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FINANCIAL PERFORMANCE EVALUATION OF REGIONAL RURAL BANKS IN INDIA

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ABSTRACT

Regional Rural Banks were established under the provisions of an Ordinance approved on September 26, 1975 and the RRB Act.1976 to offer adequate banking and credit facilities for agriculture and non-agricultural sectors. The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalised sections. Regional Rural Banks (RRBs) are the key role players in developing Indian economy for disbursement and rendering monitory transactions in rural, semi-urban and urban areas.The thrust of the reforms was on increasing operational efficiency, strengthening supervision over banks, creating competitive conditions and developing technological and institutional infrastructure. These measures led to the improvement in the financial health, soundness and efficiency of the banking system.In the current paper, an attempt has been made to study the financial performance of Regional Rural Bank (RRB), keeping in view the present trends of regional rural banks in the national perspective. The study found that the performance of Regional Rural Banksin India has drastically improved from the period of its establishment, as steps for their improvement were initiated by the Government of India after the amalgamation process.

KEY WORD: *Performance Evaluation, Regional Rural Banks, Rural Development and Rural Economy.*

INTRODUCTION:-

Banks play an important role in mobilization and allocation of resources in any country. Rural people in India are facing problems in the inadequate supply of credit. The major source of credit to rural households, particularly-low income working households, has been the informal sector. Informal sector advances loans at very high rates of interest; the terms and conditions attached to such loans have given rise to an elaborate structure of intimidation of both economic and non-economic conditions in rural population in India.

The objectives as given in the preamble of RRBs Act of 1976 were “to develop the rural economy in providing for the purpose of development of agriculture, trade commerce, industry and other productive activities in the rural areas, credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and for matter connected therewith and incidental thereto”

The Narasimhan committee proposed the establishment of Regional rural Banks in 1975 as a new set of regionally oriented rural bank with a motive “to make available the banking services to the doorstep of rural residents for the progress of weaker section of the society, to build up the rural economy by the development of agriculture, trade commerce, by providing credit and other banking facilities mainly to the, small and marginal farmers, landless laborers, rural artisans and small entrepreneurs”. Subsequently, the RRBs were set up through the promulgation of RRB Act of 1976. In the timeframe of last 40 years RRBs came in front as specialized rural financial institutions for developing the rural economy.

REVIEW OF LITERATURE

A number of studies have been conducted to see the functioning and performance of regional rural bank in the country. The literature available in the working and performance of RRBs in India is a little limited. The literature obtained by investigators in the form of reports of various committees, commissions and working groups established by the Union Government, NABARD and Reserve Bank of India, the research studies, articles of researchers, bank officials, economists and the comments of economic analysts and news is briefly reviewed in this part. Some of the related literatures of reviews are as follows.

Sanjeev Kumar, (2010) in his thesis entitled "Performance measurement systems in Indian Banking Sector" and findings regarding performance measurement system in Indian Banking Sector in CAMELS framework explained that CAMEL framework is an important performance measurement system based on different ratios used to find out ranking of the banks. CAMEL Model involves computation of various ratios under Capital Adequacy Assets Quality, Management Efficiency, Earning Quality and Liquidity of the banks. Different banks may use different ratios (relationship) for each variable of CAMEL Model so as to find out ranking of various banks. CAMEL Model is basically a ratio based Performance Measurement system which is based on financial measures for measuring the performance of the banks.

M.Syed Ibrahim, (2010) in his article christened "Performance Evaluation of Regional Rural Banks in India" expressed that the process of merger should not proceed beyond the level of sponsor bank in each state. The findings may be of considerable use to rural banking institutions and policy makers in developing countries and to academic researchers in the area of banking performance evaluation. The study finds and concludes that performance of rural banks in India has significantly improved after amalgamation process which has been initiated by the Government of India.

Ishwara P., (2011) in his research article titled "The performance of the RRBs from1980- 81 to2008-09. In order to know the implications of transformation of RRBs in 2004, the study focused on financial results before and after amalgamation. After amalgamation, RRBs transformation had resulted in a 200 per cent increase in net profits, and a 100 percent increase in business. There was a gradual reduction in the number of loss making banks and addition of 1,000 outlets. All this had been because of consolidation among RRBs.

Reddy, D. M. and Prasad, K.V.N. (2011) in their article entitled "Evaluate the performance of two selected RRBs i.e. Andhra Pragathi Gramina bank (APGB) and Sapthagiri Gramina bank(SGGB) during 2006 to 2010. The study used CAMEL Model for the purpose of the study. CAMEL is basically ratio based model for evaluating the performance of banks. The study also used arithmetic mean and t-test using SPSS 19 for analysing the data and interpreting the results. The study showed that APGB performed better in case of TA/DA, quality of earnings, protecting the interest of creditors. While SGGB proved to be good in case of Asset Quality. The study also highlighted that on the basis of overall performance that APGB rated top. The two sample bank does not differ significantly in liquidity position during the study period.

Girish. K. Nair and Dr. R. Thirumal (Sep 2012) in their article entitled "The progress and growth pattern of regional rural banks in India"- specially the profit making RRBs for a period of ten financial years from 1997-98 to 2006-07. The nature of study was analytical and descriptive. The secondary data was used and collected from NABARD, RBI, selected books, article, report, and other publications. The profitability of the RRBs was measured by using the CRAMEL analysis and the growth pattern of RRBs by correlation and the compound annual growth rate techniques (CGAR). The CRAMEL is basically a ratio based modal for evaluating the performance of banks. It prefers to six components of the banks efficiency namely capital adequacy, resource deployment, asset quality, management efficiency earning quality and liquidity. The result was that the 'profit making RRBs 'made a significant contribution for the overall growth of RRBs in India.

N M Makandar (2013) in his article christened "Analysis of Productivity Efficiency of RRBs: A Comparative Study of Pre and Post Amalgamation of KVGB & PGB" the study investigated the effects of amalgamation on the financial performance of Regional Rural banks in India. The research compared the pre-merger and post-merger financial performance of KVGB and PGB which were amalgamated during 2005.

Bhatia, Aparna and Megha(2013) in their published article entitled "Performance Evaluation of RRBs in India during Pre and Post merger period". The overall objective of the study was to assess whether the amalgamation process in the Indian rural banking sector has been successful in restructuring the banks. The specific objectives of this study were to evaluate the performance and growth pattern of RRBs in terms of spread, burden, profitability and productivity over the period under study and weather the performance of RRBs significantly differ from pre and post amalgamation period. The study concluded that overall there is an improvement in the efficiency of RRBs in post merger period. The spread ratio, productivity and profitability of RRBs shows upward trend in post merger period and burden ratios were continuously diminishing after amalgamation period.

Soni, A.K. and Kapre, A. (2013) in his article titled "The current status of RRBs in India". The main objective of the study was to analyse the key performance indicators of RRBs in India. The study used indicators such as no. of RRBs and its branches, deposits, loans, investment and growth rate index in order to measure the performance of RRBs. The study used the secondary data taken from annual reports of NABARD and RBI. The study showed that the success of rural credit in India depends on their financial strength and at present, most of RRBs are facing the problems of overdue, recovery, non performing assets and other problems. The study found that deposits of RRBs have increased during the study period. The performance of RRBs had improved significantly.

B. Venkatarao and Dr.G. Sudarshanarao (2014) in their article entitled "performance of Regional Rural Banks in India-A study on Andhra Pradesh Grameena Vikas Bank in Andhra Pradesh" have expressed that the Regional Rural Banks are playing a vital role in the development of rural and needy agricultural poor people in all sphere by providing financial assistance for agriculture in India. The study concentrated on Performance of Andhra Pradesh GrameenaVikas Bank in various identified areas.

Mohindra Versha (2014) in his research article entitled "The impact on banking sector reforms on the performance of regional rural banks with respect to productivity and efficiency of banks by using ratio analysis improved. The reform period was from 1991-2011 the lower the ratio, the more efficient is the banking system. Higher value of the ratio was indicated higher profitability and productivity. The performance of regional rural banks during the beginning of first generation reforms period 1991-92 showed negative profit and positive profit in second generation reform period 1996-97. The measure limitation of the ratio analysis has been observed that managerial incapability was responsible for this in India. The ratio analysis demonstrates showed that the banking sector reform has provided the plate form to the regional rural banks to achieve targets of rural development and financial inclusion.

Dr. Y. G. Baligatti and ShilpaDanappanavar (2016) in their article christened "Performance evaluation of Regional rural banks in India" have identified that there is considerable decline in the number of RRBs and the process of amalgamation has enabled the RRBs to improve their financial performance. There is an imbalance growth of RRBs where backward areas have been given least priority and it is noticed that profitability position of RRBs has increased during the post amalgamation period. Further, suggested that to design the appropriate deposit mobilization policy on which the survival of RRBs depends.

Dr. SatishKumar Et.al (2017) in their article concluded that the rapid development of RRB has helped in reducing substantially the regional inequality in respect of banking facilities in India. The efforts made by the RRBs in Branch expansion, deposit mobilization, rural development and credit deployment in weaker section of rural areas are appreciable.

OBJECTIVE OF THE STUDY:

The intention behind this study is:

1. To examine the progress and Performance of RRBs in India during 2012-13 to 2017-18.

2. To study the role of Regional Rural Banking for Rural Development.

RESEARCH METHODOLOGY:

The Present study is mainly based on secondary data. The Data was collected from annual reports of the RRBs, National Bank for Agriculture and Rural Development (NABARD) and Reserve Bank of India (RBI) and other related information collected from journals, conference proceedings and websites. The present study is confined only to some specific areas of RRBs after amalgamation period starting from 2012-13 to 2017-18.

Role of Regional Rural Banking for Rural Development:

Regional Rural Banks were established with the following responsibilities in mind:

1) Taking the banking services to the doorstep of rural masses, particularly in hitherto unbanked rural areas.
2) Identify the financial need especially in rural areas.
3) Making available institutional credit to the weaker section of the society who had by far little or no access to cheaper loans and had perforce been depending on the private money lenders.
4) To enhance banking & financing facilities in backward or unbanked areas.
5) Mobilize rural savings and channelize them for supporting productive activities in rural areas.
6) To provide finance to the weaker sections of society like small farmers, rural artisans, small producer, rural labourers etc.
7) To create a supplementary channel for the flow the central money market to the rural areas through refinances.
8) To provide finance to co-operative societies, Primary Credit societies, Agricultural marketing societies.
9) Generating employment opportunities in rural areas and bringing down the cost of providing credit to rural areas.
10) Enhance & improve banking facilities to semi urban, rural & other untapped market. With these objectives in mind, knowledge of the local language by the staff is an important qualification.

RESULTS AND DISCUSSIONS:

Table-1: Financial Indicators of Regional Rural Banks in India

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
No. of RRBs	64	57	56	56	56	56
Branch Network (No)	17861	19,082	20024	20904	20920	21422
Share Capital	197.00	197.00	197.00	197.00	6387.00	6401.00
Share capital Deposit	6001.00	6,170	6,173.00	6175.00	-	-
Tier II Bond	-	-	-	-	97.00	20.00
Reserves	13247.00	15,736	18,462.00	18,712.00	20,665.00	23,080.00
Deposits	2,11,488	2,39,504	2,71,329.00	2,73,018.00	3,13,499.00	3,71,910.00
Borrowings	38,073.00	51,208.00	58,824.00	59,422.00	47,888.00	51,588.00
Investments	1,08,548.00	1,10,514.00	1,06,780.00	1,62,781.00	1,69,592.00	2,10,984.00
Gross Loans & Advances Outstanding	1,37,078.00	1,59,660.00	1,84,843.00	1,80,955.00	2,06,538.00	2,26,175.00
RRBs Earning Profit(No)	63	57	51	51	50	49
Amount of Profit (A)	2,275.00	2833.00	2,958.00	2,921.00	2,206.00	2,604.00
RRBs incurring Losses (No)	1	0	5	5	6	7
Amount of Losses (B)	2.07	0	177.00	176.00	188.00	387.00
Net Profit of RRBs (A-B)	2,273.00	2,833.00	2,781.00	2,745.00	2,018.00	2,218.00

Accumulated Losses	1,091.00	903.00	1,069.00	1,072.00	1,050.00	1,147.00
RRBs with Accumulated Losses (No)	11	8	8	8	8	8
Recovery (%)	81.2	81.9	79.47	79.50	82.55	NA
NPAs to Loans Outstanding (%)	6.1	4.4	5.72	6.15	6.80	NA
Netwoth	18,355.00	21,199.00	23,763.00	24,011.00	26,099.00	NA

Source: Reports of NABARD from 2012-13 to 2017-18 Note: Amounts of Rs are in Crores

It is very clear from the table 1 that the number of RRBs decreased from 64 in the year 2012-13 to 56 in 2017-18. This was due to the second phase of amalgamation that took place in the year 2012. However, the number of branches has been significantly increased from 17861 in 2012-2013 to 21,422 in 2017-18. RRB' is showing considerable improvement in their credit and deposits performance. The deposits mobilized by the bank has been increased from Rs.2,11,488crore in the year 2012-13 to Rs.3,71,910 crore in 2017-18. Loans outstanding of the RRBs also highlighted the significant improvement as it has been increased from Rs.1,37,078.00 crore in the year 2012-13 to Rs.2,26,175.00crore is 2017-18. The recovery performance of the RRBs improved over study period from 81.2% in 2012-13 to 82.55% in 2016-17.

CONCLUSION:

In the present study, the financial performance of Regional Rural Banks, an attempt has been made to analyze the performance in terms of certain defined parameters like number of branches, capital funds, and mobilization of deposits, loans and investments made by these banks. The performance of RRBs in India improved in the post-merger period. Even though number of RRBs decreased, the branch network has been increased. During the study period, total capital funds have been increased tremendously after amalgamation took place in the year 2012-13.Credit-deposit ratio has been increased over the years showing that a remarkable deployment of credit by these banks in rural areas. However, it is the responsibility of the bank management and the sponsored banks to take the change for corrective steps to raise the credit-deposit ratio of the bank. The gap between CD ratio of commercial banks and the RRBs need to be minimized. RRBs should extend their services in to un-banked areas and increase their credit-deposit ratio.

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