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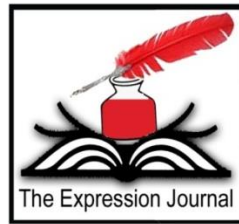
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## **EXAMINING THE COST AND INCOME STRUCTURE VIABILITY OF REGIONAL RURAL BANKS**

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### **Abstract**

Regional Rural Banks have been in existence for around three decades in the Indian financial scene. Inception of regional rural banks (RRBs) can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. The results arrived at through the analysis of the secondary data have been discussed. Discussion includes trends in different performance indicators such as deposits, loan & advances, business, credit deposit ratio, profit and productivity of RRBs, Financial viability of RRBs in terms cost and income structure in providing the financial products under various schemes of rural development .

### **Keywords**

Break-Even Analysis, RRBs, Credit-Deposit Ratio.

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## Introduction:

Regional Rural Banks have been in existence for around three decades in the Indian financial scene. Inception of regional rural banks (RRBs) can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. With joint share holding by Central Government, the concerned State Government and the sponsoring bank, an effort was made to integrate commercial banking within the broad policy thrust towards social banking keeping in view the local peculiarities. The genesis of the RRBs can be traced to the need for a stronger institutional arrangement for providing rural credit. The Narsimham committee conceptualized the creation of RRBs in 1975 as a new set of regionally oriented rural banks, which would combine the local feel and familiarity of rural problems characteristic of cooperatives with the professionalism and larger resource base of commercial banks. Subsequently, the RRBs were set up through the promulgation of RRB Act of 1976. Their equity is held by the Central Government, concerned State Government and the Sponsor Bank in the proportion of 50:15:35. RRBs were supposed to evolve as specialised rural financial institutions for developing the rural economy by providing credit to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. A rural bank is a primary Banking institution set up to serve a compact group of villages generally working as a co-operative or as subsidiary Bank of a commercial Bank, functioning or set in a rural area for the purpose of providing Banking and credit facilities in that area.

They are government owned, regionally based and rurally oriented Banks endeavouring to supplement the existing rural credit institutional system. Regional rural banks play a very important role in agricultural credit. Credit is needed both by the distribution channel as well as by the farmers. The distribution channel needs it to finance the fertilizer business and farmers need it for meeting various needs for agricultural production including purchasing fertilizers. Regional Rural Banks also play a very important role in disbursement of medium term and long term credit needed by the farmers' for purchasing agricultural equipments viz. tractors, installation of tube wells and land development works etc. The farmers will not be able to adopt the modern agricultural practices unless they are supported by a system which ensures adequate and timely availability of credit on reasonable terms and conditions.

## II. Research Methodology

In order to have a conceptualized view of the financial and social viability of RRBs in Punjab; a set of 40 Customers per branch (total 320) from the selected branches of Punjab Gramin Bank (four), Malwa Gramin Bank (two) and Sutlej Gramin Bank (two) in the state of Punjab were considered for data collection. So, a sample of 320 customers of the selected branches of the Banks was considered for analyzing their perception towards the social performance of RRBs in Punjab. Further a set of three Bank Officials per branch (total 120) from the selected branches of Punjab Gramin Bank (twenty), Malwa Gramin Bank (ten) and Sutlej Gramin Bank (ten) in the state of Punjab were considered for data collection. So, a sample of 120 Bank Officials of the selected branches of the Banks were interviewed. Both primary and secondary methods will be used for collection of data.

## **DEPOSITS, LOANS & ADVANCES, BUSINESS, CREDIT-DEPOSIT RATIO AND PROFIT**

The trends in deposits, loans & advances, business, credit-deposit ratio and profit of RRBs have been worked out in terms of compound annual growth rates covering a period of 2005-06 to 2016-17. This was done through application.

### *i. Punjab Gramin Bank*

#### *a. Deposits, Loans & Advances, Credit-Deposits Ratio and Profit*

The trend in deposits, loans & advances, business, credit-deposit ratio and profit in Punjab Gramin Bank are shown in Table 1. It can be seen that the deposits were of the order of Rs. 940.10 crore in 2005-06, which consistently increased to Rs. 2631.17 crore in 2011-12 and further to Rs. 6029.00 crore in 2016-17. The deposits depicted a significantly increasing trend from 2005-06 to 2016-17 at the growth rate of 18.35 percent compounded annually. Similarly, the outstanding loans & advances by Punjab Gramin Bank were found to be Rs. 444.00 crore in 2005-06, which increased to Rs. 1847.98 crore in 2011-12 and further to Rs. 4115.00 crore in 2016-17. The advances also exhibited a significantly increasing trend throughout the period of the study at the growth rate of 22.92 percent compounded annually. In case of volume of business of Punjab Gramin Bank, it is obvious from the data given in Table 1, the increase was found to be significant as indicated by the compound growth rate of 20.06 percent per annum.

**Table 1**

<b>Year</b>	<b>Deposits</b>	<b>Loans &amp; Advances</b>	<b>Business</b>	<b>CD Ratio</b>	<b>Profit</b>
2005-06	940.10	444.00	1384.10	47.23	13.59
2006-07	1083.00	557.14	1640.14	51.44	30.22
2007-08	1284.84	720.54	2005.38	56.08	35.10
2008-09	1562.05	917.52	2479.57	58.74	50.08
2009-10	1869.30	1214.29	3083.59	64.96	55.46
2010-11	2250.00	1473.51	3723.51	65.49	60.05
2011-12	2631.17	1847.98	4479.15	70.23	31.53
2012-13	3081.03	2174.47	5255.50	70.58	66.69
2013-14	3505.00	2597.00	6102.00	74.09	68.88
2014-15	4185.00	3101.00	7286.00	74.10	77.50
2015-16	5003.00	3740.00	8743.00	74.76	90.88
2016-17	6029.00	4115.00	10144.00	68.25	102.29
<b>Average</b>	<b>2785.29</b>	<b>1908.54</b>	<b>4696.83</b>	<b>64.66</b>	<b>56.86</b>
<b>C.V.</b>	<b>58.50</b>	<b>65.57</b>	<b>61.31</b>	<b>14.35</b>	<b>46.36</b>
<b>C.G.R.</b>	<b>18.35</b>	<b>22.92</b>	<b>20.06</b>	<b>3.86</b>	<b>14.67</b>
<b>t-value</b>	<b>88.17**</b>	<b>28.97**</b>	<b>55.87**</b>	<b>6.33**</b>	<b>5.11**</b>

As far as credit-deposit ratio is concerned, it also depicted a significantly increasing trend in Punjab Gramin Bank from 2005-06 to 2016-17. The proportion of credit in the deposits came to be 47.23 percent in 2005-06, which increased to 74.76 percent in 2015-16 and decreased to 68.25 percent in the next year.

The credit-deposit ratio registered a very significantly growth at the rate of 3.86 percent compounded annually. The ratio above 50 percent indicated that the major focus of Punjab Gramin Bank remained on credit disbursement to poor. Bank profit was recorded at Rs. 13.59 crore in 2005-06, which increased to Rs. 60.05 crore in 2010-11 and then decreased to Rs. 31.53 crore in the next year. After this, it consistently increased to Rs. 102.29 crore in 2016-17. The profit of the bank increased significantly at the growth rate of 14.67 percent compounded annually. Overall, Punjab Gramin Bank registered an encouraging trend in deposits, advances, business, credit-deposit ratio and profit.

### *b. Productivity per Branch and Per Employee*

The productivity of Punjab Gramin Bank was worked out in terms of per branch productivity and per employee productivity. The results have been presented in Table 2.

**Table 2: Productivity of Punjab Gramin Bank, 2005-06 to 2016-17 ('000 Rs.)**

Year	Productivity	
	Per Branch	Per employee
2005-06	93520	25584
2006-07	110821	31063
2007-08	130171	38344
2008-09	159972	47684
2009-10	195164	54193
2010-11	209326	57235
2011-12	227362	60940
2012-13	241078	64485
2013-14	254256	72044
2014-15	276001	75742
2015-16	319093	81863
2016-17	360996	98104
Average	214813.33	58940.08
C.V.	38.31	36.22
C.G.R.	12.10	11.42
t-value	14.72**	12.42**

It is clear from the data that per branch productivity increased significantly from Rs. 93520 thousands in 2005-06 to Rs. 360996 thousands in 2016-17 at the rate of 12.10 percent compounded annually.

## *B. Malwa Gramin Bank*

### *a. Deposits, advances, Business, Credit-Deposits Ratio and Profit*

Malwa Gramin Bank deposits were of the order of Rs. 191.56 crore in 2005-06, which increased to Rs. 649.66 crore in 2011-12 and further to Rs. 1364.81 crore in 2016-17. The deposits registered a significant growth at the rate of 18.60 percent compounded annually. Similar was the trend in case of advances of Malwa Gramin Bank. The loans of the bank were found to be Rs. 149.09 crore in 2005-06, which increased to Rs. 581.40 crore in 2011-12 and further to Rs. 1290.49 crore in 2016-17. The increase in advances was found to be significant at the compound growth rate of 20.97 percent per annum. The trend in advances was directly correlated with the trend in deposits, as the advances important part of deposits and advances. The business increased significantly from Rs. 340.65 crore in 2005-06 to Rs. 2655.30 crore in 2016-17 at the rate of 19.71 percent compounded annually. As far as credit-deposit ratio is concerned, it depicted a significantly increasing trend in Malwa Gramin Bank from 2005-06 to 2016-17. The proportion of credit in the deposits came to be 77.83 percent in 2005-06, which increased to 95.69 percent in 2015-16 and decreased to 94.55 percent in 2016-17. The credit-deposit ratio registered a significant growth at the rate of 1.99 percent compounded annually. The ratio remained above 75 percent, which indicated that the major focus of Malwa Gramin Bank remained on credit. The profit of Malwa Gramin Bank was found to be Rs 8.36 crore in 2005-06, which increased to Rs. 25.87 crore in 2016-17 after meeting some ups and downs. The profit also exhibited an increasing trend at the rate of 11.04 percent compounded annually. The trend in profit was directly correlated with the trend in advances and deposits, as the deposits and advances are both the source of profit.

### *b. Productivity per Branch and Per Employee*

The productivity of Malwa Gramin Bank was worked out in terms of per branch productivity and per employee productivity. The results have been presented in Table 3

**Table 3.: Productivity of Malwa Gramin Bank, 2005-06 to 2016-17 ('000 Rs.)**

Year	Productivity	
	Per Branch	Per employee
2005-06	83087	26823
2006-07	109695	35694
2007-08	143980	41572
2008-09	151377	41958
2009-10	180816	51807
2010-11	195368	46020
2011-12	219834	57797

<b>2012-13</b>	<b>237936</b>	<b>60212</b>
<b>2013-14</b>	<b>256525</b>	<b>61206</b>
<b>2014-15</b>	<b>272869</b>	<b>63164</b>
<b>2015-16</b>	<b>283493</b>	<b>63940</b>
<b>2016-17</b>	<b>308756</b>	<b>70620</b>
<b>Average</b>	<b>203644.67</b>	<b>51734.42</b>
<b>C.V.</b>	<b>35.25</b>	<b>25.70</b>
<b>C.G.R.</b>	<b>11.46</b>	<b>7.77</b>
<b>t-value</b>	<b>11.12**</b>	<b>8.40**</b>

It is clear from the data that per branch productivity increased significantly from Rs. 83070 thousands in 2005-06 to Rs. 308756 thousands in 2016-17 at the rate of 11.46 percent compounded annually. Similarly, per employee productivity increased significantly from Rs. 26823 thousands in 2005-06 to Rs. 70620 thousands in 2016-17 at the rate of 7.77 percent compounded annually.

*c. Sutlej Gramin Bank*

*i. Deposits, Advances, Business, Credit-Deposits Ratio and Profit*

The trend in deposits, outstanding loans and advances, business, credit-deposit ratio and profit in Sutlej Gramin Bank are shown in Table 5 . It is clear from Table that the deposits were of the order of Rs. 84.16 crore in 2005-06, which increased to Rs. 238.21 crore in 2011-12 and further to Rs. 491.49 crore in 2016-17. The deposits registered a significant growth at the rate of 16.02 percent compounded annually. Similar was the trend in case of outstanding loans and advances of Sutlej Gramin Bank. The loans and advances of the bank were found to be Rs. 65.69 crore in 2005-06, which increased to Rs. 190.96 crore in 2011-12 and further to Rs. 445.02 crore in 2016-17. The increase in loans and advances was found to be significant at the compound growth rate of 20.26 percent per annum. The business increased significantly from Rs. 149.86, crore in 2005-06 to Rs. 936.51 crore in 2016-17 at the rate of 17.86 percent compounded annually. As far as credit-deposit ratio is concerned, it depicted a significantly increasing trend in Sutlej Gramin Bank from 2005-06 to 2016-17. The proportion of credit in the deposits came to be 78.08 in 2005-06, which decreased to 58.07 percent in 2008-09 and increased to 80.16 percent in 2011-12. Then it reached 90.72 percent in 2016-17 after touching the peak of 101.29 percent in 2014-15. The credit-deposit ratio registered a significant growth at the rate of 3.65 percent compounded annually. The profit of Sutlej Gramin Bank was found to be Rs. 1.80 crore in 2005-06, which decreased to Rs. 1.22 crore in 08-09. But pity of the situation was the profit turned into loss of Rs. 2.41 crore in 2016-17. These heavy fluctuations turned the growth rate of 2.25 percent to be non-significant. Hence, profit could not depict any definite trend in Sutlej Gramin Bank.

Table 4

Year	Deposits	Loans & Advances	Business	CD Ratio	Profit
2005-06	84.16	65.69	149.86	78.08	1.80
2006-07	100.67	72.01	172.68	71.53	1.24
2007-08	131.34	81.80	213.14	62.48	1.10
2008-09	165.62	95.87	261.49	58.07	1.22
2009-10	195.48	116.53	312.01	59.63	2.37
2010-11	221.72	157.82	379.53	71.18	2.38
2011-12	238.21	190.96	429.18	80.16	3.80
2012-13	264.73	203.56	468.29	76.89	2.24
2013-14	306.46	260.33	566.79	84.95	3.63
2014-15	328.21	332.45	660.66	101.29	7.95
2015-16	408.48	383.14	791.62	93.80	1.65
2016-17	491.49	445.02	936.51	90.72	-2.41
<b>Average</b>	<b>244.71</b>	<b>200.43</b>	<b>445.15</b>	<b>77.40</b>	<b>2.25</b>
<b>C.V.</b>	<b>50.43</b>	<b>64.32</b>	<b>56.45</b>	<b>17.71</b>	<b>105.96</b>
<b>C.G.R.</b>	<b>16.02</b>	<b>20.26</b>	<b>17.86</b>	<b>3.65</b>	<b>-17.56</b>
<b>t-value</b>	<b>19.14**</b>	<b>3.20**</b>	<b>44.05**</b>	<b>3.25*</b>	<b>1.46</b>

*j. Productivity per Branch and Per Employee*

The productivity of Sutlej Gramin Bank was worked out in terms of per branch productivity and per employee productivity. The results have been presented in Table 5

**Table: 5 Productivity of Sutlej Gramin Bank, 2005-06 to 2016-17 ('000 Rs.)**

Year	Productivity	
	Per Branch	Per employee
2005-06	68116	22366
2006-07	78489	27409
2007-08	85254	23400
2008-09	87165	32687
2009-10	104189	39070
2010-11	126512	46856
2011-12	138484	40488
2012-13	151189	49335
2013-14	182835	49286
2014-15	194313	62326
2015-16	208321	53488



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2016-17	234129	64145
Average	138249.67	42571.33
C.V.	40.57	33.25
C.G.R.	12.25	9.93
t-value	28.78**	8.97**

It is clear from the data that per branch productivity increased significantly from Rs. 68116 thousands in 2005-06 to Rs. 124129 thousands in 2016-17 at the rate of 12.25 percent compounded annually. Similarly, per employee productivity increased significantly from Rs. 22366 thousands in 2005-06 to Rs. 64145 thousands in 2016-17 at the rate of 8.97 percent compounded annually.

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