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Performance Evaluation of Regional Rural Banks in India during Post Merger Period

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Abstract

Regional rural Banks plays a vital role in the agriculture and rural development of India. The RRBS have more reached to the rural area of India, through their huge network. The success of rural credit in India is largely depends on their financial strength. RRBs are key financing institution at the rural level which shoulders responsibility of meeting credit needs of different types of agriculture credit in rural areas. At present, most of the regional rural banks are facing the problems of overdue, recovery, nonperforming assets and other problems. Steps have been taken up by the Government of India to improve their viability. But, the trend of recurring losses continued. In view of this, a policy outcome for amalgamation of RRBs at sponsor bank level was initiated by Government of India in the year 2005-06. Therefore, it is necessary to study financial performance of RRBs in India after post amalgamation. This paper attempts to analyze the financial performance of RRBs in India during the period 2006-07 to 2011-12. The study is based on secondary data collected form annual reports of NABARD and RRBs. An analytical research design of Key Performance Indicators Analysis such as number of banks and branches, deposits, loans, investments and growth rate index is followed in the present study. The study is diagnostic and exploratory in nature and makes use of secondary data. The study finds and concludes that performance of RRBs has significantly improved.

Keywords: Regional Rural Banks, Growth Rate, Rural Economy, NABARD, Amalgamation

Introduction

Regional Rural Banks have been in existence for around 38 years in the Indian financial scene. 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 marginalized sections. The Banking Commission (1972) recommended to establish an alternative institution for rural credit. In order to provide access to low-cost banking facilities to the poor, the Narasimham Working Group (1975) proposed the establishment of a new set of banks, as institutions which "combine the local feel and the familiarly with rural problems which the cooperatives processes and the degree of business organisation, ability to mobilise deposits, access to central money markets and modernized outlook which the commercial banks have”[1].

Subsequently, the Regional Rural Banks were setup through the promulgation of RRB Act of 1976. The RRBs Act, 1976 succinctly sums up this overall vision to sub-serve both the developmental and the redistributive objectives. The RRBs were established “with a view to developing the rural economy by 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 small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto”[2]. Their equity is held by the Central Government, Concerned State Government and the Sponsor Bank in the proportion of 50:15:35 respectively.

Objectives of the Study

1. To measure financial performance of Regional Rural banks in India during post merger.
2. To analyze the key performance indicators of RRBs in India during post merger.
3. To evaluate progress of the RRBs during 2006-07 to 2010-12.
4. To study the growth-pattern of Regional Rural Banks in India during post merger.
5. To make important suggestions to improve the working of RRBs.

Problems of the Study

1. First and important problem of the research work is analysis of financial data.
2. Information from NABARD and RBI was difficult to be obtained.

Significance/ Importance of the Study

The research study is significant to evaluate financial performance of RRBs in India during post merger. The results/ findings of the present study are useful to the policy planners in their efforts to improve the working of the RRBs in India.

Research Methodology

The financial performance of the RRBs in India has been analyzed with the help of key performance indicators. The year 2010-2011 was taken as the current year and year 2009- 2010 was base year for the calculation of growth rate. Analytical Techniques Employed-Growth rate analysis was undertaken with a view to studying financial performance related to the RRBs. Growth rate is measured with the help of following formula-

Growth Rate = Yt -Yt1 / Yt1

Yt= Current Year, Yt1=Base Year.

[1] Government of India, Report of the Committee (Working Group under the Chairmanship of M. Narasimham) on Rural Banks, New Delhi, 1975, p.10

[2] Regional Rural Banks, An Overview, Banking & You, September, p.9

The study is based on the performance of RRBs in India during post merger. Therefore, study covers all RRBs in India to the fulfillment of objectives of the study. For collection of the secondary data on financial performance of the RRBs in India, six years i.e. from 2006-2007 to 2011-12 were taken as the reference period. The accounting year of the bank commences on 1st April of every year and ends on 31st March of next year. The present study is diagnostic and exploratory in nature and makes use of secondary data. The study is confined only to the specific areas like number of branches, district coverage, deposits mobilized, credits and investments made by the Indian Regional Rural Banks (RRBs) for the six years period starting from 2006-07 to the year 2011-12. The present study is empirical in character based on the analytical method. The study is mainly based on secondary data which is collected, compiled and calculated mainly from annual reports of the NABARD and RBI. Other related information collected from journals, conference proceedings and websites.

Key performance Indicators of RRBs in India:

Table 1 presents the key performance Indicators and growth rate of RRBs from year 2007-08 to 2011-12.

Table 1. Key Performance Indicators and Growth of RRBs:(Rs. in Crore)

Parameters	2007-08	2008-09	2009-10	2010-11	2011-12	Growth rate
No. of RRBs	91	86	82	82	82	-
Profit/Loss Making	83/8	80/6	79/3	75/7	79/3	-
No. of Branches	14761	15158	15480	16001	16909	5.67
Districts covered	594	617	618	620	638	2.90
Staff	68005	68509	69042	70153	74291	5.90
Owned Fund (Rs.)	8732.59	10895.73	12247.16	13838.92	16462.00	18.95
Deposit (Rs.)	99093.46	120184.46	145035.00	166232.34	186336.07	12.09
Borrowings (Rs.)	11494.00	12733.80	18770.00	26490.81	30288.83	14.34
Investments (Rs.)	48559.54	62629.45	79379.16	86510.44	95974.93	10.94
Gross Loan O/S (Rs.)	58984.27	67858.48	82819.10	98917.43	116384.96	17.66
Loan Issued (Rs.)	38581.97	43445.59	56079.24	71724.19	82538.39	15.08
CD Ratio	59.52	56.46	57.10	59.41	62.46	-
Accumulated Losses (Rs.)	2624.22	2325.59	1775.06	1532.39	1332.56	-13.04
Profit (Before Tax) (Rs.)	1383.68	1859.36	2514.83	2420.75	2549.39	5.31
Loss (Rs.)	55.58	35.91	5.65	71.32	28.86	-59.53
Tax Paid to Govt. (Rs.)	301.12	461.14	625.25	634.22	663.24	4.57
Gross NPA Amount (Rs.)	3566.34	2804.02	3084.82	3712.00	5859.12	57.84
Gross NPA %	6.05	4.13	3.72	3.75	5.03	-
Net NPA Amount (Rs.)	1929.71	1114.54	1423.31	1941.32	3372.28	73.72
Net NPA %	3.19	1.68	1.80	2.05	2.98	-
Recovery %	80.84	77.76	80.09	81.18	81.60	-
Net Worth (Rs.)	6107.37	8570.04	10472.10	12306.53	15129.43	22.94
Branch Productivity (Rs.)	10.75	12.41	14.72	16.57	17.90	8.03
Staff Productivity (Rs.)	2.33	2.74	3.70	3.78	4.07	7.67

Source: Reports of NABARD and RRBs

Findings of the Study

Coverage of districts by RRBs: As many as 638 districts are covered by RRBs as on 31st March 2012 as against 620 as on 31st March 2011; registering growth rate of 2.90.

Brach Network of RRBs. he number of branches of RRBs increased 16909 as on 31st March 2012 as against 16001 as on 31st March 2011. Growth rate 5.67.

Sources of Funds: The sources of funds of RRBs comprise of owned fund, deposits, borrowings from NABARD, Sponsor Banks and other sources.

Owned Funds: The owned funds of RRBs comprising of share capital, share capital deposits received from the shareholders and the reserves stood at Rs. 16462.00 crore as on 31 March 2012 as against Rs. 13838.92 crore as on 31 March 2011 registering a growth of 18.95%. The increase in owned funds to the tune of Rs. 2623.08 crore was mainly on account of accretion to reserves by the profit making RRBs.

Deposits: Deposits of RRBs increased from 145035 crore to 166232.34 crore during the year registering growth rate of 14.60%. Gurgaon GB reported the highest deposit growth rate of 37%. There are Sixteen (16) RRBs having deposits of more than 3000 crore each.

Borrowings: Borrowings of RRBs increased from 18770 crore as on 31 March 2010 to 26490.81 crore as on 31 March 2011 registering an increase of 41.10%. Borrowings vis-a-vis the gross loan outstanding constituted 26.8% as against 22.7% in the previous year.

Uses of Funds: The uses of funds of RRBs comprise of investments and loans and advances.

Investments: The investment of RRBs increased from 79379.16 crore as on 31 March 2010 to 86510.44 crore as on 31 March 2011 registering an increase of 8.98%. SLR investments amounted to 45022 crore where as non-SLR investments stood at 41488 crore. The Investment Deposit Ratio (IDR) of RRBs progressively declined over the years from 72% as on 31.3.2001 to 52.04 % as on 31 March 2011.

Loans & Advances: During the year the loans outstanding increased by 16098.33 crore to 98917.43 crore as on 31 March 2011 registering a growth rate of 19.4% over the previous year. Meghalaya Rural Bank recorded the highest growth rate of 35% during the year 2010-11.

Loans Issued: Total loans issued by RRBs during the year increased to 71724.19 crore from 56079.24 crore during the previous year registering a growth of 27.90%. Samastipur KGB reported highest growth rate of 123% during 2010-11 followed by Andhra Pradesh GVB at 112%.

Working Results

1. Profitability

75 RRBs (out of 82 RRBs) have earned profit (before tax) to the extent of 2420.75 crore during the year 2010-2011. The profit was marginally lower than the previous year. After payment of Income

Tax of 634.22 crore, the net profit aggregated to 1786.53 crore. The remaining 7 RRBs incurred loss to the tune of 71.32 crore.

2. Accumulated Losses: As on 31 March 2011, 23 of the 82 RRBs continued to have accumulated losses to the tune of 1532.39 crore as against 1775.06 crore (27 RRBs) as on 31 March 2010. The accumulated loss decreased by 242.67 crore during the year under review.

3. Non-performing Assets (NPA): The Gross NPA of RRBs stood at 3712 crore as on 31.03.2011 (i.e.3.75%). The percentage of Net NPA of RRBs has shown an increase from 1.8% to 2.05% during the year. The data revealed that 15 RRBs had gross NPA percentage of less than 2%, whereas 33 RRBs had it above 5%.

4. Recovery Performance; There has been an improvement in the recovery percentage during 2009-10 from 80.09% as on 30 June 2009 to 81.18% as on 30 June 2010. The aggregate overdue, however, increased by 934 crore to 9805 crore as on 30 June 2010.

5. Credit Deposit Ratio: The aggregate CDR of RRBs increased over the years from 57.10% as on 31 March 2010 to 59.51% as on 31 March 2011. Eight of the RRBs reported CDR of more than 100%.

6. Productivity of Branch and Staff: The branch productivity increased to 16.57 crore in 2010-11 from 14.72 crore in 2009-10 with a growth of 12.57%. Similarly, staff productivity in 2010-11 increased to 3.78 crore from 3.70 crore in 2009-10 with a growth of 2.16%.

Problems (Weakness) of RRBs: Although RRBs had a rapid expansion of branch network and increase in volume of business, these institutions went through a very difficult evolutionary process due to the following problems.

1. Very limited area of operations
2. High risk due to exposure only to the target group
3. Public perception that RRBs are poor man's banks
4. Mounting losses due to non-viable level of operations in branches located at resource-poor areas.
5. Switch over to narrow investment banking as a turn-over strategy
6. Heavy reliance on sponsor banks for investment avenues with low returns barring exceptions, step-motherly treatment from sponsor banks.
7. Chairman of RRBs under the direction of Regional Managers appointed as Board of Directors by sponsor banks
8. Burden of government subsidy schemes and inadequate knowledge of customers leading to low quality assets
9. Unionized staff with low commitment to profit orientation and functional efficiency.
10. Inadequate skills in treasury management for profit orientation
11. Inadequate exposure and skills to innovate products limiting the lending portfolios

12. Inadequate effort to achieve desired levels of excellence in staff competence for managing the affairs and business as an independent entity
13. Serious undermining of the Board by compulsions to look up to sponsor banks, GOI, NABARD and RBI for most decisions.
14. RRB hampered by an across the board ban on recruitment of staff.

Suggestions (Recommendations) For Improvement of RRBS

1. Government should encourage and support banks to take appropriate steps in rural development.
2. Efforts should be made to ensure that the non-interest cost of credit to small borrowers is kept as low as possible.
3. Policy should be made by government for opening more branches in weaker and remote areas of state.
4. Productivity can be improved by controlling the costs and increasing the income.
5. To participation cost, subsidy should be adjusted towards the end of the transaction for which loan assistance is sanctioned.
6. Government should take firm action against the defaulters and shouldn't make popular announcements like waiving of loans.
7. The RRBs have to make an important change in their decision making with regard to their investments.
8. The RRBs have to be very careful and reduce the operating expenses, because it has been found from our study that these expenses have increased the total expenditure of the banks.
9. The RRBs have to give due preference to the micro-credit scheme and encourage in the formation of self help group.
10. Cooperative societies may be allowed to sponsor or co-sponsor with commercial banks in the establishment of the RRB.
11. A uniform pattern of interest rate structure should be devised for the rural financial agencies.
12. The RRB must strengthen effective credit administration by way of credit appraisal, monitoring the progress of loans and their efficient recovery.
13. The credit policy of the RRB should be based on the group approach of financing rural activities.
14. The RRB may relax their procedure for lending and make them easier for village borrowers.

Conclusion

To conclude, the rapid expansion of RRB has helped in reducing substantially the regional disparities in respect of banking facilities in India. The efforts made by RRB in branch expansion, deposit mobilization, rural development and credit deployment in weaker section of rural areas are appreciable. RRB successfully achieve its objectives like to take banking to door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private lenders, to encourage rural savings for productive activities, to generate employment in rural areas and to bring down the cost of purveying credit in rural areas. Thus RRB is providing the strongest banking network. Government should take some effective remedial steps to make Rural Banks viable. Regional Rural Banks plays a key role as an important vehicle of credit delivery in rural areas with the objective of credit dispersal to small, marginal farmers & socio economically weaker section of population for the development of agriculture, trade and industry .But still its commercial viability has been questioned due to its limited business flexibility, smaller size of loan & high risk in loan & advances. Rural banks need to remove lack of transparency in their operation which leads to unequal relationship between banker and customer. Banking staff should interact more with their customers to overcome this problem. Banks should open their branches in areas where customers are not able to avail banking facilities. In this competitive era, RRBs have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract potential customers.

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