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## AN ASSESSMENT OF CREDIT AND FUND MANAGEMENT OF GRAMIN BANKS IN HIMACHAL PRADESH

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### ABSTRACT

Over the last few decades there has been a remarkable growth in agricultural sector of India and this growth is possible only due to financial assistance of Regional Rural Bank. RRB's are considered as the backbone of economic growth of the economy. RRB's have been playing a significant role in the overall development of agricultural activities in the state where majority of people are unemployed and involved in agricultural activities for satisfying their basic needs. Agriculture is providing large-scale employment, with small or less investments and proves to be a largest manpower employer and occupy a position of eminence in state economy. This research paper tries to highlight the significance of RRB's in economic development of the state. The study seeks to analyze the secondary data. The research paper focuses on study the Credit and Fund Management of Gramin Banks in Himachal Pradesh. The major objectives of the study are study the growth and performance of Gramin Banks in the state, to examine the status of outstanding loan and advances of the Bank and evaluate the financial health of the Bank in respect of CD ratio and recovery performance. Standard Deviation, Mean and CAGR are applied for the justification of secondary data. This study came up with a number of recommendations to strengthen the RRB's in the state further.

**KEYWORDS:** Gramin Banks , remarkable growth, performance, Regional Rural Bank and agricultural sector.

## INTRODUCTION

Indian economy is an agricultural economy. Agriculture is not only the major source of income in rural areas, but also provides maximum employment in rural areas of the country. Rural sector, still occupies a key position in the Indian economy as it constitutes nearly three fourth of the total population of the country. Economic condition of the people residing in rural areas are very poor and generally

Regional Rural Banks' have been set up mainly with a view to go faster the development of the rural economy by providing trouble-free access of credit for the purpose of development of agriculture trade, commerce, industry and other productive activities. These banks are expected to provide credit & other facilities particularly to small and marginal farmers, agricultural laborers', artisans and small entrepreneurs to meet their credit requirement. Since their inception, regional rural banks (RRBs) have taken deep roots and have become a sort of everlasting part of the rural credit structure in India. Indian economy is an agricultural economy. Agriculture is not only the major source of income in rural areas, but also provides maximum employment in rural areas of the country. Nearly three fourth of the total population of the country is involved in agricultural activities and RRB's is providing financial help to hysteric growth of this sector.

**Ghose (2008)** found that the rural market presents a great opportunity for Indian Banks to secure source of business for the bank and promising the accelerated growth of the rural economy. **Reddy (2010)** has suggested that RRBs should adopt innovative methods to make themselves economically viable without compromising with outreach to the rural people and priority sectors. **Tripathy & Jain (2011)** have analysed the problems like unfriendly attitude of bank officials, inaccessible bank branches, non-availability of timely and inadequate credit, and sub-optimal selection of key economic activities. **Indunil De Silva (2012)** in assessed the impact of microfinance on household income and savings. With respect to the study observed that both household per capita income and savings definitely has a positive impact for all low-income households.

The economy of Himachal Pradesh is largely dependent on agriculture including horticulture. It is the main occupation of the people of Himachal Pradesh. It provides direct employment to 75% of the total workers of the state. The economic development of rural areas can contribute significantly in the economic development of the state as 89.95% (according to censuses 2011) of the state population is living in rural areas. RRB has been assigned dominant role to accelerate the economic

people work in the primary sector and their income is very low as compared to other sectors of the economy. There is a need to make all round development in the rural areas of the country. In order to achieve the goal of rapid economic development, the higher growth rates in agriculture, industry and commerce are also necessary in rural areas of our country.

development of the rural areas of Himachal Pradesh. A network of branches of this bank is operating in rural areas of the state for a long time period. Therefore, there is a need to assess the performance of this bank.

## OBJECTIVES

1. To study the growth and performance of Gramin Banks in the state.
2. To examine the status of outstanding loan and advances of the Bank.
3. To evaluate the financial health of the Bank in respect of CD ratio and recovery performance.
4. To identify the problems faced by RRB's in the state at different stages and advance suggestions to strengthen the financial health of the Banks

## METHODS OF DATA COLLECTION

The present study is based on the secondary data. In order to study the Credit and Fund Management of Gramin Banks in Himachal Pradesh, an attempt has been made to study the growth of deposits & status of advances existing in Gramin Banks and to identify the problems faced by RRB's in the state at different stages and advance suggestions to strengthen the financial health of the Banks. The data has been collected from annual reports of Himachal Pradesh Gramin Bank for last ten years. In addition to it, official records of Himachal Pradesh Gramin Bank. Annual reports of NABARD, Ministry of Finance & planning commission, library resources & Internet website have also been tapped. Consistent with the objectives of the study, different techniques like Mean, Standard Deviation, and CAGR have been used to analyse the data.

### 1. Branch Expansion

The banker must extend financial assistance to the people living in the remote and rural areas. It is possible only if the branch network of these banks is extended in rural and remote area of every state and network of branches will pay a crucial role in the economic development of these areas.

**Table 1**  
**Branch Expansion of Himachal Pradesh Gramin Bank**

Years	No of Branch	Changes in Percentage Per Year
2003-2004	106	-
2004-2005	106	0.00
2005-2006	111	4.71
2006-2007	112	0.90
2007-2008	118	5.36
2008-2009	122	3.38
2009-2010	123	0.82
2010-2011	125	1.62
2011-2012	139	11.2
2012-2013	(153+35)*=188	10.1
Total		
<b>C.G.R</b>	<b>3.809 %</b>	
<b>Average</b>	<b>18.80</b>	
<b>Standard Deviation</b>	<b>24.29</b>	

Source: Annual Report of HPGGB for the year 2003-04 to 2012-2013.

\*35 branches of Parvatiya Gramin Banks (here after PGB) after its amalgamation with HPGGB.

The branch expansion of Himachal Pradesh Gramin Bank for the period of 10 years from 2003-04 to 2012-13 has been reflected through Table no. 1. It has a good network of branches. It had a network of 106 branches in 2003-04. It has been expanding its network of branches very slowly to expand its business in the very interior and remote places of district covered by it to provide banking facilities to the people in those places. As a result of its slow expansion programme of branches, the number of its branches has been gone 106 by the beginning of the year 2003-04, to from 188 branches at the end of the year 2012-13. The annual compound growth rate of

its branches has been 3.809%. However, it also includes 35 branches of Parvatiya Gramin Bank after its amalgamation with Himachal Pradesh Gramin Bank. Most of these new branches have been opened on semi urban area. However, this bank has been concentrating its efforts in rural areas as is evident from the location of its branch offices. Majority of branch offices of RRB's i.e. 95 % are located in rural areas of Himachal Pradesh. Average Value of Mean is 18.8 and value of standard deviation is greater than one indicate much variation among the branch expansion of Himachal Pradesh Gramin Bank.

**District Wise break-up of Branch Expansion of Himachal Pradesh Gramin Bank**

**Table 2**

Districts	Branch Expansion Area-wise			
	Urban	Semi Urban	Rural	Total
Mandi	-	2	48	50
Kangra	-	1	45	46
Kullu	-	1	17	18
Hamirpur	-	-	7	7
Una	-	-	6	6
Bilaspur	-	-	7	7
Sirmour	-	2	2	4
Solan	-	1	8	9
Shimla	1	1	2	4
Kinnaur	-	-	1	1
Lahoul Spiti	-	-	1	1
Chamba	-	1	34	35
Total	1	9	178	188

Source: Annual reports of HPGGB for the years 2003-04 to 2012-13

The district wise break-up of its branch offices has been shown in table no.2. In the year 2012-13 out of the total branches under the operation, 178 are rural branches 1 urban branch and 9 are semi urban branches, located in 12 districts of the Himachal Pradesh. Now presently HPGB is functioning with a network of 188 branches in twelve districts, namely; Mandi, Kangra, Kullu, Hamirpur, Bilaspur, Lahoul Spiti, Una, Shimla, Solan, Sirmour and Kinnaur. During the study period the Himachal Gramin bank and the Chamba Parvatiya Gramin bank amalgamated in February 15, 2013 has with a network of 188 branches. The operational area of the bank has covered all the districts of the state or study area. However, the maximum number of its branches office is found in Mandi, Kangra, Chamba and Kullu districts. About 79% of the branch offices are observed in those four districts.

## LOANS AND ADVANCES OUTSTANDING

Credit is an essential component of growth of any banking institution. This is truer of those banking institutions, which have been provided the special credit requirement of particular group of people in the study area. The total amount of loan and advances provided by Himachal Pradesh Gramin Bank (HPGB) from 2003-04 to 2012-13 has been shown in Table 3. Himachal Pradesh Gramin Bank has equally done tremendously well in this field. There has been observed significant increase in loans and advances during this selected period of the study area. The aggregate amount of loan and advances has been increased from Rs.14083.39 lacs in 2003-04 to 88244.66 lacs in 2013-14; registering about 5.26 times increase. There has been almost continuous increase in its loans and advances during the study period in this manner it reflect an annual compound growth rate about 20.71 percent. It has also been making significant contribution in its main objective to cater the financial needs of the rural people.

**Table 3**  
**Loan and Advances Outstanding of Himachal Pradesh Gramin Bank**

(Rs. In lacs)					
Year	Advances Outstanding	Advance Growth	% Growth	No. of Branches	Advances per Branches
2003-04	14083.39	-	-	106	132.86
2004-05	17324.85	3241.46	23.01	106	163.44
2005-06	21122.68	3797.83	21.92	111	190.29
2006-07	25823.62	4700.94	22.25	112	230.56
2007-08	29656.85	3833.23	14.84	118	251.32
2008-09	35833.17	6176.32	20.82	122	293.71
2009-10	37564.61	1731.44	4.83	123	305.40
2010-11	49777.67	12213.06	32.51	125	398.22
2011-12	62225.94	12448.27	25.00	139	447.66
2012-13	88244.46	26018.52	41.81	188	469.38
<b>C.G.R</b>	<b>20.71</b>				<b>15.02</b>

*Source: Annual Report of Himachal Pradesh Gramin Bank for the years 2003-2004 to 2012-2013*

The average advances per branch in Himachal Gramin Pradesh Bank also increased significantly from 132.86 lacs in 2003-04 to Rs.469.38 lacs in 2012-2013. During the period under study, the annual compound rate of outstanding advances per branch has been 15.02 percent. Thus, the above analysis reveals that the Himachal Pradesh Gramin Bank has achieved extraordinary progress in credit expansion during the study period.

## 4. CREDIT DEPOSIT RATIO

The credit deposit ratio is an important indicator for measuring the performance of a bank. It is the proportion of the credit sanctioned by a bank to the aggregate deposit of the bank. Since the ratio depicts the efficiency of a bank. A higher credit deposit ratio signified better employment of the resources of a bank. The credit deposit ratios of Himachal Pradesh Gramin Bank from 2003-04 to 2012-13 have given in Table 4.

**Table 4**  
**Credit deposit ratio of Himachal Pradesh Gramin Bank**

Year	Credit Deposit Rate
2003-04	24.33
2004-05	28.42
2005-06	32.59
2006-07	36.00
2007-08	36.84
2008-09	38.20
2009-10	34.17
2010-11	37.33
2011-12	37.76
2012-13	41.60

*Source: Annual Report of Himachal Pradesh Gramin Bank for the year 2003-2004 to 2012-2013.*

The credit deposit ratios of Gramin bank during the study period from 2003-04 to 2012-13 have been rising. It has been increased from 24.33% in 2003-04 to 41.60% in 2012-13. The credit deposit ratio of Himachal Pradesh Gramin Bank has shown repeated fluctuations during the study period. It has been 24.33 percent in 2003-04 and increased continuously till been 2008-09, when it was 38.20%. However it declined marginally during 2009-10 and therefore improved till 2012-13.

No doubts, it has achieved a high growth rate in deposits mobilization and its lending operation. However, its credit- deposit ratio is still low. There is a need to increase its credit deposit ratio

to that deposits mobilized by it in rural areas could be used to finance the economic development of those areas.

**RECOVERY PERFORMANCE**

Recovery is a complex phenomenon in the rural banking. The mounting overdue of the bank reflects its operational inefficiency and ineffective machinery for supervision. Un-utilization of loan also affects the recovery process and obstructs the recycling of money. Thus, the efficient of operations of a bank depends upon its performance on the recovery front

**Table 5**  
**Recovery Performance of Himachal Pradesh Gramin Bank**  
**(Rs. In Lacs)**

Year	Demand (R+O)	Recovery	Overdue	%Recovery of loan refund as demand	%overdue as % of amount
2003-04	4774.75	3874.13	900.62	81.13	18.87
2004-05	4802.93	3981.47	821.46	82.89	17.11
2005-06	4969.72	4209.70	760.02	84.70	15.3
2006-07	68.87.08	5935.68	951.40	86.18	13.82
2007-08	8950.57	8058.83	891.74	90.03	9.97
2008-09	12118.98	9298.90	2820.08	76.73	23.27
2009-10	14608.47	12853.05	1755.42	87.98	12.02
2010-11	17135.48	15471.56	1663.92	90.29	9.71
2011-12	23135.00	21001.00	2134.00	90.77	9.23

*Source: Annual Report of Himachal Pradesh Gramin Bank for the years 2003-04 to 2012-13.*

The Recovery position of Himachal Pradesh Gramin Bank has shown significant improvement during the period under study with minor exception

in 2008-09 and 2009-10. It is the observed from the Table that during 2003-04 the demand for the recovery of the loan has been Rs.4774.75 lacs and the

actual recovery was Rs. 3874.13 lacs. It was 81.13 percent of such demand. Therefore, it can be concluded that there has been good performance in the recovery of loan. However, there is a need to take further steps to improve its recovery position. The share of the amount recovered from the borrowers has been significant improvement in the recovery of its loans as it has been increased from 81.13% in 2003-04 to 90.77% in 2012-13.

### CONCLUSIONS

1. The Himachal Pradesh Gramin Bank had 106 branches in the year 2003-2004, which have increased to 188 during the year 2012-2013, registering a compound growth rate 3.8%. It noticed continuous increase in the branch expansion position.
2. The deposits of the Himachal Pradesh Gramin Bank have found continuously increases during the period of study i.e. from Rs. 57882.74 lacs in 2003-04 to Rs. 215864.00 lacs in 2012-2013.
3. The Himachal Pradesh Gramin Bank has made a commendable progress in the credit expansion during the period under study.
4. The outstanding loans and advances of the Himachal Pradesh Gramin Bank have been recorded to the Rs.14083.39 lacs during 2003-04 and these have touched the level of Rs.88244.46 lacs during 2012-13. The compound growth rate have been noted to the 20.71 percent respectively.
5. The credit deposit ratio of Himachal Pradesh Gramin Bank has been found maximum and minimum 41.60 percent in 2012-13 and 24.33 in 2003-04 respectively, registering a compound growth rate of 4.57 percent per annum. It is this clear from the trend in deposit mobilization and loan and advances that credit deposit ratio of Himachal Pradesh Gramin Bank, that it has achieved success in deposit mobilization.
6. The recovery percentage of the Himachal Pradesh Gramin Bank has shown in increasing trend during the study period (expect in the year 2008-09 and 2009-10) of Himachal Pradesh Gramin Bank. The Recovery performance of the Himachal Pradesh Gramin Bank has improved from 81.13 percent in 2003-04 and 90.77 percent in 2011-12.

### RECOMMENDATIONS

1. The commercial bank should be restricted to open their branches in those areas where the branches of Regional Rural Banks are functioning. This will be help to make branches of these banks economically more

viable as the rural areas of the state are sparsely.

2. The backbone of the economy of Himachal Pradesh being tourism, efforts should be made to promote hotel industry and tourism through bank advances, special schemes should be launched to boost up rural tourism. It will also help in generating income in rural areas.
3. In the view of the success of RRB loan facilities, it is also suggested that the limit of loans to the rural entrepreneurs, as per their qualification and eligibilities, may be increased to set up village industries and agricultural purposes.
4. The Timely recovery of loan is one of the major challenges before these regional rural banks as maximum loan and advances are given to poor people. Effective step should be taken to improve the position of recovery of the loan. The beneficiaries should be given appropriate knowledge of the need and procedure of repayment. The person who is good in the repayment of loan must be rewarded and this information should be passed on all the loaness. This practice will certainly help in motivating the people and bringing improvement in repayment of loan position.
5. The Rate of interest shall be reduced significantly for the poor people and the difference between market rate and reduced rate shall be born and paid by the Central Government, So that the profitability, economic viability of these banks is not adversely affected.

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