

Performance of Regional Rural Banks in India

Padmavathi Agarwal¹ and B. Bhagavan Reddy²

¹UGC Post Doctoral Fellow, Department of Commerce, S.V.U. College of Commerce, Management & Computer Science, Sri Venkateswara University, Tirupati – 517502, Andhra Pradesh.

²Former Dean, Faculty of Commerce & Management, S.V.U. College of Commerce, Management & Computer Science, Sri Venkateswara University, Tirupati- 517502, Andhra Pradesh.

Received: 10 May 2019; Revised: 02 July 2019; Accepted: 02 July 2019

Abstract

Regional Rural Banks (RRBs) play a vital role in agriculture and rural development. The RRBSs have reached rural India through their huge network. The success of rural credit largely depends on their financial strength. RRBs are key financing institution in the rural areas which shoulders the responsibility of meeting credit needs of different types of enterprises. This article review growth and performance of RRBs during the period 2007 to 2018. The focus is on the number of RRBs, branches, own and working funds, deposits, credit operations, credit-deposit ratio (CDR), productivity and non-performing assets (NPAs).

Key words: Share capital, Reserves and surplus, Owned funds, Working funds, Deposits, Credit operations, Credit-deposit ratio (CDR), Non- performing assets (NPAs).

1 Introduction

An attempt is made in this article to review the growth and performance of RRBs. The focus is on the number of RRBs, branches, share capital, reserves and surplus, own and working funds, deposits, credit operations, CDR, productivity and NPAs.

2 Review of literature

A considerable account of research has been carried out in relation to RRBs by academicians, researchers, policy- makers etc. The literature is available in the form of reports of various committees, commissions, study and working groups constituted by governments, RBI, economic analysts and researchers etc.

Narasimham, M. (1991), in his report on “Report of the Committee on Financial System”, opined that to make the operations of the RRBs, viable, they may be permitted to engage in all types of banking business and also to invest their funds in National Bank for Agriculture and Rural Development (NABARD) or other agencies to earn more interest for

augmentation of their incomes. However, he left the option of merger open to these institutions and their respective sponsored banks.

Sharma, R.H. (2005), studied the internal working group on RRBs set up by Reserve Bank of India (RBI). The working group after a detailed study has listed that the operational viability and economies of scale are the advantages of RRBs merger. The committee stated that the amalgamation of RRBs will not automatically improve efficiency, but enlarge their area of operation and business opportunities.

Singh R.K.P. (2008), in his article “Profitability of RRBs in Bihar”, emphasized that the RRBs should make concerted efforts for utilizing maximum possible extent the refinancing and borrowing facilities for raising their income-earning assets, while the importance of deposits could not be utilized, borrowings and refinancing arrangements would help in arranging the internal assets with greater profitability and they should be used for supporting sources of funds.

Syed Ibrahim, M. (2010), in his article, examined the role of the RRBs with its generation and merges. RRBs are established under the provisions of an ordinance promulgated on the 26th September, 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. Reforms and mergers introduced by the Government of India in consultation with RBI and NABARD in the years 1994-95 to 2005-06 have yielded positive results in respect of key performance indicators such as number of banks and branches, capital composition, deposits, loans, loans and the trend of investments. The objective of this paper is to investigate whether the merger/amalgamation of RRBs in India, undertaken in 2005-06 has helped improve their performance. Several committees have emphasized the need to improve the performance of these banks which play an important role in the rural credit market in India. The study is diagnostic and exploratory in nature and makes use of secondary data. It concludes that performance of rural banks in India has significantly improved after amalgamation process which has been initiated by the Government of India. Thus there are many studies on the RRBs of banks. The specific studies on RRBs are scant in the literature. The studies on RRBs after merger/amalgamation are almost nil.

3 Branch Network

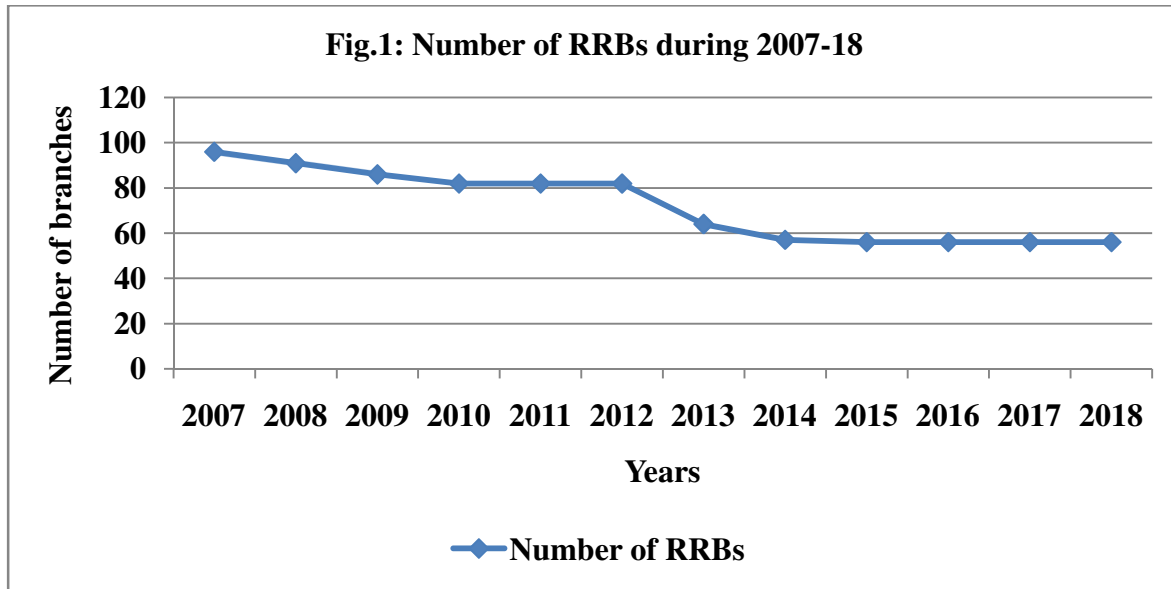
Since inception in 1975, RRBs have rapidly grown in size, structure and strength. In 2007, the number of RRBs was 96 with a branch network of 14,520, covering 525 districts. As on 31st March, 2018, as many as 56 RRBs are operating over 644 districts with a branch network of 21,422 (Table 1). They are graphically presented in **Figure 1**.

Table 1: Number of RRBs, Branches and Districts covered by RRBs 2007-18

Year	Number of RRBs	Districts covered	Number of branches
2007	96	525	14,520
2008	91	534	14,761
2009	86	534	15,181

2010	82	616	15,480
2011	82	618	16,001
2012	82	620	16,909
2013	64	635	17,861
2014	57	635	19,082
2015	56	644	20,024
2016	56	644	20,904
2017	56	644	20,920
2018	56	644	21,422

Source: Relevant issues of NABARD, Annual Report, Mumbai.



Source: Table 1.

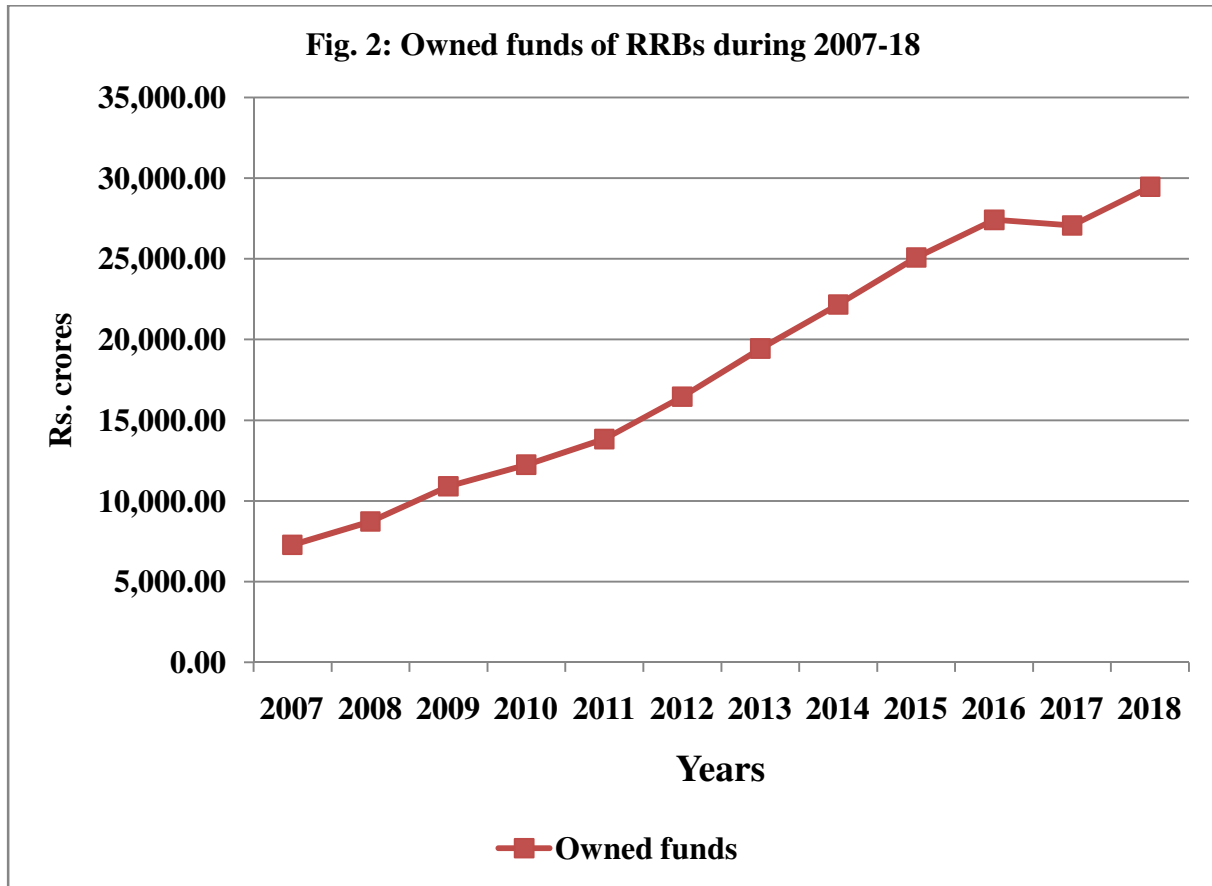
4 Owned Funds

The share capital forms an integral part of owned funds. It is the base for the volume of business and guiding principle to borrow funds. The share capital is the cost free fund, which

Table 2: Owned Funds of RRBs in India during during 2007-18**(Rs. crores)**

Year	Share capital	Share capital deposit	Reserves and surplus	Owned funds
2007	196.00 (2.69)	2,188.43 (30.04)	4,901.54 (67.27)	7,285.97 (100)
2008	197.00 (2.25)	2,832.53 (32.44)	5,703.06 (65.31)	8,732.59 (100)
2009	197.00 (1.81)	3,959.30 (36.29)	6,753.99 (61.90)	10,910.29 (100)
2010	197.00 (1.61)	3,984.91 (32.54)	8,065.26 (65.85)	12,247.17 (100)
2011	197.00 (1.42)	4,076.34 (29.46)	9,565.58 (69.12)	13,838.92 (100)
2012	197.00 (1.20)	5,002.01 (30.39)	11,262.99 (68.42)	16,462.00 (100)
2013	197.00 (1.01)	6,001.00 (30.86)	13,247 (68.13)	19,445.00 (100)
2014	197.00 (0.89)	6,170.00 (27.83)	15,805.00 (71.28)	22,172.00 (100)
2015	197.00 (0.79)	6,175.00 (24.62)	18,712.00 (74.60)	25,084.00 (100)
2016	5,196.00 (18.95)	1,192.00 (4.35)	21,032.00 (76.70)	27,420.00 (100)
2017	6,401.00 (23.65)	-	20,665.00 (76.35)	27,066.00 (100)
2018	6,387.00 (21.68)	-	23,080.00 (78.32)	29,467.00 (100)

Note: Figures in brackets indicate the percentage to total.**Source:** As in Table 1



Source: Table 2.

acts as a cushion in its operations and helps in achieving viability. The share capital of the RRBs was Rs. 196.00 crores during 2007 as against Rs. 6,387.00 crores during 2018 (Table 2). There is no increase in share capital between 2008 and 2015. Its share in the total owned funds was 2.69 per cent in 2007 as compared to 21.68 per cent in 2018. In the meantime, there are fluctuations. The share capital deposit was Rs. 2,188.43 crores in 2007 as against Rs. 1,192.00 crores in 2016. In percentage terms, the former and latter have formed 30.04 and 4.35 per cent respectively. Its proportion has decreased due to increase in the proportion of reserves and surplus. The creation of reserves and surplus depends on the adequacy of net profits earned. A strong reserve base reflects the financial stability of the bank and reposes confidence among the public. Reserves facilitate the bank write off bad debts and to meet unforeseen contingencies. The reserves and surplus has gradually gone up from Rs. 4,901.54 crores in 2007 to Rs. 23,080 crores in 2018. In relative terms, it has progressively increased from 67.27 per cent to 78.32 per cent in the aforesaid period. The owned funds were Rs. 7,285.97 crores in 2007. It has progressively increased to reach the highest at Rs. 29,467.00 crores as on 31st March, 2018, registering a growth of 4.04 times. The funds are depicted in **Figure 2**. The increase in owned funds was mainly on account of accretion to reserves by the profit making RRBs. The share capital is almost static in the period. The share capital deposit has fluctuated as against an increase in reserves and surplus. RRBs recorded a spectacular progress in the matter of own resources on the principle of survival of the fittest.

5 Working Funds

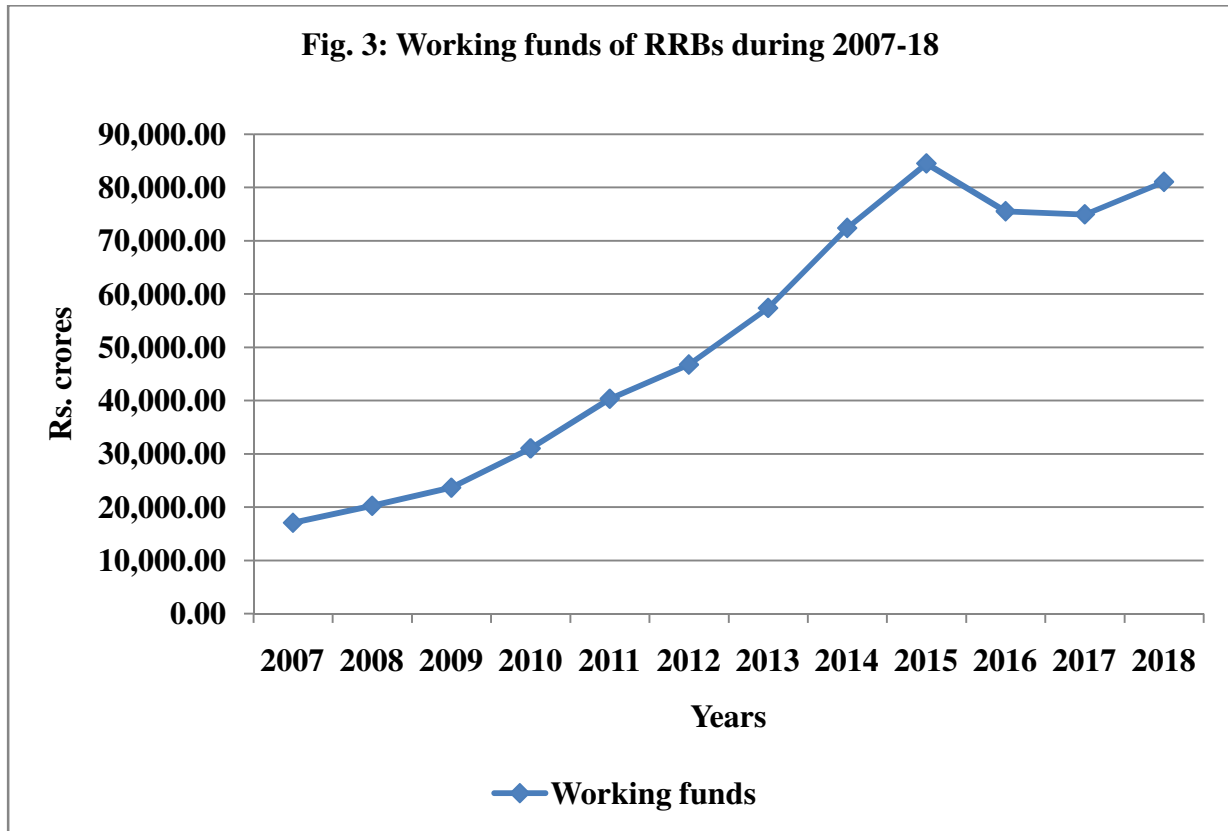
The funds mobilised were Rs. 17,061.77 crores in 2007. These have steadily increased to reach Rs. 81,055.00 crores during 2018 except a decrease in 2016 and 2017 (Table 3). They are

Table 3: Working Funds of RRB during 2007-18

(Rs. crores)

Year (1)	Owned funds (2)	Borrowings (3)	Working funds (4)	% of col. (2) to col. (4) (5)
2007	7,285.97	9,775.80	17,061.77	42.70
2008	8,732.59	11,494.00	20,226.59	43.17
2009	10,910.29	12,734.65	23,644.94	46.14
2010	12,247.17	18,770.06	31,017.23	39.49
2011	13,838.92	26,490.80	40,329.72	34.31
2012	16,462.00	30,288.84	46,750.84	35.21
2013	19,303.85	38,073.00	57,376.85	33.64
2014	22,172.00	50,230.00	72,402.00	30.62
2015	25,084.00	59,422.00	84,506.00	29.68
2016	27,420.00	48,110.00	75,530.00	36.30
2017	27,066.00	47,888.00	74,954.00	36.11
2018	29,467.00	51,588.00	81,055.00	36.35

Source: As in Table 1



Source: Table 3

graphically presented in **Figure 3**. In the working funds, owned funds have accounted for 42.70 per cent during 2007 as compared to 36.35 per cent during 2018. The remaining borrowed funds were in the range of 57.30- 63.65 per cent the period under study. The share of owned funds has declined as against an increase in the proportion of borrowed funds. The dependence on external financial sources is not advisable in the long run. In future, the bank has to put concerted efforts to increase the contribution of owned funds.

6 Deposits and advances

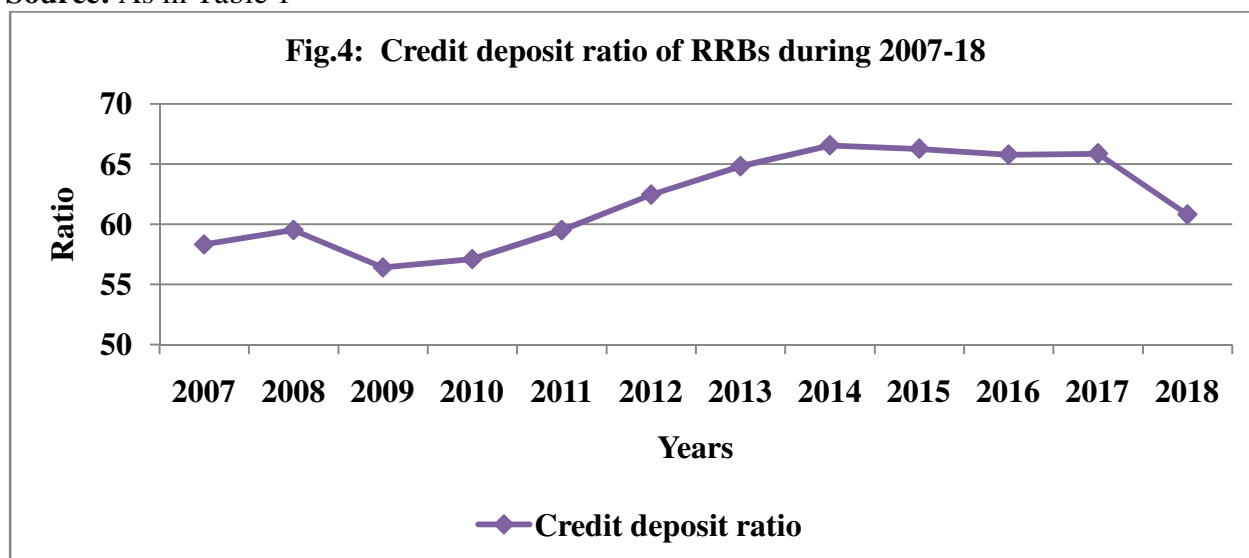
The RRBs have mobilised Rs. 3,71,910 crores as deposits in 2018 as compared to Rs. 83,144 crores in 2007 (Table 4). There is a gradual growth during the period. Similarly, there is a

Table 4: Deposits and Outstanding advances of RRBs in India during 2007 – 18
(Rs. crores)

Year	Deposits	Outstanding advances	Credit deposit ratio
2007	83,144	48,493	58.32
2008	99,094	58,985	59.52
2009	1,20,189	67,802	56.41

2010	1,45,035	82,819	57.10
2011	1,66,232	98,917	59.51
2012	1,86,336	1,16,384	62.46
2013	2,11,488	1,37,078	64.82
2014	2,39,494	1,59,406	66.56
2015	2,73,018	1,80,955	66.28
2016	3,15,048	2,07,279	65.79
2017	3,13,499	2,06,538	65.88
2018	3,71,910	2,26,175	60.81

Source: As in Table 1



Source: Table 4

remarkable progress in the advances outstanding. The outstanding advances were Rs. 48,493 crores in 2007 vis - à - vis, Rs. 2,26,175 crores in 2018. There is a progressive increase in it. The CDR was 58.32 per cent in 2007 as compared to 60.81 per cent in 2018. In the meantime, the fluctuations are significant. **Figure 4** explains it graphically. It indicates that there is a siphoning of deposits mobilised from the operational area to elsewhere in the country. With the growth in the number of banks and considerable expansion in branch network, there has been a steady increase in the deposits and outstanding advances. But CDR was unwelcome because rural savings were siphoned off to other areas.

7 Profit / Loss

The profit / loss of RRBs in India during 2007 - 18 are furnished in the **Table 5**. During 2007, 81 RRBs earned a profit of Rs. 926 crores vis - a - vis 15 RRBs incurred a loss of Rs.

Table 5: Profit/Loss incurred by RRBs in India during 2007-18**(Rs. crores)**

Year	Number of RRBs		Amount	
	Earning profits	Incurring losses	Profit	Loss
2007	81	15	926	301.25
2008	83	8	1,384	55.58
2009	80	6	1,824	35.91
2010	79	3	2,515	5.65
2011	75	7	2,421	71.32
2012	79	3	1,886	28.87
2013	63	1	2,275	2.07
2014	57	0	2,694	0
2015	51	5	2,921	176
2016	51	5	2,556	122
2017	50	6	2,206	188
2018	49	7	2,604	387

Source: As in Table 1.

301.25 crores. The profit has gradually increased year after year whilst losses declined with fluctuations. The Profit was the highest at Rs. 2,921 crores in 2015. The number of loss incurred RRBs have declined from 15 in 2007 to 7 in 2018.

8 Non - Performing Assets

The NPAs has risen from Rs.3,178.03 crores in 2007 to Rs. 13,369.50 crores in 2016 with volatile changes (Table 6). **Figure 5** presents it graphically. The share of NPAs in the advances outstanding has progressively decreased from 6.55 per cent in 2007 to 3.75 per cent in

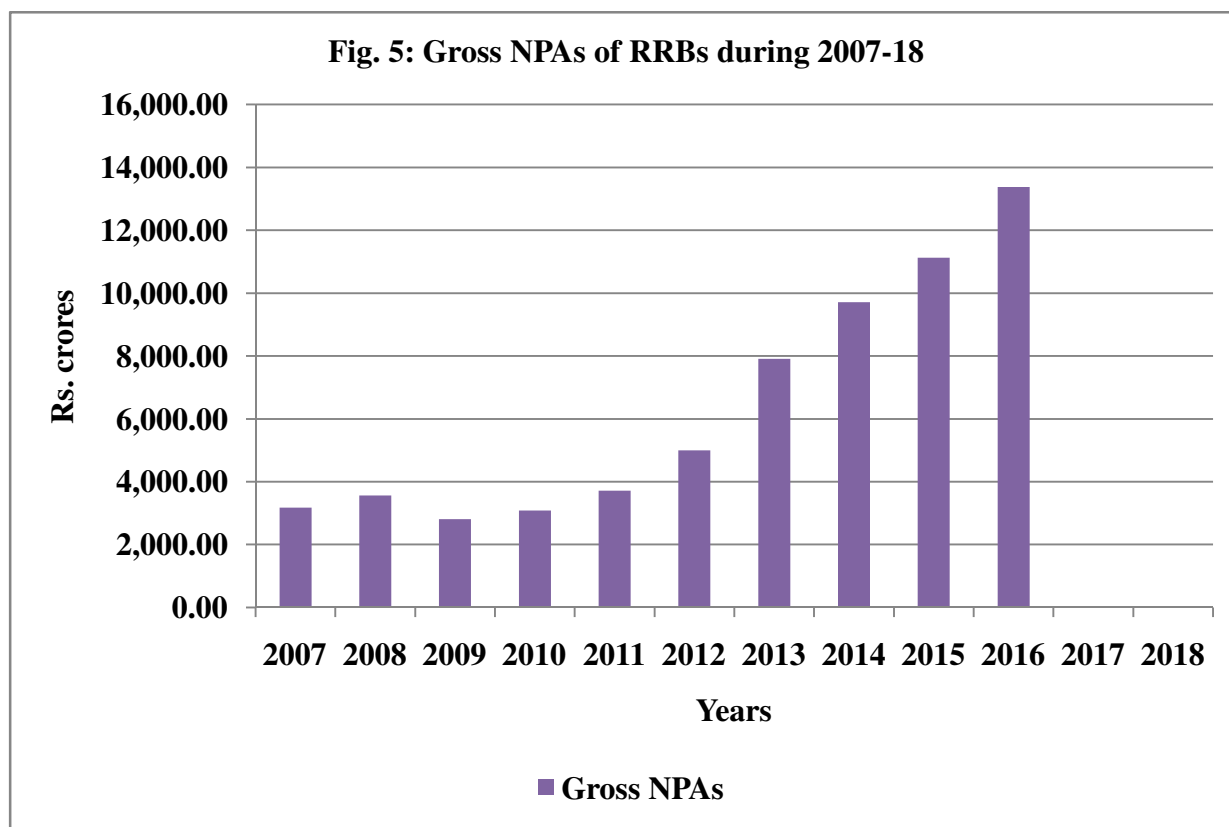
Table 6: Non - performing assets of RRBs in India during 2007 – 18**(Rs. crores)**

Year (1)	Loans & advances o/s (2)	Gross NPAs (Rs.) (3)	% of col (3) to col (2) (4)
2007	48,493	3,178.03	6.55

2008	58,985	3,566.34	6.05
2009	67,802	2,809.71	4.14
2010	82,819	3,084.81	3.72
2011	98,917	3,712.00	3.75
2012	1,16,384	4,994.16	4.14
2013	1,37,078	7,906.94	5.65
2014	1,59,406	9,707.83	6.09
2015	1,80,955	11,128.73	6.15
2016	2,07,279	13,369.50	6.45
2017	2,06,538	NA	NA
2018	2,26,175	NA	NA

Note: NA: Not Available;

Source: As in Table 1



Source: Table 6

2011 and increased in the subsequent period to reach at 6.45 per cent in 2016. NPA have increased in absolute terms while declined as a percentage to outstanding advances.

9 Conclusion

There is considerable expansion in branch network. The share capital is almost static in the period i.e., 2007-18. The share capital deposit has fluctuated as against an increase in reserves and surplus. RRBs recorded a spectacular progress in the matter of own resources. There has been a steady increase in deposits and outstanding advances. But CDR was unwelcome because rural savings were siphoned off to other areas. The borrowed funds were in the range of 57.30 - 63.65 per cent during the period understudy. In future, the bank has to put concerted efforts to increase the contribution of owned funds. The dependence on external sources is not advisable in the long run. The number of profit earned RRBs have increased as against loss incurred RRBs. Further, profit has increased during the study period. The overall trend is welcome for the wellbeing of RRBs. NPA has increased in absolute terms while declined as percentage to outstanding advances.

References

- Narasimham Committee, M.,(1991), Report of the Committee on Financial System, RBI, Bombay.
- NABARD. *Annual Reports from 2007-08 to 2017-18*, Mumbai.
- Padmavathi. A., and Bhagavan Reddy. B., (2014). "An Overview of RRB's In India", *International Journal of Management and Social Sciences Research Review*, **1(3)**, 138-144.
- Sharma. R.H. (2005), "Will RRB Merges Lead to Efficient Rural Lending" Business Line, September 23, p.42.
- Singh, R.K.P. (2008), "Indian Economic Conditions Recovery and Over Dues Problems of RRBs Financing", *Agriculture*, Vol.15, No.2, pp.26-35.
- Syed Ibrahim, M. (2010), "Performance Evaluation of Regional Rural Banks in India", *International Business Research*, Canadian Center of Science and Education, Vol.3, No. 4, pp. 203-211.