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FINANCIAL PERFORMANCE OF RRBs IN SAURASHTRA REGION OF GUJARAT

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ABSTRACT

Agricultural sector plays a dominant role in improving living standard of people and employment generation in rural India. Regional Rural Banks are providing credit to farmers, agricultural labour and artisans for the development of rural India. So it is essential to evaluate its performance and viability regarding agricultural sector to enhance the smooth flow of credit to this sector. Keeping this in view, an attempt was made to undertake the study on "economic evaluation of the performance of institutional finance to agriculture in Junagadh district, Gujarat".

The results of performance and viability through various ratios indicated a considerable improvement and sound position of credit delivery system of the bank. Current ratio and quick ratio for Junagadh Amreli Gramin Bank(JAGB) were found, on average, 1.53 and 1.25, respectively while the gross profit ratio was found 3.87. The turnover ratio and net capital ratio indicated sound performance and long-term financial safety over a period of time. Working capital ratio and capital employed turnover ratio were found 4.57:1 and 6.68:1, and 4.50:1 and 6.63:1 for JAGB and SGB, respectively, while the net capital ratio was found more than unity during study period. Economic performance ratio and operational performance ratio showed expected performance and improvement in size and volume of business. Productivity per staff and per branch increased from ₹10.40 lakh to ₹287.66 lakh and from ₹ 36.02 lakh to ₹969.59 lakh respectively, during the study period.

Introduction

Agriculture is the basic growth engine of Indian economy. Agriculture accounts for nearly 18 per cent of Gross Domestic Product and provides employment to around 65 per cent of the rural workforce. Though agriculture is the backbone of Indian economy, today, it is one of the slowest growing sectors of our economy with growth rate ranging between 2 to 3 per cent. This has led to a decline in overall growth of the economy. As compared to industrial and service sectors, agricultural sector has not only shown low but also an inconsistent growth.

For achieving the desired growth, and to improve the standard of living, modern technology has become essential. It has now become capital intensive by attracting huge amount of capital for investment. A large number of agencies, including cooperatives, regional rural banks (RRBs), commercial banks, non–banking financial institutions, self-help groups (SHGs) and a well-spread informal credit outlet

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together constitute the Indian rural credit delivery system. Provision of adequate, timely, and liberal credit to the farmers has become an integral part of the agricultural development policy in India. Thus, there is large scope for institutional agencies to expand the credit base of farm sector further. Keeping this in mind, in 2004, Government of India, announced the target of doubling the farm credit in three years. During these three years, as an association of the regional rural banks, the cooperative banks and the scheduled commercial banks, in close coordination with National Bank for Agriculture and Rural Development (NABARD) have disbursed credit to the farm sector and the target has been achieved even before time.

Gujarat State has 53 Commercial Banks (26 private sector banks), 3 RRBs, 1 State Cooperative Bank, 18 District Central Cooperative Banks (DCCBs), and one State Cooperative Agriculture and Rural Development Bank (SCARDB). The total deposit, total outstanding and outstanding of agricultural sector of Saurashtra Gramin Bank during 2007-08 were ₹ 841.55, ₹ 544.96 and ₹ 448.25 crore, respectively, with 64.76 per cent credit deposit ratio. The loan disbursed to farm sector was ₹ 385.52 crore during 2007-08, which was 88.11 per cent of total loan disbursed. In this backdrop, it is essential to evaluate the financial performance and viability of RRBs in Saurashtra region of Gujarat. The specific objectives of the study are;

(1) To examine the performance of flow of institutional finance to agriculture sector.

(2) To study the financial performance and viability of selected banks.

Methodology

Regional Rural Banks (RRBs) are India's state-owned development finance vehicle charged with serving the rural people. In Gujarat, after merger in February 2006, three RRBs have been functioning with a wide network of 425 branches. As Saurashtra Gramin Bank (SGB) has a wide network of branches in Junagadh district, SGB was purposively selected for the study. Data were collected from the records of the Saurashtra/Junagadh-Amreli Gramin Bank for the period from1992-93 to 2007-2008.

Concepts and Estimation Procedure

Loan : It refers to the quantum of fresh credit disbursed during that specific year.

Term Loan/Agricultural Credit : This refers to both medium and long-term investment credit made available per hectare of gross cropped area.

Total Income (₹) : This is calculated from the sum of the earnings by all the members in the household from all sources.

Liquidity Ratio : It is extremely essential for a bank to be able to meet its obligation as they become due. Liquidity Ratio measures the ability of the bank to meet its immediate obligation since lack of sufficient liquidity will result in bad credit rating, loss of creditor's confidence etc. A very high degree of liquidity will result in idle assets. There should be proper balance between liquidity and use of assets.

(i) Current Ratio : Current Ratio is calculated by dividing current assets with current liabilities. Current assets include cash and those assets which can be converted into cash within a year. All obligations which are maturing within a year are included in current liabilities. A relatively high value of the current ratio is considered as an indication that the bank is liquid and has the ability to pay dues. As a conventional rule, a current ratio of 2:1 or more is considered satisfactory.

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

(ii) Quick Ratio or Acid Test Ratio : Quick ratio or acid test ratio is a more refined measure of bank liquidity as this ratio measures the relationship

between Quick assets and Quick liabilities. Generally a Quick Ratio of 1:1 is considered to represent a satisfactory current financial condition.

$$\text{Quick Ratio or Acid Test Ratio} = \frac{\text{Quick assets}}{\text{Quick liabilities}}$$

Profitability Ratio and Return on Investment Ratio : The performance of the bank in relation to its profitability and turnover is reflected by this ratio.The better profitability position can be said to have been contributed more by operational efficiency than by economic efficiency reflected in business growth.

(1) Gross Profit Ratio

Gross profit= Gross profit as per profit and loss account Sale = Sales net of returns

It indicates basic profitability, efficiency and margin of safety. Higher the value, greater is efficiency.

$$\textbf{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Sales}} \times 100$$

(2) Net Profit Ratio

$$\textbf{Net profit ratio} = \frac{\text{Net profit}}{\text{Turnover}} \times 100$$

(3) Operating Profit Ratio

Operating profit =Sales less cost of sale

Sale = Sales net of returns

It indicates operating performance or efficiency of business.

$$\textbf{Operating profit ratio} = \frac{\text{Operating profit}}{\text{Sales}} \times 100$$

(4) Return on Assets

Net profit after taxes is the ratio of earning after taxes to average total assets (Tangible assets or fixed assets).

It indicates net income per rupee of average fixed assets. Higher the ratio, the better is the utilisation of assets.

$$\textbf{Return on assets} = \frac{\text{Net profit after taxes}}{\text{Average total assets}} \times 100$$

(5) Returns on capital employed (ROCE)

Total Earnings = earning after taxes + interest on debt funds + non-operating adjustment.

Capital Employed = fixed assets+ net working capital.

It indicates overall profitability of the business on the total funds employed, and also indicates how management has used the fund supplied by the creditors and owners. Higher the ratio, the more efficient is the bank using fund entrusted to it. If ROCE is greater than interest rate, the use of debt fund is justified.

$$\textbf{Return on capital employed} = \frac{\text{Total Earnings}}{\text{Capital Employed}}$$

Economic Performance Ratio

(1) Burden Efficiency Ratio: This ratio indicates the degree of effectiveness of resources, and the burden of operating expenses on business. So, lower ratio indicates good performance of the bank.

$$\text{Burden Efficiency Ratio} = \frac{\text{Burden}}{\text{Business (source+ uses)}}$$

Burden= Operating Expenses-Other income

Business= Deposit + Borrowing

(2) Business Growth Ratio

$$\text{Business growth ratio} = \frac{\text{Current period business}}{\text{Previous period business}}$$

(3) Operating Expenses Growth Ratio

$$\textbf{Operating expenses ratio} = \frac{\text{All operating expenses}}{\text{Sales}}$$

It indicates a relationship between expenses to sales. A lower ratio indicates better management of fund.

(4) Efficiency Ratio : This ratio indicates the cost incurred to earn one rupee of income so lower ratio indicates efficient performance of the bank.

Efficiency Ratio = $\frac{\text{Total cost}}{\text{Total income}}$

Operational Performance Ratio

(1) Productivity Per Staff/ Branch : Productivity per staff especially with more increase in advances per account helps bank to improve the recovery percentage and to come out of losses to earn profits overtime. Productivity per staff is one of the physical performance indicators. This is closely associated with other financial performance indicators, viz. percentage of overdues to demand, fixed assets and proportion of time deposits to total deposits. The resource position and effective utilisation greatly influence the working efficiency of the bank. Thus, in order to achieve faster growth in physical and financial resources, there is need to maintain the tempo of resources mobilisation for investment purposes.

Productivity per staff = $\frac{\text{Volume of business}}{\text{Total bank staff}}$

Productivity per branch = $\frac{\text{Volume of business}}{\text{Total bank branch}}$

(2) Uses to Sources Ratio: This ratio indicates fund development with the help of present sources.

Uses to sources ratio = $\frac{\text{Uses}}{\text{Sources}}$

Uses = Advance + Cash
Sources = Deposit + Borrowing

(3) Non-performing advances: This ratio indicates increase in non-performing assets per every unit increase in advances, lower the ratio indicate good operational performance.

Non-performing advances = $\frac{\text{Non-performing assets}}{\text{Advances}}$

Turnover/Active and Solvency Ratio

(1) Working Capital Turnover Ratio : This ratio indicates the efficiency of the bank in utilising the working capital in business. A higher ratio denotes more efficient use of working capital in the business. It signifies the ability to generate sales per rupee of working capital.

Working capital turnover ratio = $\frac{\text{Turnover}}{\text{Net working capital}}$

(2) Capital Employed Turnover Ratio : Capital employed may be defined as non-current liabilities plus owner's equity or permanent capital or long-term fund. The ratio indicates the ability of bank in generating sales per rupee of long-term investment.

Capital employed turnover ratio = $\frac{\text{Turnover}}{\text{Capital employed}}$

Turnover = Sales net of returns, and
Capital employed = Fixed assets + net working capital.

(3) Debt Equity Ratio : It is calculated by dividing the debt with equity. It shows the relationship between debt and equity. The Ideal ratio is 2:1.

Debt equity ratio = $\frac{\text{Debt}}{\text{Equity}}$

Debt= Borrowed fund, and Equity= Share capital + Reserve and surplus - loss (as per profit and loss account).

(4) Net Capital Ratio : This ratio measures the degree of financial safety over a period of time. It indicates the long liquidity position of the firm business.

Net Capital Ratio = $\frac{\text{Total assets}}{\text{Total debt}}$

Total debt = Current liability + term liability.

Credit Deposit Ratio (CDR)

This ratio indicates the disbursement of credit per unit of deposit.

Credit deposit ratio = $\frac{\text{Total amount of credit}}{\text{Total amount of deposits}} \times 100$

RESULTS AND DISCUSSION

Performance of Flow of Institutional Finance to Agriculture Sector

The year-wise progress of the deposit and advances of JAGB/SGB is furnished in Table 1. It is evident from the Table that the amount of deposit has increased from ₹913.55 lakh (1992-93) to ₹9578.78 lakh (2004-05). It has reached to the level of ₹ 84154.88 lakh during 2007-08 when all the RRBs of Saurashtra were merged and came into existence as Saurashtra Gramin Bank. The amount of advance made available increased from ₹ 562.67 lakh (1992-93) to ₹ 4890.12 lakh (2004-05) and after merged in SGB, it has increased from ₹ 36848.71 lakh (2005-06) to ₹ 54495.91 lakh (2007-08). In case of agricultural sector, the advances increased from ₹ 331.44 lakh (1992-93) to ₹ 3891.99 lakh (2004-05) and from ₹ 30042.71 lakh (2005-06) to ₹ 44825.29 lakh (2007-08). A considerable increase in advances to agricultural sector implies that this RRB has played a significant role to cater to the needs of rural poor. In total advance, the share of agricultural sector was very high in all years. The Table also indicates that credit deposit ratio was found no uniformity and ranged between 34.47 per cent (1995-96) to 66.99 per cent (2005-06). The C.D. ratio of SGB was more than 60 per cent in all the years. This shows a healthy sign. The number of staff and branches showed a declining trend in case of JAGB. Vyas and Shiyani (1997) found a significant increase in deposit and total advance of JAGB. Adinew Abate *et al* (2002) also found that agricultural loan and advances has shown significant growth in commercial and regional rural banks in Karnataka.

Table 1: Progress of Junagadh Amreli Gramin Bank/Saurashtra Gramin Bank in Various Banking Parameters

	Year	No. of Branches	Staff	Deposits (₹ '000)	Total Outstanding (₹ '000)	Outstanding of agricultural loan (₹ '000)	CD ratio (%)
(A)	1992-93	41	142	91355	56267	33144	61.60
JAGB	1993-94	41	141	126531	63758	41447	50.38
	1994-95	41	141	152559	65808	36628	41.11
	1995-96	41	141	218118	81526	48408	34.47
	1996-97	41	138	303792	116011	90614	38.19
	1997-98	37	138	389720	178746	131506	46.00
	1998-99	38	135	476905	223966	165628	47.00
	1999-00	38	135	562062	277760	209588	49.00
	2000-01	36	134	588752	323310	247376	55.00
	2001-02	35	132	652652	349125	272454	53.50
	2002-03	34	131	744728	375306	294363	50.30
	2003-04	34	129	811339	395333	307116	48.70
	2004-05	34	130	957878	489012	389199	51.05
	2004-05	141	488	4870039	2939542	2314584	60.36
(A)	2005-06	141	487	5500915	3684871	3004271	66.99
SGB	2006-07	142	484	6813200	4490758	3809040	65.91
	2007-08	143	482	8415488	5449591	4482529	64.76

Table 2 reveals the year-wise trend of all loan disbursed to agricultural sector. The Table shows that the disbursement of total loan increased from ₹ 307.21 lakh (1992-93) to ₹ 4435.67 lakh (2004-05) and after merged, it increased from ₹ 31900.00 lakh (2005-06) to ₹ 43717.18 lakh (2007-08). In case of agricultural sector, it increased from ₹ 233.17 lakh (1992-93) to ₹ 3914.39 lakh (2004-05) in case of JAGB, while in respect of SGB, it increased from ₹ 28022.00 lakh (2005-06) to ₹ 38518.33 lakh (2007-08). The share of agricultural loan in the total loan was more than 75 per cent in all the years, it was as high as 91.02 per cent during the year 2006-07. This implies that the SGB has given due weightage to agricultural sector which is a backbone of our economy. Further, it can also be seen from the Table that the per cent increase in advances to agricultural sector over the previous year was relatively higher as compared to that of total advances in 11 years. This was mainly due to the change in attitude of farmers from subsistence farming to commercial farming and favourable reforms in banking sector.

Table 2: Year-wise Disbursement of Loan by JAGB/SGB

	Year	Total loan disbursed (₹ '000)	Increase over previous year (%)	Loan disbursed to farm sector (₹ '000)	Increase over previous year (%)	% of agricultural loan to total loan
(A)	1992-93	30721	—	23317	—	75.90
JAGB	1993-94	39831	29.65	31895	36.79	80.08
	1994-95	43472	9.14	34869	9.32	80.21
	1995-96	63348	45.72	54771	57.08	86.46
	1996-97	105005	65.76	80885	47.68	77.03
	1997-98	156976	49.49	119116	47.27	75.88
	1998-99	169212	7.8	132214	11	78.14
	1999-00	188503	11.4	147535	11.59	78.27
	2000-01	220691	17.08	182977	24.02	82.91
	2001-02	245280	11.14	210254	14.91	85.72
	2002-03	272130	10.95	230619	9.69	84.75
	2003-04	342984	26.04	291502	26.4	84.99
	2004-05	443567	29..33	391439	34.28	88.25
	2004-05	2538890	-	2180690	-	85.89
(B)	2005-06	3190000	25.65	2802200	28.5	87.84
	2006-07	3915678	22.75	3564205	27.19	91.02
SGB	2007-08	4371718	11.65	3851833	8.07	88.11

Perusal of Table 3 reveals year-wise progress of JAGB and SGB in relation to its business, total income and total expenditure. It is apparent from the data that the business of JAGB/SGB showed continuous increasing trend. It increased from ₹ 1476.82 lakh (1992-93) to ₹ 14468.90 lakh (2004-05) for JAGB and from ₹ 91857 lakh (2005-06) to ₹ 138651 lakh (2007-08) in case of SGB. An increasing trend in income was noticed up to the year 2002-03 but it has declined in the subsequent two years. Almost similar trend was noticed in case of expenditure too.This result lead to conclude that there was a considerable increase in the magnitude of deposits, loan disbursement to agricultural sector,total income and also in total expenditure of the bank.The share of agriculture loan in total loan was found quite high.

Table 3: Trend in Financial Performance of JAGB/SGB

(₹ '000)

	Year	Business	Total income	Total expenditure
(A)	1992-93	147682	13806	19728
JAGB	1993-94	190281	17961	24652
	1994-95	218366	17000	27519
	1995-96	299587	25132	35850
	1996-97	419799	36594	40259
	1997-98	568466	57506	46269
	1998-99	700871	79340	64646
	1999-00	839822	99667	79905
	2000-01	912062	108435	87456
	2001-02	1001777	114451	98964
	2002-03	1119534	118357	103859
	2003-04	1206672	108150	93322
	2004-05	1446890	97666	89696
	2004-05	NA	NA	293302
	2005-06	9185700	121706	113670
(B)	2006-07	11304000	629699	600392
SGB	2007-08	13865100	746349	708152

NA = Data not available.

Financial Performance and Viability of Selected Banks

The financial performance of a bank greatly influences its operational results and business efficiency. Therefore, it is highly needed to evaluate the financial performance of JAGB/ SGB in relation to efficiency in mobilising the required resources and effectiveness in utilising these resources. In order to study the financial performance of the bank, the ratio analysis technique was regarded as useful tool in the hand of the bank. The ratios indicate improvement over the past performance and satisfactory positions. Various ratios were used in the study to examine the performance and viability of bank.

Liquidity Ratio : The short-term financial position of the bank is assessed on the basis of liquidity ratio. It is expected that the bank should be in a position to satisfy his day-to-day commitment in the form of current liabilities out of the current assets. Liquidity ratio indicates the financial liquidity of the bank.

The current ratio: The ratio of current assets to current liabilities termed as current ratio which shows the ability of the bank to meet its short-term (one year's time) obligation.

The quick ratio: The ratio of quick assets to quick liabilities termed as quick ratio which shows the ability of the bank to meet its very short-term obligation.

Quick ratio provides better measure of liquidity than current ratio while, current ratio in effect reflecting liquidity within one year's time. So there is a need to know quick assets and liabilities position of bank which is provided by quick ratio.

The year-wise results of current ratio and quick ratio are presented in Table 4. An uniform trend of current ratio was noticed for the entire period. It ranged between 1.28:1 (2003-04) to 1.91:1 (1993-94) with an overall average of 1.53:1 for Junagadh Amreli Gramin Bank and 1.31:1 (2006-07) to 1.80:1 (2005-06) with an overall average of 1.50:1 in case of Saurashtra Gramin Bank. This implies that, on an average, every one rupee of current liabilities, the bank has been maintaining asset of more than ₹ 1.50. It is obvious that the minimum level of current assets should be equivalent to current liability. Ideally, this ratio must be at least 1.33 as per the guideline on priority sector and special credit schemes, provided by S. Rajendran-2002. Keeping in view these guidelines it can be concluded that financial position of the bank was found satisfactory.

No uniformity was observed in quick ratio of the bank. It ranged between 0.43:1 (2004-05) and 2.19:1 (1993-94) with an overall average of 1.25:1 for Junagadh Amreli Gramin Bank, whereas for SGB, it ranged between 0.31:1 (2007-08) and 0.72:1 (2005-06) with an overall average of 0.52:1. It shows that, on an average, every one rupee of quick liabilities, the bank has been maintaining an asset of ₹ 1.25 and ₹ 0.52 for Junagadh Amreli Gramin Bank and Saurashtra Gramin Bank, respectively. The desirable level of quick ratio is greater than or equal to one. Thus, it can be concluded that the short-term solvency and liquidity position of JAGB was sound. This ratio measures the relationship between cash and near cash items on one hand, and immediately maturing obligation on the other. It signifies that liquid assets were sufficient for meeting short-term liabilities. On the other hand, the position of SGB was found relatively weak as the average quick ratio was only 0.52.

Reddy (1994) also indicated that the liquidity position of the Mulkanoor cooperative rural bank as revealed by current and quick ratios was sound.

Table 4: Liquidity Ratios of Junagadh Amreli Gramin Bank/Saurashtra Gramin Bank

(₹ '000)

	Year	Asset	Liability	Current Ratio	Asset	Liability	Quick Ratio
(A)	1992-93	124364	71236	1.75	63189	33622	1.88
JAGB	1993-94	171917	89808	1.91	98146	44887	2.19
	1994-95	190582	1132277	1.68	106232	63870	1.66
	1995-96	239986	148806	1.61	136301	86712	1.57
	1996-97	341569	209961	1.63	205489	126981	1.62
	1997-98	379071	259573	1.46	202108	151499	1.33
	1998-99	415760	305734	1.36	201894	171653	1.18
	1999-00	472083	343592	1.37	220337	202293	1.09
	2000-01	548669	378539	1.45	247890	227303	1.10
	2001-02	638523	412329	1.55	265815	270096	0.98
	2002-03	618912	415580	1.49	243790	301008	0.81
	2003-04	550933	429336	1.28	161499	353817	0.46
	2004-05	579613	411380	1.41	136632	321327	0.43
	2004-05	3960974	2795602	1.42	833031	1999726	0.42
	2005-06	4843390	2649589	1.83	1713258	2385416	0.72
(B)	2006-07	5942628	4537962	1.31	1951735	3089690	0.61
SGB	2007-08	5992865	4413284	1.36	1128570	3617936	0.31
Average of JAGB				1.53			1.25
Average of SGB				1.50			0.52

Profitability Ratio

Gross Profit Ratio : This ratio indicates the margin available to the bank which covers indirect expenses. It is a relative term, it should be adequate and it is explained in percentage.

Table 5 revealed year-wise profitability ratios like gross profit, net profit and return on assets and return on capital employed ratio. Gross profit ratio ranged from 1.75:1 (1994-95) to 5.32:1 (2000-01) with an overall average of 3.87 for JAGB and for SGB, it ranged between 0.52:1 (2005-06) and 2.51:1 (2006-07) with an overall average of 1.41. It showed no uniform trend during the period under study.

Net Profit Ratio and Return on Assets Ratio : This ratio indicates the efficiency of the bank considering all the expenses. Net profit ratio and return on assets were found negative during the period from 1992-93 to 1996-97 and in remaining years, it was positive. The return on investment shows an improvement over a period of time. This implies that the assets of the bank are properly and prudentially utilised to generate revenue income.

Operating Profit Ratio : It indicates a relationship of expenses to sale. The lower ratio indicates better management of funds. This ratio was found negative during 1992-93 to 1996-97 and in remaining years it was positive. It was greater

than one during 1997-98 to 2003-04 but less than unity from the year 2004-05 onwards.

Return on Capital Employed Ratio : This ratio was found less than one in all the years under study, except for the years 1998-99, 1999-00 and 2003-04. Profitability ratio was found low because regional rural banks advanced its larger share to priority sectors at relatively lower rate of interest.

Table 5 : Profitability and Return on Investment Ratios of JAGB/SGB

	Year	Gross profit ratio	Net profit ratio	Operating profit ratio	Return on assets ratio	Return on capital employed
(A)	1992-93	2.57	-4.42	-3.81	-6.13	0.26
	1993-94	2.53	-3.88	-2.88	-7.25	0.22
	1994-95	1.75	-5.22	-3.69	-12.40	0.24
	1995-96	2.11	-3.91	-2.64	-13.60	0.31
	1996-97	2.75	-0.96	-0.04	-3.71	0.35
	1997-98	5.07	2.20	2.09	11.45	0.69
	1998-99	5.15	2.36	2.37	12.91	1.02
	1999-00	5.26	2.67	2.86	16.19	1.06
	2000-01	5.32	2.61	2.88	16.72	0.90
	2001-02	5.11	1.75	1.83	5.90	0.78
	2002-03	5.00	1.45	1.76	8.05	0.75
	2003-04	4.56	1.35	1.30	3.15	1.00
	2004-05	3.14	0.59	0.59	1.96	0.72
	2004-05	-	-	-	0.54	0.17
	2005-06	0.52	0.09	0.12	0.57	0.07
	2006-07	2.51	0.27	0.80	2.47	0.47
	2007-08	2.21	0.29	0.72	3.64	0.48

Turnover ratio indicates that, on an average, a rupee invested in current assets could create worth of business to the bank.

The data furnished in Table 6 indicate year-wise working capital turnover ratio, capital employed turnover ratio, debt equity ratio and net capital ratio. It is evident from the Table that working capital turnover ratio and capital employed turnover ratio were found greater than unity in almost all the years. In both the ratios, the lowest values were noticed in 1993-94 and the highest was reported during the year 2003-04 due to rapid increase in share capital of the bank. The results of these ratios indicate that on an average, a rupee invested in current assets could create ₹ 4.57 and ₹ 4.50 worth of business in JAGB and in case of SGB, it was ₹ 6.68 and ₹ 6.63, respectively.

The debt equity ratio measures the long-term solvency and ability of the bank to meet long-term liabilities. It is acceptable as 1:1 and under Indian conditions 34 per cent equity is considered as reasonable as per the guideline on priority sector and special credit schemes, provided by S. Rajendran-2002.

The debt equity ratio was found non-uniform and it ranged from 1.08 (1993-94) to 4.26 (2003-04). It indicates that more fund required by the bank are provided by creditors.

Net capital ratio measures the degree of financial safety over a period of time. It indicates the long liquidity position of the banks business. Net capital ratio was found more than unity in all the years. On an average, it was 1.09:1 which showed long financial safety over a time.

Table 6: Turnover/Active Ratios and Solvency Ratio of JAGB/SGB

	Year	Working Capital turnover ratio	Capital employed turnover ratio	Debt equity ratio	Net capital ratio
(A)	1992-93	2.52	2.47	1.16	1.06
JAGB	1993-94	2.10	2.08	1.08	1.06
	1994-95	2.60	2.58	1.26	1.06
	1995-96	3.01	2.98	1.58	1.05
	1996-97	2.91	2.89	1.48	1.12
	1997-98	4.28	4.24	2.17	1.10
	1998-99	5.65	5.59	3.08	1.09
	1999-00	5.76	5.71	3.22	1.07
	2000-01	4.72	4.69	2.58	1.09
	2001-02	3.92	3.88	2.05	1.10
	2002-03	4.92	4.88	2.57	1.12
	2003-04	9.03	8.70	4.26	1.12
	2004-05	8.02	7.83	3.72	1.12
	2004-05	0.00	0.00	2.63	1.09
(B)	2005-06	4.13	4.11	1.42	1.27
SGB	2006-07	7.60	7.54	2.65	1.07
	2007-08	8.31	8.25	3.04	1.07
	Average JAGB	4.57	4.50		1.09
	Average SGB	6.68	6.63		

Economic Performance Ratios

Burden Efficiency Ratio: It indicates burden of operating expenses on business, so lower the ratio indicates good performance of the bank.

Efficiency Ratio*:* It indicates every one rupee of income how much cost is incurred so lower the ratio indicates efficient performance of the bank.

Table 7 reveals year-wise various economic performance parameters of the bank, like burden efficiency ratio, efficiency ratio, business growth ratio and operating expenses growth ratio. The data indicated that burden efficiency ratio has declining trend, except the years 1994-95, 2001-02, 2002-03, 2004-05 and 2006-07. It ranged from 0.59:1 (1994-95) to 0.003:1 (2005-06).This indicates good efficiency of bank.

Business Growth Ratio: It also indicates non-uniform trend and it remained more than unity and indicated that business increased compared to previous year.It ranged between 1.08:1 (2003-04) to 1.40:1(1996-97) and on an average, the business increased by 22 per cent for the RRB indicating significant growth in business.

Operating Expenses Growth Ratio : It also showed non-uniform trend and ranged between 0.96:1 (2004-05) and 1.49:1 (2001-02) for JAGB. In case of SGB, it varied between 1.07:1 (2007-08) and 5.08:1 (2006-07).

Table 7: Economic Performance Ratios of JAGB/SGB

Year		Burden Efficiency ratio	Efficiency ratio (cost-income)	Business growth ratio	Operating expenses growth ratio
(A)	1992-93	0.057	2.72	NA	NA
JAGB	1993-94	0.053	2.54	1.29	1.18
	1994-95	0.059	3.98	1.15	1.27
	1995-96	0.041	2.36	1.37	0.97
	1996-97	0.028	1.35	1.40	1.04
	1997-98	0.022	0.57	1.35	1.03
	1998-99	0.021	0.54	1.23	1.18
	1999-00	0.020	0.49	1.20	1.11
	2000-01	0.019	0.46	1.09	1.02
	2001-02	0.026	0.64	1.10	1.49
	2002-03	0.028	0.65	1.12	1.11
	2003-04	0.020	0.71	1.08	1.10
	2004-05	0.021	0.81	1.20	0.96
	2004-05	NA	NA	NA	NA
	2005-06	0.003	0.77	NA	NA
(B)	2006-07	0.013	0.68	1.23	5.08
SGB	2007-08	0.009	0.67	1.23	1.07

NA = Data not available.

Operational Performance Ratios : Table 8 reveals year-wise operational performance ratios like productivity per staff, per branch, uses to source ratio and non-performing advances (NPA) ratio of the bank. It can be seen from the Table that productivity per staff and per branch increased continuously in all the years. After the merger of JAGB into newly formed Saurashtra Gramin Bank, a considerable increase in both the productivities was noticed. This implies that the efficiency of bank's staff improved significantly in the era of competition. This is a healthy sign and the bank has to maintain this tempo in future as well to keep pace with the changed scenario at national and international levels.

Uses to source ratio indicate that progress in fund development were on an average, 40 and 62 per cent in JAGB and SGB, respectively. Non-performance advance ratio showed nearly decreasing trend except for the period 2000-01 to 2002-03. It is also good sign of operational performance.

On the whole, the performance and viability revealed by various ratios were found sound and considerable improvement of the bank, in size and volume of business during study period.

Table 8: Operation Performance Ratios of Junagadh Amreli Gramin Bank/ Saurashtra Gramin Bank

(₹ '000)

	Year	Productivity per staff	Productivity per branch	Uses to sources ratio	Non-performing advances
(A)	1992-93	1040	3602	0.46	0.000
JAGB	1993-94	1340	4641	0.38	0.000
	1994-95	1549	5326	0.33	0.000
	1995-96	2125	7307	0.30	0.000
	1996-97	3042	10239	0.31	0.187
	1997-98	4119	15364	0.37	0.108
	1998-99	5192	18444	0.38	0.108
	1999-00	6221	22101	0.39	0.097
	2000-01	6806	25335	0.43	0.128
	2001-02	7589	28622	0.44	0.122
	2002-03	8546	32927	0.43	0.152
	2003-04	9354	35490	0.47	0.081
	2004-05	11130	42556	0.49	0.031
	2004-05	NA	NA	0.65	0.022
(B)	2005-06	18862	65147	0.67	0.019
SGB	2006-07	23355	79606	0.56	0.017
	2007-08	28766	96959	0.60	0.016

NA = Data not available.

Summary and Conclusions

Agriculture is backbone of Indian economy. It is the largest sector of the economic activity which provides not only food and raw material but also employment to a vast proportion of population of India. The improved technology has now become capital intensive by attracting huge amount of capital for investment in this sector. For achieving the desired growth to improve the living standard of people, institutional credit has been introduced as an instrument by various scheduled banks. The mobilisation of scarce resources especially financial resources in planned manner is given due attention. Institutional finance is considered as principal source of external finance to support and accelerate the development of the agricultural sector. Provision of adequate, timely, and liberal credit to the farmers has become an integral part of the agricultural development policy in India. Thus, it is necessary to provide credit to this crucial sector. Flow of credit to agricultural sector is the major common problem which plays dominant role in adoption of modern farm technology. For smooth and constant flow of credit, healthy institutional agency is essential so that it can provide needed credit to agricultural sector.

The C.D. ratio of SGB was found more than 60 per cent during the entire period which showed healthy sign of bank. Declining trend of number of staff and branches of the bank was noticed. In case of SAGB, total staff declined from 142 (1992-93) to 130 (2004-05) while the branches declined from 41 (1992-93) to 34 (2004-05). This implies better productivity of staff and bank which is essential in the era of competition.

Considerable increase was found in various indicators of bank like deposits from ₹ 913.55 lakh to ₹ 84154.88 lakh, total outstanding from ₹ 562.67 lakh to ₹ 54495.91 lakh and agricultural outstanding from ₹ 331.44 lakh to ₹ 44825.29 lakh during the entire study period.

Total loan disbursed by JAGB/SGB increased from ₹ 307.21 lakh (1992-93) to ₹43717.18 lakh (2007-08), while the disbursement of agricultural loan increased from ₹ 233.17 lakh to ₹ 38518.33 lakh during the study period. A quantum jump in the disbursement of agricultural loan could be attributed mainly to the concentred efforts of the bank's staff and financial sector reforms. The share of agricultural sector in total loan disbursed was found very high (more than 75 per cent) during the study period indicating due emphasis of bank on priority sector lending. Considerable increase in loan disbursed to farm sector over previous year was found and it was the highest (57 per cent) in 1995-96. The volume of business expanded from ₹ 1476.82 lakh to ₹ 138651.00 lakh, total income from ₹ 138.06 lakh to ₹ 7463.49 lakh and expenditure increased from ₹ 197.28 lakh to ₹ 7081.52 lakh, during 1992-93 to 2007-08.

The liquidity position of the JAGB as revealed by current ratio and quick ratio was sound with the average of 1.53 and 1.25, respectively. The corresponding figures for SGB were 1.50 and 0.52. Profitability and return on investment showed an improvement over a period of time which was reflected by the higher gross profit ratio (1:3.87). The capital turnover ratio indicates sound performance and long-term financial safety of the bank over a period of time. Working capital and capital employed turnover ratios were found, on an average, 4.57:1 and 6.68:1 and 4.50:1 and 6.63:1 for JAGB and SGB, respectively, while net capital ratio was more than unity during the study period. Debt equity ratio indicates long-term solvency which showed that higher fund requirement of the bank was provided by creditors. Economic performance ratios and operational performance ratios showed expected performance and improvement in size and volume of business. Productivity per staff and per branch increased

from ₹ 10.40 lakh to ₹ 287.66 lakh and ₹ 36.02 lakh to ₹ 969.59 lakh during the study period indicating the expected level of bank performance. In operational performance, a considerable improvement was found in terms of size and volume of business.

Concluding Remarks

(i) Adequate and continuous efforts should be made to educate the borrowers regarding end-use of credit for timely repayment of loans.

(ii) The simplification of loaning procedure is highly essential to increase flow of institutional finance to agricultural sector and reduce the cost of credit and to get rid off farmers from tedious and lengthy procedure.

(iii) The institutional agencies should arrange to provide adequate information about loan system and to educate borrowers about the positive impact of institutional credit.

(iv) To improve the quality of lending, efficiency of personnel and other related matters the banks should set up separate research and development cell at the zonal and central office levels.

(v) Financing institutions should increase their agricultural lending without significant increment in the cost of credit.

(vi) Agricultural credit policy of the various banks should keep the poorer farmers as their target-group and draw up an appropriate credit policy that caters to the need of the target-group. Also the cost of credit for target-group should be respectively, lower than the cost of credit to the non-target group of borrowers.

(vii) The financing institutions should give more emphasis on social background and attitude towards credibility of the borrowers in evaluating the prospective borrowers.

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Appendix I : Name of Junagadh-Amreli Gramin Bank Branches

S. No.	Name of Branch	S. No.	Name of Branch	S. No.	Name of Branch
1	Junagadh	13	Kesharia	25	Mota Barman
2	Naredi	14	Chandwana	26	Datardi
3	Tikar	15	Virdi	27	Khambhala
4	Dhava	16	Mendarda	28	Sanali
5	Talala	17	Mekhdi	29	Keriachard
6	Kevadra	18	Bhanduri	30	Amreli
7	Nanadia	19	Ajotha	31	Balej
8	Mendpara	20	Hemal	32	Khambhodar
9	Savani	21	Amba	33	Garej
10	Mota Samadhiala	22	Dharagni	34	Sisli
11	Vadhavi	23	Saladi		
12	Amodra	24	Pipalva		

Appendix II : Name of Saurashtra Gramin Bank Branches

S. No.	Name of Branch	S. No.	Name of Branch	S. No.	Name of Branch
Jamnagar region					
1	Amra	17	Haripar	33	Moti-gop
2	Amran	18	Jaiva	34	Navagam
3	Bankodi	19	Jamdudhai	35	Navagam ghed
4	Beraja	20	Jam-khabhalia	36	Pachhatar
5	Bhadra	21	Jamanagar	37	Padana
6	Bhangor	22	Khadkhambhalia	38	Papertoda
7	Bhan-khokhari	23	Khirasara	39	Pithad
8	Bhanvad	24	Lalpur	40	Ran
9	Chela	25	Makarani-sanosra	41	Sasodar
10	Devalia	26	Matwa	42	Sheth-vadala
11	Dhrol	27	Meghpar	43	Shiva
12	Dhunvav	28	Mota-gunda	44	Surajkaradi
13	Dhutarpar	29	Mota-itala	45	Vadatara
14	Falla	30	Mota-panchdevda	46	Varvala
15	Gadhaka	31	Mota-vadala	47	Viramdad
16	Gingani	32	Moti-banugar		

Surendranagar region

1	Adariyana	16	Lilapur	31	Rajpara
2	Anandpur	17	Limbadia	32	Rampara
3	Bajud	18	Mahuva	33	Rohishala
4	Bhavnagar	19	Mangadh	34	Sanosra
5	Bodananesh	20	Mayurnagar	35	Sarva
6	Botad	21	Methan	36	Shekhpar
7	Chotila	22	Morthara	37	Surendranagar
8	Dedara	23	Motaankevaliya	38	Tajpar
9	Devli	24	Motimoldi	39	Talaja
10	Dhrangdhara	25	Nagnesh	40	Tarsamiya
11	Dudhala	26	Nanaakhevaliya	41	Tatam
12	Halvad	27	Nanaashrana	42	Umarda
13	Jambu	28	Padva	43	Valukad
14	Jasapar	29	Palitana	44	Wadhawan
15	Kuntalpar	30	Patdi		

Junagadh region

1	Ajotha	16	Junagadh	31	Pipalva
2	Amba	17	Keriachad	32	Rajkot h. O. Branch
3	Ambardi	18	Kesharia	33	Rajkot mavdi road
4	Amodra	19	Kevadra	34	Saladi
5	Amreli	20	Khajurda	35	Sanali
6	Balej	21	Khambhala	36	Savani
7	Bhanduri	22	Khabhodar	37	Sisli
8	Chandwana	23	Maliyasan	38	Talala
9	Datardi	24	Mekhdi	39	Tikar
10	Dharagni	25	Medarda	40	Vadhavi
11	Dhava	26	Mendapara	41	Virdi
12	Dodiyala	27	Mota barman	42	Wavkaner
13	Garej	28	Mota samadhiala		
14	Gondal	29	Nanadia		
15	Hemal	30	Naredi		