CHAPTER- III

Financial Performance of RRB in South Assam (Cachar Gramin Bank): A Critical Assessment

3.1. Introduction:

For an organisation, the word ‘Performance’ means how efficiently it can do a piece of work or an activity. It divulges whether the activities of the organisation are running in the right direction according to the pre planned objectives or not. In case of industries producing commodities, the performance is customarily evaluated in terms of its growth of output, technological innovation, changes in market share, profit and loss. Financial performance of an organisation refers to its performance in commercial or financial terms. For a service industry like bank, the evaluation of financial performance is appraised by widely used financial parameters, like, growth rate of deposits and credit, recovery rate, volume of non performing assets, profitability, etc.

Keeping in view of the paradigm shifts, in objectives, operational policies and approaches of RRBs in the post reform period (as described in the previous chapter), the present chapter is devoted to analyse and assess the impact of the financial sector reform measures on the functioning and financial health of the RRB under study. Major emphasis has been given to identify the strength and weaknesses of the bank in the context of changed operational environment following the implementation of banking sector reform measures. A critical assessment of bank’s financial performance has been made on the basis of the selected parameters. In this respect, we hypothesized:

\[H_0^2: \text{the financial performance of the bank under study has not improved, in spite of the implementations of banking sector reform measures in RRBs. [This operational hypothesis is related to the hypotheses } H_2, H_3 \text{ and } H_4 \text{ of our model]}

3.1.1 Variables Considered:

There is no unanimity among the scholars with regard to the choice of parameters to assess the performance of a financial institution like RRB. Different scholars have used different parameters according to their own choice and
suitability. For example, studies made by Bhatt and Thorat\textsuperscript{133}, Ghosh\textsuperscript{134}, Mishra\textsuperscript{135}, and Pati\textsuperscript{136} on the financial performance of RRBs emphasised on:

- Per capita Credit disbursal,
- Population per branch,
- Mobilisation of deposits,
- CD Ratio,
- Priority sector lending,
- Recovery rate, and
- NPA

However, Kannan\textsuperscript{137} had adopted the following parameters while assessing performance of RRBs:

- Branch expansion, particularly the rural branch expansion,
- Growth of deposits (percentage),
- Compliance with targets for Priority Sector Advances,
- Compliance with targets for Advance to Agricultural, and
- Compliance with targets for Weaker Sector Advances.

On the other hand, William Edwards\textsuperscript{138} in his study on “How to interpret financial performance measures” has laid stress on the parameters, like:

a) Liquidity (i.e. the degree to which debt obligations coming due in the next 12 months can be paid from cash or assets that will be turned into cash).

b) Solvency (i.e. the degree to which all debts are secured, and the relative mix of equity and debt capital used by the farm).

c) Profitability (i.e. the difference between income and expenses.)

d) Repayment capacity, showing the degree to which cash generated from different sources is (or will be) sufficient to pay principal and interest payments.

e) Net Return on assets, representing the income generating capacity of assets,

f) Working capital as percentage of gross revenue.

g) Financial efficiency ratios like:

\textsuperscript{135} Mishra, Biswa Swarup: “The Performance of Regional Rural Banks (RRBs) in India: Has Past Anything to Suggest for Future?”- Reserve Bank of India Occasional Papers Vol. 27, No. 1 and 2, Summer and Monsoon 2006
\textsuperscript{136} A.P. Pati: “Regional Rural Banks in Liberalized Environment with Special Reference to North-East India”, Mittal Publishing house, Pvt. Ltd., New Delhi, 2005.
\textsuperscript{137} Kannan, R.: Indian Banking Today & Tomorrow – Performance Assessment of Banks: Http./www. rkannan.edu.org
i) Percentage of gross revenue or turnover spent to pay interest,
ii) Percentage of gross revenue or turnover spent as operating expenses,
iii) Percentage of gross revenue or turnover spent as depreciation charges,
iv) Percentage of gross revenue or turnover left for net farm income,
v) The asset turnover ratio (measuring how much gross income was generated for each rupee of the asset value),
vi) Debt-to-asset ratio (reflecting how much of the asset value is under debt),

vii) Interest expense to total expense ratio (referring the share of expenses going to meet the interest payments)

The notable thing is that, the different parameters are not unidirectional in character. A better performance may be associated with an increase in the value of some parameters while, for some other parameters, they are expected to decline. However, in spite of the above differences in the choice of parameters, the common thing is that while analyzing the performance of the RRBs, every scholar tried to examine them in terms of their overall progress in connection with profitability and viability.

However, to evaluate the performance of the RRB under study, we have taken into account the following parameters:

i) Expansion of operational area.
ii) Branch expansion.

iii) Number of population served by the RRB.

iv) Total Number of Deposits accounts,

v) Volume of Deposits outstanding (Rs.'000)

vi) Total number of credit / loan accounts,

vii) Volume of loans outstanding (Rs.'000)

viii) Priority sector advances,

ix) Credit deposit ratio,

x) Recovery rate,

xi) NPA position,

xii) Income, and

xiii) Volume of profit and loss.
3.1.2. Tools used:

In order to compare the performance of the bank over the two distinct time period (pre and post reform era) we fitted trend lines of the form $Y_t = a + bt$ where, $Y_t =$ the value of the variable at time period $t$, $a =$ intercept and $b = d/dt (Y_t) = d/dt(a+bt) =$ the slope of the trend line representing the growth of $Y_t$.

We used statistical tools, mainly, Paired Sample T-test for comparison of means of the selected variables for both the pre and post reform periods.

3.2 Analysis and Interpretations:

3.2.1. Expansion of Operational area:

With a view to meet the banking needs of the people of the study area, as per the aspirations, goals and objectives of RRBs, the Cachar Gramin Bank (CGB) was established in the year 1981 with a notification from the Government of India on 30th March 1981, under the sponsorship of United Bank of India. The bank was formally inaugurated on 31st March 1981 with its Head Office at Silchar. It started with authorized capital worth Rs. 1 crore and paid up capital worth Rs. 25 lakh. The establishment of the regional rural bank in the region was expected to give a boost to the backward rural economy of South Assam.

The area of operation, as per notification, was the Cachar district of southern Assam (comprising the then three subdivisions: Cachar, Karimganj and Hailakandi), having a population of 17,13,318 (as per Census 1971). The geographical area under its operation was 6.96 lakh hectares with 38% under cultivable area.

Later on, the Karimganj and Hailakandi subdivisions were converted into full-fledged districts in 1983 and 1989 respectively. As a result, after 1989, the operational area of the CGB has been increased in terms of the number of districts from one in 1981 to three in 1989, but in reality, there has not been any change in the coverage of the geographical area as the same geographical region had been divided into three districts. However, under the merger and amalgamation policy promulgated by the RBI with a view to enhance the capital base of RRBs and to

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# Under the sub section (1) of the Section 3 of the Regional Rural Banks' Act 1976
bring them under the unified control, the branches of CGB have become the part of presently formed Assam Gramin Vikas Bank (AGVB). Thus branches of AGVB operating in Barak valley region are nothing but the branches of erstwhile CGB.

3.2.2. Branch Expansion

In terms of its branch network, the bank under study has made a considerable achievement. It started its journey in 1981 with only one branch at Silchar, but in the next year, i.e. in 1982, the number of branches increased to 10 out of which 3 were in semi-urban areas and the rest 7 were in rural areas.

The process of branch expansion continued until 1985 at a rapid rate. The number of branches increased to from 18 in 1983 to 27 in 1984 and further to 40 in 1985. Again, with the opening up of 2 new branches in 1988-89 and also in 1990-91, the total number of branches reached to 44 comprising only 3 semi-urban branches and 41 rural branches. Here, it is worth mentioning that after 1982, all the new branches were established in the rural areas and, no new branch was established after 1990-91. Therefore, during 1990-91 to 2004-05, the total number of branches remained constant at 44, spreading over the three districts in the region. The pace of branch expansion of the RRB under study over the period is presented in Diagram 3.1 and Table-3.1.

**Diagram 3.1**

Pace of Branch expansion in CGB over the period 1981 - 2004-05

![Graph showing the pace of branch expansion](image)

Source: Annual Reports of Cachar Gramin Bank, for the years 1981 to 2005-06

The graph for number of branches of the bank is horizontal after 1990-91 as the number of branches remained constant at 44 from 1990-91 onwards.
However, the graphs for the number of rural, semi urban and urban branches, during the same period, show fluctuations due to the relocation of branches.

### Table-3.1
Progress and performance of RRB in South Assam (1981 to 2004-05)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Dist covered</th>
<th>No. of Branches</th>
<th>No. of Rural branches</th>
<th>No. of Semi urban branches</th>
<th>No. of urban branches</th>
<th>No. of deposits accounts</th>
<th>Annual growth rate of deposits accounts (%)</th>
<th>Vol. of deposits outstanding (Rs. '000)</th>
<th>Annual growth rate of deposits accounts (%)</th>
<th>No. of loans/ Adv. accounts</th>
<th>Gross loans &amp; Adv. accounts (Rs. '000)</th>
<th>Annual growth rate of Gross loans &amp; Adv. accounts (%)</th>
<th>Loans &amp; Adv. Per account (%)</th>
<th>Loans to priority sector (Rs. '000)</th>
<th>Annual growth rate of Loans to priority sector</th>
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</tbody>
</table>

Source: Annual Reports of Cachar Gramin Bank, for the years 1981 to 2004-05.
Note: * Cachar district was bifurcated into Cachar and Karimganj districts in 1983.
   ** Hailakandi district was formed taking parts of Cachar and Karimganj in 1989.
   *** Figures in parentheses represent growth rates (%) over the previous year.
3.2.3. Relocation of Branches:

As a measure to improve viability, one of the important recommendations of the Narashimham Committee (1991) was relocation of RRB branches to more business potential areas. Accordingly, in 1994-95 the RBI permitted the RRBs to close down, merge, or relocate their non-viable branches. Taking this opportunity, the bank had relocated 8 branches to more business potential areas, in 1994-95. Out of these 8 branches, 3 were shifted from rural to semi urban areas. In 1996-97, another 4 rural branches were relocated to semi urban locations.

The trend of relocation continued in 1998-99 and 1999-2000 with relocation of 1 (one) branch from rural to semi-urban area. However, in 2003-04, four semi urban branches of Cachar district were accorded urban status by the RBI. This has resulted in changes in entire branch network and presently the bank is functioning with 4 urban, 8 semi-urban and 32 rural branches (total 44 branches). Thus, out of total 44 branches, 32 (72.72%) are now rural and remaining 12 (27.27%) are semi-urban or urban branches. The details of relocation of branches during the period from 1994-95 to 2004-05 are also presented in Table-3.2.

<table>
<thead>
<tr>
<th>Year</th>
<th>Earlier location and status</th>
<th>Present position (after relocation) and present status</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td>a) Madhura Cachar (R)</td>
<td>a) Itkhola, Cachar (R)</td>
<td>i) Change of place</td>
</tr>
<tr>
<td></td>
<td>a) Chandranathpur, Cachar, (R)</td>
<td>b) Sonai Road, Cachar (SU)</td>
<td>ii) Change of place along with status from (R) to (SU)</td>
</tr>
<tr>
<td></td>
<td>b) Jirohat, Cachar, (R)</td>
<td>c) Karimani Road, Cachar (R)</td>
<td>iii) Change of place</td>
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<td>c) Cherai, Cachar, (R)</td>
<td>d) Patherkandi, Karimganj (R)</td>
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</tr>
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<td>d) Kamamadhoo, Karimganj (R)</td>
<td>e) Lonai Road, Karimganj (R)</td>
<td>v) - Do -</td>
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<td>e) Suparikandi, Karimganj (R)</td>
<td>f) Kanishali, Karimganj (R)</td>
<td>vi) - Do -</td>
</tr>
<tr>
<td></td>
<td>f) Kalibari Bazar, Karimganj, (R)</td>
<td>g) Kalibari Road, Hailakandi (SU)</td>
<td>vii) Change of place along with status from (R) to (SU)</td>
</tr>
<tr>
<td></td>
<td>g) Duhalia, Karimganj, (R)</td>
<td>h) Ratanpur Road, Hailakandi (SU)</td>
<td>viii) - Do -</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Earlier location and status</th>
<th>Present position (after relocation) and present status</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-97</td>
<td>a) Pathu, Karimganj, (R)</td>
<td>a) Settlement Road, Karimganj, (SU)</td>
<td>a) Change of place along with status from (R) to (SU)</td>
</tr>
<tr>
<td></td>
<td>b) Karimganj Road, Cachar (R)</td>
<td>b) Karimganj Road*, Cachar (SU)</td>
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<tr>
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<td>c) Itkhola, Cachar (R)</td>
<td>c) Itkhola*, Cachar (SU)</td>
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<td>d) Badarpur, Karimganj (R)</td>
<td>d) Badarpur*, Karimganj (SU)</td>
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<td>a) Rajartilla, Cachar (R)</td>
<td>a) Cheragi Bazar, Cachar (R)</td>
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<td>b) Patharkandi, Karimganj (R)</td>
<td>b) Patharkandi, Karimganj* (SU)</td>
<td>b) Change of status from (R) to (SU)</td>
</tr>
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<td>1999-00</td>
<td>a) Rakesh Nagar, Karimganj (R)</td>
<td>a) Bharab Narar, Karimganj (R)</td>
<td>a) Change of place</td>
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<td>b) Longai Road, Karimganj (R)</td>
<td>b) Longai Road*, Karimganj (SU)</td>
<td>b) Change of place along with status from (R) to (SU)</td>
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<td>b) Sonai Road, Cachar (SU)</td>
<td>b) Sonai Road, Cachar* (U)</td>
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<td>c) Karimgan Road, Cachar (SU)</td>
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<td>d) Itkhola, Cachar (SU)</td>
<td>d) Itkhola, Cachar* (U)</td>
<td>d) - Do -</td>
</tr>
</tbody>
</table>

Source: Annual report of Cachar Gramin Bank from 1997-98 to 2003-04
Note: *R* refers to Rural, *SU* refers to Semi urban and *U* refers to Urban branches

*These three branches were relocated to more business potential areas and given semi urban or urban status as per the RBI guidelines (depending on total population of the area and whether the branch is located in village panchayet level / notified area authority / municipal board / municipal corporation / town / city) but their names were not changed.
This highlights that, being imbibed with the ideologies of reform policy measures, the RRB has deviated itself from its earlier objective, a purveyor of rural credit needs, and emerged as a financial institution with commercial motives and gradually moving towards the clientele of semi-urban and urban areas. This might have a positive impact on the growth in volume of business, vis-à-vis profitability of the RRB, but the special rural character of the RRB has been eroded to a considerable extent.

The relocation of branches had also changed the district wise structure of branch network of the RRB under study as two branches were shifted to Hailakandi district from Karimganj district. The latest (as on 31st March, 2005) district wise structure of branch network after relocation is shown in Diagram-3.2 and Table-3.3.

**Diagram-3.2**
District wise distribution of RRB branches in South Assam (As on 31st March, 2005)

![Diagram showing district wise distribution of RRB branches in South Assam](image)

**Table 3.3**
Distribution of RRB branches in rural, semi-urban and urban areas as well as average population per branch in different districts of south Assam, Assam and India as a whole (as on 31 March 2005).

<table>
<thead>
<tr>
<th>Districts</th>
<th>Total Branches</th>
<th>Rural (i)</th>
<th>Semi-urban (ii)</th>
<th>Urban (iii)</th>
<th>Average No. of Population per RRB branch (iv)</th>
<th>Average No. of rural Population per rural branch (v)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cachar</td>
<td>19</td>
<td>15</td>
<td>0</td>
<td>4</td>
<td>75684</td>
<td>82473</td>
</tr>
<tr>
<td>Karimganj</td>
<td>17</td>
<td>12</td>
<td>5</td>
<td>0</td>
<td>59294</td>
<td>77843</td>
</tr>
<tr>
<td>Hailakandi</td>
<td>8</td>
<td>5</td>
<td>3</td>
<td>0</td>
<td>67875</td>
<td>99488</td>
</tr>
<tr>
<td><strong>Total (South Assam)</strong></td>
<td><strong>44</strong></td>
<td><strong>32</strong></td>
<td><strong>8</strong></td>
<td><strong>4</strong></td>
<td><strong>67932</strong></td>
<td><strong>83395</strong></td>
</tr>
<tr>
<td>Assam as a whole</td>
<td>404</td>
<td>302</td>
<td>69</td>
<td>33</td>
<td>65978</td>
<td>88262</td>
</tr>
<tr>
<td>All India</td>
<td>14484</td>
<td>10776</td>
<td>2433</td>
<td>1275</td>
<td>70906</td>
<td>69286</td>
</tr>
</tbody>
</table>

Both the tables and the diagram are self-explanatory and reveal that Cachar district is bestowed with the highest number of branches (19) followed by Karimganj (17) and Hailakandi district (8).

### 3.2.4. Number of population Served by the RRB:

Number of population served by the RRB is an index of outreach of the bank. Following are the observations with regard to the number of population served per branch in different districts:

i) In terms of the **average number of population served**, the branches in Cachar district ranks the top (with average 75,684 population per branch) among the branches of the three districts of Barak Valley in South Assam, followed by the branches of Hailakandi district (with average 67875 population per branch) and Karimganj district (with average 59294 population per branch) respectively. [Table-3.3, column-vi]

ii) The **average number of population per RRB branch** in Cachar district is not only highest among the three districts of South Assam but it is also higher than the average for the Region (67932), for the state (65978) as well as for the country as a whole (70906). [Table 3.3 and Diagram 3.3]

![Diagram-3.3](image)


iii) **Table 3.3 (Column-vii)** and **Diagram-3.3** demonstrate that the number of rural population served by rural branches is not uniform in all the districts. It is observed that the rural bank branches in Hailakandi district serve the **largest number of rural population per branch** (99,488), followed by Cachar district (82,473) and the Karimganj district (77,843).
iv) Further, the average number of rural population served by rural branches of RRB under study (83395) is less than the averages for Assam (88262) but it is much higher than the national average (69286).

v) As the number of rural population per branch being an important factor determining growth of business for RRBs, the study reveals that the rural branches in the Hailakandi district have comparatively higher growth potential than that of Cachar and Karimganj districts.

3.2.5. Deposits mobilization:

3.2.5a. Number of deposits accounts:

The bank started with only 63 numbers of deposits accounts, which increased 52 fold to 3353 in 1982, particularly, due to the opening up of 9 new branches and special drives for deposits mobilization. In the next two years, the number of deposits accounts reached to 8616 and 16923 with the annual growth rate 96.41% and 66.77% respectively. The high growth rate in the number of deposits accounts for these two years was mainly due to the branch expansion to cover new areas under rural banking network. [Table-3.1]

The annual growth rate in the number of deposits accounts came down to 27.81% and 24.54% in 1986 and 1987 respectively as there was no branch expansion during these two years.

However, after December 1987, there was a change in the accounting year for banks and it was merged with the financial year following the direction of RBI. During this period, the growth rate of number of deposits accounts increased by 26% (1.46% higher than that of the previous period) with the opening up of two more branches. The years 1989-90 and 1990-91 experienced a decline in the growth rate of deposits accounts in spite of opening of new branches. However, for the rest of the period under study (except for 1996-97 and 1997-98) the bank experienced a positive rate of growth in the number of deposits accounts.

The negative growth rate in the number of deposits accounts for the two years (1996-98) was mainly due to the fact that in 1996-97, for the first time, the bank detected a large number of the non-operating deposits accounts (commonly known as the dead accounts) and ultimately these were written off (more than 6000 in 1996-97 and more than 5000 in 1997-98 for the RRB as a whole). As the

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# As a result, the accounting year 1988-1989 actually covered a period of 15 months (from January 1, 1988 to March 31, 1989).

* 2 new branches in 1990-91
number of such deleted dead accounts was large enough to be compensated by the number of new accounts during the period, the result was a negative growth in the number of deposits accounts. However, for rest of the period, the process continued on regular basis and as the number of newly opened accounts was more than the numbers of such closed accounts, the growth rate was positive.

During the period from 1997-98 to 2004-05 the growth rate fluctuated in between 3% to 21%. The lowest rate of growth (after 1997-98) was, however 3.17% (in 2000-01) and the highest rate of growth was 20.62% (in 2003-04). The progress and performance of the RRB under study, in terms of deposits mobilization, is presented in Table-3.1 and Diagram-3.4.

As far as the performance of the RRB, in terms of the number of deposits accounts is concerned, it is observed that:

i) The growth rate of the number of deposits accounts in the RRB was largely dependent on the policies of the government (both state and central) relating to the extension of credit facilities to the farmers, employment generating programmes and the rural development schemes, sponsored by the government. This is so because the RRB in the study area acted as the prime credit-disbursing agency for the government-sponsored welfare schemes for the weaker sections, particularly, in rural areas and the beneficiaries needed a deposits account to avail the opportunities under the schemes.

ii) However, the number of deposits accounts of the bank as a whole registered an increase by more than 1.5 times to 8616 in 1983 from 3353 in 1982 and further by about two fold to 16923 in 1984. In 1990-91 the number reached 69236 and then to 88730 in 1993-94. The number of deposits accounts registered a decline for the first time to 96031 in 1996-97 from 99390 in the previous year and further to 92672 in 1997-98 because of the reasons mentioned earlier. Further, in 1999-00, the number of deposits accounts exceeded one lakh and reached to 178198 in 2004-05 [Table-3.1].

iii) The graph of the number of deposits account of the RRB over the whole period (Diagram-3.4) depicts a clear upward trend in 1995-96 and a dip in the next two years. Thereafter, it increased continuously during the period 1998-99 to 2004-05. The decline in number of deposits accounts during the period 1996-97 to 1997-98 was mainly due to cleansing of the books of
account by writing off the non-operating deposit accounts (called as dead accounts).

iv) No significant initiative, like advertisement in mass media, opening of innovative deposit schemes considering the suitability of the rural clientele, etc. was taken by the bank to increase the volume of deposits by attracting the prospective depositors.

v) The increased competition with entry of new players in the field of rural finance such as mutual funds, private insurance companies with their savings cum insurance schemes, extensive and attractive advertisement in rural areas by the commercial banks etc. have adversely affected the banking business of the RRB under study. High-tech banking facilities and attractive sales promotion activities of these new entrants in the field enabled them to divert the rural clientele towards them from the RRB, to a considerable extent. Under the wider domain of choice in the present competitive market conditions, the popularity of the RRB under study had gradually, gone down even among the rural masses. Besides, the rural people are also not considering the RRB under study as their first choice of banking, more particularly for opening their deposits accounts.

Diagram 3.4

![Diagram 3.4](image)

Trend of total no. of deposit accounts in RRB of South Assam (CGB)

vi) The embargo on new recruitment and at the same time the easy going and indifferent attitude of the existing staffs at the branch level are the other
important impediments on the way to increase the number of deposits accounts of the RRB.

vii) However, the average number deposits account increased significantly from 52093 in the pre reform period to 116859 during post reform period (t= 12.997, p=0.000) [Table-3.1].

viii) The exponential trend line of the number of deposit accounts (y= 5.199.2e^{0.1202t}) shows that the compound growth rate was 12.02% per annum over the whole period under study [Diagram-3.4].

ix) The average annual growth rate of number of deposits accounts during the post reform period was significantly lower (6.72%) than that of the pre reform period (40.51%); (t=2.234, p= 0.049) [Table 3.1]

x) However, the trend lines for annual growth rate of number of deposits accounts show a declining trend of (b_1 = -12.015) during the pre reform period. On the other hand, during the post reform period the annual growth rate followed a rising trend (b_2=1.3873). [Diagram-3.5].

Diagram: 3.5
Trend of Annual Growth rate of Deposits Accounts

The factors responsible for lower growth rate of deposits accounts in post reform period is mainly, (a) the non expansion of operational area during the post reform period, (b) postponement of branch expansion during the period, and (c) the fierce competition faced by the RRB form other players in the same field, as stated earlier.
3.2.5b. **Volume of Deposits:**

As far as the volume of deposits outstanding with the RRB is concerned, the study uncovers the following facts:

i) There was a very close relationship between the volume of deposits mobilized by the RRB and the natural calamities like flood, drought or crop failure, etc. in the region. Since the region is frequently affected by severe flood conditions causing havoc damage to the crops, life and property, the growth rate of volume of deposits is found to be low in the years, immediately after the flood.

ii) However, the average of the **volume of deposits outstanding** during the pre reform period was Rs.5.93 crore and it increased significantly to Rs.92.45 crore during the next period \( t = 4.786, p = 0.001; \) Table-3.1).

iii) The degree variation in **volume of deposits** was marginally lower during the post reform period in comparison to that of the pre reform era as demonstrated by the marginally lower C.V in the post reform period (C.V,\(_1\) = 69.32% and C.V,\(_2\) = 70.46%) This is partly due to branch expansion leading to the increase in number of branches (up to 1991).

iv) In the initial years of establishment, the growth rate of volume of deposits was quite high due to (a) branch expansion and (b) steps taken by the management and staffs to increase the volume of deposits by increasing the number of depositors. But, during the post reform period, such type of initiatives to boost up the rate of deposits mobilization was found lacking. As a result, the growth rate of volume of deposits of the RRB as a whole declined during this period (Table-3.1).

v) The trend lines of the volume of deposits outstanding during the pre and post reform periods (Diagram-3.6) portrays that the **growth rate of the volume of deposits** has always remained higher than that of the pre reform period.\( \) \( b_1 = 125.23 \) and \( b_2 = 1901.91 \)

vi) Further, the trend of **annual growth rate of volume of deposits** during the post reform period (Diagram- 3.7.) had a *declining tendency in both the periods*. However, the rate of decline in **annual growth rate of volume of

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*However, the volume of deposits mobilized by the bank is largely influenced by the factors like per capita income of the clientele, rate of inflation, prices of agricultural crops, quantity and quality of harvest, etc. But these aspects are excluded from the purview of study.
Deposits in the pre reform period was much faster ($b_1 = -12.486$) than that of the post reform era ($b_2 = -2.505$).

vii) The average of the annual growth rate of the volume of deposits outstanding, during the pre reform period, on average (51.82%), was higher than that of the post reform period (29.09%). [Table-3.1]

viii) A shift in focus of the bank from small depositors towards relatively big depositors is observed by the significant increase in the volume of deposits per account by 7.5 times from Rs.997 (C.V.$\_1$ = 30.59%) in the pre reform period to Rs.7272 (C.V.$\_2$ = 51.02%) in the post reform period ($t = 6.098$, $p = 0.000$).

This is further confirmed by the statistically significant increase in growth rate of volume of deposits per account from 8.93% in the pre reform period to 21.81% in the next period ($t = 2.463$, $p = 0.033$). [Table-3.4]

Diagram-3.6
Trend of Volume Deposits Outstanding during pre and post reform periods

Diagram-3.7
Trend of Annual Growth Rates of Volume of Deposits Outstanding

Source: Annual Reports of Cachar Gramin Bank, for the years 1983 to 2004-05
These findings reflect an improvement in the performance of the bank under study in respect of volume of deposits per branch in absolute terms but in terms of its growth rate the reform measures didn't have any statistically significant positive impact.

3.2.6. Loans and advances:

Disbursement of loans and advances is one of the prime functions and the main sources of income generation for a bank. The RRBs have been playing a major role in bridging the gap between demand and supply of institutional credit. Further, a lion's share of credit disbursed by the RRB is to the priority sectors (more than 70% of the total) and agriculture alone took up 46 per cent of the priority sector advances. The clientele for loans and deposits in the rural sector are of low-value but large in number. The RRB under study handles 885 accounts per employee, as against the national average of 464 accounts per employee in the banking industry.

The RRB under study commenced its banking operation from the year 1982 as it was established at the fag end of 1981. Since then, its clientele portfolio includes target group of beneficiaries under priority sector lending, scheduled tribes and scheduled castes, businessmen, road transport operators, small scale units, rural artisans, professionals and self employed youths. Besides these, various government-sponsored schemes for rural development and employment generation are also financed by it.

The performance of the bank in respect of loans and advances is summarised in Table 3.1, exhibits that the total volume of loans and advances disbursed to different category of beneficiaries was Rs. 11.01 lakh in 1982, which increased to Rs.39.78 lakh in 1983. Thereafter, the volume of loans and advances increased continuously for rest of the period. The performance of the bank in respect of disbursement of loans and advances is demonstrated as under.

3.2.6a. Number of loan accounts:

i) Table 3.1 demonstrates that during the pre reform period the number of loan accounts of the RRB as a whole varied within the range 1906 to 21647 with an average of 15091 and C.V. = 49.79%. But during the post reform period it fluctuated within a range of 16175 and 31152 with an average of 23793

accounts and C.V. = 19.15%. The lower C.V. exhibits a greater degree of consistency in the number of credit accounts during the post reform period than that of the pre reform period. Further, the increase in average number of loans and advances accounts in the post reform period is found to be statistically significant ($t = 5.593, p = 0.000$)

ii) The trend line of number of loans and advances accounts over the period 1981 to 2004-05 shows an upward trend over the period (Diagram-3.8).

![Diagram-3.8](image)

Data Source: Annual Reports of Cachar Gramin Bank, for the years 1981 to 2004-05

![Diagram-3.9](image)

Source: Annual Reports of Cachar Gramin Bank, for the years 1983 to 2004-05

iii) The upward shift of the trend line of the number of loans and advances accounts for the post reform period in relation to that of the earlier period (Diagram-3.9) represents higher number of loans and advances accounts during the post reform period. However, the lower slope of the trend line for
post reform period than that of the pre reform one \((b_1 = 2103.3 \text{ and } b_2 = 1186.8)\) signifies a lower growth rate of number of loans and advances accounts during the post reform period compared to that of the earlier period.

iv) **The annual growth rate of number of loans and advances accounts** during pre reform period, on average, was 58.77%, which declined significantly to only 3.96% in the post reform period \((t=2.643, p =0.0243)\).

The above findings in respect of **number of loans and advances accounts** imply that the reform measures have a significant adverse impact on the growth rate of loans and advances accounts. The decline in the growth rate of loans and advances accounts might be due to the adoption of a more secured policy of lending to avoid the loan default, improve recovery performance, and reduce NPA of the Bank in order to improve its profitability and viability position.

3.2.6b. **Gross loans and advances outstanding:**

i) The study reveals that there has been a remarkable increase in the volume of loans and advances as reflected by the clear upward shift in the graph with higher slope for the post reform era \((b_1 = 7895.9 \text{ and } b_2 = 55498)\) (**Diagram-3.10**).

![Diagram-3.10](image)

Further, it is observed that:

i) The total volume of loans and advances increased more than 6 times from an average of Rs.26.31 crore per year in the pre reform period to Rs.4.33 crore per year during the post reform period \((t= 3.993, p = 0.003)\). **[Table-3.1]**
ii) The smaller value of the C.V. of loans and advances outstanding in the post reform period ($C.V._1 = 41.79\%$ and $C.V._2 = 131.67\%$; Table 3.1) reflects a consistent growth rate in comparison to that of the earlier period.

iii) The average annual growth rate of the gross loans and advances has declined to significantly to almost $1/3^{rd}$ of the rate that prevailed during pre reform period [$60.50\%$ for pre reform and $23.07\%$ for the post reform, ($t = 2.722$, $p = 0.0215$) (Table 3.1).

iv) The compound growth rate estimated for the post reform period was found to be less than that of the pre reform period ($g_1 = 0.2632$ and $g_2 = 0.2103$) (Table 3.1).

The factors that led to the decline in the growth rate of the volume of loans and advances during the post reform period may be attributed to:

a) The postponement of branch expansion after 1991,

b) The ban on fresh recruitment of staffs after 1991,

c) Increased competition in the field of rural banking with rigorous move of commercial banks to capture retail banking market at rural level

d) More cautious approach adopted by the bank under study with regard to selection of loan projects in order to reduce the risks of lending and avoid new NPAs.

3.2.6c. Volume of Loans and advances per account:

i) The loans and advances per account during the pre reform period were within the range of Rs.2090 to Rs.3680 where as the range of the same during the post reform period were within the range of Rs.4080 to Rs.23740.

ii) The average amount of loans and advances per account during the post reform period increased significantly from Rs. 2690 to Rs.10180 over the two successive periods ($t = 4.524$, $p = 0.001$).

iii) Further, the increase in the average along with increase in C.V. from $0.308\%$ to $36.093\%$ suggests a galloping increase in the same during the post reform period (Table-3.1, column, xv).

These findings signify that during the pre reform period, the Bank was dealing mainly with small loans to the rural people but taking the opportunity of the relaxation on target group norms and priority sector lending obligations following the implementation of banking sector reform measures in 1994-95 the bank has shifted its focus to the relatively big borrowers.
iv) The upward shift in the trend line of the volume of loans and advances per account with a higher slope for the period 1994-95 to 2004-05 ($b_2 = 1.657$) in comparison to that during the period 1983-1993-94 ($b_1 = 0.1513$) in Diagram-3.11 also unveils the above facts.

**Diagram-3.11**

**Trend of volume of loans and advances per account (Rs.'000)**

![Graph showing trend of volume of loans and advances per account](Image)

Data Source: Annual Reports of Cachar Gramin Bank, for the years 1983 to 2004-05

### 3.2.7. Priority sector Lending

The bank started lending to the priority sector from the very beginning of its banking business in 1982 and extended loans to 251 beneficiaries amounting to Rs.10.42 lakh (94.4% of the total lending). In 1983 the number of beneficiaries increased to 1881 and the volume of loans to priority sector was Rs.38.81 lakh (97.56% of the total lending). In 1984 the amount of outstanding loans to this sector increased further to 92.74 lakh (94.98% of total outstanding loans of the bank).

i) **Table 3.4** shows that prior to the introduction of banking sector reform measures; the average of priority sector lending was Rs.3.99 crore, which increased significantly, to Rs. 16.68 crore during the post reform period ($t = 4.071; p = 0.002$). [*Table-3.1, column-xvi*]

ii) However the growth rate of volume of priority sector lending during the two period shows a different picture. The average annual growth rate of priority sector lending has gone down from 60.70% in the pre reform period to 19.54% in the post reform period (*Table-3., column-xvii*).

ii) The trend line fitted over the two periods (*shown in Diagram 3.12*) represents that there has been a clear upward shift in the volume or priority sector lending
in the post reform period \( (b_1 = 71.378 \text{ and } b_2 = 3036.79 \text{ respectively}) \). This represents increase in the volume of priority sector lending, in absolute terms, over the period.

**Diagram- 3.12**

Trend of priority sector lending during pre and post reform periods.

iii) However, the compound growth rate of the volume of priority sector advances declined from 0.2564 during the pre reform period to 0.1626 during post reform period (Table-3.1). Thus, it can be said that despite increase in absolute amounts, the reform measures have adversely affected the growth rate of priority sector lending.

**3.2.8. Credit Deposit Ratio:**

Lending and borrowing are the primary functions of a bank. A bank earns profit through this lending-borrowing operation. The credit deposit ratio is a widely used indicator to judge the performance of a bank in respect of this primary function. This ratio also highlights the developmental role of a bank in its operational area. The volume of deposits remaining the same, a higher C.D. ratio indicates that the bank is deploying a higher proportion of the mobilized deposits in the area of its operation for providing loans and advances. By this way, the bank contributes a major input, the finance, towards the economic development, as well as in the poverty eradication of the region. Thus, a high C.D. ratio leads to economic development of the region and thereby helps to increase the per capita savings and borrowing capacity of the people of its clientele. This in turn increases the volume of business of the bank in the long-run.
Table 3.4

Performance of the RRB in south Assam in terms of C.D Ratio, Recovery Rate and Income.

<table>
<thead>
<tr>
<th>Year</th>
<th>CD Ratio (%)</th>
<th>Recovery Rate (%)</th>
<th>Total Income (Rs. 000)</th>
<th>Annual Growth %</th>
<th>Income per branch employee (Rs. 000)</th>
<th>Annual Growth %</th>
<th>Income in volume of business ratio</th>
<th>Income to working fund ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>-</td>
<td>-</td>
<td>227.35</td>
<td>-</td>
<td>227.35</td>
<td>-</td>
<td>75.78</td>
<td>0.438</td>
</tr>
<tr>
<td>1982</td>
<td>56.20</td>
<td>64.00</td>
<td>452.71</td>
<td>99.12</td>
<td>45.27</td>
<td>-80.09</td>
<td>13.32</td>
<td>0.148</td>
</tr>
<tr>
<td>1983</td>
<td>83.45</td>
<td>76.30</td>
<td>734.99</td>
<td>62.35</td>
<td>40.83</td>
<td>-9.80</td>
<td>13.61</td>
<td>0.084</td>
</tr>
<tr>
<td>1984</td>
<td>85.78</td>
<td>70.30</td>
<td>1688.30</td>
<td>129.70</td>
<td>62.53</td>
<td>53.14</td>
<td>18.55</td>
<td>0.080</td>
</tr>
<tr>
<td>1985</td>
<td>105.20</td>
<td>56.47</td>
<td>2527.38</td>
<td>49.70</td>
<td>63.18</td>
<td>1.05</td>
<td>20.89</td>
<td>0.097</td>
</tr>
<tr>
<td>1986</td>
<td>97.14</td>
<td>14.49</td>
<td>3637.36</td>
<td>41.15</td>
<td>89.18</td>
<td>41.15</td>
<td>28.77</td>
<td>0.067</td>
</tr>
<tr>
<td>1987</td>
<td>80.57</td>
<td>46.88</td>
<td>4716.56</td>
<td>32.21</td>
<td>117.91</td>
<td>32.21</td>
<td>38.66</td>
<td>0.061</td>
</tr>
<tr>
<td>1988-89</td>
<td>84.57</td>
<td>38.00</td>
<td>8167.23</td>
<td>73.16</td>
<td>199.20</td>
<td>68.94</td>
<td>48.61</td>
<td>0.078</td>
</tr>
<tr>
<td>1989-90</td>
<td>74.07</td>
<td>29.00</td>
<td>7705.76</td>
<td>5.65</td>
<td>183.47</td>
<td>-7.90</td>
<td>43.78</td>
<td>0.060</td>
</tr>
<tr>
<td>1990-91</td>
<td>63.98</td>
<td>27.00</td>
<td>8715.03</td>
<td>13.10</td>
<td>198.07</td>
<td>7.96</td>
<td>46.96</td>
<td>0.060</td>
</tr>
<tr>
<td>1991-92</td>
<td>72.44</td>
<td>27.63</td>
<td>10035.00</td>
<td>15.15</td>
<td>228.07</td>
<td>15.15</td>
<td>55.44</td>
<td>0.061</td>
</tr>
<tr>
<td>1992-93</td>
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<td>21.00</td>
<td>9266.00</td>
<td>7.66</td>
<td>210.59</td>
<td>-7.66</td>
<td>51.19</td>
<td>0.051</td>
</tr>
<tr>
<td>1993-94</td>
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<td>10.00</td>
<td>10065.30</td>
<td>8.63</td>
<td>228.76</td>
<td>8.63</td>
<td>55.61</td>
<td>0.049</td>
</tr>
<tr>
<td>1994-95</td>
<td>53.58</td>
<td>23.50</td>
<td>10007.69</td>
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<td>227.45</td>
<td>-0.57</td>
<td>55.29</td>
<td>0.040</td>
</tr>
<tr>
<td>1995-96</td>
<td>40.41</td>
<td>29.00</td>
<td>11623.75</td>
<td>16.15</td>
<td>264.18</td>
<td>16.15</td>
<td>64.58</td>
<td>0.035</td>
</tr>
<tr>
<td>1996-97</td>
<td>35.22</td>
<td>32.45</td>
<td>22569.74</td>
<td>94.17</td>
<td>512.95</td>
<td>94.17</td>
<td>126.80</td>
<td>0.051</td>
</tr>
<tr>
<td>1997-98</td>
<td>25.49</td>
<td>33.74</td>
<td>47867.53</td>
<td>112.09</td>
<td>1087.90</td>
<td>112.09</td>
<td>267.42</td>
<td>0.081</td>
</tr>
<tr>
<td>1998-99</td>
<td>22.41</td>
<td>52.07</td>
<td>87820.99</td>
<td>83.47</td>
<td>1995.93</td>
<td>83.47</td>
<td>490.62</td>
<td>0.114</td>
</tr>
<tr>
<td>1999-00</td>
<td>23.85</td>
<td>67.37</td>
<td>95952.69</td>
<td>9.26</td>
<td>2180.74</td>
<td>9.26</td>
<td>536.05</td>
<td>0.096</td>
</tr>
<tr>
<td>2000-01</td>
<td>24.06</td>
<td>66.85</td>
<td>115852.37</td>
<td>20.74</td>
<td>2633.01</td>
<td>20.74</td>
<td>650.86</td>
<td>0.096</td>
</tr>
<tr>
<td>2001-02</td>
<td>23.20</td>
<td>66.34</td>
<td>127329.58</td>
<td>9.91</td>
<td>2893.85</td>
<td>9.91</td>
<td>715.33</td>
<td>0.082</td>
</tr>
<tr>
<td>2002-03</td>
<td>24.83</td>
<td>66.90</td>
<td>155373.85</td>
<td>22.02</td>
<td>3531.22</td>
<td>22.02</td>
<td>872.89</td>
<td>0.084</td>
</tr>
<tr>
<td>2003-04</td>
<td>28.53</td>
<td>63.68</td>
<td>175705.21</td>
<td>13.09</td>
<td>3993.30</td>
<td>13.09</td>
<td>987.11</td>
<td>0.077</td>
</tr>
<tr>
<td>2004-05</td>
<td>36.32</td>
<td>64.55</td>
<td>183074.10</td>
<td>4.19</td>
<td>4160.78</td>
<td>4.19</td>
<td>1034.32</td>
<td>0.066</td>
</tr>
<tr>
<td>AM1</td>
<td>79.99</td>
<td>40.69</td>
<td>6108.08</td>
<td>37.44</td>
<td>147.44</td>
<td>38.55</td>
<td>34.65</td>
<td>0.065</td>
</tr>
<tr>
<td>AM2</td>
<td>30.72</td>
<td>51.50</td>
<td>93925.23</td>
<td>34.96</td>
<td>2134.66</td>
<td>34.96</td>
<td>527.39</td>
<td>0.075</td>
</tr>
<tr>
<td>t</td>
<td>11.044</td>
<td>0.954</td>
<td>(0.000)</td>
<td>0.954</td>
<td>(0.000)</td>
<td>0.954</td>
<td>(0.000)</td>
<td>0.954</td>
</tr>
<tr>
<td>CV1</td>
<td>16.50</td>
<td>50.86</td>
<td>57.71</td>
<td>108.20</td>
<td>49.65</td>
<td>145.00</td>
<td>40.21</td>
<td>17.44</td>
</tr>
<tr>
<td>CV2</td>
<td>31.76</td>
<td>34.91</td>
<td>68.24</td>
<td>116.23</td>
<td>68.24</td>
<td>116.23</td>
<td>68.49</td>
<td>32.93</td>
</tr>
<tr>
<td>b1</td>
<td>-3.027</td>
<td>-6.0824</td>
<td>1025.2</td>
<td>-9.2332</td>
<td>20.999</td>
<td>-1.9567</td>
<td>108.00</td>
<td>-0.00025</td>
</tr>
<tr>
<td>b2</td>
<td>-1.5265</td>
<td>4.7936</td>
<td>19155</td>
<td>-4.2907</td>
<td>435.34</td>
<td>-4.2907</td>
<td>4452.00</td>
<td>0.0035</td>
</tr>
<tr>
<td>g</td>
<td>-0.0389</td>
<td>-0.1694</td>
<td>0.2392</td>
<td>-0.3067</td>
<td>0.176</td>
<td>0.0036</td>
<td>0.1363</td>
<td>-0.0456</td>
</tr>
<tr>
<td>g2</td>
<td>-0.0409</td>
<td>0.1088</td>
<td>0.3038</td>
<td>-0.0612</td>
<td>0.3038</td>
<td>-0.0611</td>
<td>0.3054</td>
<td>0.0637</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Cachar Gramin Bank, for the years from 1983 to 2004-05.
Note 1: A = Arithmetic mean, CV = Coefficient of variation, b = Slope of the linear trend line, g = Compound growth rate.
2: Suffix t refers to pre reform period, i.e. from 1983 to 1993-94 and suffix 2 refers to post reform period, i.e. from 1994-95 to 2004-05.
3: t represents the estimated t-value for paired sample t-test (two tail).
4: Figures in parentheses refer to the probability of t-value.

On the other hand, a decline in C.D. ratio leads to the siphoning of funds from the rural areas to the urban areas or to the corporate sector. Thus, in such cases, the RRB, instead of functioning as an instrument for rural development, acts as an agent to mobilize resources for the investment in urban or corporate sector. However, the results of the analysis are:
i) The study revealed a clear decline in the C.D. ratio during the post reform period compared to that in pre reform period. The results, presented in Table-3.4, depicts that the ratio during the pre reform period ranged within 62.79% to 105.20%, with mean 79.99%, and the same for the post reform period were 22.41% to 53.58% with mean 30.72%. Further, the decline in the C.D. ratio is statistically significant ($t = 11.044$, $p = 0.000$).

The higher C.D. ratio during the pre reform period was because of the obligations of the RRBs to extend credit facilities to the rural people. The RRB had to confine their banking business within the target group of people and within the specified areas of operation and it had a very limited opportunity to invest in high return yielding assets.

But, after the implementation of reform measures, the permission to lend to non-target group clienteles and even beyond the service area, along with the relaxation of priority sector lending norms had brought the RRBs at par with the commercial banks, at least in terms of Govt. policies, the RRBs started to invest in stocks and securities rather than lending to its specific clientele. Further, the Memorandum of Understanding (MoU) signed by the RRB under study with the Sponsor bank (United Bank of India), Govt. of India and NABARD to achieve its viability position within 1998 - 1990 had also compelled the bank to cut down the C.D. ratio in order to increase its profitability.

Diagram -3.13: Trend of CD Ratio (%)
ii) Diagram-3.13 shows a downward shift in the trend line for the period after 1994-95. This represents that the C.D ratio has declined to a low level compared to that in the earlier period.

iii) Another notable observation of the study is that the rate of decline in the C.D. ratio was much faster during the post reform period than that of the earlier period. This is depicted by the fact that although both the trend lines are sloped negatively, the slope is little higher for the post reform period. \( b_1 = -1.5265; \) \( b_2 = -3.0722 \) This implies that the reform measures have resulted in a reverse flow of fund from rural to urban or semi urban areas, which is contrary to the basic objectives behind the formation of RRBs in the country.

iv) The comparative analysis of C.D. ratio of the RRB for the three districts of south Assam with that of the state and country as a whole (Table-3.5) demonstrates that the C.D. ratio of the bank under study is 37.45% as against 44.28% for Assam as a whole and 57.04% for the country as a whole (as on 30th June, 2005). Thus the C.D. ratio of the RRB under study is lower than the average for the state and for the country as a whole. Further, when compared with the scheduled commercial banks operating in the region, the C.D. ratio of the bank under study was found to be comparatively higher. [37.45% and 33.22% for the RRB under study scheduled commercial banks of the region]. Nevertheless, the C.D. ratio of the bank under consideration was less than that of all scheduled commercial banks of the state (41.44%) and the country as a whole (68.08%).

<table>
<thead>
<tr>
<th>District/ Region/ State/ Country</th>
<th>RR Bs</th>
<th>All scheduled commercial banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Branches</td>
<td>Deposits (Rs crore)</td>
</tr>
<tr>
<td>Cachar</td>
<td>19</td>
<td>110</td>
</tr>
<tr>
<td>Hailakandi</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>Karimganj</td>
<td>17</td>
<td>77</td>
</tr>
<tr>
<td>South Assam</td>
<td>44</td>
<td>227</td>
</tr>
<tr>
<td>Assam</td>
<td>402</td>
<td>1827</td>
</tr>
<tr>
<td>All India</td>
<td>14,396</td>
<td>62,461</td>
</tr>
</tbody>
</table>

Source: 1 Compiled from quarterly statistics on deposits and credit of scheduled commercial banks- September 2005 RBI

These findings also imply that both the RRB as well as the scheduled commercial banks of the region is now acting as the fund collection centres for the
corporate sectors. The findings also describe that, the management in their attempt to improve portfolio quality has desperately restricted lending to the rural sector and gradually moving far away from its objective of providing cheaper institutional credit to the weaker sections, in rural areas. The permission to enter into the security market – government securities and bonds as a step to improve the financial health of the RRBs, in particular, has aggravated the decline in the CDR during the post reform period.

3.2.9. Recovery Rate:

Recovery performance of a bank is an important parameter used to measure the performance of a bank. Like other banks, the profitability and viability of a RRB depends not only on the deposit mobilization and deployment of credit but on recovery performance also. A lower recovery rate, naturally, is a matter of anxiety for the RRB, as it not only reduces profitability but also causes a degradation of the quality of loan assets and increases the volume of NPA. One of the major concerns of the RRB during the pre reform period was the low recovery rate leading to lower recycling of funds, mounting over dues, high NPAs and ultimately low profitability and a threat to their viability.

The analysis of the recovery rates of the RRB under study illustrates the following:

a) During the pre reform period the recovery rate was fluctuating widely within the range of 10% to 76.30% with annual average of 40.69%. But for the post-reform period the range was within 23.50% to 61.31% with average 51.49 % (Table-3.4).

b) However, the statistically not-significant difference in means of the recovery rate for the two periods (t = 0.954, p = 0.363) reflects that the improvement in recovery performance is not sufficient and more rigorous steps need to be adopted by the bank to improve the recovery rate, vis-à-vis profitability and viability of the bank.

c) The trend lines fitted for the two periods (Diagram-3.14) demonstrate there has been a turn around of the bank in the post reform period. While, in the pre reform period, the RRB under study experienced a declining trend in its recovery rate, in the post reform period, it has started rising (b1 = -6.0824, b2
This reveals that after the implementation of banking sector reforms the bank has now become more serious about the recovery performance and putting greater efforts to increase the recovery rate. This has obviously, a positive effect on profitability of the bank. Thus, the reform measures have become successful in bringing an improvement in the recovery front and helped the RRB to turn around from its declining recovery rate position.

**Diagram 3.14**

**Trend of recovery rate (%) over pre and post reform period**

- Pre reform period (1983 to 1993-94)
- Post reform period (1994-95 to 2004-05)

However, it is important to note that, in spite of the rising trend in the post reform period, the recovery rate of RRB under study is low in comparison to that of the national average. In 2003-04, the average recovery rate in the RRBs of the country as a whole was 73.49% but the same for the RRB of South Assam was only 63.68%. The growth rate of recovery performance for the RRB in South Assam was (-) 4.81% against 2.76% for country as a whole in 2003-04. This urges for the adoption of further steps to intensify recovery performance of the RRB under study, in order to increase its profitability.

The empirical survey on the pattern of repayment of loans by the borrowers in the study area reveals that the rural borrowers give priority to the repayment of loans taken from private lending agencies compared to the public institutions like RRBs. As a result, there is an impressive recovery performance in case of the

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140 NABARD-statistics on RRBs, Mumbai, 2005

* Private lending agencies operating in the rural areas are, mainly, professional money lenders, traders, rich people of the area, business men, suppliers of inputs, etc
private lending agencies operating in the same area, but it is very poor for the RRB
under study. The reasons for impressive recovery performance of private lending
agencies, in comparison to the institutional suppliers of credit, are noted below:

- The exorbitant rate of interest** charged by the private loan agencies is found
to facilitate them indirectly, in quick and timely recovery of loans. Because of
this high rate interest rate the borrowers cannot afford to prolong their debt
burden and try utmost, to repay the loan in time to avoid debt trap. Moreover,
regular personal contact of the moneylenders and continuous pressure also
force the borrowers to repay their loans earlier. By reminding them about the
repayment is one of the important factors leading to impressive recovery
performance in private loan agencies.

- The agreement between the borrower and the private agencies about the
repayment of loans either in cash or in kind after the harvest of crops at pre-
determined price also ensures prompt repayment of private loans. But in case
of commercial banks or RRBs there is no such procedure to recover loans in
kind.

- If necessary, the private agencies can even recover loans vigorously by using
muscle powers. The panic of such type of action by the moneylenders or other
private agencies compels the borrower households to repay their loans in
timely manner and as per the contractual terms and conditions. The RRBs, on
the other hand, neither have any statutory powers, nor can apply any means to
ensure forced recovery of loans from the defaulters. As a result, the RRB has
no other option, but to depend on the lengthy legal procedures.

- The low and subsidised rates of interest charged by the RRBs induce the
borrowers to put off the loan repayments in the current period and keep it as an
undecided future agenda.

- The Governments' populist policy of waiving of loans' has created mass
psychology in the rural areas to withhold repayments and wait for some type of
loan waiver programme to be announced by the government in near future to
their rescue.

** The rates if interest charged by the private agencies vary from 50% to 120% per annum, depending on the collateral
securities provided by the borrowers.
The shortage of requisite manpower to visit the villages and pursue the recovery work efficiently also affected recovery performances of the RRB, adversely.

However, the study identified the following major sources of money for the repayment of loans in case of rural households:

a) current income from agriculture,
b) wages earning from agricultural and non-agricultural activities, and
c) sale of assets by the borrower households.

The varied reasons observed for the failure of repayment of loans to the RRB are:

- insufficient funds available for loan repayment, after meeting current household consumption,
- asset created out of loan turning out to be unproductive,
- inconvenient loan repayment schedule,
- diversion of loan for other purposes,
- inadequacy of availed loan and hence being utilized for other purpose,
- lax supervision by bank employees,
- low agricultural income partly because of natural factors like flood, attack by pests, etc.

The problems faced by the RRB in recovering the loans, as identified in the study are:

- Lack of sufficient field staff to ensure follow-up supervision after the sanction of loan and heavy burden on the existing field staff, since, they have to cover large number of villages under loan recovery programme.
- Staffs are not willing to go to the rural and tribal areas due to lack of adequate educational and medical facilities and even the staffs who are working in these areas do not have any motivation to serve the area.
- Absence of any statutory powers in the hands of RRBs to induce / enforce prompt repayment by borrowers.
- Interference of local politicians affects the repayment schedule of the borrowers in the rural areas.
- Frequent crop failures in the study area also adversely affect the repayment schedule of the cultivators. Since most of the cultivated area is un-irrigated
dry land, only mono-cropping pattern of cultivation is practiced, dependent on natural rainfall. As a result, in the event of any crop failure due to flood or drought, the income of the borrowers becomes insufficient to repay the loans while maintaining their families.

- Priority given to the repayment of private loans by borrowers, which are used both for productive and consumption purposes has been adversely affecting the repayments to the banks and Co-operatives.\textsuperscript{141}

3.2.10. Non-performing Assets (NPAs)

An important parameter in the analysis of financial performance of banks is the level of non-performing assets (NPAs). The information on NPAs helps the banking supervisors to monitor and discipline delinquent branches and helps stakeholders to get the true financial worth of the bank.

'Nonperforming assets' (NPAs) is a term used to describe assets on which revenue recognition has been discontinued or is restricted. It includes both nonperforming loans and acquired property, primarily other real estate owned (OREO) acquired in connection with the collection effort on loans. NPAs and IRAC (Income Recognition and Asset Classification) norms have been made applicable to the Indian banking industry after the 1991 economic reforms, to bring it on par with international banking trends. All loans given by banks need to be classified under these norms depending upon the servicing of the loan by the beneficiary. It has been defined as the debt instruments whose obligators are unable to discharge their liabilities as they become due (David Woo, 2000)\textsuperscript{142}.

NPAs are typical by-products of financial crises. Rising interest rates and the resultant increase in the burden of debt service, economic slowdown eroding the viability of the borrowers, etc. can all severely undermine the capacity and sometimes the willingness of the borrowers to repay debt.

As per Narasimham Committee (1991), the non-performing assets (NPAs) are those loan advances, which are marked with non-payment of interest or repayment of principal or both for a period of two quarters or more during the year ending. An amount is considered as ‘post due’ if it is unpaid for 30 days beyond...

\textsuperscript{141} \url{http://agncoop.nic.in}
\textsuperscript{142} David Woo, 2000, 'Two approaches to Resolving Non-Performing Assets During Financial Crises- IMF Working Paper No WO/00/33 IMF, 2000
due date. The NPAs are broadly classified as sub-standard, doubtful and loss assets. For the first one year, the NPA is recognized as sub-standard asset. From the second year onwards, the NPA is called doubtful asset and after third year it becomes a loss asset. For NPAs of different categories, the banks have to make certain provisions in financial statements from their gross profit. For example, 10% for the substandard assets are to be provided each year and the percentage increases in the case of doubtful assets with their duration. Ultimately the bank is to make full provision after three years when it becomes a loss asset.

With the increase in NPAs, the banks are required to make a larger provision as per the existing norms of provisioning. When such provisions are substantial, it can result in a reduction in bank capital, which in turn limits the ability of the bank to make new loans. This phenomenon is some times referred to as a “credit crunch.”

**Diagram -3.15:**
Trend of Net NPA percentage of RRB in South Assam (CGB) (1995-96 to 2004-05)

So far as the bank under study is concerned, assessment of its NPA was first under taken in the year 1995-96 with the introduction of prudential norms of accounting, asset classification and provisioning in RRBs and the percentage of net NPA was found to be quite high at 37.03%. For the next three years also the net NPA% remained quite high at 22.01%, 37045% and 14.82% respectively (Table-3.6 and Diagram-3.15). However, the bank could achieve some control over its high NPA position since 1999-2000 by making larger provisioning towards NPA and at the same time giving more thrust on recovery performance.
As a result, the NPA% came down to 3.29% in 1999-2000 and further declined to 2.39% in 2000-01. But, thereafter, the NPA % increased continuously till 2003-04 (5.95%) and in 2004-05 it registered only a marginal decline (5.69%). The trend line of net NPA% of the bank (Diagram- 3.15) depicts a declining trend over the period 1995-96 to 2004-05 (slope = -3.59) and thus, it reflects an improvement in performance of the bank, in respect of net NPA, during the period.

**Table-3.6**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Cachar Garmin Bank</th>
<th>Pragjyotish Gaonlia Bank</th>
<th>Lakhimi Gaonlia Bank</th>
<th>Subansiri Gaonlia Bank</th>
<th>Longpi Dehangi Rural Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>37.03</td>
<td>32.44</td>
<td>38.22</td>
<td>34.88</td>
<td>48.61</td>
</tr>
<tr>
<td>1996-97</td>
<td>22.01</td>
<td>29.25</td>
<td>39.41</td>
<td>27.33</td>
<td>39.46</td>
</tr>
<tr>
<td>1997-98</td>
<td>37.45</td>
<td>24.25</td>
<td>28.15</td>
<td>18.47</td>
<td>31.44</td>
</tr>
<tr>
<td>1999-00</td>
<td>3.29</td>
<td>4.37</td>
<td>8.92</td>
<td>11.46</td>
<td>21.34</td>
</tr>
<tr>
<td>2000-01</td>
<td>2.39</td>
<td>2.22</td>
<td>3.25</td>
<td>6.33</td>
<td>12.11</td>
</tr>
<tr>
<td>2001-02</td>
<td>3.27</td>
<td>3.54</td>
<td>4.76</td>
<td>1.52</td>
<td>5.25</td>
</tr>
<tr>
<td>2002-03</td>
<td>5.01</td>
<td>4.25</td>
<td>2.58</td>
<td>3.38</td>
<td>3.11</td>
</tr>
<tr>
<td>2003-04</td>
<td>5.95</td>
<td>5.38</td>
<td>6.33</td>
<td>3.01</td>
<td>2.85</td>
</tr>
<tr>
<td>2004-05</td>
<td>5.69</td>
<td>6.55</td>
<td>4.28</td>
<td>2.88</td>
<td>8.45</td>
</tr>
<tr>
<td>Average for the period</td>
<td>13.69</td>
<td>12.86</td>
<td>15.20</td>
<td>12.20</td>
<td>20.51</td>
</tr>
<tr>
<td>Slope (b) of the trend line</td>
<td>-3.59</td>
<td>-3.28</td>
<td>-4.27</td>
<td>-3.47</td>
<td>-5.15</td>
</tr>
</tbody>
</table>

Source: compiled from
1) Published annual reports of the respective banks for the relevant years.
2) 'Statistics on Regional Rural Banks as on 31st March', NABARD, Mumbai; various issues.

**3.2.10a. Comparative status of RRBs in Assam in respect of NPA:**

The comparison of net NPA% of the bank with that of other RRBs of the state over the period from 1995-96 to 2004-05 is displayed in **Table-3.6**. The Table shows that in terms of average of the net NPA% for the 10-year period; the bank under study is in better position than two other RRBs of the state, viz., Lakhimi Gaonlia Bank and Longpi Dehangi Rural Bank. However, it is to be noted that out of these two banks one is under the same sponsor bank (United Bank of India) and the other (Longpi Dehangi Rural Bank) is under the sponsor ship of State Bank of India. Thus, in terms of the net NPA, the position of the bank under study area (i.e., erstwhile Cachar Gramin Bank) is inferior to that of the two other RRBs operating in the state (presently under AGVB). Hence, the study
suggests that the AGVB should provide adequate attention on controlling NPA of its branches under Cachar Zone.

3.2.11. Income:

The performance of the bank in terms of income generation (displayed in the Table 3.4), shows that the total income of the Bank has increased by more than 18 times from Rs.4.53 lakh in 1982 Rs.81.67lakh in 1988-89. The increase in income during the period is mainly due to the increase in the area of operation through branch expansion. In 1989-90, there was a decline in the income of the bank by 5.65% and as a result, the total income fell down to Rs.77.06 lakh only. The fall in income during this period is mainly attributed to decrease in recovery rate and CD ratio from 38%, 84.7% respectively in 1988-89 to 29% and 74.07% respectively in 1989-90. Further, there was a decline in the share of non-interest income to total income ratio from 4.59% in 1988-89 to 2.28% in 1989-90.

The recovery performance of the bank, during these years, was adversely affected by the announcement of Agricultural and Rural Debt Relief Scheme by the government. In the next 2 years there was a revival in income front in spite of a decline in the CD ratio and recovery rate. The main factor that contributed to the increase in income was the increase in the volume of business, especially the higher growth of loans and advances. However, in 1992-93 there was again a set back in the growth of income by 7.66%.

- The results of the econometric analysis, presented in Table-3.4 demonstrate an improvement in the performance of the bank as revealed by the statistically significant increase in the average of
  a) total income of the bank, (t = 4.80, p = 0.000)
  b) income per branch and, (t = 4.75, p = 0.000)
  c) Income per employee (t = 4.68, p = 0.000) during the post reform era as compared to those during the earlier period.

- The improvement the income level is however, at the cost of decline in C.D. ratio (from 79.99 to 30.72 during the two respective periods, (t = 11.044, p = 0.000).
  a) Income to volume of business ratio has increased from 0.065 to 0.075 over the periods under comparison, but the increment is not statistically significant (t =
0.10, p = 0.341). Further, an increasing trend is observed in the ratio during the post reform period (b₂ = 0.0035). The improvement in the performance of the bank under study during the post reform period is also depicted by the positive compound growth rate (g₂ = 0.0637) for Income to volume of business ratio.

b) Income to working fund ratio has remained constant for both the periods at 0.09 (t = 0.010, p = 0.992) and thus delineates insignificant impact of reform measures on the ratio.

c) Similar results, as in case of Income to volume of business ratio, are found for Income to working fund ratio. However, the trend line has turned to be positive (b₂ = 0.0036) during the post reform period from negative value in the earlier period (b₁ = -0.0025) and the compound growth rate has also increased from g₁ = -0.0283 to g₂ = 0.0523.

3.2.12. Profit / loss:

The performance of the bank can best be judged by its profit and loss accounts for different years. The performance of the RRB on the basis of its profit and loss has been depicted in Table – 3.7, hereafter.

The Table portrays that the bank has incurred losses continuously since 1982 to 1997-98 and it was only in 1988-89 onwards it has emerged as profitable institution.

Source: Annual Reports, Cachar Gramin Bank for the years 1981 to 2004-05
Table 3.7

Performance of the RRB in South Assam in terms of profit/loss parameters

<table>
<thead>
<tr>
<th>Year</th>
<th>TOTAL PROFIT/LOSS (Rs. 000)</th>
<th>Annual growth rate of profit/loss (%)</th>
<th>Profit/Loss/branch (Rs. 000)</th>
<th>profit losses per employee</th>
<th>profit or loss to business (%)</th>
<th>Profit or loss to working fund (%)</th>
<th>Profit or loss to income (%)</th>
<th>Accumulated Losses (Rs. 000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>1085</td>
<td>108.52</td>
<td>29.33</td>
<td>-0.26</td>
<td>-14.16</td>
<td>-9.72</td>
<td>-7.42</td>
<td>12516.27</td>
</tr>
<tr>
<td>1982</td>
<td>-2.17</td>
<td>-120.13</td>
<td>-2.18</td>
<td>-0.64</td>
<td>-0.71</td>
<td>-0.87</td>
<td>-4.60</td>
<td>2127.84</td>
</tr>
<tr>
<td>1983</td>
<td>-383.58</td>
<td>1564.74</td>
<td>-20.20</td>
<td>-6.73</td>
<td>-4.16</td>
<td>-5.31</td>
<td>-33.10</td>
<td>4947.42</td>
</tr>
<tr>
<td>1984</td>
<td>-444.27</td>
<td>22.19</td>
<td>-16.45</td>
<td>-4.88</td>
<td>-2.10</td>
<td>-2.65</td>
<td>-20.83</td>
<td>29.16</td>
</tr>
<tr>
<td>1985</td>
<td>-623.32</td>
<td>85.32</td>
<td>-20.08</td>
<td>-6.64</td>
<td>-2.13</td>
<td>-3.03</td>
<td>-31.78</td>
<td>1653.01</td>
</tr>
<tr>
<td>1986</td>
<td>-1034.84</td>
<td>25.69</td>
<td>25.24</td>
<td>-5.14</td>
<td>-1.91</td>
<td>-5.06</td>
<td>-22.06</td>
<td>2877.95</td>
</tr>
<tr>
<td>1988-89</td>
<td>-1168.07</td>
<td>-38.35</td>
<td>-27.81</td>
<td>-6.79</td>
<td>-1.08</td>
<td>-1.62</td>
<td>-12.25</td>
<td>-13.96</td>
</tr>
<tr>
<td>1989-90</td>
<td>-2552.87</td>
<td>118.55</td>
<td>-60.78</td>
<td>-14.50</td>
<td>-1.98</td>
<td>-2.76</td>
<td>-24.89</td>
<td>3830.49</td>
</tr>
<tr>
<td>1990-91</td>
<td>-3672.07</td>
<td>43.84</td>
<td>-83.46</td>
<td>-20.63</td>
<td>-2.53</td>
<td>-3.47</td>
<td>-29.84</td>
<td>4197.56</td>
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<tr>
<td>1993-94</td>
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<td>77.37</td>
<td>-449.80</td>
<td>-169.34</td>
<td>-9.59</td>
<td>-14.32</td>
<td>-196.63</td>
<td>77769.05</td>
</tr>
<tr>
<td>1994-95</td>
<td>-26915.79</td>
<td>36.00</td>
<td>-611.72</td>
<td>-148.71</td>
<td>-10.74</td>
<td>-15.50</td>
<td>-268.95</td>
<td>77769.05</td>
</tr>
<tr>
<td>1995-96</td>
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<td>-753.18</td>
<td>-183.87</td>
<td>-9.98</td>
<td>-13.37</td>
<td>-74.01</td>
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<td>1996-97</td>
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<td>-8.10</td>
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<tr>
<td>1997-98</td>
<td>-12516.27</td>
<td>-55.94</td>
<td>-284.46</td>
<td>-69.92</td>
<td>-2.11</td>
<td>-2.48</td>
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<td>1998-99</td>
<td>9241.93</td>
<td>-173.84</td>
<td>210.04</td>
<td>51.63</td>
<td>1.20</td>
<td>1.37</td>
<td>11.76</td>
<td>1052.24</td>
</tr>
<tr>
<td>1999-00</td>
<td>13265.45</td>
<td>43.54</td>
<td>301.49</td>
<td>74.11</td>
<td>1.33</td>
<td>1.58</td>
<td>16.04</td>
<td>129282.22</td>
</tr>
<tr>
<td>2000-01</td>
<td>19154.76</td>
<td>44.40</td>
<td>435.34</td>
<td>107.61</td>
<td>1.58</td>
<td>1.90</td>
<td>18.81</td>
<td>161072.72</td>
</tr>
<tr>
<td>2001-02</td>
<td>16094.65</td>
<td>46.07</td>
<td>583.04</td>
<td>156.07</td>
<td>0.78</td>
<td>0.78</td>
<td>8.90</td>
<td>99205.74</td>
</tr>
<tr>
<td>2002-03</td>
<td>20197.09</td>
<td>95.25</td>
<td>458.42</td>
<td>113.32</td>
<td>1.09</td>
<td>1.29</td>
<td>14.92</td>
<td>75626.15</td>
</tr>
<tr>
<td>2003-04</td>
<td>15088.61</td>
<td>-22.82</td>
<td>354.74</td>
<td>87.69</td>
<td>0.81</td>
<td>0.81</td>
<td>9.75</td>
<td>64017.54</td>
</tr>
<tr>
<td>2004-05</td>
<td>31565.57</td>
<td>102.23</td>
<td>717.40</td>
<td>178.34</td>
<td>1.14</td>
<td>1.42</td>
<td>20.83</td>
<td>17.24</td>
</tr>
</tbody>
</table>

AM 1: -4821.04 194.45 -107.62 -27.12 -3.53 -5.019 -32.74 -60.03 12544.35

AM 2: 5125.84 2.89 28.02 9.68 1.96 2.74 11.04 56.14 10344.32

Source: Annual Reports of Cachar Gramin Bank, for the years 1983 to 2004-05.
Note: 1. AM = Arithmetic mean; CV = Coefficient of variation; Cg = Compound growth rate
2. Suffix 1 refers to pre reform period, i.e., from 1983 to 1993-94 and suffix 2 refers to post reform period, i.e., from 1994-95 to 2004-05.
3. T represents the estimated t-value for paired sample t-test (two tail) with degrees of freedom = 10.
4. Critical value of t = 2.2281
5. Figures in parentheses refer to the probability of t-value.

Diagram - 3.17

Trend of profit during the pre and post reform period

Source: Annual Reports, Cachar Gramin Bank for the years 1983 to 2004-05.
However, it has not yet been able to cover up the losses accumulated over the years. The accumulated loss in the year 1994-95 was Rs. 77769050 which reached to the peak at Rs. 151789300 in the year 1997–98. However, with the earning of profit from the year 1998-99 onwards, the accumulated losses started a gradual decline and came down to Rs. 32451970 in 2004-05 (Table-3.7).

Diagram 3.17 shows a declining trend in volume of profit during the pre-reform period ($b_1 = -1520.4$). As, the bank incurred losses for the entire pre reform period, therefore, the negative ‘$b$’-value during the pre reform period represents a gradual increase in the losses of the bank during the successive years under the period. However, an improvement in the performance of the bank is observed from the upward rising trend line ($b_2 = 6259.7$) of volume of profit earned (or losses incurred) in the post reform period. A similar implication is also demonstrated by the negative value of compound growth rate ($g_1 = -0.0639$) for the pre reform and a positive value of the same in the post reform period ($g_2 = 0.581$).

Similarly, the results of the performance analysis in terms of annual growth rate of profit, and profit ratios, viz. (a) Profit per branch, (b) Profit per employee, (c) Profit to the volume of business (%), (d) Profit to Working fund (%), (e) Profit to volume of expenses (%) and (f) Profit or loss to Income (%); demonstrate a better performance of the bank in the post reform period in comparison to those of the earlier period.

But, the improvement in the performance of the bank in terms of these parameters are not statistically significant [$p (t) >0.05$, d.f. =10]. This delineates that the bank has its untapped potentialities to improve its performance in terms of profit, which are yet to be exploited by the bank.

3.3. **Major Findings and testing of hypothesis:**

From the foregoing analysis, we observe that:

i) There was no branch expansion after 1989-90 and as a result the number of branches of the bank has remained constant at 44 from 1990-91 onwards.

ii) The **average number of population per RRB branch** in Cachar district (75684) is found to be the highest among the branches of the three districts of South Assam. Further, the number of population served by the branches in
Cachar district is also higher than the average for the Region (67932), for the state (65978) as well as for the country as a whole (70906).

iii) The average number of rural population served by rural branches of RRB under study is 83395, which is less than that of Assam (88262) but much higher than the national average (69286).

iv) The performance of the bank in terms of number deposits accounts, number of deposits accounts per employee, number of deposits accounts per branch, volume of deposits outstanding, volume of deposits per employee and per branch, volume of deposits per account, total number of loans and advances accounts, number of loans and advances accounts per employee and per branch, total volume of loans and advances outstanding, total income of the bank, income per employee and per branch has shown a significant improvement in absolute terms [p(t) < 0.05]

v) However, in terms of their growth rates of these variables, there is a deceleration in performance.

vi) The study observed that the reform measures have led to a negative impact on the C.D. ratio and there is a significant decline in the CD ratio during the post reform period compared to that of the pre reform one. The average CD ratio during the pre reform period was 79.99%, and it declined significantly to 30.72% in the post reform period. (t = 11.0437, p = 0.000).

vii) The recovery rate of the bank has improved from an average of 40.69% to 51.49% over the two periods under consideration but the improvement in recovery performance was not statistically significant (t = 0.954, p = 0.363). This reflects that the bank needs to adopt more rigorous steps to improve the recovery rate, vis-à-vis profitability and viability of the bank.

viii) However, the NPA percentage is found to be declining over the years following implementation of banking sector reform measures.

ix) The share of interest income to total income has declined marginally from 93.57% to 92.88% during the two respective periods (conversely, the share of other income to the total income has increased marginally from 6.123% to 7.12%).
x) Income to volume of business ratio has increased marginally from 0.065 to 0.075 over the two periods under comparison (t = 0.10, p = 0.341).

xi) Income to working fund ratio has however remained constant for both the periods at 0.09.

xii) Though the bank has entered into the profit zone in 1998-99 and since then it has been earning profit, but the improvement is not statistically significant (t=0.76885, p = 0.459755). Similarly, in terms of (a) Profit per branch, (b) Profit per employee, (c) Profit to the volume of business (%), (d) Profit to Working fund (%), (e) Profit to volume of expenses (%) and (f) Profit or loss to Income (%); the improvements in the performance of the bank are not statistically significant.

Thus, the performance analysis of the bank portrays a mixed result. In some of the cases the reform measures have favoured the bank to perform in a better way while in some other cases the reform has brought new threats and challenges before the bank. Therefore, in view of the above results we reject our hypothesis $H_0^2$: the financial performance of the bank under study has not improved, in spite of the implementations of banking sector reform measures in RRBs.

The above findings of the present chapter stimulated us to go for an in depth analysis on the profitability aspects of the bank, which has been done in the next chapter.