PERFORMANCE OF REGIONAL RURAL BANKS: AN EVALUATIVE STUDY OF MEGHALAYA RURAL BANK

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ABSTRACT

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ABSTRACT

1. Introduction:
The genesis of the RRBs can be traced to the need for a stronger institutional arrangement for providing rural credit. The Narasimham 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 large resource base of commercial banks. Subsequently, the RRBs were set up through the promulgation of RRB Act of 1976. RRBs were supposed to evolve as specialized rural financial institutions for developing the rural economy by providing credit to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. Over the years, the RRBs, which are often viewed as the small man’s bank, have taken deep roots and have become a sort of inseparable part of the rural credit structure. They have played a key role in rural institutional financing in terms of geographical coverage, clientele outreach and 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. From a modest beginning of 6 RRBs with 17 branches covering 12 districts in December 1975, the numbers have grown into 196 RRBs with 14,446 branches working in 518 districts across the country in March 2004. Govt. of India initiated the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a State as per the recommendations of various committees. The amalgamated RRBs were expected to provide better
customer service due to better infrastructure, computerization of branches, pooling of experienced work force, common publicity marketing efforts, etc. and also derive the benefits at large area of operation, enhanced credit exposure limits and more diverse banking activities.

As a result of the amalgamation, the number of RRBs was reduced from 196 to 133 as on March, 2006 and further to 82 RRBs with 15,658 branches operating in 621 districts as on March 2011. The population served per branch of RRBs is interestingly high ie, roughly 84.6 thousand in 2000-01 which slightly improved and figured at 77.3 thousand populations served per branch in 2010-11. The scenario is extremely terrible while compared with the population per branch of commercial bank as a whole which covered 18 thousand populations by each branch during 2010-11. The average deposit per branch in 2000-01 was Rs. 2.59 crores which has gone up to Rs. 10.47 crores per office during the year 2010-11. The scenario of deposit per branch of Indian commercial banks is much higher than the RRB as a whole during the same span. The figure for commercial banks as a whole increased from Rs. 14.56 crores in 2000-01 to Rs.44.65 crores in 2010-11. The per branch advances of RRBs was Rs. 1.10 crores in 2000-01 which has increased to Rs. 6.27 crores in 2010-11. The RRBs are not in a position deploy credit for socio economic development alike commercial banks in India as the credit per office of RRBs is much lower while compared the figure for credit per commercial banks in India throughout the period. The credit per commercial bank branches increased to Rs.41.55 crores in 2010-11 from Rs. 7.79 crores in 2000-01.

Thus, under the amalgamation process, a number of RRBs have been amalgamated but the branches have increased. The credit deposit ratio of RRBs has increased from 46.3 per cent in March 2004 to 59.6 per cent in March 2011. The RRBs have a large branch network in the rural area forming around 43 per cent of the total rural branches of commercial banks. The rural orientation of
RRBs is formidable with rural and semi-urban branches constituting over 97 per cent of their branch network. The growth in the branch network has enabled the RRBs to expand banking activities in the un-banked areas and mobilize rural savings. The mandate of promoting bank with a rural focus, however, would be an enduring phenomenon only when the financial health of the RRBs is sound. With built in restrictions on their operations, it is common to expect that the financial health of the RRBs itself would be a matter of concern.

As regards to their financial status, during the year 2003-04, 163 RRBs earned profits amounting to Rs.953 crores while 33 RRBs incurred losses to the tune of Rs 184 crores. The aggregate income of RRBs during 2007-08 grew by 20 per cent on account of higher interest as well as non-interest income. The growth in expenditure during the year was relatively subdued. As a result, profitability of RRBs improved significantly. RRBs earned a net profit of Rs. 1,374 crores in March 2008 as compared to Rs.625 crores in previous year. (Out of 90 RRBs, 82 RRBs earned a combined profit of Rs. 1,429 crores whereas 8 RRBs incurred a combined loss of Rs. 55 crores during 2007-08. The branch productivity (business per branch) of RRBs has increased from Rs. 4.48 crores in March 2003 to Rs. 16.74 crores in March 2011. Furthermore, non-performing assets of the RRBs in absolute terms stood at Rs.3, 299 crores as on March 2004. The percentage of net NPAs was 8.51 per cent during the year ending March 2004 reduced to 1.80 per cent in March 2010.

Given the multi agency share holding and various restructuring strategies of RRBs introduced from time to time, the banks are under severe pressure to improve their foundation with a view to attain competitiveness. Given the attention at the policy level to restructure the RRBs, it is necessary that the functioning of RRBs be analyzed separately than the RRBs as a whole so that it helps in policy formulation. The present study is an attempt to enquire into such
factors that influence the working of the RRBs in general and MRB in particular. However, the entire study has been summarized into three parts viz,

- Background,
- Major Findings and Hypotheses Verifications,
- Proposed suggestions.

2. **Background:**

The foregoing observation clearly reveals that RRBs have moved away from the conditions and compulsions that were prevailing at the time of RRBs in 1975. Hence, the researcher is ventured with an investigation on the performance of RRBs in the present scenario. Having realised the need and significance of RRBs, the proposed study undertaken in MRB ie, RRB of Meghalaya and sets forth the following specific objectives-

1. To study the growth performance of MRB in terms of branch expansion, deposit mobilization, credit channelization, C/D ratio in the context of RRB as a whole.
2. To examine the efficiency in respect of profitability and productivity of MRB on the basis of selected parameters.
3. To study the asset quality and the level of NPAs of MRB over the years.
4. To analyze the progress of MRB on the basis of balance sheet variables.

However, suitable operational hypotheses have been framed in appropriate places to meet the objectives of the proposed study.

The research population comprised of the RRBs operating in the state of Meghalaya for the proposed study. As on March 2011 there is only one RRB ie, Meghalaya Rural Bank with 58 number of branches operating in six districts of Meghalaya. The bank was established on 29th December 1981 under the RRBs Act 1976 as a joint undertaking of Govt. of India, the Govt. of Meghalaya and the State Bank of India with the share capital at the ratio of 50: 15: 35. Prior to 1st May 2007, the name of this RRB was ‘Ka Bank Nonkyndong Ri Khasi Jaintia’. As
per power conferred by sub-section (1) section (3) of the RRB Act 1976 (21 of 1976) Department of Economic Affairs (Banking Division), Ministry of Finance, Govt. of India, in its notification dated 1st May 2007 substituted the name "Ka Bank Nonkyndong Ri Khasi Jaintia" as "Megha1aya Rural Bank". As on 2010-11, the East Khasi Hill constituted 25 number of branches, West Khasi Hills 14 branches, Jaintia Hills 13, Ri Bhoi district 4, West Garo Hill and East Garo Hill districts are having 1 branches in each district.

For the purpose of the proposed study, we have considered all the branches particularly for the analysis of working and efficiency of the bank. The sources of data collection are financial statements compiled by the head office of Meghalaya Rural Banks, RBI bulletin, RBI Annual Reports, RBI Trend and Progress of Banking in India, Annual Reports of Meghalaya Rural Bank, Annual Reports of NABARD, Directorate of Economics and Statistics, various reports, surveys, published and unpublished research papers and dissertations.

To assess the growth performance of the bank, we have taken the variables like total deposits, total advances, and credit deposit ratio. The variables like net profit, paid up capital plus retained earnings, advances outstanding, loan recovered etc have been considered for measuring the efficiency of bank. The variables includes interest earned, interest paid, manpower expenses, non-interest income, spread, burden, cost responsiveness, return on working fund, volume of business (deposit plus advances), labour productivity and branch productivity for assessing the profitability and productivity of banks. To assess the nature of unbridled virus of NPAs of bank, the variables considered are net and gross NPA, total standard asset, doubtful and loss asset. The variables for identifying the determinants of NPAs includes priority sector lending, capital adequacy ratio, net NPA to net advances, branch expansion and credit deposit ratio. To assess the asset liability management, we have considered the liabilities
items like capitals, deposits, borrowings and asset side items like cash and bank balances, investment, advances, fixed assets and other assets.

The financial ratios and statistical techniques have been used to test the proposed hypotheses of the study. The statistical techniques viz, correlation coefficient, regression analysis, skewness, measure of central tendency and dispersion have been used. The parametric test ie, ‘t’ test, has been considered to test significance level in appropriate cases. The most popularly used financial ratios have been used which include return on assets, return on equity, net profit per employee, liquid asset ratio, advances to total assets, interest income, non-interest income, spread, burden, slippage ratio, NPA accretion ratio and so on.

The growth performance of banks has been tested with compound annual growth rate analysis. The correlation coefficient between incremental deposits and incremental advances has been used to find out the nature of growth of deposit as well as credit. Besides this, whether banks are deploying credit at the same rate what they have mobilized, researcher visited the branch managers of the bank for collecting necessary information and has discussed with them the present position, weaknesses, the problem being faced by them and future role of branch for the development of the operational area. The correlation matrix analysis has been employed to assess the relationship between advances and NPAs along-with its components viz, sub-standard assets, doubtful assets and loss assets. The regression models have also been fitted in appropriate places.

The entire study has been displayed as per the following chapter break up.

Chapter-I: Introductory.

Chapter-2: Performance of Regional Rural Banks in India: Deposits, Advances and CD Ratios.


Chapter -4: Profitability Analysis of Meghalaya Rural Bank.
Chapter-5:  Productivity of Meghalaya Rural Bank: An Analysis.

Chapter-6:  Loan Recovery and Asset Quality of Meghalaya Rural bank: An Analytical Study.

Chapter-7:  Asset Liability Management of Meghalaya Rural Bank.

Chapter-8:  Findings and Suggestions.

Bibliography

3. **Major Findings:**

On the basis of the analysis on the performance of MRB in the context of their feat of RRBs as whole, the important findings are summarised as under-

1. It is found that the branch expansion of MRB is not up to the mark as only 7 number of branches added during 11 years considered. There were 51 branches of MRB in 2000-01 functioning in the state whose number has increased to 58 in 2010-11. Although initiatives have taken in the area of renovation of branches with a view to improve the public image, the bank has not set up any satellite branch or extension counter. Roughly 50 per cent of the branches are computerised.

2. The study found that the existing branches of MRB are inadequate to serve the population in the area under study. Therefore, major areas are still remaining not served by the MRB and the rural masses are yet to access the banking services. It is further confirmed by the analysis relating to the population per branch. The population served per branch of MRB is 58.1 thousand in 2000-01 which slightly improved and figured at 51.1 thousand population served per branch in 2010-11. The scenario is relatively better while compared with the population per branch of RRBs as a whole which covered 77.3 thousand populations by each branch during 2010-11.
3. The number of employee per branch found to be very low ie, around 3 to 4 persons throughout the period due to the abolition of clerical cadre by converting the staff into multipurpose workers. The staff norms ie, 4.2 number of staff per branch as recommended by Agarwal Committee (2000), has not been achieved by MRB till 2009-10. In 2000-01, the average number of employees per office was 3.6 which has risen to 3.9 in 2009-10 and a further increase of 4.4 during the year 2010-11.

4. The MRB have been doing at par with the RRBs in terms of mobilization of deposits. The amount of deposit per branch for MRB was Rs. 2.4 crores in 2000-2001 which has increased to Rs.11.6 crores in 2010-11. The same for RRBs was Rs. 2.59 crores in 2000-01 which has gone up to Rs. 10.47 crores per office during the year 2010-11. However, scenario of per capita deposits indicates that MRB is performing better than the RRBs as a whole. The per capita deposit of MRB increased from Rs. 0.41 thousand in 2000-01 to Rs. 2.28 thousand in 2010-11; the corresponding figure for RRBs increased from Rs. 0.31 thousand to Rs. 1.35 thousand.

5. The analysis relating to loans and advances per branch indicate that MRB is lagging behind the RRB’s loan performance. The loans and advances per branch of MRB was Rs.0.59 crores in 2000-01 which increased to Rs. 3.72 crores in 2010-11; the corresponding figures for RRBs was Rs. 1.1 crores in 2000-01, increased to Rs. 6.27 crores in 2010-11. It is also observed that in terms of per capita loans and advances, the MRB has been maintaining the same rate at which RRBs of the country are deploying loans and advances.

6. The credit deposit ratio of the Meghalaya Rural Bank was 30 per cent in 2000-01 which increased to 31.91 percent in 2010-11. The C/D ratio of MRB is significantly low while compared with RRB as a whole. The same for RRBs was 41.0 per cent in 2000-01, augmented to 59.6 per cent in 2010-
11. The reason of significant low ratio of MRB may be attributed to non recovery of loans, wilful nonpayer, lack of supervision of end use of bank credit, lack of implementation of bankable schemes. This exhibited poor credit absorption capacity of the entire area along with lack of entrepreneurial zeal to undertake viable projects.

7. The type wise deposit analysis found that the saving account has the highest rate of growth as it has compound annual growth rate (CAGR) ie, 19.91 per cent which is followed by term deposit (16.71), current deposit (15.73), sundries (14.47), special term deposit (11.27) and recurring deposit (10.54). The result of growth rate analysis is contradicting with RRB as a whole where the growth rate in case of current deposit is higher than any other type of deposits. This may be due to the fact that the lower income group people inhabited in rural Meghalaya who are not having proper business opportunities.

8. The correlation analysis relating to the extent of credit deployment to various occupation groups like agriculture, trade, transport operator, personal loan etc found that ‘r’ values are statistically significant at their respective degree of freedom indicating that there is close relationship between the variables considered. It can thus be inferred that all the sectors are getting proportionate amount of bank credit along with the rise of total credit of the MRB. Hence, the MRB has been performing a logical and genuine credit deployment practices in the present situation considering economic development of the area from where they mobilized the fund.

9. The study found that the coefficient of correlation between priority sector and non-priority sector advances ($r=0.46$) is neither significant at 5 per cent level nor at 1 per cent level of significance. This indicates that the increase in non-priority sector lending is not followed the growth of
priority sector lending of MRB. In other words, there exist a difference in lending practices of MRB for priority and non-priority sector. The MRB shows a reverse trend in lending to priority and non-priority sector while compared with RRBs as a whole. In case of RRB, there is no difference in lending practices of priority and non-priority sector.

10. The analysis found that the coefficient of correlation between advances and priority sector lending \((r=0.88)\) is statistically significant. It indicates that along with the increase in advances, the priority sector lending is also increasing at the same pace. The coefficient of correlation between the advances and non-priority sector lending \((r=0.61)\) is statistically significant which suggests that along with the increase in advances of the MRB, the non-priority sector lending is also increasing but not in the proportionate rate. By and large, it inferred that the MRB is giving more weightage to the priority sector than the non-priority sector by providing proportionately more advances to fulfil the motto of rural economic development of the region.

11. The analysis relating to various sub sectors of priority sector found that the highest correlation is between total priority sector lending and self-help group loans \((r=0.88)\). It indicates that along with the increase in total credit, self-help group loan is also increasing highly in comparison to other sub-sectors. The ‘\(r\)’ value between total priority sector lending and transport operators \((r= 0.81)\) indicated a close nexus between priority sector lending and transport operators. The lowest correlation value observed with total lending is between priority sector lending and housing \((r= 0.62)\). However, highly positive correlations among the variables signify that MRB has made a special dent in the banking operation in Meghalaya over the years.
12. It is found that increase in income is higher than the increase in expenditure. As a result, the profit of the bank increased from Rs.26,261 thousand in 2000-01 to Rs.1,19,917 thousand in 2010-11. The profit of MRB recorded an increase of 4.57 times during the period. The scenario of growth of profits of MRB (4.57 times) is better than the RRBs (3.37 times) as a whole.

13. It is found that the operating expenses to total expenditure swelling over the years. There has been 5.12 times increase in the operating expenditure of the MRB in comparison with 3.91 times in total expenditures. The higher rate of increase in operating expenditure of MRB may be due to infrastructural bottleneck and weak e-communication network of the area in which MRB is operating its business. Hence, an urgent step is required in this respect to control the unnecessary operating expenditure of banks.

14. The econometric analysis relating to the components of income found that positive correlation coefficient (r) values are statistically significant at 5 per cent and 1 per cent level at their respective degree of freedom and thereby, indicates that with the growth of total income, both interest income and non-interest income have increased in the same proportion. But the comparatively higher correlation (0.99) between total income and interest income indicates that the growth of interest income is exactly proportional to total income. This signifies a positive growth trend of income of the MRB. It may be inferred that MRB is performing as good as RRBs of the country.

15. The ratio analysis found that the profitability ratio of MRB was 2.25 percent in 2000-01 which declined to 1.69 per cent in 2010-11. The average profitability ratio stand at 1.71 per cent is far better than the RRBs as whole ie, 1.10 per cent. This indicates MRB is performing well as it
recorded on an average yearly profit of Rs. 1.71 per hundred rupee volume of business where as RRBs recorded Rs.1.10.

16. The regression analysis has identified that the variables ie, priority sector lending, credit deposit ratio, operating expenses, spread, deposits and NPA as perfect determinants of profitability of MRB ($R^2 = 0.991$). The influence of individual variables has been examined with ‘$t$’ values on individual regression coefficients. The analysis established priority sector lending and operating expenses are the major deterrents. This has confirmed the fact that MRB has deployed more amount of loans to the priority sector and spend a huge amount of money for its recovery which leads to increase the operating expenditure of banks. However, the negative regression coefficients of CD ratio (-2645.03), deposits (-0.067) and NPA (-2.361) implies that more exposure of banks towards lending activities, higher amount of mobilization of deposits and the level of NPAs are the determinants of profitability.

17. It is found that the MRB maintained the similar trend of business growth of per employee with business growth of RRBs per employee. The business per employee of MRB was Rs. 8,358.93 thousand in 2000-01 which increased to Rs. 34,905.21 thousand in 2010-11. The corresponding figures for RRB were Rs. 7,500 thousand which swelled to Rs. 40,400 thousand.

18. The MRB is also doing better in terms of volume of business per branch while compared with RRBs a whole. The business per branch of MRB was Rs. 29,993.82 thousand in 2000-01 which increased to Rs. 1,54,064.36 thousand in 2010-11. The figures for business per branch of RRB was Rs. 36,900 thousand in 2000-01, swelled to Rs. 1,67,400 thousand in 2010-11. The better productivity performance of MRB is due to the fact that they
are able to mobilize more deposit from the area. This indicates that the MRB is utilizing efficiently the resources that they mobilized.

19. The high positive ‘r’ values for both the parameters ie, business per employee and business per branch indicate a close relationship between MRB and RRBs in respect of their productivity performance. It is observed that MRB is performing as good as RRBs as a whole particularly for acquiring business per bank branch and business per employee during 2000-01 to 2010-11. It means that the MRB in the state of Meghalaya is performing its volume of business at par with RRB of the country.

20. The productivity analysis relating to return on investment found that the average return on investment is 2.20 per cent throughout the period. The average profit as percentage of business volume of MRB (1.39 per cent) is better than the RRBs as a whole (ie, 0.78 per cent). This is a positive sign for the MRB operating in rural Meghalaya. The analysis also found that although MRB has been doing relatively better than that of the RRBs, there has been a wide variation in the productivity which might have adverse effect on profitability of the bank. This variation may be due to lesser involvement of banks in profitable activities, wicked nature of rural clients for non-repayment of loans and advances they obtain.

21. The loan recovery performance of MRB has improved. The figure was 43.18 per cent in 2000-01 which increased to 78.8 per cent in 2010-11. Hence, it confirms the fact that the MRB is doing a reasonably better management of its recovery of loans. However, MRB is lagging behind in its recovery position while compared with the RRBs of the country. As on March 2010, average recovery of RRB was 80.03 per cent while the same for MRB was 78.22 per cent.
22. It has been observed that the recovery position was poor in farm sector than that of the non-farm sector. In 2000-01, it was 17.61 per cent for farm sector and 63.47 per cent for non-farm sector. The lower recovery indicates erosion of banks profitability and blocking up bank credit from developmental projects of the area. The gravity of the situation is cleared when we find Rs. 1,57,594 thousands (64.37 per cent) was realized against the total outstanding dues of Rs. 2,44,835 thousands under farm sector and Rs. 5,26,593 thousands (84.46 per cent) against the total outstanding dues of Rs. 6,23,463 thousands under non-farm sector during 2010-11.

23. The reasons for poor recovery may also be attributed to various other factors such as lack of supervision of end use of fund, defective processing of loan applications, communication gap between banker and customer etc. In the absence of any suitable step for recovery from the loans sanctioning authority, the loan is never recovered and it becomes difficult to pay back by the borrowers due to heavy amount. As a result, the mounting over-dues restricted the bank’s lending capacity.

24. The matrix of correlation coefficient analysis found that the negative correlation between advances and NPAs (-0.23) is statistically not significant at 5 per cent and 1 per cent level of significance. This indicates that there is lethargic relationship between the growth of advances and the growth of NPAs. The negative ‘r’ values of advances with doubtful assets (-0.55) and loss assets (-0.52) is significant at 5 per cent level but not at 1 per cent while with sub-standard assets (0.65) is not statistically significant at 1 per cent level. This indicates that with the increase in NPAs, doubtful assets and sub-standard assets and loss assets have increased but the increasing rates are not followed by the rate of increase of advances.
25. The growth of advances and growth of NPA has been assessed with coefficient of correlation (r) between advances per branch and NPAs per branch during 2000-01 to 2010-11. The analysis found that the correlation coefficient (-0.41) in respect to advances per office and NPA per office of MRB is negative. This implies that there is a discouraging relationship between advances per branch and NPAs per branch. In other words, it can be argued that high volume of advances does not lead to increase in the volume of NPAs.

26. It is found that the profitability of MRB has been affected by the level of NPAs. The correlation coefficient between NPA per branch and profit per branch found to be – 0.73, is highly negative and statistically significant at both 5 per cent and 1 per cent level of significance. It indicates that NPA has some negative impact on bank’s profits. In fact, the level of NPA adversely affects the profitability of bank. In other words, per branch increase in NPAs resulted a decline in per branch profits.

27. The negative correlation coefficient value between NPA per branch and business per branch is statistically not significant indicates that NPA has negative impact on bank’s productivity. In other words, with per branch increase in NPAs, the per branch productivity has declined. Hence, it may be inferred that the total business (deposit plus advances) has also been affected by the high level of NPAs of MRB.

28. The progress of MRB in respect of balance sheet variables found that 9.8 per cent of total assets constituted the total capital in March 2006 which declined to 7.8 per cent in March 2010. This declining trend indicates that MRB is not in a position to maintain its capital adequacy norms stipulated from time to time. During the year March 2010, the MRB is not in a position to uphold its minimum norms of 9 per cent capital adequacy. In March 2006, deposits contributed 84.80 per cent which
slightly reduced and reached to 82.93 per cent in March 2010. However, borrowing portfolio showed a significant improvement from 1.62 per cent to 4.49 per cent over the period. Similarly, other liabilities as per cent of total liabilities have improved to 4.78 per cent from 3.74 per cent.

29. The asset side variables particularly the cash and bank balances showed an improvement in percentage share from 43.83 per cent to 47.94 per cent during 2006 to 2010. Over the same period, there is decrease of investment portfolio of the MRB from 31.26 per cent to 22.06 per cent. Similarly in case of advances, the percentage share has augmented from 18.48 per cent to 24.05 per cent. A negligible fraction of assets constituted the fixed assets, the contribution of which has increased from 0.12 per cent to 0.23 per cent. However, the percentage point of other assets has declined from 6.32 per cent to 5.71 per cent over the years.

30. The inter-relationship among balance sheet variables indicated that cash and bank item of MRB are negatively associated with deposits (-0.94). The capital on the liability side has associated negatively with cash and banks. In case of investment, it is observed that the deposits have significantly associated (0.87) and capital is positively related (0.76). This indicates that there is a tendency to invest in more deposits and securities. Thus the restructuring strategies adopted by RRBs in post merger period have made a special dent on this aspect. The sizeable portion of capital is invested in various securities over the years by MRB due to increase in capital base after the introduction of capital adequacy norms.

4. **Hypotheses Verifications:**

Further, major findings of the study related to the testing of following operational hypotheses are -
1. The hypothesis that “There is no difference in the growth of deposit as well as the growth of credit of MRB” is tested with correlation analysis and found as correct. The high correlation (r = 0.997) value between deposit per office and advances per office are statistically significant at 1 per cent and 5 per cent level of significance. This confirms that over the years deposit per office and advance per office of MRB has been increasing in the same proportion. The high correlation coefficient undoubtedly indicates more savings habit of the people as well as higher volume of credit deployment of MRB in the area.

2. The hypothesis that “The MRB is mobilizing the deposits at par with RRB over the years” found valid. The correlation analysis shows high correlation (r = 0.83) between the incremental deposit per office of RRBs and the incremental deposit per office of MRB is statistically significant. This indicates that the MRB is mobilizing the deposits at the same rate what the RRB at the national level does.

3. The hypothesis that, “There exists a close relationship between the extent of credit channelization of MRB as well as RRBs” found to be correct. The highly positive correlation (r = 0.93) between the incremental loans and advances per branch in the RRBs of India and the per branch loans and advances of MRB is significant both at 1 per cent and 5 per cent level of significance. It indicates that along with the increase in incremental credit in the national level RRBs, the incremental credit in the MRB is also increasing at the same pace. This implies that MRB has maintained the national tempo of credit channelization of rural banks. In other words, MRB is deploying credit for the economic growth of the area from which they have mobilized funds.

4. The hypothesis that “Incremental volume of business has a direct and positive bearing on the profitability of MRBs” has examined the relationship
between the volume of business and profitability growth of MRB and tested with correlation analysis between incremental volume of business and incremental profits during the period 2000-01 to 2010-11. The ‘r’ value found to be 0.156 indicates low relationship between the variables and statistically not significant at 8 degree of freedom. It indicates that the volume of business does not have direct bearing on the volume of profits of MRB. Thus, the hypothesis is found to be incorrect. It may be inferred that with the increase in volume of business, the quantum of profits are not increasing at the same pace.

5. The hypothesis that, “Incremental expenditure has a negative impact on the profitability of MRB” has been tested with the analysis of correlation ‘r’ between incremental amount of expenditure and incremental amount of profits during 2000-01 to 2010-11. The analysis found that there exist a low positive correlation ($r = 0.29$) between incremental expenditure and the incremental profits of MRB is not significant. It indicates that the MRB has not yielded higher profit due to an increase in expenditure over the years. Thus hypothesis is found to be true indicating thereby that incremental expenses have mounted over the years and not resulted in increasing volume of profits.

6. The hypothesis that “Incremental flow of total income has a direct and positive bearing on the profitability of MRB” found partially true. The hypothesis is tested with the help of correlation coefficient (r) between incremental growth of income and incremental growth profits of MRB for the period 2000-01 to 2010-11. The ‘r’ value (0.61) found statistically significant at 5 per cent level but not at 1 per cent level indicates a positive relationship between incremental income and incremental profits. It indicates that total earning might have a bearing on profitability but does not have a
direct impact on the profitability of MRB. It means that the increase in total income does not result in the rise of profits.

7. The hypothesis that “Bank’s exposure to priority sector advances lead to increase in NPA level of MRB” found to be incorrect. The analysis established that the negative correlations - 0.41 and - 0.54 are statistically not significant at 1 per cent and 5 per cent level of significance for NPAs with priority sector advances and for NPAs with non-priority sector advances respectively. This implies that with the increase of priority sector lending, there has not been corresponding increase in the volume of NPAs. However, it cannot be argued that priority sector lending is the sole factor in enhancing the volume of NPAs in the area under study. This has again confirmed by the fact that a significant reduction of NPAs to total advances of MRB to 6.18 per cent from 38.78 per cent during 2000-01 to 2010-11.

5. **Suggestions for Future Action:**

Consequent upon the foregoing diagnosis and findings of the performance of MRB on the basis of selected parameters, the following suggestions may be offered for better performance of MRB.

1. More branches of the MRB covering all the districts of Meghalaya has to be set in those areas which are still untapped as it has a good future to increase the bank’s image in the minds of customers. Although MRB has started in East and West Garo Hills of Meghalaya with one branch in each district recently, the South Garo Hills district till now is untapped. Hence, an urgent step is warranted to open branches in South Garo Hills district and also to increase the number of branches in other districts.

2. There is also need to rationalize the branch network by consolidating the number of branches within a local area in to a single profit centre without
affecting customer service to reduce the administrative expenditure. The introduction and operation of ATM facilities as per provision will boost the level of banking services in the state. Efforts may also be made for computerisation of cent per cent branches of MRB.

3. It is observed that due to limited number of employees, MRB is not in a position to compete with other commercial banks particularly for increasing its volume of business. Hence, the number of employees of MRB needs to be increased by recruiting qualified personnel for better banking services.

4. There is need of greater specialization by MRB in different niches of the market such as retail, agriculture, export and the small scale sector. Banks in the districts need a shift away from common banking to specialized banking and private banking. In order to reduce the transaction costs and increase the bank’s productivity, the process of computerization and IT methods in the branches are to be accelerated.

5. The MRB in the districts under operation mainly rely on loans and advances as source of income. It needs greater attention to the non-interest income particularly on the income from consultancy etc. The cost consciousness among the branches needs to be developed in resource mobilization which should be guided by availability of opportunity for fund deployment in a profitable manner.

6. The MRB in consonance with and as per guidelines of RRBs should introduce new credit and deposit schemes which prove better than other banks. The service quality has to be improved so that the processing and transacting with the bank becomes faster and convenient compared to other banks.

7. The MRB should create awareness among the customers to avail different credit and deposit schemes. The proper advertisements should be given
in television, newspapers, etc. so that people become aware of the products and facilities offered by the bank.

8. The MRB should insist in providing financial services such as portfolio management services under which the bank will provide suggestions and guidance to the customers regarding their investment. These will help the customers to choose the best alternative of investments where the return is maximum and the risk is minimum as compared to others.

9. For improving the profitability position, MRB should undertake an aggressive marketing of retail banking particularly consumer loan, car loans, housing loans etc. It will ensure the return and prompt recovery of loans. The product range of banks has to be widened by introducing new loan-schemes to meet the changing needs of customers. MRB can market the products through e-commerce also.

10. The MRB is deploying more amount of loans to the priority sector and spend a huge of money for its recovery which leads to increase the operating expenditure of banks as confirmed by the regression analysis. Thus an urgent step is warranted to arrest the uncontrolled expenditure in comparison with volume of business made by MRB.

11. The interest expenses can be checked by improving the quality of deposit related services. It has been observed that customers do not mind to get a lower interest rate on deposit if the overall quality of services and the attitude of the staffs are improved to their satisfaction. Further, there is much scope to convince the retail traders and other institutional customers to open their current account in the bank to avail of various services.

12. Immediate measures should be taken to increase the level of spread as well as to curtail the burden ratio in order to improve the profitability of
banks as well as to attain competitiveness in the changing banking scenario.

13. To solve the problem of mismatch of various components of expenditure, the disparity between manpower needed and manpower allocated should be corrected through reallocation. Since it would not be possible to reduce various costs viz., man power and establishment cost through technological substitution, the attempt should be made on the optimum use of other type of inputs and reallocation of existing man power to increase overall effectiveness.

14. The effective steps need to be taken to increase the job satisfaction and morale of the employees. Efforts should be made to inculcate positive attitude and a feeling of conformity among them. The staff should also follow a humanistic approach to monitor, supervise and evaluate their work for enhancing productivity.

15. The analysis of various indicators of productivity reveals that there is wide disparity in profitability of MRB. The wicked nature of rural clientele in the districts resulted in lower productivity and profitability. In order to improve the performance of bank, it need to improve efficiency through introduction of electronic banking, consolidation and merger of branches; develop small and medium enterprises to catch better clientele in the area on which MRB is functioning.

16. The management must understand that to satisfy the customers, they first have to educate, train, motivate and satisfy their own staff because organizations can only meet its customer’s expectations and needs only if the staffs are satisfied. Thus, MRB in this regard should inculcate proper marketing orientation in their work culture. There should be separate marketing cell which will specially deal with proper training and development of the bank staffs.
17. Efforts should be made to avoid long queues in the banks since these convey an impression of its efficiency. This task can be accomplished by mechanizing the bank services. The MRB in the study area should work in this direction of providing properly furnished waiting lounge.

18. The mounting overdue thwarted the MRB’s lending significantly in farm sector. Rare effort is made to improve the recovery performance. They are not encouraged to pay the loan. Consequently, loan is not recovered in future; it becomes difficult to pay it back due to heavy amount. Therefore, an immediate action plan in the line of provisions made in various recovery channels is necessary to expedite the recovery position.

19. The timely edifice of loan portfolio is indispensable for effective management of NPAs of MRB. Keeping in view the present stipulation of sensitive sector where the instability is rising, the bank should diversify its services into consultancy, credit card, housing finance and insurance sector etc.

20. In the wake of expansion regime of credit although the asset quality of MRB has improved considerably, banks need to safeguard against any deterioration of credit quality. MRB need to have a comprehensive system in which the process of risk monitoring is combined with proper risk assessment.

21. Pre-arrangements must be made to contain the fresh accretion. The surest way of containing NPA is to prevent their occurrences. The tenet of this prevention policy lies on proper risk management system in bank, strong and effective credit monitoring, open and co-operative working relation between banks and borrowers.

22. The judicial system needs to be revamped to facilitate quick recovery of dues from defaulters. Certain state governments have passed necessary enactment enabling them to recover the dues of the banks under the
revenue recovery proceedings. This may be applicable to the borrowers of small loans granted by the MRB under the priority sector lending scheme.

23. Internal governing factors of banks are, possibly, responsible for current level of NPAs. The onus, therefore, rests with the bank itself. The organizational structuring, improvement in managerial efficiency, up-gradation of skilled for proper assessment of credit worthiness and a change in the bank’s attitude towards legal action need to be called for.

24. The specific strategy of writing off loans may be adopted, particularly where the amounts of outstanding loans are small, the security available to the bankers is negligible and the expenses to be incurred might be more the amount likely to be recovered. The may reduce the volume of NPAs to an appreciable level without much loss to the banks.

25. The repayment ethics should be inculcated in the minds of the borrowers by optional utilization of various media ie, television, video films, all India radio and press. The incentives could be offered to the regular payers by financing again or providing bonus or disincentives for the wilful defaulters in the form of public crime action or adverse publicity in the news papers.

26. Although the balance sheet items of MRB are more or less properly matched except a few items indicating the restructuring strategies adopted by RRBs in post merger period have made a special dent on investment pattern. But the borrowing contraction over the years reveals the sign of mismatches particularly between assets (investment) and liabilities (deposits). Hence, these need to be remedied with appropriate strategies for which ALM guideline for RRBs to be strictly followed.

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