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THE FINANCIAL STATUS OF REGIONAL RURAL BANKS IN INDIA

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ABSTRACT

Regional Rural Banks are the youngest members of the family of rural credit institutions set-up in India. Initially five regional rural banks established in 1975. Further expansion in the number of such banks was done depending upon the performance of these banks. The regional rural banks were set up mainly with a view to develop 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 sundry entrepreneurs. In this paper an attempt is made to analyze the financial performance of Regional Rural Banks during the last three years at national level

***KEYWORDS**: Balance Sheet, Priority Sector, Expenditure, Non- Priority Sector, Income.*

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INTRODUCTION

The Regional Rural Banks (RRBs) are specialized rural financial institutions for developing the rural economy by providing credit to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. Besides the RRBs, commercial and co-operative banks have been catering to the credit requirements of the rural sector. While the commercial banks, with their focus on profitability had certain limitations in accelerating agricultural credit, the cooperative banks efforts were also hampered by several financial weaknesses. Though over the years the RRBs have been able to expand their outreach and business and meet the credit requirements of the poor, several weaknesses have emerged, eroding their profitability and viability. The recent focus of the Government of India on doubling the flow of credit to the agricultural sector has warranted a re-look at the relative roles of co-operative banks, RRBs and commercial banks.

As the very objective of setting up RRBs was to extend adequate credit to the rural borrowers and particularly the economically weaker sections, owing to their rural orientation, there is a growing realization that RRBs could be used as an effective vehicle for credit delivery in the rural areas. There is, therefore a need to devise ways and means to improve the health and viability of RRBs so as to reposition them in the credit delivery mechanism in India.

RRBs have played a key role in rural institutional financing in terms of geographical coverage, clientele outreach, business volume as also contribution to development of the rural economy. A remarkable feature of their performance over the past three decades has been the massive expansion of their retail network in rural areas. RRBs, with their wide outreach in rural India, region-centric banking activities and close relationship with the local authorities and population, were expected to cater to the credit requirements of the rural areas and provide necessary banking infrastructure. Though the RRBs have been able to mobilize small savings of the rural sector, they have been relatively less successful in enhancing the flow of credit to the targeted rural poor.

REVIEW OF LITERATURE

Ramesh Pandi G. (2019) conducted a study on the basis of secondary data collected from annual reports of NABARD. The study measures the growth pattern of RRBs, key performance indicators and financial performance of RRBs. This study used 10 year data from 2007-08 to 2016-17, and uses descriptive statistics and growth percentages to get reliable results. According to author the regional rural banks fulfils its goals like offering banking services to deprived segment, easy and cheaper credit to weaker sectors, and promote rural savings for productive purposes. It offers credit to the small and marginal agriculturists, artisans, socially and economically deprived weaker section of people involved in agriculture, trade and industry. It was concluded that the financial performance of regional rural banks has increased significantly.

Ratan Deb (2020) in his paper made an attempt to highlight the performances of banks in Tripura and made a comparison between the performances of all PSBs and the RRB in promoting the rural development in that state. The study finds the positive performances of banking sector in respect of expansion of bank branches, CD ratio and credit plus investment ratio. The performance of RRB is found to be better in rural CD ratio and semi- rural CD ratio than the Public Sector Banks (PSBs). The recovery performances in priority sectors lending (includes Agri. and Allied activities, MSME, and Other Priority Sector) of RRB is far better than the PSBs. The performance of RRB in regard to coverage the beneficiaries of this scheme are found to be better than the PSBs since the implementation of Pradhan Mantri Mudra Yozana (PMMY) in this state. The author concluded that RRB has been performing their jobs for fulfilling the financial requirements of under privileged rural people.

Karunakaran N., (2020) RRBs play a key role as an important vehicle of credit delivery in rural areas with the objective of credit dispersal to small, marginal farmers and socio-economically weaker section of population for the development of agriculture, trade and industry. But still its commercial viability has been questioned due to its limited business flexibility, smaller size of loan and high risk in loans and advances. Rural banks need to remove lack of transparency in their operation which leads to unequal relationship between banker and customer, the banking staff should interact more with their customers to overcome this problem and should open their branches in areas where customers are not able to avail banking facilities.

Harish Tigari and M.G.Gaganadeepa (2020) in their scholarly article examine the rural credit structure in RRBs of Pragathi Krishna Gramin Bank. The authors focused only on the specific area like loans and advances made by the RRBs for three years period of 2015-16 to the year 2017-18. With regard to agriculture sector the Pragathi Krishna Gramin Bank provided loans in the 2015-16 financial year of to 6 Account holders to Rs. 15, 00,000. In the financial year 2016-17 the bank provided Rs. 42, 00,000 to 37 Account holders to. In the financial year of 2017-18 the bank provided Rs. 21, 00,000to 15 account holders. Out of 3 years in 2016-17 financial year the bank provided the highest loan and focused on the agriculture sector.

Attaullah Niazi, Nisar Ahmed Mulla (2021) in their research paper made an attempt to study the financial performance of selected Regional Rural banks (RRBs) of Jammu and Kashmir. The study compares the financial performance of JK-Grameen Bank (JKGB) and Ellaqui Dehati Bank(EDB), the prominent institutions that serve the rural population of Jammu and Kashmir. These banks have played an important role in financial inclusion. But as per the results, both these institutes have not performed well. There is also no significant difference between their financial performances as both these banks serve similar kinds of customers who are of equal economic status. There is a need for these institutions to improve their financial performance so that they do not become a burden on the government. The finding of the study revealed that the performance of the Jammu and Kashmir Grameen Bank (JKGB) and Ellaquai Dehati Bank(EDB) is not up to the mark.

Girija Nandini (2021) in their paper mainly focused on several Regional Rural Banks (RRBs) and its branch expansion, deposits, advances and profitability of RRBs during the study period and to understand the growth and performance of RRBs. The study shows that demand for credit has increased in the rural areas for different purposes along with the increasing trend of branch expansion. The authors observed that the number of RRBs constantly declining from 86 (2008) to 56 (2018) indicating the negative growth. The branches of RRBs expanded to 21747 in 2017-18 from 15181 in 2008-09, which shows an increasing trend growth branches, i.e. of 1.43 times and 43.25% growth rate from 2008-09. The authors conclude that the continuous growth of the number of RRBs and its branch all over India has assisted in dropping the regional imbalance with respect to banking assistance in India, especially in rural areas. Establishment of RRBs in terms of deposit mobilization, branch expansion, credit development besides rural deployment in weaker and poor parts of rural areas attempt of providing banking to doorsteps of rural households are appreciable.

As on 31 March 2021, there were 43 RRBs sponsored by 12 Scheduled Commercial Banks with 21,856 branches catering to 28.3 Crore depositors and 2.6 Crore borrowers in 26 States and 3 Union Territories (Puducherry, Jammu & Kashmir, Ladakh). 92% of the RRB branches are located in rural/semi-urban areas. The States of Goa and Sikkim do not have RRBs. Due to amalgamation of Public Sector Banks, the number of Sponsor Banks also reduced from 15 to 12 w.e.f. 1 April 2020. All the public sector banks, except Punjab & Sind Bank, sponsor one or more RRBs. J & K Bank is the only private sector bank to sponsor an RRB.

BALANCE SHEET OF RRBS

Catalysed by capital infusion and bolstered by robust growth in borrowings (24.8%) and deposits (9.7%) on the liabilities side, the balance sheet witnessed a healthy growth of 10.8% during FY 2020-21 and stood at Rs. 6.52 lakh crore as on 31 March 2021. Aided by the Special Liquidity Facility (SLF) and few relaxations in eligibility criteria for availing refinance from NABARD, the borrowings of RRBs from NABARD witnessed a significant growth of 33.5% during FY 2020-21.

The growth in availability of funds had a very favourable impact on the growth of credit from the RRBs. The gross loans and advances of the RRBs grew by over 12% in comparison to the average growth rate of 5.3% for all scheduled commercial banks (PSBs-3.2%, Private Sector Banks-8.5%, Foreign Banks- 0.01%). As a result, the CD ratio of RRBs improved to 64% as on 31 March 2021 from 62% as on 31 March 2020. System-wide Capital to Risk weighted Assets Ratio (CRAR) of RRBs, which was 10.3% as on 31 March 2020 marginally declined to 10.2% as on 31 March 2021. As on 31 March 2021, 16 RRBs had CRAR less than 9% and 8 RRBs had negative CRAR. During FY 2020-21, Rs. 400 crore (of which GoI share is Rs. 200 Crore) was sanctioned towards recapitalisation of 7 RRBs.

The growth in balance sheet of the RRBs slightly decelerated to 8.3% during FY 2021-22 in comparison to the 10.8% growth witnessed during FY 2020-21. Though the share capital witnessed an unprecedented growth rate of 77% during FY 2021-22, since the capital was infused in the last week of the FY, the favourable impact of such extent capital infusion on credit expansion is expected to be realised from FY 2022-23.

On the liabilities side, the deposits of RRBs grew by 7.1% vis-à-vis the average growth rate of 10.1% for all Scheduled Commercial Banks during FY 2021-22. As on 31 March 2022, RRBs had the highest share of

CASA deposits (54.5%) as percentage of their total deposits amongst all categories of Scheduled Commercial Banks (Public Sector Banks- 43.8%, Private Sector Banks- 47%, Small Finance Banks- 40.5%, Foreign Banks- 43.8%), putting them in advantageous position in terms of access to low-cost funds.

Borrowings grew by 8.9% during FY 2021-22 despite a high base effect. (borrowings witnessed a growth rate of 24.8% during FY 2020-21). Borrowings from NABARD accounted for 91% of the total borrowings of RRBs.

On the assets side, as the excess liquidity was gradually being withdrawn, the growth rate in investments and loans of RRBs decelerated during FY 2021-22. In comparison to FY 2020-21, when the gross loans and advances of the RRBs grew by over 12% in comparison to the average growth rate of 5.3% for all scheduled commercial banks, during FY 2021-22, the gross loans and advances of RRBs. The consolidated balance sheet of RRBs is given in Table1.

Table 1
Consolidated Balance Sheet of Regional Rural Banks

S. No.	Parameter		At end-March			Y-o-Y Growth in Percent	
		2020	**2021**	**2022**	**2020**	**2021**	**2022**
1	Share Capital	7,849	8,393	14,880	**16.5**	6.9	77.3
2	Reserves	26,814	30,348	34,359	5.6	13.2	13.2
3	Deposits	4,78,737	5,25,226	5,62,538	10.2	9.7	7.1
	3.1 Current	10,750	11,499	12,042	-3.4	7	4.7
	3.2 Savings	2,44,414	2,71,516	2,94,438	9.1	11.1	8.4
	3.3 Term	2,23,573	2,42,211	2,56,057	12.2	8.3	5.7
4	Borrowings	54,393	67,864	73,881	1.6	24.8	8.9
	4.1 from NABARD	46,120	61,588	67,054	-1.6	33.5	8.9
	4.2 Sponsor Bank	4,519	3,444	3,879	20.6	-23.8	12.6
	4.3 Others	3,754	2,832	2,948	28.7	-24.6	4.1
5	Other Liabilities	20,227	19,754	19,742	13.2	-2.3	-0.1
Total liabilities/Assets		**5,88,021**	**6,51,585**	**7,05,400**	**9.3**	**10.8**	**8.3**
6	Cash in Hand	2,860	2,954	3,119	-1.8	3.3	5.6
7	Balances with RBI	16,744	18,947	22,174	-6.4	13.2	17

8	Balances in current account	7,613	5,987	8,127	39.2	-21.4	35.8
9	Investments	2,50,859	2,75,658	2,95,665	10.9	9.9	7.3
10	Loans and Advances (net)	2,80,220	3,15,181	3,42,479	7.0	12.5	8.7
11	Fixed Assets	1,235	1,229	1,256	-3.0	-0.5	2.2
12	Other Assets #	28,490	31,629	32,580	27.7	11	3
	12.1 Accumulated Losses	**6,467**	8,264	9,062	214.0	27.8	9.7

Source: NABARD, Key Statistics & Financial Statements of Regional Rural Banks 2021 and 2022.
Notes: 1. #: Other Assets Included Accumulated Losses

INCOME, EXPENDITURE & PROFITABILITY

After two consecutive years of losses in FY 2018-19 & FY 2019-20, RRBs, as a whole, reported a consolidated net profit of ` 1,682 crore during FY 2020-21. The net profit further increased by 91% to ` 3,219 crore during FY 2021-22.

RRBs reported consolidated net losses in FY 2018-19, for the first time since FY 1996-97 because of implementation of Regional Rural Bank (Employees') Pension Scheme, 2018 with effect from 1 April 2018 after the verdict of the Hon'ble Supreme Court. Considering huge pension liability on account of implementation of the pension scheme, RBI has permitted RRBs to amortise their total pension liability over a period of five years from 2018-19, subject to a minimum of 20 per cent of the pension liability assessed every year.

The profitability of RRBs measured in terms of Return on Assets (RoA (%))[1] was 0.32 % in FY 2017-18 (before the effect of pension liability kicked in). During FY 2021-22, the RoA has increased to 0.48% from 0.27% during FY 2020-21. This is the highest RoA for RRBs during the previous 5 years. The reasons for improvement in profitability of RRBs during FY 2020-21 are provided below:

- Net Interest Margin improved as a result of greater decline in cost of funds vis-à-vis the decline in yield on assets.
- Healthy growth in Miscellaneous Income- RRBs have effectively utilised their high Priority Sector Lending (PSL) portfolio (particularly their agri. & SF/MF portfolio) to augment their Miscellaneous Income. During the FY 2020-21, the total volume of Priority Sector Lending Certificates (PSLCs) traded by RRBs grew by 26% to Rs. 1.92 lakh crore and RRBs accounted for 33% of the total volume of PSLCs traded by all banks. The phased increase in SF/MF targets announced by RBI under PSL guidelines may further help the RRBs in monetising their SF/MF portfolio through issuing PSLCs.

- Improvement in Asset Quality and CD ratio. The consolidated income & expenditure statement is provided in Table 2.

Table 2
Income and Expenditure Statement of Regional Rural Banks
(Amount in Rs. Crore)

S. No.	Parameter	During the FY (Amount)			Y-o-Y Change in per cent		
		2019-20	2020-21	2021-22	2019-20	2020-21	2021-22
A	**Income (i + ii)**	**49,452**	**53,858**	**56,585**	**15.0**	**8.9**	**5.1**
	i. Interest income	43,698	46,803	48,048	12.2	7.1	2.7
	ii. Other income	5,754	7,055	8,537	41.8	22.6	21.0
B	**Expenditure (i+ii+iii)**	**51,660**	**52,176**	**53,367**	**18.4**	**1.0**	**2.3**
	i. Interest expended	25,985	25,588	24,817	9.6	-1.5	-3.0
	ii. Operating expenses	20,076	20,201	21,295	45.4	0.6	5.4
	of which, Wage bill	14,654	15,799	16,338	56.2	7.8	3.4
	iii. Provisions and contingencies	5,599	6,386	7,254	-8.5	14.1	13.6
	of which, Income Tax	931	1,279	1,278	12.3	37.5	-0.1
C	Operating profit	2,972	7,872	10,337		164.9	31.3
D	**Net profit /Loss**	**-2,208**	**1,682**	**3,219**	**-45.6**	**NA**	**NA**
E	**Return on Assets (%)**	**NA**	**0.27**	**0.48**		**NA**	**NA**
F	**Cost to Income Ratio (%)**	**86%**	**71%**	**67%**		**NA**	**NA**

Source: NABARD, Key Statistics & Financial Statements of Regional Rural Banks 2021 and 2022

After nearly four decades of existence, the RRBs are facing many constraints warranting an over haul and a serious consideration on the part of the policy makers for their strengthening. To increase the non interest income, RRBs may be asked to actively consider distribution of mutual fund / insurance etc. products and also participate in referral arrangement there for.

CONCLUSION

To increase their non-interest income, RRBs may be encouraged to actively consider distribution of products of mutual fund/insurance companies, etc. and also participate in referral arrangement there for. RRBs could also focus more on other non-fund based business like offering consultancy services to farmers, issuing drafts, etc. With a view to increasing the avenues for credit deployment, RRBs may be encouraged to participate in consortium lending within their area of operation. New initiatives are being taken in rural areas by institutions/ organizations which are active in rural development. RRBs may actively consider fostering links with such organizations to provide avenues for innovative financing.

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