A Study On The Financial Performance of Regional Rural Banks

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ABSTRACT

At present time, RRBs (Regional Rural Banks) assumes a basic part in the development of rustic districts which essentially comprises of 2/third populace in all over India. RRBs give offices of ideal credit and different fundamental administrations which required for the help of individuals of provincial locales. The effectivity of provincial money profoundly depends on the money potential and capacity. At provincial level, RRBs are the one of the most significant and fundamental monetary and monetary association which gives different valuable offices to individuals of country districts. This examination and examination is fundamentally directed based on optional wellspring of data which was accumulated from the yearly report of NABARD. Thus, one might say that the monetary and monetary exhibitions of RRBs has expanded surprisingly.

Keywords: Regional Rural Banks, Financial Performance, Rural Areas, NABARD.

I. INTRODUCTION

As per the report submitted by NABARD (2012), the unavailability of accessibility of fiscal facilities by the poor people is found as one of the crucial and serious limitation for including the backwards in the progression of inclusive growth. It is also proved that bank is emerged as one of the key factors in the economic growth. Under RRBs Act, 1976, RRBs were established in 1975 with a prior intention of acquiring enhancements in economy by giving timely credit and other various services specifically to small and marginal farmers, artisans, agricultural labors and small entrepreneurs or groups of low income in the society for the intention to accelerate trading of agriculture, commerce, industry and various effective activities in rural regions. As per Indian scenario, RRBs is not only link between the transforming housing products or small savings to well organized industrial investments but also act as the financial services and facilities providers to the non-banking areas of economy of India. On the recommendation of the Vyas Committee in 2005 which was constituted in 2001 and suggested the reconstruction of the RRBs, the first stage of consolidation or merging or RRBs was done by merging 196 RRBs, for enhancing their operations to attain financial benefits and assure better control by giving suitable autonomy and to take required solution for their queries like NPA, recovery performance, expansion of Branch etc. RRBs emerge as a key factor of financial or fiscal system of the rural regions. By observing the network of the RRBs, it can be ensure that transformation of household savings etc. from distant areas to wide industrial forms as capitalization can be succeed at comfortably.

As per the report of the banking commission (1972), the idea of setting up of ruralbanks in India. All over the journey of Regional Rural Banks in India started from year 1975 and the RRBs have become important part of the rural financial facilities to the rural masses by adding broad network of branches, modern approaches schemes etc. in various states of the nation. For smoother and better working of RRBs, several actions have been taken like as consultation with NABARD, state level merger of RRBs between specific state government and sponsor of merger wise banks in September 2005. As per the suggestion of Vyas committees, in 2004, merger of RRBs will bring the operational highs through enough control and services. The merger procedure includes of two stages. In the initial stage, the merger of all RRBs of sponsor banks to create a sole unit in that state whereas in the second stage, state level merger was completed.

In the course of 2005 to 2008, the first stages of the procedure of the merger were basically done between the sponsors bank of RRBs at state level. Under the chairmanship of Sardesai, in 2005, a committee was formed by RBI to investigate the influence of restricting the RRBs. As per this committee, Merger or amalgamation of RRBs is good decision of government to make the more effective and profitable economic and financial organization. In the last of sept, 2005, there were near about196 RRBs which workings in 26 states across all over the 525 districts with solid and stable network of 14,494 branches. In 2008, just after the merger procedure of RRBs,the numbers of total RRBs were decreased from 196 to 88.

The second stage of the merger procedure was mainly begun in Oct, 2012. Earlier, a committee was constituted by the government under the chairmanship of Chakraborty. Their main work is to know the fiscal and financial strength of all the RRBs and had an objective to create some modern approaches or strategies to achieved CRAR of 9% till final deadline of March 2012. As per the suggestion of Chakraborty committee, near about 40 RRBs out of 82 in 21 states were recapitalized. It has also resulted in the ratio of the main share capital of RRBs as 50, 35 and 15 for central government, sponsor banks and state government respectively. The total number of RRBs became 56 afterthe completion of second state of merger; it covers near about 646 districts having 20905 branches till the end of March 2016. As we know that RRBs is having a crucial role in the growth of the economy and financial condition of rural regions (Khan, B.M, 2013). Moreover, several studies were done in the assessment of RRBs and determine that collective performance mainly resulted with their objectives and performance shown by RRBs. As per [18],with the passage of time, RRBs have gradually and significantly improved.

FINANCIAL PERFORMANCE OF REGIONAL RURAL BANKS

The development of the rural areas plays a crucial role in the social and economic growth of country as most of the population lives in rural regions. Economy of rural areas has makes a high impacts on all the financial activities in the country and it basically creates plenty of employments to many unskilled labor section people. Most of the rural peoples face plenty of difficulties in accessing finance from the fiscal organization and banks as they highly depend on domestic financers for their fiscal needs Exclusion of rural population issues in accessing finance for different purpose is highly essential for financial growth. In India, as per the suggestion of Banking Commission 1972, to initiate an secondary financial organization in order to give finance for rural organization. Consequently, RRBS were commenced as a special and separate financial organization for rural finance by the announcement of RRB Act of 1976.

The strategy behind the formation is to instruct the domestic experience and acquisition of rural issues with the properties of cooperatives and high resource base of commercial banks. As this modern development in the economic system of India can be looks like as a distinctive experiment in addition to a great experience in getting better the productivity of the tool of rural credit delivery system. RRBS were launched with the overview of growth of rural economy by giving credit and other services for the development of trade, industry, agriculture, commerce and many other effective activities in rural regions.

RRBs are approved to transact the business of banking as explained in the Banking Regulation Act 1956. Furthermore, RRBs are mainly designed for the financial institution basically managed under the direction of National Bank for agriculture and Rural Development (NABARD) and the sponsor banks, imparted in rural destinations with networks of number of branches giving services in several districts of the country. The basic reason to launched RRBS is to satisfy the demand and need of the finance in rural regions, mainly among the social and economic segments. RRBs have an emerged as a basic and essential part of the rural financial and economic system and also considering the main process in achieving banking services between the rural people.

RRBs are generally considered as commercial banks but they are carrying out the works and function of cooperatives banks and gives services for the growth of the rural people. Because of its complex form, it is functioning under the supervision of two organizations that RBI and NABARD. RRBs accelerated the deposits mainly from the rural and backward regions and providing loans and advances mainly to the farmers, rural people in addition to the lower sections of the society. Furthermore, RRBS are more proficient and capable of loans to the rural people as compared to the commercial banks. With the assistance and support of the state government, domestic contribution and involvement and proper services of loans and opening of urban branches are some essential measures that recommended to make RRBs. It is a general process of enough access to credit where needed by susceptible groups like weaker section and low- income groups. The GOI and Central Banks have been making intense efforts to improve banking habits and services as one of the significant countryside aims of the country by different measures.

The needs for the rural growth is essential to the deprived sections that generally do not have any access to the prepared financial system and also have an insufficient permit for the economic services and facilities.

REVIEW OF LITERATURE

Yadav (2015) evaluated financial performance of scheduled commercial banks in India. This study is focused on research objective to evaluate the financial performance of the scheduled commercial banks in India with the help of some selected commercial bank in India. The analysis is based on the data taken from secondary source of Reserve Bank of India. To evaluate and compare the financial performance of the banks all types of banks have shown growth in number of offices but the growth of offices in new private sector banks was exceptionally high during the study period. The private sector banks and foreign banks have shown more profitability as compared to public sector banks. It is concluded that the performance of private sector banks and foreign banks is highly appreciable when compared to public sector banks.

Erdil and Ozturk (2016) the researcher stated that population move from the rural or from communities to large urban areas as a result the consumer became more modern uses the mobile phone supermarkets for purchasing household product and departmental stores are established to achieve economies of scale through massmarketing.

Jitendra Kumar, VP Metha and DP Malik (2019) investigated the Growth and performance of RRBs in India and Haryana and concluded that number of RRBs in India has decrease due to amalgamation process and number of districts covered by RRBs increase year by year. This paper investigates performance of positive increase investment credit, deposit, C-D ratios and investment-deposit ratio. It also investigates increase outstanding credit for agriculture and non agriculture during the period. 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.

OBJECTIVES OF THE STUDY

1. To study the growth and performance of Himachal Pradesh Gramin Bank.
2. To assess the financial performance of Himachal Pradesh Gramin Bank in the state.

RESEARCH METHODOLOGY

The Study uses Himachal Pradesh Gramin bank financial data of five year period from FY 2013-14 to the FY 2017-18. Bank annual Report constitute the secondary data source for financial information.

DATA ANALYSIS AND INTERPRETATION

CURRENT RATIO

This ratio indicates the relationship between the current assets and current liabilitiesof the bank, also known as working capital ratio. It is calculated by dividing total current assets with total current liabilities.

Table 1: Current Ratio of the Bank

(Amount in Crores)

Years	Current Assets	Current Liabilities	Ratio
2013-14	23027.30	9485.57	2.43:1
2014-15	26868.49	10223.48	2.63:1
2015-16	24456.51	12139.40	2.01:1
2016-17	24296.83	16579.35	1.47:1
2017-18	29814.37	18518.56	1.61:1

Source: Annual Reports of Himachal Pradesh Gramin Bank

Table 1 depicts the current assets and current liabilities position of Himachal Pradesh Gramin Bank during the period under study. Bank achieved the level of 1.74:1 in the Year 2012-13 which have been observed with improvement in the level of current assets over its current liabilities in the Year 2014-15 in which it touched the satisfactorily level of 2.63:1. Although the level of current ratio kept on fluctuating between 1.43:1 to 2.63:1 but bank could not maintain the consistent level thus needs to focus on increase in its current assets or decrease in its current liabilities to maintain satisfactory level of 2:1 in the coming years.

DEBT EQUITY RATIO

Debt equity ratio shows the relationship between External Equities and Internal Equities or it indicates the proportion of funds supplied by outsiders as well as owners in the total capital structure of the firm. The higher ratio is an indication of greater claim of the outsiders than the owners which is not desirable. As a rule there should be an approximate mix of Internal and External Equities.

Table 2: Debt Equity Ratio of the Bank

(Amount in Crores)

Years	External Equities	Internal Equities	Ratio
2013-14	842.56	111.36	7.57:1
2014-15	724.24	120.96	5.99:1
2015-16	582.77	123.27	4.73:1
2016-17	362.93	128.47	2.83:1
2017-18	400.01	132.16	3.03:1

Source: Annual Reports of Himachal Pradesh Gramin Bank

Table 2 exhibits the debt equity ratio of Himachal Pradesh Gramin Bank duringthe last Seven Years. In the Year 2013-14 debt equity ratio was highest 7.57:1 that means external equities were 7.57 times more than internal equities. This ratio shows the downward trend with the lowest level in the Year 2016-17 and 2012-13 i.e, 2.83:1 and 2.49:1 respectively, this can be considered being a financial institution in which funds are generated through various resources like borrowings, long term deposits etc. The major reason for fluctuation in debt equity ratio was due to limited growth in internal equities in comparison to its debts. On the other hand bank raised handsome amount of debts from NABARD, IDBI, SIDBI and other sources during the study period too.

NET PROFIT RATIO

This ratio shows relationship between net profit earned during particular financial year and sales achieved. Since the analysis is related to a banking organization, the relationship has been established between net profit and advances of the respective financial years.

Table 3: Net Profit Ratio of the Bank

(Amount in Crores)

Years	Net Profit After Tax	Advances	Ratio (%)
2013-14	8.46	973.06	0.87
2014-15	9.6	1034.57	0.93
2015-16	2.31	1217.52	0.19
2016-17	5.19	1383.28	0.38
2017-18	4.63	1545.32	0.30

Source: Annual Reports of Himachal Pradesh Gramin Bank

Table 3 exhibits the net profit ratio of the Himachal Pradesh Gramin Bank for last seven years study period. The net Profit was highest level of 0.93% was observed in the year 2014-15 while the lowest level of ratio i.e. 0.02% was noticed in the year 2012-13. A fluctuating but declining trend has been noticed during majority of financial years in the study period. On analysis the decline in profit was observed dueto increase in operating expenses and other expenditures incurred on branch automation, increase in overheads after merger of Parvatiya Gramin Bank and other steps taken for expansion in banking services at grass root level.

CREDIT DEPOSIT RATIO

This ratio is imperative to survey the credit execution of the Bank. The ratio demonstrates the connection between the measure of store produced by the Bank and additionally their arrangement towards the loans and advances. Higher credit deposit ratio demonstrates the general productivity and execution of any money keeping foundation. Credit implies dispensing of advances and deposits implies aggregate of fixed, saving and other deposits. This ratio is a important indicator to evaluate the credit performance of the banking institution.

Table 4: Credit Deposits Ratio of the Bank

(Amount in Crores)

Years	Credit	Deposit	Ratio (%)
2013-14	973.06	2465.27	39.47
2014-15	1034.57	2941.71	35.17
2015-16	1217.52	3318.56	36.69
2016-17	1383.28	4056.94	34.10
2017-18	1545.32	4468.38	34.58

Source: Annual Reports of Himachal Pradesh Gramin Bank

As revealed from the table 4, bank achieved the CD ratio level of 41.60% in the year 2012-13 seems to be maximum during the entire period of study. Although bank could not maintain this level in the following years but the ratio kept on fluctuating between 34.10% to 39.47%. Keeping in view the profitability trend of the study period bank needs to focus on its CD ratio and to maintain it at optimum level so that handsome profits can be earned in the years to come alongwith achievement of its rural banking concept efficiently and effectively.

CONCLUSION

To evaluate the financial performance of the Bank relevant accounting tool i.e, Accounting Ratios have been adopted. To evaluate the short term financial position of the bank Current ratio was calculated which remained between minimum 1.43:1 and maximum 2.63:1 during the entire period of study. Although the position of current asset was noticed with upward and improvingtrend but due to fluctuating trend of current liabilities the bank could not maintain the consistent level thus needs to focus on increase in its current assets or decrease in its current liabilities to maintain satisfactory level of 2:1 in the coming years. The fluctuating trend in debt equity ratio has been observed during the entire period under study and the major reason for fluctuation was observed due to limited growth in internal equities in comparison to its debts because of handsome amount raised from NABARD, IDBI, SIDBI and other sources. Bank's long term financial position was also evaluated with the help of equity to loan ratio an important indicator in the Bank's financial management. To assess the credit performance of the Bank Credit Deposit Ratio is used. The ratio demonstrates the connection between the measure of store produced by the Bank and additionally their arrangement towards the loans and advances. Higher credit deposit ratio demonstrates the General Productivity and execution of any money keeping foundation. Credit implies dispensing of advances and deposits implies aggregate of fixed, saving and deposits. It is an important indicator showing the operational efficiency of the bank. On anlysis the ratio was found highest i.e, 41.60% in the Year 2012-13 being maximum during the entire period of study which remained fluctuating between 34.10% and 39.47% during the following years of study. Keeping in view the profitability position of the bank it needs to maintain CD ratio at optimum level to earn handsome profits in the years to come alongwith its rural bankingvision and mission.

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