



A STUDY ON THE PERFORMANCE OF REGIONAL RURAL BANKS IN INDIA

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ABSTRACT

Executive Summary: Regional Rural Banks were established to act as a Saviour for the people of Rural Areas. RRBs act as an intermediate who borrows from one party and lend it to others. Since their inception, they have proved to be an asset for the rural people of India. They were introduced to the market with an objective of providing Rural Credit to the needy people of Rural areas to uplift their livelihood. RRB's have faced a lot of road blocks since their inception, however GOI has taken several measures to regain RRB's performance and build a strong structure. Consolidation of RRBs' was one of the measures taken by RRB's to improve their performance. In 2005 on the recommendation of Dr Vyas Committee which was constituted in 2001, the first phase of consolidation, restructuring of Regional Rural Banks was done by amalgamating 196 Regional Rural Banks for improving their functioning to achieve economies of scale and to ensure better managerial control and to solve their problems of nonperforming assets, The present study aims to analyse the recent performance of RRB's in second phase of consolidation Era from the period 2010-11 to 2015-16.

KEYWORDS :

Introduction

Rural sector plays an important role in the economic and social development of India. Agriculture is the backbone of the rural India. Agriculture and its allied sectors like forestry and fisheries have strengthened the economy of India and have contributed to the national income, industry and employment. On a broader way, rural sector is a major component of Indian economy, agriculture is the hub of the rural economy. About 75% of people have their livelihood on agriculture and its allied occupations. Development of the rural sector will improve the socio-economic conditions of the rural people. Mahatma Gandhi also emphasized on the need for the development of rural sector. He said "The future of India lies in its villages". To achieve this there should be a regular flow of capital to the rural sector. RRB's were set up in Oct, 2nd 1975 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. They were established on the recommendation of Narsimha Committee as a separate institution to deal with the problems and requirements of the weaker section of the rural sector. RRBs were set up to bridge the credit gaps which existed in the rural areas. In India, after nationalization due to the social banking motto, the banks were required to expand their branches, enhance their savings rate and extend credit to the rural masses. They ignored the problem of bad loans and no priority was given by the policy makers initially. As their motto was 'social banking', importance towards the efficiency and profitability of banks was very less. It was the time of financial sector reforms when focus was on NPAs. Regional Rural banks have made a significant progress after the restructuring of RRBs which was started in 2005 by amalgamating 196 RRBs to 56 in 2015. The action of consolidation helped the RRBs in improving their functioning and achieving economies of scale and better managerial control. It also helped in Branch expansion, deposit mobilization, loan and investment maximization. Non Performing Assets is the major problem faced by RRBs. Government of India has taken steps to control the NPA which is affecting the performance of RRBs. The efficiency of RRBs is reflected by the level of returns which it gets on its assets.

Objectives of Regional Rural Banks are:

- Providing Loans and advances
- Employment Opportunities
- Development of remote areas
- To Instill banking habits
- Integrated Rural Development
- Support small entrepreneurs
- Cost reduction

Restructuring of RRB's

In order to strengthen the functioning of RRBs and to make them viable, the government of India in consultation with NABARD, concerned state governments and sponsor banks initiated the state level amalgamation of RRBs, sponsor bank wise in September 2005. In 2004, Vyas Committee in its report suggested the restructuring of RRBs in two phases. In the first stage, amalgamation should be done of all RRBs of sponsor banks in order to create a single unit in that state. In the second stage, state level consolidation was included in the process of amalgamation. Subsequently, a committee was constituted by RBI (Sardesai Committee 2005) under the chairmanship of A.V. Sardesai to re-examine the issue of restructuring of RRBs. The committee suggested merger or amalgamation of RRB's.

Government of India commenced first phase of amalgamation process of RRBs sponsor bank wise at the state level in September 2005. The process of restructuring was commenced to overcome the deficiencies in RRBs and to make them viable, productive and a profitable institution. Till September 11, 2005, there were 196 RRBs which were operating in 26 states across 525 districts with a network of 14,494 branches. In the first phase of amalgamation in September 12, 2005, 28 RRBs were amalgamated to form 9 new RRBs. Till 31st Oct, 2006, 44 new RRBs had been formed out of 137 amalgamated RRBs, bringing down the total number of RRBs from 196 to 102. They were further reduced and came down to 95 in 2007 and 88 in 2008. The second phase of consolidation of RRBs was initiated in October 2012. Initially in 2009, the Government of India constituted a committee under the headship of Dr. K. Chakrabarty, to examine the financial health of all RRBs. They were expected to create a roadmap which can help in achieving CRAR of 9% till March 2012. Based on the recommendations of Dr. K. Chakrabarty Committee in 2010, recapitalization of 40 RRBs out of 82 in 21 states was initiated to enable them to achieve and strengthen their CRAR to the level of 9%. Government of India with other shareholders on the recommendation of the committee infused the funds to the extent of Rs. 2200 crore in order to recapitalize RRBs. The amount of recapitalization was to be shared in proportion of their shareholdings being 50:35:15 for Central Government, concerned sponsor banks and State Government.

Till January 2013, RRBs were in the process of restructuring, around 25 RRBs had been merged into 10 RRBs. The states in which merger took place were Bihar, Karnataka, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and Uttarakhand. There were 64 RRBs till the first week of June 2013, due to amalgamation this count came to 56 as by March 2016 covering 644 districts having 20904 branches.

Methodology

As the aim of the study is to examine the performance of Regional Rural Banks during 2011 to 2016 in India, it focusses on specific areas like number of branches, deposits mobilized, credits disbursement, net profit and also the investments made by them for the specified period. As the study is of descriptive in nature, secondary data have been used from the annual reports of NABARD. The growth rate is calculated by taking 2016 as current year and 2015 as base year with the formula for calculating growth-

$$\text{Growth} = \frac{\text{Value of Current year} - \text{Value of Base Year}}{\text{Base Year}}$$

Branch Expansion Programme

Post amalgamation, RRBs had diversified their branches in number of districts reducing the total number of RRBs.

Table 1.1: Expansion of RRBs

Year	No. of RRBs	No. of Branches	No. of Districts covered
2010	82	15480	618
2011	82	16001	618
2012	82	16909	638
2013	64	17861	635
2014	57	19082	642
2015	56	20059	644
2016	56	20920	644

Source: Compiled from the various reports of NABARD

It is evident from the table 1.2, that there has been a decrease in the number of RRBs from 82 in the year 2009-10 to 56 in the year 2015-16. It was the second phase of amalgamation where RRBs were amalgamated and their branches were diversified. Number of districts increased from 618 in 2009-10 to 644 in the year 2015-16.

Deposit Mobilization

Regional Rural banks in the second phase of consolidation with expansion of branches to the unbanked areas helped RRBs in mobilization of deposits.

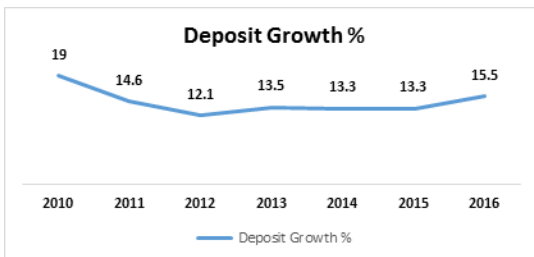
Table 1.2: Deposits Mobilized

(Amount in Crore)

Year	Total Deposits	Growth
2010	142980.4	19%
2011	166232.3	16.3%
2012	186336	12.1%
2013	211457.8	13.5%
2014	239494	13.3%
2015	271329	13.3%
2016	313499	15.5%

Source: Compiled from the various reports of NABARD

Graph 1.1: Deposit Growth %



In table 1.3 and graph 1.1, a consistent level of growth can be observed in mobilization of deposits. In the year 2011, the total deposits stood at Rs. 142980.4 crore. There has been a constant rise in the deposit mobilization of RRBs, total number of deposits rose to Rs. 313499 in the year 2016 registering a growth of 119% as compared to the deposits in the year 2011.

Credit Disbursement

The credit disbursed to the needy rural people by RRBs has shown constant improvement. Post transformation, there had been a significant rise in the credit expansion by RRBs.

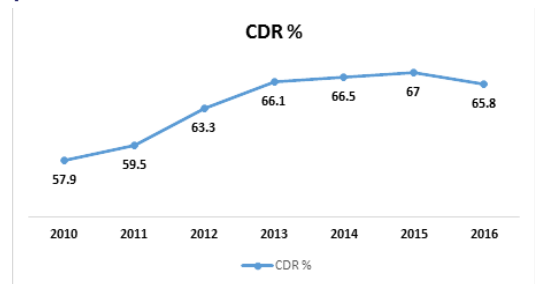
Table 1.3: Credit Disbursement

(Amount in Crore)

Year	Total Advances	CDR%
2010	82819.10	57.9
2011	101039.3	59.5
2012	120550.6	63.3
2013	139837	66.1
2014	159406	66.5
2015	184843	67
2016	206538	65.8

Source: Compiled from the various reports of NABARD

Graph 1.3: Growth in CDR



It can be noticed from the table 1.4 and graph 1.2, that there has been a constant increase in total advances, however it can be noticed that there has been a slight dip in the Credit Deposit Ratio from 67% in 2015 to 65.8% in 2016. In the year 2010, total advances were Rs. 82819.1 crore which increased to Rs. 206538 crore in the year 2016. There was also an increase in the credit deposit ratio of RRBs from 57.9% in 2010 to 65.8% in the year 2016.

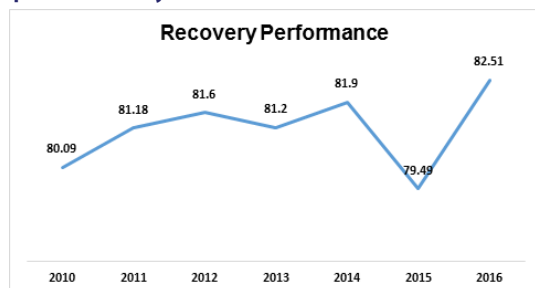
Recovery Performance of RRB's

Performance of any bank depends on its recovery performance. Timely recovery of loan amount or due amount is essential in smooth and efficient functioning of RRB's.

Table 1.4: Recovery Performance

Year	Recovery %
2010	80.09
2011	81.18
2012	81.60
2013	81.20
2014	81.90
2015	79.49
2016	82.51

Graph 1.4: Recovery Performance



It is evident from the table that Recovery performance of RRB's showed an improvement during the period 2010-16, from 80.09% in the year 2010 to 82.51% in the year 2016. Although recovery percentage was the lowest in the year 2015, ie. 79.49%. RRB's need to take necessary steps to improve their recovery performance as it

can be seen in the table that they are still facing issues in recovering loans.

Profitability of RRBs

The most important impact of amalgamation on RRBs is their profitability performance. RRBs are considerably improving in terms of profitability per RRB.

Table 1.5:Operational Profitability

(Amount in Crore)

Year	RRBs in Profit		RRBs in Losses		
	Total no. of RRBs	Number of RRBs	Amount	Number of RRBs	Amount
2010	82	79	2514.83	3	(5.65)
2011	82	79	2421	3	(5.65)
2012	82	79	1857	3	(190.66)
2013	64	63	2273	1	(301.25)
2014	57	57	2694	0	0
2015	56	51	2976	5	(177)
2016	56	50	2206	6	(188)

Source: Compiled from the various reports of NABARD

The profitability performance is shown in the table 1.5, in second phase of amalgamation, there has been an increase in the number of RRBs earning profits and a reduction in the number of RRBs incurring losses. It was in the year 2014, when all the 57 RRB earned profits with no amount of losses. But there was a decline in the number of RRBs earning profits in the year 2016, where only 50 RRBs out 56 earned profits with 6 RRBs incurring losses. The aggregate profit earned which stood at 2921 crore during 2014-15, declined to Rs. 2206 crore during 2015-16 incurring a degrowth of -25%. As a result, The overall net profit of RRBs declined from Rs. 2745 crore in 2015 to Rs. 2018 crore in 2016.

Investment

The investments made by the RRBs can be witnessed in Table 1.6. It is evident from the table that the consolidation process of RRB's didn't affected their investments, there has been a consistent growth in their investment portfolio. It can also be observed that the amount of investment of RRBs increased from Rs. 86510.44 crore in the year 2011 to Rs. 169592 crore in the year 2016 registering a growth of 96%. Although it can be noticed that there has been a dip in the growth of Investments from 16.6% in the year 2015 to 4.2% in the year 2016.

Table 1.5:Total Investment

(Amount in Crore)

Year	Total Investment	% Growth over Previous Year
2012	79379.16	20.4%
2011	86,510.44	8.9%
2012	95,974.93	10.9%
2013	1,08,548	13.1%
2014	1,39,631	28.6%
2015	1,62,781	16.6%
2016	1,69,592	4.2%

Source: Compiled from the various reports of NABARD

Recommendations

- (i) It is suggested that rehabilitation of sick units should be undertaken for potentially viable units.
- (ii) Bankers should create good relations & mutual trust with borrower by frequently interacting and meeting with them, so that the borrowers keep their bankers informed of any problem faced by them, for initiating timely corrective actions.
- (iii) In case a borrower is found to be willful defaulter, bank should resort to legal action for recovery of its dues without losing time.
- (iv) RRBs should be permitted to accept NRI deposits. It will help

them in deposit mobilization and sizable workable capital.

- (v) The RRBs which are not performing to their potential and are not generating business should be allowed to extend the area of operation to one or more districts where RRBs are not present.
- (vi) The employees of RRBs should get trained on recovering Overdue Loans. The recovery of loans should be on time.
- (vii) Government should expand their banking facility to the unbanked areas. Branch expansion programme should be initiated to reach to the doorstep of the rural people.

Conclusion

RRBs were set up to bridge the credit gaps which existed in the rural areas. They have improved a lot in their banking operations and are making consistent efforts to attain the efficiency of rural credit delivery and reaching the unbanked areas of the rural sector. Since the inception of RRBs, a wave of development in the rural economy has emerged. Government of India introduced RRB's to enhance the rural economy by providing credit to the weaker sections of the rural sector. RRB's needs to make special efforts in improving their recovery performance as this can effect overall performance of RRB's. Above evaluation of the performance of RRBs suggests that consistent efforts have been taken by RRB in branch expansion, deposit mobilization, credit deployment and in their Investment Portfolio, hence it can be said that there has been a significant improvement in branch expansion, deposit mobilization, investments. However there has been a reduction in the net profit earned by RRB's in 2016 as compared to the year 2015.

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