studied the long-term relationship between bank performance and economic development in India. The research analyzed data from 20 public sector banks between 2009 and 2019. Various econometric models, including the Pedroni and Kao cointegration test and vector error correction model (VECM), were used. The study examined factors like interest margin, return on assets, bank investment, and lending capacity in relation to GDP. Findings indicate a positive correlation between banking factors and economic growth. Interest margin and return on assets showed a strong link to economic development. However, lending capacity and investment activities had a weaker connection. The study highlights the significant role of banking performance in driving economic progress.

ANALYSIS AND INTERPRETATION

1. ECONOMIC VALUE ADDED

Year	EBIT	NOPAT	Capital Employed	WACC
2020	7,518.44	5,262.91	10090.46	66.70%
2021	7,564.20	5,294.94	9483.48	9.91%
2022	8,257.72	5,780.40	9846.93	9.92%
2023	8,502.47	5,951.73	10349	10.84%
2024	8,502.47	6,000.79	10554.18	11%

INTERPRETATION

Over the five-year period, the company's Economic Value Added (EVA) shows a positive trend after 2020, indicating significant improvements in value creation. In 2020, the extremely high WACC of 66.7% led to negative EVA, suggesting that the company was not generating sufficient returns to cover its capital costs

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2. FINANCIAL HEALTH INDEX

CURRENT RATIO

Year	Current Assets	Current liabilities	Percentage
2019-20	54420.61	102130.49	0.53
2020-21	58367.65	122543.8	0.48
2021-22	63572	125983.4	0.50
2022-23	66255.53	134077.7	0.49
2023-24	70730.17	139481.7	0.51

INTERPRETATION

The above table shows that the current ratio 0.53% in the year of 2019-2020, it has decreased to 0.48% in the year of 2020-2021, it has increased to 0.50% in the year of 2021-22, it has decreased to 0.49% in the year of 2022-2023 and it has increased to 0.51% in the year of 2023-2024.

3. CASH RATIO

Year	Cash+ Marketable Securities	Current liabilities	Percentage
2019-2020	57441.36	102130.49	0.56
2020-2021	76472	122543.8	0.62
2021-2022	74649.15	125983.4	0.59
2022-2023	78381.72	134077.7	0.58
2023-2024	79754.7	139481.7	0.57

INTERPRETATION

The above table shows that the return on assets 0.38% in the year of 2019-2020, it has decreased to 0.27% and 0.07% in the year of 2020-2021 and 2021-2022, it has increased to 0.08% in the year of 2022-2023 and it has decreased to 0.07% in the year of 2023-2024.

4. RETURN ON EQUITY

Year	Profit after taxes	Net worth	Percentage
2019-2020	424.85	9090.47	0.05
2020-2021	350.38	9513.49	0.04
2021-2022	97.9	9870.93	0.01
2022-2023	117.58	10348.99	0.01
2023-2024	102.78	10554.18	0.01

INTERPRETATION

The above table shows that the return on equity ratio 0.05% in the year of 2019-2020, it has decreased to 0.04% in the year of 2020-2021, it has decreased to 0.01% in the year of 2021-2022, 2022-2023 and 2023-2024.

5. VII.Z SCORE

Year	X1	X2	X3	X4	X5	Z Score
2020	0.914	0.074	0.068	0.089	0.091	1.57
2021	0.0824	0.0657	0.0573	0.0727	0.0763	0.50
2022	0.0869	0.0664	0.0608	0.0733	0.0814	0.52
2023	0.0645	0.0652	0.0589	0.0723	0.0779	0.48
2024	0.0609	0.0642	0.0567	0.071	0.0767	0.47

INTERPRETATION

The Altman Z-score is a financial indicator used to evaluate a company's fiscal stability and forecast the probability of insolvency. A higher Z-score signifies financial stability, while a lower Z-score implies financial trouble.

CONCLUSION

The bank has experienced significant fluctuations in its financial performance over the years. Key areas such as working capital, liquidity ratios, and return on assets have shown both growth and decline. While improvements in working capital and deposit management are evident, challenges remain for long-term financial stability. Variations in the debt-equity ratio and return on equity highlight concerns about capital structure. These fluctuations suggest the need for better financial planning and risk management.

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Operational efficiency must be enhanced to sustain profitability. Addressing these issues will help the bank mitigate financial risks. A stable financial strategy is essential for future growth. Continuous monitoring and adjustments can improve overall performance.

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