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Performance Evaluation of Regional Rural Banks in India

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ABSTRACT

Regional rural banks play an important role in India's agricultural and rural development. Through its extensive network, the RRBS has expanded its presence into India's rural areas. Rural finance in India is mostly dependent on their financial health. RRBs are major rural financing institutions in charge of providing the credit demands of various forms of agriculture loans in rural regions. Most regional rural banks are now dealing with overdue, recovery, nonperforming assets, and other issues. As a result, it is vital to investigate the financial performance of RRBs in India. The current research makes an attempt to evaluate the financial performance of a Regional Rural Bank (RRB) while keeping current trends in regional rural banks in mind from a national viewpoint. The research is analytic and exploratory in character, and it makes use of the collected data. The study discovered that the performance of Regional Rural Banks in India has significantly improved since their inception, since initiatives to improve their performance were undertaken by the Government of India following the merger process.

INTRODUCTION

Regional Rural Banks were founded under the requirements of an ordinance enacted on September 26, 1975, and the RRB Act, 1976, with the goal of ensuring enough institutional credit for agriculture and other rural sectors. From 1994-95 to 2005-06, the Government of India implemented reforms and mergers in consultation with the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD), yielding positive results in key performance indicators such as the number of banks and branches, capital composition, deposits, loans, loans, and the trend of investments. To survive in today's competitive environment, banks must be appropriately reinforced and achieve competitiveness via the utilisation of available resources and business management.

As a result, it is critical to periodically examine the performance of India's regional rural banks (RRBs). Regional Rural Banks (commonly known as RRBs), which began development on October 2, 1975, are next-door level banking entities that provide services in 644 notified districts throughout 27 Indian states, with 20,904 branches as of March 31, 2016. They were founded with the intention of providing basic banking and financial services to India's rural communities first and foremost. Regional Rural Banks were founded in 1976 under the requirements of an Ordinance passed on September 26, 1975, and the RRB Act.

This report seeks to examine the financial performance of RRBs in India from 2006-07 to 2010-11.

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The analysis is based on secondary data gathered from NABARD and RBI annual reports. In the current study, an analytical research design of Key Performance Indicators Analysis such as number of banks and branches, deposits, loans, loans, investments, and growth rate index is used. The study is diagnostic and exploratory in character, with secondary data used. The investigation discovers and concludes that RRB performance has greatly improved. The goal of this article is to see if the merger/amalgamation of Regional Rural Banks in India in 2005-06 helped enhance their performance. Several committees have underlined the importance of improving the performance of these banks, which play a significant role in India's rural loan sector. The study is diagnostic and exploratory in character, with secondary data used. The study discovers and concludes that the performance of rural banks in India has greatly improved following the merger process begun by the Government of India.

REVIEW OF LITERATURE:

Singh et. al (2017) attempted to evaluate the Amalgamation's efficacy and financial performance comparison During the period, a separate and amalgamated regional rural bank was chosen. time of restructuring to assess these banks' financial stability, the CAMELS Model, a suitable method, is used. It has been noticed According to the report, combining banks is not enough to strengthen them. the RRBs' financial performance Bank consolidation with adequate documentation Strategy is critical to their long-term financial viability.

Shankar and Rao (2017) assessed the performance of Regional Rural Banks (RRBs) in Telangana State, India's newest state, which was founded on June 2, 2014. They provided an overview of numerous research undertaken on the performance of RRBs at the national and state levels. There have been very few studies published in the context of Telangana state that give a chance to analyse the performance of RRBs in Telangana state. This study's findings emphasised the success of Telangana Grameena Bank, and these findings will assist future academics working on the performance of RRBs in India.

According to Ghouse (2017), regional rural banks are the primary rural financing organisations that have taken on the responsibility of meeting the credit demands of various forms of agricultural credit in rural regions. A growing number of regional rural banks are dealing with significant issues such as late loans, loan collection, and nonperforming assets. As a result, there is a need to investigate the financial performance of India's regional rural banks. Based on this context, he examined the current level of financial performance of RRBs in India as of March 31, 2017, utilising secondary data gathered from NABARD and RBI annual reports.

Geetha (2016) used key performance indicators from four branches to assess the development and financial performance of Krishna Pragathyi Gramin Bank in Shivamogga district. The study determined that Krishna Pragati Gramin Bank's performance was commendable. It was advised that the government give RRBs with further needed support in the future to make them more sustainable and successful in serving rural credit demands.

Ibrahim (2016) made a modest attempt to assess the rural credit structure and the role of RRBs in the growth of the rural economy. The primary goal of this research is to examine rural credit and the role of RRBs in priority and non-priority industries. The study is diagnostic and exploratory in character, with secondary data used. In this analysis, he discovered and concluded that RRBs had considerably helped the rural economy in India.

Fanai and Singh (2015) sought to assess Mizoram Rural Bank's financial performance from 2002 to 2014. Profitability was used as an indicator of a bank's operational efficiency in the study. The research used secondary data to examine Mizoram Rural Bank's profitability through ratio analysis, financial strength testing, and working outcomes. It was established that the Bank's operating efficiency was growing year after year. However, the bank still has a long way to go in order to meet its goals in the future.

Mohindra (2014) used ratio analysis to investigate the influence of banking sector changes on the performance of RRBs, specifically their productivity and efficiency. Regional Rural Banks made a loss during the first generation reform period, which began in 1991-92, but made a profit during the second generation reform period, which began in 1996-97. According to the ratio study, banking sector changes created a framework for regional rural banks to realise their goals of rural development and financial inclusion.

Ahmed (2014) sought to investigate the productivity performance of Meghalaya Rural Bank (MRB) in particular in his work. In order to assess MRB's innovativeness, productivity was assessed in terms of labour, branch, return on assets (ROA), return on investments (ROI), profits as a percentage of company volume, and so on. According to the findings, the MRB is making good use of the resources that it has recruited. The examination discovered substantial variances in productivity, which might have a negative impact on the profitability of the bank under consideration. The study concluded that the evil nature of the clients resulted in poorer bank production.

Reddy and Padmavathi (2013) investigated the growth and development of RRBs in India from 2001 to 2012. They discovered that RRBs were the most important component in determining their intended function in the developing economic landscape. They discovered that RRBs are making tremendous success in terms of deposit mobilisation and credit generation.

Makandar (2013) evaluated the financial performance of Regional Rural Banks in India after consolidation. On the basis of staff productivity and branch productivity, the research contrasted the pre-merger and post-merger financial performance of KVGB and PGB, which merged in 2005. The impact of amalgamation was investigated using ratio analysis and the t-test. According to the report, productivity performance of selected RRBs increased slightly following merging.

Thirumal (2012) conducted research on the elements determining RRB profitability. According to the findings of this study, RRBs have emerged as an important financial institution in India for serving rural credit needs. It is said that the RRBs did not produce much profit due to their policy of confining their operations to target groups, despite the fact that the RRBs performed well.

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Soni and Kapre (2012) investigated the present state and financial performance of RRBs in India as of March 31, 2011. This study was diagnostic and exploratory in character, using a key performance indicator analytical research approach. According to the study, RRBs have the strongest banking network. However, the government should take some effective corrective measures to ensure the viability of rural banks. The study also advised RRBs to focus on providing quick and safe banking services in order to retain existing customers and attract new ones.

PERFORMANCE EVALUATION OF RRBs IN INDIA

The owned funds of RRBs, which include share capital, share capital deposits from shareholders, and reserves, were 13838.92 crore as of March 31, 2011, up from 12247.16 crore the previous year, a 13.0% increase. The addition of reserves by the profit-making RRBs was the major cause of the growth in owned funds, which totaled 1591.76 crore. Total held funds were divided into 4273 crores for share capital and share capital deposits, while 9566 crores were set aside as reserves. RRB deposits climbed by 166232.34 crore from 145035 crore during the course of the year, representing a 14.60% growth rate. The greatest deposit growth rate, of 37%, was recorded by Gurgaon GB. Sixteen (16) RRBs have deposits totaling more than $3 billion apiece. RRB borrowings climbed from 18770 crore as of March 31, 2010, to 26490.81 crore as of March 31, 2011, representing a 41.10% rise. In comparison to the gross loan outstanding, borrowings made up 26.8% of the total, up from 22.7% the year before. Funds' Uses The RRBs utilise their money for investments, loans, and advances.

From 79379.16 crore as of March 31, 2010, to 86510.44 crore as of March 31, 2011, the investment of RRBs grew by 8.98%. While non-SLR investments totaled 41488 crores, SLR investments totaled 45022 crores. RRBs' Investment Deposit Ratio (IDR) has decreased over time, falling from 72% on March 31, 2001, to 52.04% on March 31, 2011. The loans outstanding climbed by 16098.33 crore over the year to 98917.43 crore as of March 31, 2011, representing a 19.4% rise from the prior year. The greatest growth rate, 35%, was reported by Meghalaya Rural Bank in the 2010–2011 fiscal year. From 56079.24 crore in the prior year to 71724.19 crore this year, RRBs granted a total of loans, representing a rise of 27.90%. In 2010–11, Samastipur KGB reported the greatest growth rate (123%) followed by Andhra Pradesh GVB (112%).

In the 2010–2011 fiscal year, 75 RRBs (out of 82 RRBs) reported profit (before tax) of 2420.75 crore. The profit was little less than it was the year before. The net profit totaled 1786.53 crore after paying income tax of 634.22 crore. Losses of 71.32 crore were suffered by the remaining 7 RRBs. As of the end of March 2011, 23 of the 82 RRBs had continued to amass losses of 1532.39 crore as opposed to 27 RRBs' 1775.06 crore as of the end of March 2010. During the reviewed year, there was a 242.67 crore drop in the total loss. As of March 31, 2011, the Gross NPA of RRBs was 3712 crore, or 3.75%. Over the course of the year, the proportion of Net NPA for RRBs increased from 1.8% to 2.05%. The statistics showed that whereas 33 RRBs had gross NPA percentages above 5%, 15 RRBs had gross NPA percentages below 2%. The recovery percentage increased from 80.09% on June 30, 2009, to 81.18% on June 30, 2010, during the

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2009–2010 fiscal year. But as of June 30, 2010, the total amount past due rose by 934 crore to 9805 crore. From 57.10% as of the end of March 2010 to 59.51% as of the end of March 2011, the overall CDR of RRBs grew over time. Of the RRBs, eight reported CDRs of greater than 100%. Branch productivity grew by 12.57% to 16.57 crore in 2010–11 from 14.72 crore in 2009–10. Similar to this, worker productivity improved by 2.16% from 3.70 crore in 2009–10 to 3.78 crore in 2010–11.

As a result, RRB provides the most extensive banking network. The government should take some fantastic corrective measures to make rural banks sustainable. Regional Rural Banks have an important role as an essential mode of deposit delivery in rural regions, with the purpose of deposit rating distribution to small, marginal farmers and socioeconomically disadvantaged populations for the advancement of agriculture, industry, and enterprise. However, its commercial feasibility has been questioned because to its limited business company flexibility, smaller mortgage measurement, and excessive risk in personal loans and advances.

PROBLEMS OF RRBs:

Despite a swiftly expanding departmental community and an increase in business volume, RRBs experienced a particularly challenging evolutionary system because of specific issues. RRB operations are being conducted in a relatively small area. High risk since the objective group has been fully publicised. People start to realise that RRBs are evil banks. increasing losses as a result of operations in branches located in resource-poor locations not being feasible. As a turnover tactic, switch to banks with thin funding. With few exceptions, there is a heavy reliance on sponsor banks for capital sources, and these institutions often act as stepmothers and offer minimal returns. The Regional Managers who serve on the Board of Directors for RRBs are appointed by sponsor banks. Low best assets are mostly caused by the burden of government subsidy programmes and poor buyer education. Those in the union are a less committed and more pragmatically efficient bunch. inadequate treasury management knowledge for a profit-oriented organisation. The lending portfolios are being restricted by a lack of exposure and innovative product skills. Not making enough of an effort to achieve desirable levels of excellence in a team's ability to manage the business and industrial organisation as an unbiased entity. The capacity of compulsions to appear up to sponsor banks, the GOI, NABARD, and RBI for the majority of decisions seriously undermines the Board.

RECOMMENDATIONS FOR IMPROVEMENT OF RRBs:

Banks must be motivated and assisted by the government to take good action in rural development. To ensure that the non-interest cost of savings to small borrowers is as low as feasible, efforts must be done. For the creation of additional branches in less developed and distant parts of the state, policy must be formulated by the government. By reducing costs and increasing revenue, productivity may be increased. Subsidies must be changed in order to participate in the transaction at the point where mortgage assistance is authorised. Governments must take collective action against defaulters and shouldn't issue well-known announcements like loan waivers. With regard to their investment decisions, the RRBs must make a crucial decision. Given that our

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research has shown that these charges have increased the total spending of the banks, the RRBs must exercise extreme caution and cut the operational expenses. The RRBs must provide the necessary motivation for the microcredit programme and encourage the development of a self-help group. Additionally, cooperative societies may be permitted to sponsor or co-sponsor with industrial banks in the RRB's institution. It is necessary to create a standardised sample of activity price shape for the rural monetary agencies. The RRB has to improve deposit management through assessment of savings, monitoring the development of loans, and environmentally friendly loan repayment. The RRB's savings policy must be entirely focused on the group method of funding rural operations. Additionally, the RRB may ease up its lending procedures and make them simpler for local borrowers.

CONCLUSION

Rural banks strive to eliminate the lack of openness in their operations, which results in an unequal connection between banker and consumer. To address this issue, banking employees must engage with their customers more frequently. Banks must build branches in places where customers are not in a position to get banking services. RRBs must pay interest in this competitive economy. The rapid expansion of RRBs has significantly reduced regional differences in the recognition of banking services in India. The efforts made through the use of RRB in department expansion, credit score mobilisation, rural improvement, and deposit rating deployment in rural regions in need are commendable. RRB successfully achieves its goals of bringing banking to the doorsteps of rural households, particularly in banking-deprived rural areas, providing convenient and low-cost deposits to vulnerable rural households who rely on personal lenders, encouraging rural economic savings for productive activities, creating employment in rural areas, and lowering the cost of delivering savings in rural areas.

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