



GROWTH AND PERFORMANCE OF REGIONAL RURAL BANKS IN INDIA

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ABSTRACT

The Rural economy is the backbone for economic progress in a developing country like India. Thus, rural economic growth is essential for the survival and expansion of the Indian economy. The biggest impediment to rural development in India has been the lack of finance facilities. In order to fulfil the demands and requirements of rural areas, banks in these areas were established. This was done by providing funding to the trade of agriculture and banking industry in these areas.

Furthermore, in 1975 the Narasimhan Working Committee advised to create banks in rural regions in India. RRBs' primary goal is to give rural credit to the rural sector of society. The study covers the years from 2018-19 to 2022-23, and the statistical tools involved in this work are growth rate, AAGR, and CAGR. This research used the annual reports published by NABARD to collect the data and present the findings. It was a satisfactory finding that the growth and performance of these banks in the rural region in terms of deposits, investment, credit deposit ratio, and owned funds were up to the mark; nevertheless, the bank's profit was decreased. This research that the bank should use several strategies to improve profits and reduce NPAs.

Keywords: Average annual growth, Compound annual growth, Growth, Performance

INTRODUCTION

Regional Rural Banks were founded in September 1975 under the provisions of the RRB Act of 1976, in order to offer adequate advantages of banking and credit system for agricultural and rural sections. These banks were established on the suggestion of the Narasimhan Working Committee. The process of developing RRBs began on October 2, 1975, establishing the Prathama Bank, the first RRB (Sura & Jasvir, 2006). Additionally, on October 2, 1976, five different Regional Rural banks were initially authorized with the overall capitalization of Rs. 100 crores, which was after increased to 500 crores. The Central government contributes

50per cent of the entire capital of RRBs, the State government contributes 15per cent, and Sponsor banks contribute 35 per cent. After amalgamation, RRBs reduced the total number to 82 in March 2011. During 2012-2013, 31 RRBs merged into 13 RRBs, bringing the overall number of RRBs to 64 in March 2013. Currently, a network of 43 RRBs operate in India with 21856 branches covered under 699 districts of India(www.rbi.org.in).

REVIEW OF LITERATURE

The development of Banks in rural regions of India was analyzed by **Tamuli and Kaye (2005)**. This study revealed that the reform in the financial sector creates a modification for India's banking sector. The main problem faced by banks was the higher value of Non Performing Assets and found that the credit deposit ratio was decreasing, which showed an unfavorable situation for the banks. This study suggested that the government have to take some corrective measures and adopt a strategy for reducing the value of NPA..

The RRB's growth in India was evaluated by **Sura and Jasvir (2006)** conducted during the period 1975 to 2005. It was found that the number of branches and districts covered had been increased as well as it also achieves progress in case of credit payment and deposit. Despite all this growth, RRBs faced a massive obstacle in the case of credit deposit ratio and NPA, which showed the unfavourable position of RRBs in India. This study proposed that the government should take some initial steps to reduce the difference between the credit deposit ratio of RRBs and other banks and focus on opening new branches of RRBs in rural areas to fulfill the requirement of rural individuals in India.

Trivedi (2012) studied the business operation of three different Gramin Banks in Gujarat. This study covered the period from 2005 to 2010, and the source of data collection was secondary. Moreover, there were different variables which aided the evaluation of the performance these banks were giving. The study revealed that performance related to credit deposit ratio of Saurashtra Bank was at the top other two banks, but the recovery position of this bank was impoverished. This study concluded that the total performance of these banks concerning loans and advances was satisfactory.

The performance related the profitability, total income and expenditure of RRBs in contrast to other banks was analyzed by **Verma and Pandian (2013)**. In this study, data was collected through secondary sources with the help of the annual report of RBI and NABARD. The statistical tool used was ratio analysis and Mann Whitney U- Test. It was concluded that there was a similarity between the total income and expenditure of RRBs and other Commercial

Banks. This study suggested that RRBs should follow different steps such as adopting the latest facilities like internet banking core banking.

Ram and Subudhi (2014) analyzed the growth of Regional Rural Banks of Odisha and helped find any development in the outcome of RRBs of Odisha. Data for this research comes from sources that were primary and secondary. This study aims at evaluating whether the services given by banks are adequate from the customer's point of view and to find the consequence of amalgamation on the bank's performance. The period of this study covered years from 2000 to 2012. It was found that the productivity of RRBs of Odisha were refined after amalgamation from the deposit, advance, and bank credit points of view. This study concluded that through amalgamation, the confidence of customers of RRBs was significantly increased.

For rural economies, **Langyan (2015)** contributed by evaluating the performance of Haryana Gramin Bank. In this study, data was collected through secondary sources with the help of the annual report of Haryana Gramin Bank. The statistical tool used was percentage percent and compound annual growth rate. This study concluded that the CAGR of loan disbursement to the priority sector, Scheduled Tribes, minorities, and Self-help groups were increased, but loan disbursement to the non-priority industry decreased. The finding showed that the overall performance of Haryana Gramin Bank was improved.

Milan and Yadav (2015) identified how the Gramin Bank of Aryavart and Gramin Bank of Kshetriya Kisan performed in Uttar Pradesh. This data was collected through secondary sources, and different statistical tools used in this study were regression, correlation, and ANOVA. This study evaluates the effect of return on the asset on both banks by using parameters such as priority sector lending and spread ratio business per staff and NPA and concluded that two different parameters, such as business per staff and ratio, have directly affected the ROA. This study observed that the ROA of Aryavart Gramin Bank rising very slowly.

The performance in terms of overall aspects of the RRBs in India was analyzed by **Mishra (2015)**. This study covered 2001 to 2009, and data was collected through secondary sources. The statistical tool used in this study was ANOVA and T-Test. Given research considered different variables to evaluate the performance, viz. investment, the number of branches, credit deposit ratio, and total deposits. This study revealed how RRBs performed in the terms

of branches and districts served was unbelievable. This research suggested that the gap between the Credit deposit ratio of Regional Rural Banks and Commercial Banks should be diminished, and RRBs should be computerized and banking facilities should be given those areas where, banking services are negligible.

Khanna and Vaibhav (2017) analyzed the growth performance of RRBs and showed that RRBs attain prominent growth. This study revealed that more RRBs were present in Uttar Pradesh, Madhya Pradesh, and Bihar. A total of 36 per cent of RRBs were found in these states. This study found that the credit deposit ratio of RRBs was not good. This study suggested RRBs should provide financial and trouble-free services to individuals in rural areas using modern technology.

Niazi& Mulla (2021) analyzed the financial soundness of Jammu and Kashmir Grameen Bank and EllaquiDehati Bank in Jammu and Kashmir. During 2015-2016 to 2019-2020, this study was conducted and the annual reports from the given banks were incorporated to draw the findings. The data was investigated using the CAMEL model. It found that the performance of EllaquiDehati Bank regarding capital adequacy and asset quality was better than Jammu and Kashmir Grameen Bank. The liquidity position of J&K Grameen bank was poor, and both the banks suffered from the difficulty of high NPA. It was revealed that the given two banks are comparable in terms of the performance. This study suggested that government should make efforts to upgrade the financial health of these banks.

RESEARCH METHODOLOGY

The scope of the study is confined to the present RRBs of India. This study used the secondary data to attain the objectives. This data was taken from the annual reports of NABARD. The research covers the years from 2018-19 to 2022-23. In this study, rate of growth, AAGR and CAGR are used to determine the overall performance of Regional Rural Banks in India.

- Growth rate = $\frac{\text{current year value} - \text{base year value}}{\text{value of base year}}$
- Average Annual Growth Rate (AAGR) = $\frac{1}{n} * \text{LN} \left(\frac{\text{Ending Value}}{\text{Beginning Value}} \right) * 100$
- Compound Annual Growth Rate (CAGR) = $\left(\frac{\text{Ending Value}}{\text{Beginning Value}} \right)^{\frac{1}{n}} - 1 * 100$

OBJECTIVE OF THE STUDY

1. Analyzing and identifying the patterns of how Regional Rural banks in India are growing.
2. Evaluating how Regional Rural banks in India are performing.

ANALYSIS AND INTERPRETATION

1. Branch Extension of RRBs

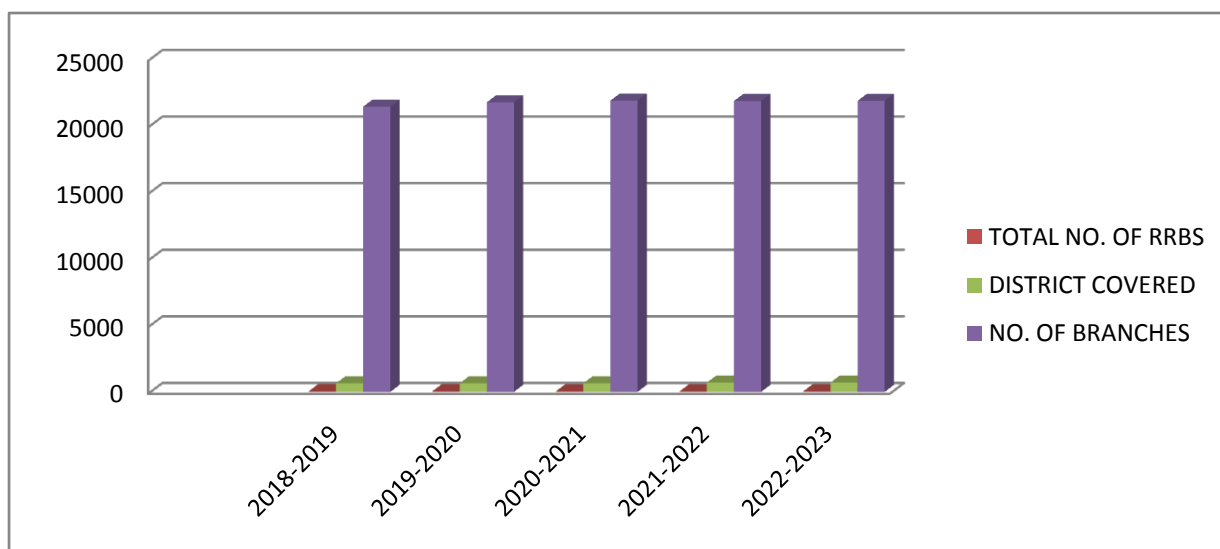
Table 1: Branch Extension

YEAR	TOTAL NO. OF RRBs	DISTRICT COVERED	NO. OF BRANCHES	GROWTH PERCENTAGE OF NUMBER OF BRANCHES
2018-2019	56	644	21422	-
2019-2020	56	644	21747	1.51
2020-2021	53	644	21871	0.57
2021-2022	45	696	21847	-0.10
2022-2023	43	699	21856	0.04

Sources: Compiled through annual report of NABARD (2018-2023)

The above table 1 showed that the total number branches of Regional Rural banks was declined from 56 in 2018-2019 to 43 in 2022-2023, but the total branches was increased from 21422 in 2018-2019 to 21856 in 2022-2023. This table shows the RRB's overall growth in India.

Figure 1: Branch Extension



Sources: Compiled through annual report of NABARD (2018-2023)

2. Personnel Expansion of RRBs

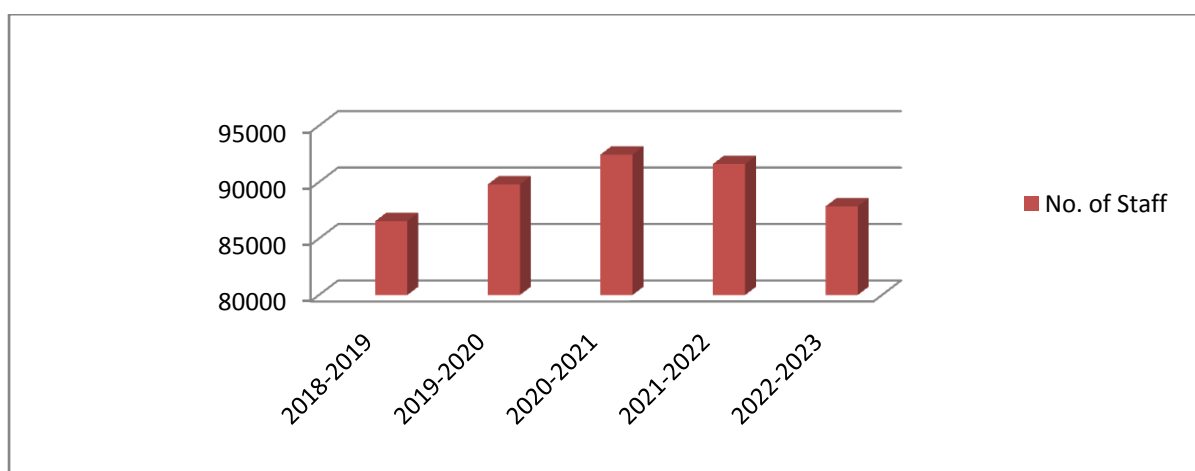
Table 2: Personnel Expansion

YEAR	No. of Staff	GROWTH PERCENTAGE
2018-2019	86549	-
2019-2020	89806	3.76
2020-2021	92443	2.93
2021-2022	91616	0.89
2022-2023	87861	-4.09

Sources: Compiled through annual report of NABARD(2018-2023)

The above table 2 revealed that the total number of personnel was increased from 86549 in 2018-2019 to 87861 in 2022-2023 is, showing the positive expansion of Rural banks in India.

Figure 2: Personnel Expansion



Sources: Compiled through annual report of NABARD (2018-2023)

3. Owned Funds of RRBs

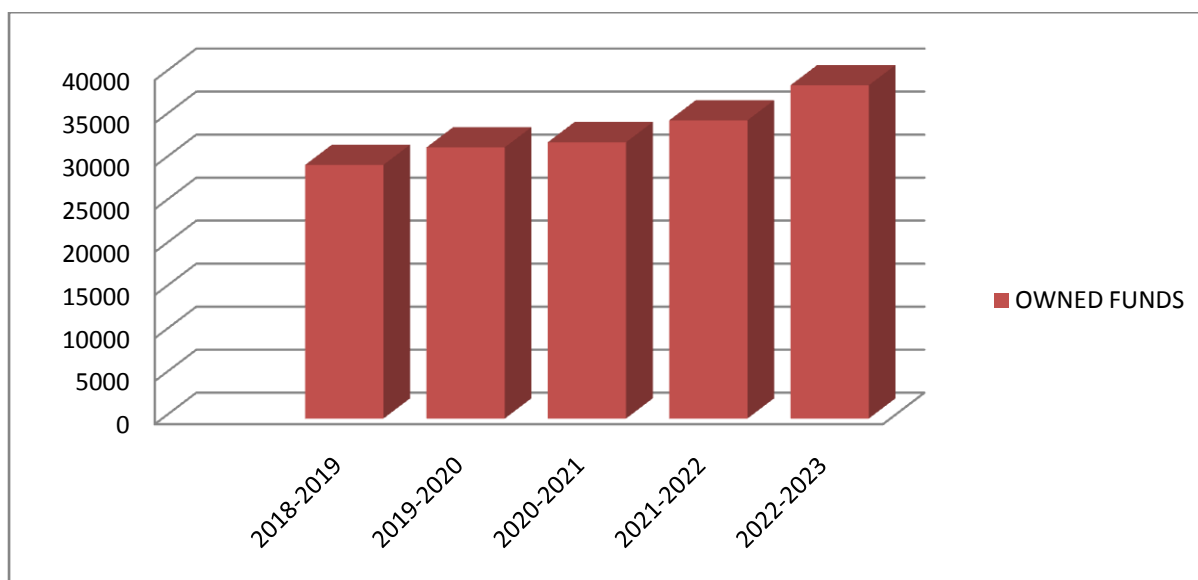
Table 3: Owned Funds (Amount in Rs. Crore)

YEAR	OWNED FUNDS	GROWTH PERCENTAGE
2018-2019	29481	-
2019-2020	31519	6.91
2020-2021	32119	1.90
2021-2022	34663	7.92
2022-2023	38741	11.7
AAGR %		6.82
CAGR %		7.06

Sources: Compiled through annual report of NABARD(2018-2023)

The above table 3 reveals that the owned funds were climbed from Rs. 29481 crore in 2018-2019 to Rs. 38741 crore in 2022-2023 by registering an AAGR of 6.82 per cent and CAGR of 7.06 per cent. The overall performance of the bank is good in the case of owned funds.

Figure 3: Owned Funds



Sources: Compiled through annual report of NABARD (2018-2023)

4. Investment of RRBs

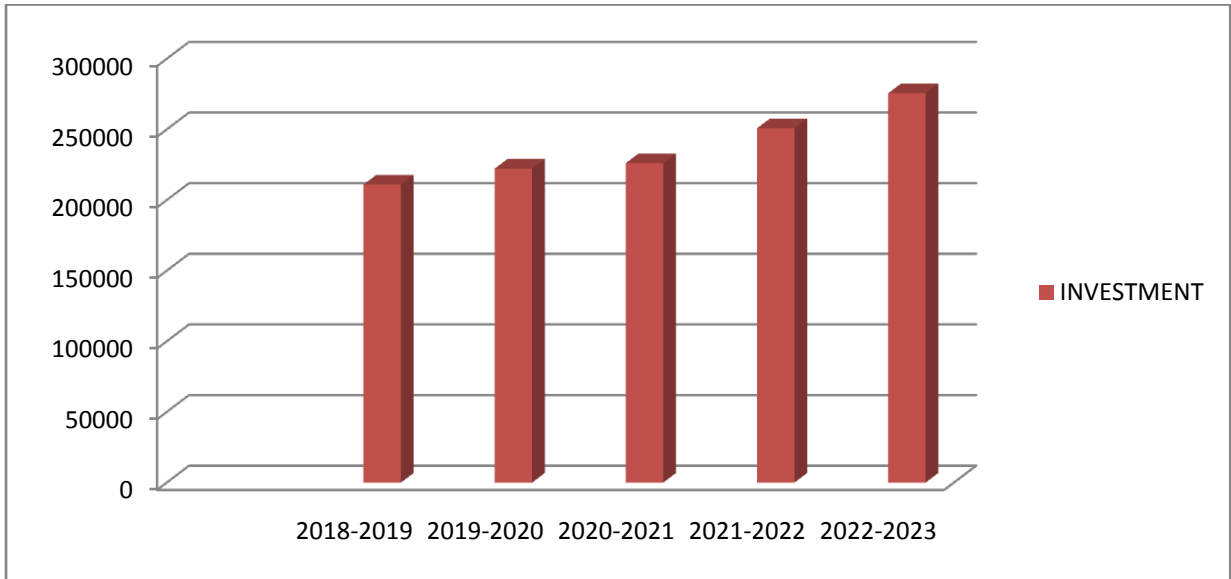
Table 4: Investment (Amount in Rs. Crore)

YEAR	INVESTMENT	GROWTH PERCENTAGE
2018-2019	210984	-
2019-2020	222266	5.34
2020-2021	226172	1.75
2021-2022	250859	10.91
2022-2023	275658	9.88
AAGR %		6.68
CAGR %		6.91

Sources: Compiled through annual report of NABARD(2018-2023)

The above table 4 revealed that the investment was extended from Rs. 210984 crore in 2018-2019 to Rs. 275658 crore in 2022-2023. The AAGR and CAGR of investment were 6.68 per cent and 6.91 per cent.

Figure 4: Investment



Sources: Compiled through annual report of NABARD (2018-2023)

5. Total Deposits OF RRBs

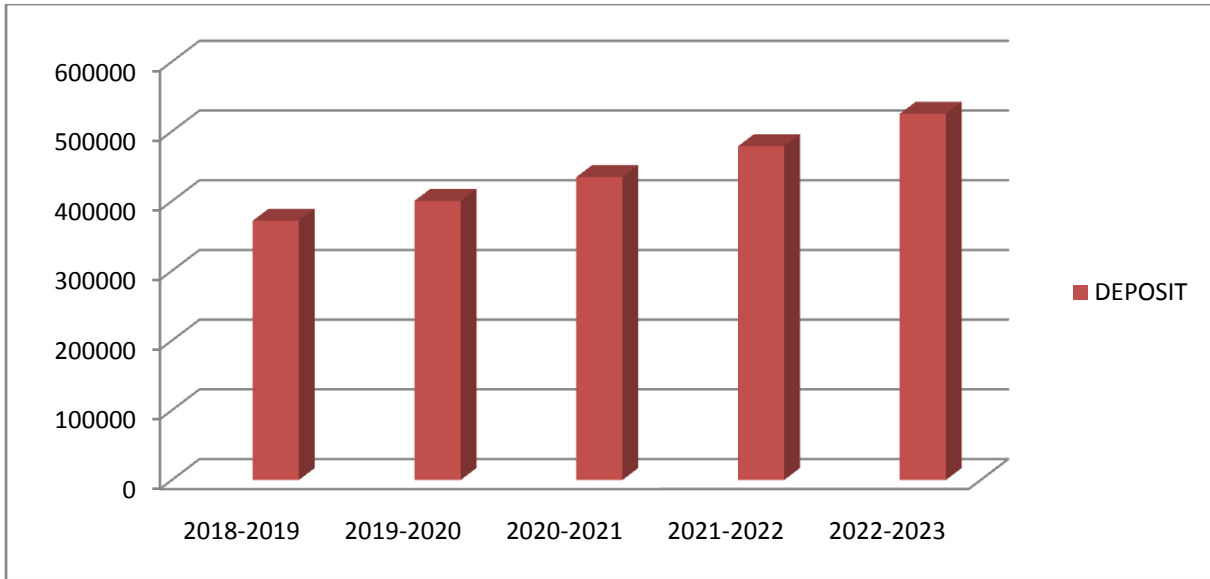
Table 5: Total Deposits (Amount in Rs. Crore)

YEAR	DEPOSIT	GROWTH PERCENTAGE
2018-2019	371910	-
2019-2020	400459	7.67
2020-2021	434444	8.48
2021-2022	478737	10.19
2022-2023	525226	9.71
AAGR %		8.62
CAGR %		9.01

Sources: Compiled through annual report of NABARD(2018-2023)

The above table 5 revealed that the deposits were extended from Rs. 371910crore in 2018-2019 to Rs. 525226crore in 2022-2023. The AAGR and CAGR were 8.62 per cent and 9.01 per cent.

Figure 5: Total Deposits



Sources: Compiled through annual report of NABARD(2018-2023)

6. Net Profit/ Loss of RRBs

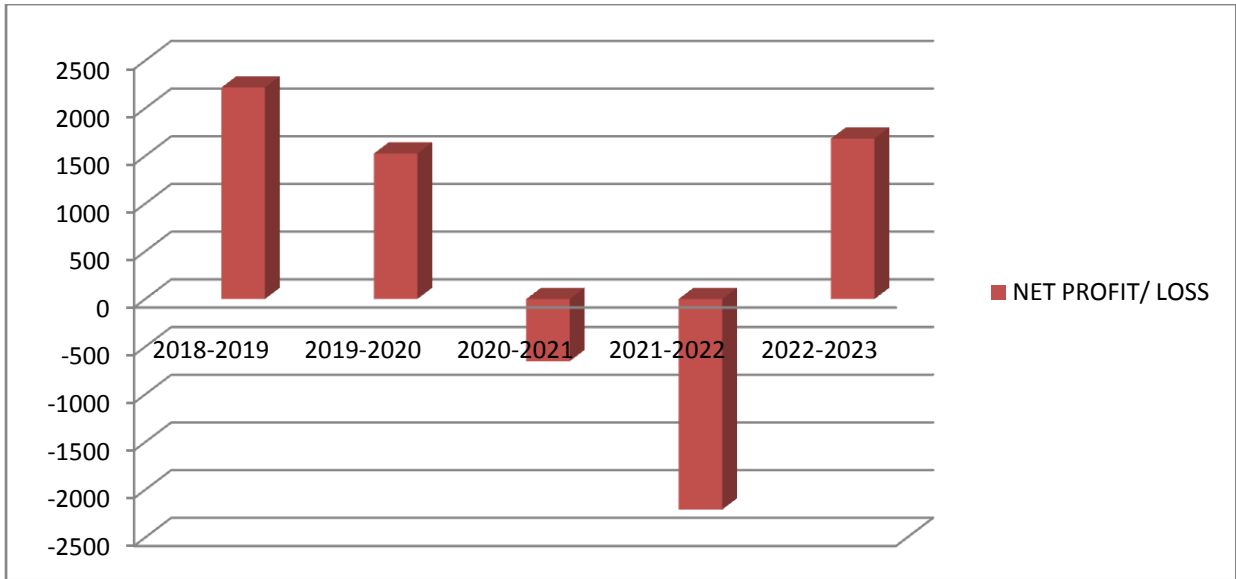
Table 6:Net Profit/ Loss (Amount in Rs. Crore)

YEAR	NET PROFIT/ LOSS	GROWTH PERCENTAGE
2018-2019	2218	-
2019-2020	1525	-31.2
2020-2021	-652	-142.75
2021-2022	-2208	-438.65
2022-2023	1682	-176.17
AAGR %		-6.91
CAGR %		-6.68

Sources: Compiled through annual report of NABARD(2018-2023)

Table 6 indicates that the net profit and loss of RRBs have fluctuated. The net profit of RRBs was decreased from Rs. 2218 crore in 2018-2019 to Rs.1682 crore in 2022-2023. The AAGR was -6.91 per cent, and CAGR was -6.68 per cent, and the Performance of bank in this case was undesirable as profit was diminished with time.

Figure 6: Net Profit/ Loss



Sources: Compiled through annual report of NABARD (2018-2023)

7. Credit Deposit Ratio of RRBs

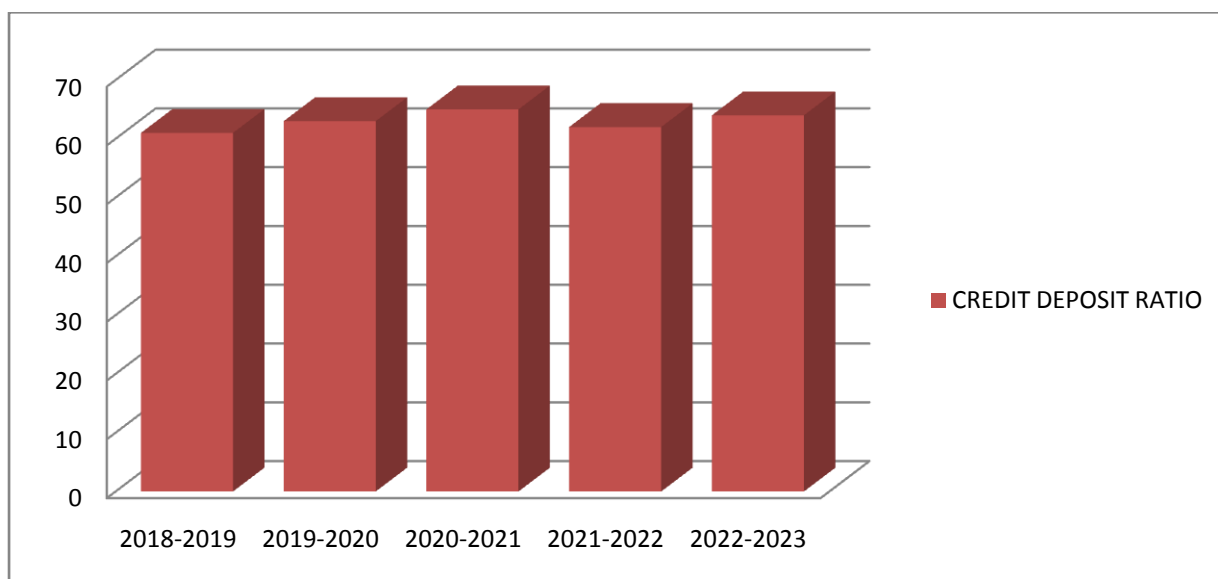
Table 7: Credit Deposit Ratio (In Percentage)

YEAR	CREDIT DEPOSIT RATIO	GROWTH PERCENTAGE
2018-2019	61	-
2019-2020	63	3.27
2020-2021	65	3.17
2021-2022	62	-4.61
2022-2023	64	3.22
AAGR %		1.20
CAGR %		1.20

Sources: Compiled through annual report of NABARD(2018-2023)

Table 7 indicates that the ratio of credit deposit of RRBs was jumped from 61 per cent in 2018-2019 to 64 per cent in 2022-2023 by registering the same AAGR and CAGR of 1.20 per cent.

Figure 7: Credit Deposit Ratio



Sources: Compiled through annual report of NABARD (2018-2023)

8. Gross NPA and Net NPA of RRBs

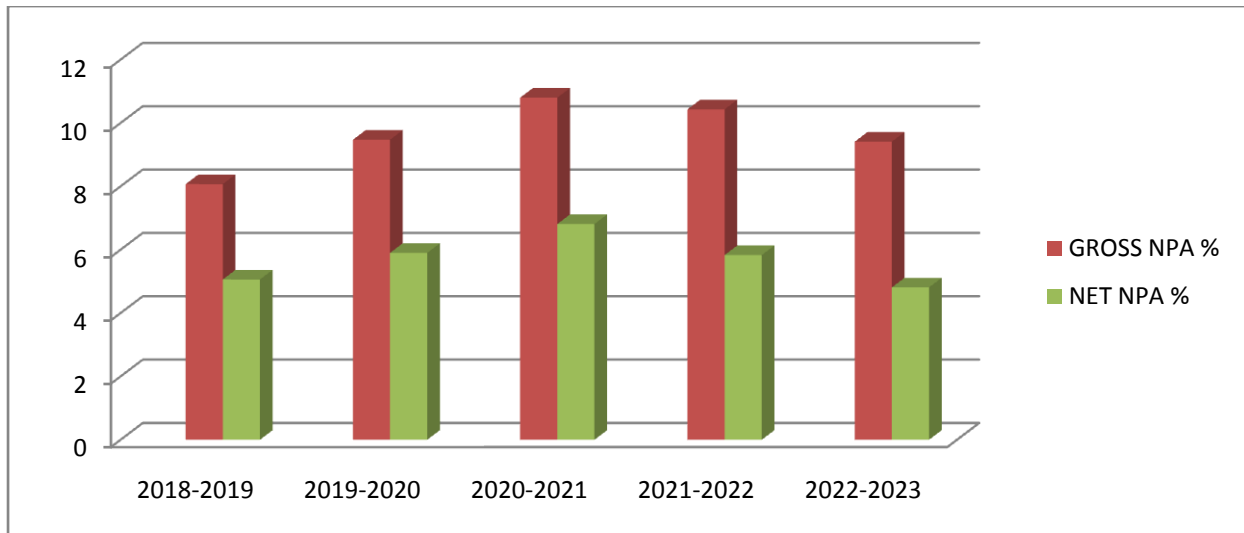
Table 8: Gross NPA and Net NPA (In Percentage)

YEAR	GROSS NPA %	NET NPA %	GROWTH PERCENTAGE OF GROSS NPA	GROWTH PERCENTAGE OF NET NPA
2018-2019	8.07	5.06	-	-
2019-2020	9.47	5.90	17.3	16.60
2020-2021	10.8	6.81	14.04	15.25
2021-2022	10.43	5.83	-3.42	-14.39
2022-2023	9.41	4.81	9.77	-17.49
AAGR %	3.84		-1.26	
CAGR %	3.91		-1.25	

Sources: Compiled through annual report of NABARD (2018-2023)

The above table indicates that the gross NPA percent was extended from 8.07 percent in 2018-2019 to 9.41 percent in 2022-2023 by registering an AAGR of 3.84 percent and a CAGR of 3.91 percent. On the other side Net NPA percent was decreased from 5.06 in 2018-2019 to 4.81 in 2022-2023 by registering an AAGR of -1.26 percent and a CAGR of -1.25 percent.

Figure 8: Gross NPA and Net NPA



Sources: Compiled through annual report of NABARD (2018-2023)

CONCLUSION

This research shows that Regional Rural banks in India are expanding and doing better than previously thought. In this research, several variables of RRBs such as Branch Extension, Personnel Expansion, Owned Funds, Investments, Total Deposits, Net Profit/ Loss, Credit Deposit Ratio and Gross NPA and Net NPA were considered that affect the bank's overall performance. Regional Rural bank growth and performance was found to be satisfactory in terms of deposits, investment, credit deposit ratio, and owned funds; nevertheless, the bank's profit was decreased. The bank should implement some strategies to increase its profit and to lower the NPA.

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