IJARSCT
ISSN (Online) 2581-9429
International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal
Impact Factor: 7.53
Volume 4, Issue 1, December 2024

Performance Evaluation of Regional Rural Banks in Karnataka and Kerala - A Comparative Study

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Abstract*:* *Regional rural banks were founded with the intention of boosting the rural economy by providing banking services to remote communities. The government, together with creditors and investors, have placed more emphasis on RRBs in the past few years. This kind of research would be beneficial in understanding the role that RRBs play in a country's economy and how healthy it is. The goal of the current study was to compare and evaluate the performance of regional rural banks in Kerala and Karnataka. This research was based on the secondary data and Descriptive Research in nature. CAMEL model was used gauge their spectacle since it is used by bank regulator to examine banks financial health. The study's conclusion indicated that Kerala Gramin Bank performed well in comparison to the KaGB and KVGB.*

Keywords: Financial Performance, RRBs, CAMEL, Karnataka, Kerala

I. INTRODUCTION

In the Indian financial landscape, the regional rural banks have been around for almost thirty years. In order to increase the effectiveness of rural credit distribution mechanisms in India, regional rural banks (RRBs) were established. The need for a more robust institutional framework to provide rural finance is what gave rise to the RRBs. In 1975, the Narsimham committee envisioned RRBs as a new class of regionally focused rural banks that would blend the expertise and vast resource base of commercial banks with the local feel and familiarity of rural issues typical of cooperatives. Following this, the RRBs were established by the RRB Act of 1976. The Sponsor Bank, the relevant State Government, and the Central Government own 50:15:35 of their stock. In order to boost the rural economy, RRBs were intended to become specialized rural financial institutions that would lend money to small and marginal farmers, agricultural laborers, artisans, and small businesses in order to grow the rural economy. Thus, the RRBs are essential to India's rural economy. The purpose of this study is to compare the financial performance of particular RRBs in Kerala and Karnataka using the CAMEL model.

CAMEL model was developed in USA as a supervisory rating system to assess a banks overall conditions. Federal Financial Institutions Examination Council [FFIEC] under the name Uniform Financial Institution Rating system [UFIR] was adopted CAMEL model in 1979. In India, The Reserve bank of India established S Padmanabhan committee in the year 1995 to review the banking supervision system. The working group committee under the chairmanship of S Padmanabhan recommended some parameters to supervise the banking industry. The parameters like financial soundness, managerial & operational efficiency and firmness. Based on these parameters the committee recommended 5 points rating, namely CAMEL model. The acronym for CAMEL are Capital Adequacy, Assets Quality, Management, Earnings, and Liquidity.

Capital Adequacy: Capital adequacy is the primary indicator of financial soundness of bank. The stakeholder seeks banks long term sustainability and the ability to meet its obligations. The state of having enough capital in the bank to balance off exposure to different risks, such as credit, market, and operational risk, in order to absorb future losses and shield the bank's debt holders, is known as capital adequacy. The bank's overall financial health and capacity to meet capital requirements serve as indicators of capital adequacy. Stated differently, the capital adequacy ratio can be defined as the ratio of a bank's capital to their risk exposure. A high capital adequacy ratio or position boosts the trust that different stakeholders have in the bank.

A bank's capital adequacy is primarily determined by its Capital to Risk Weighted Assets (CRAR) ratio.

Assets Quality: -According to Grier (2007), "poor asset quality is the major cause of most bank failures". The loan portfolio is one of the most significant asset categories; the danger of loan losses from past-due loans is the bank's biggest risk. In order to assess the asset quality, the credit analyst should manage the credit risk and use trend analysis and peer comparison to determine the quality of the loan portfolio. Since the majority of the asset quality is determined by the subjectivity of the analyst, measuring it is challenging.

Determining the makeup of non-performing assets (NPAs) as a percentage of total assets is the goal of monitoring asset quality. This percentage shows the kind of advances the bank has made in order to produce interest revenue. All banks want to maintain low non-performing loan levels since they have an impact on their overall profitability.

Management Strength: Grier (2007) suggests that management is considered to be the single most important element in the CAMEL rating system because it plays a substantial role in a bank's success; however, it is subject to measure as the asset quality examination. When assessing management efficiency, a number of aspects are taken into account, including leadership, the bank's administrative capacity, compliance with established standards, and the ability to adjust to changes in the environment.

Under this CAMELS rating criteria, managerial performance is evaluated by a subjective study. A variety of ratios are computed and thereafter examined to illustrate the managerial performance. The ratios include return on net worth, net profit per employee, non-interest expenditure to total assets, and total advance to total deposit, among others. The ratio of non-interest expenses to total assets is determined by a range of expenses. A higher non-interest expenditure ratio suggests that bank management may be unable to rein in some unnecessary spending.

Earnings Quality:

The elements that could have an impact on the sustainability of earnings are displayed along with the quantity and trend of earnings in the CAMELS rating. Analyzing the bank's net profit after accounting for all variables is related to earning quality. The increased profits are a reflection of the bank's robust earning potential and overall well-being, but it's also critical to note that these strong profits come from core, or primary, banking activities, such as interest revenue from lending. This component has gained importance because non-core activities like as corporate consulting services, investment advisory services, treasury operations, and many more provide a significant amount of a bank's earnings. Earning quality's primary goal is to analyzing the net profit made by bank taking in to account all the factors.

Liquidity:

When used as a performance metric, liquidity indicates a bank's capacity to settle its debts as they become due. In addition to being able to satisfy unforeseen cash demands brought on by premature withdrawals by depositors, banks with higher liquidity levels may occasionally be able to profit handsomely from the call money market during periods of low liquidity. A bank needs assets that are easily convertible into cash without suffering undue loss, as well as adequate liquidity sources to meet its current and future needs. Because the RBI has authorized the CAMELS banking rating methodology, which measures bank liquidity using a variety of factors, Indian banks are assessed under it as well.

Table: 1 Profile of RRBs in Karnataka state (as on 31-03-2023)

KARNATAKA STATE					
Bank* *(Total Number of RRBs - 02)	***Branches***	***Total Staff***	***No of District covered***	***Total turnover***	***Head office***
Karnataka Gramin Bank (KaGB)	1121	4727	22	61,202.75 crores	Ballari
Karnataka Vikas Gramin Bank (KVGB)	629	3289	11	33,150.80 crores	Dharwad

(Source: Compiled by Researcher)

Table: 2 Profile of RRBs in Kerala state (as on 31-03-2023)

KERALA STATE					
Bank ***(Total Number of RRBs - 01)***	***Branches***	***Total Staff***	***No of District covered***	***Total turnover***	***Head office***
Kerala Gramin Bank (KeGB)	634	3362	14	43,839 crores	Malappuram

(Source: Compiled by Researcher)

Objectives of the study

- To study the performance of the RRBs in Karnataka and Kerala using CAMEL model.
- To carry-out the comparative performance analysis of RRBs in the study area.

II. LITERATURE REVIEW

The Paper by Megha D. Shetty along with Sudhindra Bhat (2022) analyzed performance of Regional Rural banks in south India. This study covered six states possessing 10 RRBs in southern parts of India. CAMEL model was used to investigate the financial performance and study period was 2020 &2021. This study concluded that APGVB and CGBB had achieved strong growth and maintained low level Non-Performing assets (NPA) when compared to all other 10 RRBs.S.M.Riha Parvin, Catherine Nirmala, & Niyaz (2021) conducted research on the overall performance of merged public sector banks and private sector banks using CAMEL model. They discovered that there is a notable variance in the performance of the selected merged Public sector banks and private sector banks. Private sector banks performance is dominant.

Ravi Kumar Pattanashetti (2019) in his secondary research evaluated the performance of Karnataka Vikas Grameen bank in Karnataka. The Parameters like growth of number of branches, sector wise loan disbursement, purpose wise loan disbursement and beneficiary wise loan disbursement are contemplated for the study. This paper concluded positive performance in all the parameters. Suneet Suresh Chandra Kopra and Dr Anurag Shrivastava (2018) evaluated the Performance of RRBs in Maharashtra state using CAMEL model for the period from 2013-14 to 2015-16. This paper focused on Vidharbha Gramin bank and Maharashtra Gramin Bank situated in Maharashtra. The researcher concluded using CAMEL model that Maharashtra Gramin Bank was dominant in its performance.

Kharuri Zahid Hassan, & Dr. Manjunatha T (2018) aimed to study financial inclusion and Progress of RRBs in India. This research investigated growth of RRBs considering some variables like banking outlets in villages, branchless mode, basic savings bank deposit account, Kisan credit cards, general credit cards, information and communication technology etc. the outcome of the paper shown positive progress. Mr. Ramdas Lad and Prof. Dr. K. P. Bairagi (2017) examined and reviewed the banking rating system in India. Researcher conducted conceptual study on concept, need and importance of CAMEL rating system. They concluded that the CAMEL rating system is very important to assess the performance, strength, weakness and position of the bank in the Industry.

Dr. Satish Kumar and Ms. Ponam Sharma (2017) in their study they found that RRBs in India has drastically improved growth from the period of its establishment. Majeesh, T (2012) in his thesis "Performance evaluation of regional rural banks in Kerala" aimed at studying the performance of the RRBs in Kerala on the basis of deposits, lending, profitability, recovery overdue, and customer service and job satisfaction of employees. This research based on both primary and secondary data and in exploratory in nature. The researcher reveled that better and positive performance of RRBs in Kerala with respect to the above parameters.

III. RESEARCH METHODS

The current study is based on Descriptive Research in Nature. Secondary data gathered from NABARD and RRB published yearly reports served as the foundation for this investigation. Three RRBs were chosen for the study from Kerala and Karnataka. The period of the study was three years that is from 2020-21 to 2022-23.

Empirical evidence found in the literature indicates that the CAMEL framework is frequently used to assess banks' financial performance. Consequently, the financial performance of RRBs is analyzed using the CAMEL model.

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IV. RESULTS AND DISCUSSION

Table 3: Capital adequacy ratio

State	Bank name	CAR%					
		2022-23	Rank	2021-22	Rank	2020-21	Rank
Karnataka	Karnataka Gramin Bank (KaBG)	10.26	3	11.81	1	11.74	1
	Karnataka Vikas Gramin Bank (KVGB)	10.09	2	10.09	3	10.37	2
Kerala	Kerala Gramin Bank (KeGB)	13.10	1	11.41	2	6.65	3
Mean		**11.15**		**11.10**		**9.58**	
SD		1.69		0.90		2.63	
Variance		2.85		0.81		6.93	

(Source: Compiled by Researcher)

Analysis and Inference:

The table 3depicts the Capital adequacy ratio of three RRBs of Karnataka and Kerala. The RBI mandates that the CAR for Scheduled Commercial Banks be 9%, and for Public Banks to be 12%, whereas BASEL standards stipulate that the CAR must be at least 8%. In comparison to KaGB and KVGB, the CAR of Kerala Gramin Bank grew progressively and yearly from rank 3 to 1 from 2020–21 to 2022–23.In comparison to KeGB and KVGB, KaGB maintained a strong CAR in 2020–21 and 2020–22.

Table 4: Asset Quality

State	Bank name	Net NPA%					
		2022-23	Rank	2021-22	Rank	2020-21	Rank
Karnataka	Karnataka Gramin Bank (KaGB)	7.33	3	11.13	3	8.59	2
	Karnataka Vikas Gramin Bank (KVGB)	4.64	2	5.90	2	9.66	3
Kerala	Kerala Gramin bank (KeGB)	0.00	1	0.00	1	1.41	1
Mean		***3.99***		***5.67***		***6.55***	
SD		3.70		5.56		4.48	
Variance		13.74		31.00		20.12	

(Source: Compiled by Researcher)

Analysis and Inference

The asset quality indicator represents the quality of the assets owned by the RRBs. one of the most significant asset categories of RRBs are different kind of lent loans. The quality of assets is measured in terms of Net NPA ratio during the financial year. Lower the NPA ratio, better the efficiency and higher the ratio, higher the credit risk (but Net NPA should be less than 1%).

From the table 4 it is very clear that Kerala Gramin bank possess quality of assets having credit worthy borrowers when compared to KaGB and KVGB in all the years. Karnataka Gramin Bank and Karnataka Vikas Gramin Bank were very poor in asset class since the Net NPA ratio is very high.

Table 5: Management Quality

State	Bank name	CD Ratio					
		2022-23	Rank	2021-22	Rank	2020-21	Rank
Karnataka	Karnataka Gramin Bank (KaGB)	80.51	2	76.51	2	76.56	2
	Karnataka Vikas Gramin Bank (KVGB)	73.44	3	74.24	3	72.79	3

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Kerala	Kerala Gramin Bank (KeGB)	99.63	1	88.30	1	91.59	1
Mean		***84.52***		***79.68***		***80.31***	
SD		13.54		7.54		9.94	
Variance		183.57		56.97		98.92	

(Source: Compiled by Researcher)

Analysis and Inference

When measuring management efficiency, variables including leadership, the bank's administrative capacity, conformity to set standards, and flexibility to adjust to changes in the environment are all taken into account. Management quality is depends on the how well the management will going to convert the deposits into advances. i.e. Credit-Deposit ratio. The higher the CD ratio signifies better the management efficiency in generating higher profits converting deposits in quality advances.

Comparatively Kerala Gramin Bank's management efficiency was good since CD ration was good in all the years. The bank is in a good position at converting deposits into quality profitable advance in the all the 3 years comparing to KaGB and KVGB. Karnataka vikas Gramin Bank was poor in its CD ratio compare to Karnataka Gramin bank in all the 3 years.

Table 6: Earnings Quality

State	**Bank name**	**Net Margin ratio**					
		2022-23	**Rank**	**2021-22**	**Rank**	**2020-21**	**Rank**
Karnataka	Karnataka Gramin Bank (KaGB)	0.02	3	0.11	3	0.04	2
	Karnataka Vikas Gramin Bank (KVGB)	0.19	2	0.16	2	0.03	3
Kerala	Kerala Gramin Bank (KeGB)	1.14	1	0.46	1	0.13	1
Mean		***0.45***		***0.243***		***0.06***	
SD		0.60		0.189		0.05	
Variance		0.36		0.036		0.003	

(Source: Compiled by Researcher)

Analysis and Inference

Net margin is a crucial gauge of a bank's overall financial health and a useful tool for contrasting it with rivals. This measure might indicate if a bank is managing its costs comparably better or worse.The ratio of a bank's profit to the total revenue that a business unit produces is known as net margin. Higher the ratio better the earnings quality can be expressed.

Net Margin ratio of Kerala Gramin Bank is stood highest in all the years that means, it possess high quality earning capacity throughout its business compared to KeGB and KVGB. Karnataka Gramin Bank indicated low earning capacity in 2022-23 & 2021-22 in contrast to Karnataka Vikas Gramin Bank.

Table 7: Liquidity

State	**Bank name**	**Liquid assets to Total assets ratio**					
		2022-23	**Rank**	**2021-22**	**Rank**	**2020-21**	**Rank**
Karnataka	Karnataka Gramin Bank (KaGB)	9.62	3	8.19	3	9.13	2
	Karnataka Vikas Gramin Bank (KVGB)	18.69	1	13.34	2	9.12	3
Kerala	Kerala Gramin Bank (KeGB)	14.86	2	16.49	1	10.15	1
Mean		***14.39***		***12.67***		***9.46***	

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SD	4.55		4.19		0.59	
Variance	20.73		17.55		0.35	

(Source: Compiled by Researcher)

Analysis and Inference

The table 7 represents a bank's total liquidity position. Liquid assets comprise cash on hand, funds available for immediate use, balances with the Reserve Bank of India, and balances with other banks and financial organizations. An essential component of a bank is its ability to manage liquidity. The higher the ratio indicated the better the liquidity position.

From the table 7 with regards to Liquid assets to total assets ratio, it can be stated that Karnataka Vikas Gramin Bank has highest rank contrast to KeGB and KaGB. Comparatively Kerala Gramin Bank maintained good liquidity in the year 2021-22 and 2020-21.

V. CONCLUSION

Due to the establishment of banking services in rural areas in India, Regional rural banks were extremely important to the growth of the rural populace. Over the last twenty years, the banking industry has undergone significant change, resulting in a decrease in the number of RRBs from 196 in 2005 to the present 43.Since RRBs in India have had poor financial performance, a number of mergers and acquisitions have been found in relation to them. Thus, this investigation was carried out to look into the financial standing of RRBs in Kerala and Karnataka. The performance of three RRBs in a chosen region is compared and examined in this article using CAMEL ratings for the years 2020–21–2022-23. In order for the decision-makers to traverse the issues and take advantage of the several factors that boost its financial performance, tangible plans must be implemented.

Kerala Gramin Bank does extremely well financially under the CAMEL ratings in this study when compared to KeGB and KaGB in every way. In terms of financial performance, Karnataka Vikas Gramin Bank is trailing behind and has been ranked lowest across a wide range of criteria. However, in the fiscal year 2022–2023, the bank maintained strong levels of liquidity. Karnataka Gramin Bank is better in all the aspects except liquidity compared to Karnataka Vikas Gramin Bank. Policymakers, bankers, and other stakeholders would benefit from the study's findings in understanding the financial stability of RRBs and pinpointing areas in which policy should be made.

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