Chapter - VIII

Summary and Conclusions
The summary, conclusions and hints for further research in future are incorporated in this chapter.

1. **Summary:** The summary and conclusions of the present study are described below.

1.1 **An overview of Regional Rural Banks in India**

Institutional finance is an important prerequisite for rural development. Institutional credit entered the rural areas long ago in the form of co-operatives and later in the form of commercial banks after nationalisation. But these institutions failed to penetrate into rural areas as the benefits of the institutional credit continued to be cornered by influential and economically and politically powerful sections of the society. Hence, the need was felt for establishing a financial institution specialised to cater to the needs of the rural poor in order to fill up the regional and functional gaps in the credit available to rural areas. As a result, RRBs came into existence during 1975. RRBs were set up with the avowed object of financing the credit requirements exclusively of the poorer sections in the countryside. The first 5 RRBs were established on October 2, 1975. By the end of March, 2006, there were 196 RRBs, covering 525 districts in the country. As a result of amalgamation, there are 133 RRBs in the country today.

The main objective of RRBs is to develop rural economy, by providing credit and other facilities, particularly to the small and
marginal farmers, agricultural labourers, artisans and small entrepreneurs for the purpose of development of agriculture, trade, commerce, industry and other productive activities in rural areas. The jurisdiction of each RRB is normally the geographical area of a district in a state and that of its branches within the district. Each RRB is sponsored by a scheduled commercial bank in consultation with the state government and the central government. The RRBs are controlled and managed by a Board of Directors. They are appointed by the Government of India, sponsor bank/state government.

The deposits of all the RRBs grew from Rs.20 lakhs during 1975 to Rs.7132883 lakhs during 2006. Average deposits per RRB and per branch during the aforesaid period have increased from Rs.3.33 lakhs and Rs. 1.18 lakhs to Rs.53630.70 lakhs and Rs.492.13 lakhs respectively. The outstanding advances of RRBs in the country have rapidly increased from a small amount of Rs.10 lakhs during 1975 to Rs.3971257 lakhs during 2006. The average advances per RRB increased from Rs.1.67 lakhs to Rs.29859 lakhs and per branch from Rs.0.59 lakhs to Rs.273.99 lakhs in the same period. The recovery performance of RRBs has gradually improved during the period. In absolute terms, the amount of recovery has increased from Rs.243918 lakhs during 1997 to Rs.1575518 during 2006. Further at the all India level, 166 RRBs showed an improvement in their performance, either by way of
increase in profits or reduction in losses or by shifting from loss to profit at the end of March 2005 as compared to 163 at the end of 2004. The Credit Policy of RBI of 2004 indicated that sponsor banks in consultation with state Governments would initiate steps for amalgamation of RRBs sponsored by them. As on 31 March 2006, 89 RRBs were amalgamated into 26 entities in 11 states. Thus, there are 133 RRBs in the country.

1.2 Profile of sample RRBs: The SVGB plays a key role in the development of rural economy of Chittoor district by providing credit for the purpose of agriculture, trade, commerce, rural industry and other productive activities. The SVGB was the fifth grameena bank in the state of Andhra Pradesh (AP), established on 22nd March, 1981. It has area of operation extended to Chittoor district, for which the sponsor bank, Indian Bank, is the lead bank. The SVGB has its Head Office at Chittoor. The SVGB had started with an authorised capital of Rs. one crore. The issued, subscribed and paid-up capital of the SVGB is Rs.1,00,00,000 divided into 1,00,000 shares of Rs.100. The management of the SVGB is vested with a Board of Directors, which consisted of a Chairman and 8 directors. It opened 7 branches in the initial year of 1981. By the end of 1999, total number of branches were 75 and no branch was opened afterwards. During the post reform period, attention was paid to financial viability and profit generation instead of physical growth in terms of branches. The SVGB had opened its branches
predominantly in rural areas with a view to serve agricultural and priority sectors better. Of the total branches, 77.3 per cent rural, 14.7 per cent semi-urban and 8.00 per cent urban. The SVGB has provided employment to 410 persons.

The RGB was the second RRB in AP and nineteenth in the country. It was established on 6th August, 1976. This is a scheduled bank, sponsored by Syndicate Bank. The area of operation of the bank covers three districts—entire Kadapa and Kurnool districts and Markapur Revenue Division of Prakasam district. The authorised capital of the RGB was rupees one crore till 1989 and was raised to Rs.5 crores in 1990. It remained the same till 2006. Of this, subscribed and paid-up capital was Rs.25 lakhs upto 1986. In the year 1987, it was increased to Rs.50 lakhs and further to Rs.1 crore during 1990. It remained as such till 2006. The management of the RGB is vested in a Board of Directors, consisting of nine directors including the Chairman. It opened 10 branches in the initial year itself. The number of branches increased to 149 at the end of 2006. The RGB has employed 950 persons.

1.3 Mobilisation of Deposits: The SVGB expanded its operations mainly in the un-banked and under banked areas and offered banking facilities to the rural poor. The deposits of the bank were just Rs.2020 thousands at the end of its year of inception i.e. 1981. The deposits of the bank grew continuously during the period without any exception. By the end of March, 2006 the deposits stood
at Rs.3692595 thousands. The number of deposit accounts increased from 1992 in 1981 to 679719 in March, 2006. In the last two years, growth rate is low due to heavy competition from Industrial Credit and Investment Corporation of India (ICICI) bank and other banks in the district. Lack of ATM facility and on-line banking service are also contributory factors for decline in the growth of deposits. The performance of the SVGB in the deposits per branch, on an average, is outstanding. During 1997, deposits per branch were Rs.11923 thousands whereas they were Rs.49235 thousands during 2006. Deposits per employee, on an average, were Rs.1997 thousands during 1997 whilst they were Rs.9006 thousands during 2006.

The RGB has introduced several types of deposit schemes keeping in view the poorer sections of the villages. The deposits have attracted the small depositors in a big way. The aggregate number of deposit accounts which stood at 4,083 in 1976 progressively increased to 1013442 thousands by the end of 2006. The amount of deposits mobilised increased from Rs.1400 thousands in 1976 to Rs.2118599 thousands in the year 1997. Further increased to Rs.10370618 thousands by the end of March, 2006. The deposits per branch have increased from Rs.14920 thousands to Rs.69601 thousands during 1997-2006. There is an increasing trend in the deposits per employee also. It had increased from Rs.2186 thousands during 1997 to Rs.10961 thousands during 2006.
1.4 Deployment of Credit: The SVGB and the RQB have extended credit to the rural poor through various ways such as agricultural crop loans, agricultural term loans, allied activities loans etc. The banks have financed various schemes and programmes sponsored by the government in order to develop the area and to strengthen their worthiness. By implementing these programmes, banks facilitated employment opportunities and income generation to the rural people.

The Quantum-wise advances of the SVGB have steadily improved from Rs. 9.15 lakhs in 1981 to Rs.42142.82 lakhs in 2006. The advances per branch have also steadily increased from Rs.10288 thousands in 1997 to Rs. 56190 thousands in 2006. The advances per employee were Rs.1723 thousands during 1997 as against Rs.10279 thousands during 2006. There is an increase in the advances per branch and per employee during the period. The credit deposit ratio of the SVGB has declined from 86.2 per cent in 1997 to 66.15 per cent in 2002. It was more than 100 per cent in the last two years. The aggregate investments of the SVGB have gone up from Rs.21000 thousands in 1997 to Rs.1053131 in 2006. The productivity viz. business in terms of absolute figures, per branch (BPB) and per employee (BPE) in the SVGB discloses that the volume of business has gradually increased from Rs.1577011 thousands in 1997 to Rs.7906877 thousands in 2006. The BPB has progressively grown from Rs.22211.42 thousands in 1997 to
Rs.105425.02 thousands in 2006. A like trend emerges in the BPE. It was Rs.3719.36 thousands in 1997 as compared to Rs.19285.07 thousands in 2006.

For the purpose of speedy attainment of rural development, the RGB has extended credit for a varied range of activities by covering the target groups in its operational area. It participated in the implementation of several government sponsored schemes since its inception. In the initial year, the outstanding advances were just Rs.7.8 lakhs. The advances of the RGB have grown from Rs.2199729 thousands in 1997 to Rs.10410123 thousands during 2006. The advances per employee was Rs.2270 thousands in 1997 as compared to Rs.10958 thousands in 2006. The performance of the RGB was quite encouraging in terms of absolute figures, per branch and per employee. In the total outstanding advances, priority sector has occupied 68.06 per cent in 1997 as compared to 75.28 per cent in 2006. The RGB has achieved the benchmark of 40 per cent advances to priority sector during 1997-2006. The priority sector advances were Rs.1497190 thousands in 1997 and grew tremendously to reach Rs.7837185 thousands by March, 2006. The CDR in the RGB was more than 100 per cent during 1997 and 2006.

The aggregate investment of the RGB in 1997 was Rs.258185 thousands whereas it was Rs.2598190 thousands in 2006. The volume of business in the RGB was worth Rs.4318328 thousands in 1997 whereas it was worth Rs.20780741 thousands in 2006.
There is an increasing trend throughout the period. It reflects on the utilisation of resources in the RGB. The BPB has regularly grown from Rs.30410.76 thousands in 1997 to Rs.139468.06 thousands in 2006. A like trend can be observed in the BPE. It was Rs.21874.46 thousands in 2006 as against Rs.4456.48 thousands in 1997.

The progress in aggregate outstanding advances is more in the SVGB (21.58%) as compared to the RGB (19.69%) during 1997-2006. The growth is significant in both the banks. In all the years, outstanding advances are higher in the RGB relative to the SVGB. The growth in per branch advances was the highest in the SVGB (20.96%) whereas it was the lowest in the RGB (18.73%). The growth in advances per employee was 21.92 per cent in the SVGB while it was 20.09 per cent in the RGB. The growth in outstanding advances in terms of aggregate, per branch and per employee in the SVGB is more relative to the RGB. But in terms of mean advances, the RGB ranks first.

The growth in the volume of business at the level of bank, per branch and per employee was higher in the SVGB (20.08%, 19.47% and 20.42% respectively) as compared to the RGB (19.95%, 18.99% and 20.35% respectively) during 1997-2006. But in terms of average business, a contrary picture emerges. The mean business at the level of bank, per branch and per employee was more in the RGB relative to the SVGB. The performance of the
SVGB in terms of growth in business, ranked first at the level of bank, per branch and per employee. However, in the average business per year, the RGB occupied the first place at all the three levels. Further, the inconsistency is relatively higher in the SVGB.

1.5 Recovery of Performance: The amount demanded has gradually gone up from Rs.333104 thousands in 1997 to Rs.1829253 thousands in 2006 except a decline in 2004. The recovery of loans was Rs.1708291 thousands in 2006 as compared to Rs.183938 thousands in 1997. There is no decline in any one of the years during the period. The overdues were Rs.149166 thousands during 1997 while they were Rs.120962 thousands during 2006. The recovery performance with 55 per cent in 1997 had risen to 93 per cent in 2006 with ups and downs. The SVGB took concerted efforts to improve its recovery performance. Timely rain fall and steady market prices for agro-based products have indirectly improved the recovery performance of the bank. In the agricultural sector, amount demanded was Rs.1437015 thousands in 2006 as against Rs.274478 thousands in 1997. The amount collected was Rs.159197 thousands in 1997 whilst it was Rs.135092 thousands in 2006. The overdues were Rs.82923 thousands in 2006 as compared to Rs.115281 thousands in 1997. In the non-farm sector the amount demanded has gone up from Rs.58626 thousands in 1997 to Rs.392238 thousands in 2006 with wide fluctuations. The amount recovered has gone up from Rs.24741 thousands in
1997 to Rs.354199 thousands in 2006. Similarly, overdues were Rs.38039 thousands in 2006 as compared to Rs.33885 thousands in 1997. The trend in the recovery is a welcome sign.

The proportion of standard assets in the total advances has gradually increased has raised from 83 per cent in 1997 to nearly 98 per cent in 2006. The share of sub-standard assets has declined from 3.02 per cent in 1997 to 0.78 per cent in 2006 with ups and downs. The doubtful assets have progressively decreased drastically from 13.26 per cent to 0.60 per cent during the aforesaid period. The loss assets constituted 0.72 per cent in 1997 while they were 0.68 per cent in 2006. This is a good indication that the share of NPAs is declining over the period. The percentage of gross and net NPAs of the SVGB during 2006 is 2.06 and 0.83 respectively. The SVGB has put in more efforts to reduce the NPAs and, consequently, achieved its objective to a great extent.

In the RGB, the amount demanded has increased from Rs.1468949 thousands in 1997 to Rs.5175113 thousands in 2006 with relative changes. Similarly, the collection has gone up from Rs.744783 thousands in 1997 to Rs.3898639 thousands in 2006. The percentage of recovery to demand has increased from 51 in 1991 to 75 in 2006. In agricultural sector, the amount demanded has increased from Rs.1219600 thousands in 1997 to Rs.3338895 thousands in 2006. The collection has improved from Rs.621800
thousands in 1997 to Rs.2225872 thousands in 2006. The overdues were Rs.1113023 thousands in 2006 as against Rs.597800 thousands in 1997. The amount demanded in the non-farm sector was Rs.249349 thousands in 1997 whereas it was Rs.399542 thousands in 2006. The amount collected has increased from Rs.123049 thousands in 1997 to Rs.341990 thousands in 2006. The overdues have declined from Rs.126300 thousands in 1997 to Rs.57552 thousands in 2006. The percentage of recovery to demand was 50 in 1997 while it was 86 in 2006. The recovery in non-farm sector surpassed the farm sector.

The percentage of standard assets to total advances has gradually raised from 73.69 per cent in 1997 to 98.00 per cent in 2006. The share of sub-standard assets was 6.99 per cent in 1997. By the end of 2006, it had reached 0.85 per cent. The doubtful assets have gradually declined from 18.92 per cent in 1997 to 0.86 per cent in 2006. The loss assets were less than one per cent in half of the period. The loss assets in the RGB are almost negligible. The overdues in absolute terms are more in the RGB over the SVGB during the period 1997-2006 without any exception. This might be an account of the fact that the outstanding advances in the RGB are relatively more as compared to the SVGB. The growth in overdues was insignificant in both the banks. A similar trend exists in the overdues per branch. The overdues on an average, per year were at Rs.5466 thousands in the RGB vis-à-
vis Rs.2222 thousands in the SVGB. The recovery performance of the SVGB is more than that of the RGB. On an average, it was 77.2 per cent in the former while it was 62.0 per cent in the latter.

1.6 Financial Performance: The interest earned in the total income of the SVGB was in the range of 95.40 - 96.66 per cent during the period 1997-2006. In absolute terms, it has gradually increased from Rs.143256 thousands in 1997 to Rs.470162 thousands in 2006. The other income was Rs.5566 thousands in 1997 while it was Rs.16229 thousands in 2006. The total income of the SVGB has progressively increased from Rs.148822 thousands in 1997 to Rs.486391 thousands in 2006, registering a CGR of 14.30 per cent. The share of interest expended in the total expenditure was in the range of 57.70 - 73.31 per cent during 1997-2006. The operating expenses have accounted for 25.32 - 38.86 per cent in the study period. The provisions and contingencies were maximum at Rs.69880 thousands in 2005 whilst the minimum at Rs.2167 thousands in 2000. This was due to additional provision of Rs.55920 thousands in 2005 towards NPAs, write-offs and wage revisions. The aggregate expenditure in the SVGB has gradually increased from Rs.150684 thousands in 1997 to Rs.437318 thousands in 2006. The bank has incurred a loss of Rs.1862 thousands in 1997. It earned a profit of Rs.20226 thousands in 1998. By 2006, it reached a figure of Rs.49073 thousands. The profit per branch has improved from Rs.280.92
thousands in 1998 to Rs.654.31 thousands in 2006. The loss per employee was estimated at Rs.4.39 thousands in 1997 whereas profit per employee was Rs.119.69 thousands in 2006. If the trend of 1997-2006 continues, expenditure and income may reach Rs.1951243 thousands and Rs.2156550 thousands respectively by the end of 2016. As a result, profit can be computed at Rs.314834 thousands. Thus the SVGB can hope for a bright and prosperous future.

Profitability performance of the SVGB has been evaluated by analysing the income and expenditure pattern. For this purpose, a frame work has been developed with 10 indicators. These indicators are scientifically sound and practically useful. The profitability performance of the SVGB indicates that the interest earned ratio of the SVGB has gradually declined from 9.08 per cent in 1997 to 5.95 per cent in 2006. The interest paid ratio has decreased from 5.51 per cent to 3.20 per cent during the said period. The spread ratio declined from 3.57 per cent in 1997 to 2.50 per cent in 2006. The manpower expenses ratio has declined from 2.94 per cent in 1997 to 1.69 per cent in 2006. The other expenses ratio has increased from 0.35 per cent in 1997 to just 0.46 per cent in 2006. The pay out per employee has gone up from 1.09 per cent in 1997 to 3.26 per cent in 2006. A similar trend prevails in the volume of business per employee. The profitability ratio has gone up from 0.63 per cent in 1997 to 0.81 per cent in 2006.
The profitability aspect is further examined with the help of the margin on loan business. The margin on loan business in the SVGB reveals that the percentage of gross income to outstanding loans has decreased from 20.38 in 1997 to 11.54 in 2006. The percentage of interest paid to outstanding advances has declined from 11.90 to 6.0 during 1997-2006. Consequently, gross margin has decreased from 8.48 per cent to 5.54 per cent. The establishment charges to outstanding loans ratio was 4.03 per cent in 2006 as against 7.10 per cent in 1997. The net margin ratio was 1.51 per cent in 2006 as compared to the lowest at 1.38 per cent in 1997.

The interest earned by the RGB has gradually increased from Rs.359562 thousands in 1997 to Rs.1105164 thousands in 2006. The other income has increased from Rs.464325 thousands in 1997 to Rs.96340 thousands in 2006 with relative ups and downs. The total income of the RGB has continuously increased from Rs.405887 thousands in 1997 to Rs.1201504 thousands in 2006. Interest paid increased at an accelerated pace from 49.41 per cent in 1997 to 60.45 per cent in 2006. The operating expenses have gradually gone up from Rs.103775 thousands during 1997 to Rs.309886 thousands during 2006. In the total expenditure, the proportion of operating expenses was in the range of 23.78 - 34.12 per cent. The provisions and contingencies were Rs.117009
thousands in 1997 as against Rs.64945 thousands in 2006. The aggregate expenditure of the RGB was Rs.436426 thousands in 1997 as against Rs.947651 thousands in 2006.

The bank has incurred a loss of Rs.30539 thousands during 1997. In the rest of the period, the RGB earned profits. In the RGB, loss per branch was Rs.215.06 thousands during 1997. The profit per branch has increased from Rs.328.97 thousands in 1998 to Rs.1703.71 thousands in 2006. There was a loss at Rs.31.52 thousands per employee in 1997. In the rest of the period, it earned profits only. The profit per employee has gradually grown from Rs.47.68 thousands in 1998 to Rs.267.21 thousands in 2006.

The projection of income, expenditure and profit of RGB in future, for a period of 10 years from 2007 to 2016 discloses that the income and expenditure may grow from Rs.1007340 thousands and Rs.1452541 thousands in 2007 to Rs.2343496 thousands and Rs.4468783 thousands in 2016. The profit may increase from Rs.479228 thousands to Rs.4178985 thousands during the said period. The RGB may hope for a bright future.

The profitability performance of the RGB reveals that there is a decline in the interest earned and paid ratios during 1997-2006. Consequently, spread ratio declined. Manpower expenses ratio has also declined. The other expenses ratio has increased while the other income ratio has decreased. The burden ratio has decreased in
the study period. The pay out per employee has improved vis-à-vis volume of business per employee. The profitability performance was 2.01 per cent in 1997 whereas it was 1.53 per cent in 2006. The margin on loan business in the RGB discloses that there is a gross margin in all the years without any exception inferring that the gross income to outstanding loans ratio is more than that of the interest paid to outstanding loans ratio. Since the establishment expenses to outstanding loans ratio is less than that of gross margin ratio, the bank has earned net margin on loan operations. The net margin ratio has declined from 3.93 per cent in 1997 to 3.06 per cent in 2006.

2. **Hints for further research:**

In future, empirical investigations may be carried out specifically to evaluate and compare the performance with regard to deposit mobilisation, credit deployment, recovery performance, financial profitability, participation in government schemes, role in rural development, economic upliftment of rural poor etc.