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Impact of over due on the Financial management- A Case Study of Vaishali Kshetriya Gramin Bank"

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Abstract

Central India merged the two regional rural banks sponsored by the Central Bank of India in Bihar, Uttar Bihar Gramin Bank and the KosiKshetriyaGramin Bank, into a single regional rural bank that was renamed Uttar Bihar Gramin Bank with its headquarters in Muzaffarpur. A new area of operation for Uttar Bihar Gramin Bank in Bihar is the districts of Araria and Katihar, as well as the cities of Kishanganj and Darbhanga in the East, Gopalganj and Purnea in the West and the districts of East Champaran and Madhepura in the Madhubani and Muzaffarpur regions in the North. One of India's major regional rural banks, Uttar Bihar Gramin Bank is supported by the Reserve Bank of India and has a huge branch network and employee size.

Purpose:This loan program can be used to build rural godowns.

Introduction

Rural credit delivery in India has been improved by the introduction of regional rural banks (RRBs) as an experiment and practice. A concerted effort was made to integrate commercial banking into the broader policy push toward social banking while taking into account local characteristics with joint shareholding by the Central Government, the concerned State Government and the sponsoring bank. There was a need for a more solid institutional framework for delivering rural loans before RRBs were born. By designing RRBs as new regionally focused rural banks in 1975, the Narsimham committee hoped to bring together the small-town feel and intimate knowledge of rural issues characteristic of cooperatives with the professionalism and vast financial resources of commercial banks.

banks. After the RRB Act of 1976 was signed into law, the RRBs were established. The RRBs, which are commonly referred to as the "little man's bank," have become an integral part of the rural credit framework throughout time. Additionally, they have played a significant role in rural institutional financing, both in terms of geographic coverage as well as in terms of both clientele outreach and volume. Over 97% of RRBs' branch network is located in rural or semi-urban areas, demonstrating the strength of the bank's rural focus. Expanding banking activities in rural areas and mobilizing rural savings have been made possible by the expansion of the RRB branch network. However, if the RRBs' financial health is good, the mandate of promoting banking with a rural focus will continue. We should expect that the RRBs' own financial health will be a source of concern due to the constraints placed on their operations by law. RRBs made a total profit of Rs.904.43 crore in 2004-05, whereas 29 RRBs lost Rs.153.96 crore in the same period, according to their financial condition. In the fiscal year 2004-05, a total of 88 RRBs suffered losses of Rs. 2715.01 crore. A total of 53 of the 88 RRBs that have amassed losses have depleted all of their own reserves, including deposits. In addition, the RRBs' non-performing assets (NPAs) were Rs.3, 299 crore as of March 31, 2005, a record high. A total of 8.53 percent of gross NPAs were recorded in the fiscal year that ended March 31, 2005. There were 112 RRBs with gross NPAs lower than the national average, whereas 84 RRBs with NPAs higher than the national average. Policymakers began to take the financial viability of RRBs seriously after the conclusion of the expansion

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period in 1987. RRBs have been bolstered in a variety of ways since 1991, including a balance sheet clean-up, recapitalization of selected RRBs, and more. RRBs sponsored by the same bank within a state were consolidated in 2005 by the Government of India (GOI) to increase operational sustainability and take advantage of economies of scale by reducing transaction costs. As a result of improved banking infrastructure, common marketing and publicity efforts, mechanization and computerization of branches, optimum utilization of available trained, experienced staff, etc., amalgamated RRBs are expected to provide need-based and efficient customer services, as well as benefit from a large area of operation [economy in scale], enhanced mobilization and deployment of financial resources, and more diverse ban options. Until 2012, the consolidation process was still underway. There have been 56 RRB mergers in India as of March 31st, 2012, resulting in the consolidation of 173 banks (there was case of re-merger also). At least four of the 82 RRBs in India's multi-agency banking system are scheduled commercial banks as of March 2012.

the Bihar KshetriyaGramin Bank, the Madhya Bihar Gramin Bank, the Uttar Bihar Gramin Bank, and the SamastipurKshetriyaGramin Bank are all Bihar-based institutions (SKGB). BKGB, MBGB, and UBGB were formed as a result of the amalgamation of eight RRBs in this area. In February of 2007, the merger was completed. An important component of Indian banking is the rural sector's involvement. According to many economists and policymakers, India's future banking sector growth is heavily dependent on rural financial institutions' strong performance (RFIs) An important aspect in rural development and poverty reduction is the RFIs, as a large amount of their institutional rural credit is used to assist agricultural development and the creation of farmland capital. However, while RRBs' performance can be measured by the success of poverty alleviation programs, their achievements as commercial banks cannot be overlooked. In this light, the post-merger profitability performance of RRBs in India's rural banking sector has gained huge significance. Since RRB mergers were largely initiated to stop the escalating level of enormous accumulated losses, this argument becomes much stronger (Vyas Committee, 2001 & 2004, Sardesai committee, 2005). The purpose of this study is to examine the impact of mergers on RRB profitability in Bihar State. The study spans twelve years, from 2000-01 to 2011-12. The analysis covers six years from the pre-merger period (2000-01 to 2005-06) and six years from the post-merger period (2006-07 to 2011-12). Specifically, the study aims to: • Examine the social relevance of studying in RRBs' Profitability Performance (i.e. significance of the study). RRB mergers in India and in Bihar are a top priority. Examine how a merger may affect the profitability of RRBs in Bihar. • As a result, the rest of the paper is laid out as follows. The study's literature review and methodology were outlined in Section 2. An overview of RRB consolidation in India and Bihar State is provided in Sections 3, 4, and the conclusion of the study is discussed in Section 3. On the topic of RRBs in this region's profitability, we focus on the influence of mergers in section five. The concluding remarks are included in this section.

LiteratureReview

The influence of bank mergers on operational performance and efficiency, as well as an examination of the impact, have been the focus of various academic research on bank mergers.

on the value of both the bidder and the target bank's shares. There is an outstanding overview of the literature by Berger et.al (1999) on each of these topics. An analysis of post-merger accounting profits, operating expenses, and efficiency ratios compared to pre-merger performance is the first topic to be studied in this regard above. By cutting expenses or increasing revenues, the merger is anticipated to improve profitability. A rise in post-merger operating performance was shown in the studies by Cornett and Tehranian (1992) and by Spin it and Tarhan (1992). Studies by Berger and Humphrey (1992) and

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Piloff (1996), on the other hand, do not uncover any evidence of post-merger operating performance. It has also been noted that most research comparing pre-merger and post-merger financial ratios revealed no significant influence on operating cost and profit ratios. Because of the time lag between merger completion and the realization of merger advantages, selection of a sample, and strategies used in financing mergers, there is mixed data. Because they don't account for product mix or material pricing, financial ratios can be deceptive in their reporting. Mergers have also been looked at as a potential source of benefits and economies of scale. A study by Landerman (2000) examines the possible benefits of bank mergers with non-financial financial service enterprises for diversification. A bank's management rating, size, competitive position, and geographic location all play a role in how likely it is to merge with another, while concentration in the market has the opposite effect. Indian banking mergers are examined in academic studies (Reddy, 2005; Pandit et.al. 2006) for one major concern. Do bank mergers in India lead to better operational and financial results? To avert financial turmoil and preserve depositors' interests, the Indian central bank is guiding the merger of weak banks with healthy ones. Consequently, the mergers may not be motivated by an increase in operating efficiency, but rather by a desire to prevent the financial difficulties of weaker institutions. In this article, an effort is made to see if merging RRBs in West Bengal with other RRBs in the eastern area of India can alleviate the RRBs' financial stress in terms of improved profitability performance. As an exploratory study, it relies solely on secondary sources. NABARD and the RBI bulletin, yearly reports of RRBs, reports of the different committees established up by the government on RRBs, and the publications of the Banker Institute of Rural Development are all sources of secondary data on RRBs (BIRD). Comparing and analyzing ratios, percentage growth, and other metrics is used to evaluate the performance of the RRBs as well as to draw some solid conclusions about their performance.

Methodology

Rural financial institutions must be able to survive. Although the RRBs have made a significant contribution in the areas in which they operate, many of which are in extremely tough and unfriendly socio-economic and political contexts, a balanced approach is important. In terms of branches, deposits and depositors, advances and borrower accounts, and the credit-deposit ratio, the RRB has undoubtedly carved out a distinct niche for itself in India's rural banking sector. As a result, the banking infrastructure has been extended to the rural masses and contributed significantly to the mobilization of a small amount from a very large number of rural household depositors and the provision of small amounts of credit to quite a large number of rural households for their social and economic liberation and help them enjoy a reasonable standard of living rather than lead a life of destitute. RRBs have also made a substantial contribution in tribal areas, including all of the Planning Commission's largely tribal districts. Shareholders have been concerned about the long-term survival of RRBs since the early 1990s (i.e. the GOI, state governments and sponsor bank). At the end of its growing period, RRBs' financial viability was considered a severe issue (i.e.1987). There were numerous internal and external variables that

contributed to many RRBs accruing enormous losses due to intrinsic structural deficiencies such as a small and unremunerated loan size and the lack of cross-subsidization, as well as other internal concerns that were distinct to each RRB. There was also competition among financial institutions, a lack of assistance from their sponsor banks, and meddling from the State Government, all of which contributed to a lack of business and financial viability. As a result of the 1987 execution of the National Industrial Tribunal Award, the financial load on the RRBs grew significantly from September 1987 onward. The precarious position of the RRBs was made obvious by the fact that the equity base of as many as 165 RRBs on 31st March 1994 had been undermined by their accumulated losses. In order for RRBs to be successful and achieve their goals, a sustained effort at institutional development was needed.

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Rebalancing and recapitalizing selected RRBs was the first significant move, which was then followed by a series of initiatives aimed at giving them more freedom and flexibility. RRBs' financial viability and operational viability are critical issues, and numerous possibilities were examined in light of these concerns.of which merger of all RRBs sponsored by the same bank within a State (as recommended by the VyasCommittee in 2004) was considered appropriate and legally feasible.Profitability and financial viabilityof the RRBs has engaged the thought of the policy makers from time to time. In fact, as early as 1981,the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development(CRAFICARD) addressed the issue of financial viability of the RRBs. The CRAFICARD recommendedthat'the loss incurred by a RRB should be made good annually by the shareholders in the sameproportion of their shareholdings'. Though this recommendation was not accepted, under a scheme ofrecapitalisation,financialsupportwasextendedbytheshareholdersintheproportionoftheirshareholdings. Later, a number of committees have come out with different suggestions to address thefinancial non-viability of RRBs. For instance, the Working Group on RRBs (Kelkar Committee) in 1984recommended that small and uneconomic RRBs should be merged in the interest of economic viability.Fiveyearsdowntheline,inasimilarvein,theAgriculturalCreditReviewCommittee(KhusroCommittee) , 1989 pointed out that 'the weaknesses of RRBs are rife to the system and non-viability isbuiltinto it, and the only option was to merge the RRBs with the sponsor banks. The objective ofserving the weaker sections effectively could be achieved only by self-sustaining credit institutions'. TheCommitteeonRestructuringofRRBs,1994(BhandariCommittee)identified49RRBsforcomprehensive restructuring.Itrecommendedgreater devolution of decision-makingpowers to theBoards of RRBsin thematters of business developmentand staff matters. The option of liquidationagain was mooted by the Committee on Revamping of RRBs, 1996 (Basu Committee). The ExpertGrouponRRBsin1997(ThingalayaCommittee)heldthatveryweakRRBsshouldbeviewedseparatelyand possibilityoftheirliquidationberecognised.Theymightbemergedwiththeneighbouring RRBs. The Expert Committee on Rural Credit, 2001 (Vyas Committee I) was of the viewthat the sponsor bank should ensure necessary autonomy for RRBs in their credit and other portfoliomanagement system. Subsequently, another committee under the Chairmanship of ChalapathyRao in2003 (ChalapathyRao Committee) recommended that the entire system of RRBs may be consolidatedwhile retaining the advantages of regional character of these institutions. As part of the process, somesponsor banks may be eased out. The sponsoring institutions may include other approved financialinstitutions as well,in addition to commercial banks.The Group of CMDs of SelectPublic SectorBanks, 2004 (Purwar Committee) recommended the amalgamation of RRBs on regional basis into sixcommercial banks - one each for the Northern, Southern, Eastern, Western, Central and North-EasternRegions.AcommitteeundertheChairmanshipofA.VSardesairevisitedtheissueofrestructuringthe The RRBs (Sardesai Committee, 2005). That is, according to the Sardesai committee, RRBs could benefit from a merger/amalgamation path "to increase operational viability and take advantage of the economies of scale."

Conclusion

Until 2012, the route of merger pursued by RRBs in Bihar state to improve operating performance was successful in boosting the profitability and viability of the different banks in this region. ' It is possible to reduce accumulated losses (from 469.2 crores to 40.9 billion) by consolidating the banks. The UBGB merger has generated a comeback story for several of the banks involved. This region's success in consolidating RRBs, however, is explained below: - It has been about a year after Bihar State's RRBs were merged, and they are now capable of competing against other RFIs. NTG (non-target-group) financing has opened up new avenues of business, although the traditional job of responding to the credit demands of target group clients remains. As a result, RRBs, particularly those having operations in

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metropolitan and semi-urban regions and so serving a more affluent clientele, are working to improve the quality of their services to fulfill their needs. All financial needs will be catered for by the newly combined banks as they shed their previous image of being "narrow banks," focusing on "finance inclusion" through progressive use of new technology and low-cost delivery channels. Other business models, such as the "business facilitators" and the "business correspondent" models, are also being used by them for the extension of their outreach and the thorough use of technology based solutions. By joining forces with NGOs, government agencies, community-based organizations, businesses, and research institutes, the amalgamated RRBs were better able to help people realize their full potential. For example, the rural bank in this location may have possibilities to lend beyond its regulatory or self-imposed limits on risk in the future (see iii). RRBs consolidated in Bihar state have joined public sector banks in consortium financing arrangements on a paripassu basis. Merged RRBs were now playing a credit-led leadership role by providing credit throughout the supply chain, including storage, processing, shipping and marketing and retailing. The strategy has a significant advantage in that it helps to recover debts from other parts of the chain. As a result of this shift, the relationship between sponsor banks and RRBs is now one of mutual benefit. Consolidation has led to the signing of an MOU (memorandum of agreement) between the parties.
monitoring of RRB performance under multiple critical factors like incremental business growth, outreach, profitability, improvement in CD ratios and reduction of non-performing assets (NPAs) between sponsor banks and the GOI and RRBs with their respective sponsored banks. (vi) Automated and computerized banking services are now commonplace. RRBs in Bihar State have benefited greatly from the state's structural consolidation of RRBs through amalgamation. It allowed them to become financially secure and to grow in both size and scope. There has been an increase in the profitability of RRBs since the amalgamation of loss-making RRBs. Rural banking in this region has taken on a new dimension as a result of consolidation.

References

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