

Credit Deployment by Regional Rural Banks in North East India: A Comparative Study of Assam Gramin Vikash Bank and Tripura Gramin Bank

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Abstract

The present paper makes a modest attempt to study the growth of credit deployment performance of Assam Gramin Vikash Bank (AGVB) vis-a-vis Tripura Gramin Bank (TGB) from the year 2006 to 2013. In order to compare the growth of credit, parameters like total advance, advance per branch and employee, interest earned on advance, priority, non-priority sector advances and recovery have been used. Analysis of data has been made by employing Compound Annual Growth Rate, Coefficient of Variation and t-test. The growth of total advance of AGVB is found to be higher as compared to the growth of total advance of all TGB. It is clear from the analysis that AGVB is giving more weightage to the priority sector than the non-priority sector by providing proportionately more advances to fulfill the motto of development of socio-economic condition of rural people of the state.

Key words: *Keywords: Credit, Growth, Recovery, Trend.*

Introduction

Credit is one of the most important elements, which act as fuel for development of socio-economic condition of people living in rural areas. In early 60's commercial and cooperative banks were main constituents of Indian financial system. But, due to the urban orientation of commercial banks and

inadequate business acumen of cooperative banks, there was a need for blending of the positive features of both the constituents which could be able to meet the diverse requirements of the rural society in general and credit needs of the rural masses of the country in particular. In search of the alternative rural credit delivery system

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Government of India has setup Regional Rural Banks (RRBs) on 2nd October 1975 with the objectives of spreading banking facilities in rural areas and to cater to the credit needs of the people living in the rural areas of the country. The existence of RRBs in Indian financial system has improved the efficacy of rural credit delivery mechanism to a large extent (Kanvind, 1987). However, these banks, ever since their inception, have been subjected to criticism with regards to their concept, coverage and viability, even though these banks have made considerable impact by making banking services accessible to the rural poor and providing capital assistance to the target groups (Hosamani, 2002). Further, several studies made on credit deployment performance of Regional Rural Banks in India, revealed that there exists gap in channelization of credit in terms of time and sufficiency. Availability of timely credit at affordable rate of interest is the prerequisite for improving livelihood of the people of rural areas and in acceleration of rural development. Hence, the present study is an attempt to analyse the performance of AGVB vis-a-vis TGB in the sphere of credit deployment.

Review of literature

A good number of studies have been carried out in terms of credit deployment performance of Regional Rural Banks in India consequently, findings of all such literature cannot be generalised as they are related to different financial institutions, time period, geographical areas. Therefore, a brief review of literature has been portrayed to highlight the gap in existing literature. Kumar (1986) found that regional rural banks in India were able to meet the credit requirement of rural people from 1975-1979. Thingalaya (1991)

also opined that regional rural banks was a successful innovation in the field of rural credit which has created a crucial link between credit needy weaker sections of the society and RRBs. Khanna (1991) observed that total credit provided to the agricultural sector by the Regional Rural Banks has increased. Moreover, the amount of NPA as well as number of defaulters has also increased which has adverse impact on the financial health of these banks. At the same time findings of the study made by Balamohandas et.al. (1991) revealed that credit deployment performance of RRBs and Sri Visakha Grameena Bank of Andhra Pradesh from 1975-1984 was by and large satisfactory. Results of filed survey, conducted on 300 beneficiaries of Sri Visakha Grameena Bank revealed that 90 percent of the staff was found polite and helpful. Again, Sathye (1996) uncovered the fact that the regional rural banks have become more and more conservative in rural lending in order to avoid credit risks, reduce their NPA and achieve viability. Shekhar (1997) found that credit disbursement to the rural economy of Bihar was significant but due to poor recovery mechanism the banks suffer losses. Dey & Adhikari (2004) concluded that performance of Regional Rural Bank in Barak Valley of South Assam found outstanding advance of the bank has shown satisfactory growth but share of priority sector lending has decreased over the years during 1991 to 2001. The study revealed that poor recovery of overdues in initial years, absence of selective lending approach, inadequate follow-up, increased establishment expenditure and non selective branch expansion etc leads to huge accumulated losses for the bank. Mishra & Rao (2006) found that amount of overdues has increased due to improper utilization of RRBs credit by the borrowers in Orissa. Navi (2013) concluded that high interest rate on loan has negative impact on the farmers which resulted

in increased overdues for the RRB. Thus, the review of related literature indicates that growth of total advance of RRBs of has increased over the years. However, in these banks could not able to reduce the level of NPA. Hence, total advance, advance per branch, advance per employee, interest on advance, priority sector, non priority sector advance, recovery of Assam Gramin Vikash Bank and Tripura Gramin bank has been considered for the present study.

Objectives of the study

- 1) To analyze the credit deployment performance of Assam Gramin Vikash Bank and Tripura Gramin Bank from 2006 to 2013.
- 2) To compare the growth of priority and non-priority sector credit of Assam Gramin Vikash Bank and Tripura Gramin Bank during the period under consideration.
- 3) To assess the recovery performance of Assam Gramin Vikash Bank and Tripura Gramin Bank during the study period.

Data and methodology

At present there are eight Regional Rural Banks in North Eastern Region. The present study is conducted to analyze the credit deployment performance of AGVB and TGB of Northeastern Region of India from 31st March

2006 to 31st March 2013. Both the AGVB and TGB are sponsored by United Bank of India. TGB is one of the oldest RRB setup in 1976. AGVB is the outcome of amalgamation of four RRBs but all the four RRBs which were amalgamated had a long period of operation before amalgamation. Relevant secondary data have been collected from Annual Reports of Assam Gramin Vikash Bank and Tripura Gramin Bank as well as Key Statistics of RRBs in India (NABARD). The performance of AGVB and TGB in credit deployment has been analyzed with the help of different counts like, total advances, advance per branch and advance per employee, interest on advance, category wise growth of advances and recovery rate. In order to draw inferences, different statistical techniques like, Compound Annual Growth Rate (CAGR), Coefficient of Variation (CV), Regression Coefficient and Coefficient of determination have been used. Further, t-test has been applied to compare whether there exists any significant difference in the performance of two banks on selected counts.

Brief profile of organization

Assam Gramin Vikash Bank (AGVB) came into existence on 12 January 2006 as an outcome of the merger of four Regional Rural Banks of Assam. The bank covered 25 districts of Assam with its wide network of 374 numbers of branches out of which 74.86 percent of branch

Bank	Sponsor Bank	District covered	Percentage of Rural Branches	C/D Ratio	Business Per Branch (in Rs)	Business Per Employee (in Rs)
AGVB	UBI	25	74.86	56.29	231145	45885
TGB	UBI	8	69.17	44.26	327726	65942

Source: Annual Reports of Assam Gramin Vikash Bank and Tripura Gramin Bank

located in rural areas. As on 31st March 2013, CD ratio of the bank stood at 56.29 percent. Moreover, Business per branch and employee of AGVB was Rs. 231145 thousand and Rs. 45885 thousand respectively.

Tripura Gramin Bank (TGB) was setup on 21st December 1976 under the Regional Rural Bank Act, 1976. At present the bank cover all 8 districts of Tripura with 69.17 percent of rural branches. CD ratio of TGB was 44.26 percent whereas business per branch and employee stood at Rs. 327726 thousand and Rs. 65942 thousand respectively.

Analysis and Discussion

Table 1 reveals that total advances of Assam Gramin Vikash Bank and Tripura Gramin Bank have been increasing over the years. Total advances of AGVB were Rs. 854.08 crore in 2006 which has increased to Rs. 3113.53 crore in 2013. The CAGR of advances of AGVB is 20.30 percent during the period of study. Similarly, total advances of TGB has increased from Rs. 375.29 crore in 2006 to Rs. 1317.68 crore in 2013 and thus registering a CAGR of 19.65 percent. Thus, it is found that CAGR of AGVB is higher than that of TGB.

Table 1: Credit Deployment

Year (as on 31st March)	Assam Gramin Vikash Bank (in crore)	Tripura Gramin Bank (in crore)	All RRBs of North Eastern Region (in crore)
2006	854.08	375.29	1534.29
2007	1047.66	467.96	1873.99
2008	1224.15	549.15	2190.51
2009	1399.05	662.65	3199.74
2010	1618.23	799.65	3028.76
2011	2072.83	994.02	3825.26
2012	2601.56	1157.64	4748.06
2013	3113.53	1317.68	6781.02
CAGR (%)	20.30	19.65	23.65
CV (%)	45.53	40.13	47.55
Regression Coefficient	313.7	137.1	664.6
R2	0.939	0.980	0.888
t-value	6.127*	6.395*	5.564*
p-value	.000	.000	.001

* Note: Significant at 5% (2-tailed)

Figures in parenthesis indicate share of credit of AGVB and TGB to the total credit of all RRBs of NER

Source: Compiled from Key Statistics of Regional Rural Banks, Annual Report, AGVB, and TGB (various issue)

Further, advances of RRBs of eight NER stood at Rs. 1534.29 crore in 2006 which has increased to Rs. 6781.02 crore in 2013 with a CAGR of 23.65 percent and CV of 47.55 percent. During the study period the relative share of AGVB is higher as compared to TGB. Again, the value of co-efficient of variation of credit deployment of AGVB and TGB indicate that there the credit deployment by TGB is more consistent than that of AGVB. It is observed that value of regression coefficient of AGVB is higher as compared to TGB where the values of coefficient of determination imply that more than 93 percent variation in credit deployment of AGVB 98 percent variation in TGB and 88 percent variation of NER can be explained with the help of time only. Moreover, the result of t- test shows that growth of advances of AGVB and TGB as well as NER are

statistically significant as the p value is less than 0.05 in all cases.

Table 2 shows that advance per branch of AGVB has been increased to Rs. 8.32 crore in 2013 from Rs. 2.41 crore in 2006 with a CAGR of 19.40 percent. Similarly, advance per branch of TGB has increased from Rs. 4.31 crore in 2006 to Rs. 9.91 crore in 2013 at a CAGR of 12.61 percent.

It is observed that absolute amount of advance per branch of TGB is higher as compared to AGVB throughout the study period. The CV of AGVB has been found to be higher as compared to that of TGB during the study period which implies that level of consistency is higher in case of TGB. Further, the result of t- test reveals that the mean difference between the growth of advance per branch of AGVB and TGB is

Table 2: Advance per Branch

Year (as on 31st March)	Assam Gramin Vikash Bank (in crore)	Tripura Gramin Bank (in crore)
2006	2.41	4.31
2007	2.95	5.32
2008	3.45	5.72
2009	3.94	6.43
2010	4.55	7.20
2011	5.65	8.80
2012	7.05	9.41
2013	8.32	9.91
CAGR (%)	19.40	12.61
CV (%)	43.22	26.85
t- value	-2.280	
p- value	.039	

Note: Based on Key Statistics of Regional Rural Banks, NABARD and Annual Reports of AGVB and TGB

statistically insignificant which is evident from the corresponding p value.

Table 3 depicts that advances per employee of AGVB has been increased to 1.65 crore in 2013 from 0.48 crore in 2006 with a CAGR of 19.23 percent. Similarly, advances per employee of TGB has been increased from Rs. 0.54 crore in 2006 to Rs. 1.99 crore in 2013, thus registering a CAGR of 20.51 percent.

Thus, CAGR of advances per employee of TGB is higher than that of AGVB. The CV of advances per employee of AGVB is found to be higher as compared to TGB during the study period. Moreover, the result of independent two sample t- test shows that growth of advance per employee of AGVB vis-à-vis TGB is statistically insignificant as is revealed from the corresponding p value.

Table 4 shows that interest earned on advances of AGVB has been increased from Rs.

71.08 crore in 2006 to Rs. 312.89 crore in 2013 and thus registering a CAGR of 23.58 percent. Similarly, TGB has earned 129.47 crore as interest on advance in the year 2013 as against 25.71 crore in 2006 and recording a CAGR of 25.98 percent.

The value of CV of AGVB is found to be higher as compared to TGB which implies that TGB is more consistent in earning interest on advances during the study period. Moreover, the result of independent two sample t- test reveals that the difference between the growth of interest earned on advances of AGVB vis-à-vis TGB is statistically significant as the p value is less than 0.05.

Table 5 depicts that relative share of Priority sector advances of AGVB has increased from 63.88 percent in 2006 to 84.09 percent in 2013. Similarly, relative share of priority sector advance of TGB has increased from

Table 3: Advance per Employee

Year (as on 31st March)	Assam Gramin Vikash Bank (in crore)	Tripura Gramin Bank (in crore)
2006	0.48	0.54
2007	0.59	0.69
2008	0.71	0.81
2009	0.81	1.00
2010	0.95	1.23
2011	1.20	1.49
2012	1.49	1.70
2013	1.65	1.99
CAGR (%)	19.23	20.51
CV (%)	43.05	40.74
t- value	-.833	
p- value	.419	

Note: Based on Key Statistics of Regional Rural Banks, NABARD and Annual Reports of AGVB and TGB

Table 4: Interest Earned on Advances

Year (as on 31st March)	Assam Gramin Vikash Bank (in crore)	Tripura Gramin Bank (in crore)
2006	71.08	25.71
2007	79.77	35.76
2008	98.16	44.02
2009	118.09	52.63
2010	139.06	66.70
2011	171.73	84.55
2012	251.38	113.84
2013	312.89	129.47
CAGR (%)	23.58	25.98
CV (%)	51.95	50.62
t-value	2.626*	
p-value	0.022	

Note: Based on Key Statistics of Regional Rural Banks and Annual Reports of AGVB and TGB

Table 5: Proportion of Priority Sector Advances to Total Advances

Year (as on 31st March)	Assam Gramin Vikash Bank (in %)	Tripura Gramin Bank (in %)
2006	63.88	66.64
2007	69.17	68.17
2008	71.71	73.21
2009	73.73	73.82
2010	75.98	72.30
2011	79.69	71.36
2012	83.50	70.13
2013	84.09	72.65
t- value	1.580	
p- value	.136	

Note: Based on Key Statistics of Regional Rural Banks and Annual Reports of AGVB and TGB

Table 6: Proportion of Non- Priority Sector Advances to Total Advances

Year (as on 31st March)	Assam Gramin Vikash Bank (in %)	Tripura Gramin Bank (in %)
2006	36.12	33.36
2007	30.83	31.83
2008	28.29	26.79
2009	26.27	26.18
2010	24.02	27.70
2011	20.31	28.64
2012	16.50	29.87
2013	15.91	27.35
t- value	-1.580	
p- value	.136	

Note: Based on Key Statistics of Regional Rural Banks and Annual Reports of AGVB and TGB

Table 7: Recovery Position

Year (as on 31st March)	Assam Gramin Vikash Bank (in %)	Tripura Gramin Bank (in %)
2006	72.20	55.10
2007	71.72	63.19
2008	62.71	69.07
2009	70.43	73.93
2010	70.08	72.42
2011	70.44	79.76
2012	70.08	75.95
2013	73.15	66.85
t-value	-0.725	
p-value	0.483	

Note: Based on Key Statistics of Regional Rural Banks and Annual Reports of AGVB and TGB

66.64 percent in 2006 to 73.82 percent in 2009. Afterwards, the same has declined to 70.13 percent in 2012. It is found that both the bank has more concentrated on priority sector advances may be because of 60 percent fixed target for the sector. Thus, it can be noted that both the bank have been able to met the credit needs of the rural people under its area of operation.

The result of t- test shows that the growth of relative share of priority sector advance of AGVB vis-a-vis TGB is statistically insignificant as the p value is greater than the level of significance (α) i.e. 0.05.

Table 6 provides the proportion of non priority sector advance to total of AGVB vis-à-vis TGB has from 2006-2013. The relative share of non priority sector advance of AGVB was 36.12 percent in 2006 which has declined to 15.91 percent in 2013. Similarly, relative share of non priority sector advance of TGB has decreased from 33.36 percent in 2006 to 27.35 percent in 2013.

The above analysis reveals that both the bank has deployed large proportion of credit to priority sector. Thus, it is obvious reason for decreasing trend of non-priority sector advance for both the bank. Again, the result of t- test shows growth of relative share of non priority sector advance of AGVB as well as TGB found statistically insignificant as p value is higher than α (at 5 percent).

Table 7 shows recovery position of AGVB and TGB from 2006-2013. In the year 2006, recovery rate of AGVB was 72.20 percent but it has increased to 73.15 percent in 2013. The recovery rate of TGB was 55.10 percent in the year 2006 has increased to 66.85 percent in 2013.

The result of t- test shows that the growth of recovery rate to total overdue of AGVB vis-a-

vis TGB is statistically insignificant as the p value is greater than the level of significance (α) i.e. 0.05.

Epilogue

To conclude based on selected parameters the performance of both Assam Gramin Vikash Bank and Tripura Gramin Bank in the sphere of credit deployment are satisfactory. The growth of Assam Gramin Vikash Bank in terms of CAGR is higher than that of Tripura Gramin Bank during the period under consideration. However, time factor has influenced the growth of credit of TGB more than the growth of credit of AGVB. The results of t statistics reveal that mean difference between growth in credit deployment of AGVB and TGB is significant. Further, in absolute term value of both advance per branch and advance per employee of TGB are higher because of the fact that AGVB has more number of branches as well as employees. During the period of study, AGVB has earned higher amount of interest on advance compare to TGB. The relative share of priority sector advances to total advances of both the bank is much higher as compared to that of non-priority sector advances. However, the recovery rate also depicts a sign of marginal improvement in case of both the banks.

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