



SUSTAINING AGAINST THE ODDS: A STUDY ON RRBs IN INDIA

G Divakara Reddy

Research Scholar, School of Management Studies and Commerce

VELS University, Chennai, INDIA

Dr M. Thaiyal Nayaki

HOD - Associate Professor, Department of BBA

VELS University, Chennai, INDIA

ABSTRACT

Regional Rural Banks are relatively new banks which are started functioning from 1977 in India, now these banks are shown tremendous growth and performance apart from fulfilment of their a main objective (Rural Services). This study is an evaluative study on Credit Risk and sustainability of RRBs in India by using simple statistical tools such as t-test and correlation coefficient by relating growth of agriculture sector.

Key Words: Agriculture Growth, Credit Risk, RBI, RRBs, t-test

Introduction:

Deposits and advances are lifelines for the banking world. Indian banking system consists of several types of banks which are functioning under different statutes with certain motives primarily. Major share of banking activity captured by commercial banks where as RRBs and

other banking units are also having a sizeable portion of activity. Our present paper focused on RRBs only.

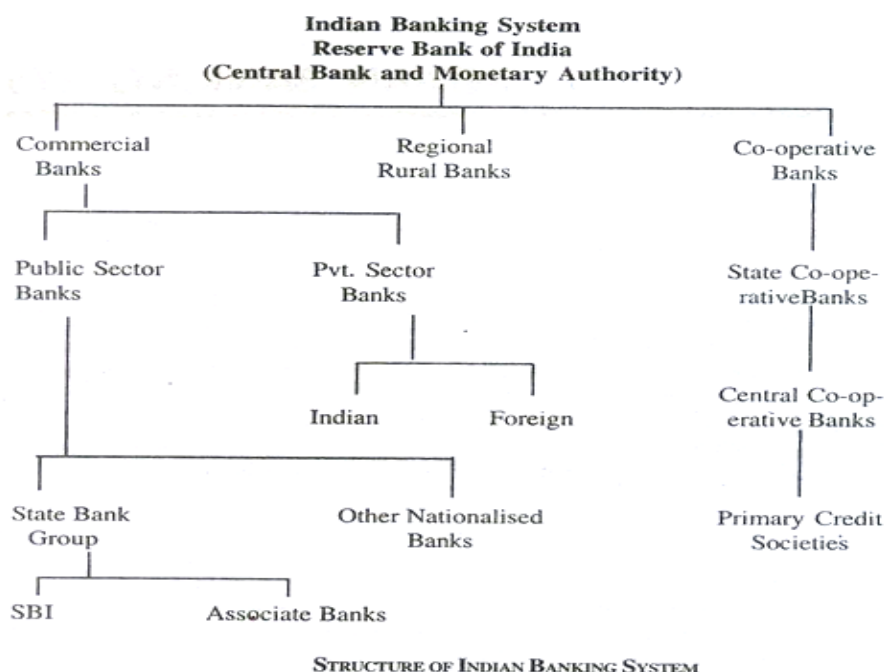
To ensure some constitutional objectives and to ensure smooth, hassles credit flow to certain sectors such as Agriculture, SMEs etc Govt of India and RBI is specified certain portion of Advances of Commercial banks should go to those mentioned sector that is Priority sector. .

Total Priority sector lending target for Commercial banks is Forty percent where as for RRBs it is Sixty percent.

Interest rates for the priority sector advances is low which reduces profitability, say, In case of Kissan Credit Card it Seven Percent only with half yearly compounding.

Priority sector lending (PSL) is aimed to provide institutional credit to those sectors and segments for whom it is difficult to get credit. According to priority sector norms, scheduled commercial banks have to give 40% of their loans.

The regulations are modified periodically by setting limits for subsectors and other qualifications for the beneficiary groups. If these targets are not realized, banks have to finance the development programmes implemented by the government for the concerned sectors. In April 2016, RBI has introduced Priority Sector Lending Certificates so that banks can trade the loan certificates given to the different sectors to meet their targets.



Source: www.yourarticlelibrary.com

New Priority Sector Lending norms

The RBI has modified Priority Sector Lending norms after the recommendations of the Internal Working Group in 2015. Changes in classification of the priority sectors and targets were also made as per the new norms. Following are the main categories of PSL (credit percentage are expressed in terms of Adjusted Net Bank Credit or ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure; whichever is higher):

Categories under priority sector

1. Agriculture 18%: Within the 18 percent target for agriculture, a target of 8 percent of ANBC is prescribed for Small and Marginal Farmers.
2. Micro, Small and Medium Enterprises 7.5 percent.
3. Export Credit: Incremental export credit up to 2 percent for domestic banks and foreign banks with 20 branches and above.
4. Education: Loans to individuals for educational purposes including vocational courses upto Rs 10 lakh.
5. Housing: Loans to individuals up to Rs 28 lakh in metropolitan centres (with population of ten lakh and above) and loans up to Rs 20 lakh in other centres for purchase/construction of a dwelling unit per family.
6. Social Infrastructure: Bank loans up to a limit of Rs 5 crore per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities in Tier II to Tier VI centres.
7. Renewable Energy: Bank loans up to a limit of Rs 15 crore to borrowers (individual households- Rs 10 lakh) including for public utilities viz. street lighting systems, and remote village electrification.
8. Others: SHG, JLG etc.

From the above categories a subcategory called *Weaker sections* is also identified so that they can get special preference under PSL. The new regulations stipulate that banks should give 10% of their loans to the weaker sections. Weaker sections include: Small Marginal Farmers, artisans, village and cottage industries with a credit limit upto Rs 1 lakh, beneficiaries of

certain government sponsored schemes, SC/STs, SHGs, persons with disabilities, overdrafts upto Rs 5000 under PMJDY, distressed persons, individual women beneficiaries up to Rs 1 lakh, beneficiaries of differential interest rate regime.

Several changes are made (2015) in PSL norms by the RBI after the working group (2014) recommendations. The changes include new categories of PSL: medium enterprises, social infrastructure and renewable energy. A separate target for small and marginal farmers (7.5%) and microenterprises (8%) and weaker sections (10%) and inclusion of food and agro processing units under agriculture are the major changes. The priority sector non-achievement will be assessed on quarterly average basis at the end of the respective year from 2016-17 onwards, instead of annual basis as at present.

Banks (SCBs) having shortfall in lending to priority sector/subsectors *vis-avis* the stipulated targets, are required to contribute to the funds of Rural Infrastructure Development Fund (RIDF) and similar funds set up with National Bank of Agriculture and Rural Development (NABARD) / Small Industries Development Bank of India (SIDBI) / National Housing Bank (NHB).

PSL norm for foreign banks

Another modification is the PSL made by the RBI after the recommendations of the Working group is related with foreign banks. Foreign Banks with 20 branches and above already have priority sector targets of 40% and sub-targets for Agriculture and Weaker Sections. These targets are to be achieved by March 31, 2018 as per the action plans approved by RBI. Foreign banks with less than 20 branches will move to total Priority Sector target of 40 percent by 2019-20. The sub-target for MSME sector will be made in 2018.

The Priority sector lending certificates are also introduced by the RBI as part of the modifications to the existing PSL norms.

RRBs have a target of 75 per cent of their outstanding advances for priority sector lending and sub-sector targets as indicated in table below.

Categories	Targets
Total Priority Sector	75 per cent of total outstanding
outstanding Small and Marginal Farmers	8 percent of total outstanding

Agriculture	18 per cent of total
Micro Enterprises	7.5 per cent of total outstanding
Weaker Sections	15 per cent of total outstanding

1. Majority Branches of RRBs are located in Rural and remote areas.
2. Not much fee or commission based income
3. Small and restricted Geographic area for their business operations.
4. More Agriculture and Allied activities oriented finance.

We can say that the performance of RRBs in each of its business parameter, such as Deposits and Loans etc, is closely related to growth of Agriculture and Allied activities.

Objectives of the Study:

This study is made to assess credit and credit risk sustainability of RRBs in India as Business of RRBs. Demographically concentrated in rural areas and more agriculture oriented it leads to business concentration risk.

Hypothesis:

H₀₁: Agriculture growth and Credit Growth of RRBs are going hand in hand.

H₀₂: Agriculture growth and Profit Growth of RRBs are going hand in hand.

H₀₃: Credit Growth and Profit Growth of RRBs are going hand in hand.

Scope of the study:

This study is much useful for policy makers, academicians and investors.

RESEARCH METHODOLOGY:

Type and Sources of data:

This study is based on secondary data which is collected from RBI and NABARD reports apart from Central Statistical office (CSO) website.

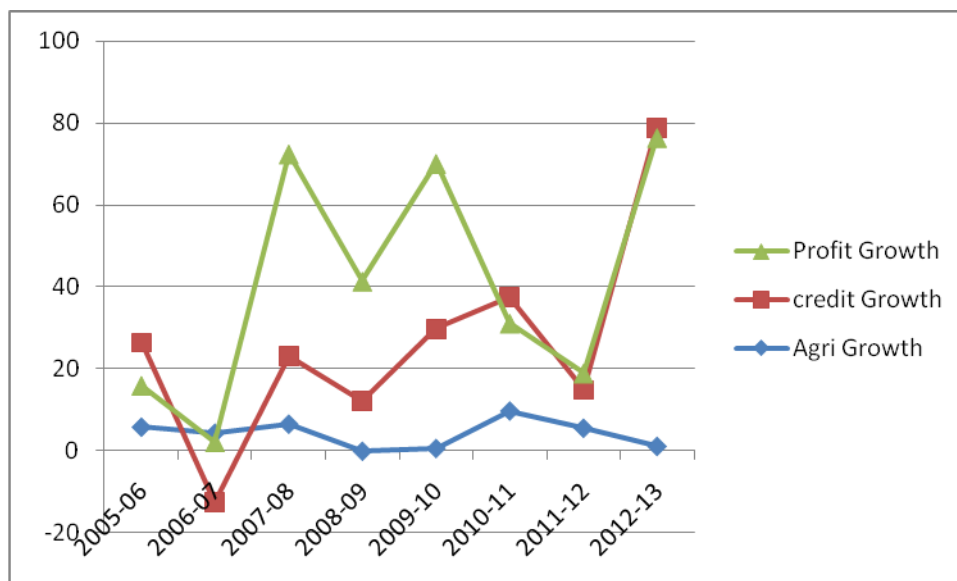
Statistical Tools:

1. Line Chart using MS-Excel for visual comparison.
2. Unpaired Two Sample t-Test
3. Pearson Correlation Coefficient

Table-1

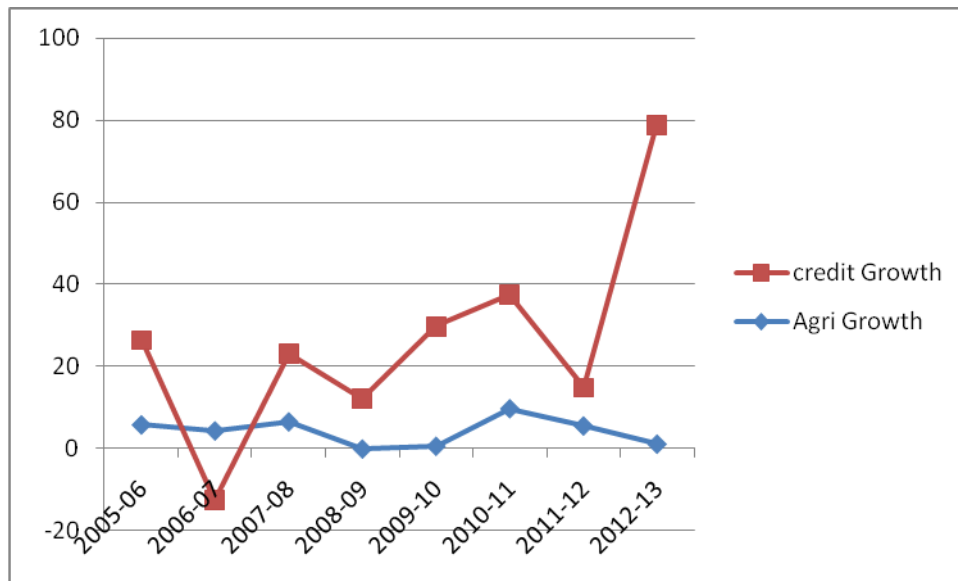
Fin Year	Agri Growth	credit Growth	Profit Growth
2005-06	5.6	20.82	-10.53
2006-07	4.13	-16.79	14.75
2007-08	6.34	16.76	49.35
2008-09	-0.27	12.40	29.21
2009-10	0.41	29.31	40.40
2010-11	9.54	27.90	-6.38
2011-12	5.34	9.51	4.00
2012-13	0.91	78.03	-2.50

Note: All growth is calculated in terms of percentage increase over previous year.



Line Chart for Profit Growth, Credit Growth and Agri growth

Agriculture growth Vs Credit Growth of RRBs



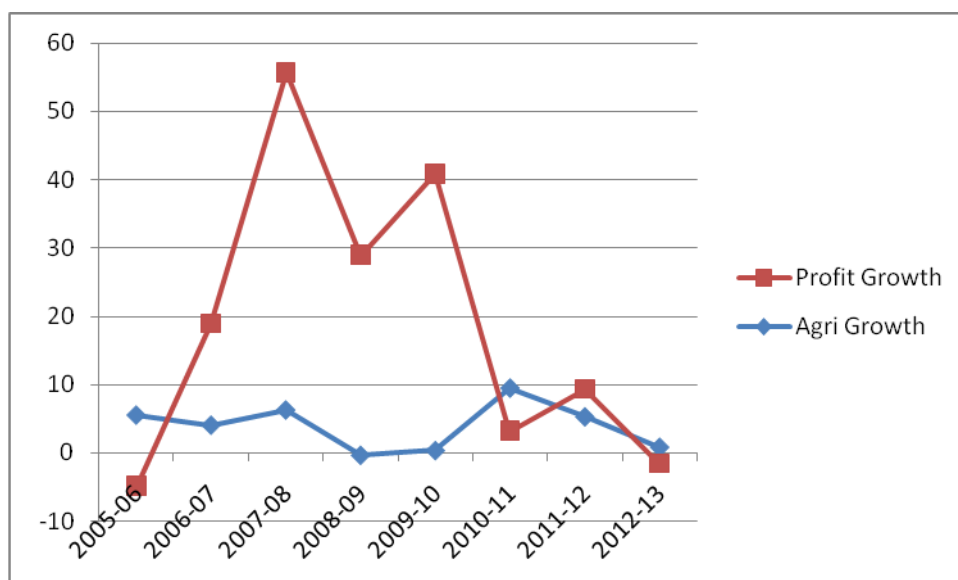
Line Chart for Agriculture growth and Credit Growth of RRBs

Pearson Correlation Coefficient between Agriculture growth and Credit Growth of RRBs:

The value of R is: -0.2534.

Two Sample t-test (unpaired)	
Mean of Agriculture growth	4
Mean of Credit Growth of RRBs	22.2425
t-stat	-1.91345671891967
t-stat Critical value	2.144
Df	14
p-value	0.0763611706703086
H0 value	0
Alternative	two.sided
CI Level	0.95
CI	[-38.6904520061636,2.20545200616356]

Agriculture growth Vs Profit Growth of RRBs



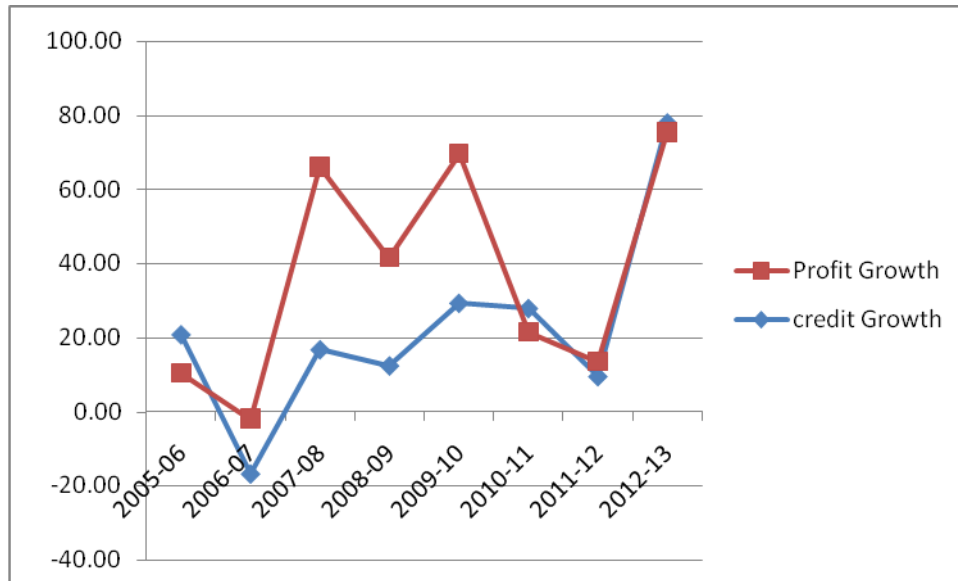
Line Chart for Agriculture growth and Profit Growth of RRBs

Two Sample t-test (unpaired)	
Mean of Agriculture growth	4
Mean of Profit Growth of RRBs	14.7875
t-stat	-1.33728059402622
t-stat Critical value	2.144
df	14
p-value	0.202453478469347
H0 value	0
Alternative	two.sided
CI Level	0.95
CI	[-28.0889448121571,6.51394481215709]

Pearson Correlation Coefficient between Agriculture growth and Profit Growth of RRBs:

The value of R is: -0.356.

Credit Growth Vs Profit Growth of RRBs



Line Chart for Credit Growth and Profit Growth of RRBs

Two Sample t-test (unpaired)	
Mean of Credit Growth	22.2425
Mean of Profit Growth of RRBs	14.7875
t-stat	0.6025725555691164
t-stat Critical value	2.144
df	14
p-value	0.556428227212819
H0 value	0
Alternative	two.sided
CI Level	0.95
CI	[-19.0802024538971,33.9902024538971]

Pearson Correlation Coefficient between Credit Growth and Profit Growth of RRBs:

The value of R is: -0.2509.

Results, Interpretation and conclusion:

1). H_{01} : Agriculture growth and Credit Growth of RRBs are going hand in hand is accepted.

Agriculture growth and Credit Growth are exhibiting a feeble negative correlation.

2). H₀₂: Agriculture growth and Profit Growth of RRBs are going hand in hand is accepted.

Agriculture growth and Profit Growth of RRBs are exhibiting a feeble negative correlation.

3). H₀₃: Credit Growth and Profit Growth of RRBs are going hand in hand is accepted.

Credit Growth and Profit Growth of RRBs exhibiting a feeble negative correlation.

After analysing the result of statistical values and results it is found that RRBs are surviving and sustaining against the Credit Risk such as demographic & segment concentration with good Customer relationship Management and service.

Limitations:

RRBs are functioning across the Nation under different socio, economic and climatic conditions but for the purpose of study we considered as a single unit.

RRBs are functioning under guidance of different sponsored banks it also has considerable impact on functioning of concerned RRB. Present study ignored this aspect.

The study covered between the financial years 2005-06 to 2012-13 hence it is not exhaustive study.

Scope for future research:

Banking services in Urban and Semi Urban areas reached almost saturation. It is the high time to focus on unbanked rural areas. To evolve and find successful business models there is scope for research.

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