Pacific Business Review International
Volume 8, Issue 10, April 2016

Growth and Performance of Telangana Grameena Bank

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Abstract

Since the inception, Regional Rural Banks (RRBs) play a significant role in the development of rural areas in India by providing needed financial assistance to agriculture, trade, commerce, industry and other productive activities in the rural areas. Credit and other financial facilities are extended particularly to small and marginal farmers, agricultural laborers, artisans, and small entrepreneurs with a view to strengthening these activities in rural areas. The RRBS have more reached to the rural area of India, through their huge branch network. Now, RRBs become key financial institutions at the rural level which shoulders responsibility of fulfilling the rural needs of different types of agriculture credit in rural areas.

Telangana Grameena Bank (TGB) is one of the rural banks in Telangana state showing good performance in respect of deposits and advances, profitability and non-performing assets (NPAs) in backward district of the state. The present study examines the performance of the TGB by analyzing the key performance indicators such as number of banks branches, deposits, advances, priority sector lending, profitability of the bank and NPAs during the period of 10 years from 2005 – 2014.

Key words: Regional Rural Banks, Deposits, Advances, Profitability, Priority Sector and NPAs

Introduction

"Rural India is Real India and Rural Development is the Real Development of India" opined Gandhiji.

India is purely a rural populated country; nearly 68.84% per cent (83.3 crores) of the India's population dwells in rural areas. So, the economic development of the country depends on the development of the rural economy. The Indian Government well recognized this fact and instigated many programmes for the upliftment of the rural poor. In all Five Year Plans of the country, with this reason, government of India is giving high priority to rural development programmes and RRBs occupy a predominant place in rural development.

Regional Rural Banks were established under the provisions of an Ordinance passed on 26 September 1975 and the RRB Act, 1976 to provide sufficient banking and credit facilities for agriculture and other rural sectors. These were set up on the recommendations of The Narasimham

Working Group during the tenure of Indira Gandhi's government with a view to include rural areas into economic mainstream since that time about 70% of the Indian Population was of Rural Orientation. The development process of RRBs started on 2 October 1975 with the forming of the first RRB i.e. the Prathama Bank. Also on 2 October 1975 five regional rural banks were set up with a total authorised capital of `. 100 crores, which later increased to `. 500 crores. The Regional Rural Banks were owned by the Central Government , the State Government and the Sponsor Bank who held shares in the ratios of 50% - 15% - 35%.

The following are major functions of these rural financial institutions:

- To take banking to the doorsteps of the rural masses, particularly in areas without banking facilities;
- To mobilize rural savings and canalize them for supporting productive activities in the rural areas;
- To make available cheaper institutional credit to the weaker sections of society, (who are to be the only clients of these banks?)
- To generate employment opportunities in the rural areas.
- To bring down the cost of providing credit in rural areas.
- To encourage small business and rural artisans.

Review of Literature

Government of India was appointed various committees to review and measure the financial performance of the RRBs and make recommendations to strengthen these banks time to time. A number of by prominent researchers and academicians conducted many studies to examine the functioning and performance of regional rural bank in the country. Though, the literature available on the working and performance of RRBs in the country is limited. The literature is obtained from the reports of various committees, commissions and working groups established by the Union Government, NABARD and Reserve Bank of India, the research studies, articles of researchers, bank officials, economists and the comments of economic analysts and news reports given by the news agencies is briefly reviewed. Some of the related literatures of reviews are as follows.

NABARD (1986) published “A study on RRBs viability”, which was conducted by Agriculture Finance Corporation in 1986 on behalf of NABARD. The study revealed that viability of RRBs was essentially dependent upon the fund management strategy, margin between resources mobility and their deployment and on the control exercised on current and future costs with advances. The proportion of the establishment costs to total cost and expansion of branches were the critical factors, which affected their viability. The study further concluded that RRBs incurred losses due to defects in their systems as such, there was need to rectify these and make them viable. The main suggestions of the study included improvement in the infrastructure facilities and opening of branches by commercial banks in such areas where RRBs were already in function.

In the year 1989 for the first time, the conceptualization of the entire structure of Regional Rural Banks was challenged by the Agricultural Credit Review Committee (Khusro Committee), which argued that these banks have no justifiable cause for continuance and recommended their mergers with sponsor banks. The Committee was of the view that “the weaknesses of RRBs are endemic to the system and non-viability is built into it, and the only option was to merge the RRBs with the sponsor banks. The objective of serving the weaker sections effectively could be achieved only by self-sustaining credit institutions.”

The Committee on Financial Systems, 1991 (Narasimham Committee) stressed the poor financial health of the RRBs to the exclusion of every other performance indicator. 172 of the 196 RRBs were recorded unprofitable with an aggregate loan recovery performance of 40.8 percent. (June 1993). The low equity base of these banks (paid up capital of Rs. 25 lakhs) didn't cover for the loan losses of most RRBs. In the case of a few RRBs, there had also been an erosion of public deposits, besides capital. In order to impart viability to the operations of RRBs, the Narasimham Committee suggested that the RRBs should be permitted to engage in all types of banking business and should not be forced to restrict their operations to the target groups, a proposal which was readily accepted. This recommendation marked a major turning point in the functioning of RRBs.

(Prasad, 2011), evaluated the Performance of Regional Rural Banks by applying Camel Model. They studied Capital Adequacy, Assets Quality and efficiency of Management, quality of Earnings and Liquidity of financial two RRBs, Andhra Pragathi Grameena Bank (APGB) and Sapthagiri Grameena Bank (SGGB), in Andhra Pradesh state.

(Kanika, 2013), studied the 'Financial Performance Evaluation of RRB's in India'. In her study she examined the growth of RRBs, geographical distribution of RRBs, outstanding loans and advances of RRBs Credit deposit and investment deposit ratio, Financial Performance of RRBs.

(Kapre), studied and concluded the rapid expansion of RRB has helped in reducing substantially the regional disparities in respect of banking facilities in India. The efforts made by RRB in branch expansion, deposit mobilization, rural development and credit deployment in weaker section of rural areas are appreciable. RRB successfully achieve its objectives like to take banking to door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private lenders, to encourage rural savings for productive activities, to generate employment in rural areas and to bring down the cost of purveying credit in rural areas. Thus RRB is providing the strongest banking network. Government should take some effective remedial steps to make Rural Banks viable.

(Padmavathi, 2013), conducted a study on the Deccan Grameena Bank and found that the bank showed a good performance through deposits and advances in the backward districts of Telangana viz Adilabad, Karimnagar, Nizamabad, Ranga Reddy, and Hyderabad (U). The branch expansion as well as credit and deposits are shown an increasing trend in the study period. Though the bank's area of operations covers towns and metropolis, which is the main reason behind the fulfilling of the objectives of RRBs

(Naik, 2014) analyzed the financial performance of Deccan Grameena Bank in Telangana during the period 2006-07 to 2012-2013. Their study analyzed the Key performance Indicators such as number of Branches, Deposits and Borrowing, Loans, Recovery performance and growth rate index etc. and found that there was a consistent improvement in all the thrust areas of the bank.

Some of the other studies held by renowned scholars in this area are: Noulas and Ketkar (1996), Bhattacharyya et al., (1997), Das (1997), Saha and Ravisankar (2000), Mukherjee et al., (2002), Kumar and Verma (2003), De Kumar (2004), Chakrabarti and Chawla (2005), Kaur and Sharma (2005-06), Kumar and Gulati (2008), Khankhoje (2008), Sathye (2008) and Mohindra (2011) which analyzed the performance of RRBs by using Stochastic Frontier Analysis (SFA) and Data Envelopment Analysis (DEA) approach respectively.

Objectives of the Study: The following are the main objectives of the present paper.

- To study the growth-pattern and progress of the Telngana Grameena Bank during 2004-05 to 2013-14.
- To analyze the performance of Deccan Grameena Bankin respect of its deposits and advances and NPAs during the period of 2004-05 to 2013-14.
- To study the profitability of the bank during the study period.

Research Methodology

The required data of the selected bank for a period of 2005-2014 have been collected from the annual reports published by the bank. So, collected data analyzed with help of statistical tools like percentage and compound annual growth rate (CAGR) to understand the patter of the growth.

Telangan Grameen Bank (TGB) - Overview

The Telangana Grameena Bank-TGB (formerly known as Deccan Grameena Bank – DGB) was established on 24.03.2006 by amalgamating four RRBs sponsored by State Bank of Hyderabad, viz, Sri Saraswathi grameena Bank, Sri Satavahana Grameena Bank, Sri Rama Grameena Bank and Golconda Grameena Bank and introducing as Deccan Grameena Bank with head quarter at Hyderabad by giving various facilities like low rate of interests and best credit facilities etc.The Deccan Grameena Bank is covering 5 districts in Telangana State, majority of them are backward districts i.e.,Adilabad, Nizamabad, Karimnagar, Rangareddy and Hyderabad(urban). The authorized share capital of the bank is Rs. 5 crores. The paid up capital is Rs.4 crores which is contributed by Government of India, Sponsor Bank i.e., State Bank of Hyderabad and Government of Telangana in the ratio of 50:35:15 respectively.

Branch Network

TGB has given emphasis for opening of branches in rural unbanked areas as per the Government of India policy. During the year 2013-14 the bank has opened 31 new branches against the target of 27 branches under MoU and reached 300 mark. Year wise branch details are furnished in the following table.

Table-1

SPREAD OF BANK BRANCHES DURING 2005-06 TO 2013 - 14

Area	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
i) Rural	138 (83.64)	138 (83.13)	138 (83.13)	142 (82.08)	149 (74.50)	155 (72.09)	160 (70.80)	168 (69.14)	186 (69.14)	**209 (69.67)**
ii) Semi Urban	17 (10.30)	17 (10.24)	17 (10.24)	19 (10.98)	30 (15.00)	35 (16.28)	36 (15.93)	42 (17.28)	50 (18.60)	**52 (17.33)**
iii) Urban	10 (6.06)	11 (6.63)	11 (6.63)	12 (6.94)	21 (10.50)	25 (11.63)	30 (13.27)	33 (13.58)	20 (7.43)	**26 (8.67)**
iv) Metropolitan	-	-	-	-	-	-	-	-	13 (4.83)	**13 (4.33)**
Total Number of Branches	**165 (100.00)**	**166 (100.00)**	**166 (100.00)**	**173 (100.00)**	**200 (100.00)**	**215 (100.00)**	**226 (100.00)**	**243 (100.00)**	**269 (100.00)**	**300 (100.00)**

The above table contains the spread of the branches during the years 2004-05 to 2013-14. The performance indicator shows the branches' development in rural, semi urban, urban areas in 5 districts of Telangana State. On examination of data presented in the above table the most of the branches are clearly placed at rural areas with 83.64% (138) in the year 2004-05 and maximum reached to 209 branches in the financial year 2013 - 14. Thirteen (13) branches were started in the metropolitan areas in the financial year 2012-2013. With the above data, it is said that the TGB has less focus on semi urban and urban in areas because it is Under RRB.

From the financial years 2007-08 to 2013 -14 the bank zooming on branch expansion and slowly increased, by the end of the 2013-14 (300) during the period under study. It may be concluded from the analysis that TGB will expand its branches all over the rural areas of Five districts in Telangana State to assist the farmers, rural artisans and small business people to meet their financial needs.

Deposits and Advances of the Bank

The data in the bellow table shows the deposits accepted, Advances given, CD Ratio and Percentage of net NPAs to Net Advances of TGB bank over the period of 10 years from 2005 to 2014. The Compounded Annual Growth Rate for the period of 10 years from 2005 to 2013-14 for Deposits shows that the Deposits of the bank grew from `. 932.14 crores in 2005 to `.

Table - 2

Deposits and Advances of the Bank - TGB

(Rs. In Crores)

Sl. No.	Year	Deposits	Advances	CD Ratio	Net NPA (%)
1	2005	932.14	559.14	59.98	4.73
2	2006	1011.44	605.93	59.91	4.75
3	2007	1261.75	750.49	59.48	1.64
4	2008	1444.18	1001.41	69.34	0
5	2009	1790.43	1296.38	72.41	0
6	2010	2261.05	1610.78	71.24	0
7	2011	2600.94	1966.16	75.59	0
8	2012	2920.67	2362.37	80.88	1.70
9	2013	3444.92	2775.46	80.57	0.86
10	2014	4155.43	3531.10	84.98	0.42
CAGR (%)		**16.12**	**20.24**	**3.55**	**-21.51**

Source: Compiled from various Annual Reports of TGB

4155.43 crores recording an average of 16.12 per cent growth rate annually. Advances of the bank reached to `. 3531.10 crores in 2014 from `. 599.14 crores in 2005 showing average growth rate of 20.24 per cent. The CD ratio raised from 59.98 per cent in 2005 to 84.98 per cent in 2014 registering 3.55 per cent growth rate. The percentage of CAGR relating to the Net NPAs to Net Advances has registered a negative growth rate of 21.51 per cent for the 10 years period indicating high decline in the NPAs. It is inferred that the performance in respect of recovery of loans is high.

Priority Sector Lending:

Priority Sector Lending primarily consists of lending to Agriculture and allied activities (Farm Sector), and Small Scale Industries, Small Business and Other Priority Sectors like small road and water transport operators, Retail trade, loans to professional and self employed persons, Housing loans etc (Non-Farm Sector). The details of priority sector lending by TGB are presented in the following table

Table - 3 Priority Sector Lending by TGB (₹. In Crores)					
Sl. No.	Year	Farm-Sector	Non-Farm sector	Total	% of Total Advances
1	2005	241.38	135.79	377.17	67.46
2	2006	258..00	151.50	409.50	66.00
3	2007	295.59	224.94	520.54	69.36
4	2008	532.02	156.58	688.59	68.76
5	2009	760.93	156.05	916.98	70.73
6	2010	1006.95	263.13	1270.08	78.84
7	2011	1249.89	294.69	1544.58	78.56
8	2012	1517.70	340.03	1857.73	78.64
9	2013	1802.93	359.24	2162.17	77.90
10	2014	2351.31	464.50	2815.81	65.76
CAGR		**25.56**	**13.09**	**22.27**	
Source: Compiled from various Annual Reports of TGB					

According to the data in the above table, the Compounded Annual Growth Rate (CAGR) for the period 2005 to 2014 for the total Priority Sector Lending (PSL) is calculated as 22.27 per cent, for Farm-Sector (Agricultural and Allied to Agricultural Advances), it is 25.56 per cent, for advances to Non-Farm Sector, MSMEs (Micro, Small and Medium Enterprises) Units and others, it is 13.09 per cent.

The CAGR for the Farm-Sector Advances surpassed the CAGR for the Total Priority Sector Advances and indicating that the TGB had given much priority to the agriculture and allied activities in lending.

Profitability of the SBH Bank

Profit can be defined as, in simple terms, as excess of income over expenditure. In order for a business to become self-sustaining and capable of attracting investment, it must generate profits. Otherwise, it will eventually become insolvent. Without profit, a business would stagnate and risk losing its market share to other competitors. Profits and losses are indications of whether the business is doing the right things or not. It is how the people in the marketplace tell a business what is needed and wanted, what should be eliminated, what should be expanded, what needs to be improved, etc. Profits and losses constitute an important feedback that improves economic efficiency. Profits also enable the business to grow. If what the business is doing is good, then the business needs to grow so that it can do more good. If business does not make profits, then there's something wrong with what business is doing, and such they deserve to go out of business.

It is fact that the absolute figures may not always exhibit the true profitability. Therefore along with Net Profit, the Return on Assets and Profit per Employee are considered for analysis of the profitability.

Profitability of the TGB

Table - 3 Profitability of the Bank - TGB				
Sl. No.	Year	Net Profit (Rs. In Crores)	Return on Assets (%)	Profit per Employee (Rs. In Lackhs)
1	2005	15.40	3.46	3.47
2	2006	17.45	3.87	2.99
3	2007	10.00	7.58	2.92
4	2008	10.00	7.97	3.54
5	2009	39.88	8.67	4.42
6	2010	54.90	7.94	5.08
7	2011	45.10	8.47	5.32
8	2012	36.24	8.64	5.17
9	2013	49.28	8.90	6.31
10	2014	63.62	9.00	6.72
CAGR		**15.24**	**10.03**	**6.83**
Source: Compiled from various Annual Reports of TGB				

The above table shows that Telangana Grameena Bank has registered an increase of Net Profit at a Compounded Annual Growth Rate of 15.24 per cent. The CAGR for Return on Assets has registered a growth rate of 10.03 per cent and Profit per Employee at a rate of 6.83 per cent. With the above table it is clear that the profitability of the Telangana Grameena Bank may be said, is good and is growing at a healthy growth rate.

Conclusions

India is primarily agricultural based and rural density populated country, which requires the financial assistance as well as effective rural development policies to eradicate the tribulations in rural areas. Regional Rural Banks (RRBs) plays a key role as an important vehicle of credit delivery in rural areas with the objective of credit dispersal to small, marginal farmers & socio economically weaker section of population for the development of agriculture, trade and industry in rural areas.

The TGB is one of the mature banks in Telengana State, which is serving the small and marginal agricultural farmers. The TGB expanded its branch network all over the rural areas of 5 districts in Telangana and performing well through its deposits and advances, in respect of NPAs and lending to priority sector. According to the profitability, the Telangana Grameena Bank, it may be said, is good and is growing at a healthy growth rate. It is found that there is a consistent improvement in all the key areas of the bank.

Suggestions

- It is found that the total number of bank branches during the study period is not enough to meet the growing financial needs of the rural areas. Hence, bank officials should concentrate to enhance its branch network to extend more financial services in the rural areas.
- TGB should open its branches in areas where customers are not able to avail banking facilities in the five district of the Telangana state.
- The bank should establish the ATMs in the rural areas to enhance its services to customers.
- The bank has to provide e-banking facilities and create awareness among its customers.
- It is essential to conduct farmers' financial awareness programs in rural areas.

Limitations of the Study

- The flowing are the limitations of the present study.
- This study is conducted for a specific time period i.e.2004-05 to 2013-14.
- Analysis may be influenced by some subjective factors like knowledge, judgment and can vary person to person and situation to situation.
- Only some of key performance indicators are considered. But, however, other indicators can be covered in future research work.

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