



## AN ANALYSIS OF THE PERFORMANCE OF REGIONAL RURAL BANKS: A STUDY ON ASSAM GRAMEEN VIKASH BANK IN INDIA

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### ABSTRACT

Regional Rural Banks are considered as the helping hand for the rural economy. Regional Rural Banks came into existence on the recommendations of Narasimham working group in year 1975, the Government of India proposed a Presidential Ordinance for setting up of Regional Rural Banks on 26th September, 1975. First five RRBs came into existence on 2nd October, 1975. Later on RRB's increased to 195 in 2005, this when Government of India decided to consolidate them as they were facing huge losses and NPA's were at their peak. Amalgamation happened and it reduced 197 RRB's to 57 in the yr 2005. Assam Gramin Vikash Bank was also set up during the consolidation period on 12th of January 2006 by an amalgamation of Pragjyotish Gaonlia Bank, Lakhimi Gaonlia Bank, Cachar Gramin Bank and Subansiri Gaonlia Bank. This paper attempts to analyze the financial performance of RRBs in India during the period 2006-07 to 2010-2011. The study is based on secondary data collected from the annual reports of NABARD and Assam Gramin Vikash Bank annual report. An analytical research design of Key Performance Indicators Analysis such as number of banks and branches, deposits, investments and growth rate index is followed in the present study. The present study is of diagnostic and exploratory in nature. The study found that performance of Assam Gramin Vikash Bank has significantly improved.

### KEYWORDS :

#### INTRODUCTION

They play a crucial role in the functioning of rural economy. They help in meeting the financial requirements of trade, industry and agriculture which eventually helps in the economic development of India. It can be said that economic development of rural sector is directly linked with the development of Regional Rural Banks. Regional Rural banks were established on 2nd October, 1975 through Presidential Ordinance passed by the Government of India on the recommendation of Narsimha Working Committee. Initially when RRB's were not formed, rural credit was dependent on Corporative banks and private money lenders. Private money lenders were the main source of rural credit with high interest rates. Primary objective of setting up of RRB's was to provide institutional credit to the sector for agriculture and other allied activities. Gradually their performance declined and Government of India felt the need to restructure them, the period from 1991 to 2005 was coined as "Indecisiveness and Reform Phase" for the RRBs in India. Amalgamation process initiated in the year 2005 with a view to improve infrastructure, work force, computerization of branches, reaching unbanked areas, greater credit at minimum interest rates and more diversified banking activities. The performance of RRB's improved post amalgamation and also NPA's got reduced which was a threat to the bank.

#### Assam Gramin Vikash Bank (AGVB)

In Assam, five Regional Rural Banks were opened, first bank with Pragjyotish Gaonlia Bank in the year 1976. Assam Gramin Vikash Bank was established during the consolidation period on 12th of January 2006 by amalgamation of 4 banks as mentioned below:

1. Pragjyotish Gaonlia Bank
2. Lakhimi Gaonlia Bank,
3. Cachar Gramin Bank and
4. Subansiri Gaonlia Bank.

Assam Gramin Vikash Bank (AGVB) came into existence from 12th January 2006 with its head office in Guwahati. The Bank covers 30 districts through a network of 414 branches. Assam Gramin Vikash Bank gives maximum emphasis for developing the rural economy by providing credit to for agriculture, MSME, trade & services and artisans and small entrepreneurs, SHG's, etc.

#### Objectives of the Study

1. To analyze the key performance indicators of Assam

Gramin Vikash Bank in India.

2. To study the growth-pattern of Assam Gramin Vikash Bank in India.
3. To measure financial performance of Assam Gramin Vikash Bank 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 =  $\frac{Y_t - Y_{t-1}}{Y_{t-1}}$   
Y<sub>t</sub> = Current Year, y<sub>t-1</sub> = Base Year

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The study aims to examine the performance of Assam Gramin Vikash Bank focused on specific areas like number of branches, deposits mobilized, credits disbursement, net profit and also the investments made by them from the period 2011-12 to 2015-16. The study is based on secondary data collected from the annual reports of Assam Gramin Vikash Bank annual report. The study is exploratory and diagnostic in nature. Growth rate is calculated by taking below mentioned formulae- Growth Rate- Value of Current year – Value of Base Year / Base Year

#### Branch Expansion

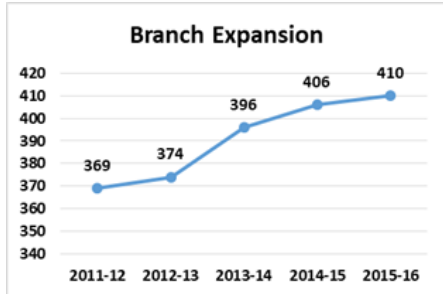
Branch Expansion plays a vital role in expansion of banking services to the rural sector. As the motive of setting up of RRB's is to reach unbanked areas and help the needy people with credit, to achieve this expansion of their services is a must. Table 1.1 and Graph 1.1 shows that Assam Gramin Vikash Bank are expanding their branches steadily. In the year 2011-

12, number of branches were 369 which increased to 410 in the year 2015-16. There has been a positive trend of growth in terms of branch expansion.

**Table 1.1: Performance of AGVB from 2011-12 to 2015-16**

Year	Branches	Growth Rate
2011-12	369	2%
2012-13	374	1%
2013-14	396	6%
2014-15	406	3%
2015-16	410	1%

**Graph 1.1: Performance of AGVB from 2011-12 to 2015-16**



**Total Deposits**

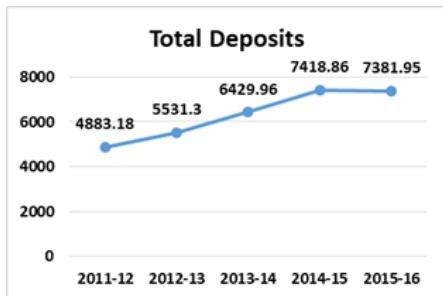
Deposits as a resource of Assam Gramin Vikash Bank have increased throughout the study period except in the year 2015-16. The share of demand deposits (CASA) to the total deposits of the bank stood at 64.37% in the year Mar'2016. The bank has continuously emphasized on increasing the share of demand deposits to reduce the cost of deposits further and to increase the spread. However, it can be seen in the table that there has been growth trend in total deposits through out the study period except for the year 2016 having a degrowth of 0.5%.

**Table 1.2.: Performance of AGVB from 2011-12 to 2015-16**

(Amount in Crores)

Year	Total Deposits	Growth Rate
2011-12	4883.18	12%
2012-13	5531.3	13%
2013-14	6429.96	16%
2014-15	7418.86	15%
2015-16	7381.95	-0.5%

**Graph 1.2.: Performance of AGVB from 2011-12 to 2015-16**



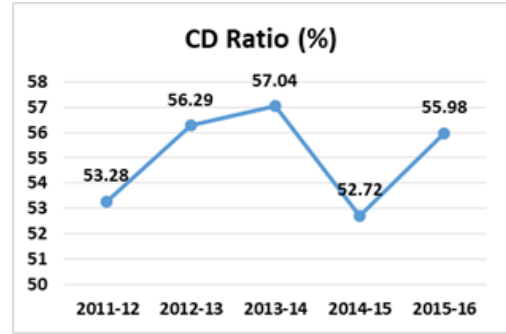
**CD Ratio**

Credit deposit ratio have certainly increased throughout the study period, however in the year 2014-15 it declined by -8%, which is very high. In the year 2015-16, it rose to 55.98 from 52.72 in the year 2014-15 registering growth of 6.2%.

**Table 1.3.: Performance of AGVB from 2011-12 to 2015-16**

Year	CD Ratio (%)	Growth Rate
2011-12	53.28	13%
2012-13	56.29	6%
2013-14	57.04	1%
2014-15	52.72	-8%
2015-16	55.98	6.2%

**Graph 1.3.: Performance of AGVB from 2011-12 to 2015-16**



**Recovery Performance**

During the study period, recovery performance of Assam Gramin Vikash Bank increased gradually, however it decreased to 71.11 in the year 2015-16 from 73.98% in the year 2014-15. As to achieve good recovery performance, bank organized recovery camps, joint recovery drives with the help of branches/offices/sponsoring agencies/local Panchayat/Recovery Agents etc. Also, special focus was given to recover long sticky overdue through compromise settlement. Many branches also organized Lok Adalats for the recovery of loans.

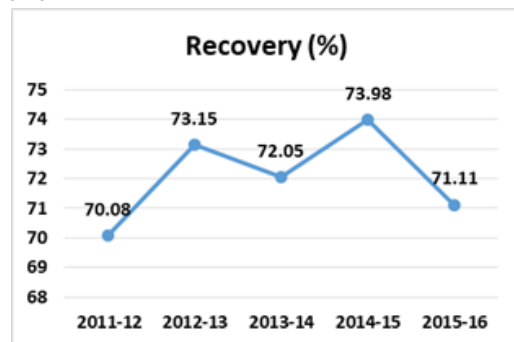
**Table 1.4: Performance of AGVB from 2011-12 to 2015-16**

(Amount in Crores)

Parameters	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Recovery Performance</b>					
Demand	602.5	673.72	808.45	891.98	1190.22
Collection	422.25	492.81	582.49	659.91	846.36
Overdues	180.25	180.9	225.96	232.06	343.85
Recovery %	70.08	73.15	72.05	73.98	71.11

Source: Compiled by researcher from the annual reports of AGVB

**Graph 1.4 : Recovery Performance of AGVB from 2011-12 to 2015-16**



**Investment**

The outstanding amount of investment made by the Bank in Govt. and approved securities stands at 4041.97 cr in the year 2014-15. Investment to Deposit (ID) Ratio stands at 54.75 %. Investments have increased significantly throughout the study period except in the year 2015-16, registering a degrowth of -3.2% as compared to previous year.

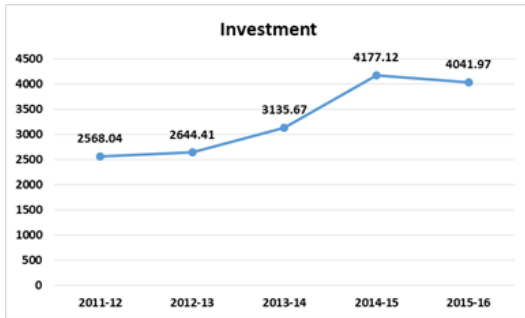
**Table 1.5 : Total Investments of AGVB from 2011-12 to 2015-16**

(Amount in Crores)

Year	Investment	Growth Rate
2011-12	2568.04	3%
2012-13	2644.41	3%
2013-14	3135.67	19%
2014-15	4177.12	33%
2015-16	4041.97	-3.2%

Source: Compiled by researcher from the annual reports of AGVB

**Graph 1.5 : Total Investments of AGVB from 2011-12 to 2015-16**



**Non Performing Assets**

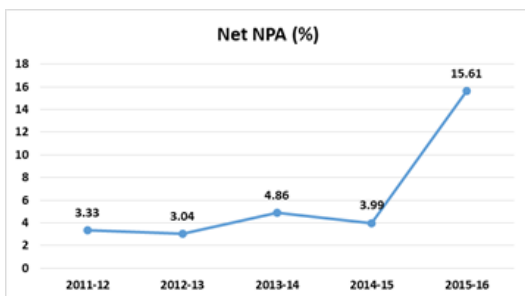
If a borrower fails to pay interest/principle on or before the due date and bank fails to realize it, then it is classified as Non Performing Assets. Since the inception of RRB's, NPA's are a threat to the bank as it degrades the performance of a bank and affect's the profitability and liquidity as well. Various steps have been initiated to lower down NPA's, however NPA's still exist. It can be seen in the table and Graph, NPA's increased 291% in the year 2015-16, which is indeed bad signal for the bank.

**Table 1.5 : NPA's of AGVB from 2011-12 to 2015-16**

Year	NPA's	Growth Rate
2011-12	3.33	1%
2012-13	3.04	-9%
2013-14	4.86	60%
2014-15	3.99	-18%
2015-16	15.61	291%

Source: Compiled by researcher from the annual reports of AGVB

**Graph 1.5 : NPA's of AGVB from 2011-12 to 2015-16**



Some of the Initiatives taken by Assam Grameen Vikas Bank during the year 2015-16 to reduce NPAs can be seen below.

1. Bank followed compromise settlement policy to reduce long term NPAs through compromise settlements, resulting in 5808 number of settlements during year 2015-16.
2. Initial emerging NPA Accounts or Special Mention Accounts were recognized for proper follow-ups and to start the recovery measures.
3. NPA's were classified into Sector wise and category wise and were allocated to the staff members for needful follow-ups.
4. Bank participated in Lok Adalat to settle sticky advances.
5. Bank used Mobile Recovery Vans to all Regional Offices.
6. Bank's head officials demonstrated in front of defaulter borrowers with the banners and placards.
7. Bank had taken intensive followups for the top NPA accounts for the recovery.
8. SARFAESI Act was also implemented by the bank.
9. Bank had made provisioning of 71.06 cr towards NPAs.

**Profit/Loss of Assam Gramin Vikash Bank**

Profitability plays a key role in assessing the performance of a bank. Assam Gramin Vikash Bank have although earned profits during the year but due to rise in NPA's there has been a decline in profit earned by them during the study period.

**Table 1.6 : Profit/Loss of AGVB from 2010-11 to 2014-15**

(Amount in Crores)

Year	Profit/Loss	Growth Rate
2011-12	78.16	53%
2012-13	107.8	38%
2013-14	38.08	-65%
2014-15	65.54	72%
2015-16	38.6	-41%

Source: Compiled by researcher from the annual reports of AGVB

**Graph 1.6 : Profit/Loss of AGVB from 2010-11 to 2014-15**

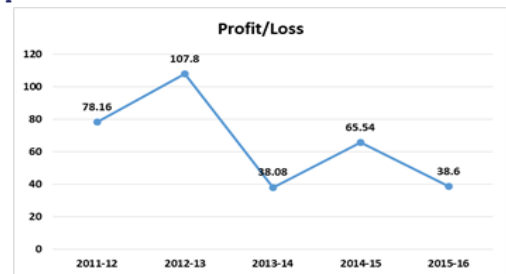


Table shows that Assam Gramin Vikash Bank earned a profit of 78.16 cr in the year 2011-12. They are earning profits during the study period, however profit earned by them reduced to -41 % during the year 2015-16, where they earned 38.6 cr as compared to previous year.

**CONCLUSION**

Assam Grameen Vikas Bank was established by amalgamation of 4 banks to develop the rural economy by providing credit for agriculture, MSME, trade & services and artisans and small entrepreneurs, SHG's, etc. Indeed, they are achieving their objective of increasing their branches and expanding their services to the unbanked areas of rural sector. During the study period, their performance in terms of certain parameters like total deposits, investments, profitability and recovery has significantly improved except for the year 2015-16. In all the parameters their performance has dropped which is a big concern for the bank. NPA's have also increased significantly with a growth rate of 291%, impacting the profitability with degrowth of -41%. Bank has followed several measures to improve their recovery process and to lower down NPA's, however failed to bring down the level of NPA. Bank should proactively take measures to reduce the level of NPA's which is impacting their performance.

**REPORT**

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