

Growth and Financial Performance of RRBS in India: An Exploratory Analysis

Payal Gupta

Research Scholar, Department Of Economics H.P.U. Summerhill, Shimla, India.

Abstract Regional Rural Banks (RRBs) have emerged as vibrant financial institutions providing core banking facility to rural people including farmers, rural artisans, industrial labourers and entrepreneurs working at small scales. It is a parallel financial institution working with commercial banks as well as cooperative banks in rural and tribal areas. The RRBs have more reach to the rural garden of India with their large network. The success of rural credit is largely depends on their financial strength and capability. The RRBs yielded positive results in respect of key performance indicators such as number of banks and branches, share capital, reserves, deposits, borrowings, loans, investment and profit. The study also focuses on the per branch productivity of RRBs and sector wise loans issued by RRBs. The main objective of the paper is to study the financial performance of Regional Rural Banks in India. This study discusses the present level of financial performance of RRBs in India as on 31st March 2017. The data has been collected from annual reports of NABARD and RBI and analyzed with the help of percentage, compound annual growth rate, coefficient of variation, t-test etc. The study finds and concludes that financial performance of Regional Rural Banks has significantly improved over the period of time.

Keywords – RRB, Financial performance, NABARD, Banking.

I. INTRODUCTION

A significant development in the field of banking during 1976 was the establishment of 19 Regional Rural Banks under the Regional Rural Banks Act, 1976. Regional Rural Banks are operating at the bottom rung of banking organizations in India. They have been set-up with the basic objective of providing credit facilities to the rural population who had very limited access to the formal credit system. Regional Rural Banks are specially designed financial institutions run under the guidance of NABARD and the sponsor commercial banks spread in rural areas with the close network of branches serving various districts of the country. Regional Rural Banks have been in existence for around 36 years in the Indian financial scene. The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in the rural areas, particularly, among the economically and socially marginalized sections. The Banking Commission (1972) recommended establishment of an alternative institution for rural credit and ultimately Government of India established Regional Rural Banks as a separate institution basically for rural credit on the basis of the recommendations of the working group under the chairmanship of Shri M. Narashimham.

Accepting the recommendations of the working group the Government of India promulgated the Regional Rural Banks ordinance on September 26, 1975. The ordinance was later replaced by the Regional Rural Banks Act 1976. The RRBs were to be set up mainly “with a view to

developing the rural economy by providing credit and other facilities for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs”.

The advisory committee on the flow of credit to agriculture and related activities (Chairman: V.S. Vyas) in June 2004 recommended restructuring of the RRBs in order to improve the operational viability of the RRBs. Consequently upon the amalgamation of 147 RRBs into 46 new RRBs, sponsored by 19 banks in 17 states, affected by the Government of India since September 12, 2005, the total number of RRBs declined from 196 to 56 as on March 31st, 2017. Total districts covered by the 56 amalgamated RRBs were 648 as on March 31st, 2017. The number of branches of the amalgamated RRBs as on March 31, 2017 was 20924. After amalgamation, the RRBs become bigger in size with a larger area of operation which enabled them to function in a competitive environment more effectively by taking advantage of the economies of scale and reduction in transaction cost. The process of decreasing the number of RRBs is proved to be convenient for the sponsor banks to improve the working efficiency of the RRBs.

II. REVIEW OF LITERATURE

Varsha and qwSingh (1982) analyzed the overall profitability performance of the RRBs over a period of

three years from 1978 to 1980 by selecting a sample of 40 RRBs. They used the indicators namely interest earned ratio, interest paid ratio, manpower expense ratio, expenses ratio, income ratio, payout per employee ratio, volume of business per employee ratio, profitability ratio, spread ratio and burden ratio. In general, the overall profitability performance of the RRBs in the sample was found to have improved over the years 1978 to 1980. In order to analyze the inter-regional difference in the performance of the RRBs, four average Regional Rural Banks were constructed, and an average Eastern Regional Rural Bank, an average Northern Regional Rural Bank, an average Central Regional Rural Bank and an average Southern Regional Rural Bank were selected. The study reveals that Eastern and Central RRBs which were on average showing losses in 1978, were earning profit in 1980. For Northern RRBs, the quantum of loss on an average in 1980 was less as compared to that in 1978. For Southern RRBs, the quantum of profit increased over the year 1978 to 1980.

Pandya(1995) found that the growth of the RRBs has been sluggish during the period from 1977 to 1979. Nevertheless, the tempo of the growth has gained momentum from 1980 by opening a number of branches covering more districts. The study further reveals that the region wise progress made the RRBs in the sphere of credit deployment has been plausible in comparison to their deposits.

Hemlata & Poonam Sing (2009) Studied on “financial inclusion through Regional Rural Banks”. The paper deals with role of Regional Rural Banks in financing, mobilization of savings, micro finance, and self help promotion institutions. The study recommends that RRBs should extend their services in to unbanked areas and increase their credit deposit ratio. As RRBs with branch in remote, interior and tribal-dominated areas have a special role to play financial institution.

Reddy(2010) has found that the RRBs should adopt innovative methods to make themselves economically viable and at the same time not compromising with outreach to the rural people and priority sectors in less developed regions. The study specifically suggests reduction of number of bank branches to make individual banks economically viable and reach many villages through setting up of mobile banks, bank agents and representatives. The incentive structure for agents/representatives should be based on commission of the business generated.

Ibrahim (2010) made study on “Performance Evaluation of Regional Rural Banks in India”. The main objective of the study is to analyze whether the merger/amalgamation of RRBs in India, undertaken in 2005-06 has helped to improve their performance. The study was confined only to the specific area like number of branches, district coverage, deposit mobilized, credits and investments made

by the Indian RRBs for period from 2001-02 to 2008-09. Various statistical tools like t- test and ANOVA had been used in the study. The study observed that even though number of RRB decreased, the branch network had increased and the performance of RRBs in India improve in the post amalgamation period.

Makandar, N.M.(2010) made study on “Profitability and Productivity Analysis of RRBs in India”. In the light of the amalgamation of RRBs in India the main purpose of this study is to investigate the efficiency of the sample RRBs in Karnataka state and to analyze the changes in profitability and productivity by comparing between pre and post amalgamation period. The study concluded that the profitability of the sample has not improved as expected but in long run one hope that the restructuring of RRBs in India give positive result.

Ishwar(2011) conducted study on “ A Financial Performance Analysis of RRBs pre and post transformation”. The study made an attempt to study the performance of the RRBs from 1980-81 to 2008-09. In order to know the implication of transformation of RRBs in 2004, the study focused on financial results before and after amalgamation. The findings of the study reveal that after amalgamation, RRBs transformation had resulted in a 200 percent increase in net profits and a 100 percent increase in business. There was a gradual reduction in the number of loss making banks and addition of 1,000 outlets. All this had been because of consolidation among RRBs.

Soni,A &Kapre A. (2013) made study entitled “Performance Evaluation of Regional Rural Banks in India”. The objective of the study were to measure financial performance by key performance indicators, progress, growth pattern and make important suggestions to improve the working of RRBs in India. The finding of the study revealed that the efforts made by RRBs in branch expansion, deposit mobilization, rural development and credit deployment in weaker section of rural area are appreciable. The RRBs successfully achieve its objectives like to take banking to door steps of rural household particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private moneylenders, 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. The RRBs is providing stronger banking network. Government should take some effective remedial steps to make rural banks viable.

Bhatia, Arpna (2013) made study on “Performance Evaluation of RRBs in India during pre and post merger period”. The overall objective of the study was to assess whether the amalgamation process in the Indian rural banking sector has been successful in restructuring the banks. The specific objectives of this study were to evaluate the performance and growth pattern of RRBs in

terms of spread, burden, profitability and productivity over the period under study and whether the performance of RRBs significantly differ from pre and post amalgamation period. The study concluded that overall there is an improvement in the efficiency of RRBs in post merger period. The spread ratio, productivity and profitability of RRBs shows upward trend in post merger period and burden ratios were continuously diminishing after amalgamation period.

Kanika & Nancy (2013) made study on “Financial Performance of Regional Rural Banks in India”. The increase in the amount of NPA’s and the problem recovery necessitated the need to study the financial performance of Regional Rural Banks. The main objective of the study was to know the growth pattern and financial performance of RRBs in India. The study covered a specific period from 2006-07 to 2011-12. The study concluded that the expansion of RRBs at a rapid rate helped in reducing substantially the regional disparities in respect of banking facilities and RRBs also successfully achieve its objective to serve rural people.

Bhatt, K. A.(2013) made study on “Profitability Analysis of Regional Rural Banks in India: With Special Reference to western Region”. The study focused on Western region of India i.e. Gujrat, Maharashtra and Rajasthan. The study made an attempt to study the profitability analysis of the RRBs from 2007-08 to 2011-12. The main objective of the study was to analyze the interest coverage ratio, to analyze the return on Equity, to examine non-interest income ratio and to study net interest margin ratio of selected RRBs during study period. The finding of the study revealed that selected bank of Rajasthan showed higher profitability than selected RRBs of Gujrat and Maharashtra.

III. RESEARCH METHODOLOGY

OBJECTIVES OF THE STUDY

- 1.To analyze the growth and financial performance of RRBs.
- 2.To analyze the sector wise loans issued by RRBs.
- 3.To know the productivity parameters of RRBs per branch.

Need of the Study

The research study is significant to evaluate the financial performance of RRBs in India. The results or findings of the present study may be useful to improve the working performance of the RRBS in India.

Scope of the Study

1. The study covers the working of all Regional Rural Banks in India.
2. The study covers a specific period of 2001-2017.

Period of the Study

For the growth and financial performance of RRBs, a study period of 16 years was considered which commencing from 2001-02 to 2016-17.

Data Base

The present study has been obtained from the secondary data only. The data have been collected from the published and unpublished reports of the Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), Journals and magazines.

Tools of Analysis

For analyzing the collected data growth rates, averages and statistical tools like standard deviation, co-efficient of variation and t-test are used by using SPSS Package.

IV. DATA ANALYSIS AND INTERPRETATION

4.1 Growth and Financial Performance of RRBs in India

The RRBs came into existence on the recommendation of the working group on rural banks headed by M. Narasimham. The working group noted that the major strength of the cooperative institution lies in local feel of the village society. The group recommended the setting up of RRBs. The RRBs achieved a phenomenal growth during the 16 years period from 2001-02 to 2016-17. The progress of RRBs is mainly judged for the research project on the basis of indicators i.e. no. of RRBs, no. of branches, mobilization of deposits, borrowings, advancing of loans and profits.

The hypothesis framed as follows

H_0 : Growth of RRBs on the basis of indicators is not satisfactory.

H_1 : Growth of RRBs on the basis of indicators is satisfactory.

No. of RRBs - A perusal of table1 furnishes the expansion of RRBs in India during study period. The no. of registered RRBs has gradually declined trend from 196 in the year 2001-02 to 56 in the year 2016-17. It is because of amalgamation that starts in the year 2005 and still in the process. The statistical calculations of mean, S.D., and C.V. were registered 107.81, 56.27 and 50.57percent respectively for no. of RRBs existed. No. of RRBs registered negative compound growth rate 8.5 percent. The statistical calculation of t-value indicates the significant growth in no. of RRBs in India during the study period respectively.

No. of Branches - However on the other side the number of branches increased significantly from 14,390 branches with 196 RRBs in 2001-2002 to 20924 branches with 56 RRBs in 2016-2017 recording the growth of 2.5 percent. The number of branches established increased from 14390 to 20924 that are gradually increased year by year. The percentage of change in number of RRBs registered in India were stabled during the years of 2001-02 to 2004-05,

it was registered between minus 32.14 percent to minus 4.65 percent during the study period from 2005-06 to 2009-10. In the growth of number of branches the percentage of change were registered as increasing way from .29 percent to 6.86 percent up to the year of 2013-14 and then declined to 1.89 percent in the year of 2016-17. The statistical calculation of mean, S.D. and C.V. were registered 16454.5, 2394.18 and 14.55 percent respectively for no. of branches established by RRBs in India and no. of branches registered 2.5 percent compound growth rate. The statistical calculation of t-value indicates the significant growth in no. of branches of RRBs in India during the study period respectively.

Share Capital and Reserve-The share capital and reserves as one of the major components of the banker’s own funds. This is the base which enables the bank to expand its operations and to achieve its goals. One of the own funds of RRBs, comprising share capital and reserves increased from Rs. 195.81crore as on 2001-02 to Rs.6401 crore in 2016-17 and Rs.1782.40 crore in 2001-02 to Rs.23080 crore in 2016-17 respectively, registering growth of 26.17 percent and 20.08 percent respectively. The increase in own funds has been primarily due to 56 RRBs. The average reserves of the RRBs have been noticed to the tune of Rs.9537.66 crore and compound growth rate has been noted to the tune of 20.08percent during the study period.

The statistical calculation of t-value indicates the significant growth in Share Capital and Reserve of RRBs in India during the study period respectively.

Deposit- The table 1 shows that the deposits as a resource for RRBs increased to Rs. 371910 crore as on 2016-17 as against Rs. 44539.15 crore in 2001-02, registering 16.30 percent compound growth. The above table indicates that the amount of deposits increasing up to the period of 2008-09 as 21.29 percent. After 2008-09, there is sharp decline in amount of deposits that is shown up to 2013-14 and then gradually increased from 2014-15 to 2016-17 i.e. 18.63 percent. The statistical calculation of t-value indicates the significant growth in deposits of RRBs in India during the study period respectively.

Borrowing- The borrowing of RRBs has increased to a great extent. The aggregate borrowings of RRBs is maximum 47.39 percent in the year 2009-10, borrowings of RRBS increased from Rs. 4524.37 crore as on 2001-02 to Rs. 51588 crore as on 2016-17. The average borrowing of the RRBs has gone to the tune of Rs. 23943.26 crore and the coefficient of variation is 81.69 percent in this duration respectively. The compound growth rate has been noted 19.68 percent during the period under study. The statistical calculation of t-value indicates the significant growth in borrowings of RRBs in India during the study period respectively.

Table 1 Financial Indicators of RRBs in India (Rs. in crore)

Year	No. of RRBs	Branches	Share Capital	Reserves	Deposits	Borrowings	Investment	Loans & Advances	Profit(Losses)
2001-02	196 (-)	14390 (-)	195.81 (-)	1782.4 (-)	44539.15 (-)	4524.37 (-)	30531.73 (-)	18629 (-)	608 (-)
2002-03	196 (-)	14433 (.29)	195.85 (.02)	2357.41 (32.26)	50098.34 (12.481)	4798.69 (6.06)	33063.42 (8.29)	22158 (18.94)	524 (-13.81)
2003-04	196 (-)	14446 (.09)	195.85 (-)	3107.05 (31.78)	56350.08 (12.478)	4595.48 (-4.23)	36135.40 (9.29)	26114 (17.85)	769 (46.75)
2004-05	196 (-)	14484 (.26)	195.93 (.04)	3818.52 (22.9)	62143.00 (10.28)	5524.32 (20.21)	36767.66 (1.75)	32871 (25.87)	750 (-2.47)
2005-06	133 (-32.14)	14494 (.07)	196 (.03)	4270.56 (11.83)	71328.83 (14.78)	7302.59 (32.18)	41182.45 (12)	39713 (20.81)	617 (-17.73)
2006-07	96 (-27.8)	14520 (.18)	196 (-)	4901.54 (14.78)	83143.55 (16.56)	9775.80 (33.86)	45666.14 (10.88)	48494 (22.11)	596 (-3.4)
2007-08	91 (-5.28)	14761 (1.66)	197 (.5)	5703.06 (16.35)	99093.46 (19.18)	11494.00 (17.57)	48559.54 (6.34)	58984 (21.63)	1027 (72.31)
2008-09	86 (-5.49)	15181 (2.84)	197 (-)	6753.99 (18.43)	120188.9 (21.29)	12734.65 (10.79)	65909.92 (35.73)	69030 (17.03)	1369 (33.3)
2009-10	82 (-4.65)	15480 (1.96)	197 (-)	8065.26 (19.4)	145034.95 (20.67)	18770.06 (47.39)	79379.16 (20.43)	82819 (19.97)	1884 (37.61)
2010-11	82 (-)	16001 (3.36)	197 (-)	9565.58 (18.6)	166232.3 (14.61)	26490.80 (41.13)	86510.44 (8.98)	100331 (21.14)	1720 (-8.70)
2011-12	82 (-)	16914 (5.7)	200 (1.52)	11135.19 (16.4)	187351.37 (12.7)	30271.7 (14.27)	89145.79 (3.05)	120500 (20.10)	2000 (16.28)
2012-13	64 (-21.95)	17856 (5.57)	200 (-)	13130.01 (17.9)	211457.8 (12.87)	38267.73 (26.41)	110683.47 (24.16)	139700 (15.93)	2275 (13.75)
2013-14	57 (-10.9)	19082 (6.86)	200 (-)	15805 (20.37)	239494 (13.25)	50230 (31.26)	139631 (26.15)	159406 (14.11)	2694 (18.41)

2014-15	56 (-1.75)	19964 (4.62)	6400 (3100)	18462 (16.81)	271329 (13.29)	58824 (17.11)	106780 (16.58)	184843 (21.97)	2958 (9.79)
2015-16	56 (-)	20342 (1.89)	6400 (-)	20665 (11.59)	313500 (15.54)	47900 (-18.57)	169600 (29.58)	206538 (4.89)	2018 (-31.77)
2016-17	56 (-)	20924 (2.86)	6401 (-)	23080 (11.68)	371910 (18.63)	51588 (7.69)	210984 (24.41)	226175 (9.51)	2218 (9.91)
Total	1725	263272	21764.44	152602.6	2493195	383092.2	1330530	1536305	24027
Mean	107.81	16454.5	1360.28	9537.66	155824.7	23943.26	83158.13	96019.06	1501.69
S.D.	56.09	2394.18	2500.58	6837.21	101769.1	19561.45	53343.07	69094.55	819.13
C.V.	52.02	14.55	183.82	71.69	65.31	81.69	64.14	71.96	54.54
CAGR	-8.5	2.5	26.17	20.08	16.30	19.68	14.80	19.15	9.97
t-value	7.658	27.49	2.175	5.579	6.124	4.896	6.236	5.558	7.333
P-value	<.05	<.05	<.05	<.05	<.05	<.05	<.05	<.05	<.05

Note: figures in parenthesis indicate the percentages increased and decreased over the previous year

Source : NABARD

Investment- The investments of the RRBs have revealed increasing trends during the period under study. The investments of RRBs are tremendously increased from Rs. 30531.73 crore in 2001-02 to Rs. 210984 crore in 2016-17 and reached to the total amount of Rs. 1330530 crore with an average of Rs. 83158.13 crore during study period registering compound growth of 14.80 percent. The statistical calculation of t-value indicates the significant growth in investment of RRBs in India during the study period respectively.

Loans and Advances-The performance of loans and advances of RRBs in India are aggressively increased year by year from 18629 crore to Rs.226175 crore in end of the year 2016-17 and its total amount were registering Rs. 1536305 crore with an average of Rs. 96019.06 crore. There is fluctuation in loans and advances from 2001-02 to 2016-17, with compound growth rate of 19.15 percent. The statistical calculation of t-value is significant at 5 percent level indicates the significant growth in loans and advances of RRBs in India during the study period respectively.

Profit- The profit and loss account provides a clear picture whether the organization is earning profit or incurring losses. The RRBs (out of 56 RRBs) have earned profit to the extent of Rs. 2218 crore as on 2016-17. The amount of profit of RRBs declined in 2002-03 i.e. 13.81 percent but increased to 46.75 percent in 2003-04. There was a loss of RRBs i.e. 13.81 percent, 2.47 percent, 17.73 percent, 8.70 percent and 31.77 percent in the year 2002-03, 2004-05, 2005-06, 2006-07, 2010-11 and 2015-16 respectively. RRBs earned maximum profit in the year 2007-08 i.e. 72.31 percent as compared to previous year 2006-07. The total profit reached to amount of Rs. 24027 crore with an average of Rs. 1501.69 crore, with S.D. 819.13 and coefficient of variation 54.54 percent. The amount of profit shows the compound growth rate 9.97 percent. The calculated value t at 5 percent level of significance shows that the profit of RRB has a significant impact on the growth of RRBs.

4.2 Productivity Parameter of RRBs

The hypothesis framed as follows

H₀: Per branch productivity of RRBs is not satisfactory.

H₁: Per branch productivity of RRBs is satisfactory.

The table 2 enlightens that the business of all the RRBs in India increased from Rs. 63168.15 crore in 2001-2002 to 598085 crore in 2016-2017, recording an increase of 9.47 times. The increment in percentage of total business took place because deposits and lending operations registered the growth of 18.63 percent and 9.51 percent respectively in the year 2016-2017. The per-branch productivity of business of RRBs increased from Rs. 4.39 crore in 2001-2002 to Rs. 22.84 crore in 2016-2017 recording an increase of 6.59 times registered a compound growth i.e. 13.39 percent.

Table 2 Productivity parameter of RRBs (Rs. in Crore)

Year	Total Business Deposits +Advances	Branches	Per Branch Productivity
2001-02	63168.15 (-)	14390 (-)	4.39
2002-03	72256.34 (14.39)	14433 (.29)	5.01
2003-04	82464.08 (14.13)	14446 (.09)	5.71
2004-05	95014.0 (15.21)	14484 (.26)	6.56
2005-06	111041.8 (16.87)	14494 (.07)	7.66
2006-07	131637.6 (18.55)	14520 (.18)	9.07
2007-08	158077.5 (20.08)	14761 (1.66)	10.71
2008-09	189218.9 (19.70)	15181 (2.84)	12.46
2009-10	227854.0 (20.41)	15480 (1.96)	14.72
2010-11	266563.3 (16.99)	16001 (3.36)	16.66
2011-12	307851.4 (15.49)	16914 (5.7)	18.20
2012-13	351157.8 (14.06)	17856 (5.57)	19.67
2013-14	398900 (13.59)	19082 (6.86)	20.09
2014-15	456172 (14.36)	19964 (4.62)	22.84

2015-16	520038 (14.00)	20342 (1.89)	25.56
2016-17	598085 (15.00)	20924 (2.86)	28.58
Total	4029500	263272	227.89
Mean	251843.7	16454.5	14.24
S.D.	170705	2394.18	7.72
C.V.	67.78	14.55	54.21
CAGR	16.04	2.5	13.39

Note: figures in parenthesis indicate the percentages increased and decreased over the previous year

Source: NABARD

The statistical calculation shows that the mean, S.D. and C.V. were registered 251843.7, 170705 and 67.78 percent respectively for total business of no. of RRBs existed, 16454.5, 2394.18 and 14.55 percent respectively. The productivity of per branch shows the greater variation i.e. 54.21 percent. The test results are given in table 3.

Table 3 t-test Results for the Productivity per Branch

Hypothesized Mean	0
d.f.	15
P-value two tail	.0001
t critical two-tail	7.3782

't'-test was performed to determine whether the performance of RRBs per branch is satisfactory or not. Tables- 3 provides the result that there is strong evidence that (p-value is <.05), H₀ is rejected. Hence, productivity per branch of RRB is satisfactory.

4.3 Sector –Wise Loans Issued by RRBs

RRBs occupy an important position in the rural credit market. Loans provided to the needy people have been categorized into two. One is priority sector and the other one is non-priority sector. Priority sector bank lending is an active instrument of Indian financial policy with an aim to restore sectoral balance within credit disbursement and to channel credit to the weaker sections of the society. Priority Sector is a sector which is given priority in offering financial services by the banks. The concept of priority sector was first brought into the financial system in 1968, when the government imposed social control over the banks. Banks were directed to lend some percentage of loans to the sectors listed in the priority sector. In 1968 there were 3 sectors; agriculture, small industry and exports. Gradually, the list of segments under priority sector increased. At present it consists of agriculture, small scale industry, small transport operators, exports, small business housing, self employed persons, professionals, education etc. Recently the micro finance through Self-Help Groups (SHG) is also included in priority sector. Loans given to priority sectors by RRBs consists of short-term loans, term loans, loans to rural artisans, small scale industries, retail trade, and self-help groups' etc. Table-4 exhibits the sector-wise loans issued by the RRBs.

The hypothesis framed as follows.

H₀: There is no difference between disbursement of priority sector loans and non priority sector loans.

H₁: There is difference between disbursement of priority sector loans and non priority sector loans.

Table 4 Sector Wise Loans Issued by RRBs
Rs. in crore

Year	Priority Sector	% to Total Loans	Non-Priority Sector	% to Total Loans
2001-02	12668 (-)	68.00	5961 (-)	32.00
2002-03	15511 (22.44)	70.00	6647 (11.50)	30.00
2003-04	20630 (33.00)	79.00	5484 (-17.49)	21.00
2004-05	25830 (25.21)	78.58	7041 (28.39)	21.42
2005-06	32410 (25.47)	81.61	7303 (3.72)	18.39
2006-07	39852 (22.96)	49.46	8641 (18.32)	50.54
2007-08	48894 (103.85)	82.89	10090 (-58.83)	17.11
2008-09	57528 (17.66)	83.34	11502 (13.99)	16.66
2009-10	68660 (19.35)	82.90	14159 (23.10)	17.10
2010-11	82643 (20.37)	82.37	17688 (24.92)	17.63
2011-12	97400 (17.86)	80.83	23100 (30.59)	19.17
2012-13	114300 (17.35)	81.82	25400 (9.96)	18.18
2013-14	130215 (13.92)	76.91	39087 (53.89)	23.09
2014-15	154875 (18.94)	75.00	51625 (32.07)	25.00
2015-16	177900 (14.87)	82.13	28600 (-25.04)	17.87
2016-17	193400 (8.71)	89.28	23200 (-18.88)	10.71
Total	1272446.00		285528.00	
Mean	79527.87		17845.5	
S.D.	59282.39		13334.98	
C.V.	74.54		74.72	
CAGR	19.26		13.28	

Note: figures in parenthesis indicate the percentages increased and decreased over the previous year

Source: Report on Trends and progress of Banking in India,

Reserve Bank of India, supplement to RBI Bulletin (2001-02 to 2016-17)

Table-4 reveals the year-wise loans issued to both priority and non-priority sectors in the country. It is important to observe from the table that the loans issued to priority sector constitute more percentage than the loans provided to the non-priority sector. Priority sector lending by RRB have revealed increasing trends during the period under study. It has been increased from Rs. 12668 crore in 2001-02 to Rs. 193400 crore in 2016-17 and reached to the total amount of

Rs. 1272446.00 crore with an average of Rs. 79527.87crores during the study period registering compound growth rate 19.26 percent. On the other side, non-priority sector lending by RRBs also increased from Rs. 5961crores in 2001-02 to Rs. 23200 crore in 2016-17 and reached to the total amount of Rs. 285528.00 crore with an average of Rs. 17845.5 crore during the study period registering compound growth rate 13.28 percent. The share of priority sector lending by RRBs i.e. 89.28 percent is higher than non- priority sector in the year 2016-17.

The test results are given in table 5.

Table-5. t-test Results for the Priority Sector Loans and Non-Priority Sector Loans

Hypothesized Mean Difference	0
Correlation	.822
d.f.	30
p-value for two-tail	.000161
t critical for two-tail	4.06

A two sample ‘t’-test was performed to determine whether the disbursement of priority sector loans significantly differs from the disbursement of non-priority sector loans by the RRBs. Tables- 5 provides the result that there is strong evidence that (p-value is <.05), H_0 is rejected. Hence, there is difference in performance between the disbursements of priority sector and non-priority sector lending. The study also shows that there is strong relationship between priority sector lending and non-priority sector lending which is shown by coefficient of correlation.

V. CONCLUSION

This study has assessed the financial performance of RRBs in India. The present paper tries to focus on the changing paradigm of the Indian Regional Rural Banks on the basis of certain indicators such as no. of RRBs, no. of branches, deposit mobilization, borrowings, investment, loans and profit. A downfall in the no. of RRBs have been observed since 2001-02 to 2016-17 as the no. have declined from 196 to 56 because of amalgamation of RRBs. The no. of branches gradually increased year by year and registered 2.5 percent compound growth rate. The share capital and reserves serves as the principle constituent to the banks which enable banks to expand their operations. The share capital and reserves both indicators (on the basis of t-value) show significant growth during the study period. Deposit as a financial indicator registered 16.30 percent compound growth rate. The deposits are gradually increased from Rs. 44539.15 crore in 2001-02 to Rs. 371910 crore in 2016-17. The amount of deposit mobilization has highly increased during the study period. The percentage of change in growth rates of deposits in RRBs in India ranged from 12.48 per cent in 2002-03 to 18.63 per cent in the year of 2016-17. The percentage of change in growth rate in deposit mobilization has been taken place of tremendous

variations in year by year during the entire study period. The borrowings of RRBs has increased to great extent and recorded 19.68 percent compound annual growth rate. The study concludes that deposits and borrowings of RRBs indicate significant growth during the study period. The investment of the RRBs have revealed increasing trend during the study period. The total investment of the RRBs was Rs. 1330530 up to 2016-17, registering compound growth rate 14.80 percent. The performance of loans and advances of RRBs in India has aggressively increased year by year and shows significant growth during the study period. The RRBs have earned profit and shows compound growth rate 9.97 percent. It shows the good growth performance of RRBs for providing better banking services to the rural people during the study period. The study also concluded that total business of RRBs (in terms of deposits and advances) increases from Rs. 63168.15 crore in 2001-02 to 598085 crore in 2016-17, registered compound growth rate 16.04 percent. Per branch productivity of RRBs increases from Rs. 4.39 crore in 2001-02 to Rs. 28.58 crore in 2016-17 with compound growth rate 13.39 percent. The statistical value of t-test shows the productivity per branch of RRB is satisfactory. The study concludes that there is difference between disbursement of priority sector lending and non-priority sector lending. The study also depicts the strong relationship between priority sector lending and non-priority sector lending. Overall, it can be concluded that financial performance of RRBs in India is satisfactory.

REFERENCES

1. Narasaiah, M.Lakshmi, Naidu, G.Venkata, “Role of Banking in Rural Development”, Discovery Publishing House, New Delhi, 1st Edition-1999.
2. Government of India, Ministry of Finance, “Report of the Working Group on Regional Rural Banks”, 1986, New Delhi.n
3. Reserve Bank of India, “Report on Trend and Progress of Banking in India”, Supplement to RBI Bulletin 2006-07.
4. Chakrabarti, Manas, “Rural Banking in India”, New Century Publications, New Delhi, India, 1st edition.
5. Das, Debabrate, “Cooperative Banking in Arunachal Pradesh-A Case Study”, Indian Cooperative Review, Vol. XXXVIII, No. 1, July-2000.
6. S. Varde Varsha and P. Sampat Singh, “Profitability Performance of Regional Rural Banks”, Prajnan, Vol. II, No. 4, October-December-1982.
7. Pandya, “Regional Rural Banks –Catalyst of Agricultural Development”, Kurukshetra , Vol. XLIV, No. 2,Nov.1995.
8. Hemlata & Poonam Sing, the research paper “Financial inclusion through Regional Rural Banks”, 2009.

9. Ibrahim, M. "Performance Evaluation of Regional Rural Banks in India", International Business Research, Vol. 3, No. 4, October 2010, Published by Canadian Center of Science and Education.
10. Makandar, N.M., "Profitability and Productivity Analysis of RRBs in India", 2010.
11. Ishwar, P., "A Financial Performance Analysis of RRBs pre and post transformation", International Journal of Economic Research, 2(I), 142-151, 2011
12. Reddy, A. Amerender "Rural Banking in India", Yojana, Vol. 54, No. 2, Feb. 2010.
13. Soni, Anil Kumar & Kapre, Abhay, "Performance Evaluation of Regional Rural Banks in India", Vol. 1, No. 11, Abhinav National Monthly Referred Journal of Research in Commerce & Management, 2013.
14. Bhatia, Arpna and Megha "Performance Evaluation of RRBs in India during pre and post merger period", publication Abhigyan, January 1, 2013.
15. Kanika & Nancy, "Financial Performance of Regional Rural Banks in India", International Journal of Management & Information Technology, Vol. 4, No.2, 2013.
16. Bhatt, K. A., "Profitability Analysis of Regional Rural Banks in India: With Special Reference to western Region", International Journal of Research in Computer Application & Management, Vol. 3, No.8, 2013.

