

## Evaluating Financial Performance of Regional Rural Banks in India

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### **Abstract:**

Financial institutions play a crucial role in fostering economic development within a nation. With India aspiring to achieve developed status by 2047 and having recently ascended to the fifth position in global economic power in 2024, the focus on rural development is paramount. In response to the rural credit deficit, the Narsimham committee introduced Regional Rural Banks (RRBs) on October 2nd, 1975. These banks were established with the primary aim of providing credit to rural communities, enabling them to engage in economic activities and fostering the growth of micro, small, and medium enterprises to enhance their standard of living. Like any other business entity or financial institution, RRBs operate with the objective of generating profits. Thus, it is imperative for RRBs to earn sufficient profits to cover their expenses. This research paper seeks to analyse the profit and loss trends of RRBs over a decade, spanning from 2013-14 to 2022-23. The analysis is based on secondary data collected from sources such as the annual reports of NABARD and RBI, key statistics, financial statements of RRBs, as well as relevant published books, articles, and websites.

**Keywords:** Economic development, credit accessibility, banking sector, financial performance, rural communities

### **Introduction:**

In the contemporary economic landscape, the role of financial institutions in the development of nations cannot be overstated. Banks, in particular, emerge as significant players within this sphere. They serve as vital conduits, accepting deposits from the public, extending loans and advances to those in need, and providing a myriad of related services. The genesis of Regional Rural Banks (RRBs) traces back to the recommendations of the Narsimham committee in 1975. Recognizing the imperative of rural banking, the committee advocated for the establishment of state-sponsored, regionally focused banks catering to rural areas. Embracing these suggestions, the Indian government paved the way for the inception of RRBs. These banks were envisioned with a primary objective: to meet the credit requirements of rural communities.

In India, the rural credit market encompasses both formal and informal financial institutions and agencies. Despite this dual framework, formal institutions often struggle to provide adequate credit, rendering the rural credit market insufficient for driving rural development. Moreover, disparities prevail in the distribution of formal sector loans and advances, particularly across different regions, castes, and genders within rural areas. Consequently, rural populations frequently resort to informal sectors and agencies, albeit at the cost of high-interest rates and formidable repayment challenges. Established on October 2nd, 1975, RRBs were conceived as a solution to these pressing issues. Their mandate extends to providing financial assistance to rural communities, encompassing small and marginal farmers, agricultural activities, rural artisans, and beyond. The stakeholders of RRBs encompass the Government of India, state governments, and sponsor banks, each contributing to the share capital in proportions of 50%, 15%, and 35%, respectively.

### **Literature Review:**

The current body of literature on the functioning and performance of RRBs in India is somewhat constrained. Scholars primarily rely on official reports, notifications, and directives from various governmental bodies, alongside publications from esteemed organizations like NABARD and RBI. To grasp the nuances of RRBs' operations and challenges, researchers have turned to academic papers, books, news sources, and expert viewpoints. Expanding on these foundational works, recent studies have enriched our understanding of RRB dynamics. Singh (2013) underscored the pivotal role of financial institutions, particularly highlighting the contribution of Manipur Rural Bank to rural development. Verma and Pandian (2013) delved into RRB profitability, juxtaposing their financial growth against that of Scheduled Commercial Banks (SCBs). Ahmed (2013) narrowed down on the profitability aspect, focusing on Meghalaya Rural Bank. Meanwhile, Chaudhary (2021) investigated the ramifications of amalgamation on RRB performance, and Jaggi (2022) alongside Krishna (2022) scrutinized RRBs' financial health. Kumar et al. (2022) evaluated RRB profitability, offering crucial insights.

Recent inquiries by Patel and Jain (2023) dissected the influence of digitalization on RRB operations, shedding light on how technological advancements reshape the banking landscape. Likewise, Gupta and Sharma (2023) probed into the pivotal role of RRBs in fostering financial inclusion, underscoring their significance in extending banking services to marginalized rural communities. Moreover, recent scholarly endeavours by Roy and Das (2023) scrutinized the efficiency of RRBs in credit delivery mechanisms, providing valuable insights into their effectiveness in meeting rural credit needs. Additionally, Mishra and Singh (2024) delved into the operational challenges encountered by RRBs in implementing government-sponsored rural development schemes. Despite these strides, there exists a pressing need for a comprehensive analysis of the profit and loss dynamics of RRBs in India.

### **Objectives:**

This empirical research aims to analyse the growth of Regional Rural Banks (RRBs) in terms of branch expansion and district coverage, examine trends in total asset, income, and expenditure growth, assess the number of profitable and loss-making RRBs, and evaluate the statement of profit and loss of RRBs.

### **Materials and Methods:**

The present investigation employs a diagnostic and exploratory approach to analyse the profit and loss of RRBs in India. Utilizing secondary data from NABARD reports, RRB financial statements, scholarly articles, and other sources, data were tabulated and analysed using ratio and percentage-based methods. The study covers a ten-year period from 2013-14 to 2022-23, with a focus on income and expenditure from 2015-16 to 2022-23. Through this analysis, the research aims to provide insights into RRB viability and enhance their functioning in the future.

### **Analysis and Results:**

Regional Rural Banks (RRBs) stand as crucial pillars in facilitating credit access to rural communities in India. As of March 31, 2023, the landscape boasted 43 RRBs, nurtured by sponsorship from 12 scheduled commercial banks spread across 26 states and 3 union territories. The strategic expansion of RRB branches into previously unbanked areas emerges as a linchpin in addressing the specific credit needs of these regions. A comprehensive overview of RRB status throughout the study period is encapsulated in Table - 1 delineating the trajectory of RRBs over the study tenure. Despite experiencing a decline in their overall number say 57 in 2013-14 to 43 in 2022-23, RRBs have consistently expanded their branch network. The number of branches has increased from 19,082 (2013-14) to 21,995 (2022-23), with a minor dip to 21,847 (2019-20). This expansion, albeit at a declining growth rate from 6.40% (2013-14) to 0.47% (2022-23), signifies extensive coverage of rural hinterlands by RRBs. Moreover, the enhancement in district coverage from 640 (2013-14) to 703 (2022-23), barring a minor downturn to 648 (2018-19), underscores RRBs' steadfast commitment to achieving their primary objectives. Notably, the number of consolidated RRBs witnessed a decrement from 42 (2013-14) to 34 (2020-21), with subsequent years reflecting no merger activities. Likewise, the tally of standalone RRBs depicted a downward trend, dwindling from 15 (2013-14) to 9 (2022-23).

RRBs have been empowered to amalgamate or shutter unviable business units to streamline operational efficacy. Sponsoring banks play a pivotal role in ensuring the performance and support infrastructure of these institutions, encompassing facets like staff training, computerization, and network augmentation. Total assets, comprising fixed and liquid assets, alongside income, encompassing revenue streams such as non-interest and interest income, are detailed in Table - 2, spanning an eight-year span. It showcases the trajectory of total assets, income, and expenditure from 2015-16 to 2022-23. Total assets have burgeoned from Rs. 400,871 crores (2015-16) to Rs. 771,462 crores (2022-23), mirroring a commendable growth trajectory. Similarly, income has surged from Rs. 35,446 crores (2015-16) to Rs. 59,427 crores (2022-23), indicative of a robust revenue generation mechanism. Correspondingly, expenditure has escalated from Rs. 33,428 crores (2015-16) to Rs. 54,454 crores (2022-23), aligning with the augmentation in operational activities. Despite minor fluctuations, the percentage of income to total assets and expenditure to total assets have largely remained stable, oscillating within narrow bands around 7-8%.

Profitability stands as a pivotal yardstick of operational efficiency for RRBs, underscored in Table - 3, which delineates the profit trends over the reference periods. The trend highlights the ebb and flow of profitability among RRBs, with the number of profit-earning RRBs witnessing a decline from 57 (2013-14) to 26 (2019-20), followed by a subsequent rebound to 37 (2022-23). The magnitude of reduction in the number of profit-earning RRBs peaked at -13 (2019-20), with the steepest profit decline recorded at -771 (2018-19). However, there emerged a promising turnaround with profit surging to +2026 (2022-23), signaling favourable performance indicators.

Despite commendable efforts, certain RRBs grapple with losses, as illuminated in Table - 4, which indicates the statement of loss incurred by RRBs highlighting the escalating losses incurred by RRBs, escalating from 0 (2013-14) to 19 (2019-20), before receding to 6 (2022-23). The quantum of losses fluctuated from Rs. 0 crores (2013-14) to Rs. 4,411 crores (2019-20), undergoing a subsequent downturn to Rs. 897 crores (2021-22), before experiencing a marginal uptick to Rs. 1,205 crores (2022-23). Understanding the nuanced interplay of profit and loss among RRBs holds paramount importance for policymakers and stakeholders, as underscored in Table - 5, which elucidates the statement of profit and loss of RRBs. It provides insights into the net profit and loss trends among RRBs from 2013-14 to 2022-23. Despite experiencing losses in the financial years 2018-19 and 2019-20, attributed to the implementation of a revised pension scheme, RRBs demonstrated resilience, with the highest profit amounting to Rs. 4,974 crores (2022-23) and the lowest at Rs. 1,525 crores (2017-18). Despite challenges, RRBs continue to bolster rural economic development initiatives.

### Conclusion:

Profitability stands as a linchpin in gauging the financial robustness of financial institutions. RRBs, as key enablers of rural credit accessibility, play an instrumental role in fostering financial inclusion and supporting rural economic development endeavours. To fortify their operational performance, concerted efforts by the Government of India and the Reserve Bank of India have been directed toward restructuring initiatives and recapitalization schemes. Despite encountering hurdles such as losses attributed to pension schemes, RRBs remain steadfast in their mission to catalyse rural economic growth.

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**Table - 1: Growth of RRBs during 2013-14 to 2022-23**

| Years   | No. of RRBs | No. of Branches | Growth rate of Branches | Districts covered | No. of consolidated RRBs | No. of RRBs Stand Alone |
|---------|-------------|-----------------|-------------------------|-------------------|--------------------------|-------------------------|
| 2013-14 | 57          | 19082           | 6.40                    | 640               | 42                       | 15                      |
| 2014-15 | 56          | 20024           | 4.70                    | 644               | 42                       | 14                      |
| 2015-16 | 56          | 20920           | 4.28                    | 658               | 42                       | 14                      |
| 2016-17 | 56          | 21422           | 2.34                    | 662               | 42                       | 14                      |
| 2017-18 | 56          | 21747           | 1.50                    | 669               | 42                       | 14                      |
| 2018-19 | 53          | 21871           | 0.57                    | 648               | 41                       | 12                      |
| 2019-20 | 45          | 21847           | -0.11                   | 685               | 36                       | 9                       |
| 2020-21 | 43          | 21856           | 0.04                    | 696               | 34                       | 9                       |
| 2021-22 | 43          | 21892           | 0.16                    | 702               | 0                        | 9                       |
| 2022-23 | 43          | 21995           | 0.47                    | 703               | 0                        | 9                       |

**Table - 2: Growth of total assets, income and expenditure of RRBs (in crore Rs.)**

| Years   | Total Assets | Income | % income to total assets | Expenditure | % expenditure to total assets |
|---------|--------------|--------|--------------------------|-------------|-------------------------------|
| 2015-16 | 400871       | 35446  | 8.84                     | 33428       | 8.34                          |
| 2016-17 | 466047       | 39163  | 8.40                     | 36945       | 7.93                          |
| 2017-18 | 504863       | 41818  | 8.23                     | 40293       | 7.98                          |
| 2018-19 | 537989       | 42987  | 7.99                     | 43639       | 8.11                          |
| 2019-20 | 592978       | 49452  | 8.34                     | 51658       | 8.71                          |
| 2020-21 | 651585       | 53858  | 8.27                     | 52176       | 8.00                          |
| 2021-22 | 705400       | 56585  | 8.02                     | 53367       | 7.57                          |
| 2022-23 | 771462       | 59427  | 7.70                     | 54454       | 7.06                          |

**Table - 3: Profitability position of RRBs (in crore Rs.)**

| Years     | Total No. of RRBs | No. of RRBs Earned profit | No. of RRBs Earned profit Inc. +/Dec.- | Profit amount | Profit amount Inc. +/Dec.- |
|-----------|-------------------|---------------------------|--|---------------|----------------------------|
| 2013-2014 | 57                | 57                        | ---                                    | 2694          | ---                        |
| 2014-2015 | 56                | 51                        | -6                                     | 2921          | +227                       |
| 2015-2016 | 56                | 50                        | -1                                     | 2206          | -715                       |
| 2016-2017 | 56                | 49                        | -1                                     | 2604          | +398                       |
| 2017-2018 | 56                | 45                        | -4                                     | 2530          | -74                        |
| 2018-2019 | 53                | 39                        | -6                                     | 1759          | -771                       |
| 2019-2020 | 45                | 26                        | -13                                    | 2203          | +444                       |
| 2020-2021 | 43                | 30                        | +4                                     | 3550          | +1347                      |
| 2021-2022 | 43                | 34                        | +4                                     | 4116          | +566                       |
| 2022-2023 | 43                | 37                        | +3                                     | 6178          | +2062                      |

**Table - 4: Loss of RRBs (in crore Rs.)**

| Years     | Total No. of RRBs | No. of RRBs Incurred loss | No. of RRBs Incurred loss Inc. +/Dec.- | Loss amount | Loss amount Inc. +/ Dec.- |
|-----------|-------------------|---------------------------|--|-------------|---------------------------|
| 2013-2014 | 57                | 0                         | ---                                    | 0           | ---                       |
| 2014-2015 | 56                | 5                         | +5                                     | 176         | +176                      |
| 2015-2016 | 56                | 6                         | +1                                     | 188         | +12                       |
| 2016-2017 | 56                | 7                         | +1                                     | 387         | +199                      |
| 2017-2018 | 56                | 11                        | +4                                     | 1005        | +618                      |
| 2018-2019 | 53                | 14                        | +3                                     | 2411        | +1406                     |
| 2019-2020 | 45                | 19                        | +5                                     | 4411        | +2000                     |
| 2020-2021 | 43                | 13                        | -6                                     | 1867        | -2544                     |
| 2021-2022 | 43                | 9                         | -4                                     | 897         | -970                      |
| 2022-2023 | 43                | 6                         | -3                                     | 1205        | +308                      |

**Table -5: Statement of profit and loss of RRBs (in crore Rs.)**

| Years (as on 31 <sup>st</sup> March) | Total No. of RRBs | Net profit/loss amounts |
|--------------------------------------|-------------------|-------------------------|
| 2013-2014                            | 57                | 2694                    |
| 2014-2015                            | 56                | 2744                    |
| 2015-2016                            | 56                | 2018                    |
| 2016-2017                            | 56                | 2218                    |
| 2017-2018                            | 56                | 1525                    |
| 2018-2019                            | 53                | -652                    |
| 2019-2020                            | 45                | -2208                   |
| 2020-2021                            | 43                | 1682                    |
| 2021-2022                            | 43                | 3219                    |
| 2022-2023                            | 43                | 4974                    |