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ANALYSIS OF PROFITABILITY AND LIQUIDITY PERFORMANCE OF REGIONAL RURAL BANK WITH REFERENCE TO VIDHARBHA KONKAN GRAMIN BANK, MAHARASHTRA

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Abstract: *Regional Rural Banks (RRBs) play a vital role in the agriculture and rural development of India. The success of rural credit in India is largely dependent on their financial strength. RRBs are key financing institution at the rural level which takes the responsibility of meeting credit needs of different types of agriculture credit as well as other credit needs in rural areas. The present paper attempts to analyze two key performance indicators of Vidharbha Konkan Gramin Bank (VKGB) namely Liquidity and Profitability over the 5 years' period from 2012-13 to 2016-17. The study is based on the secondary data collected from annual reports of NABARD and VKGB. It has been found that there is fluctuation in these ratios during the study period. Spread, Burden Analysis has been done in order to study the profitability of VKGB. It has been found that the profitability ratio ranged between 0.93 and 0.57 during the study period.*

Keywords: *Liquidity, Spread Burden Analysis, VKGB.*

Introduction

Banks play an important role in mobilization and allocation of resources in any country. The Indian Banking Sector is comprised by Nationalized Banks, private sector banks, co-operative banks and Regional Rural Banks (RRBs). 50% share capital of RRBs is contributed by Central Government, 15% by the respective State Government and 35% by the Sponsoring Bank. The objective of RRBs is "to develop the rural economy in providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities particularly to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs, and for matter connected therewith and incidental thereto."[1]

An Overview of Regional Rural Banks (RRBs)

In 1975, the Narsimham Committee proposed the establishment of RRBs as a new stream of credit delivery to rural poor. Subsequently, the RRBs were set up under the provisions of an ordinance passed on September 1975, and the Regional Rural Bank Act, 1976. The first 5 RRBs were set up in 5 states which were sponsored by different commercial banks. They covered 11 districts of these five states. 25 RRBs have been amalgamated in January 2013 into 10 RRBs, making total no. of RRBs to 67 in 2013. On 31st March 2006, there were 133 RRBs covering 525 districts with a network of 14,494 branches. At present there are 56 RRBs in India.

Review of Literature

A summarized review of various studies is articulated in the following paragraphs.

Unas, Ramnarayana (2014)[2] studied the current position of liquidity management in Indian public sector banks. It was observed that profitability of bank showed a declining trend due to reduced rate of lending by RBI.

Bapna (1989)[3] analyzed the growth and working of RRBs of Rajasthan. The aspects like deposit mobilization, deployment of credit, recovery of loans and viability of banks were studied.

Kalkundrikar (1990)[4] reviewed the problems and performance of two RRBs in Karnataka. It was observed that the RRBs in Karnataka had substantially contributed to the economic development of the areas in which they operated.

Makandar (2013)[5] made an attempt to investigate the impact of amalgamation on the productivity of RRBs in Karnataka. It was found that there is a favorable impact of amalgamation on the productivity of sample RRBs.

Suneet Kopra (2017)[6] observed that RRBs proved to be an institution where "Growth and Social Justice" exists by providing all round assistance to whole of Maharashtra.

Ahmed, Bhandari, Ahmed (2013)[7] studied the Profitability of Meghalaya Rural Bank. It was concluded that Priority Sector Lending, Credit Deposit Ratio, Operating Expenses, Spread, NPA are perfect determinants of profit of Meghalaya Gramin Bank.

Verma, Pandian (2013)[8] observed that more than 10% of total income was constituted by non-interest income.

Anil Kumar Soni, Abhay Kapre (2012)[9] observed that RRBs face issues like small size of loans, comparatively high risk loans. Due to these problems the viability of RRBs is in danger.

Syed Ibrahim (2010)[10] investigated that after amalgamation there has been a good improvement in the performance of RRBs.

Dilip Khankhoje and Dr. Milind Sathye (2008)[11] measured the variation in the performance in terms of productive efficiency of RRBs in India.

Objectives of Study

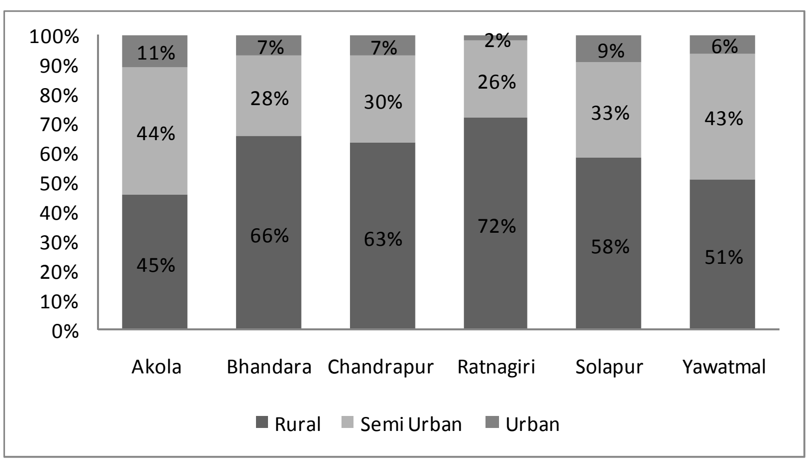
1) To study the Liquidity performance of Vidharbha Konkan Gramin Bank. (VKGB)

2) To analyze Profitability of Vidharbha Konkan Gramin Bank.

Profile of RRBs in Maharashtra (VKGB)

At present, there are two RRBs in Maharashtra, namely Maharashtra Gramin Bank and Vidharbha Konkan Gramin Bank. The present study is based on the performance of Vidharbha Konkan Gramin Bank. VKGB came into existence on 28th February, 2013 by amalgamation of two erstwhile RRBs viz. Wainganga Krishna Gramin Bank sponsored bank of India and Vidharbha Kshetriya Gramin Bank sponsored by Central Bank of India in Maharashtra State. The area of operation of Bank covers 17 districts of Maharashtra State.

Region wise Network of the branches of VKGB is as under:



Source: Annual Report of VKGB, 2016-2017

Research Methodology

The study is based on the performance of VKGB from 2013 to 2017. The present study is also based on Secondary Data, collected from various reports published by NABARD, Reserve Bank of India and Annual Reports of VKGB.

The study of liquidity and profitability is done with the help of various ratios. For measuring profitability of the bank, Spread- Burden Analysis is done.

Scope and Period of the Study

The present study is based on the five years' financial performance of VKGB for the period 2013 to 2017 and limited to Liquidity and Profitability performance of the bank.

Data Analysis and Interpretation

A. Liquidity Analysis

"The liquidity position refers to the existence of cash or near cash form. This ratio indicates the ability of a bank to discharge liability as and when it matures."[12] "Liquidity Management measures the ability of Financial Intermediary to meet demand for deposits, withdrawal and other cash flows."[13] It is measured on the basis of following parameters:

- Total Deposits = Demand Deposits + Savings Deposits + Term Deposits
- Total Assets = Cash in Hand + Balance with RBI + Balances with other banks + Money at call + Investments + Advances + Fixed Assets + Other Assets
- Liquid Assets = Cash in Hand + Balance with RBI + Balance with other banks +Money at Calls and Short notice

Following ratios are analyzed to measure the liquidity of VKGB.

1) Demand Deposits to Total Deposits

Deposit is the life blood of banks as it is the main source of banks to create its assets called "Advances". Deposits can be categorized into two parts:-

a) Demand Deposits – This deposit can be withdrawn any time by the depositor e.g. Current Account, Savings Accounts.
b) Term Deposits – In this type of deposit, the money is deposited by the customer for the fixed period of time at the fixed rate of interest. This ratio tells us that out of total deposits how much will be or likely to be withdrawn by the customer. The higher the ratio, the lower the liquidity of banks.

Table 1: Demand Deposits to Total Deposits Ratio (In Thousands)

Year	Demand Deposits	Total Deposits	Ratio
2013	609818	27570853	0.02212
2014	1655249	30410246	0.05443
2015	757746	34919896	0.02170
2016	633684	36930221	0.01716
2017	755453	36922075	0.02046

Source: Compiled from the Annual Reports of VKGB

The demand deposits of VKGB showed a quiet fluctuating trend as compared to Total Deposits. In 2013 demand deposits were Rs.609818 thousands which became Rs. 755453 in 2017. Total Deposits showed a continuous increasing trend from 2013 to 2016 from Rs. 27570853 thousands to Rs. 36930221 thousands followed by a slight decrease in 2017.

2) Liquid Assets to Demand Deposits:

This ratio indicates the capability of bankers to mobilize deposits and invest them in liquid assets.

Table 2: Liquid Assets to Demand Deposits Ratio (In Thousands)

Year	Liquid Assets	Demand Deposits	Ratio
2013	9077198	609818	14.88509
2014	6689616	1655249	4.04146
2015	9669429	757746	12.76078
2016	6133814	633684	9.67961
2017	7393778	755453	9.78721

Source: As in Table 1

Table -2 shows the deployment of funds by VKGB for the study period. The ratio got decreased in 2014 from 14.88 to 4.04 showing a good increase in 2015 to 12.76. Further years 2016 witnessed a decline in this ratio to 9.67 and year 2017 showed a slight increase in ratio to 9.78.

3) Liquid Assets to Total Assets:

This ratio indicates the proportion of liquid assets in total assets of the bank. Higher the amount of liquid assets, higher is the liquidity of bank. But this may indicate the less deployment of credit too.

Table 3: Liquid Assets to Total Assets ratio

Year	Liquid Assets	Total Assets	Ratio
2013	9077198	33836328	27%
2014	6689616	37914739	18%
2015	9669429	43312749	22%
2016	6133814	43367253	14%
2017	7393778	42964858	17%

Source: As in Table 1

Table shows a higher liquidity of 27% followed by a decrease to 18% in 2014. Year 2015 shows an increase in liquidity ratio to 22%. In the year 2016 it got reduced to 14% and became 17% in 2017.

4) Advances to Total Assets:

This ratio shows out of the total assets of bank how much amount is deployed as advances to customers. Higher the ratio lower is the liquidity.

Table 4: Advances to Total Assets (In thousands)

Year	Advances	Total Assets	Ratio
2013	18211000	33836328	54%
2014	21458310	37914739	57%
2015	24137149	435312749	63%
2016	27274868	43367253	63%
2017	26093245	42964858	61%

Source: As in Table 1

The ratio shows increasing trend from 2013 with 54% to 61% in 2016 indicating low liquidity as year by year more and more amount was blocked by the bank in advances hampering its liquidity. This ratio got reduced little bit in 2017 to 61%.

5) Advances to Total Deposits:

This ratio measures how much loans and advances are granted by the bank out of the deposits received. Higher advances to deposits ratio indicates more amount is utilized by bank in loans and advances which in turn leads to less liquidity.

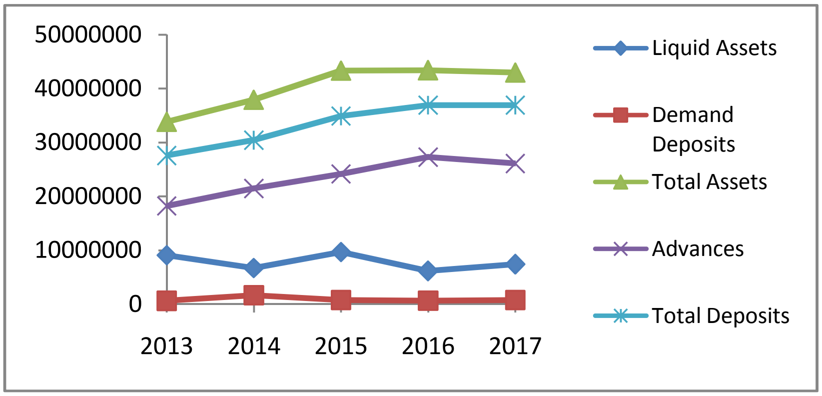
Table 5: Advances to Total Deposits

Year	Advances	Total Deposits	Ratio
2013	18211000	27570853	66%
2014	21458310	30410246	71%
2015	24137149	34919896	69%
2016	27274868	36930221	74%
2017	26093245	36922075	71%

Source: As in Table 1

This ratio showed an increase from 66% in 2013 to 71% in 2014. Further it got decreased to 69% in 2015 and increased to 74% in 2016 and decreased to 71% in 2017.

Graph showing trend of various components of Liquidity of VKGB



Source: Compiled from Tables 1 – 5 above.

Profitability Analysis of VKGB

Profit in simple language is surplus of income over expenditure. Profit earning capability of a firm is known as "Profitability."

"Profitability reflects the overall efficiency of a bank in resource mobilization, investment, loaning, recovery etc." [14]

I. The Growth of Profitability of VKGB is shown in following table.

Table 6: Growth of Income, Expenditure and Profits (In Thousands)

Year	Total Income	Total Expenditure	Net Profit	Operating Profit	Total Assets
2013	3004655	2764585	240070	427745	33836328
2014	3355334	3147184	208150	360448	37914739
2015	3871009	3624117	246892	500141	43312749
2016	4137656	3968336	169320	584302	43367253
2017	3953726	3882748	70978	362744	42964858

Source: As in Table 1

It is observed from the above table that income of VKGB showed an increasing trend from Rs.3004655 thousands in 2013 to Rs. 4137656 thousands in 2016. But again in 2017 it came down to Rs. 3953726 thousand. The total expenses of the bank too showed an increase from Rs. 2764585 thousands in 2013 to Rs. 3968336 thousands in 2016. It got decreased in 2017 to Rs.3882748 thousands.

As a result Net Profit of the bank also showed fluctuating trend.It fluctuated between Rs. 240070 thousands in 2013 to Rs.70978 thousands in 2017.

Similarly, the operating profits got reduced from Rs. 427745 thousands in 2013 to Rs. 360448 thousands in 2014. This profit again got increased to Rs. 500141 thousands in 2015 and Rs.584302 thousands in 2016.Year 2017 saw a decrease in operating profit to Rs. 362744 thousands. The total assets were Rs. 33836328 thousands in 2013 and increased to Rs.43367253 thousands in 2016 showing a continuous increasing trend. 2017 faced a decline in total assets to Rs.42964858 thousands.

II. Profitability Performance of VKGB

Spread, Burden and Profit Analysis (SBP Analysis) [15]**:**

Sr. No.	Expenditure	Income	Difference
1.	K= Interest Paid	R= Interest Earned	S= Spread (R – K)
2.	M= Manpower Expenses	C= Non –Interest Income	B= Burden
	O= Other Expenses		B = (M+O-C) or (N-C)
	N = Non Interest Expenses		
3.	E = Total Expenses (M+O+K)	I = Total Income (R+C)	P = Operating Profit (I-E)

Source: Compiled from Vardhe and Singh, "Profitability of Commercial Banks, NIBM, 1983, P.216

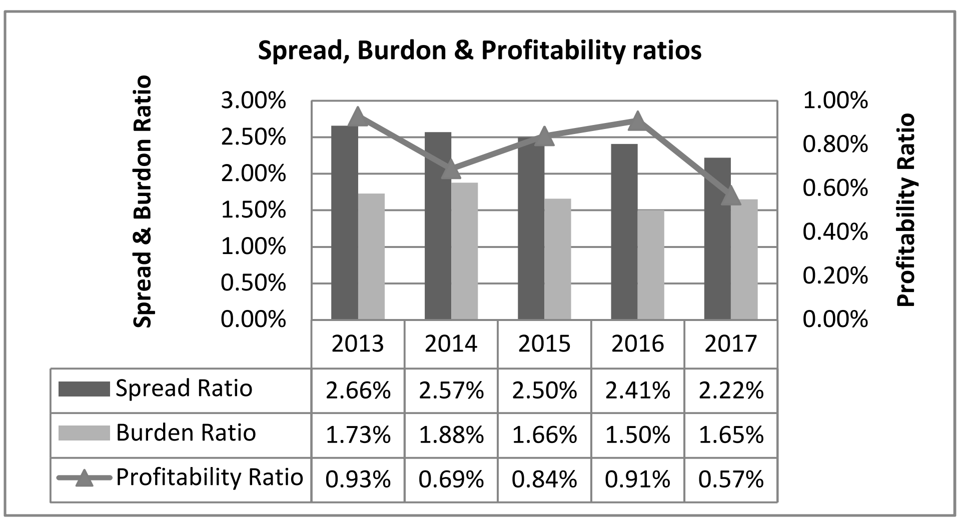
'Spread' is the difference between interest earned and interest paid. 'Burden' is the difference between non- interest expenses (M + O) and non–interest income. The difference between 'spread' and 'burden' is termed as profit or loss of a bank.

The following ratios are used to measure the profitability performance of RRBs.

1. $\text{Interest earned ratio} = \frac{\text{Total Interest earned}}{\text{Volume of business}} \text{ x } 100$
2. $\text{Interest paid ratio} = \frac{\text{Total Interest paid}}{\text{Volume of business}} \text{ x } 100$
3. $\text{Manpower expenses ratio} = \frac{\text{Manpower expenses}}{\text{Volume of business}} \text{ x } 100$
4. $\text{Other establishment ratio} = \frac{\text{Other establishment expenses}}{\text{Volume of business}} \text{ x } 100$
5. $\text{Non} - \text{Interest income ratio} = \frac{\text{Non}-\text{Interest earned}}{\text{Volume of business}} \text{ x } 100$
6. $\text{Spread ratio} = \text{Interest earned ratio} - \text{Interest paid ratio}$
7. $\text{Burden ratio} = \text{Manpower expense ratio} + \text{Other establishment expense ratio} - \text{Non interest income ratio}$
8. $\text{Profitability ratio} = \text{Spread ratio} - \text{burden ratio}$

Table 7: Profitability Ratios of Vidharbha Konkan Gramin Bank (In %)

Year	Interest Earned Ratio	Interest Paid Ratio	Spread Ratio	Non Interest Expenses Ratio	Non Interest Income Ratio	Burden Ratio	Profitability Ratio
	(a)	(b)	(C)	(d)	(e)	(f=d-e)	(p=c-f)
2013	6.20	3.54	2.66	2.09	0.36	1.73	0.93
2014	5.93	3.36	2.57	2.42	0.54	1.88	0.69
2015	6.23	3.73	2.50	1.98	0.32	1.66	0.84
2016	6.14	3.73	2.41	1.81	0.31	1.50	0.91
2017	5.92	3.70	2.22	2.00	0.35	1.65	0.57



As depicAs depicted by the above table, the interest earned ratio of VKGB was 6.20 percent and became 5.92 percent in 2017. The interest paid ratio was 3.54 percent in 2013 which got settled at 2017 to 3.70 percent. Spread ratio was 2.66 percent in 2013 which became to 2.22 percent in 2017. Non interest ratio was 2.09 percent in 2013, and 2 percent in 2017. The Non Interest Income was 0.36 percent in 2013 which increased to 0.54 percent in 2014. It got declined in 2015 to 0.32 and further to 0.31 in 2016. In the year 2017 this ratio became 0.35 percent. Burden ratio was 1.73 percent in 2013 and became 1.65 percent in 2017.

Eventually the profitability ratio of VKGB was 0.93 percent in 2013 which got decreased to 0.69 percent in 2014. For the years 2015 and 2016 this ratio showed an increasing trend to 0.84 percent and 0.91 percent respectively. But in the year 2017 this ratio got decreased to 0.57 percent.

Suggestions

Customers in rural areas should be educated to utilize latest technology oriented banking facilities like internet banking, mobile banking and banking app etc. to reduce operational cost.

- The bank should try to increase non – interest income as this only contributes to 6 percent of the total income by providing other facilities like locker, guarantee etc.

Conclusion

Liquid assets constitute 20 percent in total assets of bank. Out of total deposits mobilized, average 70 percent of the amount is deployed in advances hampering banks' liquidity position. Net Profit of the bank shows fluctuating trend throughout the period of five years. In light of the above findings, suggestions offered will enable VKGB to take required steps to improve and achieve consistency in its performance.

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