"A Study of Financial Management in Regional Rural Banks in Madhya Pradesh"

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This is to certify that this thesis **entitled "A STUDY OF FINANCIAL MANAGEMENT IN REGIONAL RURAL BANKS IN MADHYA PRADESH"** is a piece of research work done by **Mr. Vaibhav Joshi** under my guidance and supervision for the degree of Doctor of Philosophy of Devi Ahilya Vishwavidyalaya, Indore (M.P) India. That the candidate has put in the attendance as per Ph.D ordinance with me.

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PREFACE

A strong financial system is necessary for healthy and vibrant economy. It will result in achieving faster rate of economic growth. A banking sector constitute predominant element in financial services and performance of economy of any country. Therefore banking system occupies an important place in country's economy. In a developing countries like India, where the propensity to consume is high and saving of people are low, banks play important role. Banks contributing attracting more deposits from the people and deploying these saving for various sectors in the economy.

In present era of globalization and privatization (GDP) of India is expanded at the rate of 7.7 percent, Agriculture has started occupies a top position in Indian policy-making not only because of its contribution to GDP but also because of the large percentage of the population that is still dependent on the sector for its livelihood. The growth in population and wealth has stimulated demand to the extent that domestic production has not always been able to keep up and there is increasing speculation that the Indian economy may be overheating leading to inflation. However, the banking sector has witnessed a huge growth in the recent years. Despite such a growth, the credit flow by banks to the rural and agricultural sectors remains dismal, which, more or less, has resulted in financial exclusion of the rural masses. Regional rural banks have to play up major role to finance and provide landings to agriculture sector at diminishing rate of interest in order to grow the economy and GDP. It requires better financial management of the RRBs.

This study concentrates on the principles of bank management of assets and liabilities. The study has an applied feel to it as it mainly focuses on the microeconomic problems of financial management of banking firms. The study helps financial management reduce the misuse of funds, Proper estimation of total financial requirements, Proper mobilization, Proper utilization of finance, Maintaining proper cash flow, Increase efficiency, Reduce cost of capital and maximize the profit in long run of RRBs.

This study aims to identify the variables of Regional Rural Banks' Performance so that we can measure the perceived impact of different parameters of banks' performance, capital adequacy, inflow and outflow of funds, operational efficiency etc. The thesis is divided into eight chapters.

The Chapter 1 consists of Introduction of the topic, history of banks, purpose of the establishment of RRBs, organizational structure, efforts for improving the efficiency, function of RRBs, importance of the study and significance of the study. This chapter also discusses review of literature so that one can have a perspective of previous studies and also helpful in exploring variables/factors. It consists of research methodology. The study is descriptive as well as an exploratory in approach and deals with different aspects of research essential for the study. It deals with the objectives and hypotheses of the study. The sample is based on the primary sources. Through SPSS Package (20.0 version) Correlation, Regression, ANOVA, Factor Analysis and t-Test are used for the analysis, interpretation of data and results.

The Chapter 2 deals with the origin and history of Madhya Pradesh, its demographic profile, climate, economic segment, language and literacy, a comparative study of M.P with the other states, vision 2018 and SWOT analysis.

The Chapter 3 deals with the introduction and scope of financial management, techniques of financial analysis, ratio analysis and working capital management.

The Chapter 4 consists of factor analysis and explored reduced factors in understanding the financial inclusion.

The Chapter 5 discusses data analysis and tested the hypotheses. Appropriate statistical tools were applied.

The Chapter 6 comprised of ratio analysis and through correlation hypotheses were tested.

The Chapter 7 contains the results, discussions and the main findings of the study.

The Chapter 8 deals with the conclusion, suggestions and recommendations reached by the researcher on the basis of result of study. **Bibliography** discusses all the authors and their works which are duly acknowledged. The references used to complete this study were compiled under the bibliography in alphabetic order. Kindly see the bibliography for the references.

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INTRODUCTION & REVIEW OF LITERATURE

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1.1 INTRODUCTION

A strong financial system is necessary for healthy and vibrant economy. It results in achieving faster rate of economic growth. A banking sector constitutes predominant element in financial services and performance of economy of any country. Therefore, banking system occupies an important place in country's economy. In a developing countries like India, banks play an important role where the propensity to consume is high and saving of people are low. Banks are contributing attracting more deposits from the people and deploying these savings for various sectors in the economy. Banks have to supply credit in promotional activities of the society. Availability of adequate and timely credit can go long way in improving productive capacity of the different sectors of the economy. Now-a-days business is certainly impossible without adequate credit and no country can grow in the absence of a strong banking system. A bank is an organisation that mobilises deposits from the people and extends the same as facilitates to people .Its aims to earn profits as a reward for its efforts.

1.2 BANKING IN INDIA (BEFORE INDEPENDENCE) in the present sense, banks were originated in the final decade of the 18th century. The first banks were Bank of Hindustan (1770-1829) and The General Bank of India, established in 1786. The largest bank and the oldest still in continuation, is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which emerged into the Bank of Bengal. That was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras. All of three were recognized under charters from the British East India Company. These three banks amalgamated in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India in 1955. Indian merchants in Calcutta established the Union Bank in 1839 but it was unsuccessful in 1848 due to the economic crisis of 1848-49. The Allahabad Bank, recognized in 1865 and still functioning today, is the oldest Joint Stock bank in India. That honor belongs to the Bank of Upper India, which was established in 1863, and continued till 1913, when it failed with some of its properties and liabilities being transferred to the Alliance Bank of Shimla.

1.2.1 AFTER INDEPENDENCE

The Indian Government had initiated measures to play an important role in the money-making life of the country, and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy including banking and economics. The Reserve Bank of India is the top most banking authority of India, was nationalized on January 1, 1949 under the provisions of the Reserve Bank of India Act, 1948. In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) "to control & regulate the banks in India."

The Banking Regulation Act 1949 also provided that no new bank or branch of an existing bank cannot be opened without a license from the RBI, and no two banks could have common Directors. After the 1960s, the Indian banking industry had become an important device to make easy the development of the Indian economy. The GOI passed an order and nationalised the 14 major commercial banks with effect from July 19, 1969. A second phase of nationalization of 6 more commercial banks followed in 1980. The definite reason for the nationalization was to give the government additional control of credit delivery. With the second phase of nationalization, the GOI controlled around 91% of the banking business of India.

1.3 THE LIBERALISATION PHASE

In 1991s, government had licensed a small number of non government banks. These banks later amalgamated with Oriental Bank of Commerce, UTI Bank , ICICI Bank and HDFC Bank. This shift, along with the fast growth in the economy of India, revitalised the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, private, public and foreign. The banking sector has witnessed a rapid growth in India in the past few decades and has come a long way. The Reserve Bank of India is the Central bank of our country and has a control over all the banks of India.

The different types of Banks in India can be categorized in the following categories: Public Sector Banks are run by the Government. Their main centre of attention is to provides services to people rather to earn profit. Allahabad Bank, Andhra Bank, Bank of Baroda, Bank of India, Bank of Maharashtra etc. are the some of the important Public sector banks.

Private Sector Banks are owned and run by the private financial companies and also controlled by the economic forces. The larger share of the private sector banks is held by private players and not the government. Some Private sector banks are IndusInd Bank, Axis Bank, Kotak Mahindra bank, ICICI Bank, HDFC Bank, etc.

A commercial bank is offering services such as accepting deposits, lending money and offering investment products. The main purpose of banks is to give financial services to the businesses. It gives various services to the businessmen like short term deposits, debit cards, banks accounts etc. The commercial banks also lend money to these businessmen, entrepreneur & manufacturer in the form of secured loans, unsecured loans, credit cards, overdrafts and mortgage loans .It gives agency function like collect and clear cheque, dividends and interest warrant, make payments of rent, insurance premium, purchase and sell securities, accept tax proceeds and tax returns, act as trustee, attorney, correspondent and executor etc.

The two essential functions of a commercial bank are best be summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits. Deposits may be received on current account where by the banker incurs the obligation to repay the money on demand. Interest is not payable on current account deposit. When deposits are received on saving bank account as well, the bank undertakes the obligation to repay them on demand. Interest is usually allowed on saving bank deposits although there are usually restrictions on the total amount that can be withdrawn and or the number of times withdrawals are allowed during a define period. When deposits are received on fixed deposit account, the bankers incurs obligation to repay the money together with an agreed rate of interest after the expiry of fixed period.

When deposits are received on deposit accounts, the banker undertakes to repay the customer together with an agreed rate of interest in return for the right to demand from him an agreed period of notice for withdrawals.

Thus, a commercial bank mobilises the savings of the society. This money is then provided to those who are in need of it by granting overdraft or fixed loan or by discounting bills of exchange or promissory notes.

The primary function of a commercial bank is that of a broker and a dealer in money. By discharging this function effectively and efficiently, a commercial bank renders a very valuable service to the community by increasing the productive capacity of the country and there by accelerating the pace of economic growth. It collects the small savings of the people and thus reducing the quantity of idle money to the lowest limits. Then it combines this small holding in amounts large enough to be profitably employed in those enterprises where they are most called for and most needed. Besides these two main functions, a commercial bank performs a variety of other functions which may broadly be grouped under two main heads i.e. the agency services and general utility services.

1.4 COMMERCIAL BANKS AND PRIORITY SECTORS

At present, the priority sector broadly consists the following:

I. Agriculture
II. Small Scale Industries
III. Other Activity/Borrowers

The field of rural credit is varied and complex and the unsatisfied demand for credit is very large. Therefore, new experiments and innovations for evolving new and bolder schemes for effective distribution of credits are to be made incessantly. The demand for agricultural credit turned on a new and different aspect with the introduction of new agricultural strategy in the early sixties. It was felt that a single agency - the cooperatives - alone would not be in a position to deal with the problem of growing credit demands of the farmers. Cooperative finance has also often been considered inelastic, dilatory and inadequate largely owing to the ineffectiveness, high-handedness and self-interest of the managing committees and hence turned out to be 'closed shops' for the weaker sections. So a multi-agency approach was introduced by which commercial banks were roped in for providing credit to farmers. Subsequent to their nationalisation, these banks opened a large set-up of branches even in the remotest parts of the country with a view to extending credit to agriculturists particularly to small and marginal farmers, thereby supplementing the operations of the cooperative banks. But in real practice, in its place of supplementing the activities of cooperatives, they appeared to have supplanted cooperative credit and weakened it by taking away the good business of cooperatives, rather than providing additional funds to rural areas. They channelized them to the urban and city areas. This was exactly the opposite of what was expected. Although the cooperatives and the commercial banks did achieve appreciable progress in dispensing rural credit, they tended to reach the large farmers while the small and marginal farmers constituting a majority of rural population were ignored. The urban orientation of commercial banks and the domination of the rich in the cooperative have made the institutional credit mere sour grapes for the rural poor.

By and large, the cooperatives and commercial banks have not succeeded in 'absolute institutionalisation' of rural credit nor succeeded in fulfilling the credit requirements of weaker sections. It was thought at this stage that a new agency combining the advantages of commercial banks and cooperatives - a blend of the best that is found operating in the cooperatives and commercial banks should be established with the already existing financial institutions in the field of rural credit to cater to the credit needs of small and marginal farmers, landless agricultural laborers, rural artisans and rural entrepreneurs. The outcome was the advent of Regional Rural Banks in the rural credit scene in October 1975. The Regional Rural Banks, were selected for the purpose of the present study was established on 9th march 1977 under the Regional Rural Banks Act, 1976. The area of operation has been confined to two districts namely, Tirunelveli and Ramanathapuram. It is sponsored by Indian Overseas Bank with the object of providing credit to small farmers, marginal farmers, landless labourers and rural artisans.

At the time of selection of the present study, both Tirunelveli and Ramanathapuram Districts were undivided. But later in 1984 Ramanathapuram District was trifurcated and three districts have been created viz., Ramanathapurm, Pasumpon Thevar Thirumagan, and Kamarajar Districts. In 1986, the Tirunelveli District was bifurcated and two Districts were newly formed. They were Tirunelveli Kattabomman and Chidambaranar Districts.

Firstly, Five Regional Rural Banks were set up on October 2, 1975 which were sponsored by State Bank of India, United Bank of India, , Punjab National Bank, United Commercial Bank and Syndicate Bank. RRBs were setup in India for the purpose of taking banking service to the doorsteps of rural public, particularly in places without banking services. The objectives of RRBs to develop the rural economy in providing for the purpose of development of agriculture, commerce, agriculture industry, small scale industries, cottage industries and other productive activities in the rural areas, credit and other facilities particularly to the small farmers, agricultural labour and small entrepreneur.

A co-operative bank is a financial body which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts...). The co-operative sector is especially useful for rural people and provide finance to farmers, small scale industries, cottage industries etc. These banks are controlled and operated by the cooperative societies and came into existence under Cooperative Societies Act in 1912.

Investment banks are financial institutions which make available financial support to its customers. Their clients consists of businesses, government organizations, individuals or. When there is an acquisition or amalgamation, these customers are provided with necessary support like foreign exchange, foreign trading, promotion, sale of equities, fixed income instruments, etc. These banks, apart from capital raising, also provide valuable financial guidance to their various kinds of customers. Banks like Deutsche Bank, Citi Bank, etc. are some examples of Investment Bank.

The main job of specialized banks is to render matchless services to their customers. Specialized banks also render financial support to different kinds of projects and businesses who have to export or import their services or goods. Some specialized banks are foreign exchange banks, industrial banks, development banks, export import banks, etc.

Reserve Bank of India is the central bank of India. It was established on 1 April 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. RBI is also called banker's bank because it controls & manages all other commercial banks. It creates, executes and monitors the monetary policy. It has also to make sure a sufficient flow of credit to productive sectors. It is only one note issuing authority in our country. RBI maintains the economic structure of the country so that it can attain the goal of price stability as well as economic development, because both objectives are diverse in themselves. Scheduled Banks in India constitute those banks which have been included in the 2nd Schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn consist only those banks in this schedule which satisfy the criteria laid down vide section 42 (6) (a) of the Act.

The banks consist in this schedule list should fulfill two conditions:

1. The paid-up capital and collected funds of bank should not below ₹ 5 lac.
2. Any activity of the bank will not adversely affect the safety of depositors' money.

Every Scheduled bank can take the following benefits.

1. Such banks become entitled for debts/loans on bank rate from the RBI.
2. Such banks automatically get the membership of clearing house.

1.5 ORGANISATION AND MANAGEMENT OF RBI

- One Governor and four Deputy Governor are appointed by the Central Government for five years.
- Four Directors are nominated by the Central Government- one from of four local boards. They are located at Mumbai, Kolkata, New Delhi and Chennai. The tenure of the appointment will be for five years.
- Ten other Directors are appointed by the Central Government. The tenure of these Directors will be four years.
- One Government Officer nominated by the Central Government to attend the meeting of Central Board of Directors. He cannot use the right to vote in the meeting of Central Board.

Reserve Bank of India acts as a note issuing authority, bankers' bank, stability in price level, maintain the CRR and SLR, maintain interest rate purchase and sell of government securities etc. In India, RBI set up monetary policy for the purpose of price stability and financial stability. RBI uses various instruments like bank rate policy, open market operations and variable reserve system for price stability. Its another functions are selective credit control, credit rationing, moral suasion, controls the money market through licensing, inspection and supervision of all banks, make provisions relating to Rural and Agriculture Finance, hold the cash reserve for all the scheduled bank, make and implement policy related to the Banking Development.

1.6 HISTORY OF RRBS IN INDIA

In 1975 the Government of India had appointed a working group on Rural Banks to study, in depth, the setting-up of new rural banks to provide the credit requirements of the rural people. It felt that there was a need to set up new institutions and operational ethos entirely different from those obtaining in the public sector banks. The Working Group examined the structure and functioning of the Co-operative credit agencies and commercial banks and brought out the strengths and weaknesses of both. In conclusion, the working group envisaged a new institution which "combines the local feel and familiarity with rural problems. The co-operatives possess the degree of business organisation, ability to mobilise deposits, access to central money markets and modernised outlook which the commercial banks have.

RRBs, with their wide expansion in rural India focussed on the centric banking activities and close relationship with the local authorities and population, were expected to cater to the credit requirements of the rural areas and provide necessary banking infrastructure. Though the RRBs have been able to mobilise small savings of the rural sectors. They have been relatively less successful in enhancing the flow of credit to the targeted rural poor. RRBs have played a key role in rural institution financing in the term of geographical coverage, clientele outreach, business volume & also contribute to development of rural economy. A remarkable feature of their performance over the past four decades has been massive expansion of their retail network in rural areas.

The Management of each RRB is vested in a nine member Board of Directors, headed by a Chairman who is appointed by a Government of India. In discharging its functions, the Board of Directors is required to act on business principles and in accordance with directives issued by the Government of India after consultation with the Reserve Bank. While a RRB is empowered to appoint officers and other employees, their remuneration is prescribed by the government of India in accordance with the salary structures of the employees of the state government and local authorities of comparable level and status in the area of operation of the RRBs. All the RRB's setup has been included in the second schedule to the Reserve Bank of India Act. The amendments met to the Reserve Bank of India Act enable the Reserve Bank grant assistance to the RRB's by way of loans and advances.

Moreover, for the purpose of Income Tax Act, 1961 or any other act relating to tax on income, profits, or gains, a RRB is deemed to be a co-operative society

The number of RRB's rose from 19 at the end of Jun 1976 to 88 at the end of Aug 2008. The branch expansion programme of the RRBs envisages provision of banking facilities in different rural areas, especially where identifiable spatial gaps exist. The expansion is on selective basis taking into account the need, spatial gaps and financial viability of the proposed branches. However, hilly tracks, regions which are sparsely populated tribal areas are given special considerations and expansion is allowed on comparatively liberal basis.

- **RRBs under Reserve Bank control**
  In March 1979, the Government of India decided to pass on the operational control of the RRBs to the Reserve Bank of India with immediate effect pending amendment of the relevant legislation in Parliament. As a first step a new steering committee headed by Deputy Governor of the Reserve Bank has been setup to monitor the functioning of these banks to advice the Government on all matters concerning them.

- **Kelkar Working Group**
  The Government of India constituted a working group under the Chairmanship of Shree S.M. Kelkar to review the working of RRBs to identify appropriate measures for strengthening their over capabilities. The working group submitted its report in June 1986. The group recommended, the continuance of RRBs and emphasized greater involvement of sponsor Banks in the functioning of RRBs.

  The recommendation of the group regarding re-finance facilities from NABARD which were implemented are as follows:

  a) With effect from 1st March 1987, involvement of RRBs in short term and medium term non-schematic loans should be 30% and 20%, respectively.
  b) Sponsor Banks' involvement in re-financing in the case of both short term and non-schematic medium term loans should be 20%, that of NABARD would be 50% of short term and 60% for non-schematic medium term loans.

c) Interest rate charged on re-finance by sponsor bank was reduced from 8.5% to 7% and further to 5%.

d) Restrictions which required RRBs with a higher credit deposit ratio to bring down the ratio to 100% has been removed. RRBs are now eligible for schematic re-finance on the same terms and conditions as applicable to commercial banks.

Other major recommendations of the working group accepted by the Government are:

- Raising the authorized share capital of RRBs from ₹ 1 Cr to ₹ 5 Cr and issued capital from ₹ 25 Lakhs to Rs 1 Cr with a view to improving their viability.
- Sponsor Banks' should, on behalf of RRBs invest in government securities the deposits kept by them in current account for SLR requirements so as to provide them higher rate of return on such deposits
- While the restrictions on landing by RRBs to non-target groups should be continued, they should be allowed to provide credit to select institutions such as SC/ST corporations, local bodies, housing boards, etc.. NABARD has, however, suggested that such loan should be given only to financially sound institutions and only for productive purposes. Further, the loans should be exclusively for financing activities within the jurisdiction of the concern bank.
- For better supervision and control of branches, it would be desirable to restrict the coverage of RRBs to two districts. At the same time, it would be advisable to merge small uneconomic RRBs. Further, establishment of new RRBs should primarily be considered on the basis of genuine need to serve neglected area, particularly, the tribal population on the basis of well tested norms so far applied and the prospects of viability.

1.6 REGIONAL RURAL BANKS' (AMENDMENTS) ACT, 1987

Based on recommendations accepted as above, the Regional Rural Banks' Act, 1976 was amended in 1987. Some of the important items incorporated in the amendment are:

I. The authorized capital of RRBs has been raised from ₹ 1 Cr to ₹ 5 Cr and the paid-up share capital from ₹ 25 Lakhs to ₹ 1 Cr.

II. The Chairmen of RRBs should be appointed by the concerned sponsor banks' in consultation with NABARD.
III. The sponsor banks' have been given greater responsibilities in respect of the functioning of the RRBs. They are to aid and assist the RRBs in greater measure apart from subscribing to the share capital by imparting training to the personnel and providing managerial and financial assistance to the RRBs during the first five years of their functioning.
IV. Provision has been made for the amalgamation of the RRBs. Amalgamation can be made with two or more RRBs after consultation with NABARD, concerned state government and sponsor bank. Such amalgamation should take into consideration public interest, interest of the government of the area served by the RRBs and also the interest of the RRBs themselves.
V. The sponsor banks' have been empowered to monitor the progress of their sponsored RRBs from time to time, to conduct inspection, internal audit and security and also to suggest corrective measures to the RRBs whenever necessary.

1.6.2 COMMITTEE ON REGIONAL RURAL BANKS' - DANTWALA COMMITTEE

The main conclusion of this committee is that some modifications in the organizational functions. RRBs are a very useful component in the totality of rural credit structure. The committee is convinced that within a short span of time RRBs have demonstrated their capability to serve the purpose for which they were established. They have established their image as a new type of institutions catering to the credit needs of a class of borrowers to whom institutional credit was till then not available. Hence, the committee does not approve the idea of scrapping the Regional Rural Banks' structure. RRBs are well suited for the purpose of progressively filling up the credit gap in the rural sector and the programme for the establishment of more RRBs deserve to be accelerated.

In the first instance, RRBs should be extended to such areas where the central co-operative banks' are not able to adequately serve primary agricultural credit societies within their jurisdiction. The co-operative structure at the intermediate level is fairly strong but the question arises whether Regional Rural Banks' pattern and the co-operative pattern at the intermediate level can co-exist. The committee feels that the credit, both quantitative and qualitative is so large that a spirit of understanding both RRBs' and central co-operative banks' can function side by side without a clash of interest. The most relevant criterion for the selective extension of RREs' is the state of co-operative credit structure at the district level. In as many as 182 districts, central co-operatives are weak. The 48 RRBs cover 55 of these districts. To start with, the programme of establishing new RRBs may be implemented in the remaining 127 districts.

There has been rapid expansion of rural branches of commercial banks. The committee has suggested that the reserve bank should discuss with the commercial banks regarding the policy on the extension of their rural branches during the first phase of selective establishment of RRBs'. The Government of India and the Reserve Bank take steps to initiate the process of making the RRBs' an integral part of the rural credit structure.

Follow-up Recommendations:

Some of the broad views taken by the Reserve Bank on the recommendations of Kamath working group and the Dantwala committee are set out below:

1. The Reserve Bank accepts the view that RRBs' have a significant role to play in the financing of the rural sector. Accordingly, establishment of new RRBs' and expansion of the branches of existing RRBs will be encouraged whenever the need for such agencies is felt. In order to identify the areas when new RRBs could be established a district-wise study will be made, priority being given to districts having week commercial bank and co-operative banking structure. An inter-departmental committee has been setup in the reserve bank for guiding the conduct of this district-wise studies and for laying down the criteria to be adapted for selection of areas for establishment of new RRBs'.
2. In order to develop a close linkage between apex co-operative banks, wherever possible, joint sponsorship of RRBs' by apex co-operative banks and commercial banks will be encouraged.
3. As regards the area of operation, a flexible approach will be adapted. The jurisdiction of a RRB will depend mainly on the strength of the banking structure in the given area.
4. As a means of strengthening the Regional Rural Banking system in the rural credit structure, the question of progressively taking over of the business of the existing rural branches of commercial banks in the 'command area' of RRBs'

by the concerned RRBs' will be taken up in consultation with commercial banks.

5. In lieu of branch expansion in rural areas, priority will be given to RRBs' over commercial banks. There will not be any ban on commercial banks opening offices in areas where no RRBs' are functioning. Preference, however, will be given to the lead banks in their lead districts for opening offices in rural areas so that the transfer of such branches at a future dates to RRBs', when established, will be smooth.
6. Since the responsibility of overseeing the functioning of commercial bank as well as the co-operative credit system raised with the reserve bank, it is only appropriate that the operations of RRBs' are guided by the reserve bank, as suggested by the committee. For this purpose, it is proposed to setup a committee of direction in the reserve bank in lieu of the existing steering committee. This committee will consider the modifications in the statute and regulations of RRBs' and also decide upon the steps to be taken for bringing about changes in operational matters relating to RRBs' including introduction of element of local participation. The landing policies, co-ordination between RRBs' and co-operatives etc. followed in the light of the recommendations of various committees.

1.7 EFFORTS FOR IMPROVING THE EFFICIENCY OF RRBs'

In view of the unsatisfactory recovery position of RRBs', NABARD has been monitoring their working in relation to important parameters, such as productivity, cash management, advances portfolio and recovery performance, and advising RRBs' about remedial steps. A package of short term measures of immediate relevance to RRBs' was devised in 1993 for implementation.

These measures include:

I. Freeing of RRBs' with disbursal less than rupees 2 crore during 1992-93 from their service area publications.
II. Increasing their non-target group financing from 40% of their fresh landing to 60% with effect from 1st Jan 1994.
III. Relocation of some of the laws making branches at agricultural produce centers, market yards, mandis etc.
IV. Freedom to open extension counters and
V. Upgrading and deepening the range of their activities to cover non- fund business such as remittance and discount facility.

1.8 INSPECTION OF RRBs

NABARD being the supervisory authority for RRBs conducts regular inspection of RRBs. The analysis of the earlier inspections results indicated serious shortcoming in the operations of some of the RRBs'. Low level of loan recoveries, mounting over dues, high level of non-performing assets leading to erosion of RRBs' net worth, besides poor quality of loan appraisal, ineffective loan supervision, etc. were some of the shortcomings observe to monitor the operations of RRBs more frequently and in order to evolved an early warning system as part of supervisory function of the NABARD, an off-site surveillance system has seen introduced to supplement on- site inspection. This enables NABARD to conduct financial appraisal of RRB's on the basis of data provided by them on a half yearly basis.

1.9 RESTRUCTURING PROGRAMME

As RRB's provide substantial finance for the development of rural areas, a number of policies measures were taken the few years not only to make them viable but also to enable them to function effectively in a competitive banking environment. This measure included freeing of interest rates on deposits above one year maturity, rationalization of branches including merging of laws making branches, de-regulation of interest rate on advances made by them, and revamping of RRB's with fresh capital infusion by the government. A number of policy initiatives were taken-up by the RBI and NABARD to facilitate diversification of their business into new areas. In order to facilitate RRB's in becoming an important arm for financial inclusion in rural areas. The government reviewed the performance of RRB's on 7th Feb 2008. RRB's have been encouraged to enhance their deposit base and increase credit deposit ratio from level of 56% at March end 2006 by exploiting the emerging potential under both priority and non-priority sector.

1.10 RE-CAPITALIZATION OF RRBs

Since the process of re-capitalization of RRB's commenced in 1994, total amount of rupees 2188 crore has been infused as additional capital support to 187 out of 196 RRB's through 6 phases of re-capitalization till January 2000. Out of 187 RRB's, 158 RRB's have been fully re-capitalized and 29 RRB's partially. Further, while 7 RRB's are yet to be taken up for re-capitalization, 2 profit making RRB's do not need any capital support.

The performance review of all RRB's undertaken in July 2007 revealed that out of 96 RRB's, 29 had negative net-worthy amounting to rupees 1857 crore including the share capital as on 31st March 2007. After July 2007, two RRB's with negative net-worth were merged with two other RRB's of the same state and sponsored by same banks, thus resulting in formation of two new entities with no negative net-worth. As a result, the number of RRB's having negative net-worth declined to 27. The amount required for re-capitalization was at Rupees 1796 crore. Of this Rs 260 crore (15% share), Rs 629 crore (35% share) and Rs 898 crore (50% share) was to be contributed by the state government, sponsor banks and by Government of India, respectively.

1.11 CONCLUSION

As at end of Aug 2008, there were 88 RRBs catering to the credit requirements of 586 districts. It is gratifying to note that in recent year RRBs showed:

I. Improvements in recovery performance
II. An increase in profit
III. A decrease in the holding of their non-performing assets.

The Government of India, with certain modifications accepted the recommendations of the Group and the Regional Rural Banks Act, 1976 of Parliament received the assent of the President of India on the 9th February, 1976. Later, the Steering Committee appointed by the Government of India looked into the working of the Regional Rural Bank Scheme and provided appropriate guidelines for their organisation and function.

Activities of modern economy are significantly influenced by the functions and services of banks. Banking sector constitutes the core part of economic system. Indian economy is agricultural economy and real India lies in villages. Village economy is the backbone of Indian economy. Even after 60 years of independence, the rural economy in India is still handicapped in terms of infrastructure and other chronic problems of cultivators. In fact, economic progress and industrial development are determined by the rural sector. More than 70% of Indians depend on agriculture; 60% of industries are agro based; 50% of national income is contributed by rural sector and the agricultural sector is the largest foreign exchange earner to India. Such an essential and key sector is neglected by financial institutions and especially by the banks.

Regional Rural Banks were established under the requirements of an Ordinance passed on 26 September, 1975 under the RRB Act. 1976. It is established to provide adequate banking and credit facility special for agriculture and other rural sectors. These were set up with the recommendations of the Narasimham Working Group during the tenure of Indira Gandhi's government. The growth process of RRBs started on 2 October, 1975 with forming the first RRB, the Prathama Bank Also on 2 October, 1976 five regional rural banks were set up on with a total authorised capital of ₹ 100 crore. There were five commercial banks, State Bank of India, United Bank of India, , Punjab National Bank, United Commercial Bank and Syndicate Bank, which sponsored the regional rural banks.

It was intended that the RRBs would operate exclusively in rural areas and would provide credit facilities to small farmers, marginal farmers, small entrepreneurs, agricultural labourer etc. The RRBs can be set up provided any public sector bank sponsors them. The ownership capital of these banks is held by the Central Government (50 Percent), concerned State Government (15 Percent) and the sponsor bank (35 Percent).

1.11.1 ORGANISATION STRUCTURE

The Organizational Structure for RRB's varies from branch to branch and depends upon the nature and volume of business done by the branch. The Head Office of an RRB normally had three to seven departments. The following is the list of officers in descending order of their grade in the organization.

- Chairman & Managing Director
- General Manager
- Chief Manager/Regional Managers
- Senior Manager
- Manager
- Officer
- Assistants

1.11.2 LEGAL EXISTENCE AND PROTECTION

RRBs are recognized by the law and they have legal importance. The Regional Rural Banks Act, 1976 Act No. 21 Of 1976 [9 February 1976.] proclaims "For the incorporation, regulation and winding up of Regional Rural Banks with a view in developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental there to". RRBs, are therefore, created with a view to grow rural economy.

1.11.3 IMPORTANT PROVISIONS OF THE REGIONAL RURAL BANKS ACT:

The Regional Rural Banks were set up under the Regional Rural Banks Ordinance, 1975, promulgated by the President of India on 26th September, 1975. This was later replaced by the Regional Rural Banks Act 1976 on 9th February, 1976. The Regional Rural Banks Act, 1976, is deemed to have come up into force from 26th September, 1975, provides for the incorporation, guideline and working of the Regional Rural Banks.

Category:

Scheduled banks include all the Regional Rural Banks. Schedule status is given to Regional Rural Banks automatically while the commercial banks should satisfy certain norms, in order to get this status viz. (a) Paid-up capital should not be less than ₹ 5 lakhs and (b) affairs of the bank should be conducted properly to the satisfaction of the Reserve Bank of India and in accordance with its norms.

1.11.4 AREA OF FUNCTIONS OF REGIONAL RURAL BANKS:

Normally, the operational area of each Regional Rural Bank is confined to a compact area of one to five revenue districts with homogeneity in agro climatic conditions and rural clientele. The Regional Rural Banks were to open their branches in the unbanked and under banked centres where the prime agricultural credit society and commercial banks are weak and are unable to cater to the credit needs of the weaker sections.

1.11.5 BUSINESS OF THE REGIONAL RURAL BANKS:

Each Regional Rural Bank has the position of a scheduled commercial bank and has been empowered to carry out all types of banking business i.e., the business of banking as defined in section 5 (b) of the Banking Regulation Act 1949, and engage in one or more forms of business specified in Section 6 (1) of this Act. In pursuance of section 18 (2) of the Regional Rural Banks Act 1976, a Regional Rural Bank may carry out the following businesses in addition to normal banking business.

i) Granting of loans and advances, mainly to small and marginal farmers and agricultural labourers, whether individually or in groups, and to co-operative societies, including agricultural marketing societies, agricultural processing societies, co-operative farming societies, primary agricultural credit societies or farmers service societies, for agricultural purposes or agricultural operations or for other purposes connected therewith;

ii) The granting of loans and Advances mainly involved in trade, commerce or industry or other productive activities, within the notified area in relation to the Regional Rural Banks.

1.11.6 Sponsorship:

Every Regional Rural Bank will be sponsored by a scheduled commercial bank (mainly by a public sector bank),. It will be set up at the initiative taken by the sponsoring bank in discussion with the concerned state government and the Central Government, and under licence from the Reserve Bank of India. The sponsor bank will provide support to the Regional Rural Bank in several ways. This includes subscription to its share capital, provision of managerial and other staff assistance to be mutually agreed upon within a period of first five years of its existence and financial support on mutually negotiable terms.

1.11.7 Capital and Management structure of Regional Rural Banks:

The Regional Rural Banks are scheduled commercial banks supported by Government but sponsored by nationalised commercial banks. The authorised and issued capital of the Regional Rural Banks is ₹ 100 lakhs and ₹ 25 lakhs respectively. The share capital is contributed by the Central Government, respective State Governments and the sponsoring Commercial bank in the proportion of 50 :15 : 35 respectively. Board of Directors controls and regulates the affairs of the Regional Rural Bank. Of the nine Directors, three are nominated by the Central Government, two by the State Government and four including the Chairman by the sponsoring Commercial bank. The Chairman is a full-time professional executive, appointed by the Central Government. Initially, the services of the Chairman are obtained from the sponsoring commercial bank on deputation. Except Chairman, Regional Rural Banks can appoint all the other staff, i.e., Branch Managers, Accountants, Technical officers, Field officer, Field Assistant, Cashiers, Clerks etc. Those within the operational power of the respective Regional Rural Bank and with rural knowledge and orientation are to be selected on the staff, with active secretarial support, from the sponsoring commercial banks. In fact, as per Regional Rural Bank Act, 1976, the whole responsibility of staff training, free of cost, lies on the sponsoring commercial banks for an initial period of five years. The remuneration paid to the staff directly recruited by the Regional Rural Banks is prescribed by the Government of India. The structure of the remuneration is uniformly lower than that applicable to the staff of the sponsoring commercial bank. The Government of India has laid down that the structure of remuneration payable to the staff of the Regional Rural Bank should be on par with the salary structure of the employees of the State Government and local authorities of comparable level and status in the area of the Regional Rural Bank.

1.12 HISTORY OF REGIONAL RURAL BANKS IN MADHYA PRADESH

- **Narmada Malwa Gramin Bank**
- **Satpura Narmada Kshetriya Gramin Bank**
- **Jhabua-Dhar Kshetriya Gramin Bank**
- **Madhya Bharat Gramin Bank**
- **Rewa-Sidhi Gramin Bank**
- **Sharda Gramin Bank**
- **Vidisha Bhopal Kshetriya Gramin Bank**
- **Mahakaushal Kshetriya Gramin Bank**

Before merger Eight banks were working in Madhya Pradesh they are given below :

1.12.1 NARMADA MALWA GRAMIN BANK

Narmada Malwa Gramin Bank has its Head Office at Indore. There are 215 branches covering in 10 districts viz. Dewas, Shajapur, Ujjain, Indore, Rajgarh, Sehore, Khargone, Badwani, Khandwa, Burhanpur. All the branches are computerized.

The mission of Narmada Malwa Gramin Bank is to deliver its customers, farmers, shareholders, and the society at large superior values with a passion for commitment delivery and being a responsible corporate citizen. The vision of Narmada Malwa Gramin Bank is to become a premium bank with a clear focus on customer centricity and excellent services.

1.12.2 SATPURA NARMADA KSHETRIYA GRAMIN BANK

Satpura Narmada Kshetriya Gramin Bank started its working since 08.04.2008 in 20 Districts such as. Hoshangabad, Raisen, Harda, Chhindwara, Seoni, Mandla, Balaghat, Dindori, Shahdol, Umaria, Anuppur, Gwalior, Datia, Sheopur Bhind, Morena, Ratlam, Mandsaur, Neemuch and Betul. The Head Office of the Bank is at Chhindwara supported with Six Regional offices - i.e. Chhindwara, Hoshangabad, Mandla, Shahdol , Gwalior and Mandsaur for administrative purposes.

Prior to 08.04.2008, in the above said 20 Districts there were three Regional Rural – Banks namely - **"Satpura kshetriya Gramin Bank"**, "Chambal Gwalior Kshetriya Gramin Bank" and Ratlam Mandsaur kshetriya Gramin Bank, vide notification issued by Govt. of India-Ministry of Finance (Banking Division) dated 08.04.2008 aforesaid three erstwhile Regional Rural Banks were amalgamated and their business as well as their assets and liabilities were transferred to the new Bank, now named as, "Satpura Narmada Kshetriya Gramin Bank.

1.12.3 JHABUA-DHAR KSHETRIYA GRAMIN BANK

Jhabua Dhar Kshetriya Gramin Bank was established on 20th June, 1980 with its Head Office at Jhabua, a small town and district head quarter of Jhabua district in South-Western Madhya Pradesh. There are 80 branches and 3 satellite branches covering in 3 districts viz. Jhabua, **Dhar** and Alirajpur All the branches are computerised. There are 3 area offices viz. Jhabua, Dhar and **Kukshi**.

1.12.4 MADHYA BHARAT GRAMIN BANK

Madhya Bharat Gramin Bank was established on 30.06.2006 by amalgamation of three Regional Rural Banks sponsored by State Bank of India namely Damoh Panna Sagar Kshetriya Gramin Bank, Shivpuri, Guna Kshetriya Gramin Bank & Bundelkhand Kshetriya Gramin Bank under the notification issued by Govt. of India (Ministry of Finance). These amalgamated RRBs were joint venture company established under Regional Rural Bank Act 1976 (23 of 1976). The capital structure comprised of Govt. of India (50%), State Bank of India (35%) & State Government of Madhya Pradesh (15%).The Head office of the bank is at Sagar (M.P.). The Bank is serving rural masses through its 221 branches covering 8 districts of state of Madhya Pradesh namely Sagar, Damoh, Panna, Shivpuri, Guna, Ashoknagar, Tikamgarh & Chhatarpur. The mission of the bank is "*Prosperous*

Rural India". We are catering banking services to rural people for their financial upliftment. We support marginal & small farmers, artisans, self employed & small trader to carry on their activities by the way of providing finances.

1.12.5 REWA SIDHI GRAMIN BANK

Rewa Sidhi Gramin Bank was established on 20th Dec., 1976 with the main objective of rural development and upliftment of weaker sections of the rural society in two backward and undeveloped districts of M.P. namely Rewa and Sidhi.Area of the bank now covers three Distts. After the existence of new Singrauli distt.. The area of operation of the bank has vast resources of minerals and forest products. The economy is predominantly agaragarian and of subsistence type, that too shaken generally by the natural calamities like drought, hailstorms, floods etc. Undulating hilly topography with meagre area under irrigated cultivation, poor infrastructure and absence of project linkages make technique based agro- economic operations difficult.

1.12.6 SHARDA GRAMIN BANK

Sharda Gramin Bank sponsored by Allahabad Bank was established on 31.03.1979 under section 3(I) of Regional Rural Bank act 1976, by the notification published by authority in the Gazette of India (extraordinary) vide Ref No PART II, Section 3-Sub section(II) under the name of famous Goddess "MAA SHARDA". The Bank started business on 21st May,1979. The area of operation of the Bank is Satna District (M.P.) comprising of 5 Tehsils and 8 Blocks having approximate are of 7500sq. km. wheat, rice, soyabean & gram are the major crops grown in the district famous temple of " Devi Maa Sharda", Kamadgiri & Mahadeva at Maihar, Chitrakoot and Birshingpur respectively invite the attention of the tourists.

1.12.7 VIDISHA BHOPAL KSHETRIYA GRAMIN BANK

Vidisha Bhopal Regional Rural Bank was established under Regional Rural Banks Act, 1976, section 03 of the Government of India, Madhya Pradesh Government and State Bank of Indore was made on March 31,1986 as a joint venture. Bank of Vidisha district bank of Bhopal district that have 16 branches and 06 branches respectively. These banks are providing its services to total 22 branches.

1.12.8MAHAKAUSHAL KSHETRIYA GRAMIN BANK

In pursuance of provision of section 20(i) of Regional Rural Bank Act, 1976, Mahakaushal Kshetriya Gramin Bank came into existence w.e.f. 1st April, 1984 with its Head Office at Narsinghpur.

Regional Rural Banks in Madhya Pradesh after merger in 2012

After merger in November 2012. Below are the objectives that causes merger of 8 banks to 3 banks -

- Reaping economies of scale with larger area of operation and enhanced credit exposure limits.
- Opportunities of diversify banking activities leading to hire business growth.
- Better and enhanced customer service from improved infrastructure, branch computerization, pooling of experienced work force, unified publicity and marketing efforts.

After Merger three banks are working in M.P. detail of 3 banks given in Chapter - II. It is not possible for me to collect data of before merger because of the data of 5 banks not available due to above reason I included data of only three banks which are working now.

1.13 IMPORTANCE OF THE STUDY

In present era of globalization and privatization (GDP) of India is expanded at the rate of 7.7 percent. Agriculture has occupied a top position in Indian policy-making not only because of its contribution to GDP but also because of the large percentage of the population that is still dependent on the sector for its livelihood. The growth in population and wealth has stimulated demand to the extent that domestic production has not always been able to keep up and there is increasing speculation that the Indian economy may be overheating leading to inflation. The downside of the increased import demand and the current commodity boom is that India's food import bill will be rise sharply. However, it is clear that India's agricultural sector has made huge strides in developing its potential.

Since ages past the average Indian farmer has been living under heavy debts. Rural people are born under debts, live in debts, die in debts and leave debts for their heirs. The basic reason of their never-ending debts is the ancestral obligations, which are regarded sacred and paid till their last breath. The heavy expenditure at marriages and deaths force them to be down under the feet of traditional moneylender who had been exploiting them by charging high rates of interest. The farmers who fall once into the hands of the moneylender were never debt free.

The Rural Population in India has suffered a great deal of indebtedness and was subjected to exploitation in the credit market due to high interest rates and the lack of convenient access to credit. Households in rural areas needed credit for investing in agriculture and smoothening out seasonal fluctuations in earnings. Since cash flows and savings in rural areas for the majority of households are small, rural households typically tend to rely on credit for other consumption needs like education, food, housing, household functions, etc. Rural households need access to financial institutions that can provide them with credit at lower rates and at reasonable terms than the traditional money-lender and thereby help them avoid debt-traps that are common in rural India. The whole country a network of co-operative societies was spread but the entire needs of rural people could not be satisfied. They also adversely affected them because of corruption, favouritism and inefficiency.

However, the banking sector has witnessed a huge growth in the recent years. Despite such a growth, the credit flow by banks to the rural and agricultural sectors remains dismal, which, more or less, has resulted in financial exclusion of the rural masses. Regional rural banks have to play up major role to finance and provide landings to agriculture sector at diminishing rate of interest in order to grow the economy and GDP. It requires better financial management of the RRBs.

This study concentrates on the principles of bank management for assets and liabilities. The study focuses on the microeconomic problems of financial management of banking firms. The study helps in financial management and reduces the misuse of funds, proper estimation of total financial requirements, **p**roper mobilisation, utilisation of finance, **m**aintaining proper cash flow, to increase efficiency, reduce cost of capital and maximize the profit in long run of RRBs.

1.14 REVIEW OF LITERATURE

Ahmed, J et al.,. In their research study "Profitability of Regional Rural Banks in India: An Empirical Analysis in Meghalaya Rural Bank" (2013) found that the profitability is the most important indicator of financial performance. The level of efficiency, productivity, and cost effectiveness is reflected through the bank's profit which can be considered as a composite index of the bank's performance in its various areas of operation. Therefore, banks particularly RRBs at the present juncture have to ensure equilibrium between community banking and profitability and earned reasonable return to defend their survival. Hence, the present study is undertaken to examine the profitability performance of MRB in the context of their performance RRB as a whole. For the purpose of the study, it has been considered all the branches i.e., 58 branches particularly for the analysis of profitability performance of MRB. The study has (i) investigated the growth of profits of MRB in the context of RRBs, (ii) established the relationship between volume of business and profitability of MRB, (iii) assessed the impact of total earnings on the profitability of MRB, (iv) compared the profitability performance of banks with financial ratios in the context of RRBs as a whole, and (v) identified the determinants of profitability of MRB".

Ahmed, J. Uddin in his research study "Performance Evaluation of Regional Rural Banks: Evidence from Indian Rural Banks" (2013) examined the genesis of the Regional Rural Banks (RRBs) for around three and half decades can be traced to the need for stronger institutional arrangements for providing rural credit. The inception of RRBs can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. In the wake of introduction of financial sector reforms, the feasibility of RRBs emerged as the most crucial factors in deciding the desired role due to their limited business flexibility with hardly any scope of diversification, smaller size of loans with higher exposure to risk prone advances and professional inefficiency in financial deployment. In order to strengthen RRBs and to improve their performance, various initiatives have been taken by the Government of India and Reserve Bank of India. The study, therefore, is a synopsis on the evaluation of performance of RRBs in India with respect to deposit mobilization, credit channelization, credit deposit ratio, deployment of credit to various occupations etc.

Annual Report of Ministry of Finance in its Report "Consolidated Review of Performance of Regional Rural Banks (RRBs)" (2011) stated that the Regional Rural Banks (RRBs) were established in 1976 under Regional Rural Banks Act, 1976. RRBs are an integral part of rural credit system and are expected to play an increasingly important role in the development of, particularly, rural areas. It is important that the RRBs functions in a highly professional manner are executed, embracing the technological advancements. The Government of India had taken a number of steps, including recapitalization support from time to time, to improve the functioning of the RRBs and their financial health. Considering the tremendous potential, due to their presence throughout the country, Government of India has initiated the process of restructuring of RRBs to improve their functioning, achieve the economics of scale and to ensure better managerial control. As a result the total number of RRBs, as on 31 March 2011, stood at 82. With a view to modernize and strengthen the technology up gradation and functioning of RRBs to compete and play a more meaningful role in the financial services sector. RRBs are required to roll out Core Banking Solution (CBS) and their banking operations need to be functionally integrated with their sponsor banks.

Balamuniswamy, D and Erraiah,G in their study "Regional Rural Banks in India: An Analysis" (2013) discovered that "Regional rural Banks play a significance role in the agriculture and rural development of India. The RRBS have more reached to the rural areas of India through their huge network. The success of rural credit in India is largely depends on their financial strength. RRBs are key financing institution at the rural level which shoulders responsibility of meeting credit needs of different types of agriculture credit in rural areas. At present, most of the regional rural banks are facing the problems of overdue, recovery, nonperforming assets and other problems. Therefore, it is necessary to study financial performance of RRBs in India. This research work attempts to analyze the financial performance of RRBs in India as on 31st March, 2011. An analytical research design of Key Performance Indicators Analysis such as number of banks and branches, deposits, loans, investments and growth rate index is followed in the present study.

Bhandari, Govinda Prasad in his research study "Productivity Analysis of Public Sector Banks And The regional Rural Banks In India" (2014) argued that this study is an attempt to understand the comparative productivity picture of Public Sector Banks (PSBs) and the Regional Rural Banks (RRBs) in India. The study unveils that PSBs position is better in branch productivity, staff productivity, employee and branch-wise income and expenditure in comparison to Regional Rural Banks in the country. Comparative profit scrutiny of the two banks signifies that PSBs average per branch profit is more than 10 times of the RRBs in the country. Similarly, the average profit per employee in PSBs is 3.75 times more than the profit per employee of RRBs. Overall, it focuses that RRBs are lagging behind in comparison to Public Sector Banks in the productivity performance and it needs more understanding of banking business operations in the rural and backward areas. Productivity in PSBs and RRBs has a huge gap and RRBs need to think explicitly to reduce the existing gap of yield.

According to the study of Chakrabarti, Dr. Manas "' Impact of Merger on The Profitability Performance of Regional Rural Banks (RRBs) In Bihar State of India: An Empirical Study" (2013), an effort has been made in the instant project to study and find out whether restructuring through consolidation have made any effect on the financial viability of the RRBs in this region. Since, 1975 RRBs are being regarded as one of most important sources of institutional financing of rural credit in India. But at the end of expansion phase (1987) financial viability of the RRBs emerged as an important issue to the policy makers. Since 1991, various steps have been taken up by GOI for strengthening the RRBs e.g. cleansing of balance sheets, recapitalisation of selected RRBs etc. State-wise & Sponsor bank wise merger of RRBs is the recent route of restructuring of RRBs for improving their financial viability. There is always a need for up-gradation of the rural banking systems in India through performance evaluation in the context of necessity of institutional rural credit to the poor rural folk. Therefore, an attempt is made to study on the pre-merger and post-merger profitability performance of the RRBs in Bihar State.

Devi, N. Sabitha in her work "Problems and Prospects of Regional Rural Banks in India"(2014) found that "Banks play an important role in mobilization and allocation of resources in any country. Rural people in India are facing problems in adequate supply of credit. The major source of credit to rural households has been the informal sector. Rural banking is the process of conducting banking transactions out in the country where bank branches are too far away to be of use. Rural banking is popular for very small towns and farmers who live far away from areas of larger population and cannot make the drive to these locations whenever they need to use banking services. Typically, an agent of the bank visit these rural locations and offer to make transactions in an official capacity.

Dilip Khankhoje and Dr. Milind Sathye (2008) have analysed to measure the variations in the performance in terms of productive efficiency of RRBs in India and to assess if the efficiency of these institutions has increased post-restructuring in 1993-94 or not. As none of these studies analyze the role of RRBs in the priority sector lending, there is a need for carrying out the present study.

Gupta, D.R. and Khan, Iqbal in their research study "Performance of Regional Rural Banks: A Case Study Himachal Pradesh" (2014) stated that "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 forth of the total population of the country is involved in agricultural activities and RRB's is providing financial help to nonstop growth of this sector. This research study tries to highlight the significance of Regional Rural Banks' in economic development of the state. The study seeks to analyze the secondary data which have been collected from the different authentic source of RRB's and from Government of India. The study also focuses on Performance of Regional Rural Banks: a case study Himachal Pradesh. The major objectives of the study are to study the financial performance of Himachal Pradesh Gramin Bank, to study the deposit mobilization of Himachal Pradesh Gramin Bank and to study the credit expansion and to identify the challenges and threats which affect the performance of RRB's in Himachal Pradesh. CAGR have been applied for the justification of secondary data. This study came up with a number of recommendations to strengthen the RRBs in the state further.

Ibrahim, Dr. M. Syed. in his research work. "A Study on the Performance of Regional Rural Banks (RRB's) in India before and After Amalgamation" (2013) disclosed that "After 65 years of independence, still 65 per cent of total population lives in rural areas. The upliftment of rural economy is largely depending upon the strength of the rural sector. Several policy measures have been initiated and implemented by the Government of India. But still rural India is languishing under poverty, inadequate health care facilities scanty sanitary and drinking water accessibility, poor housing, mass illiteracy and much other similar type of economic and social handicaps. The Banking industry is one of the basic instruments of economic growth. It must be on a sound footing as it constitutes an important link in various socio-economic activities. With a view to flourish the rural economy, the GOI has established the Regional Rural Banks (RRBs) in 1975 under the provisions of the ordinance promulgated on the 26th September 1975. The Government of India, the concerned State Government and the bank, which had sponsored the RRB contributed to the share capital of RRBs in the proportion of 50%, 15% and 35%, respectively. The area of operation of the RRBs is limited to notified few districts in a State. The RRBs mobilize deposits primarily from rural/semi-urban areas and provide loans and advances mostly to small and marginal farmers, agricultural laborers, rural artisans and other segments of priority sector. In this study, an effort has been made to analyze the performance of RRBs in pre and post-consolidation. The study is diagnostic and exploratory in nature and makes use of secondary data. The study concludes that the Regional Rural Banks (RRBs) have significantly improved their working performance after amalgamation.

Ibrahim, Dr. M. Syed. in his work "Role of Indian Regional Rural Banks (RRBs) in The Priority Sector Lending- An Analysis" (2012) found that" The importance of the rural banking in the economic development of a country cannot be overlooked. As Gandhiji said "real India lies in villages," and village economy is the backbone of Indian economy. Without the development of the rural economy, the objectives of economic planning cannot be achieved. Hence, banks and other financial institutions are considered to be a vital role for the development of the rural economy in India. Regional Rural Banks (RRBs) were established in October 2, 1975 and have played a pivotal role in the economic development of the rural India. The main goal of establishing Regional Rural Banks in India is to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural labourers and even small entrepreneurs. The present study is a modest attempt to make an appraisal of the rural credit structure and the role played by RRBs in the development of rural economy. The objective of this study is to analyze the rural credit and the role played by the RRBs in the priority and non-priority sector landings. The study is diagnostic and exploratory in nature and makes use of secondary data. The study concludes that RRBs in India has significantly improved rural economy."

Mahanta, et al., in their research study "Status of Microfinance In India - A Review"(2012) discovered that the greatest challenges before the Indian sub- continent which accommodates more than one-third of the population is poverty. India, one of the BRIC nations with more than 1.2 billion population is seen by many developed countries as an emerging economy. India's economic growth has failed to make a significant improvement in its poverty figures with 400 million- more than the total in the poorest African Nations- still stuck in poverty. Government of India with its concern started various poverty alleviation programs but they have failed to deliver the objectives to the level which is desired. The reasons could be many such as failure to reach the target group, loopholes in the system, developing a robust mechanism to name a few. Many countries including India experimented with subsidized credit which only led to increase in the NPAs. The microfinance has come forward to fill up the gap. But the outreach is too small as compared to the requirement and potential. However there is some progress in this regard after active role played by NABARD and formation of SHGs groups. A number of NGOs and MFIs have also delved into the business. Some of them have also started in a big way and making profit by issuing IPOs (Initial public offers). But certain development in recent years have brought a fresh focus on the problem of regulation in field of microfinance. The study delineates three distinct aspects of microfinance, first growth of microfinance in India and some other countries; secondly it discusses the role played by NABARD and other National Banks in growth of SHGs and Gramin Bank. Third, it deals with the role of government in framing legislation for protection of right of micro borrowers. The study also deals with the need for a regulatory body to regulate, develop and guide the numerous MFIs and NGOs who work in the field of micro-credit. The study also discusses about the factors and theoretical position associated with evolution of microfinance and its role in global scenario.

According to the study of Mongid, Abdul and Tahir, Izah Mohd "Technical And Scale Efficiency Of Indonesian Rural Banks"(2010) mentioned that the existence of the rural banks in the Indonesian' financial market is more pronounced recently than ever especially after the Asian crisis in 1997. The ability of rural banks to shield during the crisis and the state programs to develop small and medium enterprises (SMEs), make the role of rural banks more pivotal. Rural banks begin to fill in the gap of financial services in rural areas. Recently, the issue of efficiency has received attention among academic researchers. This study estimates the technical and scale efficiency of rural banks in Indonesia during the period of 2006 and 2007 by applying the non-parametric approach - Data Envelopment Analysis (DEA). The results suggest that the degree of technical efficiency is found to be lower than the degree of scale efficiency which indicates that portion of overall inefficiency is due to producing below the production frontier rather than producing at an inefficient scale. In addition, majority of the banks in the sample exhibit suboptimal scale which imply that output should be expanded to reach the optimal scale.

Nancy, Kanika In her research study "Financial Performance Evaluation of RRBs' in India"(2013) reveals that the rapid expansion of RRB has helped in reducing substantially the regional disparities in respect of banking facilities in India. The efforts made by RRB in branch expansion, deposit mobilization, rural development and credit deployment in weaker section of rural areas are appreciable. RRB successfully has achieved its objectives like to take banking to door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private lenders, to encourage rural savings for productive activities, to generate employment in rural areas and to bring down the cost of purveying credit in rural areas. The increase in the number of NPA's and the problem of recovery has necessitated the need to study the financial performance of RRBs. The main objective is to study the growth-pattern and financial performance of Regional Rural Banks in India. The study conducted is descriptive in nature and data is collected from published annual reports of RBI and NABARD for the period 2006-2012. The study has witnessed positive impact on the financial performance of RRB's due to amalgamation and other factors.

Naz, et al., in their research study "Role of Regional Rural Banks in Jammu and Kashmir"(2014) found that the establishment of the Regional Rural Banks has been the landmark in the history of rural banking. This research is based on the role of banks in providing facilities and sources to India backwardness and its farmers. Prior to Regional Rural Banks, commercial banks and co-operatives were active in the disbursement of rural credit. But they were not able to meet the credit requirements in the rural areas. Economic Development of our country can be achieved only through uplift of the village folk. Among the various institutional agencies engaged in rural finance, Regional Rural Banks (RRBs) play a significant role in financing the target groups in rural sector.

Pal, et al., in their research work "Efficacy of Regional Rural Banks (RRBs) in India: A Conventional Analysis"(2006) stated that the burden of indebtedness in rural India is exceptionally enormous. Despite major structural changes in credit institutions and forms of rural credit in the post-Independence period, the exploitation of the rural masses in the name of credit facility is one of the most pervasive and persistent features of rural India. The objectives of this study are to assess the growth pattern of RRBs; to examine the credit distribution and geographical distribution of RRBs. The analysis period of the study is from inception (1975) to till (2005) date. The overall position of RRBs in India is not quite encouraging. The poor credit-deposit ratio is still making dent on the improving functioning of RRBs. Since the RRB is supposed to be a bank for poor people, its presence in all the states of country especially in underdeveloped States can make things better. The government should spread the branches of RRBs at grass root level to provide such banking services to the really needy rural people. Moreover, it is the responsibility of the bank management and the sponsored bank to take corrective measures to raise the credit-deposit ratio of the bank that would make RRBs relevant in the rural India.

Paul, Uttam in his research study " Micro finance is an Anti-Poverty Tool For Rural Development: A Study"(2014) found that micro-credit or micro finance is the extension of very small loans (micro loans) to the unemployed persons, poor entrepreneurs, households, farmers and others living in poverty who are often left out of the formal banking system, because of several reasons. Their inability is to provide collateral, the high risks in lending to them, the rigid formalities that are a part of the formal lending system and the high costs. As a result, the poor often have to resort to informal moneylenders, who charge high rate of interest and often exploit the situation. Micro finance is a novel approach to 'banking with the poor' and this system attempts to combine lower transaction costs and high degree of repayments. The most important cause of rural indebtedness is poverty. The farmers' income is low and he has no past savings. Whenever there is any crop failure, illness, accident, sudden fall in agriculture price, etc. the Indian farmer borrows year after year but he is not in a position to repay all the debts. As a result, the debt of the farmer goes to increasing. Rural micro credit is essentially helpful for farmers and promoting self-employment in the informal sector of the economy. India's microfinance experiments are much differ from the more substantial microfinance institutions and programmes of its neighbours countries. Creating self employment opportunities is one way of attacking poverty and solving the problems of unemployment. There are over 24 crore people below the poverty line in our country. The Scheme of Micro-finance has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy.

According to the study of Pooja "Dimensions of Himachal Gramin Bank- An Empirical Analysis" (2014) argued that "Rural finance is considered as a crucial input in rural reconstruction and institutional finance is an important prerequisite in rural finance for rural development. Regional rural bank is one of the most important finance institutions which provide financial assistance to landless labourers, rural artisans, small and marginal farmers, village and cottage industries. The aim of the bank is to promote the productive activities and banking habits among the rural masses. RRBs were established in 1975 with the objective of augmenting the outreach of the institutional channel of credit in the remotest corner in rural India. In Himachal Pradesh two RRBs i.e. Himachal Gramin Bank and Parvatiya Gramin Bank are functioning. After reviewing the literature of these banks it is observed that most of the literature has skipped the important fact i.e. Impact of RRBs in the development of people. So in this research study an effort has been made to analyse this impact. The main objective of our study is to assess the impact of facilities provided by HGB to the rural masses and to examine in depth the performance of HGB. The present study is confined particularly to Himachal Gramin Bank. Both primary and secondary data have been used for getting required information .Primary data has obtained through personal interviews. Keeping in view the nature of study, the data collected have been analyzed and interpreted with the help of mathematical tools; statistical tools i.e. Chi-square test, diagrammatical & graphical methods".

Rao,B Venkanta and Rao, Dr. G Sudarsana in their research study "Performance of Regional Rural Banks in India A study on Andhra Pradesh Grameen Vikas Bank in Andhra Pradesh" (2014) found that the necessity of rural finance was felt to provide protection & reliance to rural people who rely highly on informal source of finance like moneylenders, landlords & traders etc. but they exploit farmers and small entrepreneurs by charging exorbitant rate of interest & force farmers to sell their products at low price to them. Rural people also face the risk of unpredictable production of crops due to high dependency on monsoon. The problems of finance suffer from lack of seeds, fertilizers, water supply and other facilities which lead to rural ineptness. Rural banks are providing finance to the weaker sections of society like small farmers, rural artisans, small producers, rural laborers etc. to provide finance to cooperative societies, primary credit societies, Agricultural marketing societies, enhance & improve banking facilities to semi urban, rural& other untapped market. The Regional Rural Banks help the rural people to come out from the financial problems and secured the financial assistance to agriculture in India. The study concentrated on Andhra Pradesh Gramin Vikas Bank is of the utmost importance in Andhra Pradesh state to provide financial support to agriculture and performance of the bank in various Identified potential areas. The total Business crossed the land mark level of ₹ 10680 crore- highest among all RRBs in the state of Andhra Pradesh during the financial year 2011-12. This bank focused on the continuous rural development, reaching the uncovered and being farmer friendly.

Reddy, .D .Maheshwara and Prasad, K. V. N. Prasad in their research study "Evaluating Performance of Regional Rural Banks: An Application Of Camel Model" (2011) stated that the regional rural banks would be a 'model financial infrastructure' for rural development with patronage and encouragement given by planners in the field. Thus, the State sponsored, regionally based and rural oriented commercial banks have taken birth in rural India which popularly known as 'Regional Rural Banks'. These banks have penetrated every corner of the country and have been extending a helping hand in the growth of the economy. Despite the RRBs journeyed over three decades, they have achieved performance to the expected level quantitatively not turning towards sound financial management and productivity. Moreover the achieved performance is not uniform though they are working under the approach of same management. Effective performance is the success of every business. In order to achieve the effective and efficient performance, the RRBs have been taken up amalgamation process in the entire organization in the year 2005-06. Amalgamation of regional rural banks was considered to strengthen all the branches financially. In every line of business, the performance of each bank is appraised in financial perspectives and ranked them. In this study an attempt is made to discuss the financial performance of selected regional rural banks during post reorganization period. To measure the financial soundness of selected sample banks, the CAMEL Model which is an appropriate technique is adopted.

Roy, Swapan Kumar in his study "Rural Development in India: What roles do NABARD & RRBs play ?" (2014) revealed that India is a country of villages. According to Census of India's 2011 Provisional Population, out of 121 crore Indians, 83.3 crore live in rural areas while 37.7 crore stay in urban areas. There are about 6 lakhs villages in our country. Around 70% of the population of India lives in villages i.e. rural areas. So the rural areas need to be developed. NABARD plays a significant role in developing rural economy. NABARD, being an apex Development Bank, facilitates credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also supports all other allied economic activities in rural areas. The main motto of establishing this bank in India was to provide credit to the rural people (people living in poverty and not economically sound) and to inculcate banking habits among rural masses. So NABARD and RRBs have been playing a catalyst role for the development of rural areas. These two banks are committed to promoting rural development. The first one i.e. NABARD has effectively brought in a number of innovations in the rural credit domains. Some innovations for the development of rural India are (a) Formation & Linkage of SHGs, (b) Farmers Club, (c) District Rural Industries Project, (d) Kisan Credit Card (KCC), (e) Rural Infrastructure Development Fund (RIDF), (f) Watershed Development and many more. These schemes/programmes/policies have helped develop rural economy. Sustainable economic growth is the mantra of the government's development policy. It is said that development and transformation of rural economy needs rapid expansion of employment and income opportunities. It is possible if rural economy is developed through economic betterment of people as well as greater social transformation. The policies and programmes undertaken by our government are designed with the aim of alleviation of rural poverty, which has been one of the primary objectives of planned development in India. In this backdrop, an attempt has been made in this study to analyze and evaluate various policies/programmes/schemes undertaken by NABARD & RRBs for rural development.

Shafi M. K Muhammed in his study " Status of Microfinance in India; a Study Based On Self Help Groups" (2014) found that " Microfinance is an economic activity which deals with small scale financial services like lending loans and collecting funds for small scale industries. In India around 800 MFIs (Micro Financial Institutions) are prevailing in which South India is the most dominated province for micro financial activities. Andhra Pradesh is overwhelmed state in micro finances which posses more than 60% of Indian microfinance sector. It also plays a pivotal role in maintaining socio economic balances in regional areas. NGO, NBFCs and RRB are the key players in this sector with prominent methodologies like SHGs (Self Help Groups) and SBLP etc. Moreover, there are some types of Informal Credit Suppliers found in India (including financial intermediaries) which are Chit funds, Nidhis, Brokers, financial co-operations etc. This research is mainly based on quantitative analysis collected from statistical data revealed by micro financial entities and supportive institutions like NABARD, SIDBI etc. This attempt explores overall micro financial intermediaries in India on the regional basis like South, West etc in which it emphasize on SHG entities operated by various financial institutions.

Shashikumar,T.P. et. al., in their research study "Regional Rural Banks In India And Karnataka: A Time Series Analysis" (2013) stated that "Regional Rural Banks (RRBs) in India are an integral part of the rural credit structure of the country. The main goal of establishing regional rural banks in India was to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural laborers and even small entrepreneurs".

Singh, Kuldeep in his research study "Performance Evaluation Of Regional Rural Banks"(2014) found that "The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalized sections. Although the cooperative banks and the commercial banks had reasonable records in terms of geographical coverage and disbursement of credit, in terms of population groups. The cooperative banks were dominated by the rural rich, while the commercial banks had a clear urban bias. In order to provide access to low-cost banking facilities to the poor, the Narasimham Working Group (1975) proposed the establishment of a new set of banks, as institutions which "combine the local feel and the familiarity with rural problems.

Subudhi, R. N and Ram, Jitendra K. in their research study "Operational Efficiency of Regional Rural Banks and Other Commercial Banks of Odisha India: A Comparative Study" (2012) disclosed that "Banks play an important role in the economic development of a state. The banks play the role of financial intermediaries in the economic development of a state. The commercial banks help in flow of investment capital throughout the market place. The main tool for resource allocation in the economy is to credit disbursed by the banks. When the performance of the banks is evaluated in lieu of the services provided to the larger societies. It is found that a glaring bias of public sector (PS) banks only for the urban areas. But Odisha has a population of 4.20 crore, of which 3.50 crore (83.33%) live in (51313) villages (as per 2011 census). Out of 51313 villages of Odisha, commercial banks function only in 1724 villages. The banking system in Odisha consists of public sector banks, private banks, development banks, specialized banks, and cooperative banks. To find out the answers of these questions such as; Are the banks, operating Odisha, doing justice? Can the state bank on those banks for the socio-economic development of the masses? authors have analyzed the operational statistics of all the banks operating in Odisha, to make a comparative study of their role as well as the performance parameters of Regional Rural Banks (RRBs) and other PS banks. Through this study an attempt has been made to assess whether the commercial banks functioning in Odisha have properly discharged their responsibilities towards the economic development of the state, especially rural Odisha (India).

Suman in her study. " Role of Regional Rural Banks in Growth, Employment, Income And Development of Rural Population"(2012) explored that evolution of an effective institutional credit structure, which can meet the credit needs of the rural economy, has been one of the basic objectives of credit policy in India. Commercial banks have little interest in rural areas, these banks concentrated on deposits rather than credits. The nationalization of major commercial banks also did not improve the situation to any great extent. Less than 1% villages availed financial facilities from commercial banks. So there was strong need for the establishment of Regional Rural Banks. The rapid expansion of Regional Rural Banks has helped in reducing substantially the regional disparities in respect of banking facilities in India. Generation of additional sources of income and employment in rural population has been the main objective of Regional Rural Banks. The banks are striving hard to provide best banking service in its command area. Government should take some effective remedial steps to make Gramin Banks viable.

Thingalaya, N. K. in his study "Role of Rural Banks in Achieving Financial Inclusion" (2012) found that Rural banking in India has a chequered history. Banking has been essentially an urban-oriented service since its inception. Only a few smaller towns and a couple of villages in the South had banking facilities since the introduction of the Swadeshi movement during the first decade of the last century. With the dawn of the Planning era in the fifties, the need for extending institutional credit facilities to the rural sector was recognized. Expansion of rural branches was rightly conceived by the Planners, therefore, as a strategy for augmenting rural credit. Banks in the private sector were concentrating in urban areas for obvious reasons. After pursuing this goal relentlessly in the 70s and 80s, there was a total change in the emphasis since the 90s, when the new generation banks came into being existence. The Financial Sector Reforms, which were introduced during 90s have retarded to a great extent the expansion of rural banking. This shift in emphasis from mass banking to class banking and placing profit on high pedestal have curbed the ground staff's interest in rural development. The original conceptual framework of the priority sectors has been instrumental in directing the flow of credit to the strategic sectors like agriculture in the past, ushering in the green revolution. The aversion of the authors of financial sector reforms towards directed lending was a misplaced policy ingredient in the Indian banking set up, where some sort of rethinking is an imperative need.

Yellaiaha, C., et al.,in their study "Progress and Amalgamation of Regional rural Banks In India-An Overview" (2014) stated that with the advent of Green Revolution on one hand and rapid technological advancements on the other, have greatly increased the credit needs in rural areas. Earlier co-operative banks had been a major source of rural credit. Gradually, the commercial banks entered the field and their role in rural finance has significantly increased. In spite of rapid expansion of branches of commercial banks and increase in the membership of Primary Agricultural Credit Societies (PACS), still a large gap exists in the rural credit between demand and supply of credit both in terms of functional needs and adequate geographical coverage in different regions of the country. It has been observed that the co-operative banks have suffered from the domination by a few, poor management, and mounting over dues, while commercial banks suffer from high cost structure and staff indifferences to rural credit needs. Therefore, it is felt that these credit institutions neither in their present form of functioning nor with any possible adoption or reorganization, would be able to fill the kind of credit gap which existed in the rural economy of the country. It was of the firm opinion that in a country of the large size and regional diversity as ours, no single pattern be it commercial banks or co-operative credit, can be expected to meet all the emerging requirements in all areas. A degree of adaptation and improvising is called for and the range of institutional alternatives widened. It is in this context, the study is concluded that a new type of institutional like rural bank is necessary which may be state-sponsored, regionally based and rural-oriented bank.

1.15 RESEARCH METHODOLOGY

1.15.1 INTRODUCTION

In India, there are a lot of studies have been undertaken focusing on banks' performance. But a few studies have been undertaken in context of regional rural banks' performance (Madhyanchal Gramin Bank, Central M.P. Gramin Bank and Narmada Jhabua Gramin Bank). The study ***Financial Management in Regional Rural banks in Madhya Pradesh*** is based on primary and secondary data collected from Dissertations, unpublished and published data from indiastat.com. The primary data is collected from employees of the above mentioned regional rural banks.

1.15.2 OBJECTIVES OF THE STUDY

This study aims to identify the variables of Regional Rural Banks' Performance to measure the perceived impact of different parameters of banks' performance, capital adequacy, inflow and outflow of funds, operational efficiency etc.

For this purpose, following objectives were chosen for our study.

1. To determine and analyze the relationship between Regional Rural Bank performance and capital adequacy.
2. To identify and assess the factors effecting on Financial Management in Regional Rural Banks in Madhya Pradesh.

3. To acquire knowledge about financial management techniques and its application in banking companies.
4. To discuss some important techniques of Financial Management regarding RRBs.(Financial Management, therefore, done by different techniques like capital budgeting, cost of capital, capital structure, leverage, working capital management, cash flow statement, funds flow statement, dividend policy and risk and uncertainty analysis).
5. To determine and analyze balance between inflow and outflow of funds so that stability is maintained.
6. To know financial policies framed and executed with regards to cash control, lending, borrowings of RRBs.
7. To evaluate and measure financial performance of Regional Rural Banks on the basis of sanction & disbursement during the given period.
8. To evaluate the financial health, profitability and operational efficiency of the RRBs.
9. To outline the financial problem faced by Regional Rural Banks in Madhya Pradesh & assistance made by State Government.
10. To make suggestions or the improvement in the Financial Management in RRBs of Madhya Pradesh.

1.15.3 HYPOTHESES OF THE STUDY:

A hypothesis is not a question, but rather it is a statement about the relationship between two or more variables. The hypothesis translates the research question into a prediction of expected results.

In this study, the researcher has constructed separate hypotheses for separate banks and one combined hypothesis for all three banks for each objective which is related to the quantitative data.

H_{01}: There is no significant relationship between Regional Rural Bank's Performance (Narmada Jhabua Gramin Bank) and Capital Adequacy.

H_{11}: There is a significant relationship between Regional Rural Bank's Performance (Narmada Jhabua Gramin Bank) and Capital Adequacy.

H_{02}: There is no significant relationship between Regional Rural Bank's Performance (Madhyanchal Gramin Bank) and Capital Adequacy.

H_{12}: There is a significant relationship between Regional Rural Bank's Performance (Madhyanchal Gramin Bank) and Capital Adequacy.

H_{03}: There is no significant relationship between Regional Rural Bank's Performance (Central Madhya Pradesh Gramin Bank) and Capital Adequacy.

H_{13}: There is a significant relationship between Regional Rural Bank's Performance (Central Madhya Pradesh Gramin Bank) and Capital Adequacy.

H_{04}: There is no significant relationship between Regional Rural Bank's Performance and Capital Adequacy.

H_{14}: There is a significant relationship between Regional Rural Bank's Performance and Capital Adequacy.

H_{05}: There is no balance between Inflow and Outflow of funds in Madhyanchal Gramin Bank.

H_{15}: There is a balance between Inflow and Outflow of funds in Madhyanchal Gramin Bank.

H_{06}: There is no balance between Inflow and Outflow of funds in Central M.P Gramin Bank.

H_{16}: There is a balance between Inflow and Outflow of funds in Central M.P Gramin Bank.

H_{07}: There is no balance between Inflow and Outflow of funds in Narmada Jhabua Gramin Bank.

H_{17}: There is a balance between Inflow and Outflow of funds in Narmada Jhabua Gramin Bank.

H_{08}: There is no balance between Inflow and Outflow of funds in RRBs.

H_{18}: There is a balance between Inflow and Outflow of funds in RRBs.

H_{09}: There is no significant impact of Business Ratios on Financial Ratios with regard to the Central M.P Gramin Bank.

H_{19}: There is a significant impact of Business Ratios on Financial Ratios with regard to the Central M.P Gramin Bank.

H_{010}: There is no significant impact of Business Ratios on Financial Ratios with regard to the Narmada Jhabua Gramin Bank.

H_{110}: There is a significant impact of Business Ratios on Financial Ratios with regard to the Narmada Jhabua Gramin Bank.

H_{011}: There is no significant impact of Business Ratios on Financial Ratios with regard to the Madhyanchal Gramin Bank.

H_{111}: There is a significant impact of Business Ratios on Financial Ratios with regard to the Madhyanchal Gramin Bank.

H_{012}: There is no significant impact of Business Ratios on Financial Ratios with regard to the RRBs Banks.

H_{112}: There is a significant impact of Business Ratios on Financial Ratios with regard to the RRBs Banks.

H_{013}: There is no significant impact of Operational Efficiency on Profitability of RRBs.

H_{113}: There is a significant impact of Operational Efficiency on Profitability of RRBs.

H_{014}: There is no significant relationship between Disbursement & Net Profit in Narmada Jhabua Gramin Bank.

H_{114}: There is a significant relationship between Disbursement & Net Profit in Narmada Jhabua Gramin Bank.

H_{015}: There is no significant relationship between Disbursement & Net Profit in Madhyanchal Gramin Bank.

H_{115}: There is a significant relationship between Disbursement & Net Profit in Madhyanchal Gramin Bank.

H_{016}: There is no significant relationship between Disbursement & Net Profit in Central M.P Gramin Bank.

H_{116}: There is a significant relationship between Disbursement & Net Profit in Central M.P Gramin Bank.

H_{017}: There is no significant relationship between Disbursement & Net Profit in RRBs.

H_{117}: There is a significant relationship between Disbursement & Net Profit in RRBs.

1.15.4 RESEARCH DESIGN

The primary data were collected mainly from employees. A structures questionnaire was canvassed to the selected respondents in the study area to collect the data. Aspects covered in the questionnaire were financial performance, operational efficiency, trust etc. The secondary data were collected from banks' reports and unpublished documents of Libraries. Thereafter the required data were analyzed and inferences/interpretations have been made. All relevant data/opinions sought from these sources also embodied into this report.Hence, the research design is exploratory and descriptive. Exploratory because the researcher has explored variables and described those variables in a quantitative and qualitative manner so that it can be concluded how much variance among different variables.

1.15.5 RESEARCH APPROACH

Research may be deductive or inductive. Deductive research approach begins with the development of a theory or hypothesis and later a development of a strategy to test it in a context to verify or reject its claims. So it is thinking from general to specific. On the other hand, the approach is inductive where the research begins with an observation of a phenomenon in an environment, then data is collected upon which a theory is developed or generalization is made. In this study, the researcher has carefully selected existing empirical theories, applying and testing them in assessing the impact of financial performance in regional rural banks in M.P. Therefore, the study is deductive.

1.15.6 SAMPLING\SIZE\SELECTION CRITERIA

A sample is a finite part of a statistical population whose properties are studied to gain information about the whole. When dealing with people, it can be defined as a set of respondents (people) selected from a larger population for the purpose of a survey. To draw conclusions about populations from samples, the study has used inferential statistics which enables us to determine a population`s characteristics by directly observing only a portion (or sample) of the population. The researcher has obtained a sample rather than a complete enumeration (a census) of the population for many reasons. In the present study, the researcher has approached employees of banks as respondents to collect data. The sample size is 200. The study has surveyed 200 respondents. We have surveyed 200 respondents. We have targeted 500 officers/employees but respondent rate is around 40%, because they were busy in other official stuffs and also reluctant in filling the questionnaires The sampling techniques adopted in this context was judgment sampling, convenience sampling and purposive sampling to follow up the above three stages respectively.

1.15.7 TOOLS & TECHNIQUES

1.15.7.1 SCALING

A **Likert scale** is a psychometric scale commonly used in questionnaires, and is the most widely used scale in survey research, such that the term is often used interchangeably with *rating scale* even though the two are not synonymous. When responding to a Likert questionnaire item, respondents specify their level of agreement to a statement. The scale is named after its inventor, psychologist Rensis Likert. The Likert scale is commonly used in survey research. It is often used to measure respondents' attitudes by asking the extent to which they agree or disagree with a particular question or statement. On the surface, survey data using the Likert scale may seem easy to analyze, but there are important issues for a data analyst to consider.

1.15.7.2 STATISTICAL TESTS

In this study various statistical tools were applied to test the hypotheses.

Correlation & Regression Analysis

In statistics, correlation is applied to check the consistency among variables and make judgement about the association between two variables on the other hand **regression analysis** refers to techniques for the modeling and analysis of numerical data consisting of values of a dependent variable (also called a response variable) and of one or more independent variables (also known as explanatory variables or predictors). The dependent variable in the **regression equation** is modelled as a function of the independent variables, corresponding parameters (constants), and an *error term*. The error term is treated as a *random variable* and represents unexplained variation in the dependent variable. Parameters are estimated to give a "best fit" of the data. Most commonly the best fit is evaluated by using the least squares method, but other criteria have also been used. For example, in simple linear regression for modeling *N* data points there is one independent variable: x_i, and two parameters, β_0 and β_1:

Straight line: $Y_i = \beta_0 + \beta_1 X_i + U_i$, $i=1,\ldots\ldots N$

In multiple linear regressions, there are several independent variables or functions of independent variables. For example, adding a term in X_i^2 to the preceding regression gives: Parabola: $Y_i = \beta_0 + \beta_1 X_i + \beta_2 X_i^2 U_i$, $i=1,\ldots\ldots N$

This is still linear regression; although the expression on the right hand side is quadratic in the independent variable x_i, it is linear in the parameters β_0, β_1 and β_2. In both cases, U_i is an error term and the subscript *i* indexes a particular observation.

In the case of simple regression, the formulas for the least squares estimates are

$$\hat{\beta}_1 = \frac{\sum(x_i - \bar{x})(y_i - \bar{y})}{\sum(x_i - \bar{x})^2} \text{ and } \hat{\beta}_0 = \bar{y} - \hat{\beta}_1 \bar{x}$$

Where $\bar{x}$ the mean (average) of the x is values and $\bar{y}$ is the mean of the *y* values. The standard errors of the parameter estimates are given by

$$\hat{\sigma}_{\beta_0} = \hat{\sigma}_{\varepsilon}\sqrt{\frac{1}{N} + \frac{\bar{x}^2}{\sum(x_i - \bar{x})^2}}$$

$$\hat{\sigma}_{\beta_1} = \hat{\sigma}_{\varepsilon}\sqrt{\frac{1}{\sum(x_i - \bar{x})^2}}$$

Under the further assumption that the population error term is normally distributed, the researcher can use these estimated standard errors to create confidence intervals and conduct hypothesis tests about the population parameters. For the estimation of compound annual growth rate, the following semi log trend equation has been used: Log Y = (β_1 + β_2T + U), Where Y is the dependent variable, T = Time, β_1 and β_2 = regression coefficients, U = The Error Term. Trend compound growth rate can be estimated as; Growth rate = (Antilog β_2 - 1) X100. The constancy of long-term growth rate has been tested with the help of semi log quadratic equation - Log Y = β_1 + β_2T + β_3T^2 + U, Where β's are regression coefficients. The value of β_3 explains acceleration or deceleration in growth rate. Statistically significant and positive value of β_3 indicates acceleration in growth rate while negative but significant value reflects deceleration in the growth rate. Insignificant value of β_3 indicates constancy in the growth rate.

Analysis of Variance (ANOVA): The analysis of variance (ANOVA) is a statistical test that is utilized to determine if differences exist among the means of two or more independent samples, that is "...the means for K samples are not statistically different. Dillon, Madden and Firtle (1994); Churchill (1995); and Zikmund (1995) maintain that it is suitable to use ANOVA when K independent groups are scaled using interval measurement. ANOVA is a bi-variate statistical test which is commonly referred to as 'one way", since there is only one independent variable. ANOVA differs significantly from the t-test since it is able to test for differences in more than two independent groups simultaneously (Zikmund 1995). Using the ANOVA technique allows researchers to determine if different groups within a sample vary with regard to the independent variable being investigated. However, if this variance within the groups is compared with the variance of the groups' means around the grand mean, it is then possible to establish if the means are significantly different. The F-test is a statistical technique that identifies if there is more variability in the scores obtained for one sample group compared to the other sample group (Zikmund 1995).

In this study, the F-test was used to determine if a significant difference existed in the preference of attributes of financial management differing in inflow and outflow of funds, ratios, deposits, investments, borrowings, capital adequacy, recovery performance etc., with regard to regional rural banks of M.P. Karl Pearson formulated the Pearson's product moment correlation coefficient. This coefficient is also referred to as 'Pearson r'. The magnitude of r gives an indication of the strength and direction of the relationship that exists between two variables. Pearson r value can only assume values between -1 and +1. According to Harris (1995), "...a value of +1 indicates a perfect positive linear relationship, reflecting the fact that the higher the score on X, the higher the score on Y and vice versa.

Research Methodology is the back bone of research work. The researcher has ascertained various tools, techniques, models and in this chapter. With all these efforts this comprehended this research work. The researcher has collected primary and secondary data. With the help of SPSS 20.0 and Microsoft excel data has been analyzed. The results were critically evaluated and described logically in this thesis. All the objectives and hypothesis are studied, analyzed and tested in the following chapters.

1.15.8 SECONDARY DATA

To test the hypotheses secondary data have been collected and compiled together to conclude the results. To test the objectives following secondary data were taken from the Bank Reports separately from Madhyanchal Gramin Bank, Central M.P. Gramn Bank and Narmada Jhabua Gramin Bank. For this study, four years data have been calculated (2011-12 to 2014-15) as on March Ending Year.

To test the first objective, for the measurement of banks' performance the following parameters were taken such as; loan disbursement, deposits, recovery, growth, profitability and capital adequacy. In this study, correlation & regression analysis were applied to determine the impact of banks' performance on capital adequacy.

To measure the second objective, factor analysis was applied to explore the important factors contributed in the highest loadings through the varimax rotation factors.

To test the third objective, different financial management techniques and its applications in banking services.

In testing of the fourth objective, various financial techniques were studied.

To test the fifth objective, for measuring the balance between inflow and outflow of funds in regional rural banks, the following factors have been examined like; investment, deposits, borrowings, operating expenses, loans and advances, bank FDR and salary.

To test the aforesaid objective, various financial policies were studied in terms of cash control, lending process and borrowings etc.

In the seventh objective, correlation was applied to examine the association between sanction and disbursement during the four years.
This eighth objective, the operational efficiency has been measured.

The ninth objective is theoretical application and measured the problems faced by the RRBs.

To test the last objective, to examine the financial health and profitability, following factors have been studied. These are financial ratios and business ratios. All these ratios of all the three banks are examined and calculated. Through SPSS tests have been applied to conclude the findings.

In the later chapter data analysis, it covers all the testing of hypotheses and tables and chart have been generated. These are explained with the given values.

CHAPTER - II
MADHYA PRADESH - AN INTRODUCTION & REGIONAL RURAL BANK'S IN MADHYA PRADESH

CHAPTER - II

MADHYA PRADESH- AN INTRODUCTION & REGIONAL RURAL BANKS IN MADHYA PRADESH

When we hear the name Madhya Pradesh, two things just come to our conciseness, first the literal meaning of Madhya and what are other nicknames which are associated with the state such as land of Diamonds, Tiger State, Heart of India, Madhya Bharat etc. A brief introduction of Madhya Pradesh would prove to be handy in this regard. The introduction or brief profile state would enable us to know a bit more about the fascinating state of Madhya Pradesh which is full of stories, anecdotes, mysteries, folklores etc. The state has been in the prominent position since the very beginning of human civilization as the caves having rock paintings in *Bheem bhetka*. Other than that state is mentioned number of times in old scriptures and even Vedas (Special mention of Ujjain or Ujjaini) other than that in modern and ancient history of India, the state of Madhya Pradesh holds a significant place as well. So, in short state holds a credible place in the history of not only India but also the world and entire civilization as well.

Madhya Pradesh emerged as an Indian state in the year 1956.[1] During that period, the state also rose to prominence as the largest state in India. However, with the bifurcation of Chhattisgarh in the year 2000, the modern-day Madhya Pradesh came into being. Positioned in the geographic heart of the country, the state is a crucible that holds the amazing concoction of various religions and cultures of the country. The rich culture of Madhya Pradesh is the upshot of its enchanting history that traverses many a dynasties. In November 2000 the state was divided into two separate states namely Madhya Pradesh and Chhattisgarh, the new state Chhattisgarh was formed from the Eastern Province of Madhya Pradesh. Madhya Pradesh which literally means the central land, is situated in the heart of India and is second largest state in terms of area (First being Rajasthan) was first till year 2000. It has total area of 3, 08,252 Sqkms. The state is endowed with varied landscapes and scenic beauty from natural to wildlife and vibrant culture and social richness. Madhya Pradesh gained a very prominent position with time. Government stability and colossus investment opportunities have made Madhya Pradesh a very significant state in India.

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[1] www.bharatonline.com

2.1 THE ORIGIN AND HISTORY OF MADHYA PRADESH

The history of Madhya Pradesh is quite old and the remains can be traced back to 200 BC.[1] Madhya Pradesh due to its central location has remained a crucial and strategically inevitable from historical and cultural point of view right from south to north and East to West. The historical richness was recognized by UNESCO in year 1986 when it enlisted Temple of Khajurahao in the World Heritage list, followed by year 1989 Buddhist monuments in Saanchi, further underlining the pre historic evidence found in Madhya Pradesh, the UNESCO place Bheem Bhetka in its world heritage list recently in year 2003. The origin of Madhya Pradesh is dated back to the Palaeolithic age, when men were primitive and dwelled in caves. Bhimbetka cave paintings of the state reiterate the fact. Chronically is concerned, the history of Madhya Pradesh regresses to the time of Emperor Asoka. Chandra Gupta Maurya, grandfather of Prince Asoka, established the Maurya Empire (321 to 185 BCE) in Northern India, including the state of Madhya Pradesh. Maurya Empire received a setback after Asoka's death and subsequently ebbed away into oblivion.

With the culmination of the Maurya Empire, Central India saw many contestations for imperial victory amongst the Kushanas, Sakas and other local dynasties, from 3rd to 1st century BC. Madhya Pradesh attained glory when it came under the Gupta dynasty in the 4th and 5th centuries. However, the Guptas collapsed with the attack of the White Huns, who were later defeated in 528, by King Yashodharman of Malwa. During this medieval period, the state also came under the sway of Rajputs, the Paramaras and the Chandelas, and these rulers ascended it to new heights of prosperity and creativity.

Later, Gond kingdoms emerged in regions like Gondwana and Mahakoshal and Northern Madhya Pradesh came under the Muslim Delhi Sultanate in the 13th century. However, with the decline in power of Delhi Sultanate, the state saw the burgeoning of many independent regional kingdoms.[2] Excluding Gondwana and Mahakoshal, the entire state became the imperial seat of the Mughal Kingdom. With the death of Mughal emperor Aurangzeb in 1707, it saw the emergence of the Marathas, who gained total command over

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1 www.bharatonline.com

2 www.bharatonline.com

the state, until their expansion impeded with the Third Battle of Panipat in 1761.

Madhya Pradesh was created in 1950 from the former British Central Provinces and Berar and the princely states of Makrai and Chhattisgarh, with Nagpur as the capital of the state. The new states of Madhya Bharat, Vindhya Pradesh, and Bhopal were formed out of the Central India Agency.[1]

In 1956, the states of Madhya Bharat, Vindhya Pradesh, and Bhopal were merged into Madhya Pradesh, and the Marathi-speaking southern region Vidarbha, which included Nagpur, was ceded to Bombay state.[2] Bhopal became the new capital of the state. In November 2000, as part of the Madhya Pradesh Reorganization Act, the South Eastern portion of the state split off to form the new state of Chhattisgarh.

2.2 GEOGRAPHICAL PROFILE OF MADHYA PRADESH

The geographical profile of Madhya Pradesh is quite unique and one of kind in entire India. Which is why Madhya Pradesh holds an important position in the heart land of India and plays a vital role. Mostly the climate of state is quite balanced and pleasing to some extent. The detailed geographical profile of Madhya Pradesh is as follows :

1. **Location and Landscape :** The state of Madhya Pradesh is lying in the heart of the country, is bounded by latitudes N 21^0 04 '30": $26^0$49'30" and longitude E $74^0$1'10":_$82^0$48'20". The state lies on a transactional area between the Indo Gangetic plain in the North and Deccan plateau in the South.

   It is bounded by seven different states of India from different directions, they are- Rajasthan, Gujarat, Uttar Pradesh, Chhattisgarh, Maharashtra, Andhra Pradesh and Bihar. The total geographical area which the state has 3,08,252 Square Kilometers, which is 9.38% area of India.

   The state has no coastline and does not touch any International frontiers as well. The state of Madhya Pradesh is known for its greenery and forests. The total area of forestation in state is

[1] www.visitindia.com
[2] www.mp.gov.in

95,221 square kilometers, which is 31% of total area of state and 12.44% of total forest area of country.

2. **Climate** : The state of Madhya Pradesh has a very pleasing climate throughout the year. It has mainly three seasons; winter from November to February, summer March to May and monsoon from June to September. During winter the average temperature ranges from 10^0 to 27^0 . Summers are hot in state with an average temperature of 29^0 and high temperature which reaches to even 48^0 to some parts state. Interestingly Madhya Pradesh receives average rain fall during monsoons. The state gets an average rainfall of 1200 mm (90% of which falls during monsoon season).

3. **Drainage and Soil** : Nature has blessed Madhya Pradesh with rivers having round the year water. It represents great rivers basins and the watersheds of a number of important peninsular rivers like Narmada, Tapti, Mahanadi, Chambal and tributaries of Godavari, Yamuna and Ganga. The greatest among them is Narmada which owns religious and economic as well as bio diversity importance in the state.

   The river runs in its full length in Madhya Pradesh (Though runs a span in Maharashtra and Gujarat as well.) The soil of state can be categorized into two major groups- Fertile black soil are found in the Malwa plateau, the Narmada valley and parts of the Satpura. Less fertile red to yellow soil is spread all over the Eastern Madhya Pradesh. The soil of 30 out of 51 Districts is deficient of nitrogen, phosphate and potash nutrients.

4. **Relief** : The elevation of Madhya Pradesh ranges from 300 to 3900 feets (100 to1200 meters) in the northern part of the state of land rises generally from South to North, while in the Southern part it increases in elevation toward the west. Important ranges including the Vindhya Range and Kaimur hills, located in the West and North, which can rise in places to 1500 feet and the Satpura, Mahdeo and Maikala ranges in the South which have elevation about 3000 feet. Northwest of the Vindhya range is the Malwa Plateau (1500 to 2000 feet) other features are the Bundelkhand Plateau, north of the Vindhyas;

the Madhya Bhart Plateau which is in the extreme northwest and the Baghelkhand Plateau in the northeast.

2.3 PEOPLE OF MADHYA PRADESH

Madhya Pradesh is not only the geographic heart of India, but can also be termed as the cultural and religious nucleus of the country. The term 'diversity' gets best expression in the place.[1] In fact, the people of the state provide the first glimpse towards its multi-faceted culture. It conjoins people, belonging to different religions, castes and communities and presents a harmonious blend of the true ethos of India. As far as religion is concerned, Madhya Pradesh domicile people belonging to all the major religions viz. Hinduism Islam, Christianity, Buddhism, Jainism and Sikhism. Even though the state is home to people belonging to numerous religions and ethnic backgrounds. It truly reflects the concept of Indian secularism. If there are Hindu shrines in Ujjain, Jabalpur and Khajuraho, there are also Muslim mosques and Buddhist monasteries in places like Bhopal and Sanchi. In fact, peaceful co-existence and mutual co-operation unify the people of Madhya Pradesh and present its unique cultural connection. Add to it, the numerous tribal populaces scattered around its regions and the cultural vibrancy of the place stands out amongst all the states in India.

2.4 TRIBAL PEOPLE OF MADHYA PRADESH

Madhya Pradesh has three distinct tribal groups, namely Gonds, Bhils and Oraons. Gonds, who were once the ruling clans of most parts of the state, are the highest in number. The western part of Madhya Pradesh is home to the Bhils, a colorful warrior tribe. The Oraons is the other distinct group and dominates the eastern side of the state. Other minor tribes, like Kols, Bhilalas, Murias and Korkens, are scattered around the state and contribute towards its animated tribal heritage. These tribes were earlier semi-nomadic, but live in small and distinct communities today and strive towards preservation of their age-old beliefs and culture. For instance, the rhymesters and singers of the Gond tribe still eulogize the legendary character of Lingo-pen, believed to be the originator of the tribe. The Pondwani and the Lachmanjati legends are very popular among the Gonds and are as mythical as the Mahabharata and the Ramayana.

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[1] www.bharatonline.com

Apart from folklore, the tribal songs remain intrinsically fused with the culture of the tribal people of the state, and cupy a place of paramount importance in their lives. There are ceremonial songs pertaining to birth and marriage. Moreover, the folktales, riddles, and proverbs also form an important part of their tribal heritage. People also engage in many fun activities, whih serve didactic purpose. The most noteworthy amongst them is the practice of 'Ghotul' amongst the Muria clan.'Ghotul' is actually a hut where young children of the clan gather and learn about the moral standards and beliefs of the tribe. Another unique traditional activity is the marriage ceremony of the Bhils and Bhilalas. People of this clan choose their spouse in a festival fair known as Bhagoriya. In case, both the girl and boy harbor mutual and positive feelings, they elope with each other and afterwards are accepted as man and wife. As a part of their vivacious culture and lifestyle, the *Adivasis* of Madhya Pradesh display a colorful array of traditional dresses and ornaments. Major male population wears a dhoti and a headdress. In the Eastern regions of the state, males wear a *Safa* (head cloth), whereas *Paga* (turban) is preferred in the western parts of the state. A jacket called *Bandi* or *Mirzai* forms important attire in the Malwa and Buldelkhand regions. The tribal women generally adorn themselves with colorful *lehengas* (skirts), *cholis* (blouses) and traditional jewellery.[1]

2.5 CULTURE OF MADHYA PRADESH

Dominated by tribal communities, this state of central India is rich in culture. The amalgamation of the varied tradition of the different groups has made the culture of the state vibrant and multi-dimensional. Be it music and dance or art and craft,. this state is said to have the highest flavours of culture and tradition. The culture there, mainly, is a harmonious blend of Buddhists, Christians, Hindus, Jains, Muslims and Sikhs along with the varied tribal groups. Influenced by tribal culture, the different socio-cultural activities portray the lifestyle as well as the rich traditions of the place. The varied cultural activities of the state even help in bringing out the actual spirit of the people of Madhya Pradesh.[2] With a legacy of musicians, Indian classical songs as well as folk songs form a part of the distinctive culture of the state. Relo, a kind of folk song of tribal children of the Sing Maria and Muria tribes is one of the popular music of the state. Dhankul songs and Chait Parah are even popular in the state. The Jagdalpur region of this central Indian state is known

[1] www.bharatonline.com

[2] www.mapsofindia.com

for their typical type of songs called Leha. Leha song is a kind of ritual song, which is usually sung while departing from the near and dear people. Madhya Pradesh musicians mainly use musical instruments like flute and harmonium. The most prominent forms of dance of the state are Lota and Phag. Almost every celebration of the Bastar based tribal group of Maria Gonds is featured with dance. Gaur, a special form of wedding dancing is quite popular among the different tribes of Madhya Pradesh. Besides these, prevalence of varied forms of stilt dances is found there. Dressed in vibrant clothes, the tribes dance on their native melodies to depict the varied cultural as well as socio-political aspects. Bharat Bhavan, located in Bhopal is one of the renowned hubs of culture of Madhya Pradesh. The varied forms of art and crafts of Madhya Pradesh even contribute to the rich culture of the state. Apart from adding a unique charm, handicrafts of this state of central India reflect the painstaking craftsmanship of the place. Chanderi and Maheshwari silk saris are some of the noteworthy crafts of the state. Bastar, Bilaspur, Bhopal, Bundelkhand, Gondwana, Indore, Khajuraho, Malwa, Mandla, Gwalior, Jhabua, Raigarh, Shahdol and Ujjain are some of the prominent centers of the state's art and crafts.

2.6 MADHYA PRADESH RELIGIONS

Madhya Pradesh is a land that embraces all the major religions of India - Hinduism, Islam, Sikhism, Jainism, Buddhism and Christianity. Even though the state is a common abode of people belonging to numerous religions, castes and creeds, no internecine feuds exist amongst them. In fact, the state upholds 'Unity in Diversity', on which rests the entire concept of secularism in India.[1] However, the Aryans and the tribal people are the two main races of the state. The people of northern region and those of the Narmada Valley are mostly of the Aryan race. Whereas, the South and East regions of Madhya Pradesh domicile a considerable populace of tribal people. In fact, almost 40% of the total population in the state comprises of tribal natives. The demographic pattern, as regards to the population of the country, shows that most of the people in the state are followers of Hinduism, about 91.1% according to the 2011 census. Muslim comprises a sizeable minority of 6.40%, followed by people professing the Jain faith (0.9%). Christians and Buddhists are significantly lower in number, being only 0.30% of the total population. People belonging to the Sikh community are lowest, only about 0.20% of the

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[1] www.bharatonline.com

population. Apart from all these major religions, the agro-climatic disparity witnessed in the various regions has also resulted in the unique tribal mosaic of people found in the state.

2.7 DEMOGRAPHIC PROFILE OF MADHYA PRADESH

TABLE 2.1
DEMOGRAPHIC PROFILE OF MADHYA PRADESH

Indicators	Units	Figures
Population	Crore	7.26 crore
Population Density	Per Sqkms.	196
Sex Ratio	Females per 1000 males	930
Urban Population	%	27.6
Schedule caste Population	%	15.4
Schedule Tribe's Population	%	19.9

SOURCE - www.census2011.co.in

In terms of population Madhya Pradesh is the seventh largest state in India & the total population of Madhya Pradesh as per census of 2011 is 7.26 (37.6 Million Male Population, 35 Million Female Population) crore with decadal growth of 20% (2000-2011). This growth of 20% is even higher than the national average which stood at 17.6%. the population of Madhya Pradesh is featured by very high population growth rate and low in terms of population density ranking 23rd in the country, population density in state is merely 236 persons per square kilometers which is below the national average of 382 per person per square kilometers Madhya Pradesh has 39% of population under 15 year of age. 48% female population is between 15-49 years, there is also a tremendous potential for growth built into the age structure of the population. The present birth rate in state is 27.3% and death rate is 8.3% which has considerably came down in last 10 years. The present sex ratio of the state is 930 female per 1000 males. Madhya Pradesh accommodates highest percentage of Schedule Casts and Schedule Tribes, which is even higher than the national average. Same goes with tribal population. Around 22.73% of total tribal population resides in Madhya Pradesh wherein in state the percentage of tribal population in total population is 19.94%. Due to various government programs and initiatives the population of tribal is progressing and being educated like any other state or even better. But to some extent they are being subject of social dogmas in some parts of state. In state of Madhya Pradesh which was essentially a rural state, urbanization is gaining momentum, the state has registered highest rate of urbanization in India. Currently 72.04% of total population resides in rural parts of Madhya Pradesh and remaining 27.6% reside in urban areas of State.

2.8 LANGUAGE AND LITERACY

TABLE 2.2
LITERACY PROFILE OF MADHYA PRADESH

Indicators	Unit		Figures	
	2000	2011	2000	2011
Male Literacy	%	%	76.1	80.5
Female Literacy	%	%	50.3	60.0
Total Literacy	%	%	63.7	70.6

SOURCE - www.census2011.co.in

Hindi is the official and widely spoken language in Madhya Pradesh; it is spoken with different dialects across Madhya Pradesh. Some regional language like Gondi and other tribal languages are also spoken in state. The recent census in year 2011 revealed that the literacy rate of Madhya Pradesh is 70.6%, which has risen from 63.7% from last census in the year 2000. The female literacy in state is 60.0% which was 50.3% in last census in year 2000. The male literacy in state currently is 80.5% which was 76.1% in year 2000. The details of literacy is given in the above table in an comparative analysis mode.

2.9 ECONOMY OF MADHYA PRADESH

Madhya Pradesh is among the fastest growing states in India, Real GDSP (Gross Domestic State Product) of Madhya Pradesh grew at compound annual growth rate of 8.82% during the time period of 2005-2013. Such growth was impossible for state just a few years back. Some years in the last decade the economy of Madhya Pradesh (GDSP) even grew faster and more than the national GDP (Including non recession years). The state is rich with natural resources fuels, minerals, agriculture and bio diversity, the state is regarded as the leading agriculture producing state, leaving behind states like Punjab and Haryana. In terms of coal Madhya Pradesh is the richest even more then Bihar and Jharkhand, 7.7 % of total coal reserve is in Madhya Pradesh. The state also holds 144 BCM of methane reserve as well. Apart from that Madhya Pradesh is the sole producer of Diamond in India (Thus earning nickname of diamond state for it).

The state has the largest reserves of Copper in India as well. State has the considerable reserves of Limestone, Manganese and Dolomite.

Madhya Pradesh is the state where urbanization rate is highest in India; the state is successfully developing its Infrastructure as well as the main supporter of economic development. The present administration has understood the importance and inevitability of class infrastructure in the state for smoothing and speedy economic development. The efforts are evident and the result is steady economic development of state in recent years.

Due to its location, Madhya Pradesh has become priority of many FMCG companies have made state their distribution center saving them transportation and logistical expenses. The state government has given its node to open new theme parks (SEZs) in Jabalpur and Industrial park in Indore and food parks at multiple location of the state will go to boost the economy of state.

The sincere efforts are being made by the government to turn state into a power surplus state by 2014; appropriate steps have been taken and are being taking place. These establishments of parks and availability of *24×7* power supply is going to boost the economic health of state in time to come.

2.10 ADVANTAGES OF MADHYA PRADESH

Each state has its own advantages and comparative advantage so as Madhya Pradesh. The state is endowed with verity of boon from nature and artificially, which together put state at a very competitive situation then the other states in India.

It is a fact that for a very long period of time these sectors of advantages were ignored, but now with new and aggressive administration working in state, state has not only regained its old comparative advantage but gained new with passage of time as well.

These advantages are playing a strategically important role in economic development of state. These advantages can be seen in the figure below

FIGURE 2.1
ADVANTAGES OF MADHYA PRADESH

Advantages of Madhya Pradesh

Strategically Located Business Hub

- Being centrally located, companies in the state have access to key consumer market and major cities like Delhi, Mumbai, Kolkata and Chennai.
- Geographical proximity with the automotive hub of NCR has favorably impacted Madhya Pradesh' auto ancillary industry. The state is the home of more

Attractive Investment Avenues

- With about one third area covered with dense forest, the state has huge potential for investment in medicine, woods, and agro based industries. MP is already a leading producer of soybeans coarse cereals, oilseeds in India.
- The cluster based approach :s bound to boost investment in textile, automobile and biotechnology segment.
- Huge potential for cement industries.
- Rich heritage contributes in Tourism sector.

Policy and Infrastructural support

- It offers various fiscal and policy incentives for business under the Industrial promotion policy 2010 and action plan , beside plicey for IT, Tourism, SEZ, Biotechnology etc.
- For boosting industrial development the state government has appointed TRIFAC, an agency to facilitate a single window mechanism, for speedy approvals etc.
- The state govt. has made detailed plans for infrastructure development and investment in state. The state aspires to become power surplus by 2014

Rich Resource Pool Available in State

- The state has rich mineral resource and largest diamond and copper reserves in India, beside large pool of coal is also lying in state.
- The state adds more than 2,70,000 graduates to workforce every year, of which around 90,000 have technical skills. At labor cost around $1-2 a day is very significant in costing.
- The state accommodates some of the most reputed institutes like IIM, IIT, and IIFM etc.

SOURCE- IBEF'S REPORT TITLED MADHYA PRADESH- LAND OF DIAMOND

Apart from these advantages which where furnished in a detailed report by IBEF with special context of Madhya Pradesh. Some other advantages are also there in state of Madhya Pradesh. Together these advantages are placing Madhya Pradesh at a higher rank in terms of economic growth and transforming state from a sick state to fit and hi state in India.

In recent years the state has rebranded itself completely and made new avenues for investments in the state with handsome returns. By this time three major Global Investment Summits (GIS) have taken place and MOUs of Billion Rupees have been signed and some of them have implemented on ground too.

2.11 OTHER ADVANTAGES OF MADHYA PRADESH

- Strategic geographic location
- Excellent interstate connectivity (National and State Highway, Train and Air Links)
- Availability of rich and fertile land and Natural resources
- Availability of Rich mineral wealth (copper ore, magnesium ore, limestone, diamonds, coal and coal-bed methane.)
- Availability of land at a reasonable cost
- Cheap labor
- Unexploited species of rare, valuable medicinal - herbal plants.
- Industrially peaceful and stable with a vibrant industrial base.
- Peaceful political scenario (Law and Order)
- Rich cultural heritage
- Major auto manufacturing base. Largest producer of radial tyres in India.
- Largest Soya processing hub in India.
- Hub for FMCG, consumer electronics, pharmaceuticals, herbal products, textiles and apparel.
- Growing gems and jeweler center.
- Largest producer of oil seeds and pulses in the country. Largest exporter of DOC (De-Oiled Cake) in India. 25% of pulses and 40% of grams grown.[1]

[1] www.fdiopportunities.wordpress.com

2.12 ECONOMIC SNAP SHOTS OF MADHYA PRADESH

TABLE 2.3
GSDP

Year	GSDP in Billion US Dollars
2004-05	25
2005-06	28
2006-07	32
2007-08	40
2008-09	43
2009-10	48
2010-11	57
2011-12	65
2012-13	67
2013-14	75

Source- Report by IBEF, Aug. 2013

GROSS STATE DOMESTIC PRODUCT (GSDP)

The current GSDP of Madhya Pradesh is US $ 74.8 (2013-14) Billion. The growth in Gross State Domestic Product of Madhya Pradesh was one of the best in recent years. Madhya Pradesh has successfully entered into the category of developed states of India. The sole reason for the change story of state lies in its policy and focused direction and moving into even unknown direction of economy like service sector apart from manufacturing sector, which has been the leading indicator of state. The figures of Gross State Domestic Product or GSDP of Madhya Pradesh show that the state grew strong and strong on economic front year by year. The growth of GSDP between the time periods of 2004-05 to 2012-13 stood at unbelievably 15.7% it is highest then the national GDP during that time as well. All the sectors of state has contributed in this story of growth including tourism sector of state. The GSDP of state got highest in year 2010 when the GSDP touched 57 billion US Dollar mark which is 9 billion more than the previous year or 18.75 % higher than the 2009 GSDP. This is worth mentioning that the above time was recessional time in the world, despite of sluggish economic growth, Madhya Pradesh shown tremendous economic strength. The growth saga continued even next year as well when the GSDP touched 65 Billion US dollar which is 8 billion US dollar more than the previous year or 14% higher than previous year. The India corporate is keep on investing in Madhya Pradesh as the trend has been in last three GIS (Global Investor's Summit) that these corporate have come and took keen interest in Madhya Pradesh and its booming economy due to its unique advantage offerings.

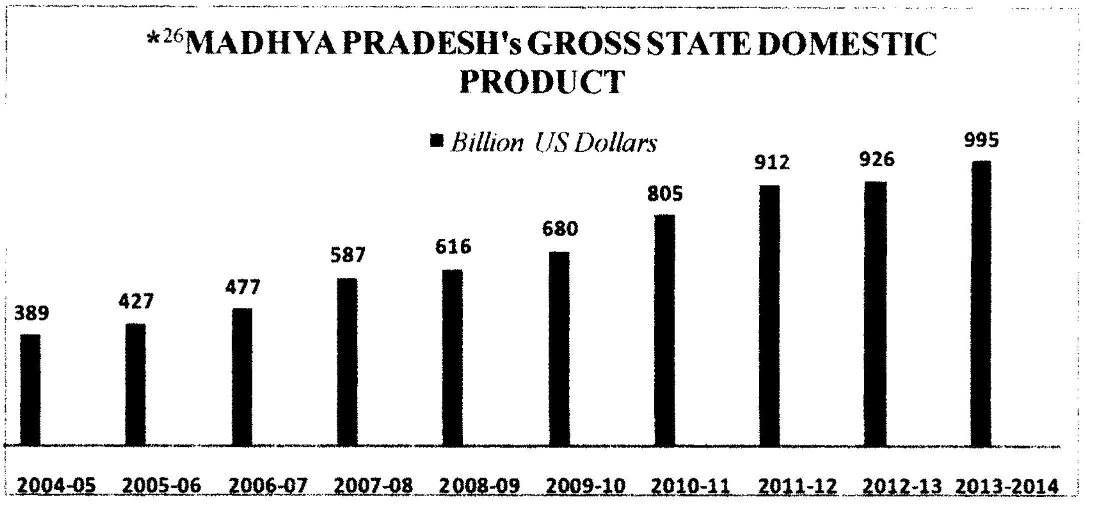
2.13 COST OF DOING BUSINESS IN MADHYA PRADESH

TABLE 2.4
COST PARAMETERS & COST ESTIMATIONS

Cost Parameters	Cost Estimations
Cost of Industrial land (Per Sq. ft.)	US $ 6-25
Hotel cost per room per night	US $90-150
Residential Rent (per month-1200sqft. area)	US $200-750
Commercial Rent (per month per sqft.)	US$ 0.7- 3.2
Power Cost	6.7 cents-10.1cents
Labour cost (Min.wages per day)	US$2.5

The above table contains the unique costing features in doing business in Madhya Pradesh-As per the table, all the costing contributing directly and indirectly in the production is quite low in Madhya Pradesh. For example the labour cost is only 2.5 US dollar which is around 120 INR a day, it is quite low thus the cost of production would remain low as result of this low cost of labour.[1]

CHART 2.2
GROSS STATE DOMESTIC PRODUCT



SOURCE : Report by IBEF, Aug. 2014

1 www.finance.yahoo.com

2.14 PER CAPITAL GROSS STATE DOMESTIC PRODUCT

The per capital income of Madhya Pradesh in year 2013-2014 was 995 US $ which is equalling to INR 59978.60, it is quite high as compared to other states in India. The rise is due to its fast economic activities from last few years. During the year 2004-05 the per capital income of Madhya Pradesh was only 389 US $ or 23448.23 INR (conversion rate of Year 2013-14 @ 60.28 per dollar) the figures given above that per capital income of the state has risen to new heights. The per capital income during the time span from 2004-05 to 2013-14 has risen 14.7% it is more than the national income even. The contribution of all sectors of economy along with primary and secondary as well as agriculture and industrial sectors have contributed equally and manufacturing, service sector have contributed in the growth of per capital income of state in recent years. In such a short span of time Madhya Pradesh touched new standards in per capita income indicators. It is further expected to rise in near future as well. Tourism contributes in the growth of per capital income of Madhya Pradesh and continues rising.

TABLE 2.5

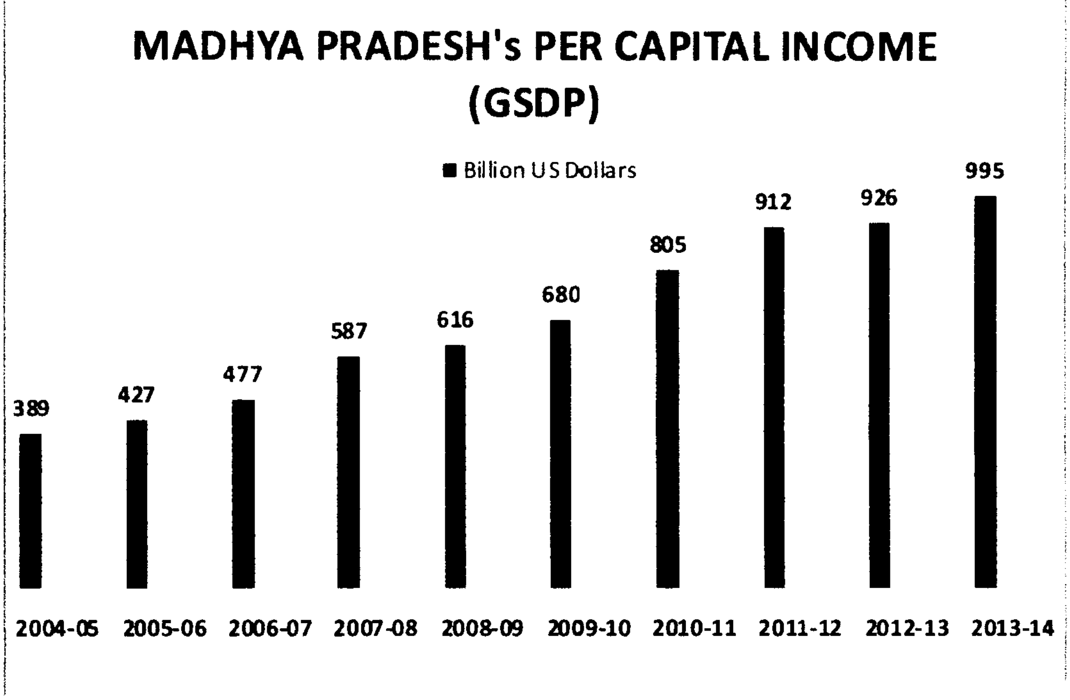
PER CAPITAL GSDP OF MADHYA PRADESH

Year	Per Capital GSDP (In Billion US Dollars)
2004-05	389
2005-06	427
2006-07	477
2007-08	587
2008-09	616
2009-10	680
2010-11	805
2011-12	912
2012-13	926
2013-14	995

Source: IBEF Report, Aug.2014

As per the figures furnished by IBEF in its report regarding Madhya Pradesh the above statistics of per capital income have been given. The figures are making one thing very clear that from year 2005-06, per capital income has risen and risen only. The biggest rise came in the year 2006-07 when the income rose to 477 Billion as against of 427 billion dollars in previous year 2005-06, which is 50 Billion US dollars more or 11.7% higher than previous year.

CHART 2.3
PER CAPITAL INCOME OF MADHYA PRADESH



SOURCE- IBEF REPORT, AUG. 2014

The per capital income of Madhya Pradesh rose to almost 61% between the time period 2008-09 to 2013-14.

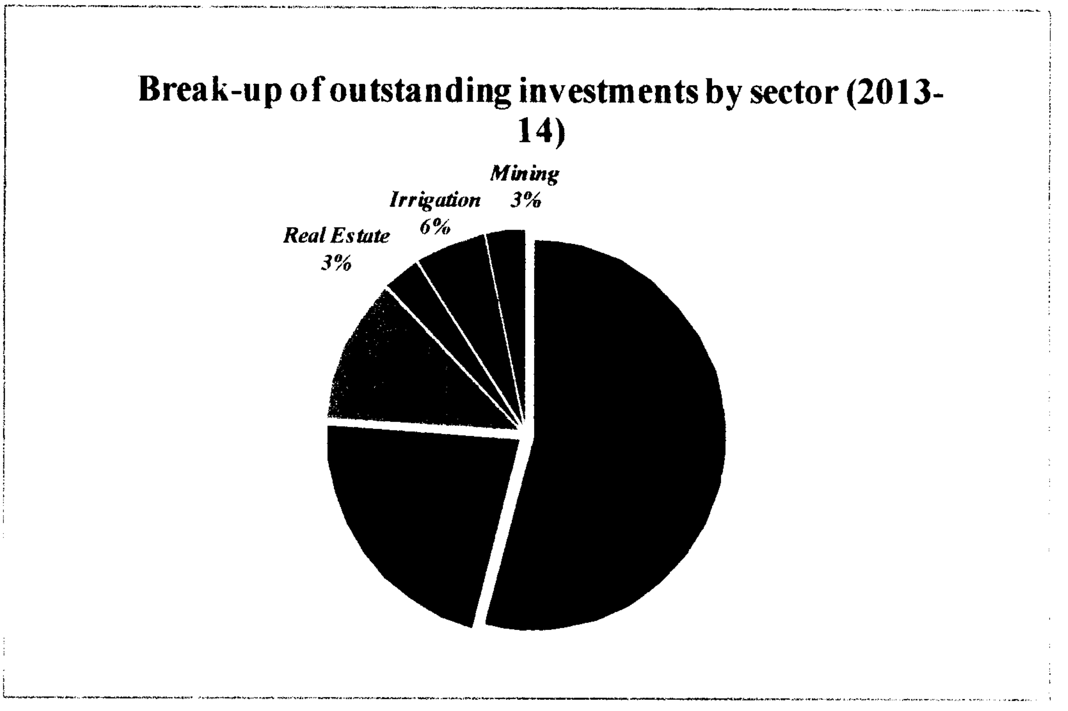
2.15 FOREIGN DIRECT INFLOWS AND INVESTMENTS

According to the Department of Industrial Policy & Promotion (DIPP), cumulative FDI inflows from April 2000 to February 2014 in Madhya Pradesh was totaled US$ 1.1 billion, touching a new heights in terms of investments made by foreigners . The rising investment also indicates that the economic and social safe heavens of state. Madhya Pradesh has been front runner in fetching FDI in last 10 years or so. In the year 2013-14, the outstanding investments in the state were US$ 94.5 billion which is very close to 100 Billion US Dollars mark. The nature and sectorial analysis of this investment has shown in the figure below. As per the figure of the total outstanding investments, the electricity sector accounted for around 54.1 per cent, followed by the manufacturing sector (21.9 per cent) and services sector (11.8 per cent).[1]

[1] www.ibef.org

2.16 BREAK-UP OF OUTSTANDING INVESTMENTS BY SECTOR (2013- 2014)

CHART 2.4
BREAKUP OF INVESTMENT IN MADHYA PRADESH SECTOR WISE



SOURCE- IBEF REPORT- AUG.2014

The rise in investments and particularly in FDI show that economy and government establishments are rendering positive as well as developmental signals to the world. The sector which was neglected for years in Madhya Pradesh; electricity generation and distribution fetched the maximum investments in all sectors; almost half of investment in year 2013-14 went in the power sector. With this investment government has dreamt of becoming a power surplus state by end of 2014 and begging of year 2015.Ample availability of Coal and water in rivers of state, thermal power generation is on the rise constantly. Government of Madhya Pradesh organizes Global Investment Summit (GIS) on regular intervals, by 2014 four GIS has been successfully organized in state. The interesting thing to keep in mind is that, investors from all corners of world have shown tremendous interest in investing in heartland of India; Madhya Pradesh. Following table contains in short the intensity of investors' interest in Madhya Pradesh due its decisive advantages.

TABLE 2.6
WORTH OF INVESTMENT MOUS

Year of GIS	Worth of Investment MOUs
2007	1.20 Trillion INR
2010	2.35 Trillion INR
2012	4.31 Trillion INR
2014	5.89 Trillion*INR

SOURCE- MPTRIFAC

The above investment given in figures in trillion rupees which show that investment in all the sectors of Madhya Pradesh have received huge investment from investors. The worth of MOUs has grown year by year. The recent GIS concluded in October 2014 received nod of 5.89 Trillion INR worth of Investment from all the leading corporate of India and world.

2.17 A COMPARATIVE STUDY OF MADHYA PRADESH WITH REST OF INDIAN STATES

TABLE 2.7
COMPARATIVE STUDY OF MADHYA PRADESH STATE WITH REST OF STATES

PARAMETERS	MADHYA PRADESH	ALL STATES
ECONOMY		
GSDP as a percentage of all states GSDP	4.3	100.0
Average GSDP growth rate (%)*	16.6	15.5
Per capita GSDP (US$)	995.3	1,414,4

PARAMETERS	MADHYA PRADESH	ALL STATES
PHYSICAL INFRASTRUCTURE		
Installed power capacity (MW)	14,464.6	249,488.3
Wireless subscribers (No)	55,199,383	910,157,975
Broadband subscribers (No)	414,100**	65,330,000
National highway length (km)	5,116	79,116
Airports (No)	5	133

PARAMETERS	MADHYA PRADESH	ALL STATES
SOCIAL INDICATORS		
Literacy rate (%)	69.3	73.0
Birth rate (per 1,000 population)	26.6	21.6

PARAMETERS	MADHYA PRADESH	ALL STATES
INVESTMENT		
FDI equity inflows (US$ billions)	1.1*	223.0
Outstanding investments (US$ billions)	94.5	2,414.2

PARAMETERS	MADHYA PRADESH	ALL STATES
INDUSTRIAL INFRASTRUCTURE		
PPP projects (No)	205	1,339
SEZs (No)	9	392

SOURCE- IBEF REPORT TITLED "MADHYA PRADESH-THE LAND OF DIAMONDS" AUG. 2014

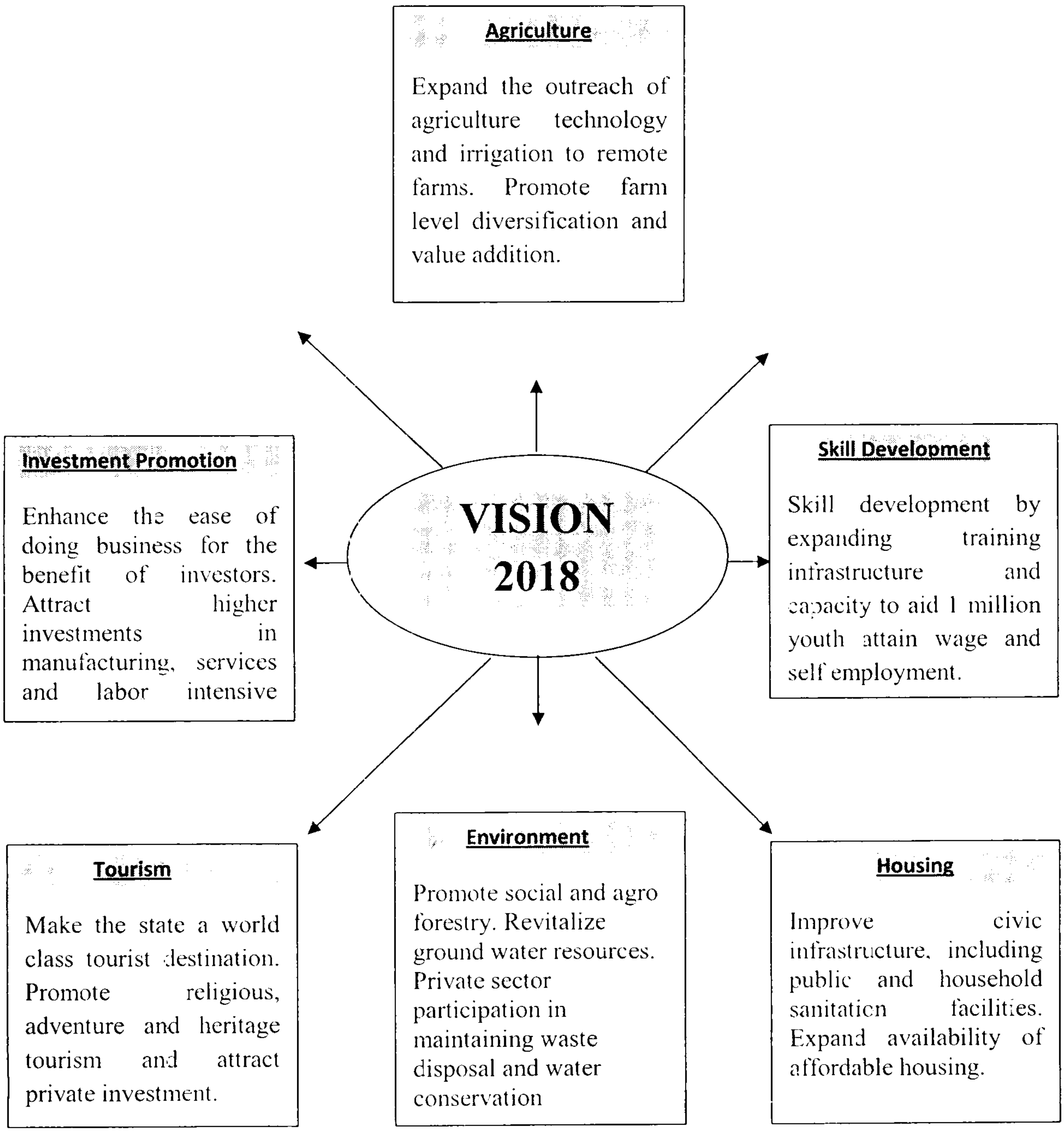
2.18 VISION 2018 OF MADHYA PRADESH

The Vision 2018 is a detailed document containing plans and strategies for development in coming 5 years in state of Madhya Pradesh. This futuristic document contains priority sectors of state and governments' policies and programs prepared by Planning Department of State in order to achieve these goals in state.

The document reveals "This document tries to build on the achievements of the past for a better future. It envisions the next five years through a mission driven approach in an effort to inform and facilitate the making of public policy in different sectors of the state's economy. It attempts to list the priorities and interventions that can help attain the over-arching goals for socio-economic development and inclusive growth.

It is the vision and commitment of Chief Minister that have determined the priorities prepared with enunciated in this document, which is the outcome of intense discussions within the state administration." The vision document covers verity of areas and steps to install good governance in state. It covers the following steps to be taken in given sector.

FIGURE 2.5
VISION 2018 OF MADHYA PRADESH STATE



SOURCE : **MADHYA PRADESH DEPARTMENT OF PLANNING, ECONOMICS AND STATICS, BHOPAL.**

The Vision 2018 is a set of steps to be taken in years to come to improve Madhya Pradesh's economic and social well being. It also focuses on increasing the present worth of investment in state by creating an environment of investment friendly.

This vision includes all the sectors of economy; service as well as manufacturing sector. It also underlines the intensity of present administration under the leadership of visionary Chief Minister Honorable, Shivraj Singh Chouhan, to increase the rate of development in Madhya Pradesh as one of the fastest in India and slowly in the world. The vision document prepared by state is a road map of future path of Madhya Pradesh.

2.19 NATURE OF ECONOMY OF MADHYA PRADESH

Abundance of natural resources including agro-based products, forest products and minerals, the state's policy incentives and its central location have attracted major investments in the agro-products, consumer goods, drugs and pharmaceuticals, mines and minerals, manufacturing and textiles sectors. The state government is keen to develop industrial infrastructure.[1]

The Madhya Pradesh State Industrial Development Corporation Limited (MPSIDC) and its subsidiary, Madhya Pradesh Audyogik Kendra Vikas Nigam Limited (MPAKVN) are the key nodal agencies for industrial development in the state. Some of the major industrial areas in the state are Bhopal, Sehore, Raisen, Harda, Mandideep, Dewas, Pithampur, Khandwa, Jhabua, Dhar, Ujjain, Mandsaur, Ratlam, Jabalpur, Indore, Shajapur, Satna and Gwalior. Under Industrial Promotion Policy 2010, the government aims to promote agro-based and local natural resource-based industries.

Economy of Madhya Pradesh comprises of agriculture and industries of Madhya Pradesh.[2] In fact, industries and agriculture form the backbone of economy of Madhya Pradesh, whereas the supporting bones are mining, tourism and banking. Madhya Pradesh is leading grower of commercially favored varieties of wheat and potatoes.

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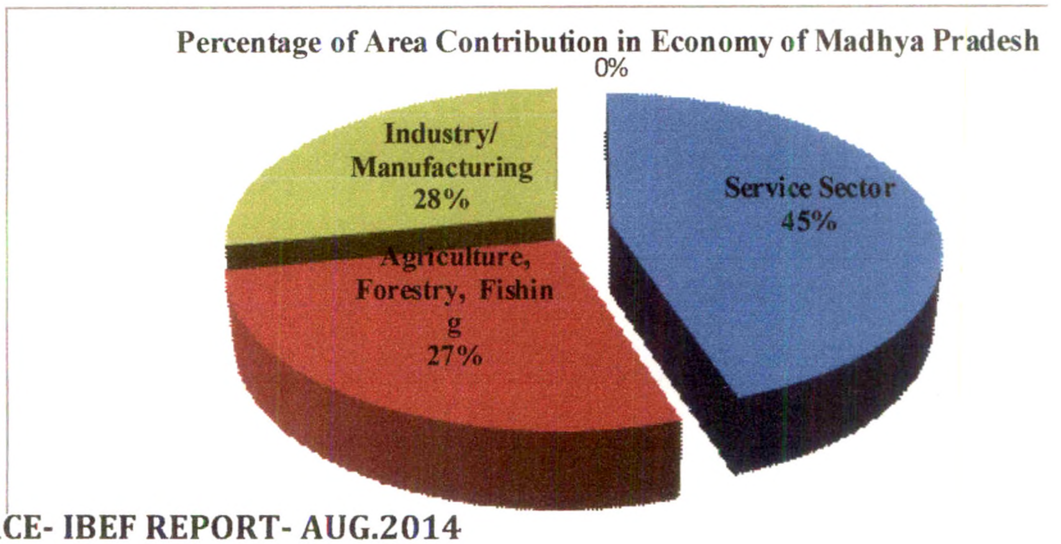
1 www.ibef.org

2 www.indianstatehistory.blogspot.com

CHART 2.6
PERCENTAGE OF AREA CONTRIBUTION IN ECONOMY OF MADHYA PRADESH



SOURCE- IBEF REPORT- AUG.2014

The above figure depicts the area of major contribution in the economy of Madhya Pradesh is agriculture and Industry or Manufacturing but in recent years the sector of services has picked up momentum in recent years. The present government has put service sector as it priority sector list as well, and taking all steps necessary to increase the rate of service sector and industrialization in state thus converting itself from a agricultural economy to industrial economy.

2. 20 MAIN SUB SECTIONS OF ECONOMY OF MADHYA PRADESH

AGRICULTURE

Talking about the first aspect of the economy of Madhya Pradesh, it can be mentioned that Madhya Pradesh is an agricultural state where the main occupation of the people is agriculture. In spite of the growth of industries, agriculture is moving steadily in the economic backdrop of the state. Wheat, soybean, gram, sugarcane, rice, maize, cotton, rapeseed, mustard and arhar are the major crops of the state. In 2012-13, total food grain production of the state was around 23.4 million tones. In 2012-13, total oilseeds and total pulses production by the state was around 9.3 million tones and 5.0 million tones, respectively. Madhya Pradesh is the largest producer of pulses, oilseeds and soybean in the country. The state is a leading producer of garlic and coriander.[1]

[1] www.ibef.org

Some of the important crops that are vital to agriculture in Madhya Pradesh are follows, along with a study of their average production (in kilogram per hectare):

- Rice - 1,058
- Wheat - 1,867
- Javar - 1,342
- Gram - 932
- Soybean - 1,132
- Sugarcane - 4,215
- Cotton - 557

In Madhya Pradesh, about 74.73% of people come from villages who are far from the influence of industrialization. True, that Madhya Pradesh is unhinged by industrialization - mechanization has indeed seeped in, but the rustic feel is still there with the prevalence of agriculture. In Madhya Pradesh, about 49% of the land is cultivable, i.e. majority of the land surface is favorable for cultivation. The following data would further sort all queries regarding utilization of land in Madhya Pradesh for agriculture.[1]

Table 2.8
ANNUAL PRODUCTION

CROP	ANNUAL PRODUCTION 2012-2013 (000'Metric Tones)
Wheat	14537.04
Cotton	1198.6
Soybean	6488.2
Gram	2841.6
Sugarcane	1965.8
Rice	1938.2
Maize	1316.6
Rapeseed & Mustard	855.0
Arhar	164.0
Total Oil Seeds	7716.3
Total Pulses	4160.1

Source : www.ibef.org

[1] www.indianstatehistory.blogspot.com

2.21 PHYSICAL INFRASTRUCTURE OF MADHYA PRADESH

The physical infrastructure of Madhya Pradesh is one of the best in India. The government has been working very keenly and actively in increasing the infrastructure in state. As infrastructure plays a vital role in economic and social well being of state. In recent years the Road network, Railways, Airports and Power have been taken special care as they in real terms fuel the economic growth of any state with no exception to Madhya Pradesh. Lets study the current Infrastructure of Madhya Pradesh state which has grown in last 10 years and continue to do so in coming years as well, this will help in putting Madhya Pradesh in rich and developed state of India. Government of Madhya Pradesh has formulated new policy in improving infrastructure to world class.

TABLE 2.9
ROAD LENGTH

ROAD TYPE	ROAD LENGTH (KM)
National Highways	5,116
State Highways	10,859
Major district roads	19,574

Source : www.ibef.org.

A) **ROADS :** Madhya Pradesh has 19 national highways measuring 5,116 km. The state also has 10,502 km of state highways. The total road length in the state is around 99,914 km. Construction of major roads in the state is supervised by Madhya Pradesh Road Development Corporation Limited (MPRDC), which implements projects taken up under public–private partnership (PPP) and those funded by Asian Development Bank (ADB). The state has 148 PPP projects in the roads sector at various stages of development as of February 2014. In January 2014, the state invited bids to develop the Khandwa Bypass, Guna-Aaron-Sironj (SH-23), and Ujjain-Maksi roads through BOT basis. The state is well connected to the major cities of the country, consumer markets, and ports on the west-coast such as Kandla and Jawaharlal Nehru Port Trust. The central government has recently approved two road-widening projects at NH-12 (Jabalpur-Bhopal) and NH-75E (Rewa-Sidhi). Both NH-12 (US$ 493.3 million) and NH-75E (US$124.7 million) will be built through a PPP on DBFOT basis. These projects are expected to reduce travel time, cost and generate local employment.[1]

[1] www.ibef.org

B) **RAILWAYS-** Madhya Pradesh has around 4,954 km of railway lines passing through it. The railway network in Madhya Pradesh primarily falls under the West-Central Railways, which was formed in 2002 and is headquartered in Jabalpur. Part of the state is also covered by Central and Western Railways. Due to the central location of the state, the railway network in Madhya Pradesh plays an important role. Bhopal, the state's capital, is one of the major railway junctions in India. The railway network supports the mineral and agro-based industries in the state by carrying bauxite, limestone, dolomite and clinker, and fertilizer and de-oiled cake. The central government has provided in-principle approval for a detailed project report to introduce metro rail services in Bhopal and Indore. Bhopal Metro (28.5 km) is estimated to cost around US$ 1.1 billion, while Indore Metro (32.2 km) would cost US$ 1.4 billion.[1]

C) **AIRPORTS-** Madhya Pradesh has five operational airports, one each at Bhopal, Jabalpur, Gwalior, Indore and Khajuraho. Indore Airport is the busiest airport in the state.[2] During 2013-14 (April 2013 to March 2014), Indore Airport and Bhopal Airport received 1,114,073 and 429,680 passengers, respectively. Bhopal and Indore airports in the state have been modernised. The government has announced to undertake development of Gwalior and Khajuraho airports under the 12th Five Year Plan. The government plans to set up an air cargo hub at either Bhopal or Indore. The cargo hub is expected to boost the business within the state. The Madhya Pradesh Road Development Corporation (MPRDC) with contribution from the private sector plans to develop an airport at Singrauli.

D) **POWER-** As on June, 2014, Madhya Pradesh had total installed power generation capacity of 14,464.6 MW, which is comprised of 5,572.3 MW under state utilities, 4,306.8 MW under central utilities and 4,585.5 MW under the private sector of the total installed power generation capacity, 10,081.1 MW was contributed by thermal power, 3,223.7 MW was contributed by hydropower, 273.2 MW was contributed by nuclear power and renewable power contributed 886.6 MW. Madhya Pradesh Power Generating Corporation Limited is a state owned company engaged in electricity generation. The power distribution business was unbundled in 2005 and is managed through three government-controlled entities: Madhya Pradesh

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1 www.bsmedia.business-standard.com

2 www.india.diplo.de

Poorv Kshetra Vidyut Vitaran Company Limited, Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited, and Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited. Madhya Pradesh Power Transmission Company carries out intra-state transmission of electricity, State Transmission Utility, and State Load Dispatch Centre. Madhya Pradesh Power Trading Corporation Limited deals with power trading and other related activities.

TABLE 2.10
M.P. POWER GENERATIONS

SEGMENT	COMPANY NAME
Power generation	Madhya Pradesh Power Generating Corporation Limited
Power distribution	Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (MPPoKVVCL)
	Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (MPPaKVVCL)
	Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (MPMaKVVCL)
Power transmission	Madhya Pradesh Power Transmission Corporation Limited
Power trading	Madhya Pradesh Power Trading Corporation Limited

Through the recently launched *Atal Jyoti Abhiyaan*, the state government aims to provide round-the-clock quality power supply.[1] The scheme, operational in six districts, is estimated to cover the entire state by 2014. Under a project name Vindhyachal, NTPC has commissioned the country's largest power generation plant in the state. Of the total approved 4,760 MW, the company has installed 3,760 MW until date. The state has been awarded with the country's first ultra-mega power plant (UMPP), Sasan UMPP, with an installed capacity of 3,960 MW. The second 660-MW unit started commercial operations earlier in 2014. The coal based Sasan UMPP aims to build large capacities at low cost. The resultant generated power would be sold at low tariffs. The first 660 MW units were commissioned in March 2013. The project is being developed with an investment of US$ 5.0 billion. In February 2014, the Anil Dhirubhai Ambani Group

[1] www.ibef.org

(ADAG) announced plans to invest US$ 331.8 million in setting up 400 MW power plants at Chitrangi.

2. 22 SOCIAL INFRASTRUCTURE OF MADHYA PRADESH

Social infrastructure of state of Madhya Pradesh is a special one and still growing leaps and bounds it is expected to improve in year ahead. Till date the social structure of state is quite developed as compared to other states in country. It is believed that under the present leadership the structure is expected to do well. Following is the short detail of current Social Infrastructure of Madhya Pradesh State.

(A) EDUCATION- Madhya Pradesh is known for high quality educational institutions ranging from schools to higher centres of learning and research.[1] The government has taken several initiatives for extending the elementary education and training for teachers.

TABLE 2.11
REPUTED INSTITUTES OF M.P

REPUTED INSTITUTES OF MADHYA PRADESH
Indian Institute of Management (IIM), /IIT Indore
Indian Institute of Forest Management, Bhopal
Institute of Hotel Management, Bhopal
International Institute of Professional Studies, Indore

TABLE 2.12
EDUCATIONAL INSTITUTIONS

EDUCATIONAL INSTITUTIONS (2012-13)	NO.
Primary Schools	96,797
High Schools	6,758
Higher Secondary Schools	5,414
Government Colleges	342
Universities	24
Polytechnic Institutes	69
Engineering & Architecture Colleges	218
Management Institutes	220
Medical Colleges	21

[1] www.indiainbusiness.nic.in

The state aims to become an educated state and not merely a literate state by developing a "learning society as opposed to a schooling society". Madhya Pradesh has a literacy rate of 69.3 per cent according to the final data of Census 2011; the male literacy rate is 78.7 per cent and the female literacy rate is 59.2 per cent. In 2011-12, the state has 218 engineering & architecture colleges, 220 management institutes, 84 institutes running MCA, 121 colleges of pharmacy, nine medical colleges and four institutes of hotel management. In 2010-11, the state had 96,797 primary schools, 6,758 high schools and 5,414 higher secondary schools. The table given below has the compilation of all the educational infrastructure of state till recent years.

The present structure of education in Madhya Pradesh is very promising and it is bound to grow in years to come. Several medical colleges and Private Universities offerings different courses is yet to be set up in state, these projects have been approved in state by government. In coming years state would emerge as the largest technical and vocational training ground for its youth who are ready to be placed in multinational companies all over the world (Seen and experienced in IIM and IIT).

B) HEALTH :

TABLE 2.13
HEALTH INSTITUTIONS

Health institutions (Jan 2014)	No.
District Hospitals	50
Primary Health Centres	1,155
Sub-Centres	8,860
Community Health Centres	333
Ayurvedic Hospitals	28
Unani Hospitals	2
Homeopathic Hospitals	4
Urban Civil Hospitals	56
Civil Dispensaries	96
T-b Hospitals	7

As of May 2012, the healthcare services network of Madhya Pradesh comprised 50 district hospitals, 333 community health centers, 1,155 primary health centers and 8,860 sub-centers. There are 28 Ayurveda hospitals, 20 homoeopathic hospitals and two unani hospitals in the state. In 2012, the state launched a consolidated health service (Sampoorna Swasthya Sabke Liye) in all its 52,000 villages. This includes all the health schemes launched by the central and state governments.

2.23 FORESTS OF MADHYA PRADESH

Madhya Pradesh is endowed with rich and diverse forest resources. Lying between lat.[1] 21 004'N and long. 74 002' and 82 049' E, it is a reservoir of biodiversity. The geographical area of the state is 3,08,252 sq. km which constitutes 9.38% of the land area of the country. The forest area of the state is 95,221 sq. km constituting 31% of the geographical area of the state and 12.44% of the forest area of the country.[2] Legally this area has been classified into "Reserved Forest, Protected Forest and Unclassified Forest", which constitute 61.7%, 37.4% and 0.9% of the forest area respectively. District-wise details of recorded forest area are furnished in the Table Per capita forest area is 0.21 ha. as against the national average of 0.07 ha.[3]

1. **Forest Cover :** The "forest cover" is an important parameter of forest resources as it provides a quantitative estimate of land area under forest/tree cover. The National Forest Policy, 1988 envisages bringing one-third of the geographical area of the country under forest/tree cover. It is, therefore, essential to measure this parameter periodically to find the status and trends of change taking place. This parameter is being measured at biennial interval by Forest Survey of India using satellite data. The scale of mapping is 1:250,000. In the absence of boundaries of the recorded forest area on the requisite scale, it is not possible to segregate the cover lying within and outside the recorded forest area as the estimates are based on satellite data. The forest cover has been classified in dense forest and open forest. The latest estimates of FSI, published in the State of Forest Report (SFR) 1999, suggest that the total forest cover of M.P. is 75,137 sq. km., which is 24.40% of the land area - dense forest constituting 13.66% and open forest 10.74%. In addition to these two categories of cover, the land having canopy cover of less than 10% is classified as scrub. The area under scrub is not included in the

1 www.mp.gov.in
2 www.nisg.org
3 www.mpforest.org

forest cover. Central, eastern and southern parts of the state are rich, whereas northern and western parts are deficient in forest. Between the period of the last two assessments, the forest cover has increased by 377 sq.km.

2. **Forest composition-** Variability in climatic and edaphic conditions brings about significant difference in the forest types of the state. There are four important forest types viz. Tropical Moist, Tropical Dry, Tropical Thorn ,Subtropical broadleaved Hill forests. The forest area can also be classified based on the composition of forest and terrain of the area. Based on composition, there are three important forest formations namely Teak forest , Sal forest and Miscellaneous Forests. Bamboo bearing areas are widely distributed in the state. To obviate pressure on the natural forests , plantations have been undertaken in forest and non forest areas to supplement the availability of fuel wood , small timber , fodder etc.
3. **Forest Growing Stock**-The total growing stock (volume of timber / wood) is 500 lakh cu. m valued worth Rs 2.5 lakh Crores.
4. **Dependence on Forest-** The total population of the state is 7.26 crores (2011 census) of which 72.04% is rural and 27.06% urban - population density being 158 persons per sq. km. The total livestock population of the state is 3.24 crores .Of the total 52,739 villages in the state, 22,600 villages are located in or near forest areas. Being away from the mainstream of development, most of the villagers are dependent on forests for their livelihood. In addition to these, there are a host of items like leaves, flowers, fruits, bark, seeds, roots etc. commonly referred to as non-wood forest products (NWFP), which contribute significantly in socio-economic development of the rural communities.

2.24 SWOT ANALYSIS OF MADHYA PRADESH

The SWOT analysis of State of Madhya Pradesh is very simple and complicated at the same time as the strength of state is so unique and one of kind than rest of country that it has limit less opportunities to develop economically. The present analysis is made after keen understanding and thorough research of all the aspects of state. The state, as per this analysis has some inherent weaknesses as well and some challenges as well. The present regime has to make sure to take appropriate steps to unleash all the opportunities while managing weaknesses and threats in an efficient manner.

In short the SWOT analysis of state is as following-

STRENGTHS

- Extremely rich in natural resources, agriculture, forest and mineral based economy.
- Fertile land and large forests cover provide extremely rich biodiversity and source of employment.
- Large producer of soybean, oilseeds and pulses.
- Readily available minerals resources providing employment.
- Only producer of diamonds Jewels in the country.
- Easily accessible central location
- Strong Rail, Road and Air transportation links with other parts of country
- Logistics and Distribution Hub for Companies.
- Good Telecommunication Network
- Optical fiber and communication backbone till the block level.
- Availability of cheap and non disruptive labor.
- Due to low industrialization, large semi skilled and non skilled labor is available at low cost for all labor intensive industries like agriculture and forestry.
- Safe and stable political climate.
- Secure from natural calamities and providing a safe place from national boundaries
- Stable socio economic conditions
- Law and order is relatively good in state
- Stable political climate.
- 56,857 MCM water is available from 10 main rivers for irrigation of 69.74 lakh ha of land, Approximate 900 MCM water of Narmada river is reserved for industrial use, making Madhya Pradesh ideal for water based industries
- Opportunity for establishing a water grid for potable water with a private partner
- One of the lowest industrial land rates in India Second state in India to provide land for mega projects at 75% discount Over 20,000 hectare land bank available for Investment Major land parcels available near Indore, Bhopal, Ujjain, Jabalpur, Gwalior and Shajapur Large tracts of land available in Madhya Pradesh at very competitive rates.
- One of the lowest industrial power rates in India Power surplus state with an installed capacity of 14000 MW Average power rate is INR 5.9 for HT users Madhya Pradesh supports open access to power with separate feeder lines for industrial use 24 hours HT

power available to industries The state has invested INR 97 billion in expansion and up gradation of its electricity distribution network.

WEAKNESSES

- Landlocked location and away from Ports.
- Away from any sea port prevents quick access to International Markets
- Large unskilled/semi skilled reserved class population and limited availability of skilled labor.
- Huge base of illiterate and poor population which is economically backward.
- Inadequate physical infrastructure hampering economic growth.
- Very low and poor connectivity to remote areas.
- Over dependence on primary sector and low development indicator.
- Limited tax base of state, close to 40% of the revenue comes from agriculture and mining sector thus leaving less scope for growth in revenues and a low tax to SDP ratio.

OPPORTUNITIES

- Extremely friendly Industrial Investment Environment
- De regulation of state government
- 17% GSDP growth rate for the time period 2005-2014.
- Government's special incentives and attention to various sector called as priority sector.
- Establishment of IT Parks, SEZs Jewel Park, etc.
- Presently 10 India's top companies have sizeable presence in State.
- Large local demand and high growth potential
- One of the four top investment receiving state in India.
- Potential global tourist and recreation destination
- State has very high scores in attracting domestic and foreign tourists as the many historical and famous monuments are there in Madhya Pradesh.
- Diverse wild life of state also plays an important role in attracting tourist from all over the world in this Tiger State of India.
- A Pleasant weather maximum time of year.
- Attractive destination for life science Industry
- Upcoming sectors such as Infrastructure, Logistics, Development and Bio Diversity.

- Scope in alternative power like solar, wind, Hydro etc.

THREATS-

- High health indicator
- With an MMR and IMR levels of 498 and 82 respectively the state scores the low amongst India State, thus leading itself open to serious competitive disadvantage vis a vis other states in terms of work force asset and human development index.
- Poor Surface connectivity and huge gap in demand and supply of electricity, continuous load shading and deplorable road conditions can hurdle the economic growth of the state.
- Low base of English speaking population required for IT/BPO sector.
- Poor air connectivity of state with metro cities of India and no air port is designated International Airport in state.
- Low flow of FDI as compared to other states of India, even small states of country are fetching more FDI than Madhya Pradesh
- High cost of doing business in Madhya Pradesh
- Corruption and inadequate government structure.

2.25 CENTRAL MADHYA PRADESH GRAMIN BANK

Central Madhya Pradesh Gramin Bank was constituted on 08-10-2012 under Regional Rural Banks Act, 1976, by amalgamating erstwhile Satpura Narmada Kshetriya Gramin Bank, Vidhisha Bhopal Kshetriya Gramin Bank and Mahakaushal Kshetriya Gramin Bank.The Head Office of the Bank is situated in Chhindwara.Central Madhya Pradesh Gramin Bank, the biggest Regional Rural Bank of Madhya Pradesh, serve the people of the State through the strong network of 423 branches spread over in 25 districts of MP viz. Hosangabad, Mandla, Umaria, Ratlam, Bhind, Gwalior, Raisen, Balaghat, Seoni, Anuppur, Mandsaur, Morena, Datia, Harda, Dindori, Shahdol, Betul, Neemuch, Sheopur, Chhindwara, Vidisha, Bhopal, Katni, Jabalpur and Narsinghpur. The bank is sponsored by Central Bank of India. 50% of its shares are held by Government of India, 35% by Central Bank of India and 15% by Government of Madhya Pradesh. Besides lending to agriculture / allied sectors and MSME, the bank offers a bouquet of Retail Loan schemes to suit the needs of various target clientele and the general public. All the branches in 25 districts are monitored for efficient customer services by 8 Regional/Special Offices situated at Chhindwara, Hoshangabad, Gwalior, Mandsaur, Mandla, Shahdol, Vidhisha and Jabalpur. The business affairs of the Bank are managed by the Board of Directors consisting of Chairman and 8 Directors.

2.25.1 LOAN AND ADVANCES

Bank is emphasizing on diversification of loan in advances. Bank has also implemented various loan schemes for agriculturist, retail traders, member of SHG, Salaried persons, professionals etc. The bank is continuing its policy of extending adequate credit facilities for development of agriculture, upliftment of rural poor. Bank have revised and simplified the KCC scheme to make farmer's friendly. Bank is playing a meaningful role in rural/agriculture development through credit disbursal under government sponsored scheme like Swarna Jayanti Gram, Swarojgar Yojna, Antyavyasayee scheme, Khadi and Village Industries, Minor Irrigation etc.

Thus bank has fulfilled its commitment to increase priority sector advances and simultaneously continued disbursement under non priority sector advances.

2.25.2 INVESTMENT PORTFOLIO

The main purpose of the investment policy is to maintain statutory requirements of the bank and to ensure that the operations in securities are conducted as per the guidelines of RBI in accordance with sound and acceptable business practices resulting in efficient management of liquidity and optimum utilization of surplus funds to maximize its profit.[1]

2.25.3 INCOME ON INVESTMENT

There has been remarkable growth in bank's income on investments in last few years due to increase in yield and expansion in investment portfolio. The investment committee takes care of market fluctuation in interest rates and takes decision to investment surplus fund in term deposit/mutual fund having maximum return.

2.25.4 RECOVERY

Recovery drive has been intensified through recovery cell established at head office and regional office. Special recovery camps are been organized at district, tehsil, block levels and branch level also. Keeping in view the profitability aspect focused attention has been given in NPA and Write off accounts for maximum recovery. Monitoring process has been made effective for regular follow-up in

1 Central Madhya Pradesh Gramin Bank, Annual report of 2014-15

all overdue accounts. As a result of steps taken as above bank is getting positive results.

2.25.5 KCC (KISAN CREDIT CARD)

As per directives of Government of India/RBI, to extend uninterrupted production credit to farmers, bank has further simplified KCC Yojna and making it farmers friendly. For agriculture production financial to marginal, small and big farmers, every rural, semi urban and urban branch have been allotted target of 100 new KCC.

2.25.6 TRAINING

In order to develop expertise and skills in performing their duties more efficiently, training made available to the stop of the bank through various training.

2.25.7 FINANCIAL INCLUSION

For providing the benefit of banking services to the economically weaker section and deprived people of banking services, bank has opened 1115446 no frill accounts under government of India's important scheme Pradhan Mantri Jan Dhan Yojna. For financial literacy, bank has organized 200 financial literacy camps in 200 villages out of 6309 allotted villages and in this financial literacy camps, people were motivated to adopt banking services through nukkad natak and bank received a good response for the same.[1]

2.26 MADHYANCHAL GRAMIN BANK

Madhyanchal Gramin Bank has been included in second schedule to the Reserve Bank of India Act 1934 by notification dated 14-11-2013. The bank is sponsored by the State Bank of India has been constituted by amalgamating three erstwhile bank Viz Madhya Bharat Gramin Bank sponsored by State Bank of Bank, Sharda Gramin Bank sponsored by Allahabad Bank and Rewa-Sidhi Gramin Bank sponsored Union Bank of India,01-11-2012.

This bank covers 12 District of M.P. i.e. Damoh, Sagar, Shivpuri, Guna, Tikamgarh, Ashok Nagar,Chhatarpur, Panna, Satna,Rewa, Sidhi and Singrouli.

[1] Central Madhya Pradesh Gramin Bank, Annual report of 2014-15

Branch Network: The Bank has a total network of 418 branches. These are managed and administrative controlled by Head Office in Sagar (M.P.) and 07 Regional Office Damoh, s Shivpuri, Tikamgarh, Chhatarpur, Satna, Rewa & Sidhi in Madhya Pradesh.

2.26.1 SHARE CAPITAL

The authorised share capital of the bank is at 5 Crores , divided in to 5 lakhs shares of 100 each. The paid-up capital is 5 Crores and is subscribed in the proportion of 50:15:35 by Government of India, State Government and State Bank of India respectively.

2.26.2 INVESTMENT

Investment constitutes an important source earnings of the bank. The bank had been vigilant on this account. The bank in the terms of the instructions issued by the RBI, have invested all the SLR funds in government securities Non SLR funds are invested with sponsor bank and mutual fund. The surplus funds were effectively deployed to optimize the interest income.

2.26.3 BORROWING (RE-FINANCE)

The bank has availed the facility of re-finance to the order of rupees 29392 Lakhs from the NABARD and the sponsor bank as well. The bank has repaid its dues in time and there is no default in repayment.[1]

2.26.4 LOAN RECOVERY

The bank, on continuous basis, has given due emphasize and priority on recovery of loans and advances. Continuously. follow up and supervision from head office and regional office by mobilizing the operating staff to maximize their efforts towards the recovery drives involving government officials through recovery camps, have finally resulted in 82% recovery.

2.26.5 NON-FUND BEST BUSINESS

The bank has authorized all branches to issue bank guarantees to their customers. The bank also introduced gramin pay orders for its customer as alternative solution to the demand draft. The bank has authorized 73 important branches to issue these gramin pay orders payable at branches of SBI with in India. The bank has provided locker facilities, at the potential 61 branches. In addition to that, bank

[1] Madhyanchal Gramin Bank - Annual Report of 2014-15

earns commission by collecting checks and money transfer on behalf of its customers.

2.26.6 FORMATION OF KRISHAK CLUBS

As per NABARD directives, the bank has formed 1038 krishak clubs. The farmer club are playing a vital role in rural development.

2.26.7 CUSTOMERS' MEET

Customers meets have been organized in the branches from time to time in order to familiarize with various deposits/loans schemes of the bank.

2.26.8 FINANCIAL INCLUSION

Under the financial inclusion to spread the financial literacy in the weaker sections of the society. The bank has organized 100 financial literacy camps in unbanked rural area with the financial assistance of NABARD through which more than 5000 households/ families have been benefited.

2.26.9 TRAINING:

The bank is regularly deputing its staff for training to BIRD Lucknow and to the training centres run by sponsor bank . The bank deputed 382 officers in various training programs.

2.26.10 WOMEN DEVELOPMENT CELL:

Women development cell has been formed at head office to extend credit to needy women beneficiaries and also guide them for development.

2.26.11 BOARD OF DIRECTORS

The Board of Directors of the bank has been constituted as per provisions mentioned in section 9, 10, and 11 of RRB act 1976. The board during the year.

2.27 NARMADA JHABUA GRAMIN BANK

Narmada-Jhabua Gramin Bank came into existence on 1-11-2012 by way of amalgamation of two erstwhile RRBs viz. Narmada-Malwa Gramin Bank(Sponsor Bank: Bank of India)and Jhabua-Dhar Kshetriya Gramin Bank(Sponsor Bank: Bank of Baroda). It is spread over in 313 branches encompassing 13 districts of M.P.. The head office of this bank is establish at Indore . The area of operation of bank is spread over 13 districts of western M.P. viz. Dewas, Shajapur, Khargoan, Khandwa, Burhanpur, Barwani, Sehore, Rajgarh, Indore, Ujjain, Dhar, Jhabua, and Alirajpur.[1]

2.27.1 BRANCH NETWORK/EXPANSION

During the 2012-13, the bank has expanded its network to enlarge its rich and hasten the business impetus by opening two new fully computerised braches with CBS, taking the total number to 313. Of these 220 are rural, 77 in semi-urban, and 16 urban locations. Apart from this, banks also have established 82 financial inclusion centres at village having 2000+ population.

2.27.2 SHARE CAPITAL

The authorised share capital of the bank is at 500 lakhs, divided into 5 lakhs shares of 100 each. The paid-up capital is 500 lakhs and is subscribed in the proportion of 50:35:15 by government of India, sponsor bank i.e. Bank of India and M P Government respectively. All erstwhile RRBs in second phase of its capital restructuring programme for RRBs have received a sum of 11125.11 lakhs, in full, and is shown a share capital deposit in the first balance sheet after amalgamation.

2.27.3 BOARD OF DIRECTORS

The bank has broad based Board of Directors constituted in compliance with the Para-9, Sub Para-1 of RRB act 1976. The board oversee the specific operational areas of the bank. The Board of Directors are headed by the chairman of the bank and leads the board in its overall management of the bank to achieve its performance, goals, and ambitions.

2.27.4 CAPITAL ADEQUACY (CRAR)

The bank has calculated the Capital Adequacy Ratio as per the risk weights indicated in the guidelines of RBI as on 31-3-2013, the capital to risk weighted asset ratio of the bank is to 13.91 %.

2.27.5 RE-FINANCE

The bank has availed refinance under schematic and non-schematic landing i.e. medium term and short term categories from NABARD, National Housing Bank and Sponsor Bank as per the requirement. During the 2012-13, bank has availed refinance limit of rupees

[1] Narmada Jhabua Gramin Bank - Annual Report 2014-15

55578.99 lakhs from NABARD and a line of credit limit of rupees 3500 lakhs from Sponsor Bank have been sanctioned.

2.27.6 TECHNICAL UPGRADATION

All branches of the bank are working on CBS platform. In the field of technical upgradation achievements during the year 2012-13 are as under.

- RTGS/NEFT facility is made available through all branches.
- Bank's own information technology training centre has been started to impart and user training to its staff.
- During the year 2012-13, two new branches under CBS environment have been opened.
- Bank has started process of distribution of ATM rupay/KCC rupay cards to customers.

2.27.7 AUDIT COMMITTEE OF THE BOARD

In order to strengthen internal checks and control on "Audit Committee of the Board" has been setup in the bank after amalgamation in 23-01-2013 as per the directive of NABARD. Nominee Directors of sponsor bank, RBI, and NABARD are nominated for representing this committee. The Audit Committee of the board is established for fulfilling the following objectives.

- To ensure and enhance the quality and effectiveness of internal audit/inspection as a management tool.
- To oversee and provide direction to the internal audit/inspection machinery/statutory (external) auditors and other executives of RRB.
- To assist board of directors in fulfilling its oversight responsibilities of reviewing the financial reports and other financial information.

2.27.8 SPECIAL COMMITTEE OF THE BOARD OF DIRECTORS FOR MONITORING AND REVIEW OF FRAUD

As per instruction of NABARD a special committee of the Board of Directors for monitoring and review of frauds involving amounting of rupees 10 lakhs and above have been setup. The committee is established for the following purposes :

- To focus on monitoring of frauds at the highest level.
- To initiate necessary appropriate steps for prevention of frauds and minimizing the incident of fraud.
- To ensure that weaknesses are addressed and corrective measures have been adopted to overcome such shortfalls.

- To ensure timely reporting of frauds at various levels i.e. reporting to regulatory/supervisory and enforcement agencies and action against the perpetrators of the frauds.
- To ensure expeditious disposal of pending fraud cases in the bank and follow up with the policy and other agencies for the fraud cases pending with them and recovery.

2.27.9 TRAINING

Training to staff members has become a centre stage activity of the bank. To respond to the fast changing customer expectations, to deliver banking services in the techno-driven environment, Business growth plans, product profile, to manage professionalised compliance, re-skilling and continuous re-orientation of employee attitudes to be metamorphosed with a proactive and planed approach. The bank has devised a training philosophy which is an ongoing process, improving technological skills, knowledge and attitudes to achieve corporate excellence besides bringing about individual growth and organizational development. The training needs of staff members were being met by deputing them to various apex training centres viz. BIRD-Lucknow, STC-Bhopal, Bank of India, CAB-Pune, and Institute of public administration Bangalore. The bank has its own in-house IT training centre at head office, Indore.

2.27.10 FARMERS' CLUB

To achieve the goal of development of rural mass through credit, awareness and capacity building, the bank has emphasized formation of vibrant and sustainable farmers' club. As on 31 Mar 2013, the total number of farmers' club formed by the bank with the help of NABARD is 1065 out of which 84 clubs have been formed during 2012-13 only. These formers' clubs are helping the bank to get new business, and also recovery in NPA and written of accounts. They are carrying out the role of business facilitators

2.27.11 FINANCIAL LITERACY

To improve the quality life of the poor, neglected, weaker and down-trodden sections of the society and also to ensure capacity building on the sustainable basis, it is required to associate them with the banking system and to meet out this goal bank has started educating the people of this section of society with regard to various financial products and services available from the formal financial sector as a mission, through farmers' clubs, SHGs.

Top management of the bank has participated in financial literacy programmes at different locations. In this programmes participants have also been enlightened about the various loan schemes available to them, proper utilization of loan amount and significance of timely repayment of loan amount.

2.27.12 ORGANISATIONAL STRUCTURE OF REGIONAL RURAL BANKS

Each Regional Rural Bank is sponsored by a public sector bank which provides support in numerous ways, viz. subscription to its share capital, provision of such managerial and financial support as may be mutually agreed upon and assist in the recruitment and training of personnel during the initial period of its operation. In addition to this, Central Government may also provide essential directions for the formulation and execution of policies in respect of these banks.

2.27.13 ORGANISATION

Regional Rural Banks to a great extent have to depend upon the sponsoring banks and also upon Central Government for designing its organisation structure of a sound character, these banks have to give a frame work for managing the affairs.

A bird-eye-visualisation of the facts pertaining to organisation of these banks clearly reveal the following segments of organisation :

(A) Chairman
(B) Committees of Board
(C) Operating Personnel
(D) Branch Organisation

A. Chairman

Government of India assigns an eligible individual as Chairman for tenure of five years and such individual may be reappointed after the expiration of the term. The Chairman shall hold office at the pleasure of the Central Government. The Chairman shall receive such salary and allowances and be administered by such terms and conditions of service, as may be determined by the Central Government.

B. Committees Of Board

All matters related to operations of Regional Rural Banks may not be decided by one individual alone, group form of organisation has also been preferred. The Board of Directors may constitute such group, whether including wholly of directors or wholly of other persons or partially of directors and partially of other persons, as it may think fit, for such purposes as it may decide. Such types of committee are expected to be formed to deal with certain precise matters.

C. Operating Personnel

Each Regional Rural Bank is authorized to appoint such number of officers and other employees as it may consider essential or advantageous for the efficient performance of its functions and may decide the terms and conditions of their appointment and service. However, sponsoring Bank may send such number of officers and employees on deputation as may be necessary and desirable but only when it has been requested by the Regional Rural Bank sponsored by it and that too only in the first five years of its functioning.

D. Branch Organisation

The salary of officers and other employees appointed by a Regional Rural Bank shall be such as may be determined by the Central Government keeping into account and giving due regard to the salary structure of the employees of the State Government and the local authorities of similar level and equal status in the notified area in which the Regional Rural Bank is to operate.

CHAPTER - III
INTRODUCTION TO FINANCIAL MANAGEMENT

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3.2 Financial Management in Banks
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CHAPTER - III
INTRODUCTION TO FINANCIAL MANAGEMENT

3.1 SIGNIFICANCE OF FINANCE IN BANKS

The decade of 1990s was a turning point for the Indian banking business. It observed a full change in the manner banking was carried out in India. It has developed into a stable and powerful financial entity, with a primacy of place in providing funding for the country. In short, finance is regarded as the life blood of a banking enterprise. This is because in the modern money-oriented economy, finance is one of the basic requirements of all kinds of financial activities.

3.2 FINANCIAL MANAGEMENT IN BANKS

Financial Management in banks is the procedure of management of the financial resources, including accounting, monetary reporting, budgeting, funding , receivable management , risk management, and insurance for a bank. It basically means dealing with management of money affairs. Financial management is concerned with the managerial decisions that result in the acquisition and financing of short term and long term credits for the bank. Here it deals with the conditions that require specific assets and specific problem of size and development of an organisation. The analysis deals with the expected inflows and outflows of funds and their effect on managerial objectives.[1] In short, it deals with arrangement of funds and their effective utilization in the banks.

3.2.1 ARRANGEMENT OF FUNDS

The cost of funds should be at minimum for a proper trade-off of risk and control. Funds can be arranged from various sources; the arrangement of funds is considered an important problem of banks. Funds raise from different sources have different characteristics in terms of risk, cost and control. Funds obtained by the issue of equity shares are the best from the risk point of view for the bank as there is no question arise for redemption of equity capital. From the cost point of view, equity capital is the most costly source of funds as dividend expectations of equity shareholders are usually higher than that of prevailing interest rates. In the modern competitive scenario, mobilisation of funds plays a very important role. Funds can be obtained either through the Indian market or from overseas. The mechanism of arrangement of funds has to be adapted in the light of requirement of foreign investors.

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[1] www.financialmanagement1.blog.com

3.2.2 USES OF FUNDS

In financial management Effective utilization of funds is an important part of financial management, keep away from the situations where funds are either kept idle. Funds procurement involve a certain cost and risk. If the funds are not used in the right way then survival of a bank will be difficult. In the case of dividend decisions this is also considered. So, it is important to use the funds properly and profitably.

3.3 OBJECTIVES OF FINANCIAL MANAGEMENT

It has conventionally been argued that the objective of the banks is to maximise the profits only. Hence, the objective of financial management is also considered to be maximization of profit . This implies that finance manager must take his decision in such a way that the profits are maximised. Though it cannot be the single objective of the banking business. There is a different objectives of finance manager and that is wealth maximisation. Financial manager should try to maximize the wealth.[1]

3.3.1 PROFIT MAXIMIZATION

The main aim of any business is profit earning. Profit is a measure of efficiency of a business. Profit Maximisation means maximisation of the rupee earnings of the firm.

This theory focused that firm has to input for a given amount of output. Following arguments in favour of profit maximization :

- When profit earning is the aim of business then profit maximization is justified on the ground of reality.
- Profitability is a test for measuring efficiency and financial prosperity, thus profit maximization the obvious objective.
- Unfavorable business situations like tough competition, recession, depression occur at several times. A business is able to carry on under Unfavorable situation, only if it has some past earning to rely upon.
- Profits are main source of finance for the growth of a business. So business should aim at maximization of profits for enabling for its growth.

[1] www.quizlet.com

3.3.2 WEALTH MAXIMISATION

Wealth Maximization is also known as value maximization. It means the maximisation of the shareholders' wealth. It is an appropriate objective of a company. It is the single substitute for a shareholders' utility. When a company maximise the shareholders' wealth, individual shareholder can use this wealth to maximize individual utility and then it correspondingly maximizes shareholders' utility.

The market price of the equity shares is depending upon the function of financing, investment and dividend decisions of a bank. The market price serves as performance indicator of the firm's growth and it shows how well the organization is doing on behalf of its shareholders. It is doubt that market price of a share in the share market is the result of a typical combination of various factors like, general economic state, particular economic state of the industry to which the share belongs, technical aspects etc. However in the long run, the market price of the share of a bank does replicate the value, which we set on a company. The value is a function of two things, namely, the likely rate of earning per share of the firm and the capitalisation rate. The rate of earning per share depends upon the evaluation as to how profitably a firm is going to work in the future. The capitalisation rate reflects the hope of the firm's shareholders. The finance manager has to make sure that his decisions are such that the market value of the shares of a firm in the long run is maximised. This implies that the financial plan has to be such that it is best possible for earning per share. The element involved in of Maximization of the value of a firm are:

FIGURE 3.1
ELEMENTS OF WEALTH MAXIMISATION

Increase in profit	Reduction in cost	Sources of funds	Minimum Risk	Long-run value

3.4 RISK MANAGEMENT OF BANKS

Risk management has been a very vital component of business plan for the banks and an undercurrent of risk mitigation and planning has always been part of the banking business. There have been conscious efforts in minimizing the risk without disturbing the business opportunities since the early days of banking. However, the increasing size of business and complications in financial transactions and instruments involved and the intensity and nuances in risks faced have.

Considerably increased different economy cycles, market instability, corporate irregularities and troubled capital markets have shaken the banking industry number of times and highlighted the dangers of poor risk management. With the increasing globalisation and technology driven distribution channels, the conventional risk management systems show to be insufficient to capture inter-linkages between various types of risks across geographies, customer segments and business lines.

3.5 RETURN ASSESSMENT OF BANKS

One of the important functions of the financial manager is to evaluate return which the bank earns on account of its functions. The return represents the benefits obtained by a banking business from its functions. Different financial managers give different meanings to these benefits and hence there are various approaches for the measurement of return. The word income approach has a more precise and definite meaning as compared to the term profit. Income always indicates that a particular accounting process has been followed in its computation. Hence income may be defined as "accounting measurement of profits". The profit approach means that the return from a banking business is measured on the basis of the profit it earns. According to cash flow approach, the return from a banking business is measured in terms of cash flows.

Generated by it due to operations during a particular period. The term ratio approach means the mathematical relationship between two numbers. A financial manager makes use of different accounting ratios for measuring and comparing the performance of the bank over different time periods or of one bank with another.

3.5.1 RISK-RETURN TRADE OFF

The prime objective of the financial manager of the bank is to maximise the wealth of the firm, which is possible only when well balanced financial decision are taken. A bank taking more risk shall certainly expect more return as compare to other banks taking lesser risk. The relationship between risk and return can be shows as follows :

Expected Return = Risk free rate + Risk premium

- Risk free rate is the reward for time
- Risk premium is the reward for risk

The higher the risk of an action the higher will be the required rate of return. An appropriate balance between risk and return should be maintained to maximise the market value of the bank's shares. Such balance is called risk - return trade-off. The manager should strive to maximise the return for a given amount of risk. So, inflow and outflow of funds should be continuously monitored to make sure that no unnecessary risk is being taken and the funds are properly safe.

3.6 FINANCIAL STATEMENT ANALYSIS

The financial statement analysis is a study of the relationship among the various financial factors in a business as revealed by a set of statements and a study of the trend of these factors as shown in a sequence of statements.

The study of the financial requires :

- Orderly classification of figures given in financial statements
- Comparison of the various inter-connected digits with each other by different 'techniques of Financial Analysis'.
  The financial analyst can adopt one or more of the following techniques of financial statement analysis:

Figure of 3.2

Financial Statement Analysis Techniques

Ratio Analysis	Cash Flow Analysis	Comparative Financial Statement	Trend Analysis

3.6.1 OBJECTIVES OF FINANCIAL STATEMENT ANALYSIS IN BANK:

- To determine bank's long term and short term solvency.
- To analysis the financial position of a bank.
- To assess bank's operating efficiency
- To plan future strategy of a bank
- To make a comparative study of a financial statement with other banks.
- To plan and control the banks activities more effectively.
- To know the progress being made and the present position of a banking industry.

3.6.2 METHODS OF FINANCIAL ANALYSIS :

The analyse and interpretation of financial statements is used to determine the financial position and results of operations. A number of methods are used to study the relationship between different statements. An effort is made to use those methods which clearly examine the position of the company. The following methods of analyse generally used:

1. Comparative Statements
2. Trend Analysis
3. Common -Size Statements

1. **Comparative Statements :** Comparative Statements reflect the financial position at different periods, of time. The elements of financial position are revealed in a comparative form so as to given an idea of financial position two or more periods. Any statement prepared in a comparative form will be covered in a comparative statement. Balance sheet and income statement both are prepared in comparative form for financial analysis purposes. Not only the comparison of figures of two periods but also the relationship between balance sheet and income statement facilitate an in depth study of financial position and operating results.

   The Comparative Statement may show:

   - Absolute figures
   - Changes in absolute figures i.e. increase or decrease in absolute figures
   - Absolute data in the term of percentage
   - Increase or decrease in term of percentage

2. **Trend Analysis :** The financial statement may be analyzed by computing trends of series of information. This method determines the direction upwards and downwards and involves the computation of the percentage relationship that each statement item bears to the same in base year. The information for a number of years is taken up and one year , generally the first year , is taken year as a base year. The figures of the base year are taken as 100 and trend for other years are calculated on basis of the base year.

3. **Common Size Income Statement** : The common size statements are show in analytical percentages. The total assets are taken as 100 and different assets are expressed as a percentage of a total. Similarly, various liabilities are taken as a part of total liabilities. These statements are also known as component percentage or 100 percent statement because every individual item is stated as a percentage of the total 100.

3.6.3 RATIO ANALYSIS :

It is one of the most powerful tools of financial analysis. It is the exercise of establishing and interpreting various ratios. It is with the help of ratios that the financial statements can be analysed more clearly and decisions can be made from such analysis. It is only a means of better understanding of financial strength and weakness of a firm. It is one of the techniques of financial analysis where ratios are used as a yardstick for assessing the financial condition and performance of a bank. Analysis and interpretation of a variety of accounting ratios give a skilled and experienced analyst a improved understanding of the financial condition and performance of the bank.

3.6.4 CLASSIFICATION OF RATIOS

Analysis and interpretation of financial statements are classified in

FIGURE 3.3

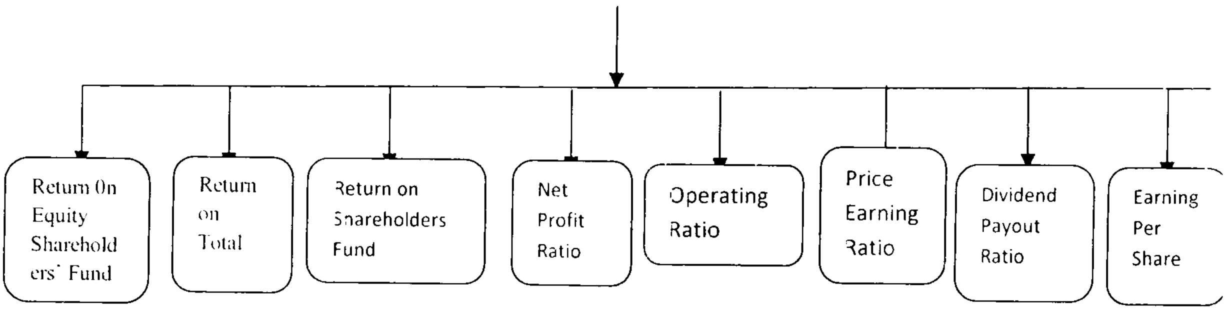
CLASSIFICATION OF RATIOS

Profitability Ratio	Liquidity Ratio	Solvency Ratio	Turnover Ratio

3.6.4.1 PROFITABILITY RATIO :

The primary objective of a business is to earn profit. Profit earning is considered essential for the survival of the business. Profitability analysis can be done by using a variety of ratios, depending upon the nature and the objective of analysis. Apart from the short-term and the long-term creditors, the management of a bank is also interested in its financial soundness, particularly the operating efficiency, which can be judged only by the profitability of the bank. The significance of profit for a bank cannot be over-emphasized, since profit is the ultimate assessment of management effectiveness. Profitability ratios are the sign of the effectiveness with which the operations of the banking business are carried on.

FIGURE 3.4
PROFITABILITY RATIO



Return on Equity Shareholders' Funds

Return on shareholders' funds is considered is an key ratio to test whether there has been a satisfactory return for the equity shareholders or not . The rate of return could be tested by comparing it with that of the previous years, by inter - company comparison and by comparison with the average of industry.

Return on Total Assets

Return on total assets consists of net fixed assets (i.e., fixed assets less accumulated depreciation) and net working capital (i.e., current assets minus current liabilities), but not included intangible assets, fictitious assets, outdated stocks, doubtful debts etc. This ratio refers computed efficiency of total assets.

Return on Shareholders' Funds

Return on shareholders' funds ratio shows how shareholder's funds have been utilised by the bank for generate profits. The ratio can be compared with that of other banks engaged in similar business activities. It is also the part of profitability ratio of the bank .

Net Profit Ratio

This ratio assesses the overall efficiency of production, administration, selling, financing and pricing of a bank. The ratio is, therefore, indicative of the management's ability to run the bank with success, by way of recovery from proceeds. This ratio shows the profitability position of the bank and also shows how to control direct and indirect expenses to generate profit.

Operating Ratio

This ratio is an opposite of net profit ratio. In case the net profit ratio is 30 %, the operating ratio is 70%.This ratio indicates about the operating cost of a bank.

Price Earning Ratio

This ratio refers the how many times the earning per share is covered its market price. It is calculated through market price per share divide by earning per share.

Dividend Payout Ratio

This ratio refers that what percentage of earning per share has been used for paying dividend. It is computed through dividend per share divided by earning per share. It is also known as payout ratio.

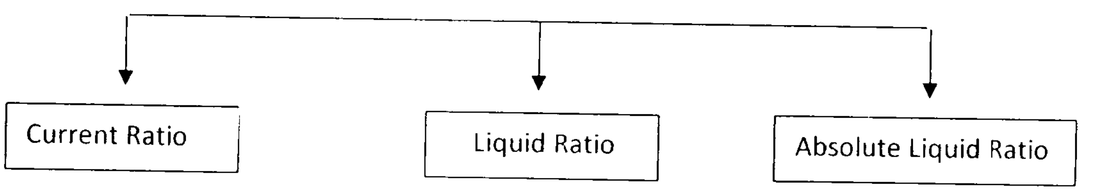
Earning Per Share

Earning per share refers a company's profit divided by its number of common outstanding shares.

3.6.4.2 LIQUIDITY RATIO :

Liquidity refers to the ability of a concern to meet its current obligations. The short term obligations are met by realising amount from current or circulating assets. The current assets should either be liquid or near liquidity. These should be converted for paying obligations of short term nature. The adequacy or inadequacy of current assets should be compared with current liability. If the current assets can pay off current liabilities, then liquidity position will be satisfactory.

FIGURE 3.5
LIQUIDITY RATIO



Current Ratio

Current ratio is defined as the relationship between current assets and current liabilities. It is also called working capital ratio. It is most widely used to make the analysis of short term financial position of a bank. It is computed by dividing total current assets by total of the current liabilities.

Quick ratio

Quick ratio indicates the relationship between quick assets and current liabilities. As assets said to be liquid if it can be converted into cash within a short period without loss of value. Inventories and prepaid expenses are excluded from the list of quick assets as they cannot converted in to cash immediately without a sufficient loss of value.

Absolute Liquid Ratio

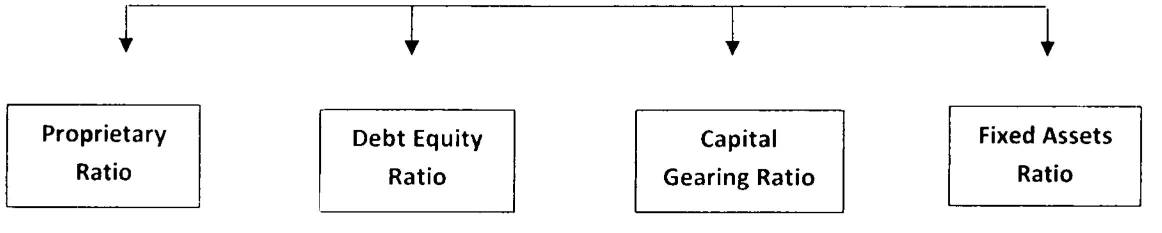
Although receivables are generally more liquid than inventories, yet there may be doubts regarding their realisation into cash immediately or in time. Due to this cause absolute liquid ratio should also be calculated together with the current ratio and quick ratio, so as to exclude even receivables from the current asset.

3.6.4.3 *SOLVENCY RATIO*

These ratios help in find out the long term solvency of a bank which depends basically on three factors viz., whether the bank has sufficient resources to meet up its long term funds requirements, whether and whether the bank earns an adequate amount to pay instalment interest of long term loans in time and the bank has used an proper debt-equity ratio mix to raise long-funds.

FIGURE 3.6

SOLVENCY RATIO



Proprietary Ratio

This ratio focuses on the general financial soundness of the banks. The ratio is of particular importance to the creditor who can find out the share of shareholder's funds in the total assets in the banks. It ascertains the relationship between the proprietor's funds and the total tangible assets.

Debt Equity Ratio

The debt-equity ratio is determined to find out the strength of the long term financial policies of the bank. It indicates the share of owner's stake in the banks and also the level to which the firm depends upon the outsider for its survival.

Capital Gearing Ratio

It is the most important ratio to ascertain long term financial ability Capital gearing refers to the proportion between fixed interest or dividend bearing finance and non-fixed interest or dividend bearing finance in the total capital employed in the banks.

Fixed Assets Ratio

This ratio explains whether the bank has raised adequate long-term funds to meet its fixed assets requirements. It gives the information related to long term solvency of a bank.

3.6.4.5 TURNOVER RATIO

It is also known as activity or efficiency or performance ratio. These ratios measures how well facilities at disposable of the organization are being used. These ratios show the position of utilization of assets. These ratios are calculated on the basis of sells or cost good sold and are expressed in number of times. A higher ratio indicates more efficient operation and a lower ratio indicates under utilisation of assets. The important turn over ratios are given below.

Inventory Turnover Ratio : Every firm has to maintain a certain level of inventory so as to meet the requirement of the business. The level of inventory neither to be low nor too high. Keeping more inventories is harmful for the following reasons

- Needless blockage of capital
- Overstocking requires more space thus more rent will be paid
- Chances of obsolescence of stock are there
- Slow disposal of stocks will means slow recovery of cash. It gives adverse affect on liquidity.

On the other hand, too low inventory may mean loss of business opportunities. It indicates the number of times the stock has been turned over during the period evaluates the efficiency.

FIGURE 3.7
TURNOVER RATIO

Debtors Turnover Ratio	Average Collection Period	Creditors Turnover Ratio	Average Payment Period	Working Capital turnover Ratio

Debtors Turnover Ratio :

Credit is one of the most important elements of sells promotion. It indicates the velocity of debt collection of a firm. This ratio shows the number of items average debtors are turned over during a year. Generally, the higher the value of debtors turnover the more efficient is the management of debtors. Similarly low debtors turn over implies inefficient management of debtors and less liquid debtors but a very high debtors turnover ratio implies a firm inability due to lack of resources to sell on credit there by sells and profit.

Average Collection Period:

This ratio refers the average number of days for which a firm has to wait before its receivables are converted in to cash. It measures the quality of debtors. A higher collection period implies an inefficient collection performance, which in term adversely affects the liquidity. Similarly, the shorter average collection period, the better is the quality of debtors. As a short collection implies quick payment by debtors. Moreover, longer the average collection period, larger the chances of the bad debts. But a very short collection period may imply firms conservative policy to sell on credit.

Creditors Turnover Ratio:

In course of business operation, a firm has to made credit purchases and incur short term liabilities. It indicates the number of times the creditors are turn over during a year.

Average Payment Period :

Average Payment Period ratio refers the average number of days taken by a firm to pay creditors. Generally, lower the ratio, the better is the liquidity position of the firm and higher the ratio less liquid is the position of the firm.

Working Capital Turnover Ratio:

Working Capital Turnover Ratio indicates the number of times the working capital is turn over during the year. A higher ratio indicates efficient utilization of working capital and a low ratio indicates inefficient utilization of working capital. But a very high working capital turnover ratio is not good for any bank.

In addition, we shall also compare the following ratios of India's largest banks. Some of these key ratios are:

- Credit to deposit ratio
- Capital adequacy ratio
- Non-performing asset ratio
- Return on assets ratio

Credit to deposit ratio (CD ratio): This ratio specifies how much of the advances lent by banks is done through deposits. It is the proportion of loan-assets formed by banks from the deposits received. The higher ratio shows higher the loan-assets formed from deposits. The result of this ratio indicates the ability of the bank to make optimal use of the available resources.

Capital Adequacy Ratio (CAR): A bank's capital adequacy ratio is the ratio of qualifying capital to risk adjusted (or weighted) assets. The RBI has set the minimum capital adequacy ratio at 9% for all banks. A ratio below the minimum indicates that the bank is not sufficiently capitalized to increase its operations.

Non-performing asset (NPA) Ratio: The net NPA to loans (advances) ratio is used as a measure of the overall quality of the bank's loan book. An NPA are those assets for which interest is overdue for more than 90 days. Higher ratio indicates rising bad quality of loans.

NPA ratio = Net non-performing assets / Loans given

Return on assets (ROA): Returns on asset ratio is the net profit make by the bank on its total assets. The higher the ratio of average earnings assets, the better would be the resulting returns on total assets.

ROA = Net profits / Avg. total assets

3.7 LIMITATIONS OF FINANCIAL STATEMENT ANALYSIS

Financial statement analysis is a most powerful tool for determining the strengths and weaknesses of a firm. The analysis is based on the information available in the financial statements. Some of the serious limitations of the financial statements are as follows:

I. As the bases for financial analysis are financial statements and it is based on concept of historical cost. It does not consider changes in the price level.
II. The financial statements cannot be considered as conclude report. Business will be continued for an infinite period and the end result will be known once it is closed. The items like contingent liabilities, deferred revenue expenditures make the profit vague
III. Financial analysis is only a way and it is not an end result itself. The analyst has to make the interpretation and draw his own conclusions. It is also to be taken care that, different may interpret the same analysis in different ways.
IV. Personal judgment plays an important role at the time of preparation of financial statements. Some of these include amortization of expenses, treatment of deferred expenditures, methods of depreciation etc..
V. Normally the financial statements reveal the monetary facts about the firm. It does not disclose the facts which cannot be expressed in monetary terms.
VI. The financial statements are prepared on the basis of accounting concepts and conventions. It does not give an exact position, thus accounting concepts and convention cause a serious limitation to financial analysis.

3.8 STATEMENTS SHOWING CHANGES IN FINANCIAL POSITION

The financial statement of a business discloses the net effect of various transactions on the operational and the financial position of the term. The balance sheet gives outline of the assets and liabilities of an enterprise at a particular point of time. The resources of enterprise are shown on the asset side of the balance sheet while the liabilities side indicates its obligations. The profit and loss account reflects the net result of the business operations for a period of time. Both these statements give the essential basis information and the financial activities of a business but their usefulness is limited for the planning and analysis purpose. Thus, statement has to prepare to show the change in the assets and liabilities from the end of one period of time to the end of another period of time. This statement is called a fund flow statement. The fund flow statement is prepared in order to explain clearly the sources from where the funds are procured to finance the operation of a business concerned during the accounting period. It also brings to focus the uses to which this fund are to put during the assumed period.

3.9 CONCEPTS OF FLOW OF FUNDS

The meaning of the word "flow" includes in-flow and out-flow which means movement of funds. When any business transaction affects changes in the amount of fund available before happening of the transaction, flow of funds is said to have taken place. There is now flow of funds in case the transaction does not include any change of funds. According to working capital concepts of funds, the flow of fund in the working capital.

3.10 CURRENT AND NON-CURRENT ACCOUNTS

It is crucial to classify various accounts in to current and non-current categories. Current accounts can either be current liabilities or current assets. Current liabilities are those liabilities which are paid in the common course of business within the short span of time (Generally 1 year of time). Current assets are those assets which in the ordinary course of business can be converted in to cash with in the short period of time (Generally 1 year of time). When a change in a non-current account is followed by change in another non-current account. In this case there is no flow of funds. This is because of the fact that in such cases neither the working capital increases nor decreases. Funds move when transaction affects 1) A fixed liability and current liability or 2) A current assets and fixed liability or 3) A fixed and a current liability or 4) A current assets and a fixed assets.

3.11 SIGNIFICANCE OR IMPORTANCE OF FUND FLOW STATEMENTS:

It is a most important tool to financial management, the primary purpose of financial statement is to reveal the changes in working capital between the two balance sheet dates by making use of projected fund flow statement. The management can come to know, the adequacy and inadequacy of working capital well in advance. The fund flow statement assists the management to find answer for the decision making problem. The fund flow statement explains causes for changes in financial statement. It also helps in explaining how effectively the management has used its working capital and also suggest ways to improve working capital position of the firm.

A projected fund flow statement is constructed for the future helps in taking managerial decisions. The firm can plan deployment its resources and allocated them among various applications. A projected fund flow statement also acts as guide for future to the management. The management can come to know the various problems that may face in near future for want of fund.

The firms future need can be estimated well in advance and also the timing of these needs. The firm can arrange to finance these needs more effectively and avoid future problems.

3.12 LEVERAGE ANALYSIS:-

The financial management, the term leverage is used to describe the firm's ability to use fixed cost assets or funds to increase the income to its owners. The higher is degree of leverage, higher is the risk as well as return to the owners.

Leverage can have negative or reversible effect also and it may be favourable or unfavourable. There are basically three types of leverages.

I. Operating
II. Financial
III. Combined

3.13 **OPERATING LEVERAGE** : The leverage is associated with the introducing of fixed cost asset referred to as operating leverage. It shows business risk, the high operating leverage indicates high degree of business risk in the firm. The low operating leverage indicates the low degree of business risk in the firm. It indicates how percentages changing EBIT due to percentage change in sells respond.

Operating leverage results from the presence of fixed operating cost that assist in magnifying net operating income fluctuation flowing from small variation in revenue. The fixed operating does not change with the change in sells. Any increase in sells, fixed cost remaining the same, will increase the operating revenue. If a firm does not have fixed cost, there will be operating leverage, the percentage change sells will be equal to percentage in EBIT.

3.14 FINANCIAL LEVERAGE :

A firm required fund to run and manage its operation. The funds are required to set up an enterprise into implement expansion diversification and other plans. A decision has to made regarding the capital structure. The fund may be raised through two sources, Owners and Outsiders. When a firm issues shares, these are owners funds, when it raises fund by raising short term and long term loans, it is called outsiders equity. Various sources used to raise fund represent the financial structure of a firm. The term capital structure refers to the relationship among various long term source of financing such as equity share capital, debentures and preference share capital etc. The utilization of long term, fixed interest bearing debt and preference share capital along with equity share capital is called financial leverage.

The fixed cost funds are employed in such a way that the earning available for equity share holder are increased. A fixed rate of interest is paid on such long term debt. The interest is a fixed financial charges and must be paid irrespective of revenue earning. The preference share capital also bear a fixed rate of dividend. But, the dividend is paid only when the company has surplus profit. The primary aim of financial leverage is to increase the revenue available for equity share holders using the fixed cost fund. If the revenue generated by employing fixed cost funds is more than their cost then it will be to the beneficial for equity share holders to use such capital structure. A firm is known to have a favourable leverage if its earning are more than what debt would cost. On the other hand if it does not earn as much as the debt cost then it will be known as having an unfavourable leverage.

Combine Leverage: Both financial and operating leverage magnify the revenue of the firm. Operating leverage affects the income which is the result of production. On the other hand, the financial leverage is the result of financial decisions. The combined leverage focuses on the entire income of the concern. The risk factor should be properly assessed by the management before using the composite leverage. It shows percentage change in EPS for a given change in sells. It analyzes total risk of a firm that is the operating risk as well as financial risk taken together. It helps the investors of the company in estimating the return on their investment with the increase or decrease in turn over.

3.15 COST OF CAPITAL:

The cost of capital of a bank is the least rate of return that it must get on its investments in order to satisfy the different categories of investors who have made investments in the form of shares, reserves and surplus or deposits. A bank's cost of capital is nothing but the weighted average of the cost of the different sources of finance that have been used by it.

The concept of cost of capital is very important in financial management. A decision to invest in particular project depends upon the cost of capital of a firm or the cut-off rate which is the minimum rate of return expected by the investors. The cost of capital of a firm or the minimum rate of return is expected by its investors as direct relation with the risk involved in the firm. Generally higher the risk involved in a firm, higher is the cost of capital.

Capital components are the types of capital used by banks to increase fund. They consist the items on the liabilities side of a firm's balance sheet (share capital, deposits, reserves and surplus). Any increase in the total assets of banks must be financed by one or more of these capital components.

Capital is a key factor of production, and has a cost. The cost of each component is called the component cost of that particular type capital. Cost of deposits, Cost of equity and Cost of retained earnings are the four main capital structure components and costs.

Cost of Deposits

It indicates the rate of return that must be got on debt financed investment in order to keep unaltered the earnings available to equity shareholders.

Cost of Equity Shares as owners of the firm, the common shareholders bear the larger risk. If the bank functions unsuccessfully, the shareholders are the first to bear in terms of dividends and possibly drop in the market value of their shares. In short, it means the least rate of return that the bank must earn on the equity financed proportion of an investment project or to leave unchanged the market price of the existing stock.

Cost of Retained Earnings

Retained earnings are undistributed profits. The banks are not required to pay any dividend on retained earnings. In reality retained profits are a very key source of finance, accounting for over half of the entire long-term finance lift by banks over recent years. Therefore, it is sometimes regarded as the free of cost source of finance.

3.16 CAPITAL STRUCTURE DECISIONS:-

The capital structure of a bank refers to mix of long term finances used by the firm. It is financing plan of a company. It may be used to cover the total composite investment of bond holders including long term debts as well as total stock holders' investment including retained earnings. Thus, capital structure is mixed of long term sources of finance and hence it consists equity shares, preference shares, debentures, bonds, long term loans and retained earnings. It is quite distinct from financial structure and capitalization.

3.16.1 IMPORTANCE OF CAPITAL STRUCTURE DECISION:-

The objective of any bank is to mix the permanent sources of finance used by it in a manner that will maximize the banks market price. Bank seeks to minimize their cost of capital. This proper mix of funds refers to as the optimal capital structure.

The Capital structure decision is significant managerial decision which affect the risk and return of investors. The bank will have to plan its capital structure at the time of promotion itself and also subsequently whenever it has to increase additional funds for different new projects. Whenever the company needs to increase finance, it involves a capital structure decision because it has to decide the amount of finance to be raised as well as the sources from which it is to be raised.

3.16.2 FEATURES OF AN OPTIMAL CAPITAL STRUCTURE:-

An Optimal Capital Structure should have the following features.

- **Control-** The capital structure should involve minimum dilution of control of the bank.
- **Profitability-** The bank should make maximum use of leverage at a minimum cost.
- **Flexibility-** The capital structure should be flexible to be able to meet the changing conditions. The bank should be able to raise

funds whenever the need arises and also retired debts whenever it becomes too costly to continue with the particular source.

- **Solvency**- The use of excessive debt hazards the solvency of the bank.

3.17 WORKING CAPITAL MANAGEMENT:

Working capital is defined as the surplus of current assets over current liabilities. It represents the investment of a bank's funds in assets which are likely to be raised within a short span of time. However, the needs of current assets are generally larger than the amount of funds available through current liabilities. The bank's working capital may be viewed as being including of two components. Permanent working capital represents the current assets required on a regular basis over the complete year. It characterizes the amount of cash and receivables, to carry on operations at any time, as safe measure. Extra assets required at different times during the operating year are termed as fluctuate working capital.

3.17.1 NEED FOR WORKING CAPITAL:-

Need for funds take place due to the increase in the level of banking business functions. Similarly, if surplus funds come up then it should be invested in short-term securities. The necessitate for working capital to run the day-to-day banking business activities cannot be overemphasised. Indeed, banks differ in their requirements of the working capital. In its try to maximise shareholder' wealth, a bank should earn adequate return from its function. There is always an operating cycle involved in the conversion of advances into cash. It is clear that working capital is required because of the time gap between the advances and their actual realization in cash. This time gap is technically termed as "operating cycle" of the bank.

3.17.2 OBJECTIVE OF THE WORKING CAPITAL MANAGEMENT:

Liquidity Vs Profitability:

The main objective of working capital is to provide sufficient support for smooth functioning of the normal business operations of a bank. The main problem then arises as to determination of the volume of investment in working capital that can be regarded as adequate. Once we recognize that the bank has to operate in an environment permeated with uncertainty, the term adequate working capital becomes somewhat subjective depending upon the attitude of the management towards the uncertainty therefore volume of investment in current assets as to made in a manner that it not only fulfil the needs of the public loan but also provides additional fund to meet unforeseen contingencies arising out of factors such as huge fund required by the key customer, eventually increase in demand of loan etc.

Thus, the bank following a conservative approach is subjected to low degree of risk than the one following the aggressive approach. Further, in the former situation the high quantum in current assets imparts greater liquidity to the bank then under the later situation where the quantum of investment in current assets is less.

3.17.3 ADEQUACY OF WORKING CAPITAL

Better working capital position is essential to run banking business operations efficiently and profitably. A bank requires funds for its day to-day running. Sufficiency or insufficiency of these funds would determine the efficiency with which the day to day banking business may be carried on. Working management capital is an important task of the finance manager. He has to make sure that the quantum of working capital available with his concern is neither too high nor too low for its requirements. A very huge quantum of working capital would mean that the bank has idle funds. In this case bank has to said over capitalised Since funds have a cost, the bank has pay huge amount as interest on such funds. If the bank has not enough working capital, it is said to be under-capitalised. Such a bank runs the risk of bankruptcy. This is because scarcity of working capital may lead to a situation where the bank may not be able to meet its liabilities.

3.17.4 DETERMINANTS OF WORKING CAPITAL

In order to determine the optimum amount of working capital of the concern, the following factors should be considered :

Size of Bank

Working capital needs of a bank are mainly influenced by the size of its business. Bank has a very small investment in fixed assets, but requires a large amount of money to be invested in working capital. Size may be measured in terms of the level of operation. A bank with larger level of operation will need more working capital than a small bank. A bank should hold more money if its size is large and on the other hand it needs low working capital if its size is too small.

Variation in Interest Rate

The increasing shifts in interest rate variations make the function of the financial manager complicated. He should expect the consequence of interest rate changes on working capital requirements of the bank. Generally, increasing levels will necessitate a bank to maintain higher amount of working capital. In this case bank follows conservative approach to working capital.

Credit Policy of Bank

The credit policy of the banks affects the working capital by influence the level of debtors. The bank should be flexible in granting credit terms to its customers. Depending upon the individual case, different terms may be given to different customers. A liberal credit policy, without rating the credit-worthiness of customers, will be harmful to the bank and will make a trouble of collecting funds later on. In order to make sure that necessary funds are not blocked in debtors, the bank should follow a rationalised credit policy based on the credit rating, credit-worthiness of customers and other relevant factors.

3.18 OPERATING EFFICIENCY AND PERFORMANCE

The operating efficiency of the bank tell to the most favourable utilisation of resources at least amount of costs. The bank will be effectively contributing to its working capital if it is efficiently controlling operating expenses. The utilization of working capital is better and velocity of cash cycle is accelerating with operating efficiency. Better utilisation of resources improves productivity and, thus, helps in releasing the stress on working capital.

Advance Development

The working capital needs of the bank increase as its advance grow. It is complex to accurately establish the relationship between amount of advances and working capital requires. In practice, current assets will have to be introduced before growth takes place. It is, therefore, necessary to create advance planning of working capital for a growing bank on a nonstop basis.

Advance Situations

Most of the banks experience seasonal and cyclic variations in the demand for their advances. These banking business discrepancy affect the working capital requirement, especially the fluctuating working capital requirement of the bank. When there is a boom in the economy, demand for advances will increase.

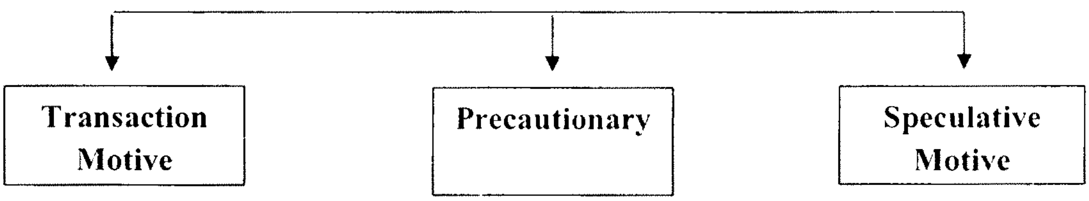
3.19 CASH MANAGEMENT

The term cash consists coins, notes and cheques held by the enterprise, and balances in its accounts. Cash is the most vital liquid asset for the running of the banking business. Cash is the basic key needed to keep the banking business for operating on a continuous basis. It is also the final output expected to be realized by providing the service by the bank. The bank should keep adequate cash, neither high nor less. Shortage of cash will interrupt the banking operation while extreme cash will simply remain idle, without contributing anything towards the bank's profitability. Thus, a major function of the financial manager is to maintain a optimal cash . Cash is the money which a bank can pay immediately without any restriction.

MOTIVES FOR HOLDING CASH

Motives for holding cash by the banks are depicted in Fig

FIGURE 3.8
MOTIVES FOR HOLDING CASH



Transaction Motive

A bank is always entering into transaction with other entities. The transaction motive needs a bank to maintain cash balance to deal with routine transaction of its business in the ordinary course of action. The bank needs cash mainly to make payments for advanced, wages and salaries, other operating expenses, interest, taxes, dividends etc. The need to holding cash would not arise if there were optimum balance between cash receipts and cash payments. But cash receipts and payments are not completely balanced. For those periods, when cash payments exceed cash receipts, the bank should maintain some cash balance to be able to make the required payments. For transactions purpose, a bank may invest its cash in saleable securities. Usually, the bank will buy securities whose maturity corresponds with some expected payments. Become aware of that the transactions motive mainly refers to holding cash to meet expected payments whose timing is not completely matched with cash receipts.

Precautionary Motive

Contingencies have a habit of cropping up when least expected. The precautionary motive needs to hold cash to meet contingencies in future. It provides a buffer to withstand some unforeseen emergency. The precautionary amount of cash depends upon the predictability of cash flows. If cash flows can be predicted with exactness, low cash will be maintained for an urgent situation. The bank has to prepare to meet these contingencies to minimize its losses. For this purpose bank generally maintain some amount in form of cash.

Speculative Motive

Some firms also maintain cash balances in order to take advantages of opportunities that do not take place in the course of routine business activities. They hold cash for speculative purposes. The major motive to hold cash are the transactions and the precautionary motive. Cash planning is a technique to planning and Controlling the utilize of cash. It care for the financial condition of the bank by developing a premeditated cash statement through a forecast expected cash inflows and outflows for a particular period.

3.20 RECEIVABLE MANAGEMENT

The objective of receivable management is to promote business and profits until that point is reached where the earning that the bank gets from funding of receivables is less than the cost that the bank has to incur in order to fund these receivables . Hence, the purpose of receivables is directly connected with the bank' objective of making credit business. Accounts receivable constitute a important portion of the total current assets of the banking business. Receivables are asset accounts indicative of amounts owned to the bank as a outcome of sale of services in the normal course of banking business.

3.21 CAPITAL BUDGETING

Capital budgeting is the process of making investment decision in capital expenditure. It involves decision relating to capital outlays which are likely to produce benefits of over a period of above one year. It may thus be defined as the bank's formal procedure for the procurement and outlay of capital. The decision to acceptation or rejection a capital budgeting project depends upon a study of the cash flows generated by the project and its cost.

3.21.1 TECHNIQUES OF CAPITAL BUDGETING

Pay Back Period Method

The payback period represents the total time period in which the initial investment in the project is paid back. This method is appropriate for banks of rapid hi-tech and, political unsteadiness, market fluctuation and dearth of capital. The maximum acceptable payback period is specified by the bank management. if a single project is under consideration, the project is accepted only if payback period of the project is equal to or less than acceptable payback period is specified by the bank management. If more than one project are under consideration, the project with the shortest pay back period is accepted.

Average Rate of Return

In this method, the rate of return is calculated on the basis of average investment. For this purpose , the average investment and the related income are determined according to commonly accounting principles over the whole economic life of the project and then the average yield is calculated .

Discounted Pay Back Period

A serious limitation of Pay Back Period is that it ignores the time value of money In this methods. Under this method the present values of all cash inflows are computed at appropriate discount rate. The project which gives the shortest discounted payback period is accepted.

Net Present Value

This is the modern method of evaluating investment proposals. It takes the concept of time value of money. In this method Net Present Value is calculate. Net Present Value is difference of present value of the after-tax inflows and present value of the after tax outflows . In case the NPV is positive the project should be accepted and vice versa.

Profitability Index

It is another method to evaluate investment proposals. It also takes the concept of time value of money. In this method combination of present value of the after-tax inflows and present value of the after tax outflows, present value of the after-tax inflows put in numerator and present value of the after tax outflows put in denominator.

Internal Rate of Return

Internal rate of return is that rate at which the sum of present value of cash inflows equals to the sum of present value of cash outflows. In other words, it is the rate at which discounted cash inflows equals to the discounted cash outflow. It equates Net Present Value =0.

CHAPTER - IV
FACTOR ANALYSIS & INTERPRETATION

4.1 Statistical Analysis

4.2 Assessment of Reliability

4.3 Factor Analysis

4.4 Descriptive Statistics

CHAPTER - IV
FACTOR ANALYSIS & INTERPRETATION

Data collection was conducted through a questionnaire survey. With a view to fulfilling the objectives of the study, the primary data and the information were collected from 200 Bank Officers/Employees (Regional Rural Banks in M.P). The simple size is 200. We have targeted 500 officers/employees but respondent rate is around 40% i.e. 200. The research was carried out through the survey method with the help of self-developed, structured and disguised questionnaire. It consisted of 60 statements based on open ended and close ended questions including demographic traits, Yes/No or 5-point Likert type scale on which the respondents were asked to indicate the degree of agreement or disagreement.

A questionnaire is formed having five options on Likert scale (Strongly disagree -1, disagree - 2, neutral - 3, agree - 4, strongly agree - 5) the close - ended questionnaire help to get a clear idea about the respondent's opinion. Apart from this a number of questions which are based on the responses of YES/NO and also open ended to invite variables from the respondents.

4.1 STATISTICAL ANALYSIS

The data coded in excel using Ms-Office package. The coded data was then analysed using SPSS version 20.0. The data was analyzed using descriptive statistics. First all questions were subjected to frequency analysis and item total correlation to check whether the scale is measuring any variation or not.

Secondly, factor analysis was undertaken to condense the 25 scale items into the five convenience dimensions based on the second objective of the study that is *to identify and assess the factors effecting on Financial Management in Regional Rural Banks in Madhya Pradesh.* Thereafter, the reliability and validity of the scale were done using Cronbach's Co-efficient Alpha, Multiple Correlation analysis.

Once the reliability and validity of the scale and its dimensions was carried out, an attempt to segment respondents was tried using various statistical analyses viz, Multiple Regression, T-Test with demographic variables to identify any significant segment descriptors.

4.2 ASSESSMENT OF RELIABILITY

Reliability refers to extent to which a measurement instrument is able to yield consistent results each time it is applied under similar conditions. It is the constituent of a measurement device that causes it to yield similar outcome or results for similar inputs. Statistically, reliability is defined as the percentage of the inconsistency in the responses to the survey that is the result of differences in the respondents. This implies that responses to a reliable survey will vary because respondents have different opinions, not because the questionnaire items are confusing or ambiguous.Reliability could be estimated mathematically or through pre-testing of the instruments. In this study, since the questionnaire items were adopted from previous studies and literatures and but tailored to the Financial Factors context it was prudent to conduct a pilot test to refine the instrument. As a result, the questionnaire items were pilot tested to remove confusing words and to improve upon the clarity of the questions items to strengthen its reliability. Again, statistically, the Cronbach's alpha could also be used to assess the reliability of an instrument. A reliability values of 6.0 to 0.70 and above are considered by many researchers as acceptable. The composite reliability alpha for all items excluding the respondents' background data is 0.948 which is very good for statistical analysis.

Validity: The estimates of internal consistency, reliability for the factors and the total scale for the study were consistently high. The total scale estimates of internal consistency reliability for a linear combination ranged from 0.87 to 0.90. Factor analysis of the second phase data supported the dimensionality and expected item loading for both data sets.

TABLE 4.1
RELIABILITY & VALIDITY STATISTICS

Cronbach's Alpha	Cronbach's Alpha based on Standardized Items	No. of Items
.948	.982	60

Cronbach's alpha is .982 so it may be concluded that there is a high degree of internal consistency. Thus, the scale can be considered as a reliable scale.

4.3 FACTOR ANALYSIS

The exploratory factor analysis with principal components was conducted, after ascertaining above the data suitability to do so, to determine the factors affecting effectiveness of financial management in regional rural banks. This analysis includes preliminary tests to determine the appropriateness of factor analysis: Bartlett's test of Sphericity and the Kaiser-Meyer-Olkin measure of sampling adequacy (MSA). Bartlett's test of sphericity is a statistical test for the presence of correlations among variables. It provides the statistical probability that the correlation matrix has significant correlations among at least some of variables. Thus, a significant Bartlett's Test of Sphericity is required. The Kaiser-Meyer-Olkin measure of sampling adequacy index which can range from 0 to 1, indicates the degree to which each variable in a set is predicted without error by the other variables. If the MSA index reaches 1, each variable is perfectly predicted by the other variables without error by the other variables without error. A value of 0.50 or more from the Kaiser-Meyer-Olkin MSA test indicates that the data are adequate for exploratory factor analysis.

The Kaiser-Meyer-Olkin measure of sampling adequacy **(0.729)** and Bartlett's test of sphericity (0.000) indicate that the data were appropriate for factor analysis. Given these results, the exploratory factor analysis was conducted.

The exploratory factor analysis employed a principal component analysis with varimax rotation. Factors with Eigen values greater than 1.0 and rotated factor loadings of 0.50 or greater were retained. Despite the fact that, with a sample size 200, a factor loading of 0.50 can be considered significant in this research. Previous researches suggest that factor loadings of 0.50 or greater are practically significant. To ensure that each factor identified by the exploratory factor analysis would have only one dimension and that each attribute would load on only one factor, items with factor loadings less than 0.50 and any item loading on more than one factor with a loading score equal to or greater than 0.40 on each factor were eliminated from the analysis (Chen & Hsu, 2001; Kim, 2002). In addition, because the communality of a variable represents the amount of variance in the factor solution explained by that variable variables with communalities less than 0.40 were deleted for reasons of insufficient contribution to explaining the variance. Three factors were eliminated.

Factor analysis is a statistical approach that can be used to analyse interrelationships among a large number of variables and to explain these variables in terms of common underlying dimensions (factors). The objective is to find a way of condensing the information contained in a number of original variables into a smaller set of variables (factors) with a minimum loss of information. Once these dimensions and the explanation of each variable are determined, the two primary uses for factor analysis- summarization and data reduction can be achieved.

In summarizing the data, factor analysis derives underlying dimensions that, when interrupted and understood, describe the data in much smaller number of concepts than the original individual variables. Data reduction can be achieved by calculating scores for each underlying dimension and substituting them for the original variables.The data was collected from 200 respondents (Bank Officers & Employees). The factor analysis is being used to validate factors affecting financial management extracted from a focus group of participants. Considering that it is being used here more for validation rather than a classification perspective, thus limitation of a small sample size was ignored. The respondents were asked to group these attributes across the factors of financial management. This helped to fix the attributes under each function on the basis of the perspectives of the respondents.

The evaluation grid was further used to conduct a factor analysis using Principal Components Analysis with Varimax rotation to regroup these attributes which are the part of efficiency in Financial Management. This was done by using the highest loading as a determinant of the factor a variable belonged to. This helped in the extraction of the factors affecting financial management.

4.4 DESCRIPTIVE STATISTICS:

In the below table 4.2, the descriptive statistics, i.e., mean and standard deviation of all the 25 variables, which contributed towards effectiveness of Financial Management have been given. The mean file of all the items is resulting in a value of more than four, which indicates that all respondents are over all satisfied and are agreeing to the statements.

TABLE 4.2
DESCRIPTIVE STATISTICS (ITEM-WISE FACTORS AFFECTING FINANCIAL MANAGEMENT)

ITEMS	MEAN	STD. DEVIATION	N
1. Satisfaction with policies of repayment of loan	4.29	0.617	200
2. Efficiency in recovering the loan	4.15	0.875	200
3. Satisfaction with policies of recovery of loan	4.19	0.790	200
4. Simplification of the process of loan sanction	4.40	0.844	200
5. Process of loan distribution is satisfactory	4.02	0.729	200
6. Interference in sanctioning the loan from the perspective of the banks	4.00	0.799	200
7. Unwillingness in sanctioning the loan	4.00	0.851	200
8. Accuracy in maintaining the records	3.92	0.767	200
9. Facilities provided by NABARD	4.15	0.743	200
10. Operational efficiency	4.13	0.761	200
11. Timely loan distribution	4.25	0.786	200
12. Computerization	4.25	0.700	200
13. Impact of Merger	4.19	0.673	200
14. Standard Guidelines of RBI	4.21	0.743	200
15. Duration of Policies related to financial aspects	4.06	0.810	200
16. Improvements in execution of policies regarding financial performance	4.21	0.713	200
17. Liberal credit policy	4.04	0.743	200
18. Mortgage	4.33	0.630	200
19. Training & Development	4.02	0.758	200
20. Period of short term & long term loan	4.13	0.866	200
21. Limit (in amount) of short	4.40	0.707	200

	term & long term loan			
22.	Criteria of recovery of short term & long term loan	4.21	0.743	200
23.	Adequate Knowledge	4.06	0.697	200
24.	Efficiency in employees performance	4.08	0.710	200
25.	Overburdened due to shortage of employees	4.27	0.707	200

The Kaiser-Meyer-Olkin KMO value of factor analysis (Table 4.3 given below) is 0.729, which indicates that factor analysis is reliable to be done for the above 25 variables. And also the significance value is 0.000, which also relates the same.

TABLE 4.3
FACTOR ANALYSIS (KMO AND BARTLETT'S TEST)

Kaiser-Meyer-Olkin measure of sampling adequacy		**0.729**
Bartlett's Test of Sphericity	**Approx. Chi-Square**	**1056.308**
	Df	**200**
	Sig.	**0.000**

TABLE 4.4
RELIABILITY ITEM TOTAL STATISTICS

Items		Scale mean if item deleted	Scale variance if item deleted	Corrected item-total correlation	Cronbach's alpha if item deleted
1.	Satisfaction with policies of repayment of loan	99.65	148.702	0.559	0.947
2.	Efficiency in recovering the loan	99.79	142.764	0.668	0.945
3.	Satisfaction with policies of recovery of loan	99.75	141.936	0.794	0.944
4.	Simplification of the process of loan sanction	99.54	141.232	0.776	0.944
5.	Process of loan	99.92	145.312	0.664	0.945

	distribution is satisfactory				
6.	Interference in sanctioning the loan from the perspective of the banks	99.94	145.677	0.580	0.946
7.	Unwillingness in sanctioning the loan	99.94	144.443	0.604	0.946
8.	Accuracy in maintaining the records	100.02	145.936	0.592	0.946
9.	Facilities provided by NABARD	99.79	146.722	0.568	0.947
10.	Operational efficiency	99.81	146.453	0.568	0.947
11.	Timely loan distribution	99.69	143.922	0.688	0.945
12.	Computerization	99.69	145.241	0.698	0.945
13.	Impact of Merger	99.75	145.553	0.708	0.945
14.	Standard Guidelines of RBI	99.73	148.627	0.460	0.948
15.	Duration of Policies related to financial aspects	99.88	148. 112	0.443	0.948
16.	Improvements in execution of policies regarding financial performance	99.73	146.670	0.598	0.946
17.	Liberal credit policy	99.90	146.776	0.566	0.947
18.	Mortgage	99.60	146.712	0.681	0.945
19.	Training & Development	99.92	145.525	0.624	0.946
20.	Period of short term & long term loan	99.81	142.026	0.714	0.945
21.	Limit (in amount) of short term & long term loan	99.54	43.785	0.780	0.944
22.	Criteria of recovery of short term & long term loan	99.73	147.776	0.508	0.947
23.	Adequate Knowledge	99.88	147.133	0.585	0.946
24.	Efficiency in employees performance	99.85	146.893	0.588	0.946
25.	Overburdened due to shortage of employees	99.67	142.908	0.834	0.944

As the first step in examining the validity of each measure along with descriptive statistics of different parameters of RRBs performance, the exploratory factor analysis was employed using SPSS 20.0. All the items of all the measures were factor analysed together to test the convergent and discriminate validity of the measures. The items were subjected to principal analysis (with Varimax Rotation). The factor loading represented the correlation between the items with the construct. In component analysis, only the factor having Eigen values greater than 1 was considered significant. A minimum value of 0.50 was used to indicate the loading of any factor. The results of factor analysis are presented in **Table 4.5.**

TABLE 4.5

FACTOR ANALYSIS (TOTAL VARIANCE EXPLAINED)

Component	Initial Eigen Values		
	Total	% of variance	Cumu-lative
1. Satisfaction with policies of repayment of loan	11.407	45.628	45.628
2. Efficiency in recovering the loan	2.584	0.334	55.963
3. Satisfaction with policies of recovery of loan	1.704	6.815	62.778
4. Simplification of the process of loan sanction	1.590	6.362	69.139
5. Process of loan distribution is satisfactory	1.270	5.080	74.219
6. Interference in sanctioning the loan from the perspective of the banks	0.913	3.652	77.872
7. Unwillingness in sanctioning the loan	0.833	3.330	81.202
8. Accuracy in maintaining the records	0.703	2.813	84.015
9. Facilities provided by NABARD	0.676	2.704	86.719
10. Operational efficiency	0.586	2.342	89.061
11. Timely loan distribution	0.457	1.829	90.890
12. Computerization	0.430	1.772	92.611
13. Impact of Merger	0.332	1.329	93.940
14. Standard Guidelines of RBI	0.297	1.187	95.127

15. Duration of Policies related to financial aspects	0.231	0.922	96.050
16. Improvements in execution of policies regarding financial performance	0.226	.906	96.955
17. Liberal credit policy	0.161	0.643	97.599
18. Mortgage	0.135	0.541	98.139
19. Training & Development	0.111	0.445	98.584
20. Period of short term & long term loan	0.105	0.419	99.003
21. Limit (in amount) of short term & long term loan	0.091	0.364	99.367
22. Criteria of recovery of short term & long term loan	0.068	0.272	99.638
23. Adequate Knowledge	0.045	0.178	99.817
24. Efficiency in employees performance	0.028	0.14	99.930
25. Overburdened due to shortage of employees	0.017	0.070	100.000

TABLE 4.6
ROTATION SUM OF SQUARED LOADINGS

Component	Extraction sum of squared loadings			Rotation sum of squared loadings		
	Total	% of variance	Cumulative	Total	% of variance	Cumulative
VR001	11.407	45.628	45.628	5.288	21.153	21.53
VR002	2.584	10.334	55.963	4.290	17.162	38.315
VR003	1.704	6.815	62.778	4.140	16.559	54.873
VR004	1.590	6.632	69.139	2.420	9.681	64.555
VR005	1.270	5.080	74.29	2.46	9.665	74.219

The factor analysis was done for all the 25 variables. All these variables have reduced to five different factors, which explained around 74.219% of the total variance. The first factor with their loading pattern indicates that a general factor is running through out all the items explaining about 21.153% of the variance. The second factor explains about 38.315%, third factor explains 54.873%, the fourth factor explains 64.555% and the fifth factor explains 74.219%. The entire five factors explain about 74.219% of the total variance.

Kaiser (1974) recommends accepting values greater than 0.5 as acceptable (values below this should lead to either collect more data or rethink which variable to include).

Furthermore, values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, and values between 0.8 and 0.9 are an excellent. For these data, the value is 0.729, which falls into range being great. So, we should be confident that factor analysis is appropriate for this study.

SPSS has identified 5 linear components within the data set. The Eigen values associated with each factor represent the variance explained by that particular linear component and SPSS also displays the Eigen value in terms of the percentage of variance explained in Table 4.5 and Table 4.6.

All the 25 variables are reduced to five factors where the factors have been derived through Varimax method and through principal component analysis where the Eigen value is greater than 1. The loading of the variables to the factor are marked in bold letter in Table No. 4.7 and Table 4.8 of rotated component matrix.

TABLE 4.7
FACTOR ANALYSIS (ROTATED COMPONENT MATRIX)

Items	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
1. Satisfaction with policies of repayment of loan	0.068	**0.773**	0.280	0.078	0.001
2. Efficiency in recovering the loan	0.282	**0.674**	0.173	0.224	0.173
3. Satisfaction with policies of recovery of loan	**0.594**	0.392	0.392	0.123	0.216
4. Simplification of the process of loan sanction	**0.570**	0.294	0.561	-0.023	0.211
5. Process of loan distribution is satisfactory	0.018	0.394	**0.816**	0.211	0.047
6. Interference in sanctioning the loan from the perspective of the banks	-0.105	0.542	**0.546**	0.317	0.085
7. Unwillingness in sanctioning the loan	0.071	**0.680**	0.144	0.401	0.184

Items	Factor 1	**Factor 2**	Factor 3	Factor 4	Factor 5
8. Accuracy in maintaining the records	0.087	**0.770**	0.190	0-185	0.125
9. Facilities provided by NABARD	0.370	**0.686**	0.062	-0.189	0.287
10. Operational efficiency	**0.718**	0.307	0.116	-0.007	-0.013
11. Timely loan distribution	**0.715**	0.208	0.425	0.127	-0.087
12. Computerization	0.434	0.086	**0.676**	0.416	-0.067
13. Impact of Merger	0.236	0.389	**0.497**	0.137	0.406
14. Standard Guidelines of RBI	0.098	0.212	0.064	0.233	**0.773**
15. Duration of Policies related to financial aspects	0.063	0.092	0.236	0.090	**0.841**
16. Improvements in execution of policies regarding financial performance	0.196	0.234	0.200	**0.795**	0.202
17. Liberal credit policy	0.303	0.271	0.012	**0.743**	0.210
18. Mortgage	**0.470**	0.468	0.323	0.399	-0.234
19. Training & Development	0.362	0.108	**0.730**	-0.145	0.274
20. Period of short term & long term loan	0.239	0.262	**0.675**	0.015	0.457
21. Limit (in amount) of short term & long term loan	0.426	0.178	**0.498**	0.368	0.397
22. Criteria of recovery of short term & long term loan	**0.762**	-0.058	0.031	0.262	0.197
23. Adequate Knowledge	**0.797**	-0.061	0.105	0.319	0.203
24. Efficiency in employees performance	**0.875**	0.114	0.095	0.055	0.058
25. Overburdened due to shortage of employees	**0.617**	0.444	0.424	0.170	0.096
Extraction method: principal Component Analysis. Rotation method: Varimax with Kaiser Normalisation					

TABLE 4.8
FACTOR ANALYSIS (LOADINGS WITH VARIABLES)

Factors	Variance explained	Variables	Loadings	Eigen Values
Factor 1 (Recovery of Loan)	**21.153**	**36.**Satisfaction with policies of repayment of loan **37.**Efficiency in recovering the loan **38.**Satisfaction with policies of recovery of loan	**0.694** **0.570** **0.718**	**11.407**
Factor 2 (Loan Sanction) and Disbursement	**17.162**	**39.** Simplification of the process of loan sanction **40.**Process of loan distribution is satisfactory **41.** Interference in sanctioning the loan from the perspective of the banks **25.** Unwillingness in sanctioning the loan	**0.715** **0.770** **0.762** **0.797**	**2.584**
Factor 3 (Operational Efficiency)	**16.599**	**9.** Accuracy in maintaining the records **50.**Facilities provided by NABARD **51.**Operational efficiency **17.**Timely loan distribution **14.**Computerization **53.**Impact of	**0.875** **0.617** **0.773** **0.674** **0.680** **0.770** **0.686** **0.816** **0.546**	**1.704**

		Merger **33.**Standard Guidelines of RBI **47.**Duration of Policies related to financial aspects **48.**Improvements in execution of policies regarding financial performance		
Factor 4 (Liberal Credit Policy)	**9.681**	**45.**Financial Management of owned Liberal credit policy **30.**Mortgage **18.** Period of short term & long term loan **19.**Limit (in amount) of short term & long term loan **20.**Criteria of recovery of short term & long term loan	**0.795** **0.743** **0.676** **0.730** **0.675**	**1.590**
Factor 5 (Employees Knowledge)	**9.665**	**13.**Training & Development **34.**Adequate Knowledge **12.**Efficiency in employees performance **55.**Overburdened due to shortage of employees	**0.773** **0.841** **0.698** **0.795**	**1.270**

Regression Analysis

The concepts and principles developed in dealing with sample linear regression (i.e., one explanatory variable) may be extended to deal with several explanatory variables.

Multiple Regression Equation:

$$Y=C+\beta x_1+ \beta x_2+ \beta x_3+ \beta x_4+ \beta x_5+\text{--------}+\beta x_n$$

Where Y is prediction relationship of types of variables towards financial management.

C is constant value

β is unstandardized coefficient

x is dimension of independent variable.

Regression models are used to predict a variable from one or more than one variables. The regression analysis is used in the study to predict the extent of dependence of various factors, as its explanatory variable. This was tested by using the first result of the regression analysis, i.e., analysis of variance (ANOVA; F-Test). Further, R square value of the regression analysis has been made to show the extent to which the explanatory variables explain the dependent factor.

The second result of the regression analysis, i.e., t-test along with significant value (P-value), indicates the most significant explanatory variable that influences the explained/dependent factor. Along with the t-test, the multi-colliniearity test is also used to measure the collinearity among the explanatory variables.

TABLE 4.9
MODEL SUMMARY OF FACTORFFECTING FINANCIAL MANAGEMENT (ANOVA)

Items	Sum of Squares	Df	Mean Square	F	Sig.
Regression	210.562	4	52.640	1349.743	0.000
Residual	10.385	194	0.0390		
Total	220.946	200			
R Square	0.953	Adjusted R Square	0.952	Std. Error of the Estimate	0.253

The ANOVA (F-Test) indicates that the scale/factor was quite significant in M.P region. All the explanatory variables, i.e., five factors for studying factors affecting financial management are quite significant. The R square value of the above model is 0.953, which means the dependent variable (Financial Management) is influenced by all this five explanatory variables by 95.3%, which is a good indicator for establishing a well set effectiveness of factors. Further, it is seen that for the table that the significant value (p-value) of F-test are 0.000, which means that all five explanatory variables are highly significant with respect to the explained factor i.e., that is Factors affecting financial management.

TABLE 4.10
FACTORS AFFECTING FINANCIAL MANAGEMENT (MULTIPLE REGRESSION COEFFICIENT ANALYSIS) COEFFICIENTS[A]

Parameters	Unstandarized coefficients		Standarized coefficients	T	Sig.	Tolerance Statistics	
	B	Std. error	Beta			Tolerance	VIF (Variance Inflation Factor)
Constant	0.075	0.060		1.250	0.213		
Factor 1	0.273	0.020	0.313	13.806	0.000*	0.561	1.782
Factor 2	0.241	0.022	0.272	11.039	0.000*	0.474	2.111
Factor 3	0.268	0.025	0.274	10.817	0.000*	0.449	2.229
Factor 4	0.240	0.019	0.305	12.447	0.000*	0.479	2.089
Factor 5	0.243	0.021	0.315	11.138	0.000*	0.481	2.185

- ***Significant at 1% level***

The above table determines satisfactory result as the significance level of the model is not over or smaller than 0.05. Thus, model used in this research is good. The multiple regression coefficient analysis has been represented in Table 4.10.

It is concluded that if tolerance is less than 0.20 or 0.10/a Variance Inflation Factor (VIF) is 5 or 10 above it indicates a multicollinearity problem. But in this case, as shown in the table--, the value of tolerance of all items is more than 0.20 and the value of VIF of all items are less than 5. This suggests that no multicollinearity exists among the explanatory variables, which explain the explained factor, i.e., Factors affect Financial Management.

Based on the multiple regression output tables of 'factors affecting financial management' and its constituent variables, the following equation can drive:

M (Y)=0.075+0.273 (F1)+0.274 (F2)+0.268 (F3)+0.240 (F4)+0.243 (F5)

This can be interpreted that the increase of 1 unit of delivery of Factor 1 (Recovery of Loan), may incur the raise of 0.273 units in Financial Management (FM) (Y). However, for the independent variable of Factor 2 (Loan Sanction & Disbursement), every 1 unit of increase will incur the raise of 0.241 units' dependent variable, (FM). On the other hand, 1 unit increase in Factor 3 (Liberal Credit Policy) may incur the raise of 0.268 units of FM. Similarly, 1 unit increase in Factor 4 (Operational Efficiency) may cause 0.240 units of FM. Finally, Factor 5 (Employees Knowledge) also has a constant relation with FM. It is every 1 unit increase in F5 (Employees Knowledge) incurs the raise of 0.243 units in FM.

The highest Beta indicates that independent variable is the most significant contributing variable towards the dependent variable i.e. Financial Management. From the above table, the coefficient of independent variable (F1) i.e. Recovery of Loan is the highest (0.273) which means that independent variable of Factor 1, Recovery of Loan is the most and has stronger factor affecting financial management to other independent variables. Further, it is seen form the table that the significant value (p-value) of t-test for all items are 0.000, which means that all the five reduced factor through factor analysis are highly significant with respect to the explained factor, i.e., 'Factors affecting financial management '.

A Rotation converged in 5 iterations.

Interpretation of factors is facilitated by identifying the statements that have large loading in the same factor. The factor can be interpreted in terms of the statement that loads high on it. The factors such as recovery of loan, loan sanction & disbursement, liberal credit policy, operational efficiency and employees knowledge are affected financial management comprise of 25 individual statements. Out of 25 factors, 5 individual factors are the result of financial management. These Factors are: Recovery of Loan, Loan Sanction & Disbursement, Liberal Credit Policy, Operational Efficiency & Employees Knowledge

CHAPTER - V
DATA ANALYSIS & INTERPRETATION

5.1 Relationship between Regional Rural Banks' Performance & Capital Adequacy

5.2 Narmada Jhabua Gramin Bank Sponsored By Bank Of India

5.3 Madhyanchal Gramin Bank Sponsored By Sbi

5.4 Central Madhya Pradesh Gramin Bank

5.5 Recovery Performance (Narmada Jhabua Gramin Bank)

5.6 Balance between Inflow & Outflow N Regional Rural Banks

5.7 Correlation & Regression between Loan Disbursement & Net Profit.

CHAPTER - V
DATA ANALYSIS & INTERPRETATION

5.1 RELATIONSHIP BETWEEN REGIONSL RURAL BANKS' PERFORMANCE & CAPITAL ADEQUACY

This section has dealt with the performance of regional rural banks' performance and the growth of capital adequacy. The following parameters have been taken as independent variables for measuring the regional rural banks' performance: Loan Disbursement, Deposits, Recovery, profitability, Growth and on the other hand capital adequacy has been taken as dependent variable.

Firstly, all the three banks' (Central Madhya Pradesh Gramin Bank, Madhyanchal Gramin Bank and Narmada Jhabua Gramin Bank) data have been analyzed separately and then combined to have an effect of relationship between these two variables.

5.2 NARMADA JHABUA GRAMIN BANK SPONSORED BY BANK OF INDIA

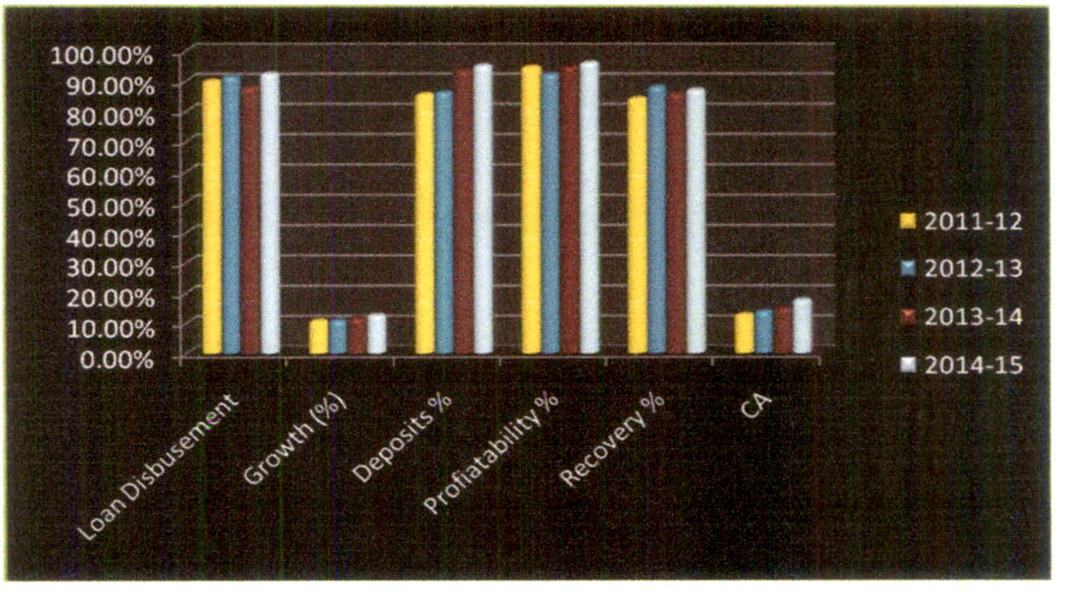
TABLE 5.1
NARMADA JHABUA GRAMIN BANK & CAPITAL ADEQUACY
Data as on (From 1st April 2011 to 31st March 2015)

Year	2011-12	2012-13	2013-14	2014-15
Loan Disbursement	90.00%	91.46%	88.07%	92.40%
Growth (%)	10.67%	10.84%	11.56%	12.56%
Deposits %	85.5%	86.3%	93.48%	95.09%
Profitability %	94.61%	92.34%	94.74%	96.08%
Recovery %	84.15%	88.07%	85.69%	87.03%
CA	12.68%	13.91%	15.03%	17.65%

Source : NJGB, Annual Report 2011-12 to 2014-15

From the given above table, it is evident that in all the parameters of performance in % is increasing year wise except in the case of loan disbursement in 2013-14 there was slightly decrease from 91.46% in 2012-13 to 88.07% in 2013-14. In the same way with the case of profitability and recovery there was changes in percentage in 2012-13 and 2013-14 respectively. In the capital adequacy, it is clear from the data that in 2011-12 there was 12.68% and in 2014-15 it goes to 17.65%. It means that increased changes are reflected in these four years analysis and it is concluded that banks' performance is satisfactory.

CHART 5.1
NARMADA JHABUA GRAMIN BANK & CAPITAL ADEQUACY



The above figure on bar chart reflects the data on the given parameters of banks' performance and the other variable capital adequacy.

H_{01}: There is no significant relationship between Regional Rural Bank's Performance (Narmada Jhabua Gramin Bank) and Capital Adequacy.

H_{11}: There is a significant relationship between Regional Rural Bank's Performance (Narmada Jhabua Gramin Bank) and Capital Adequacy.

TABLE 5.2
DESCRIPTIVE STATISTICS ON NARMADA JHABUA GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

	Mean	Std. Deviation	N
Capital Adequacy	14.8175	2.11823	4
Banks' Performance	334.0050	51.37390	4

TABLE 5.3
CORRELATIONS ON NARMADA JHABUA GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

		Capital Adequacy	Banks' Performance
Pearson Correlation	Capital Adequacy	1.000	.872
	Banks' Performance	.872	1.000
Sig. (1-tailed)	Capital Adequacy	.	.004
	Banks' Performance	.004	.
N	Capital Adequacy	4	4
	Banks' Performance	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between Narmada Jhabua Gramin Banks' Performance and Capital Adequacy is 0.872 which is significant since the significant value (p- value) 0.004 is less than 0.05. Therefore, it is concluded that there is significant association between Narmada Jhabua Gramin Banks' Performance and Capital Adequacy. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, so a regression analysis Model to examine the relationship between these two variables.

TABLE 5.4

MODEL SUMMARY[B] ON NARMADA JHABUA GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.872[a]	.761	.641	1.26918	.761	6.356	1	2	.001

a. Predictors: (Constant), Banks' Performance
b. Dependent Variable: Capital Adequacy

TABLE 5.5

ANOVA[A] ON NARMADA JHABUA GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10.239	1	10.239	6.356	.001[b]
	Residual	3.222	2	1.611		
	Total	13.461	3			

a. Dependent Variable: Capital Adequacy
b. Predictors: (Constant), Banks' Performance

TABLE 5.6
COEFFICIENTS[A] ON NARMADA JHABUA GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	2.806	4.806		.584	.004	-17.872	23.485
	Banks' Performance	.036	.014	.872	2.521	.001	-.025	.097

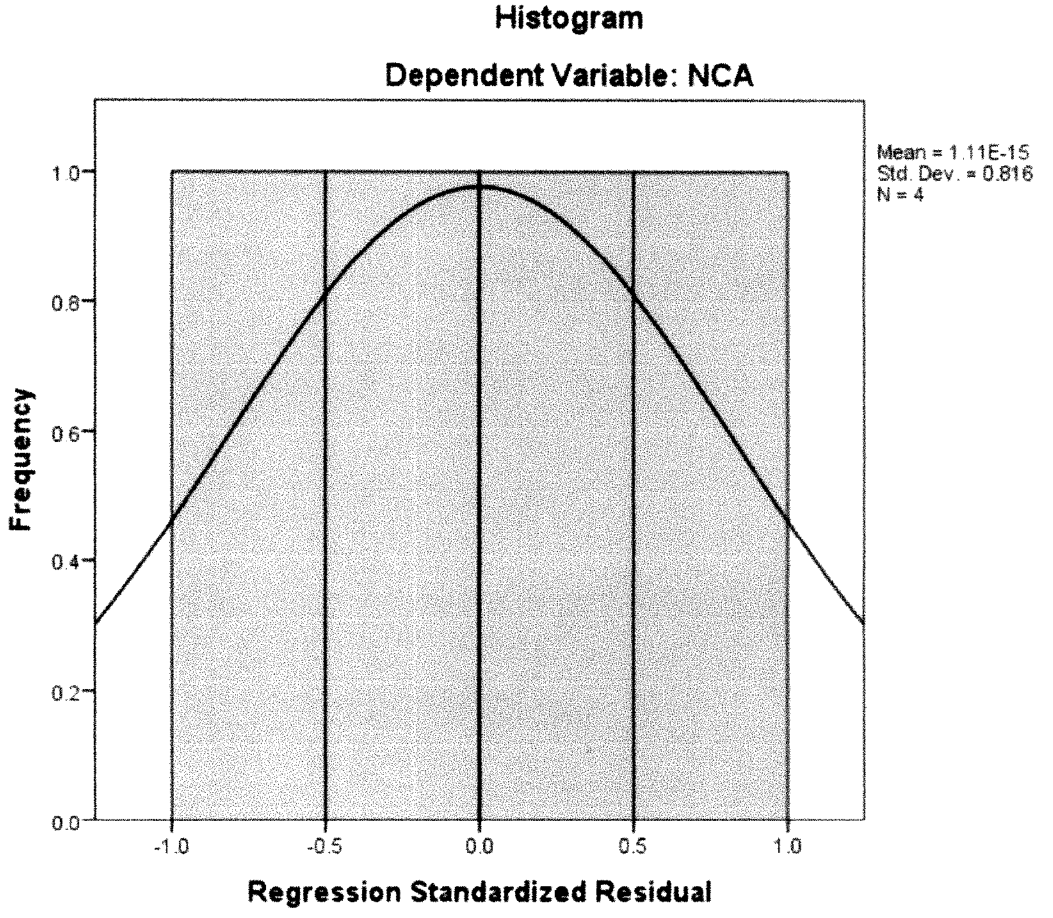
a. Dependent Variable: Capital Adequacy

TABLE 5.7
RESIDUALS STATISTICS[A] ON NARMADA JHABUA GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	13.1624	16.5851	14.8175	1.84743	4
Std. Predicted Value	-.896	.957	.000	1.000	4
Standard Error of Predicted Value	.849	.946	.897	.042	4
Adjusted Predicted Value	12.7049	17.2182	14.7148	1.97238	4
Residual	-1.20920	1.06486	.00000	1.03628	4
Std. Residual	-.953	.839	.000	.816	4
Stud. Residual	-1.282	1.258	.028	1.153	4
Deleted Residual	-2.18822	2.39381	.10269	2.07593	4
Stud. Deleted Residual	-2.144	1.947	-.016	1.719	4
Mahal. Distance	.592	.915	.750	.140	4
Cook's Distance	.161	.987	.507	.392	4
Centered Leverage Value	.197	.305	.250	.047	4

a. Dependent Variable: Capital Adequacy

FIGURE 5.2
HISTOGRAM ON NARMADA JHABUA GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY



Over all model summary shows the value of linear correlation coefficient R=0.872, it is the linear correlation coefficient between observed and model predicted values of the dependent variable. Its large value indicates a strong relationship. $R^{2,}$ the coefficient of determination is the squared value of the multiple correlation coefficient. Adjusted R^2=0.761, R^2 change is also 0.641 and these values are significant which shows that overall strength of association is noteworthy. The coefficient of determination R^2 is 0.641; therefore, 64.1% of the variation in Capital Adequacy is explained by banks' growth, recovery, profitability, loan disbursement rate and deposits. ANOVA is used to exhibit model's ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that

the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, Narmada Jhabua Banks' Performance is useful as predictor of Capital Adequacy.
From the table of coefficients, the regression equation can be obtained as

Capital Adequacy= 2.806 + .036*Narmada Jhabua Banks Performance

The normal probability plot is obtained to test the assumption about the normality of residuals and it appears that the residuals are approximately normally distributed. Thus the assumptions for regression analysis appear to be met.

5.3 MADHYANCHAL GRAMIN BANK SPONSORED BY SBI

TABLE 5.8
MADHYANCHAL GRAMIN BANK & CAPITAL ADEQUACY

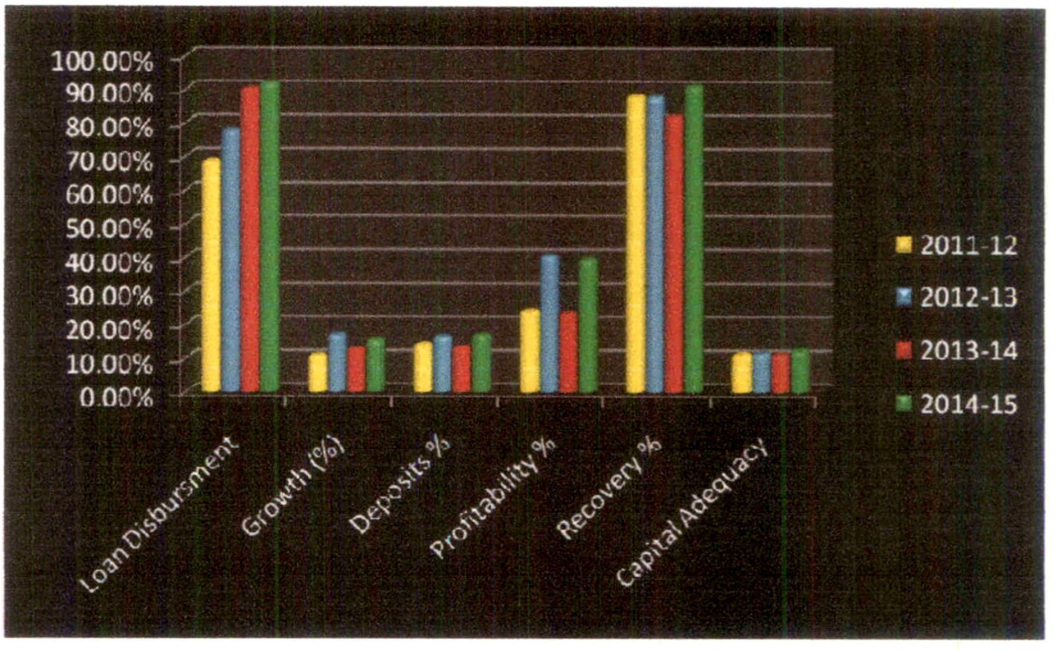
Data as on (From 1st April 2011 to 31st March 2015)

Year	2011-12	2012-13	2013-14	2014-15
Loan Disbursement	68.60%	78.00%	90.17%	92.01%
Growth (%)	10.86%	17.23%	12.86%	15.43%
Deposits %	14.13%	16.56%	13.36%	12.09%
Profitability %	23.89%	40.43%	23.40%	39.36%
Recovery %	88%	88%	82%	79%
Capital Adequacy	11.16%	11.53%	11.18%	9.57%

Source : MGB, Annual Report 2011-12 to 2014-15

From the given above table, it is evident that in all the parameters of Madhyanchal Banks' performance, in % is increasing year wise except in the case of growth in 2013-14 there was decrease from 17.23% in 2012-13 to 12.86% in 2013-14. In the same way with the case of profitability and recovery there was changes in percentage in 2013-14. In the capital adequacy, it is clear from the data that in 1011-12 there was 12.68% and in 2014-15 it goes to 17.65% but in 2013-14, it was declined from 11.53% to 11.18%. But overall it is concluded that changes in increasing the performance during these four years analysis is satisfactory.

CHART 5.3
ON MADHYANCHAL GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY



The above figure on bar chart reflects the data on the given parameters of Madhyanchal banks' performance and the other variable capital adequacy.

H_{02}: There is no significant relationship between Regional Rural Bank's Performance (Madhyanchal Gramin Bank) and Capital Adequacy.

H_{12}: There is a significant relationship between Regional Rural Bank's Performance (Madhyanchal Gramin Bank) and Capital Adequacy.

TABLE 5.9
DESCRIPTIVE STATISTICS ON MADHYANCHAL GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

	Mean	Std. Deviation	N
Capital Adequacy	11.5800	.60437	4
Banks' Performance	230.6525	21.61177	4

TABLE 5.10
CORRELATIONS ON MADHYANCHAL GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

		Capital Adequacy	Banks' Performance
Pearson Correlation	Capital Adequacy	1.000	.890
	Banks' Performance	.890	1.000
Sig. (1-tailed)	Capital Adequacy	.	.000
	Banks' Performance	.000	.
N	Capital Adequacy	4	4
	Banks' Performance	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between Madhyanchal Gramin Banks' Performance and Capital Adequacy is 0.890 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between Madhyanchal Gramin Banks' Performance and Capital Adequacy. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis Model to determine the relationship between the variables.

TABLE 5.11
MODEL SUMMARY[B] ON MADHYANCHAL GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.890[a]	.793	.689	.33696	.793	7.651	1	2	.001

a. Predictors: (Constant), Banks' Performance
b. Dependent Variable: Capital Adequacy

TABLE 5.12
ANOVA[A] ON MADHYANCHAL GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.869	1	.869	7.651	.001[b]
	Residual	.227	2	.114		
	Total	1.096	3			

a. Dependent Variable: Capital Adequacy
b. Predictors: (Constant), Banks' Performance

TABLE 5.13
COEFFICIENTS[A] ON MADHYANCHAL GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	5.837	2.083		2.802	.107	-3.126	14.800
	Banks' Performance	.025	.009	.890	2.766	.110	-.014	.064

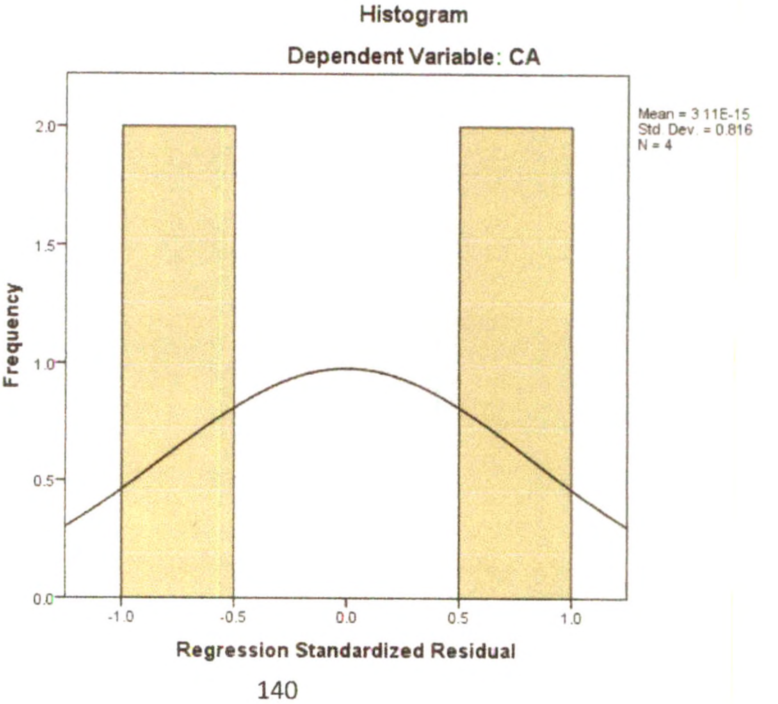
a. Dependent Variable: Capital Adequacy

TABLE 5.14
RESIDUALS STATISTICS[A] ON MADHYANCHAL GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	10.9532	12.1882	11.5800	.53812	4
Std. Predicted Value	-1.165	1.130	.000	1.000	4
Standard Error of Predicted Value	.186	.282	.234	.053	4
Adjusted Predicted Value	10.4656	11.9528	11.3748	.64196	4
Residual	-.28922	.26177	.00000	.27513	4
Std. Residual	-.858	.777	.000	.816	4
Stud. Residual	-1.038	1.364	.203	1.217	4
Deleted Residual	-.42276	.80757	.20520	.63546	4
Stud. Deleted Residual	-1.080	3.671	.849	2.140	4
Mahal. Distance	.168	1.357	.750	.656	4
Cook's Distance	.090	1.941	.943	.914	4
Centered Leverage Value	.056	.452	.250	.219	4

a. Dependent Variable: Capital Adequacy

CHART 5.4
MADHYANCHAL GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY



Over all model summary shows the value of linear correlation coefficient R=0.890, it is the linear correlation coefficient between observed and model predicted values of the dependent variable. Its large value indicates a strong relationship. R^2, the coefficient of determination is the squared value of the multiple correlation coefficient. Adjusted R^2=0.793, R^2 change is also 0.689 and these values are significant which shows that overall strength of association is noteworthy. The coefficient of determination R^2 is 0.689; therefore, 68.9% of the variation in Capital Adequacy is explained by banks' growth, recovery, profitability, loan disbursement rate and deposits. ANOVA is used to exhibit model's ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, Madhyanchal Gramin Banks' Performance is useful as predictor of Capital Adequacy.

From the table of coefficients, the regression equation can be obtained as

Capital Adequacy=5.837+.025*Madhyanchal Gramin Banks' Performance

The normal probability plot is obtained to test the assumption about the normality of residuals and it appears that the residuals are approximately normally distributed. Thus the assumptions for regression analysis appear to be met.

5.4 CENTRAL MADHYA PRADESH GRAMIN BANK

Table 5.15

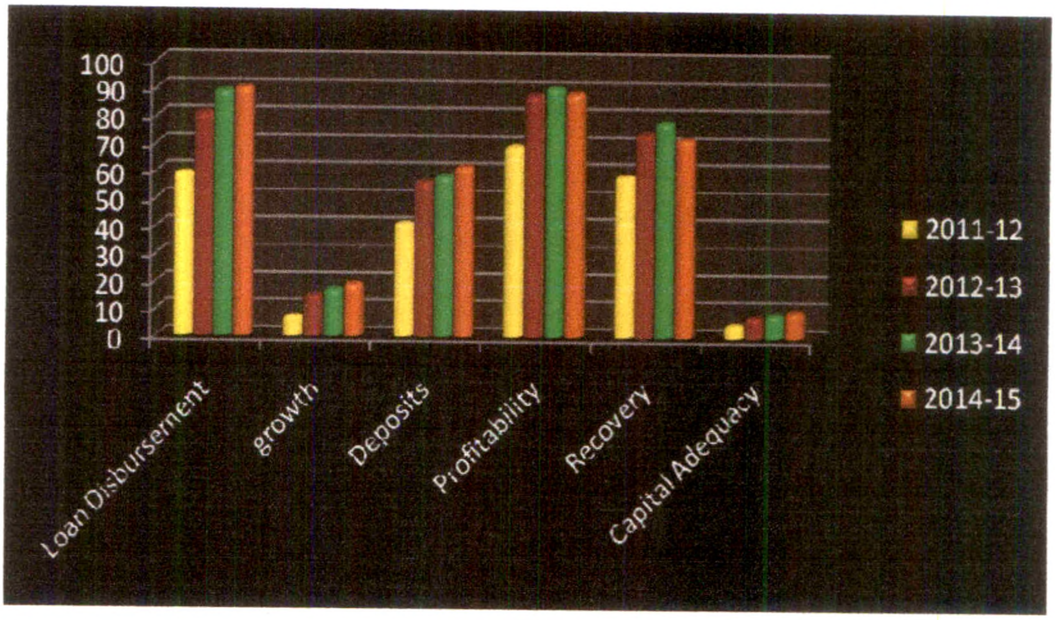
CENTRAL MADHYA PRADESH GRAMIN BANK & CAPITAL ADEQUACY

Data as on (From 1st April 2011 to 31st March 2015)

Year	2011-12	2012-13	2013-14	2014-15
Loan Disbursement	59.12	81.16	89.24	90.31
Growth	7.08	15.16	17.27	18.9
Deposits	41.01	56.16	58.2	61.71
Profitability	69.1	88.04	90.67	88.68
Recovery	58.26	74.21	78.29	72.18
Capital Adequacy	4.62	7.73	8.72	9.58

Source : CMPGB, Annual Report 2011-12 to 2014-15

CHART 5.5
CENTRAL MADHYA PRADESH GRAMIN BANK



From the given above table it is evident that in all the parameters of Central M.P Banks' performance, in % is increasing year wise in all the parameters such as; loan disbursement, growth, deposits, profitability, recovery and capital adequacy. In the loan disbursement, it has been reflected that the percentage is 59.12 in 2011-12 and goes to 90.31 in 2014-15, in the variable of growth, it is clear that the percentage is 7.08 in 2011-12 and it goes to 18.5 in 2014-15, in deposits the percentage is 41.01 in 2011-12 and it goes to 61.71 in 2014-15, in the case of profitability the percentage is 69.1 and again it goes to 88.68% and in the recovery the percentage is 58.26 and it goes to 72.18% in 2014-15. On the other hand the dependent variable of capital adequacy, it is clear from the data that in 2011-12 there was 4.62% and in 2014-15 it goes to 9.58% . Overall it is concluded that changes in increasing the performance during these four years analysis is highly satisfactory.

H_{03}: There is no significant relationship between Regional Rural Bank's Performance (Central Madhya Pradesh Gramin Bank) and Capital Adequacy.

H_{13}: There is a significant relationship between Regional Rural Bank's Performance (Central Madhya Pradesh Gramin Bank) and Capital Adequacy.

TABLE 5.16
DESCRIPTIVE STATISTICS ON CENTRAL M.P GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

	Mean	Std. Deviation	N
Capital Adequacy	7.6625	2.16460	4
Banks' Performance	303.6875	46.85902	4

TABLE 5.17
CORRELATIONS ON CENTRAL M.P GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

		Capital Adequacy	Banks' Performance
Pearson Correlation	Capital Adequacy	1.000	.975
	Banks' Performance	.975	1.000
Sig. (1-tailed)	Capital Adequacy	.	.000
	Banks' Performance	.000	.
N	Capital Adequacy	4	4
	Banks' Performance	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between Central M.P Gramin Banks' Performance and Capital Adequacy is 0.975 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between Central M.P Gramin Banks' Performance and Capital Adequacy. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

TABLE 5.18

MODEL SUMMARY[B] ON CENTRAL M.P GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.975[a]	.950	.925	.59200	.950	38.108	1	2	.000

a. Predictors: (Constant), Banks' Performance

b. Dependent Variable: Capital Adequacy

TABLE 5.19

ANOVA[A] ON CENTRAL M.P GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.356	1	13.356	38.108	.000[b]
	Residual	.701	2	.350		
	Total	14.056	3			

a. Dependent Variable: Capital Adequacy

b. Predictors: (Constant), Banks' Performance

TABLE 5.20

COEFFICIENTS[A] ON CENTRAL M.P GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-6.012	2.235		-2.690	.001	-15.627	3.604
	Banks' Performance	.045	.007	.975	6.173	.000	.014	.076

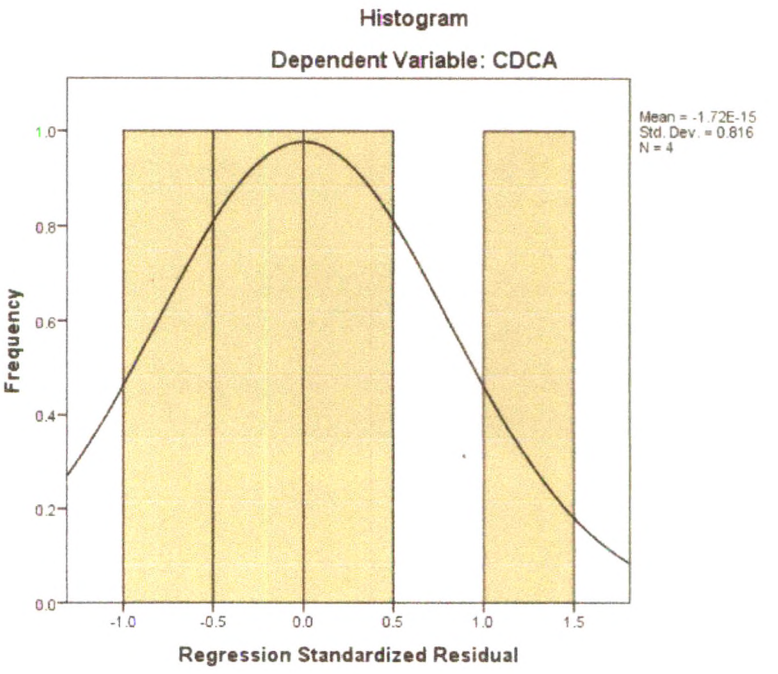
a. Dependent Variable: Capital Adequacy

TABLE 5.21
RESIDUALS STATISTICSA ON CENTRAL M.P GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	4.5503	9.0125	7.6625	2.10994	4
Std. Predicted Value	-1.475	.640	.000	1.000	4
Standard Error of Predicted Value	.307	.585	.405	.123	4
Adjusted Predicted Value	1.8083	9.1968	6.9668	3.45913	4
Residual	-.42972	.65257	.00000	.48337	4
Std. Residual	-.726	1.102	.000	.816	4
Stud. Residual	-.849	1.389	.164	1.080	4
Deleted Residual	-.58745	2.81173	.69574	1.59314	4
Stud. Deleted Residual	-.750	5.179	1.138	2.759	4
Mahal. Distance	.056	2.176	.750	.963	4
Cook's Distance	.125	11.000	2.956	5.367	4
Centered Leverage Value	.019	.725	.250	.321	4

(A) Dependent Variable: Capital Adequacy

CHART 5.6
CENTRAL M.P GRAMIN BANKS' PERFORMANCE AND CAPITAL ADEQUACY



Over all model summary shows the value of linear correlation coefficient R=0.975, it is the linear correlation coefficient between observed and model predicted values of the dependent variable, Its large value indicates a strong relationship. R^2, the coefficient of determination is the squared value of the multiple correlation coefficient. Adjusted R^2=0.950, R^2 change is also 0.925 and these values are significant which shows that overall strength of association is noteworthy.

The coefficient of determination R^2 is 0.925; therefore, 92.5% of the variation in Capital Adequacy is explained by banks' growth, recovery, profitability, loan disbursement rate and deposits. ANOVA is used to exhibit model's ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, Central M.P Gramin Banks' Performance is useful as predictor of Capital Adequacy.

From the table of coefficients, the regression equation can be obtained as

Capital Adequacy= 6.012 +.045* Central M.P Gramin Banks' Performance

The normal probability plot is obtained to test the assumption about the normality of residuals and it appears that the residuals are approximately normally distributed. Thus the assumptions for regression analysis appear to be met.

H_{04}: There is no significant relationship between Regional Rural Bank's Performance and Capital Adequacy.
H_{14}: There is a significant relationship between Regional Rural Bank's Performance and Capital Adequacy.

TABLE 5.22
DESCRIPTIVE STATISTICS ON REGIONAL RURAL BANKS' PERFORMANCE AND CAPITAL ADEQUACY

	Mean	Std. Deviation	N
Capital Adequacy	37.2975	6.22607	4
R R Banks' Performance	723.9275	92.15462	4

TABLE 5.23
CORRELATIONS ON REGIONAL RURAL BANK'S PERFORMANCE AND CAPITAL ADEQUACY

		Capital Adequacy	Banks' Performance
Pearson Correlation	Capital Adequacy	1.000	.932
	Banks' Performance	.932	1.000
Sig. (1-tailed)	Capital Adequacy	.	.003
	Banks' Performance	.003	.
N	Capital Adequacy	4	4
	Banks' Performance	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between RRBs' Performance and Capital Adequacy is 0.932 which is significant since the significant value (p- value) 0.003 is less than 0.05. Therefore, we may conclude that there is significant association between RRBs' Performance and Capital Adequacy. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

TABLE 5.24
MODEL SUMMARY[B] ON REGIONAL RURAL BANK'S PERFORMANCE AND CAPITAL ADEQUACY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.932[a]	.868	.802	2.76797	.868	13.178	1	2	.003

a. Predictors: (Constant), Banks' Performance

b. Dependent Variable: Capital Adequacy

TABLE 5.25
ANOVA[A] ON REGIONAL RURAL BANKS' PERFORMANCE AND CAPITAL ADEQUACY

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	100.968	1	100.968	13.178	.068[b]
	Residual	15.323	2	7.662		
	Total	116.292	3			

a. Dependent Variable: Capital Adequacy

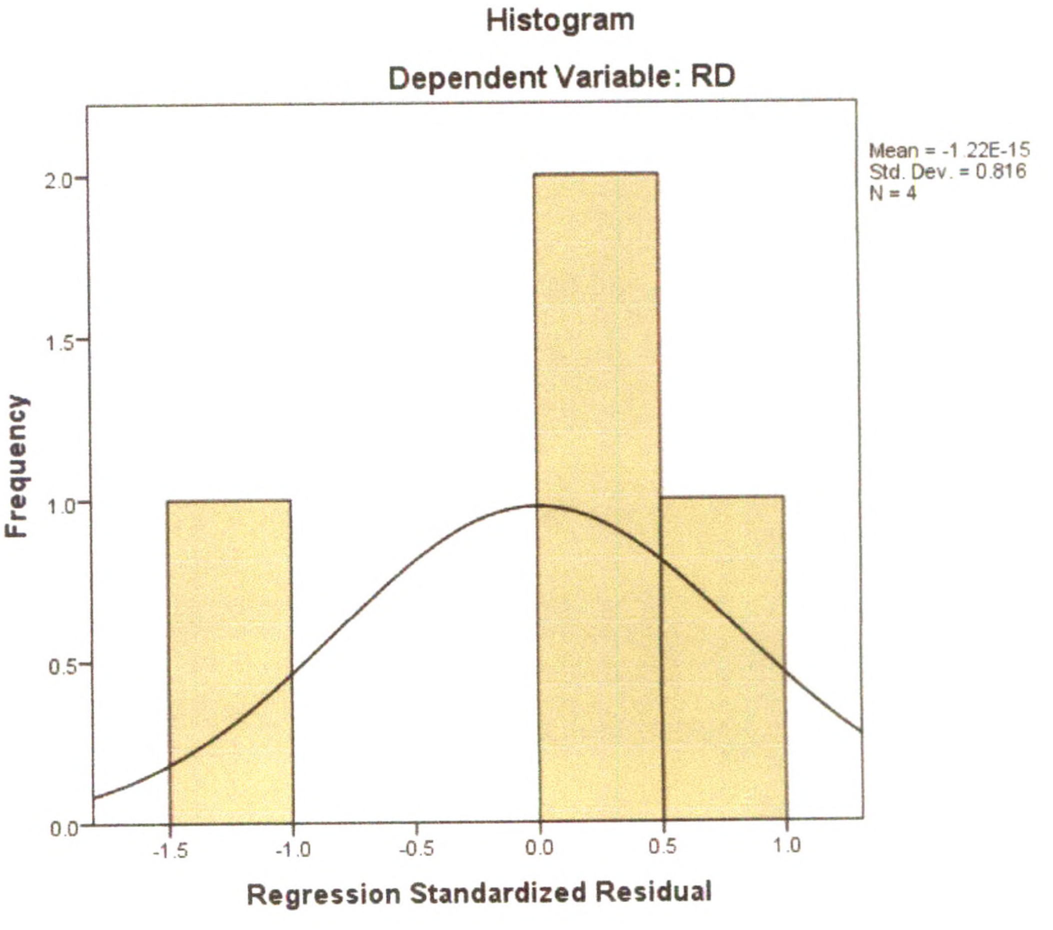
b. Predictors: (Constant), Banks' Performance

TABLE 5.26
COEFFICIENTS[A] ON REGIONAL RURAL BANKS' PERFORMANCE AND CAPITAL ADEQUACY

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-8.276	12.630		-.655	.580	-62.618	46.066
	Banks' Performance	.063	.017	.932	3.630	.068	-.012	.138

a. Dependent Variable: Capital Adequacy

CHART 5.7
REGIONAL RURAL BANKS' PERFORMANCE AND CAPITAL ADEQUACY



Over all model summary shows the value of linear correlation coefficient R=0.932, it is the linear correlation coefficient between observed and model predicted values of the dependent variable. Its large value indicates a strong relationship. R^2. the coefficient of determination is the squared value of the multiple correlation coefficient. Adjusted R^2=0.868, R^2 change is also 0.802 and these values are significant which shows that overall strength of association is noteworthy. The coefficient of determination R^2 is 0.802; therefore, 80.2% of the variation in Capital Adequacy is explained by Regional Rural banks' growth, recovery, profitability, loan disbursement rate and deposits. ANOVA is used to exhibit model's ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, RRBs' Performance is useful as predictor of Capital Adequacy.

From the table of coefficients, the regression equation can be obtained as

Capital Adequacy= 8.276+ .063* RRB's Performance

The normal probability plot is obtained to test the assumption about the normality of residuals and it appears that the residuals are approximately normally distributed. Thus the assumptions for regression analysis appear to be met.

5.5 RECOVERY PERFORMANCE (NARMADA JHABUA GRAMIN BANK)

TABLE 5.27
RECOVERY PERFORMANCE (NARMADA JHABUA GRAMIN BANK)

	2011-12	2012-13	2013-14	2014-15
PRIORITY SECTOR	84.37%	83.44%	85.73%	84.38%
NON PRIORITY SECTOR	82.67%	80.06%	85.37%	65.04%

Source : NJGB, Annual Report 2011-12 to 2014-15

It has been revealed from the above table that the recovery performance of priority sector in Narmada Jhabua Gramin Bank is a slightly variate as in 2011-12 it was 84.37% but in 2012-13 it was reduced to 83.44%. But again it was increased to 85.73% in 2013-14 and again reduced to 84.38% in 2014-15. Hence, it was concluded that performance is much better and deviate from 1-2 % does not matter. So this variable shows the performance of banks in the good parameters. In the same way in non priority sector the percentage of recovery performance was 82.67% in 2011-12 but it was increased by 2 point something percentage in 2013-14 but in 2014-15 it was reduced to 65.04%. In this sector there was much deviation in the recovery due to increasing interest rate depending on the market scenario and also some restricted guidelines in providing the time limit to customers.

The bank has given utmost priority to recovery, especially in the area of NPA reduction. Efforts were also been made to maximize recoveries in written off accounts and unrealized interest, to improve profitability of the Bank. To enhance recovery provision, bank has implemented OTS scheme to accelerate recoveries in NPA and written off accounts. Bank has started system of periodical monitoring of recovery in NPA and overdue accounts with outstanding of ₹ 1 lacs and above. Bank has appointed Nodal Officer at HO level for each region and Relationship Managers for each Branch, apart from this bank has also obtained services of recovery agents for recovery of NPA & written off loans. Branches were also given loan recovery targets to recover the dues in a planned manner with special emphasis on overdue amounts.

TABLE 5.28

RECOVERY PERFORMANCE (MADHYANCHAL GRAMIN BANK)

SECTOR	2011-12	2012-13	2013-14	2014-15
PRIORITY SECTOR	70%	78%	75.15%	80%
NON PRIORITY SECTOR	88%	88%	86.71%	87%

Source : MGB, Annual Report 2011-12 to 2014-15

It has been revealed from the above table that the recovery performance of priority sector in Madhyanchal Gramin Bank was 70% in 2011-12 and was increased upto 80% in 2014-15 but in 2013-14 it was reduced to 75.15% as against in the non priority sector the recovery performance in 2011-12 was 88% and again in 2012-13 it was stable but in 2014-15 it was increased from 86.71% to 87%. The performance in non priority sector is much good then the priority sector.

TABLE 5.29

RECOVERY PERFORMANCE (CENTRAL M.P. GRAMIN BANK)

SECTOR	2011-12	2012-13	2013-14	2014-15
PRIORITY SECTOR	73.56%	75.65%	74.34%	69.61%
NON PRIORITY SECTOR	82.11%	70.55%	91.50%	79.96%

Source : CMPGB, Annual Report 2011-12 to 2014-15

It is evident from the table on recovery of performance that in 2011-12 the percentage of priority sector was 73.56% but it was reduced to 69.61% in 2014-15 as against in the non priority sector in 2013-14 the performance was much appreciated and it was 91.50%. But in 2014-15 it was reduced to 79.96%. Priority Sector includes Kisan Credit Card, Rural Godown Loan, Agriculture Market produce Loan, Water Harvesting Loan, Dairy, Minor Irrigation etc. Non Priority Sector consist Housing Loan, education Loan, Vehicle Loan, Personal Loan etc.

TABLE 5.30

NET NPA (IN %)

BANKS	2011-12	2012-13	2013-14	2014-15
MADHYANCHAL GRAMIN BANK	4.44%	6.09%	6.54%	14.62%
CENTRAL M.P. GRAMIN BANK	6.69%	7.78%	5.24%	6.71%
NARMADA JHABUA GRAMIN BANK	7.18%	5.84%	3.69%	2.29%

Source : MGB, CMPGB & NJGB, Annual Report 2011-12 to 2014-15

It has been revealed from the above table that the Net NPA% of Madhyanchal Gramin Bank was 4.44% in 2011-12 and was increased upto 14.62% in 2014-15.

It is evident from the above table that Net NPA % of Central M.P. Gramin Bank was 6.69% in 2011-12 but it was increased to 6.71% in 2014-15. It has been revealed from the above table that the Net NPA% of Narmada Jhabua Gramin Bank was 7.18 % in 2011-12 and was reduced upto 2.29% in 2014-15.

5.6 BALANCE BETWEEN INFLOW & OUTFLOW IN REGIONAL RURAL BANKS

TABLE 5.31

BALANCE BETWEEN INFLOW & OUTFLOW IN (MADHYANCHAL GRAMIN BANK)

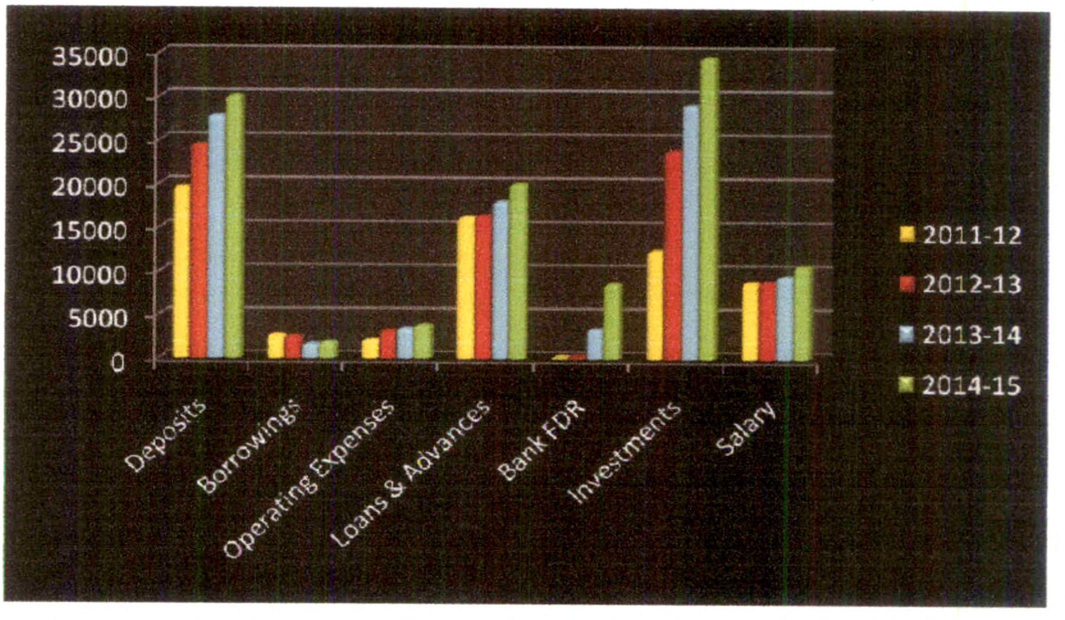
(Amount ₹ in Lacs)

Year	2011-12	2012-13	2013-14	2014-15
Deposits	19692	24559	27899	31546
Borrowings	2776	2608	1758	2279
Operating Exp.	2262	3261	3568	3808
Loans & Advances	16279	16502	18097	18597
Bank FDR	2990	3478	216	238
Investments	12466	23997	29189	42363
Salary	8883	9555	10752	11806

Source : MGB, Annual Report 2011-12 to 2014-15

CHART 5.8

BALANCE BETWEEN INFLOW & OUTFLOW IN (MADHYANCHAL GRAMIN BANK)



H_{05}: There is no balance between Inflow and Outflow of funds in Madhyanchal Gramin Bank.

H_{15}: There is a balance between Inflow and Outflow of funds in Madhyanchal Gramin Bank.

TABLE 5.32
CORRELATIONS BETWEEN INFLOW AND OUTFLOW OF FUNDS IN MADHYANCHAL GRAMIN BANK

		Inflow	Outflow
Inflow	Pearson Correlation	1	.000
	Sig. (2-tailed)		.785
	N	4	4
Outflow	Pearson Correlation	.000	1
	Sig. (2-tailed)	.785	
	N	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between balance of Inflow and Outflow of funds in Madhyanchal Gramin Bank is 0.785 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between balance of Inflow and Outflow of funds in Madhyanchal Gramin Bank. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables

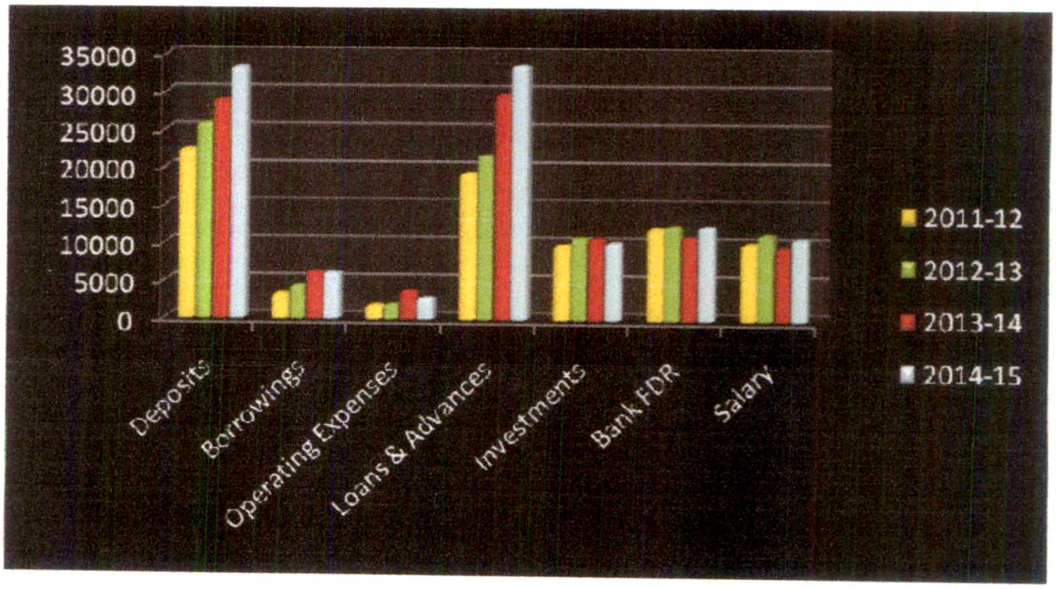
TABLE 5.33
BALANCE BETWEEN INFLOW AND OUTFLOW OF FUNDS IN CENTRAL M.P GRAMIN BANK

(Amount ₹ in Lacs)

Year	2011-12	2012-13	2013-14	2014-15
Deposits	22435	25939	29162	33363
Borrowings	3423	4475	6331	6257
Operating Expenses	1980	2052	3891	2952
Loans & Advances	19456	21767	29810	33675
Investments	9980	10870	10851	10316
Bank FDR	12218	12529	11124	12499
Salary	10230	11484	9654	10847

Source : CMPGB, Annual Report 2011-12 to 2014-15

CHART 5.9
BAR CHART ON BALANCE BETWEEN INFLOW AND OUTFLOW OF FUNDS IN CENTRAL M.P GRAMIN BANK



H_{06}: There is no balance between Inflow and Outflow of funds in Central M.P Gramin Bank.

H_{16}: There is a balance between Inflow and Outflow of funds in Central M.P Gramin Bank.

TABLE 5.34
CORRELATIONS BETWEEN INFLOW AND OUTFLOW OF FUNDS IN CENTRAL M.P GRAMIN BANK

		Outflow	Inflow
Outflow	Pearson Correlation	1	.980*
	Sig. (2-tailed)		.002
	N	4	4
Inflow	Pearson Correlation	.980*	1
	Sig. (2-tailed)	.002	
	N	4	4

*. Correlation is significant at the 0.05 level (2-tailed).

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between balance of Inflow and Outflow of funds in Central M.P Gramin Bank is 0.980 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between balance of Inflow and Outflow of funds in Central M.P Gramin Bank. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

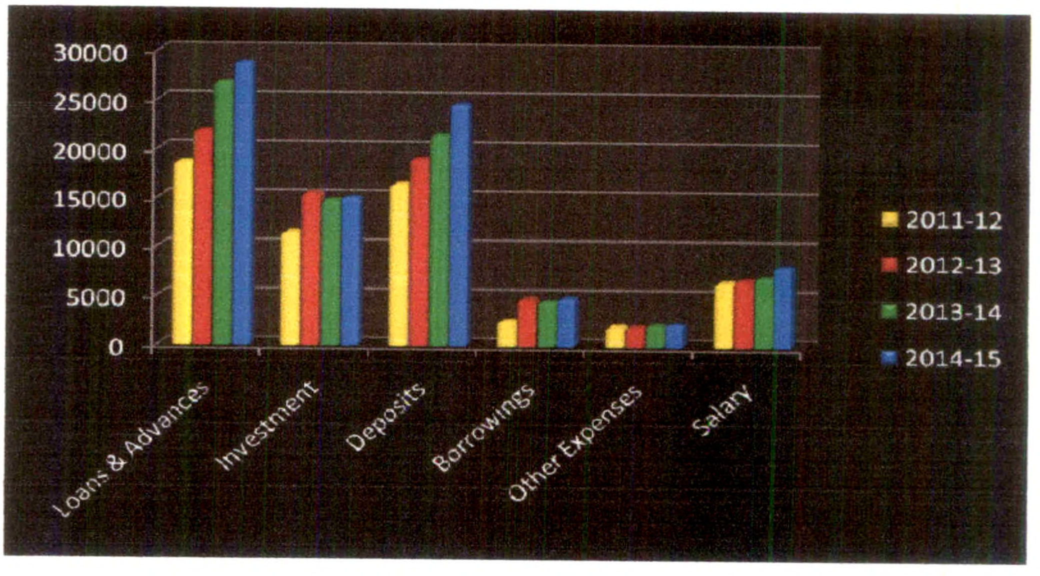
TABLE 5.35
BALANCE BETWEEN INFLOW AND OUTFLOW OF FUNDS IN NARMADA JHABUA GRAMIN BANK

(Amount ₹ in Lacs)

Year	2011-12	2012-13	2013-14	2014-15
Loans & Advances	18648	21869.17	26815.82	28812.65
Investment	11539.76	15490.31	14807.92	15102.92
Deposits	16453.74	19051.45	21477.26	24621.13
Borrowings	2594.63	4812.83	4605.4	4901.2
Other Expenses	2098.56	2035.14	2252.35	2312.92
Salary	6629.4	6842.77	7131.85	8221.67

Source : NJGB, Annual Report 2011-12 to 2014-15

CHART 5.10
BAR CHART ON BALANCE BETWEEN INFLOW AND OUTFLOW OF FUNDS IN NARMADA JHABUA GRAMIN BANK



H_{07}: There is no balance between Inflow and Outflow of funds in Narmada Jhabua Gramin Bank.
H_{17}: There is a balance between Inflow and Outflow of funds in Narmada Jhabua Gramin Bank.

TABLE 5.36
CORRELATIONS BETWEEN INFLOW AND OUTFLOW OF FUNDS IN NARMADA JHABUA GRAMIN BANK

		Inflow	Outflow
Inflow	Pearson Correlation	1	.984*
	Sig. (2-tailed)		.001
	N	4	4
Outflow	Pearson Correlation	.984*	1
	Sig. (2-tailed)	.001	
	N	4	4

*. Correlation is significant at the 0.05 level (2-tailed).

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between balance of Inflow and Outflow of funds in Narmada Jhabua Gramin Bank is 0.984 which is significant since the significant value (p- value) 0.001 is less than 0.05. Therefore, we may conclude that there is significant association between balance of Inflow and Outflow of funds in Narmada Jhabua Gramin Bank. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

H_{08}: There is no balance between Inflow and Outflow of funds in RRBs.

H_{18}: There is a balance between Inflow and Outflow of funds in RRBs.

TABLE 5.37
CORRELATIONS ON BALANCE BETWEEN INFLOW AND OUTFLOW OF FUNDS IN RRBS.

		Inflow	**Outflow**
Inflow	Pearson Correlation	1	.878
	Sig. (2-tailed)		.000
	N	4	4
Outflow	Pearson Correlation	.878	1
	Sig. (2-tailed)	.000	
	N	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between balance of Inflow and Outflow of funds in RRBs is 0.878 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between balance of Inflow and Outflow of funds in RRBs. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

5.7 CORRELATION & REGRESSION BETWEEN LOAN DISBURSEMENT & NET PROFIT

TABLE 5.38

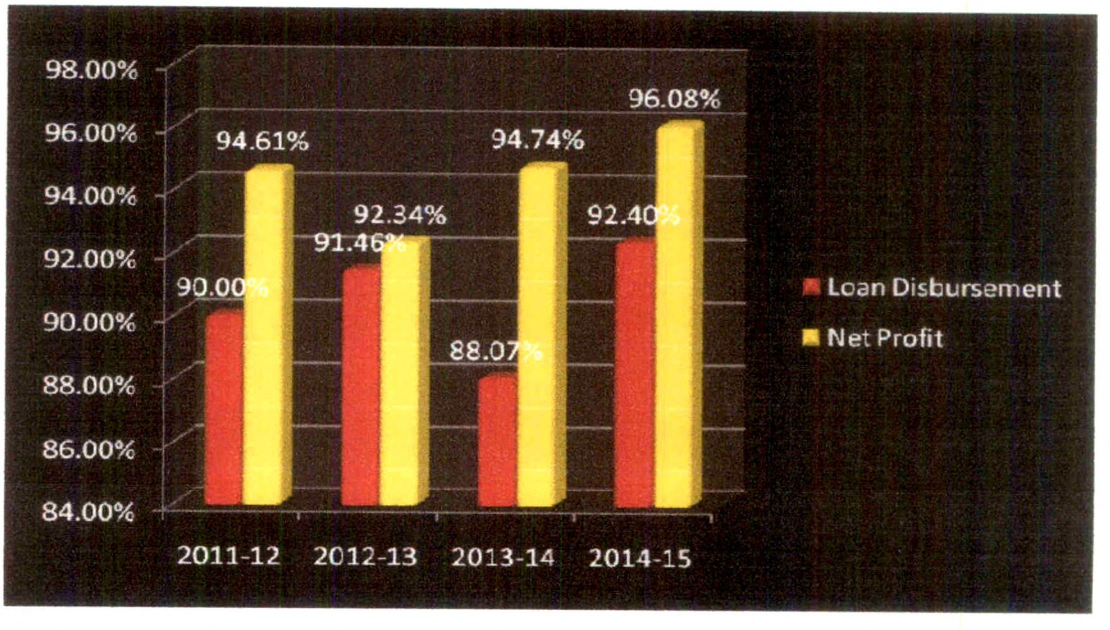
LOAN DISBURSEMENT AND NET PROFIT IN NARMADA JHABUA GRAMIN BANK

Year	2011-12	2012-13	2013-14	2014-15
Loan Disbursement	90.00%	91.46%	88.07%	92.40%
Net Profit	94.61%	92.34%	94.74%	96.08%

Source : NJGB, Annual Report 2011-12 to 2014-15

FIGURE 5.11

BAR CHART ON LOAN DISBURSEMENT AND NET PROFIT IN NARMADA JHABUA GRAMIN BANK



H_{014}: There is no significant relationship between Disbursement & Net Profit in Narmada Jhabua Gramin Bank.
H_{114}: There is a significant relationship between Disbursement & Net Profit in Narmada Jhabua Gramin Bank.

TABLE 5.39
CORRELATIONS ON LOAN DISBURSEMENT AND NET PROFIT IN NARMADA JHABUA GRAMIN BANK

		LD	NP
Pearson Correlation	LD	1.000	.717
	NP	.717	1.000
Sig. (1-tailed)	LD	.	.001
	NP	.001	.
N	LD	4	4
	NP	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between Loan Disbursement and Net Profit in Narmada Jhabua Gramin Bank is 0.717 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between Loan Disbursement and Net Profit in Narmada Jhabua Gramin Bank. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

TABLE 5.40
MODEL SUMMARY[B] ON LOAN DISBURSEMENT AND NET PROFIT IN NARMADA JHABUA GRAMIN BANK

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.717[a]	.514	.271	9.01947	.514	3.115	1	2	.001

a. Predictors: (Constant), LD
b. Dependent Variable: NP

TABLE 5.41
ANOVA[A] ON LOAN DISBURSEMENT AND NET PROFIT IN NARMADA JHABUA GRAMIN BANK

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	172.048	1	172.048	3.115	.001[b]
	Residual	162.702	2	81.351		
	Total	334.750	3			

a. Dependent Variable: NP
b. Predictors: (Constant), LD

TABLE 5.42
COEFFICIENTS[A] ON LOAN DISBURSEMENT AND NET PROFIT IN NARMADA JHABUA GRAMIN BANK

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	50.079	24.167		2.072	.001
	LD	6.473	.325	.717	1.454	.001

a. Dependent Variable: NP

Over all model summary shows the value of linear correlation coefficient R=0.717, it is the linear correlation coefficient between observed and model predicted values of the dependent variable. Its large value indicates a strong relationship. $R^{2,}$ the coefficient of determination is the squared value of the multiple correlation coefficients. Adjusted R^2=0.514, R^2 change is also 0.217 and these values are significant which shows that overall strength of association is noteworthy. The coefficient of determination R^2 is 0.514; therefore, 51,4% of the variation in net profit is explained by loan disbursement. ANOVA is used to exhibit model's ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, loan disbursement is useful as predictor of net profit. From the table of coefficients, the regression equation can be obtained as

Net Profit = 50.079 + 6.473*Loan Disbursement

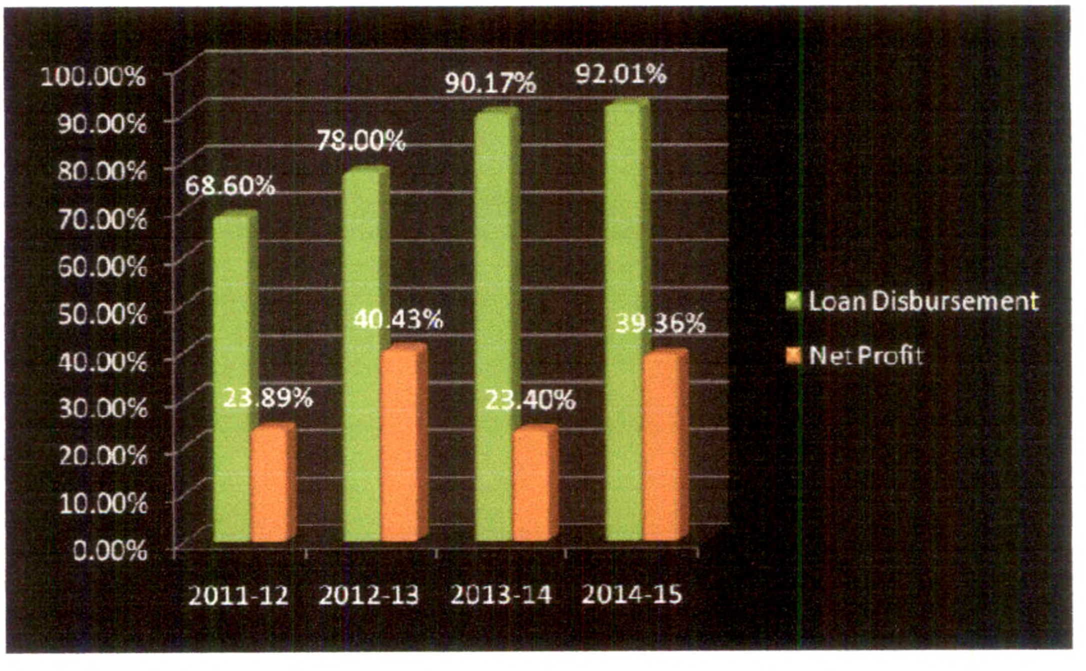
The normal probability plot is obtained to test the assumption about the normality of residuals and it appears that the residuals are approximately normally distributed. Thus the assumptions for regression analysis appear to be met.

TABLE 5.43
MADHYANCHAL GRAMIN BANK
(LOAN DISBURSEMENT & NET PROFIT)

Year	2011-12	2012-13	2013-14	2014-15
Loan Disbursement	68.60%	78.00%	90.17%	92.01%
Net Profit	23.89%	40.43%	23.40%	39.36%

Source : MGB, Annual Report 2011-12 to 2014-15

CHART 5.12
BAR CHART ON MADHYANCHAL GRAMIN BANK (LOAN DISBURSEMENT & NET PROFIT



H_{015}: There is no significant relationship between Disbursement & Net Profit in Madhyanchal Gramin Bank.
H_{115}: There is a significant relationship between Disbursement & Net Profit in Madhyanchal Gramin Bank.

TABLE 5.44
CORRELATIONS ON MADHYANCHAL GRAMIN BANK
(LOAN DISBURSEMENT & NET PROFIT)

		LD	NP
Pearson Correlation	LD	1.000	.008
	NP	.008	1.000
Sig. (1-tailed)	LD	.	.373
	NP	.373	.
N	LD	4	4
	NP	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between Loan Disbursement & Net Profit in Madhyanchal Gramin Bank is 0.373 which is insignificant since the significant value (p- value) 0.008 is more than 0.05. Therefore, we may conclude that there is very low significant association between Loan Disbursement & Net Profit in Madhyanchal Gramin Bank. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

TABLE 5.45
MODEL SUMMARY[B] ON MADHYANCHAL GRAMIN BANK
(LOAN DISBURSEMENT & NET PROFIT

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.373[a]	.064	-.404	13.02027	.064	.137	1	2	.008

a. Predictors: (Constant), LD
b. Dependent Variable: NP

TABLE 5.46
ANOVA[A] ON MADHYANCHAL GRAMIN BANK (LOAN DISBURSEMENT & NET PROFIT)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.302	1	23.302	.137	.008[b]
	Residual	339.055	2	169.527		
	Total	362.357	3			

a. Dependent Variable: NP
b. Predictors: (Constant), LD

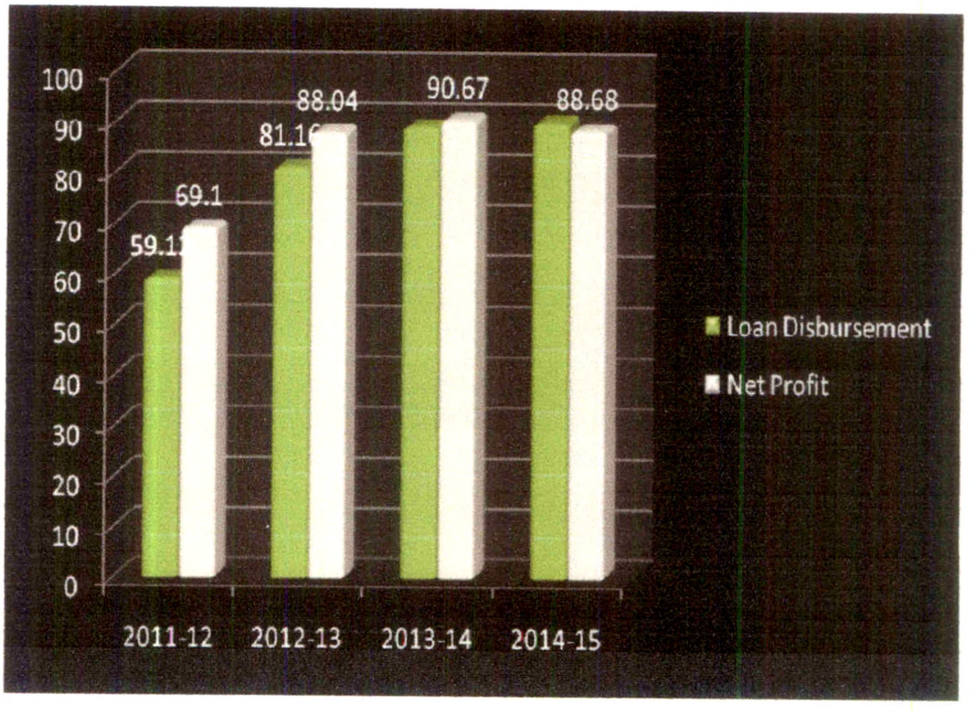
Over all model summary shows the value of linear correlation coefficient R=0.830, it is the linear correlation coefficient between observed and model predicted values of the dependent variable, Its large value indicates a strong relationship. R^2, the coefficient of determination is the squared value of the multiple correlation coefficient. Adjusted R^2=0.064, R^2 change is also 0.-404 and these values are insignificant which shows that overall no strength of association is noteworthy. The coefficient of determination R^2 is 0.064; therefore, 6.4% of the variation in net profit is explained by loan disbursement. ANOVA is used to exhibit model's ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, loan disbursement is useful as predictor of net profit.

TABLE 5.47
LOAN DISBURSEMENT AND NET PROFIT IN CENTRAL M.P GRAMIN BANK

Central M.P Gramin Bank				
Year	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Loan Disbursement	59.12	81.16	89.24	90.31
Net Profit	69.1	88.04	90.67	88.68

Source : CMPGB, Annual Report 2011-12 to 2014-15

CHART 5.13
BAR DIAGRAM ON LOAN DISBURSEMENT AND NET PROFIT IN CENTRAL M.P GRAMIN BANK



H_{016}: There is no significant relationship between Disbursement & Net Profit in Central M.P Gramin Bank.

H_{116}: There is a significant relationship between Disbursement & Net Profit in Central M.P Gramin Bank.

TABLE 5.48
CORRELATIONS ON LOAN DISBURSEMENT AND NET PROFIT IN CENTRAL M.P GRAMIN BANK

		LD	NP
Pearson Correlation	LD	1.000	.972
	NP	.972	1.000
Sig. (1-tailed)	LD	.	.002
	NP	.002	.
N	LD	4	4
	NP	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between loan disbursement & net profit in Central M.P Gramin Bank is 0.972 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between loan disbursement & net profit in Central M.P Gramin Bank. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

TABLE 5.49
MODEL SUMMARY[B] ON LOAN DISBURSEMENT AND NET PROFIT IN CENTRAL M.P GRAMIN BANK

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.972[a]	.946	.919	2.87634	.946	34.825	1	2	.002

a. Predictors: (Constant), LD
b. Dependent Variable: NP

TABLE 5.50
ANOVA[A] LOAN DISBURSEMENT AND NET PROFIT IN CENTRAL M.P GRAMIN BANK

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	288.116	1	288.116	34.825	.002[b]
	Residual	16.547	2	8.273		
	Total	304.663	3			

a. Dependent Variable: NP
b. Predictors: (Constant), LD

Over all model summary shows the value of linear correlation coefficient R=0.972, it is the linear correlation coefficient between observed and model predicted values of the dependent variable. Its large value indicates a strong relationship. R^2, the coefficient of determination is the squared value of the multiple correlation coefficients. Adjusted R^2=0.946, R^2 change is also 0.919 and these values are significant which shows that overall strength of association is noteworthy. The coefficient of determination R^2 is 0.946; therefore, 94.6% of the variation in net profit is explained by loan disbursement. ANOVA is used to exhibit model's ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, loan disbursement is useful as predictor of net profit.

H_{017}: There is no significant relationship between Disbursement & Net Profit in RRBs.
H_{117}: There is a significant relationship between Disbursement & Net Profit in RRBs.

TABLE 5.51

CORRELATIONS ON LOAN DISBURSEMENT AND NET PROFIT IN RRBs

		LD	NP
Pearson Correlation	LD	1.000	.772
	NP	.772	1.000
Sig. (1-tailed)	LD	.	.000
	NP	.000	.
N	LD	4	4
	NP	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between loan disbursement & net profit in RRBs is 0.772 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, it is conclude that there is significant association between loan disbursement & net profit in RRBs. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

CHAPTER - VI
RATIO ANALYSIS & INTERPRETATION

6.1 Financial Ratios (Dependent Variable) & Business Ratios (Independent Variable)

6.2 Operational Efficiency & Profitability

CHAPTER - VI
RATIO ANALYSIS & INTERPRETATION

6.1 FINANCIAL RATIOS (DEPENDENT VARIABLE) & BUSINESS RATIOS (INDEPENDENT VARIABLE)

To measure the impact of business ratios on financial ratios, correlation and regression were applied and tested the following hypotheses.

H_{09}: There is no significant impact of Business Ratios on Financial Ratios with regard to the Central M.P Gramin Bank.

H_{19}: There is a significant impact of Business Ratios on Financial Ratios with regard to the Central M.P Gramin Bank.

TABLE 6.1
FINANCIAL RATIOS (CENTRAL M.P. GRAMIN BANK)

Year	2011-12	2012-13	2013-14	2014-15
Financial Return	8.69%	8.79%	8.33%	8.78%
Financial Margin	2.59%	2.86%	2.81%	2.67%
Operating Profit	2.89%	2.94%	2.32%	2.14%
Miscellaneous Income	0.54%	0.52%	0.33%	0.28%
Net Margin	0.15%	0.13%	0.45%	0.23%

Source : CMPGB, Annual Report 2011-12 to 2014-15

CHART 6.1
BAR DIAGRAM: FINANCIAL RATIOS
(CENTRAL M.P. GRAMIN BANK)

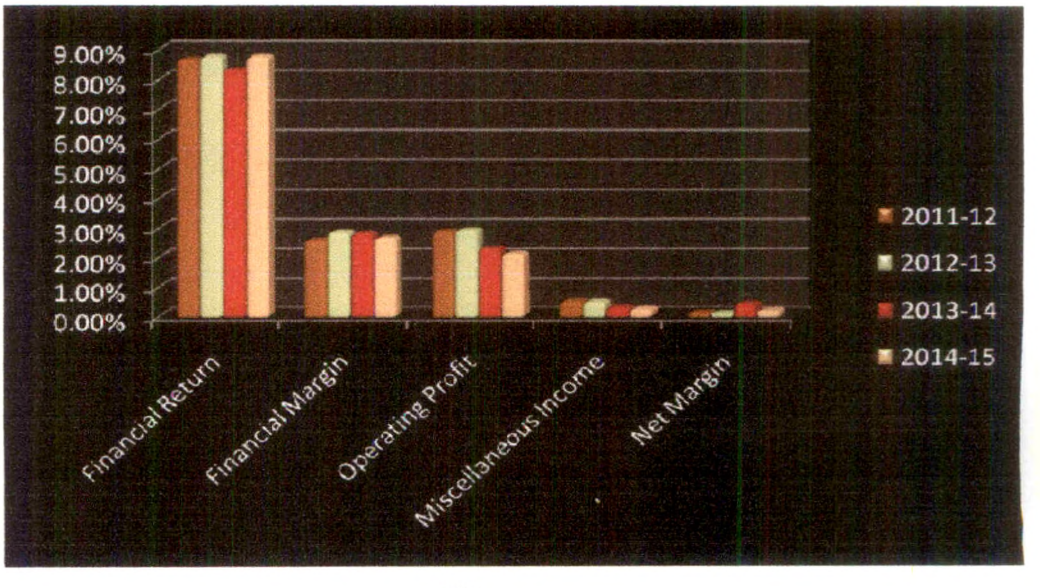


TABLE 6.2
BUSINESS RATIOS (CENTRAL M.P. GRAMIN BANK)

Year	2011-12	2012-13	2013-14	2014-15
Interest Income	8.22%	8.26%	8.89%	8.78%
Non-Interest Income	0.55%	0.52%	0.33%	0.29%
Operating Profit	0.39%	0.44%	0.85%	0.76%
ROA	0.05%	0.06%	0.31%	0.13%
Business (Deposits + Adv.)	429.00	435.00	500.00	536.37
Profit Per Employee	0.19	0.20	1.07	0.55

Source : CMPGB, Annual Report 2011-12 to 2014-15

TABLE 6.3
DESCRIPTIVE STATISTICS ON RATIOS IN CENTRAL M.P GRAMIN BANK

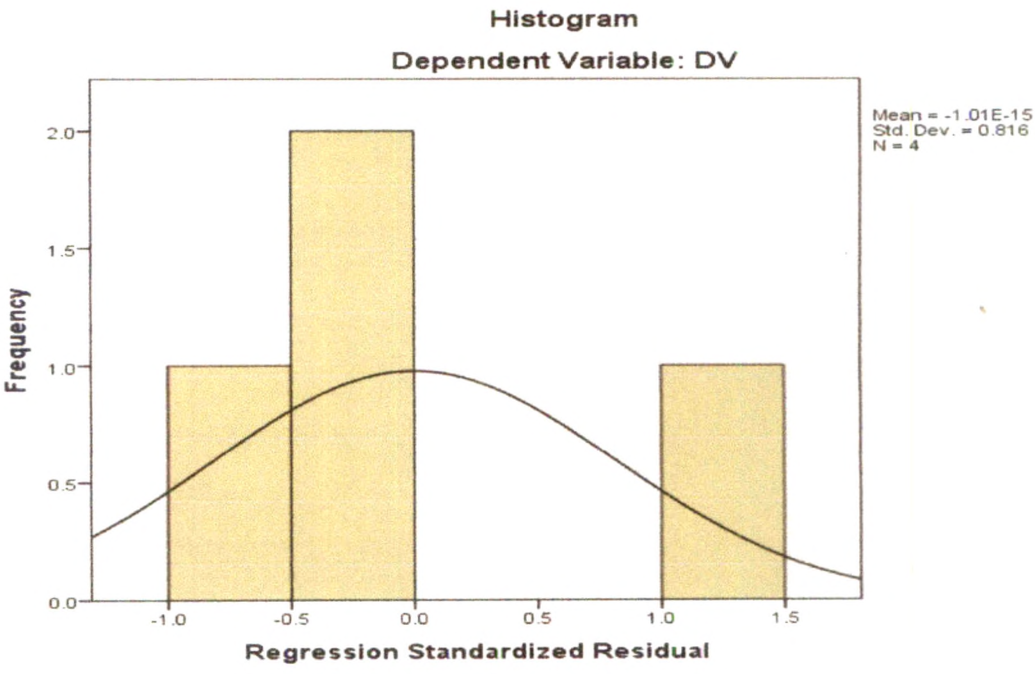
	Mean	Std. Deviation	N
FR	9.5700	.45026	4
BR	475.7325	52.33611	4

TABLE 6.4
CORRELATIONS ON RATIOS IN CENTRAL M.P GRAMIN BANK

		FR	BR
Pearson Correlation	FR	1.000	.877
	BR	.877	1.000
Sig. (1-tailed)	FR	.	.062
	BR	.002	.
N	FR	4	4
	BR	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between Financial Ratios & Business Ratics in Central M.P Gramin Banks is 0.877 which is significant since the significant value (p- value) 0.002 is less than 0.05. Therefore, we may conclude that there is significant association between Financial Ratios & Business Ratios in Central M.P Gramin Banks. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

CHART 6.2
HISTOGRAM ON RATIOS IN CENTRAL M.P GRAMIN BANK



Over all model summary shows the value of linear correlation coefficient R=0.877, it is the linear correlation coefficient between observed and model predicted values of the dependent variable, Its large value indicates a strong relationship. $R^{2,}$ the coefficient of determination is the squared value of the multiple correlation coefficient. Adjusted R^2=0.769, R^2 change is also 0.653 and these values are significant which shows that overall strength of association is noteworthy. The coefficient of determination R^2 is 0.653; therefore, 65.3% of the variation in financial ratios is explained by business ratios. ANOVA is used to exhibit model's ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, financial ratios is useful as predictor of business ratios in Central M.P Gramin Bank.

From the table of coefficients, the regression equation can be obtained as

Financial Ratios = 5.981 + .008* Business Ratios

The normal probability plot is obtained to test the assumption about the normality of residuals and it appears that the residuals are approximately normally distributed. Thus the assumptions for regression analysis appear to be met.

H_{010}: There is no significant impact of Business Ratios on Financial Ratios with regard to the Narmada Jhabua Gramin Bank.
H_{110}: There is a significant impact of Business Ratios on Financial Ratios with regard to the Narmada Jhabua Gramin Bank.

TABLE 6.8
FINANCIAL RATIOS (NARMADA JHABUA GRAMIN BANK)

Year	2011-12	2012-13	2013-14	2014-15
Financial Return	8.51%	8.56%	8.85%	8.57%
Financial Margin	3.02%	3.09%	3.32%	3.08%
Operating Profit	1.58%	1.61%	1.95%	1.79%
Miscellaneous Income	0.51%	0.55%	0.60%	0.71%
Net Margin	1.28%	1.38%	1.77%	1.82%

Source : NJGB, Annual Report 2011-12 to 2014-15

CHART 6.3
BAR DIAGRAM ON FINANCIAL RATIOS
(NARMADA JHABUA GRAMIN BANK)

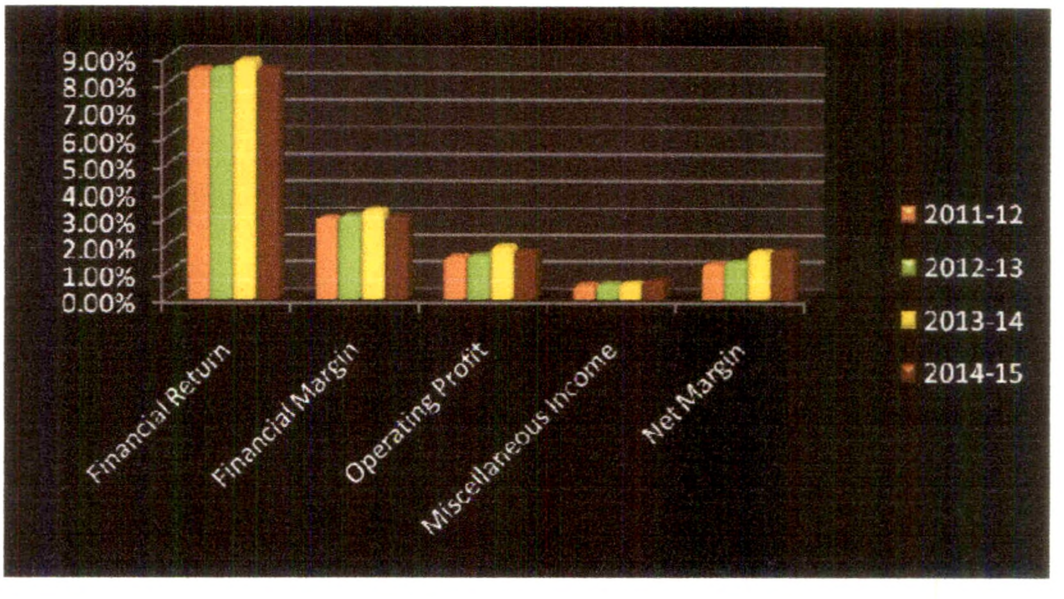


TABLE 6.9
BUSINESS RATIOS (NARMADA JHABUA GRAMIN BANK)

Year	2011-12	2012-13	2013-14	2014-15
Interest Income	8.42%	8.56%	8.85%	8.57%
Non-Interest Income	0.72%	0.55%	0.59%	0.71%
Operating Profit	2.36%	1.60%	1.94%	1.79%
ROA	0.98%	1.37%	1.75%	1.87%
Business (Deposits + Adv.)	428.11	471.72	526.38	566.56
Profit Per Employee	2.92	4.89	6.52	7.51

Source : NJGB, Annual Report 2011-12 to 2014-15

TABLE 6.10
CORRELATIONS ON RATIOS
(NARMADA JHABUA GRAMIN BANK)

		FR	BR
Pearson Correlation	Adjusted Predicted Value	1.000	.974
	Standardized Predicted Value	.974	1.000
Sig. (1-tailed)	Adjusted Predicted Value	.	.000
	Standardized Predicted Value	.000	.
N	Adjusted Predicted Value	4	4
	Standardized Predicted Value	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between financial ratios & business ratios in Narmada Jhabua Gramin Banks is 0.974 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between financial ratios & business ratios in Narmada Jhabua Gramin Banks. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

TABLE 6.11
MODEL SUMMARY[B] ON RATIOS (NARMADA JHABUA GRAMIN BANK)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.974[a]	.948	.940	1.07464106	.948	110.409	1	6	.000

a. Predictors: (Constant), BR

b. Dependent Variable: FR

TABLE 6.12
ANOVA[A] ON RATIOS (NARMADA JHABUA GRAMIN BANK)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	127.506	1	127.506	110.409	.000[b]
	Residual	6.929	3	1.155		
	Total	134.435	4			

a. Dependent Variable: FR

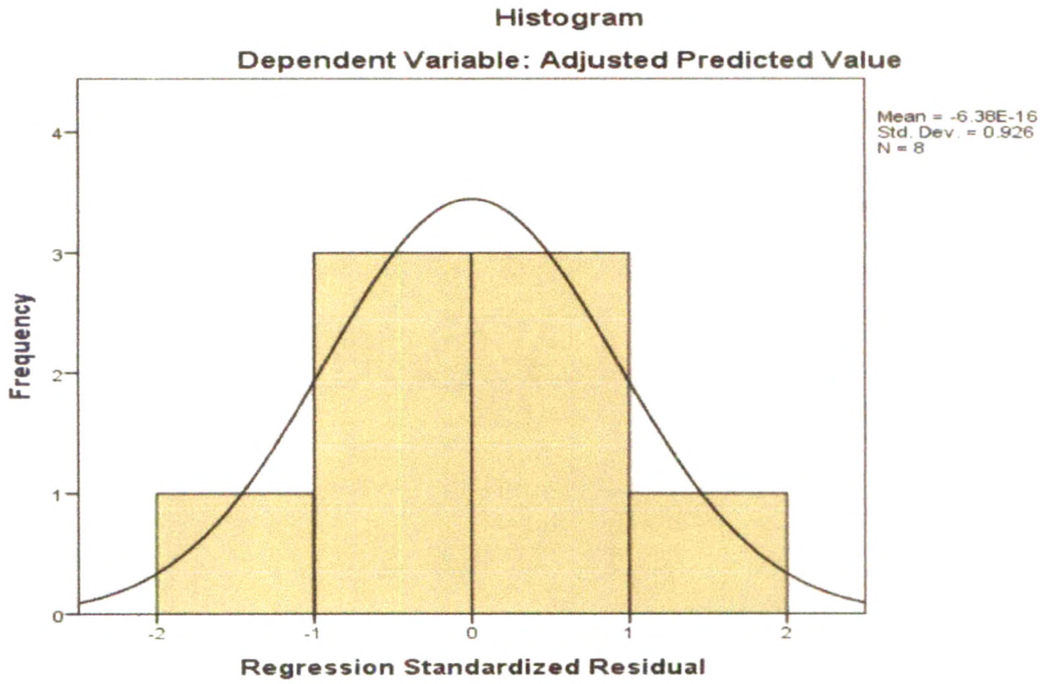
b. Predictors: (Constant), BR

TABLE 6.13
COEFFICIENTS[A] ON RATIOS (NARMADA JHABUA GRAMIN BANK)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	9.553	.534		17.877	.000	8.246	10.861
	Standardized Predicted Value	.016	.002	.974	10.508	.000	.020	-.012

a. Dependent Variable: FR

CHART 6.4
HISTOGRAM ON RATIOS IN NARMADA JHABUA GRAMIN BANK



Over all model summary shows the value of linear correlation coefficient R=0.974, it is the linear correlation coefficient between observed and model predicted values of the dependent variable, Its large value indicates a strong relationship. $R^{2,}$ the coefficient of determination is the squared value of the multiple correlation coefficient. Adjusted R^2=0.948, R^2 change is also 0.940 and these values are significant which shows that overall strength of association is noteworthy. The coefficient of determination R^2 is 0.940; therefore, 94.0% of the variation in financial ratios is explained business ratios in Narmada Jhabua Gramin Bank. ANOVA is used to exhibit model's ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, financial ratios is useful as predictor of business ratios.

From the table of coefficients, the regression equation can be obtained as

Financial Ratios = 9.553 + .016* Business Ratios

The normal probability plot is obtained to test the assumption about the normality of residuals and it appears that the residuals are approximately normally distributed. Thus the assumptions for regression analysis appear to be met.

H_{011}: There is no significant impact of Business Ratios on Financial Ratios with regard to the Madhyanchal Gramin Bank.

H_{111}: There is a significant impact of Business Ratios on Financial Ratios with regard to the Madhyanchal Gramin Bank.

TABLE 6.14
FINANCIAL RATIOS (MADHYANCHAL GRAMIN BANK)

Year	2011-12	2012-13	2013-14	2014-15
Financial Return	8.10%	8.47%	7.86%	8.01%
Financial Margin	3.24%	3.24%	2.95%	2.73%
Operating Profit	1.23%	1.25%	0.92%	0.55%
Miscellaneous Income	0.45%	0.47%	0.34%	0.26%
Net Margin	1.85%	1.13%	0.77%	0.01%

Source : MGB, Annual Report 2011-12 to 2014-15

CHART 6.5
BAR DIAGRAM ON RATIOS IN MADHYANCHAL GRAMIN BANK

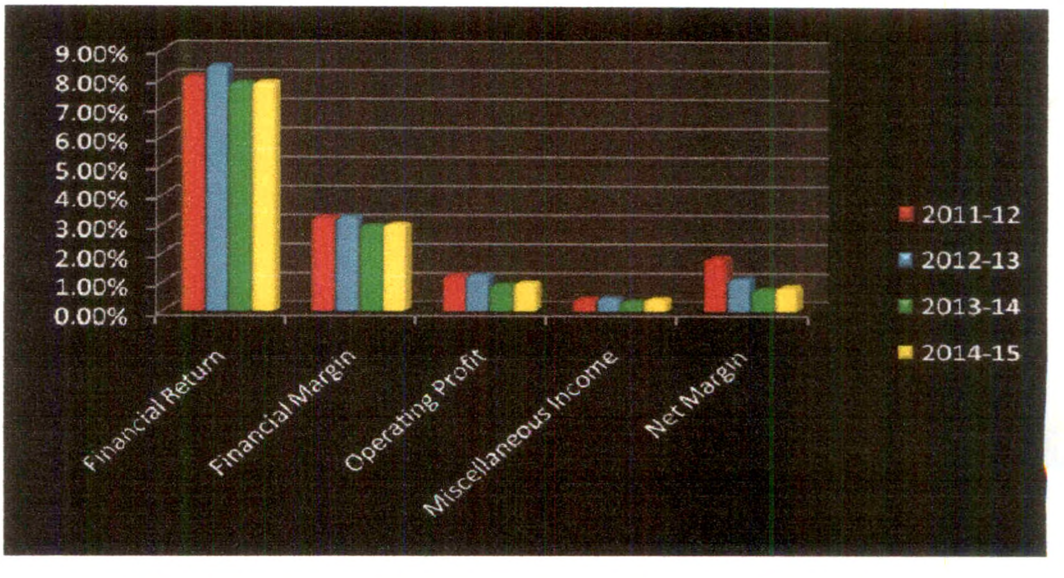


TABLE 6.15
BUSINESS RATIOS (MADHYANCHAL GRAMIN BANK)

Year	2011-12	2012-13	2013-14	2014-15
Interest Income	8.10%	8.47%	7.15%	8.00%
Non-Interest Income	0.45%	0.47%	0.31%	0.26%
Operating Profit	0.83%	1.10%	0.61%	0.67%
ROA	0.52%	0.78%	0.35%	0.16%
Business (Deposits + Adv.)	359.00	404.00	436.00	478.17.00
Profit Per Employee	150	251	138	141

Source : MGB, Annual Report 2011-12 to 2014-15

TABLE 6.16
CORRELATIONS ON MADHYANCHAL GRAMIN BANK

		FR	BR
Pearson Correlation	Adjusted Predicted Value	1.000	.997
	Standardized Predicted Value	.997	1.000
Sig. (1-tailed)	Adjusted Predicted Value	.	.000
	Standardized Predicted Value	.000	.
N	Adjusted Predicted Value	4	4
	Standardized Predicted Value	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between financial ratios and business ratios in Madhyanchal Gramin Bank is 0.997 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between financial ratios and business ratios in Madhyanchal Gramin Bank. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

TABLE 6.17
MODEL SUMMARY[B] ON MADHYANCHAL GRAMIN BANK

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.997[a]	.995	.994	.34729659	.995	1085.882	1	6	.000

a. Predictors: (Constant), BR
b. Dependent Variable: FR

TABLE 6.18
ANOVA[A] ON MADHYANCHAL GRAMIN BANK

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	130.974	1	130.974	1085.882	.000[b]
	Residual	.724	3	.121		
	Total	131.697	4			

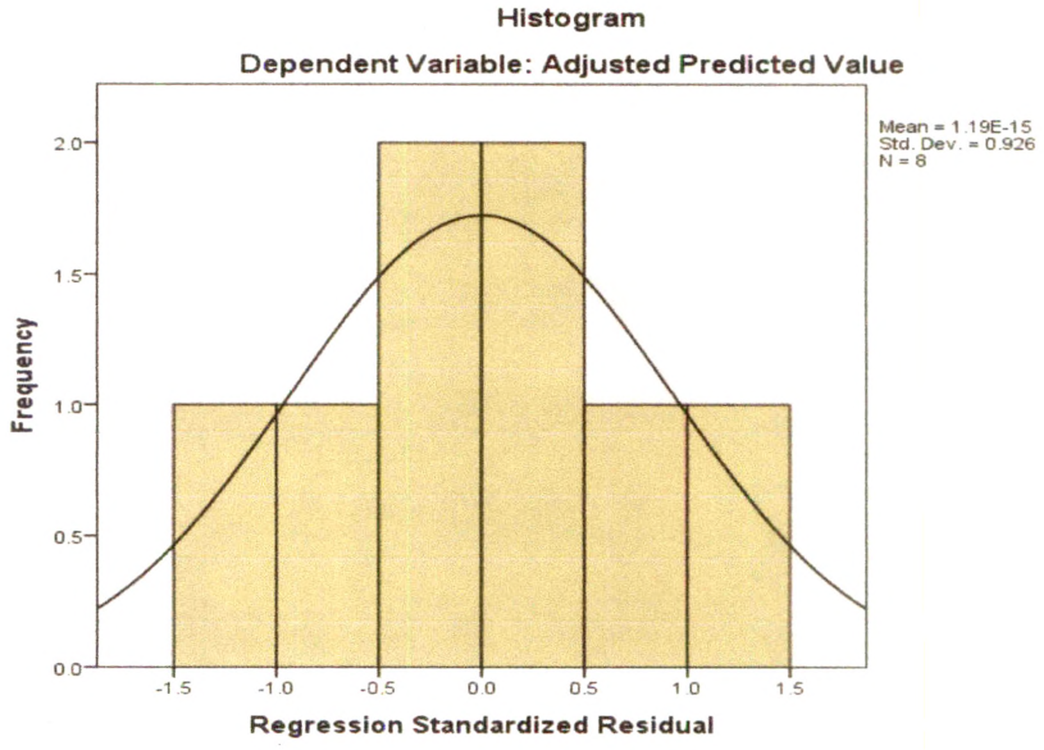
a. Dependent Variable: FR
b. Predictors: (Constant), BR

TABLE 6.19
COEFFICIENTS[A] ON MADHYANCHAL GRAMIN BANK

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	5.551	.123		45.212	.000	5.251	5.852
	BR	4.326	.131	.997	32.953	.000	4.004	4.647

a. Dependent Variable: FR

CHART 6.6
HISTOGRAM ON RATIOS IN MADHYANCHAL GRAMIN BANK



Over all model summary shows the value of linear correlation coefficient R=0.997, it is the linear correlation coefficient between observed and model predicted values of the dependent variable, Its large value indicates a strong relationship. $R^{2,}$ the coefficient of determination is the squared value of the multiple correlation coefficient. Adjusted R^2=0.995, R^2 change is also 0.994 and these values are significant which shows that overall strength of association is noteworthy. The coefficient of determination R^2 is 0.994; therefore, 99.4% of the variation in financial ratios is explained by business ratios in Madhyanchal Gramin Bank. ANOVA is used to exhibit model's ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, financial ratios is useful as predictor of business ratios.

From the table of coefficients, the regression equation can be obtained as

Financial Ratios = 5.551 + 4.326* Business Ratios

The normal probability plot is obtained to test the assumption about the normality of residuals and it appears that the residuals are approximately normally distributed. Thus the assumptions for regression analysis appear to be met.

H_{012}: There is no significant impact of Business Ratios on Financial Ratios with regard to the RRBs Banks.

H_{112}: There is a significant impact of Business Ratios on Financial Ratios with regard to the RRBs Banks.

TABLE 6.20
CORRELATIONS ON RRBS BANKS

		FR	BR
Pearson Correlation	Adjusted Predicted Value	1.000	.697
	Standardized Predicted Value	.697	1.000
Sig. (1-tailed)	Adjusted Predicted Value	.	.000
	Standardized Predicted Value	.000	.
N	Adjusted Predicted Value	4	4
	Standardized Predicted Value	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between financial ratios and business ratios in RRBs Banks is 0.697 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between financial ratios and business ratios in RRBs Banks. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

TABLE 6.21
MODEL SUMMARY[B] ON RRBS BANKS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.697[a]	.595	.594	.34729659	.595	985.00	1	6	.000

a. Predictors: (Constant), BR
b. Dependent Variable: FR

TABLE 6.22
ANOVA[A] ON RRBS BANKS

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	130.974	1	130.974	1985.00	.000[b]
	Residual	.724	3	.121		
	Total	131.697	4			

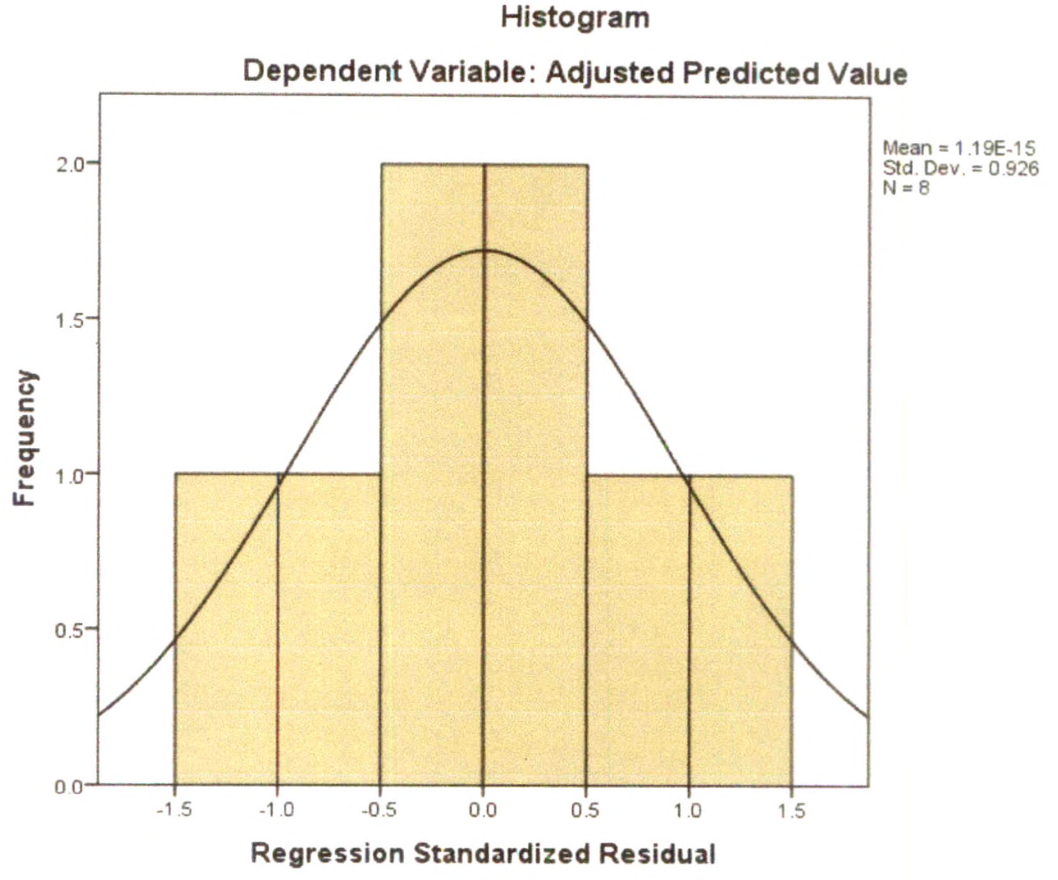
a. Dependent Variable: FR
b. Predictors: (Constant), BR

TABLE 6.23
COEFFICIENTS[A] ON RRBS BANKS

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	3.551	.103		15.212	.000	4.251	4.852
	BR	2.326	.111	.697	12.953	.000	3.004	3.647

a. Dependent Variable: FR

CHART 6.7
HISTOGRAM ON RATIOS IN RRBS BANKS



Over all model summary shows the value of linear correlation coefficient R=0.697, it is the linear correlation coefficient between observed and model predicted values of the dependent variable, Its large value indicates a strong relationship. $R^{2,}$ the coefficient of determination is the squared value of the multiple correlation coefficient. Adjusted R^2=0.595, R^2 change is also 0.594 and these values are significant which shows that overall strength of association is noteworthy. The coefficient of determination R^2 is 0.594; therefore, 59.4% of the variation in financial ratios is explained by business ratios in RRBs Banks. ANOVA is used to exhibit model's ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, financial ratios is useful as predictor of business ratios.

From the table of coefficients, the regression equation can be obtained as

Financial Ratios = 3.551 + 2.326* Business Ratios

The normal probability plot is obtained to test the assumption about the normality of residuals and it appears that the residuals are approximately normally distributed. Thus the assumptions for regression analysis appear to be met.

6.2 OPERATONAL EFFICIENCY & PROFITABILITY

H_{013}: There is no significant impact of Operational Efficiency on Profitability of RRBs.

H_{113}: There is a significant impact of Operational Efficiency on Profitability of RRBs.

TABLE 6.24

MODEL SUMMARY[B] ON OPERATIONAL EFFICIENCY AND PROFITABILITY OF RRBs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.830[a]	.768	.702	2.76797	.768	12.108	1	2	.000

a. Predictors: (Constant), Operational Efficiency

b. Dependent Variable: Profitability

The given table below shows the correlations and it is evident from this table that Pearson's correlation coefficient between Operational Efficiency and Profitability of RRBs is 0.830 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between Operational Efficiency and Profitability of RRBs. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

TABLE 6.25
COEFFICIENTS[A] ON OPERATIONAL EFFICIENCY AND PROFITABILITY OF RRBs

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-6.176	12.630		-.655	.580	-62.618	46.066
	Operational Efficiency	.071	.017	.932	3.630	.068	-.012	.138

a. Dependent Variable: Profitability

Over all model summary shows the value of linear correlation coefficient R=0.830, it is the linear correlation coefficient between observed and model predicted values of the dependent variable, Its large value indicates a strong relationship. $R^{2,}$ the coefficient of determination is the squared value of the multiple correlation coefficients. Adjusted R^2=0.768, R^2 change is also 0.702 and these values are significant which shows that overall strength of association is noteworthy. The coefficient of determination R^2 is 0.702; therefore, 70.2% of the variation in Profitability is explained by Operational Efficiency. ANOVA is used to exhibit model's ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, Operational Efficiency is useful as predictor of Profitability.
From the table of coefficients, the regression equation can be obtained as
Profitability= 6.176 + .071* Operational Efficiency

The normal probability plot is obtained to test the assumption about the normality of residuals and it appears that the residuals are approximately normally distributed. Thus the assumptions for regression analysis appear to be met.

CHAPTER - VII

RESULTS, DISCUSSIONS AND MAJOR FINDINGS OF THE STUDY

7.1 Potential Explored Factors of Financial Management

7.2 Factor Based Hypothesis Testing Result's Discussion

7.3 Summary of The Main Findings of The Study

CHAPTER - VII
RESULTS, DISCUSSIONS AND MAJOR FINDINGS OF THE STUDY

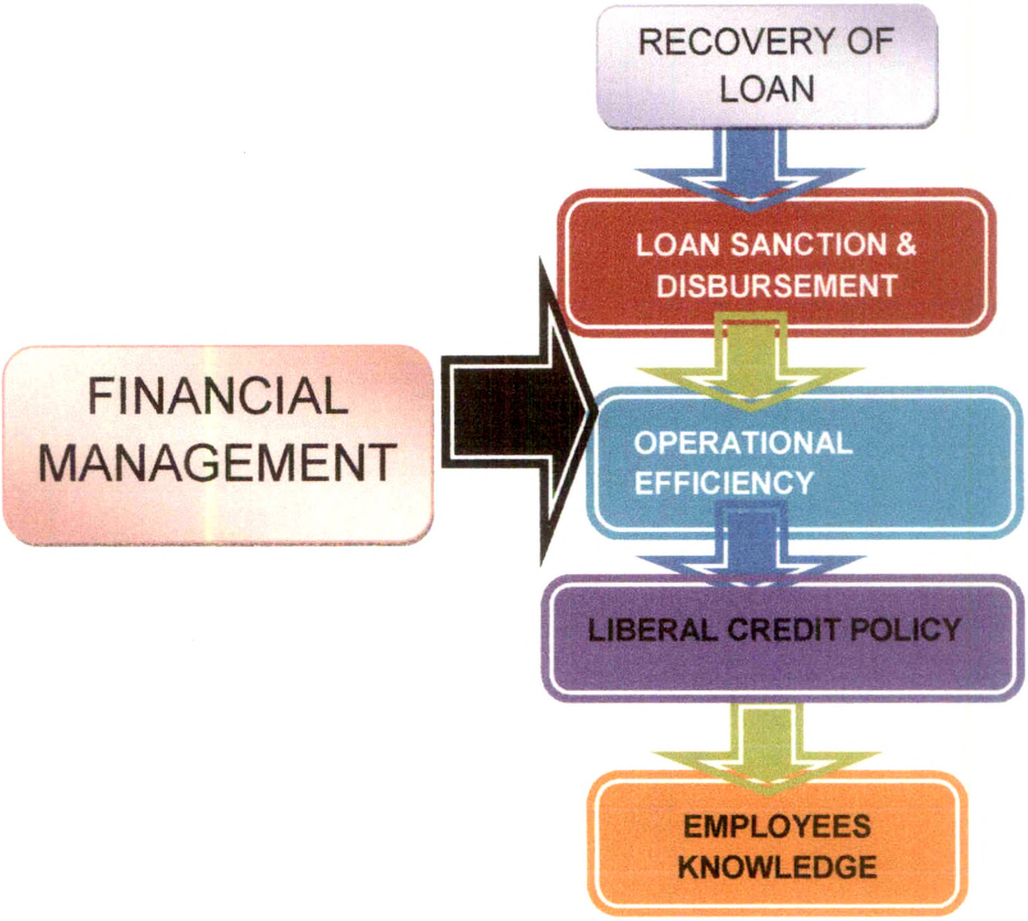
With the help of obtained results from the previous chapter 'Data Analysis & Interpretation' the current chapter is being carried out as a grand summary of results, which formed the basis of this thesis. Various tools were applied on the data and significant result was obtained to meet the objectives of the research. Results of the analysis are supported by the appropriate literatures to explain the summarized findings. Thus, this chapter is an attempt to discuss the findings of the study in the light of the available literatures.

The following discussions on seventeen hypotheses were carried out and the basis of formulation was the determined objectives. In the beginning this study has determined the objectives to identify the attributes of financial performance of regional rural banks perceived by the employees. The statistical tools factor analysis; correlation and regression were applied to test these hypotheses. The findings concluded that there is a positive linear relationship between variables of capital adequacy and financial performance parameters, financial ratios and business ratios, balance between inflow and outflow funds, loan disbursement and profitability, profitability and operational efficiency.

7.1 POTENTIAL EXPLORED FACTORS OF FINANCIAL MANAGEMENT

The study explored five factors of Financial Management (Recovery of Loan, Loan Sanction and Disbursement, Operational Efficiency, Liberal Credit Policy and Employees Knowledge) and determined to measure the linear relationship with performance of regional rural banks. Above all, sustaining a financial performance comes from the banks genuinely caring for its customers and employees, not just because they are a source of business, but in recognition that a bank cannot survive and thrive without the customers it serves and the apex bodies it works with. Customer needs are becoming increasingly diverse. These needs can no longer be satisfied by a mass marketing approach. Banks can cope with this diversity by grouping customers with similar requirements and their behaviour into segments. Identification of the appropriate premise of segmentation can then be made, thus making the best of finite resources. Therefore it becomes significant to understand how consumers make decisions which are critical for bank managers, especially in the rural areas where customers are illiterate and unaware about the scenario.

FIGURE 7.1
POTENTIAL FACTORS IDENTIFIED BY 'FACTOR ANALYSIS'



The above mentioned five factors were explored to examine the attributes of Financial Management and significantly these have the greater impact on the performance of regional rural banks' operations & functions. These factors are as follows:

Recovery of Loan: This factor depends on the operational efficiency of banks to recover the amount from the customers.

Loan Sanction & Disbursement: The financial management includes the sanctioning and disbursement of loan effectively and efficiently. As it is difficult task to explain the terms and the mode of payment to those rural customers.

Operational Efficiency: The performance of the banks depend on the operational functions as it includes the various measures such as; prompt service, complaint handling, sustaining CRM etc.

Liberal Credit Policy: The banks have to maintain CRM through credit policy that should be liberal.

Employees' Knowledge: Overall the strength of the banks are always lies in the employees knowledge. This is the important factor as they are in direct touch with the customers.

7.2 FACTOR BASED HYPOTHESIS TESTING RESULT'S DISCUSSION

The current research has tried to investigate the influential factors associated with the financial management and on the basis of factors following hypotheses have been tested to conclude the findings. Findings revealed results in the expected direction for the first factor based hypothesis has proven ***that there is no significant relationship between Regional Rural Bank's Performance (Narmada Jhabua Gramin Bank) and Capital Adequacy.***

Capital adequacy ratio shows the capital strength of the bank. CAR is a signal of soundness of the financial position of the bank. This ratio shows the bank's ability to face the worst period by paying its debts from its capital in case of huge Nonperforming assets, and less chances of the bank's financial distress. This ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world. To test the hypothesis correlation and regression were applied and it is concluded that banks' performance has positive relationship with capital adequacy. The important values, generated by SPSS through running regression on the data collected are as follow: Coefficient of Correlation, R-.872, Coefficient of Determination, R2-.761, F-Test Value-6.356 at P-value-.001 and lastly tolerance level is determined through Coefficient of independent variable, Beta-.2.806. The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. The value of T-test is 2.521 **{Refer Table No. 5.6** is significant at 5% level of significance. F value is greater at 1 degree of freedom. Hence, the relationship between independent variable and dependent variable is .872 and 76.1% change is explained in the variable of capital adequacy by banks' performance. **{Refer Table No.5.4.** The estimated regression model of data shows that there is a (strong effect) positive relation between capital adequacy & banks' performance. It also tells us that a change in banks' performance (Narmada Jhabua Gramin Bank) will enhance up to 2.806 capital adequacy. The F-calculated value is 6.356, so, the overall model is significant under the condition that F-calculated > F- tabulated. In this case the data shows that the model is significant at p-value. The p-value from the result is less than 0.05. Thus, the null hypothesis is rejected and the alternative hypothesis is accepted. The findings are statistically significant at the 5% level. The findings concluded that Banks' performance is the way and an attempt to meet the capital adequacy.

The result of the second factor based hypothesis assumed is inclined with the available literatures. For the hypothesis, ***there is no significant relationship between Regional Rural Bank's Performance (Madhyanchal Gramin Bank) and Capital Adequacy***. To test the hypothesis correlation and regression were applied and it is concluded that banks' performance has positive relationship with capital adequacy. The important values, generated by SPSS through running regression on the data collected are as follow: Coefficient of Correlation, R-.890, Coefficient of Determination, R2-.793, F-Test Value-7.651 at P-value-.001 and lastly tolerance level is determined through Coefficient of independent variable, Beta-.5.837. The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. The value of T-test is 2.766 **{Refer Table No. 5.13** is significant at 5% level of significance. F value is greater at 1 degree of freedom. Hence, the relationship between independent variable and dependent variable is .890 and 79.3% change is explained in the variable of capital adequacy by banks' performance. **{Refer Table No. 5.11** The estimated regression model of data shows that there is a (strong effect) positive relation between capital adequacy & Madhyanchal Gramin banks' performance. It also tells us that a change in banks' performance (Madhyanchal Gramin Bank) will enhance up to 5.837 capital adequacy. The F-calculated value is 7.651, so, the overall model is significant under the condition that F-calculated > F- tabulated. In this case the data shows that the model is significant at p-value. The p-value from the result is less than 0.05. Thus, the null hypothesis is rejected and the alternative hypothesis is accepted. The findings are statistically significant at the 5% level. The findings concluded that the performance which includes profitability, deposits, disbursement of Banks' performance is the way and an attempt to meet the capital adequacy.

For the next hypothesis stated that ***there is no significant relationship between Regional Rural Bank's Performance (Central Madhya Pradesh Gramin Bank) and Capital Adequacy.*** To test the hypothesis correlation and regression were applied and it is concluded that Central M.P Gramin banks' performance has positive relationship with capital adequacy. The important values, generated by SPSS through running regression on the data collected are as follow: Coefficient of Correlation, R-.975, Coefficient of Determination, R2-.950, F-Test Value-38.108 at P-value-.000 and lastly tolerance level is determined through Coefficient of independent variable, Beta-6.012 The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. The value of T-test is 6.173 **{Refer Table No. 5.20** is significant at 5% level of significance. F value is greater at 1 degree of freedom. Hence, the relationship between independent variable and dependent variable is .975 and 95% change is explained in the variable of capital adequacy by banks' performance. **{Refer Table No. 5.18.** The estimated regression model of data shows that there is a (strong effect) positive relation between capital adequacy & Central M.P Gramin banks' performance. It also tells us that a change in banks' performance (Central M.P Gramin Bank) will enhance up to 6.012 capital adequacy. The F-calculated value is 38.108, so, the overall model is significant under the condition that F- calculated > F- tabulated. In this case the data shows that the model is significant at p-value. The p-value from the result is less than 0.05. Thus, the null hypothesis is rejected and the alternative hypothesis is accepted. The findings are statistically significant at the 5% level. The findings concluded that the performance which includes profitability, deposits, disbursement of Banks' performance is the way and an attempt to meet the capital adequacy.

For the next fourth hypothesis stated ***there is no significant relationship between Regional Rural Bank's Performance and Capital Adequacy.*** To test the hypothesis correlation and regression were applied and it is concluded that Central M.P Gramin banks' performance has positive relationship with capital adequacy. The important values, generated by SPSS through running regression on the data collected are as follow: Coefficient of Correlation, R-.932, Coefficient of Determination, R2-.868, F-Test Value-13.178 at P-value-.003 and lastly tolerance level is determined through Coefficient of independent variable, Beta-8.276 The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. The value of T-test is 3.630 **{Refer Table No. 5.26** is significant at 5% level of significance. F value is greater at 1 degree of freedom. Hence, the relationship between independent variable and dependent variable is .932 and 86.8% change is explained in the variable of capital adequacy by regional rural banks' performance. **{Refer Table No. 5.24.** The estimated regression model of data shows that there is a (strong effect) positive relation between capital adequacy & regional rural banks' performance. It also tells us that a change in banks' performance (regional rural Banks) will enhance up to 8.276 capital adequacy. The F-calculated value is 13.178, so, the overall model is significant under the condition that F- calculated > F- tabulated. In this case the data shows that the model is significant at p-value. The p-value from the result is less than 0.05. Thus, the null hypothesis is rejected and the alternative hypothesis is accepted. The findings are statistically significant at the 5% level. The findings concluded that the performance which includes profitability, deposits, disbursement of regional rural Banks' performance is the way and an attempt to meet the capital adequacy.

Similar studies were conducted by many researchers on capital adequacy which is the best determinant in giving the input in measuring the financial performance of banks. Business grows mainly by taking risk as greater the risk, higher the profit and hence the entity must strike a trade-off between the two. Risk is the potentiality that both the expected and unexpected events may have an adverse impact on the bank's capital and earnings. While the expected losses are generally taken care of by suitable pricing methodology, the unexpected losses, both on account of individual exposure and the whole portfolio in entirety, is to be borne by the bank itself and hence is to be taken care of by the requisite capital. Hence the need for suitable capital structure and sufficient Capital Adequacy requirements is felt (Raghavan, 2004). Capital is essential and critical to the perpetual continuity of a bank as a going concern. A minimum amount of capital is required to ensure safety and soundness of the bank and also to build trust and confidence of the customers. A bank with a sound capital position is able to pursue business opportunities more effectively and has more time and flexibility to deal with problems arising from unexpected losses thus achieving increased profitability (Athanasoglou et al., 2005). A Study by Hassan (2001) examined the performance of Islamic banks' worldwide during 1994-2001. Variety of internal and external banking characteristics were used to predict profitability and the result indicated high capital lead to high profitability. Abreu (2002) found that well capitalized banks face lower expected bankruptcy costs and thus lower funding costs and this resulted into better profitability. Stiroh (2002) assessed the potential benefits from the diversification of activities and increasing reliance on non-interest income. The result of this present study suggested that banks' performance in terms of deposits, borrowings, profitability, loan disbursement, recovery have the greatest impact on banks' capital with regard to the capital adequacy.

For the hypotheses stated ***there is no balance between Inflow and Outflow of funds in Madhyanchal Gramin Bank, Central M.P Gramin Bank and Narmada Jhabua Gramin Bank.*** To test the hypothesis correlation was applied and it is concluded that there is a balance between inflow and outflow of funds in Madhyanchal Gramin banks Central M.P Gramin bank and Narmada Jhabua Gramin Bank.' The correlation value is .785, .980 and .984 respectively. The association is strong between inflow and outflow of funds in all these three banks. The inflow and outflow includes deposits, borrowings, operating expenses, loans and advances, investments in different avenues. The p-value from the result is less than 0.05. Thus, the null hypothesis is rejected and the alternative hypotheses are accepted with respect to the three regional rural banks. The findings are statistically significant at the 5% level. For the hypothesis that ***there is no balance between Inflow and Outflow of funds in RRBs.*** The correlation value is ,878 hence, the association is strong.

For the next hypothesis stated ***there is no significant impact of Business Ratios on Financial Ratios with regard to the Central M.P Gramin Bank.*** To test the hypothesis correlation and regression were applied and it is concluded that there is a significant impact of business ratios on financial ratios in Central M.P Gramin Bank. The important values, generated by SPSS through running regression on the data collected are as follow: Coefficient of Correlation, R-.877, Coefficient of Determination, R2-.769, F-Test Value-6.658 at P-value-.002 and lastly tolerance level is determined through Coefficient of independent variable, Beta-5.981 The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. The value of T-test is 4.280 **{Refer Table No. 6.7** is significant at 5% level of significance.

F value is greater at 1 degree of freedom. Hence, the relationship between independent variable and dependent variable is .877 and 76.9% change is explained in the variable of financial ratios by business ratios in Central M.P Gramin Bank. **{Refer Table No. 6.5.** The estimated regression model of data shows that there is a (strong effect) positive relation between financial ratios & business ratios. It also tells us that a change in business ratios (Central M.P Gramin bank) will enhance up to 5.981 financial ratios. The F-calculated value is 6.658, so, the overall model is significant under the condition that F- calculated > F- tabulated. In this case the data shows that the model is significant at p-value. The p-value from the result is less than 0.05. Thus, the null hypothesis is rejected and the alternative hypothesis is accepted. The findings are statistically significant at the 5% level. The findings concluded that the business ratios is an important measure to determine the impact on financial ratios.

For the hypothesis no.10 stated ***there is no significant impact of Business Ratios on Financial Ratios with regard to the Narmada Jhabua Gramin Bank.*** To test the hypothesis correlation and regression were applied and it is concluded that there is a significant impact of business ratios on financial ratios in Narmada Jhabua Gramin Bank. The important values, generated by SPSS through running regression on the data collected are as follow: Coefficient of Correlation, R-.974, Coefficient of Determination, R2-.948, F-Test Value-110.409 at P-value-.000 and lastly tolerance level is determined through Coefficient of independent variable, Beta-9.553 The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. The value of T-test is 17.877 **{Refer Table No. 6.13** is significant at 5% level of significance. F value is greater at 1 degree of freedom. Hence, the relationship between independent variable and dependent variable is .877 and 76.9% change is explained in the variable of financial ratios by business ratios in Narmada Jhabua Gramin Bank. **{Refer Table No. 6.11.** The estimated regression model of data shows that there is a (strong effect) positive relation between financial ratios & business ratios. It also tells us that a change in business ratios (Narmada Jhabua Gramin bank) will enhance up to 9.553 financial ratios. The F-calculated value is 110.409, so, the overall model is significant under the condition that F- calculated > F- tabulated. In this case the data shows that the model is significant at p-value. The p-value from the result is less than 0.05. Thus, the null hypothesis is rejected and the alternative hypothesis is accepted. The findings are statistically significant at the 5% level. The findings concluded that the business ratios is an important measure to determine the impact on financial ratios.

For the hypothesis no.11 stated ***there is no significant impact of Business Ratios on Financial Ratios with regard to the Madhyanchal Gramin Bank.*** To test the hypothesis correlation and regression were applied and it is concluded that there is a significant impact of business ratios on financial ratios in Madhyanchal Gramin Bank. The important values, generated by SPSS through running regression on the data collected are as follow: Coefficient of Correlation, R-.997, Coefficient of Determination, R2-.995, F-Test Value-1085.82 at P-value-.000 and lastly tolerance level is determined through Coefficient of independent variable, Beta-5.551 The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. The value of T-test is 32.953 **{Refer Table No. 6.19** is significant at 5% level of significance. F value is greater at 1 degree of freedom. Hence, the relationship between independent variable and dependent variable is .997 and 99.5% change is explained in the variable of financial ratios by business ratios in Madhyanchal Gramin Bank. **{Refer Table No. 6.17.** The estimated regression model of data shows that there is a (strong effect) positive relation between financial ratios & business ratios. It also tells us that a change in business ratios (Madhyanchal Gramin bank) will enhance up to 5.551 financial ratios. The F-calculated value is 1085.82, so, the overall model is significant under the condition that F- calculated > F- tabulated. In this case the data shows that the model is significant at p-value. The p-value from the result is less than 0.05. Thus, the null hypothesis is rejected and the alternative hypothesis is accepted. The findings are statistically significant at the 5% level. The findings concluded that the business ratios is an important measure to determine the impact on financial ratios.

For the hypothesis no.12 stated ***there is no significant impact of Business Ratios on Financial Ratios with regard to the RRBs Bank.*** To test the hypothesis correlation and regression were applied and it is concluded that there is a significant impact of business ratios on financial ratios in RRBs Bank. The important values, generated by SPSS through running regression on the data collected are as follow: Coefficient of Correlation, R-.697, Coefficient of Determination, R2-.595, F-Test Value-1985.500 at P-value-.000 and lastly tolerance level is determined through Coefficient of independent variable, Beta-3.551 The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. The value of T-test is 15.210 **{Refer Table No. 6.23** is significant at 5% level of significance. F value is greater at 1 degree of freedom. Hence, the relationship between independent variable and dependent variable is .697 and 59.5% change is explained in the variable of financial ratios by business ratios in RRBs Bank. **{Refer Table No. 6.21.** The estimated regression model of data shows that there is a (strong effect) positive relation between financial ratios & business ratios. It also tells us that a change in business ratios (RRBs bank) will enhance up to 3.551 financial ratios. The F-calculated value is 1985.00, so, the overall model is significant under the condition that F- calculated > F- tabulated. In this case the data shows that the model is significant at p-value. The p-value from the result is less than 0.05. Thus, the null hypothesis is rejected and the alternative hypothesis is accepted. The findings are statistically significant at the 5% level. The findings concluded that the business ratios is an important measure to determine the impact on financial ratios.

For the hypothesis stated ***there is no significant impact of Operational Efficiency on Profitability of RRBs.*** To test the hypothesis correlation and regression were applied and it is concluded that there is a significant impact of operational efficiency on profitability in RRBs Bank. The important values, generated by SPSS through running regression on the data collected are as follow: Coefficient of Correlation, R-.830, Coefficient of Determination, R2-.768, F-Test Value-12.108 at P-value-.000 and lastly tolerance level is determined through Coefficient of independent variable, Beta-6.176. The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. The value of T-test is 3.630 **{Refer Table No. 6.25** is significant at 5% level of significance. F value is greater at 1 degree of freedom. Hence, the relationship between independent variable and dependent variable is .830 and 76.8% change is explained in the variable of profitability by operational efficiency in RRBs Bank. **{Refer Table No. 6.24.** The estimated regression model of data shows that there is a (strong effect) positive relation between profitability and operational efficiency. It also tells us that a change in operational efficiency (RRBs bank) will enhance up to 6.176 profitability. The F-calculated value is 12.108, so, the overall model is significant under the condition that F- calculated > F- tabulated. In this case the data shows that the model is significant at p-value. The p-value from the result is less than 0.05. Thus, the null / Zero hypothesis is rejected and the alternative hypothesis is accepted. The findings are statistically significant at the 5% level. The findings concluded that the operational efficiency is an important measure to determine the impact on profitability.

Profitability is key to any business because it allows the business to expand and provide more and a broader range of services to a larger number of people. Efficiency can be defined as how well a company uses its assets and liabilities internally. In the environment of volatile interest rates, demanding customers, greater need for financial inclusion, competition for human capital, restrictions of lending in terms of own funds, it is absolutely essential that banks operate and utilise their resources efficiently. Hence, it is important to evaluate a bank's performance based on the efficiency with which a bank used its human, technological and financial resources. Therefore efficiency has been selected as a major criterion for measuring the performance of banks.

For the next hypothesis stated ***there is no significant relationship between Loan Disbursement & Net Profit in Narmada Jhabua Gramin Bank.*** To test the hypothesis correlation and regression were applied and it is concluded that there is a significant relationship between loan disbursement and net profit in Narmada Jhabua Gramin Bank. The important values, generated by SPSS through running regression on the data collected are as follow: Coefficient of Correlation, R-.712, Coefficient of Determination, R2-.514, F-Test Value-3.115 at P-value-.000 and lastly tolerance level is determined through Coefficient of independent variable, Beta-50.079. The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. The value of T-test is 2.072 **{Refer Table No. 5.41** is significant at 5% level of significance. F value is greater at 1 degree of freedom. Hence, the relationship between independent variable and dependent variable is .717 and 51.4% change is explained in the variable of net profit by loan disbursement in Narmada Jhabua Gramin Bank Bank. **{Refer Table No. 5.39.** The estimated regression model of data shows that there is a (strong effect) positive relation between net profit and loan disbursement. It also tells us that a change in net profit (Narmada Jhabua Gramin

Bank) will enhance up to 50.079 loan disbursement. The F-calculated value is 3.115, so, the overall model is significant under the condition that F- calculated > F- tabulated. In this case the data shows that the model is significant at p-value. The p-value from the result is less than 0.05. Thus, the null hypothesis is rejected and the alternative hypothesis is accepted. The findings are statistically significant at the 5% level. The findings concluded that there is a strong association between loan disbursement and net profit.

For the next hypothesis stated ***there is no significant relationship between Loan Disbursement & Net Profit in Madhyanchal Gramin Bank.*** To test the hypothesis correlation and regression were applied and it is concluded that there is no significant relationship between loan disbursement and net profit in Madhyanchal Gramin Bank. The important values, generated by SPSS through running regression on the data collected are as follow: Coefficient of Correlation, R-.373, Coefficient of Determination, R2-.064, F-Test Value-.137 at P-value-.008 and lastly tolerance level is determined through Coefficient of independent variable. The calculated value of F is lower than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. F value is lower than at 1 degree of freedom. Hence, the relationship between independent variable and dependent variable is .373 and 6.4% change is explained in the variable of net profit by loan disbursement in Madhyanchal Gramin Bank Bank that is negligible.. **{Refer Table No. 5.44.** The estimated regression model of data shows that there is no positive relation between net profit and loan disbursement. It also tells us that a change in net profit (Madhyanchal Gramin Bank) will enhance loan disbursement is negligible. The F-calculated value is .137, so, the overall model is significant under the condition that F- calculated < F- tabulated. In this case the data shows that the model is significant at p-value. The p-value from the result is more than 0.05. Thus, the null hypothesis is accepted and the alternative hypothesis is rejected. The findings are statistically significant at the 5% level. The findings concluded that there is no strong association between loan disbursement and net profit.

For the next hypothesis stated ***there is no significant relationship between Loan Disbursement & Net Profit in Central M.P Gramin Bank.*** To test the hypothesis correlation and regression were applied and it is concluded that there is a significant relationship between loan disbursement and net profit in Central M.P Gramin Bank. The important values, generated by SPSS through running regression on the data collected are as follow: Coefficient of Correlation, R-.972, Coefficient of Determination, R2-.946, F-Test Value-34.825 at P-value-.002 and lastly tolerance level is determined through Coefficient of independent variable. The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. F value is greater at 1 degree of freedom. Hence, the relationship between independent variable and dependent variable is .972 and 94.6% change is explained in the variable of net profit by loan disbursement in Central M.P Gramin Bank. **{Refer Table No. 5.48.** The estimated regression model of data shows that there is a (strong effect) positive relation between net profit and loan disbursement. It also tells us that a change in net profit (Central M.P Gramin Bank) will enhance loan disbursement. The F-calculated value is 34.825, so, the overall model is significant under the condition that F- calculated > F-tabulated. In this case the data shows that the model is significant at p-value. The p-value from the result is less than 0.05. Thus, the null hypothesis is rejected and the alternative hypothesis is accepted. The findings are statistically significant at the 5% level. The findings concluded that there is a strong association between loan disbursement and net profit.

For the last hypothesis stated ***there is no significant relationship between Loan Disbursement & Net Profit in RRBs.*** To test the hypothesis correlation and regression were applied and it is concluded that there is a significant relationship between loan disbursement and net profit in RRBs. The value of correlation is .772, it seems that there is a strong bond between these two variables. The p-value from the result is less than 0.05. Thus, the null hypothesis is rejected and the alternative hypothesis is accepted. The findings are statistically significant at the 5% level. The findings concluded that there is a strong association between loan disbursement and net profit in RRBs.

The findings concluded that the regional rural banks would be a 'model financial infrastructure' for rural development with patronage and encouragement given by planners in the field. Thus, the State sponsored, regionally based and rural oriented commercial banks have taken birth in rural India which popularly known as 'Regional Rural Banks'. These banks penetrate every corner of the country and have been extending a helping hand in the growth of the economy.

Despite the RRBs journeyed over three decades, they have achieved performance to the expected level quantitatively not turning towards sound financial management and productivity. Moreover the achieved performance is not uniform though they are working under the approach of same management. Effective performance is the success of every business. In order to achieve the effective and efficient performance, the RRBs have been taken up amalgamation process in the entire organization in the year 2005-06. Amalgamation of regional rural banks was considered to strengthen all the branches financially. In every line of business, the performance of each bank is appraised in financial perspectives and ranked them. In this study an attempt was made to discuss the financial performance of selected regional rural banks during post reorganization period. To measure the financial soundness of selected sample banks, the correlation and regression were adopted which are helpful in regress the variables and calculate the exact to many causes. These findings are significant in the sense that the risk adjustment helps to account for the uncertainty associated with bank's capital levels. This acts a reliable measure of the nature and the composition of capital inherent in a bank's capital structure.

It has been also found that regional rural banks offer all the general savings products such as the regular savings accounts, current accounts, and time deposits. Typically, the largest share of the deposit portfolio in a rural bank is held in the savings account. Interest rates offered on these accounts are typically very low, however, and often negative when inflation is taken into account. In 2008 in the sample banks, interest rates on savings deposits varied from 5 to 16 percent, while inflation ranged between 11 and 18 percent. Further, interest on savings accounts is often provided only when the savings balances are more than a specified amount. Unlike in most commercial banks, however, rural banks do not require high minimum balances to maintain a savings account and do not charge a high ledger fee.

For individual loans, the creditworthiness of the borrower is assessed on the basis of the individual's character, the purpose of the loan, and the credit history of the individual with the bank. The level at which credit decisions are made also varies from bank to bank and has changed over time. In some banks, all credit decisions are made by credit committees in the head office or by the board.

7.3 SUMMARY OF THE MAIN FINDINGS OF THE STUDY

Factor analysis was undertaken to condense the 25 scale items into the five convenience dimensions based on the second objective of the study that is *to identify and assess the factors effecting on Financial Management in Regional 1Rural Banks in Madhya Pradesh.*

These dimensions are:

- Recovery of Loan
- Loan Sanction & Disbursement
- Liberal Credit Policy
- Operational Efficiency
- Employees Knowledge

The above mentioned factors are important in examining the financial management aspects. Above all the bank's performance depends upon these mechanisms. For this study the period from 2011-12 to 2014-15 as on March, 31 (Four Years) have been selected. The another result has dealt with the performance of regional rural banks' performance and the growth of capital adequacy.

Because of the association of capital with bank soundness, one of the main tools of supervisors is the periodic evaluation of the adequacy of bank capital. The capital adequacy ratio is developed to ensure that banks can absorb a reasonable level of losses occurred due to operational losses and determine the capacity of the bank in meeting the losses. The higher the ratio, the more will be the protection of investors. The banks are required to maintain the capital adequacy ratio (CAR) as specified by RBI from time to time.

The following parameters have been taken as independent variables for measuring the regional rural banks' performance: Loan Disbursement, Deposits, Recovery, profitability, Growth and on the other hand capital adequacy has been taken as dependent variable. For this study , all the three banks' Central Madhya Pradesh Gramin Bank, Madhyanchal Gramin Bank and Narmada Jhabua Gramin Bank were selected and found that in Narmada Jhabua Gramin Bank, all the parameters of performance the increase in % is increasing year wise except in the case of loan disbursement in 2013-14 there was slightly decrease from 91.46% in 2012-13 to 88.07%, in the same way with the case of profitability and recovery there was changes in percentage in 2012-13 and 2013-14 respectively.

In the capital adequacy it is clear from the data that in 2011-12 there was 12.68% and in 2014-15 it goes to 17.65%. It means that changes in increasing are reflected in these four years analysis and it is concluded that banks' performance is satisfactory.

To test the hypothesis ***that there is no significant relationship between Regional Rural Bank's Performance (Narmada Jhabua Gramin Bank) and Capital Adequacy,*** correlation and regression were applied and it is concluded that CA has positive relationship with Bank's Performance.

The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. The value of T-test is 2.521 is significant at 5% level of significance. F value is greater at 1 degree of freedom. Hence, the relationship between independent variable and dependent variable is highly significant. The estimated regression model of data shows that there is a (strong effect) positive relation between Bank's Performance and CA.

As regards the parameters of Madhyanchal Banks' performance, the increase in % is increasing year wise except in the case of growth in 2013-14 there was decrease from 17.23% in 2012-13 to 12.86%, in the same way with the case of profitability and recovery there was changes in percentage in 2013-14. In the capital adequacy it is clear from the data that in 2011-12 there was 12.68% and in 2014-15 it goes to 17.65% but in 2013-14 it was declined from 11.53% to 11.18%. But overall it is concluded that changes in increasing the performance during these four years analysis is satisfactory.

To test the hypothesis ***that there is no significant relationship between Regional Rural Bank's Performance (Madhyanchal Gramin Bank) and Capital Adequacy,*** correlation and regression were applied and it is concluded that CA has positive relationship with Madhyanchal Gramin Bank's Performance. The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. Hence, the relationship between independent variable and dependent variable is highly significant. The estimated regression model of data shows that there is a (strong effect) positive relation between Madhyanchal Bank's Performance and CA.

The findings of study is concluded that in Central M.P Banks' performance, the increase in % is increasing year wise in all the parameters is reflected such as; loan disbursement, growth, deposits, profitability, recovery and capital adequacy.

In the loan disbursement, it has been reflected that the percentage is 59.12 in 2011-12 and goes to 90.31 in 2014-15, in the variable of growth, it is clear that the percentage is 7.08 in 2011-12 and it foes to 18.5 in 2014-15, in deposits the percentage is 41.01 in 2011-12 and it goes to 61.71 in 2014-15, in the case of profitability the percentage is 69.1 and again it goes to 88.68% and in the recovery the percentage is 58.26 and it goes to 72.18% in 2014-15.

On the other hand the dependent variable of capital adequacy it is clear from the data that in 2011-12 there was 4.62% and in 2014-15 it goes to 9.58% . Overall it is concluded that changes in increasing the performance during these four years analysis is highly satisfactory.

The hypothesis ***there is no significant relationship between Regional Rural Bank's Performance (Central M.P Gramin Bank) and Capital Adequacy*** was tested and found that there is a significant association between Central M.P Gramin Banks' Performance and Capital Adequacy. Finally, the values of all the three banks are combined and the test was applied and found that there is a significant impact of capital adequacy on banks' performance.

The next hypothesis ***there is no balance between Inflow and Outflow of funds in Madhyanchal Gramin Bank*** was tested and the result found that Pearson's correlation coefficient between balance of Inflow and Outflow of funds in Madhyanchal Gramin Bank is 0.785 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, it is concluded that there is significant association between balance of Inflow and Outflow of funds in Madhyanchal Gramin Bank.

The another hypothesis which is based on inflow and outflow funds in Central M.P Gramin Bank and the findings revealed that there is significant association between balance of Inflow and Outflow of funds in Central M.P Gramin Bank for the four years.

In the same way another bank Narmada Jhabua Gramin Bank was selected and found that Pearson's correlation coefficient between balance of Inflow and Outflow of funds in Narmada Jhabua Gramin Bank is 0.984 which is significant since the significant value (p-value) 0.001 is less than 0.05. Inflow and outflow of funds have been taken combined of these three banks and found that these banks have maintained the balance between inflow and outflow of funds.

The following hypotheses were based on the relationship between financial ratios and business ratios and tested. In financial ratios, financial return, financial margin, operating profit, miscellaneous income and net margin and on the other hand in the business ratios, interest income, non-interest income, operation profit, ROA, business (deposits + advances) and profit per employee were studied and examined the relationship between these two variables.

In Central M.P Gramin Bank, financial return was increased from 8.69% in 2011-12 to 8.78% in 2014-15, but in other financial ratios there were some changes occurred. In the same way, in business ratios, interest income was increased from 8.22% to 8.78% in 2014-15. In business deposits+ advances ₹ 429.00 (Crores) was increased upto 536.32 (₹ In crores) n 2014-15. Profit per employee is also increased from .19% to .55% in 2014-15.

The financial ratios in Narmada Jhabua Gramin bank have been found that miscellaneous incomes is increased from 0.51% to 0.71%, in the same way net margin is increased from 1.28% to 1.82% from 2011-12 to 2014-15. Likely in the business ratios ROA in 2011-12 was 0.98% and it was increased to1.87% in 2014-15 and also profit per employee is 2.92% in 2011-12 and increased to 7.51% in 2014-15. From the business ratios, it is argued that deposits and advances were 428.11 in crores increased to 566.56 crores in 2014-15.

It is evident from the data of Madhyanchal Gramin Bank, that in all the parameters there were some ups and downs observed. The data was fluctuated due to some rules and regulations. As regards as business ratios are concerned, only in the deposits and advances ₹ 359 crores are increased to 478.17 crores in 2014-15 but in other ratios such as; interest income, non-interest income, ROA and profit per employee are increased and simultaneously decreased.

To measure the impact of business ratios on financial ratios, correlation and regression were applied and tested on the following hypotheses.

To test the hypothesis that ***there is no significant impact of Business Ratios on Financial Ratios with regard to the Central M.P Gramin Bank, Narmada Gramin Bank and Madhyanchal Gramin Bank.***

The findings concluded that Pearson's correlation coefficient between Financial Ratios & Business Ratios in Central M.P Gramin Banks is 0.877, .974 and .997 which is significant since the significant value (p- value) 0.000 is less than 0.05.

The hypothesis is related with ***there is no significant impact of Operational Efficiency on Profitability of RRBs*** and found that the coefficient of determination R^2 is 0.702; therefore, 70.2% of the variation in Profitability is explained by Operational Efficiency.

It has been reflected from the data on loan disbursement and net profit in Narmada Jhabua Gramin Bank that loan disbursement in 2011-12 was 90% and increased upto 92.40% in 2014-15 and in the same way the net profit was also increased. In 2011-12 the net profit was 94.6% in 2014-15.

In Madhyanchal Bank, loan disbursement was 68.60% in 2011-12 and increased upto 92.07% in 2014-15 and also the net profit was 23.84% n 2011-12 and increased upto 39.36% in 2014-15. But comparatively it was low in ratio from other two banks.

In the Central M.P bank, the loan disbursement was 59.12% in 2011-12 & 90.31 in 2014-15 and also the net profit 69.01% in 2011-12 and increased upto 88.68% in 2014-15. This change net profit is highly appreciated.

CHAPTER - VIII
CONCLUSION & SUGGESTIONS

8.1 A Brief Summary of The Chapters

8.2: Conclusion

8.3 Concluding Remarks

8.4 Problems

8.5 Suggestions & Recommendations

BIBLIOGRAPHY

ANNEXURE (1 & 2)

ABBREVIATIONS

RESEARCH PAPER

CHAPTER - VIII
CONCLUSION & SUGGESTIONS

The RRBs are playing a predominant role in the socio-economic development of rural poor. In spite of all the policies and practices of financial aspects, there should be continuous monitoring for the evaluation of financial performance with regards to inflow and outflow of funds, banks' performance parameters such as; investment, deposits, profitability, capital adequacy etc. The regional rural banks would be a 'model financial infrastructure' for rural development with patronage and encouragement given by planners in the field. Thus, the State sponsored, regionally based and rural oriented commercial banks have taken birth in rural India which popularly known as 'Regional Rural Banks'. These banks penetrate every corner of the country and have been extending a helping hand in the growth of the economy. Despite the RRBs journeyed over three decades, they have achieved performance to the expected level quantitatively not turning towards sound financial management and productivity. Moreover the achieved performance is not uniform though they are working under the approach of same management.

Effective performance is the success of every business. In order to achieve the effective and efficient performance, the RRBs (Central M.P. Gramn Bank, Madhyanchal Gramin Bank & Narmada Jhabua Gramin bank) have been selected from the year 2011-12 to 2014-15. In every line of business, the performance of each bank is appraised in financial perspectives and ranked them. In this study an attempt is made to discuss the financial performance of selected regional rural banks during the studied period. To measure the financial soundness in terms of capital adequacy, financial ratios, business ratios, balance between inflow and outflow of funds, operational efficiency, banks' performance, net profit and loan disbursement of selected sampled banks, the correlation & Regression analysis and chi-square which is an appropriate technique is adopted. The present study in relation to the recovery, net profit, financial return during the studied period was enough sound. Hence, the banks have to take care to reduce the expenses and also to improve the productive efficiency through an effective utilization of capital, assets, investment, and employee .

8.1 A BRIEF SUMMARY OF THE CHAPTERS:

Chapter 1 is comprised of 'Conceptual and Theoretical Framework', 'Significance of the Study' and 'financial performance of RRBs. Theoretical explanations have been explained in order to support the current study and also to determine the relevance of this study, previous researches have been also undertaken. Various models and figures were incorporated for the in depth knowledge of the particular study. This chapter also describes the background of the research topic containing dimensions, factors, scope and parameters of the variables. 'Significance of the Study' offers the viable importance of these variables in the current scenario and helps in need of identifying the impact of these factors on financial performance. 'Objectives' of the study are base and foundation for providing the appropriate platform to the current study.

This chapter also discussed about the Methodology including sample size, universe, sampling techniques and tools used to obtain results from the data. The primary data was collected mainly from employees. A structured questionnaire was constructed for the selected respondents to collect the data. Total 25 items were covered in the questionnaire associated with the attributes of financial performance of RRBs; the secondary data were collected from published & unpublished documents of Libraries. Thereafter the required data were analyzed and inferences/interpretations have been made. All relevant data/opinions sought from these sources are also embodied into this report. Hence, the research design is exploratory and descriptive. Exploratory because the researcher has explored variables and described those variables in a quantitative and qualitative manner so that it can be concluded how much variance among different variables and measured the relationship between dependent and independent variables. Initially total responses of 550 employees were collected. Further, it was observed that the 10% questionnaire were incomplete and improperly filled hence these questionnaires were dropped out. Finally 200 responses were taken into consideration and then data refining was done. After a brief description of the study, design and sample, the tools for data collection and analysis have been discussed.

This chapter is also followed by 'Review of Literature' which is an evaluative report of selected past researches in the area of study and gives a theoretical base for the research and helps to determine the nature of the current research. In this chapter various factors have been studied which have been associated with dependent and independent variables of the study. It also investigates the scope for future research on the related problem and used as a literature background for the current research.

Chapter 2 consists of an Introduction of Madhya Pradesh and the Demographic Profile so that proper information has been extracted regarding the growth of the Banking Sector.

Chapter 3 contains the **I**ntroduction to Financial Management, Objectives; profit maximization, wealth maximization etc.

Chapter 4 comprises of factor analysis and through the factor loadings, the study has found that which the most important factors of financial performance are. This study has explored five factors which determine the parameters of performance.

Chapter 5 consists of Data analysis and Interpretation. In this chapter the Capital Adequacy, Recovery performance, deposits, loan disbursement, growth, investments, balance between inflow and outflow of finds etc. have been measured through correlation and regression. Tables and Charts have been generated with the help of SPSS 20.0.

Chapter 6 covers the financial and business ratios and tested hypothesis's results by applying correlation and regression. It was applied to explore the important variables on which correlation and regression was done to measure the percentage of variance among variables. All the tables and figures which have been generated with the help of SPSS 20.0 are presented in a systematic manner with explanations.

Chapter 7 contains the Results and Discussion. The results were examined in support of each assumed hypothesis and it has also supported by the other researcher's findings. It also discussed the importance of the result and connects with existing knowledge of the subject.

Chapter 8 discusses about the 'Summary', 'Conclusion, Problems and Suggestions. In the summary part the chapter wise summary is there which gives an instant overview of the work done. The conclusions describe the conclusion in detail and hence justify the framework of the study. The suggestions throw light on the critical issues and provide the base for future research. Further this chapter discusses about the Problems of the study. This section gives the practicality of the project in the real time situations.

Bibliography comprises of all the authors and their works which are duly acknowledged. The references used to complete this study were compiled under the bibliography in alphabetic order. Bibliography is enclosed at the end of the thesis for the reference.

8.2 CONCLUSION

It has been evident from the study of regional rural banks' performance that regarding deposits Madhyanchal Gramin Bank has mobilized aggregating ₹ 61357 lacs (13.1%) during the year which is 72% of M.O.U target. Deposits being the important source for banking business, intensive thrust for expanding the stable base of deposits was given, focusing on public deposits which registered a growth of ₹567.24 crore (13%). As regards as loans and advances-out standings total advances of the bank grew from ₹ 178805 lacs to ₹ 205899 lacs during the year of 2013-2014, net growth registering of ₹ 27094 lacs in absolute terms and 15.15% in percentage terms. In the same manner in the Central M.P Gramin Bank, the per branch deposit and per employee deposit increased to 1238 lacs in 2014-15 and ₹ 344 lacs as against last year 2013-14.

Investment constitutes an important source of earnings of the bank. The bank had been vigilant on this account. The Bank in terms of the instructions issued by the RBI, have invested all the SLR funds in Government Securities. Non S.L.R funds reinvested with Sponsor Bank and Mutual Fund. The surplus funds were effectively deployed to optimize the interest income.

Under the loan disbursement the regional rural banks have fulfilled its commitment to increase priority sector advances and simultaneously continued disbursement under non priority sector advances also to increase yield on advances and to ensure overall development of the service area.

Regional Rural banks have authorized all branches of the mentioned three Gramin Banks to issue Bank Guarantees to their customers. They have introduced Gramin Pay Orders for its customers as an alternative solution to the demand draft. The Banks have also provided locker facilities also at the potential branches. In addition to that, bank earns commission by collecting cheques and Money Transfer on behalf of its customers.

Bank has adopted system generated NPA through CBS system as per directive received from Government of India. The Banks have taken all possible steps to reduce the NPAs. In addition to other vigorous efforts taken by the Banks to reduce NPAs, cluster base recovery camps have been organized to recover overdue (CARE) amount. During the financial year, Narmada Jhabua Gramin Bank has made continue the cash incentive scheme for staff members for NPA recovery as formulated last year. This Bank has used all possible means to recover dues. From the year 2012-13 bank has provided special attention on recovery under SARFAESI Act, in which Bank has issued 212 demand notice under Through this bank could succeeded in recovering all dues in 119 accounts, whereas in 63 accounts, dues recovered partially.

This study also indicated that the motto of merger of regional rural banks is only to increase the service portfolio. As these rural banks are running in profit before and even after the merger. As even there is a great need for rural people also borrowings and deposits.

8.2.1 LOAN DISBURSEMENT

The Central M.P Gramin Bank is continuing its policy of extending adequate credit facilities for development of Agriculture, upliftment of rural poor. In compliance of Central Government new directives, bank have revised and simplified the KCC scheme to make it farmers friendly. Bank has extended KCC facility upto ₹ 3.00 lacs at concessional interest @ ₹ 146358 lacs in 2014-15 and in 2013-2014 it was 158362 The share of agriculture and allied activities during the year 2014-15 is ₹ 156446 which is 83.24% of total loan disbursement of ₹ 187993. Bank is playing a meaningful role in rural/agriculture development through credit disbursal under Government sponsored schemes like Swarna Jayanti Gram Swarojgar Yojna, Antyavyasayee Scheme, Khadi & Village Industries, Minor Irrigation etc. It will help in removing economic imbalances in society and shows bank's commitment towards growth of rural economy and creation of employment in rural areas. During the financial year 2014-15, to extend credit facility to economically weaker section of the society, bank has linked 1688 Self Help Groups and disbursed loan of ₹ 294-97 lac under NABARD Scheme. This bank has fulfilled its commitment to increase Priority Sector advances and simultaneously continued disbursement under Non Priority Sector advances also to increase yield on advances and to ensure over all development of the service area. On the other hand, Narmada Jhabua Gramin Bank has disbursed loan of ₹ 330225.07 lacs during the financial year 2014-15 as against ` 265983.29 lacs loan disbursed during the last year 2013-14. Portion of loan disbursed under agriculture sector is ₹ 292688.83 lac which is 88-42% to the total loan disbursed by the Bank during this year.

8.2.2 RECOVERY PERFORMANCE (NARMADA JHABUA GRAMIN BANK)

It has been revealed from the above table that the recovery performance of priority sector in Narmada Jhabua Gramin Bank is a slightly variate as in 2011-12 it was 84.37% but in 2012-13 it was reduced to 83.44%. But again it was increased to 85.73% in 2013-14 and again reduced to 84.38% in 2014-15. Hence, it was concluded that performance is much better and deviate from 1-2 % does not matter. So this variable shows the performance of banks in the good parameters. In the same way in non priority sector the percentage of recovery performance was 82.67% in 2011-12 but it was increased by 2 point something percentage in 2013-14 but in 2014-15 it was reduced to 65.04%. In this sector there was much deviation in the recovery due to increasing interest rate depending on the market scenario and also some restricted guidelines in providing the time limit to customers. The bank has given utmost priority to recovery, especially in the area of NPA reduction. Efforts were also been made to maximize recoveries in written off accounts and unrealized interest, to improve profitability of the Bank. To enhance recovery provision, bank has implemented OTS scheme to accelerate recoveries in NPA and written off accounts. Bank has started system of periodical monitoring of recovery in NPA and overdue accounts with outstanding of ₹ 1 lacs and above. Bank has appointed Nodal Officer at HO level for each region and Relationship Managers for each Branch, apart from this bank has also obtained services of recovery agents for recovery of NPA & written off loans. Branches were also given loan recovery targets to recover the dues in a planned manner with special emphasis on overdue amounts.

8.2.3 RECOVERY PERFORMANCE (MADHYANCHAL GRAMIN BANK)

It has been revealed from the above table that the recovery performance of priority sector in Madhyanchal Gramin Bank was 70% in 2011-12 and was increased upto 80% in 2014-15 but in 2013-14 it was reduced to 75.15% as against in the non priority sector the recovery performance in 2011-12 was 88% and again in 2012-13 it was stable but in 2014-15 it was increased from 86.71% to 87%. The performance in non priority sector is much good then the priority sector.It is evident from the table on recovery of performance that in 2012-13 the percentage of priority sector was 75.65% but it was reduced to 69.61% in 2014-15 as against in the non priority sector in 2013-14 the performance was much appreciated and it was 91.50%. But in 2014-15 it was reduced to 79.96%.

8.2.4 REASONS FOR INCREASING AND DECREASING DEPOSITS

The reasons for deposits depend on the inflation and the market position. The interest rate is regulated by the RBI guidelines so depending on the level of interest rate is highly influencing factor. It also observed after reviewing the RBI guidelines that the rate of interest is partially fixed after 1977. Hence, the fluctuation has been observed.

8.2.5 LENDING PROCESS

- RRB's were mainly established to meet the needs regarding the credit provided to small farmers, landless workers and artisans of rural India especially focusing on agro sector.
- RRBs have penetrated every corner of the country and extended a helping hand in the growth process of the country.
- Lending process is envisaged as a low cost financial intermediation structure in the rural areas to ensure sufficient flow of institutional credit for agriculture and other rural sectors.
- It has been decided that all loans granted by commercial banks/sponsor banks to RRBs for on-lending to agriculture and allied activities sector may be classified as indirect finance to agriculture in the books of commercial banks/sponsor banks. Consequently, the amount lent by RRBs out of funds borrowed from commercial banks/sponsor banks, may not be classified by RRBs as part of their priority sector advances. The RRBs need not also include such lending as part of their bank credit for the purpose of computing achievement level under priority sector lending. The commercial banks may report such loans separately

under the head 'Loans granted to RRBs for on-lending to agriculture & allied activities' in the half-yearly (Ad-hoc) [under 1 (vi)] and yearly (final) [under 12 (a)] return on priority sector advances.

- From September1992 onwards, the RRBs were allowed to finance non-target groups to the extent not exceeding 40 percent of their incremental lending. This limit was subsequently enhanced to 60 percent in 1994. As a result, the RRBs diversified into a range of non-priority sector (NPS) advances, including jewel and deposit-linked loans, consumer loans and home loans. The RRBs adopted new innovations for credit delivery with lower risk of default such as Self help Group linked lending, non-priority sector collateralized lending, Kisan Credit Card scheme for landed agriculturists, etc.. Even among the categories that were eligible as priority sector, the attempt was to minimize credit risk and make easy loans.

8.2.6 CASH CONTROL

Most of the transactions in the rural economy take place in terms of cash and there is continuous increase in currency with public, which ultimately finds its way to the banks.

- Location of Rural and Semi-urban branches/remote areas without adequate infrastructural facilities for frequent remittance of cash.
- Over enthusiasm on the part of banks in accepting deposits often resulting in accumulation of small denomination notes and soiled notes.
- Acceptance of cash only on limited days or denominations at currency chests. Ineffective utilization of cash by banks, which lead to non-sorting of, notes which in turn results in non-acceptance by currency chests.
- Seasonality in the rural activities requiring high liquidity.
- Lesser usage of other forms of money in rural areas.

8.3 CONCLUDING REMARKS:

RRBs also use group lending and guarantees by salaried individuals to reduce credit risk. The use of insurance, asset collateral, and other financial risk management tools is not common in the rural banks. Microfinance groups have monthly savings that are separate from the group loan account that will be used to repay the loan in case of default. Additionally, the banks hold a certain percentage of all loans as security. For microfinance loans, individual savings of group members are used as security.

Boards of RRBs are increasingly involved in cases of delinquency, and this has reportedly improved loan recovery. In cases of delinquency, the bank management usually notifies the board. The board and the credit officer follow up with the client. Board members may also visit the client at his or her household or business. If a loan is delinquent for three months, a demand notice is sent to the client and the case is transferred to the bank's lawyer. In some cases, village chiefs are also involved in persuading the borrower to repay the loan. In case of lending to individuals via a group, the group chairperson, the treasurer, and other group members work together to recover the loan from the individual. In some cases, groups have paid the amount due from their group savings.

8.4 PROBLEMS

1. The RRBs follow the actions of the commercial banks in the matter of deposits and advancing loans which are very complex and time-consuming from the villagers. The rural borrowers always appreciate easy ways and simple procedures as have been followed by the money-lenders and the indigenous bankers.
2. The RRBs come crossed a number of realistic difficulties in deposit mobilization. On account of their restrictive lending policy which excludes richer sections of the village society, these potential depositors show least concern in depositing their money with these banks.
3. The significant growth of rural bank outreach among depositors and borrowers demonstrates the ability of the rural banks to provide services to an increasing number of clients but due to fluctuations in inflation observed in the statistics sometimes it increases or decreases.
4. Rural banks cater primarily to the low-income and middle income segments of the population. The rural banks serve primarily smaller clients because of several factors, including local ownership, regulation, and capacity. Most clients of the banks are teachers, government employees, pensioners, and small and micro entrepreneurs. Some banks, however, do have relatively large clients that obtain part of their financial service needs from rural banks. The total outreach is not upto the par so this is the main problem for the banks in increasing the number of customers.

5. Due to the lack of information and technology the speed rate of rural banks is slower and unable to cope the competitive advantage.
6. Appropriate lending technology and credit risk management are among the most important factors in the sustainability of a lending institution. The tasks involve identifying creditworthy borrowers, appraising and approving loan applications in a timely manner, managing credit portfolios so that revenue is maximized and delinquencies minimized, and taking appropriate action in case of delinquency. This management has generally been a weak area in rural banks, with the result that the percentage of nonperforming loans has generally been higher than that in other financial institutions in the rural financial sector in M.P.
7. The recovery performance of the RRBs is not satisfactory. The Rate of recovery in respect of RRBs in MP is around 80 percent only. The directed lending policy for RRBs has resulted in low quality of assets. This coupled with high cost of funds below cost interest rates on loans has led to high accumulated losses.
8. The RRBs are control and management directly and indirectly by different organizations, i.e., the sponsoring bank, NABARD, Central Government and State Government. Thus, it takes long time to take decisions on some important matter. It affects the growth of RRBs.
9. The basic objective of RRBs was to supply credit facilities to weaker sections of society; they were originally having limited scope to invest their surplus funds freely. It shows limited scope of investment.
10. Poor financial management skills coupled with pressures from various quarters shows to have resulted in unproductive allocation of resources by MP RRBs which in turn is reflected in the high occurrence of NPAs.
11. The RRBs are aiming at catering to the requirements of poor and are not serving the requirements of the rich. So, the RRBs are not able to catch the attention of the deposit from that potential sector.
12. The capital adequacy is the very basis to financial soundness. As per RBI norms, Indian scheduled commercial banks are required to maintain a CAR of 9% while Indian public sector banks are emphasized to maintain a CAR of 12%. Central Madhya Pradesh Gramin Bank not fulfills the norms of RBI for CAR.

13. Usually the staff of MP RRBs is urban-oriented and they may not be familiar with the problems and conditions of rural areas. Lack of training facility concerning these areas also affects the development of RRBs.
14. The customers of MP RRBs compromise of small and marginal farmers, small scale sector, SHG groups, etc, whose credit needs are mostly small. RRBs are not able to cross-subsidize their lending business as they do not usually provide credit to rich borrowers with big needs, so affecting their capacity to earn higher incomes.
15. The reasons for deposits depend on the inflation and the market position. The interest rate is regulated by the RBI guidelines so depending on the level of interest rate is highly influencing factor. It also observed after reviewing the RBI guidelines that the rate of interest is partially fixed after 1977. Hence, the fluctuation has been observed.
16. RRB's are facing the problem of insufficient finance. They are dependent on NABARD to collect finance for their additional operation. Poor rural people are unable to save anything due to poverty and low per capita income. The low level of saving of these customer create barrier for RRB's to collect adequate deposits.
17. High over dues and poor recovery of loan is one of the biggest concerns affecting the functioning of RRB's. Reasons being poor access of granting loan, insufficient and untrained staff, less productive use of credit, poor marketing facilities and improper channel of recovery system.
18. MP RRBs have still not played a major role in poverty alleviation of the country. Although various efforts have been made in this regard but lack of economic infrastructure, poor marketing strategies, poor awareness of customers, and low awareness about savings have created many hurdles for RRBs.
19. There is also a problem of regional imbalance in banking facilities provided by RRBs. They are creating this problem by concentrating their branches in some specific districts & loose other prospective group of customers.
20. Lack of good co-ordination between RRBs and other financial institution like commercial banks, NABARD and other co-operative bank has poorly affected the performance of these banks.

8.5 SUGGESTIONS & RECOMMENDATIONS

In the light of the findings of the study, the following suggestions are made for improving the performance of the regional rural banks.

- From the findings it is revealed that the bank has adequate capital in terms of total assets. Therefore it is suggested to the banks that they should increase more profits in lieu of the loan disbursement, borrowings, investment in different avenues and also should reduce the liabilities from outside from the customers' perspective.
- In compiling of the data some fluctuations were observed so, it is recommended to the banks they should attract more customers to open their account so that profit per employee may be increased.
- The rural banks should implement certain innovative methods and measures for savings or schemes which suited to the needs of the people in order to attract a large population for making deposits.
- The banks have to give proper attention to reduce the risk ratio. It is suggested to the banks to take care and follow rules and regulations governed by RBI guidelines.
- Further it is recommended that the banks have to control the operating expenses and strengthening the profit of the banks so that the efficiency of the banks in terms of higher profit may be increased.
- The burden for the banks is meeting non-interest expenditure with that of non-interest income. The banks have to plan operations in such a way that non-interest expenditure is fully squared up by the non-interest income.
- The banks should facilitate some more effective schemes to attract agriculture unit.
- As customer services occupies a pivotal place in the rural banks, the banks under study need to develop a greater attention than existing at present on the aspect of customer services and customer research. This opens the golden doors for the prosperous banks.
- There should be a training programme for employees so that they can maintain customer relationship management and able to retain the customers for a ling time.
- During the year, per branch deposit in Madhyanchal Bank stood at ₹ 1275 lacs. The level of low cost deposits in total deposits is 58.83%. To reduce the cost of deposits, branches are paying more attention to increase demand deposits.

- To make more earnings from interest the Bank will continue to give emphasis on agriculture sector and in tune with the changing scenario and to improve the yield on advances, thrust will be given to diversify the lending without diluting the basic obligations of the bank in lending to weaker sections/rural sector.
- The Bank on continuous basis will give due emphasis and priority on recovery of loans and advances. Continuous will follow up and supervision from H.O and R.O by mobilizing the operating staff to maximize their efforts towards recovery drives involving Government officials through recovery camps, have finally will result in recovery with maximization.
- The rural Banks should provide its employees incentives or benefits according to their performances based on the increase of customers and retain them for a long time. This is the best method for retaining their employees and also sustaining the number of customers. Training and development should provide to them so that they can learn to retain their customers and also at the same time they are able to maintain customer relationship management.
- To increase the profit, Banks should reduce their NPAs so that the profitability should be assessed at the fixed point.
- Customer Meet will be organized by the branches of the regional rural banks regularly. Such meetings will be appreciated by the customers. Banks should organize more and more such meetings in the coming years to understand the requirements of the customers and efforts will be made to fulfill their requirement to increase the level of customer satisfaction. Information will also being provided on e-payment system to customers in these meetings. Few branches are involved in convening such meetings but these are not fixed so proper schedule will follow and also monitor the system to take the feedback from the customers.
- The primary purpose of regional rural banks is to provide quality service to customers is to achieve a broad customer base, loyalty and retention. This means that the banking sector must to strive to be efficient and be able to provide competitive services in order to meet customers' satisfaction and customers' perception of value.
- Through CRM sustainable competitive advantages is build and develop understanding, communicating, and delivering, and developing existing customer relationships in addition to creating and keeping prospects customers.

- The extent of nonperforming loans in a financial institution's loan portfolio is often considered the best leading indicator of the institution's financial performance. A low ratio of nonperforming loans to the total outstanding loan portfolio is often correlated with low financial expenses and higher profitability. A low nonperforming loan portfolio also necessitates a lower spread for the financial institution between the interest it pays on its deposits and the interest it charges on its loans, thereby benefiting its customers.
- Credit evaluation has to be done branch officials not including any bias taking into consideration the well defined policies framed for the loan portfolio.
- All loan accounts are to be reviewed at periodical intervals and they should be renewed timely wherever necessary.
- Borrowers are to be contacted at periodical intervals and the managers should be in a position to make certain the financial position of the borrowers at every stage.
- The managers should have profound knowledge about the market conditions and towards enriching his knowledge in this direction, he should be capable of updating his knowledge through a variety of resources like newspapers, media, internet etc
- Lok Adalat is for the recovery of small loans. According to RBI guidelines issued in 2001, they cover up NPA up to ₹ 5 lacs, both suit filed and non-suit filed are covered.
- It is a scheme which provides a easy mechanism for recovery of NPA. It is applied to advances less than ₹ 10 Crores.
- A Credit Information Bureau help banks by preserving a data of an individual defaulter and provides this information to all banks so that they may avoid lending to him/her.
- The debt recovery tribunal act was passed by Indian Parliament in 1993 with the objective of facilitating the banks and financial institutions for speedy recovery of dues in cases where the loan amount is ₹ 10 lacs and above.
- Reducing interest costs by even a few basis points can boost spread revenue when rates are so low.
- Make deposit management more effective, banks have to invest in technology, tools and staff.
- Target the advertisements to reach core depositors within the communities served.
- Provide brief description of the quality of service and pride of being part of community.

- RRBs should use advertising campaigns to bring in awareness regarding their offers among the existing and prospective customers .It involves using the information in a way that induces interest towards a company, event or person. Public Relations in banking helps in:-1) Establishing most effective communication system.2) Creating understanding about relationship between bank and customer.3) Giving broadest information about activities of bank.
- Very often communication about the banking services activity takes place by word of mouth information which is also known as word of mouth promotion. In the banking industries we find use of different components of promotion and word of mouth is one of the main source of promotion a satisfied group of customers is considered to be the most successful hidden promoters and if the RRBs keep on moving the process of satisfying the customers, the circle of word of mouth promotion would keep on moving.
- Regular monitoring, especially in the case of New clients , Agricultural clients with a grace period , Agricultural clients with irregular payment plans, Sufficient incentive systems for agricultural loan officers, Adequate incentives for clients to always pay back on time, Fair and equal handling of repeat clients with a poor payment history.

- RRBs personnel together approach the defaulting borrowers for repayment at a place and time convenient to both the parties. These are more suited to small loans. Usually the borrowers who had availed small loans will be more in number in rural and semi urban areas rather than urban and metro centres. As such, the RRBs instead of conducting the recovery camps at their branches, they usually conduct such recovery camps in centres like panchayat board offices, court buildings and government department buildings. Such recovery camps so that the borrowers find it suitable to attend the recovery camps. Under certain circumstances, the manager in charge of the bank branches along with some branch officials go to each visit each house of the borrowers and recover the instalments due in respect of loans availed by them. This type of recovery camp will be successful in case an advance notice is served on the borrowers mentioning the date of recovery camps.

- NPA is result of poor due diligence while extending the loan facility to the client. Know Your Customer is the bare minimum requirement which should complete in the first round of discussion so RRBs should follow Know Your Customer norms strictly.
- . Co-ordination between district level development planning and district level credit planning is also required in order to chart out the explicit role of the RRB as a expansion agency of the rural areas.

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ANNEXURE - 1

QUESTIONNAIRE

"A Study of Financial Management in Regional Rural Banks in Madhya Pradesh" (For Bank Officers/Employees)

Dear Sir/Madam,
As a part of my research work, I would like to gather some information from you. The information provided by you, will be kept confidential and will be used for research work only. I would be obliged for your co-operation in providing me information. Please follow the link below and fill the questionnaire.

{Also if possible then, Please forward it to friends and colleagues}

1. Name ☐ Middle name ☐ Surname ☐
2. Gender Male Female
3. Education Qualification ☐ Graduate ☐ [Under Gr]aduate P.G. Above P.G.
4. Age 20-30 Years 30-40 Yrs 40-50 Yrs 50-60Yrs Above 60 Yrs
5. Income 1- 2 LPA 2-3 LPA 3-4 LPA 4-5 LPA Above 5LPA
6. Designation ....
7. Name of the Branch ....
8. Date of appointment in present Branch ....
9. Does bank keep books of account properly? Yes No
10. Does bank keep books of account traditionally? Yes No
11. Does bank keep books of account on Computerized basis ? Yes No
12. Do your employees know how to operate the computer? Yes ☐ No ☐
13. Does your employees take any training regarding computer operations? Yes ☐ No ☐
14. Is policy of sanction of loan lengthy and complicated? Yes ☐ No ☐
15. Is Time duration between loan sanctioned and Loan Disbursement long? Yes ☐ No ☐

16. Loan provided for the purpose of Agriculture ☐ Agriculture Equipments ☐

Cottage Industry ☐ Small Industry ☐ Business ☐

Seeds & Fertilizers ☐ Housing ☐ Car ☐ Personal ☐

17. Which types of loan provided in the term of time

Short Term ☐ Long Term ☐ Both Types ☐

18. What is the period of Short term Loan? ....

19. What is the limit (in Amount) for Short term Loan? ....

20. What are the criteria of recovery of Short term Loan?

....

21. What is the period of Long term Loan? ....

22. What is the limit (Amount) for Long term Loan? ....

23. What are the criteria of recovery of Long term Loan?

....

24. What is the amount of loan, Branch Manager is entitled to sanction? ☐

25. If Branch Manager does not sanction the loan amount, what are the main reasons for Non Sanctioning of loan?

....

....

....

26. How much amount of loan,Regional Manager is entitled to sanctions? ☐

27. If Regional Manager does not sanction the loan amount, what are the main reasons for non- sanctioning of Loan?

....

....

....

28. How much loan amount Manager is entitled to sanctions at district level ☐

29. If Manager does not sanction the loan amount at district level then what are the main reasons for non sanctioning

....

....

....

30. Does bank avails loan on mortgage? Yes ☐ No ☐

31. What do you think about margin requirement at the time of sectioning loan?

....

....

32. Does bank follow all the KYC guidelines? Yes ☐ No ☐

33. Does bank avail the loan according to the standard guidelines of RBI?

Yes ☐ No ☐

34. Do bank employees have adequate knowledge about the loan scheme?

Yes ☐ No ☐

35. Does your bank take proper follow-up on overdue loans? Yes ☐ No ☐

36. Are you satisfied with policies of repayment of loan? Yes ☐ No ☐

37. What is the % of recovery of loan in your bank? ....

38. Are you satisfied with policies of % of recovery of loan? Yes ☐ No ☐

39. Does your bank should simplify the process of loan sanction? Yes ☐ No ☐

40. Do you think that process of loan distribution is satisfactory and gives positive result?

Yes ☐ No ☐

41. Does your bank face any interference in sanctioning the loan (In some cases)?

Yes ☐ No ☐

42. What are your opinions in terms of deposited amount? ....

....

....

43. What are your opinions in terms of loan amount? ------..

....

....

44. What are your opinions in context of bank staff?

....

....

....

45. Does bank represent financial mismanagement of owned liberal credit policy ?

Yes ☐ No ☐

46. Does your bank fully dependent on sponsored banks? Yes ☐ No ☐

47. Is there long duration between making policies related to financial aspect & execute them? Yes ☐ No ☐

48. Are there improvements required in execution of policies regarding financial performance? Yes ☐ No ☐

49. Is NABARD providing financial help to your bank? Yes ☐ No ☐

50. If yes, which type of facilities provided by NABARD?

....

....

....

51. Does your bank have poor operational efficiency? Yes ☐ No ☐

52. If Yes, Which kind of operational inefficiency?

....

....

....

....

53. Does merger of Regional Rural banks shows poor economy management?

Yes ☐ No ☐

54. Does your bank deposit excess money (above liquid fund) to nationalized banks?

Yes ☐ No ☐

55. Does your bank employees are overburdened due to shortage of employees?

Yes ☐ No ☐

56. If yes, then please give suggestions to improve service?

....

....

....

57. Agriculture sector is the largest profit giving sector to your bank Yes ☐ No ☐

58. Does your bank avail loan to poor families? Yes ☐ No ☐

59. Did your bank fail to achieve its own objective? Yes ☐ No ☐

60. Does future of Regional Rural Banks seem uncertain? Yes ☐ No ☐

Signature of Respondent

Signature of Research Scholar

ANNEXURE - 2

QUESTIONNAIRE

"A STUDY OF FINANCIAL MANAGEMENT IN REGIONAL RURAL BANKS IN MADHYA PRADESH"

Dear Respondent,

The present study is an endeavour to identify the attributes of financial management which helps in measuring the banks' performance. The information provided by you will be used only for research (Ph.D) and not for any commercial activity. Please spare a few minutes from your valuable schedule and share your true feelings. Confidentiality of the information provided will be ensured.

Please express how far these mechanisms of financial management determining the performance of Regional Rural Banks of M.P. by indicating your level of agreement/ disagreement on a five point scale (Where SA= Strongly Agree, A=Agree, UD=Undecided, D= Disagree, SD=Strongly Disagree.)

NUMBER OF ITEMS	SA	S	N	D	SD
1. Satisfaction with policies of repayment of loan.	5	4	3	2	1
2. Efficiency in recovering the loan.	5	4	3	2	1
3. Satisfaction with policies of recovery of loan.	5	4	3	2	1
4. Simplification of the process of loan sanction.	5	4	3	2	1
5. Process of loan distribution is satisfactory.	5	4	3	2	1
6. Interference in sanctioning the loan from the perspective of the banks.	5	4	3	2	1
7. Unwillingness in sanctioning the loan.	5	4	3	2	1
8. Accuracy in maintaining the records.	5	4	3	2	1

9.	Facilities provided by NABARD	5	4	3	2	1
10.	Operational efficiency	5	4	3	2	1
11.	Timely loan distribution	5	4	3	2	1
12.	Computerization	5	4	3	2	1
13.	Impact of Merger	5	4	3	2	1
14.	Standard Guidelines of RBI	5	4	3	2	1
15.	Duration of Policies related to financial aspects	5	4	3	2	1
16.	Improvements in execution of policies regarding financial performance	5	4	3	2	1
17.	Liberal credit policy	5	4	3	2	1
18.	Mortgage	5	4	3	2	1
19.	Training & Development	5	4	3	2	1
20	Period of short term & long term loan	5	4	3	2	1
21.	Limit (in amount) of short term & long term loan	5	4	3	2	1
22.	Criteria of recovery of short term & long term loan	5	4	3	2	1
23.	Adequate Knowledge	5	4	3	2	1
24.	Efficiency in employees performance	5	4	3	2	1
25.	Overburdened due to shortage of employees	5	4	3	2	1

ABBREVIATIONS

S.No.		Abbreviations
01	ADAG	Anil Dhirubhai Ambani Group
02	ADB	Asian Development Bank
03	ANOVA	Analysis of Variance
04	ATM	Automated Teller Machine
05	BIRD	Bankers Institute Of Rural Development
06	BOT	Balance of Trade
07	BPO	Business Process Outsourcing
08	BR	Business Ratio
09	BRIC	Brazil, Russia, India & China
10	CAGR	Comppound Annual Growth Rate
11	CAMEL	Capital, Assets, Management, Earnings, Liquidity And Sensitivity to Risk
12	CARE	Cluster Base Recovery Camps
13	CAR	Capital Adequacy Ratio
14	CBS	Core Banking Solution
15	CDS	Credit to Deposit Ratio
16	CMPGB	Central Madhya Pradesh Gramin Bank
17	CRR	Cash Reserve Ratio
18	DBFOT	Design, Build, Finance, Operate, Transfer
19	DEA	Data Envelopment Analysis
20	DIPP	Department of Industrial Policy & Promotion
21	DOC	De-Oiled Cake
22	EBIT	Earning Before Interest & Tax
23	EPS	Earning Per Share
24	FDI	Foreign Direct Investment
25	FDR	Fixed Deposit Ratio
26	FMCG	Fast Moving Consumer Goods
27	FR	Financial Ratio
28	FSI	Financial Service Institution
29	GDP	Gross Domestic Product
30	GIS	Global Investment Summits
31	GOI	Government Of India
32	GSDP	Gross State Domestic Product
33	HGB	Himachal Gramin Bank
34	HO	Head Office
35	IBEF	International Business Exchange Forum

S.No.		Abbreviations
36	IIM	Indian Institute of Management
37	IIT	Indian Institute of Technology
38	IMR	Inventory Management Record
39	IPO	Initial Public Offer
40	IT	Information Technology
41	KCC	Kisan Credit Card
42	MCM	Microfinance Capital Markets
43	MFI	Monetary Financial Institution
44	MGB	Madhyanchal Gramin Bank
45	MMR	Money Market Rate
46	MOU	Memo Of Understanding
47	MPAKVN	Madhya Pradesh Audyogik Kendra Vikas Nigam Limited
48	MPRDC	Madhya Pradesh Road Development Corporation Limited
49	MPSIDC	Madhya Pradesh State Industrial Development Corporation Limited
50	MVB	Mortgage Revenue Bond
51	MSA	Measure Of Sampling Adequacy
52	NABARD	National Bank For Agriculture And. Rural Development
53	NBFC	Non Banking Financial Company
54	NGO	Non Governmental Organization
55	NJGB	Narmada Jhabua Gramin Bank
56	NPA	Non-Performing Assets
57	NPS	Non-Priority Sector
58	NWFP	Non-Wood Forest Products
59	OTS	Office of Thrift Supervision
60	PACS	Primary Agricultural Credit Societies
61	PPP	Public Private Partnership
62	PSB	Public Sector Banks
63	RBI	Reserve Bank Of India
64	RIDF	Rural Infrastructure Development Fund
65	RO	Regional Office
66	ROA	Return On Assets
67	RPCD	Rural Planning And Credit Department
68	SBI	State Bank Of India
69	SDP	Savings Deposit Program

S.No.		Abbreviations
70	SEZ	Special Economic Zone
71	SHG	Self Help Group
72	SIDBI	Small Industries Development Bank Of India
73	SLR	Statutory Liquidity Ratio
74	SME	Small And Medium Enterprise
75	SPSS	Statistical Package For Social Sciences
76	STR	Securities Training Corporation
77	SWOT	Strength/Weakness/Threat/Opportunity
78	UMPP	Ultra-Mega Power Plant
79	UNESCO	United Nations Educational, Scientific And Cultural Organization
80	UTI	Unit Trust of India

FINANCIAL MANAGEMENT: A PREDICTOR FOR EXAMINING THE REGIONAL RURAL BANKS's PERFORMANCE

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Research Scholar, DAVV Indore (M.P.)[1], Professor, PMB Gujarati College, Indore[2]
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Abstract: *A strong financial system is necessary for healthy and vibrant economy. It will result in achieving faster rate of economic growth. A banking sector constitute predominant element in financial services and performance of economy of any country. Therefore banking system occupies an important place in country's economy. In a developing countries like India, where the propensity to consume is high and saving of people are low, banks play important role. Banks contributing attracting more deposits from the people and deploying these saving for various sectors in the economy.*

The purpose of the study is to examine the factors of financial management which determines the regional rural banks' performance in lieu of the operational efficiency, capital adequacy, ratios, deposits etc. RRBs were setup in India for the purpose of taking banking service to the doorsteps of rural public, particularly in places without banking services The objectives of RRBs to develop the rural economy in providing for the purpose of development of agriculture commerce, agriculture industry, small scale industries, cottage industries and other productive activities in the rural areas, credit and other facilities particularly to the small farmers, agricultural labour and small entrepreneur.

For this study to explore the factors, factor analysis has been applied and finally explored five factors which are included in the financial management. To study the same, regional rural banks of M. P. have been selected and through self-structured questionnaire, data was collected from the bank officials.

Keywords: *Financial Management, Banks' Performance, Operational Efficiency, Banking Services*

Introduction

Firstly, Five Regional Rural Banks were set up on October 2, 1975 which were sponsored by State Bank of India, United Bank of India, , Punjab National Bank, United Commercial Bank and Syndicate Bank. Normally, the operational area of each Regional Rural Bank is confined to a compact area of one to five revenue districts with homogeneity in agro climatic conditions and rural clientele. The Regional Rural Banks were to open their branches in the unbanked and under banked centres where the prime agricultural credit society and commercial banks are weak and are unable to cater to the credit needs of the weaker sections. This study focused on the working profile of three banks specifically These are Narmda Jhabua Gramin Bank, Madhyanchal Gramin Bank and Central M.P Gramin bank in Malwa region.

In present era of globalization and privatization (GDP) of India is expanded at the rate of 7.7 percent. Agriculture has started occupies a top position in Indian policy-making not only because of its contribution to GDP but also because of the large percentage of the population that is still dependent on the sector for its livelihood. The growth in population and wealth has stimulated demand to the extent that domestic production has not always been able to keep up and there is increasing speculation that the Indian economy may be overheating leading to inflation. However the banking sector has witnessed a huge growth in the recent years. Despite such growth, the credit flow by banks to the rural and agricultural sectors remains dismal, which, more or less has resulted in financial exclusion of the rural masses. Regional rural banks have to play a major role to finance and provide landings to agriculture sector at diminishing rate of interest in order to grow the economy and GDP. It requires better financial management of the RRBs.

This study concentrates on the principles of bank management of assets and liabilities. The course has an applied feel to it as it mainly focuses on the microeconomic problems of financial management of banking firms. The study helps financial management reduce the misuse of funds, Proper estimation of total financial requirements, Proper mobilisation, Proper utilisation of finance, Maintaining proper cash flow, Increase efficiency, Reduce cost of capital and maximize the profit in long run of RRBs.

REVIEW OF LITERATURE

Sharma, Akhil in his Research Paper titled "Regional Rural Banks (RRB)-analysis and Performance" (2014) states that " Regional rural Banks plays a vital role in the agriculture and rural development of India. The RRB's have more reached to the rural area of India, through their huge network. This study attempts to analyze the financial performance of RRBs in India during the period 2006-07to 2010- 2011. An analytical research design of Key Performance Indicators Analysis such as number of banks and branches, deposits, loans, loans, investments and growth rate index is followed in the present study. The study finds and concludes that performance of RRBs has significantly improved."

Devi, N.Sabitha in her Research Study titled. "Problems and Prospects of Regional Rural Banks in India"(2014) found that "Banks play an important role in mobilization and allocation of resources in any country. Rural people in India are facing problems in adequate supply of credit. The major source of credit to rural households has been the informal sector. Rural banking is the process of conducting banking transactions out in the country where bank branches are too far away to be of use. Typically, an agent of the bank will visit these rural locations and offer to make transactions in an official capacity"

Dr. Pooja in her study "Dimensions of Himachal Gramin Bank- An Empirical Analysis" (2014) reveals that "Rural finance is considered as a crucial input in rural reconstruction and institutional finance is an important prerequisite in rural finance for rural development. The main objective of our study is to assess the impact of facilities provided by HGB to the rural masses and to examine in depth the performance of HGB. The present study is confined particularly to Himachal Gramin Bank. Both primary and secondary data have been used for getting required information.

Gupta, D.R. and Khan, Iqbal in their Research Work "Performance of Regional Rural Banks: A Case Study Himachal Pradesh" (2014) argued that "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. This study tries to highlight the significance of Regional Rural Banks' in economic development of the state. The study seeks to analyze the secondary data which have been collected from the different authentic source of RRB's and from Government of India. The major objectives of the study are to study the financial performance of Himachal Pradesh Gramin Bank, to Study the deposit mobilization of Himachal Pradesh Gramin Bank and to study the credit expansion and to identify the challenges and threats which affect the performance of RRB's in Himachal Pradesh.

Paul, Dr. Uttam in his Research study " Micro finance Is An Anti-Poverty Tool For Rural Development: A Study"(2014) argued that "Micro-credit or micro finance is the extension of very small loans (micro loans) to the unemployed persons, to poor entrepreneurs, to households, to farmers and to others living in poverty who are often left out of the formal banking system, because of several reasons: their inability to provide collateral, the high risks in lending to them, the rigid formalities that are a part of the formal lending system and the high costs. As a result, the poor often have to resort to informal moneylenders, who charge high rate of interest and often exploit the situation. Micro finance is a novel approach to "banking with the poor" and this system attempts to combine lower transaction costs and high degree of repayments. India's microfinance experiments are much differ from the more substantial microfinance institutions and programmes of its neighbors countries. Creating self employment opportunities is one way of attacking poverty and solving the problems of unemployment.

Roy, Swapan K. in his Research Study "Rural Development in India: What roles do NABARD & RRBs play?" (2014) revealed that NABARD plays a significant role in developing rural economy. NABARD, being an apex Development Bank, facilitates credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also supports all other allied economic activities in rural areas. Regional Rural Banks (RRBs) in India were established in October 2, 1975. The policies and programmes undertaken by our government are designed with the aim of alleviation of rural poverty, which has been one of the primary objectives of planned development in India. In this backdrop, an attempt has been made in this paper to analyze and evaluate various policies/programmes/schemes undertaken by NABARD & RRBs for rural development.

OBJECTIVES OF THE STUDY

1. To identify the factors effecting on Financial Management in Regional Rural Banks in Madhya Pradesh.

2. To examine the impact of those explored factors on the performance of regional rural banks of M.P.

3. To make suggestions for the improvement in the Financial Management in RRBs of Madhya Pradesh.

HYPOTHESIS

H_{01}: There is no significant impact of factors of financial management on RRBs Performance.

H_{11}: There is a significant impact of factors of financial management on RRBs Performance.

RESEARCH METHODOLOGY

Research Approach: In this study exploratory and descriptive approach have been used in concluding the findings of the study.

Sample Size: Total 200 bank officials were selected on random sampling method.

Universe: Population consists of Bank Officials of three banks namely: Narmada Jhabua Gramin Bank, Central M.P. Gramin Bank and Madhyanchal Gramin Bank.

Time Period: For the study data of four years have been analyzed i.e from 2011-2015.

Data Analysis Tools: Factor analysis and Correlation & Regression were applied. The data coded in excel using Ms-Office package. The coded data was then analysed using SPSS version 20.0. The data was analyzed using descriptive statistics. First all questions were subjected to frequency analysis and item total correlation to check whether the scale is measuring any variation or not.

RESULTS & FINDINGS

The reliability of Cronbach's alpha is .982 so it may be concluded that there is a high degree of internal consistency. Thus, the scale can be considered as a reliable scale.

The exploratory factor analysis with principal components was conducted, after ascertaining above the data suitability to do so, to determine the factors affecting effectiveness of financial management in regional rural banks. This analysis includes preliminary tests to determine the appropriateness of factor analysis: Bartlett's test of Sphericity and the Kaiser-Meyer-Olkin measure of sampling adequacy (MSA). Bartlett's test of sphericity is a statistical test for the presence of correlations among variables. It provides the statistical probability that the correlation matrix has significant correlations among at least some of variables. This, a significant Bartlett's Test of Sphericity is required. The Kaiser-Meyer-Olkin measure of sampling adequacy index which can range from 0 to 1, indicates the degree to which each variable in a set is predicted without error by the other variables. If the MSA index reaches 1, each variable is perfectly predicted by the other variables without error by the other variables without error. A value of 0.50 or more from the Kaiser-Meyer-Olkin MSA test indicates that the data are adequate for exploratory factor analysis.

The Kaiser-Meyer-Olkin measure of sampling adequacy (0.729) and Bartlett's test of sphericity (0.000) indicate that the data were appropriate for factor analysis. Given these results, the exploratory factor analysis was conducted.

TABLE 1.1: ROTATION SUM OF SQUARED LOADINGS

Component	Extraction sum of squared loadings			Rotation sum of squared loadings		
	Total	% of variance	Cumulative	Total	% of variance	Cumulative
VR001	11.407	45.628	45.628	5.288	21.153	21.53
VR002	2.584	10.334	55.963	4.290	17.162	38.315
VR003	1.704	6.815	62.778	4.140	16.559	54.873
VR004	1.590	6.632	69.139	2.420	9.681	64.555
VR005	1.270	5.080	74.29	2.46	9.665	74.219
VR006						
VR007						
VR008						
VR009						
VR010						
VR011						
VR012						
VR013						
VR014						
VR015						
VR016						
VR017						
VR018						
VR019						
VR020						
VR021						
VR022						
VR023						
VR024						
VR025						

Above all five factors have been explored. These are:

Recovery of Loan, Loan sanction & Disbursement, Liberal Credit Policy, Operational Efficiency & Employees' Knowledge.

The factor analysis was done for all the 25 variables. All these variables have reduced to five different factors, which explained around 74.219% of the total variance. The first factor with their loading pattern indicates that a general factor is running through out all the items explaining about 21.153% of the variance. The second factor explains about 38.315%, third factor explains 54.873%, the fourth factor explains 64.555% and the fifth factor explains 74.219%. The entire five factors explain about 74.219% of the total variance.

Regression Analysis

The concepts and principles developed in dealing with sample linear regression (i.e., one explanatory variable) may be extended to deal with several explanatory variables.

Multiple Regression Equation:

$$Y=C+\beta x_1+\beta x_2+\beta x_3+\beta x_4+\beta x_5+\text{--------}+\beta x_n$$

The second result of the regression analysis, i.e., t-test along with significant value (P-value), indicates the most significant explanatory variable that influences the explained/dependent factor. Along with the t-test, the multi-collinearity test is also used to measure the collinearity among the explanatory variables.

TABLE 1.2 : MODEL SUMMARY OF FACTORFFECTING FINANCIAL MANAGEMENT (ANOVA)

Items	Sum of Squares	Df	Mean Square	F	Sig.
Regression	210.562	4	52.640	1349.743	0.000
Residual	10.385	194	0.0390		
Total	220.946	200			
R Square	0.953	Adjusted R Square	0.952	Std. Error of the Estimate	0.253

The ANOVA (F-Test) indicates that the scale/factor was quite significant in M.P region. All the explanatory variables, i.e., five factors for studying factors affecting financial management are quite significant. The R square value of the above model is 0.953, which means the dependent variable (Financial Management) is influenced by all this five explanatory variables by 95.3%, which is a good indicator for establishing a well set effectiveness of factors. Further it is seen that for the table that the significant value (p-value) of F-test are 0.000, which means that all five explanatory variables are highly significant with respect to the explained factor i.e., that is Factors affecting financial management.

TABLE 1.3: FACTORS AFFECTING FINANCIAL MANAGEMENT (MULTIPLE REGRESSION COEFFICIENT ANALYSIS) COEFFICIENTSA

Parameters	**Unstandarized coefficients**		**Standarized coefficients**	**T**	**Sig.**	**Tolerance Statistics**	
	B	**Std. error**	**Beta**			**Tolerance**	**VIF (Variance Inflation Factor)**
Constant	**0.075**	**0.060**		**1.250**	**0.213**		
Factor 1	**0.273**	**0.020**	**0.313**	**13.806**	**0.000***	**0.561**	**1.782**
Factor 2	**0.241**	**0.022**	**0.272**	**11.039**	**0.000***	**0.474**	**2.111**
Factor 3	**0.268**	**0.025**	**0.274**	**10.817**	**0.000***	**0.449**	**2.229**
Factor 4	**0.240**	**0.019**	**0.305**	**12.447**	**0.000***	**0.479**	**2.089**
Factor 5	**0.243**	**0.021**	**0.315**	**11.138**	**0.000***	**0.481**	**2.185**

- ***Significant at 1% level***

Based on the multiple regression output tables of 'factors affecting financial management' and its constituent variables, the following equation can drive:

M (Y)=0.075+0.273 (F1)+0.274 (F2)+0.268 (F3)+0.240 (F4)+0.243 (F5)

This can be interpreted that the increase of 1 unit of delivery of Factor 1 (Recovery of Loan), may incur the raise of 0.273 units in Financial Management (FM) (Y). However, for the independent variable of Factor 2 (Loan Sanction & Disbursement), every 1 unit of increase will mean the raise of 0.241 units' dependent variable, (FM) On the other hand, 1 unit increase in Factor 3 (Liberal Credit Policy) may incur the raise of 0.268 units of FM. Similarly, 1 unit increase in Factor 4 (Operational Efficiency) may cause 0.240 units of FM. Finally, Factor 5 (Employees Knowledge) also has a constant relation with FM. It is every 1 unit increase in F5 (Employees Knowledge) incurs the raise of 0.243 units in FM.

Further, it is seen form the table that the significant value (p-value) of t-test for all items are 0.000, which means that all the five reduced factor through factor analysis are highly significant with respect to the explained factor, i.e., 'Factors affecting financial management.

FINDINGS

The above mentioned five factors were explored to examine the attributes of Financial Management and significantly these have the greater impact on the performance of regional rural banks' operations & functions. These factors are as follows:

Recovery of Loan: This factor depends on the operational efficiency of banks to recover the amount from the customers.

Loan Sanction & Disbursement: The financial management includes the sanctioning and disbursement of loan effectively and efficiently. As it is difficult task to explain the terms and the mode of payment to those rural customers.

Operational Efficiency: The performance of the banks depend on the operational functions as it includes the various measures such as; prompt service, complaint handling, sustaining CRM etc.

Liberal Credit Policy: The banks have to maintain CRM through credit policy that should be liberal.

Employees' Knowledge: Overall the strength of the banks are always lies in the employees knowledge. This is the important factor as they are in direct touch with the customers.

The above mentioned factors are important in examining the financial management aspects. Above all the bank's performance depends upon these mechanisms. For this study the period from 2011-12 to 2014-15 as on March, 31 (Four Years' have been selected

CONCLUSION

The RRBs are playing a predominant role in the socio-economic development of rural poor. In spite of all the policies and practices of financial aspects, there should be continuous monitoring for the evaluation of financial performance with regards to inflow and outflow of funds, banks' performance parameters such as; investment, deposits, profitability, capital adequacy etc. The regional rural banks would be a 'model financial infrastructure' for rural development with patronage and encouragement given by planners in the field. Thus, the State sponsored, regionally based and rural oriented commercial banks have taken birth in rural India which popularly known as 'Regional Rural Banks'. These banks penetrate every corner of the country and have been extending a helping hand in the growth of the economy Despite the RRBs journeyed over three decades, they have achieved performance to the expected level quantitatively not turning towards sound financial management and productivity Moreover the achieved performance is not uniform though they are working under the approach of same management.

Effective performance is the success of every business. In order to achieve the effective and efficient performance, the RRBs (Central M.P. Gramin Bank, Madhyanchal Gramin Bank & Narmada Jhabua Gramin bank) have been selected from the year 2011-12 to 20154-15.. In every line of business, the performance of each bank is appraised in financial perspectives and ranked them. In this study an attempt is made to discuss the financial performance of selected regional rural banks during the studied period.

SUGGESTIONS & RECOMMENDATIONS

In the light of the findings of the study, the following suggestions are made for improving the performance of the regional rural banks.

- From the findings it is revealed that the bank has adequate capital in terms of total assets. Therefore it is suggested to the banks that they should increase more profits in lieu of the loan disbursement, borrowings, investment in different avenues and also should reduce the liabilities from outside from the customers' perspective

- In compiling of the data some fluctuations were observed so, it is recommended to the banks they should attract more customers to open their account so that profit per employee may be increased.

- The rural banks should implement certain innovative methods and measures for savings or schemes which suited to the needs of the people in order to attract a large population for making deposits.

- The banks have to give proper attention to reduce the risk ratio. It is suggested to the banks to take care and follow rules and regulations governed by RBI guidelines.

- Further it is recommended that the banks have to control the operating expenses and strengthening the profit of the banks so that the efficiency of the banks in terms of higher profit may be increased.

- The banks should facilitate some more effective schemes to attract agriculture unit.

- As customer services occupies a pivotal place in the rural banks, the banks under study need to develop a greater attention than existing at present on the aspect of customer services and customer research. This opens the golden doors for the prosperous banks.

- To make more earnings from interest the Bank will continue to give emphasis on agriculture sector and in tune with the changing scenario and to improve the yield on advances, thrust will be given to diversify the lending without diluting the basic obligations of the bank in lending to weaker sections/rural sector

To increase the profit, Banks should reduce their NPAs so that the profitability should be assessed at the fixed point.

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A STUDY ON THE FINANCIAL PERFORMANCE IN LIEU OF THE CAPITAL ADEQUACY IN REGIONAL RURAL BANKS WITH SPECIAL REFERENCE TO THE MADHYA PRADESH

***Vaibhav Joshi**
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Abstract

The decade of 1990s was a turning point for the Indian banking business. It observed a full change in the manner banking was carried out in India. It has developed into a stable and powerful financial entity, with a primacy of place in providing funding for the country. In short, finance is regarded as the life blood of a banking enterprise. This is because in the modern money-oriented economy, finance is one of the basic requirements of all kinds of financial activities. Financial Performance is concerned with the managerial decisions that result in the acquisition and financing of short term and long term credits for the bank.

Here it deals with the conditions that require choose of specific assets and the choose of specific problem of size and development of an organisation. The study deals with the capital adequacy in regional rural banks of Madhya Pradesh in terms of deposits, disbursement, growth, profitability. In short, it deals with arrangement of funds and their effective utilization in the banks.

Key Words: Financial Performance, Capital Adequacy, Deposits, Disbursement, Growth, Profitability.

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INTRODUCTION

In present era of globalization and privatization (GDP) of India is expanded at the rate of 7.7 percent. Agriculture has started occupies a top position in Indian policy-making not only because of its contribution to GDP but also because of the large percentage of the population that is still dependent on the sector for its livelihood. The growth in population and wealth has stimulated demand to the extent that domestic production has not always been able to keep up and there is increasing speculation that the Indian economy may be overheating leading to inflation. However, the banking sector has witnessed a huge growth in the recent years. Despite such a growth, the credit flow by banks to the rural and agricultural sectors remains dismal, which, more or less, has resulted in financial exclusion of the rural masses. Regional rural banks have to play up major role to finance and provide landings to agriculture sector at diminishing rate of interest in order to grow the economy and GDP. It requires better financial management of the RRBs.

This study concentrates on the principles of bank management of assets and liabilities. The study has an applied feel to it as it mainly focuses on the microeconomic problems of financial performance and capital adequacy of banking firms. The study helps financial management reduce the misuse of funds, **Proper estimation of total financial requirements, Proper mobilization, Proper utilization of finance, Maintaining proper cash flow, Increase efficiency, Reduce cost of capital** and maximize the profit in long run of RRBs.
Capital adequacy ratio shows the capital strength of the bank. CAR is a signal of soundness of the financial position of the bank. This ratio shows the bank's ability to face the worst period by paying its debts from its capital in case of huge Nonperforming assets, and less chances of the bank's financial distress. This ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world.

REVIEW OF LITERATURE

Naz, Huma and Parihar, Sarita in their Research Study "Role of Regional Rural Banks in Jammu and Kashmir" (2014) discovered that the establishment of the Regional Rural Banks has been the landmark in the history of rural banking. This research is based on the role of banks in providing facilities and sources to India backwardness and its farmers.

Yellaiaha, Dr C., Sudhakaraiah, Dr.G.and Venkateswarlu,M. in their study "Progress and Amalgamation of Regional rural Banks In India-An Overview" (2014) found that in spite of rapid expansion of branches of commercial banks and increase in the membership of Primary Agricultural Credit Societies (PACS), still a large gap exists in the rural credit between demand and supply of credit both in terms of functional needs and adequate geographical coverage in different regions of the country. Therefore, it is felt that these credit institutions neither in their present form of functioning nor with any possible adoption or reorganization, would be able to fill the kind of credit gap which existed in the rural economy of the country.

Bhandari, Govinda Prasad. In his Research Paper "Productivity Analysis of Public Sector Banks And The Regional Rural Banks In India" (2014). The study is an attempt to understand the comparative productivity picture of Public Sector Banks (PSBs) and the Regional Rural Banks

(RRBs) in India. The study unveils that PSBs position is better in branch productivity, staff productivity, employee and branch-wise income and expenditure in comparison to Regional Rural Banks in the country.

Singh, Kuldeep. In his research paper "Performance Evaluation Of Regional Rural Banks" (2014) found that "The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalized sections. Although the cooperative banks and the commercial banks had reasonable records in terms of geographical coverage and disbursement of credit, in terms of population groups the cooperative banks were dominated by the rural rich, while the commercial banks had a clear urban bias.

OBJECTIVES OF THE STUDY

1. To determine and analyze the relationship between Regional Rural Bank performance and capital adequacy.
2. To make suggestions or the improvement in the Financial Management in RRBs of Madhya Pradesh.

HYPOTHESIS

H_{01}: There is no significant relationship between Regional Rural Bank's Performance and Capital Adequacy.

H_{11}: There is a significant relationship between Regional Rural Bank's Performance and Capital Adequacy.

RESEARCH METHODOLOGY

Research may be deductive or inductive. Deductive research approach begins with the development of a theory or hypothesis and later a development of a strategy to test it in a context to verify or reject its claims

SECONDARY DATA

To test the hypotheses secondary data have been collected and compiled together to conclude the results. To test the objectives following secondary data were taken from the Bank Reports separately from Madhyanchal Gramin Bank, Central M.P. Gramn Bank and Narmada Jhabua Gramin Bank. For this study four years data have been calculated (2011-12 to 2014-15) as on March Ending Year. To test the first objective, for the measurement of banks' performance the following parameters were taken such as; loan disbursement, deposits, recovery, growth, profitability and capital adequacy.

RESULTS & FINDINGS

Table 1.1: Descriptive Statistics On Regional Rural Bank's Performance and Capital Adequacy

	Mean	Std. Deviation	N
Capital Adequacy	37.2975	6.22607	4
RRBanks' Performance	723.9275	92.15462	4

Table 1.2: Correlations On Regional Rural Bank's Performance and Capital Adequacy

		Capital Adequacy	Banks' Performance
Pearson Correlation	Capital Adequacy	1.000	.932
	Banks' Performance	.932	1.000
Sig. (1-tailed)	Capital Adequacy	.	.003
	Banks' Performance	.003	.
N	Capital Adequacy	4	4
	Banks' Performance	4	4

Above table shows the correlations and it is evident from this table that Pearson's correlation coefficient between RRBs' Performance and Capital Adequacy is 0.932 which is significant since the significant value (p- value) 0.003 is less than 0.05. Therefore, we may conclude that there is significant association between RRBs' Performance and Capital Adequacy. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

Table 1.3: Model Summary[b] On Regional Rural Bank's Performance and Capital Adequacy

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.932[a]	.868	.802	2.76797	.868	13.178	1	2	.003

a. Predictors: (Constant), Banks' Performance

b. Dependent Variable: Capital Adequacy

Table 1.4: ANOVA[a] On Regional Rural Bank's Performance and Capital Adequacy

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	100.968	1	100.968	13.178	.068[b]
	Residual	15.323	2	7.662		
	Total	116.292	3			

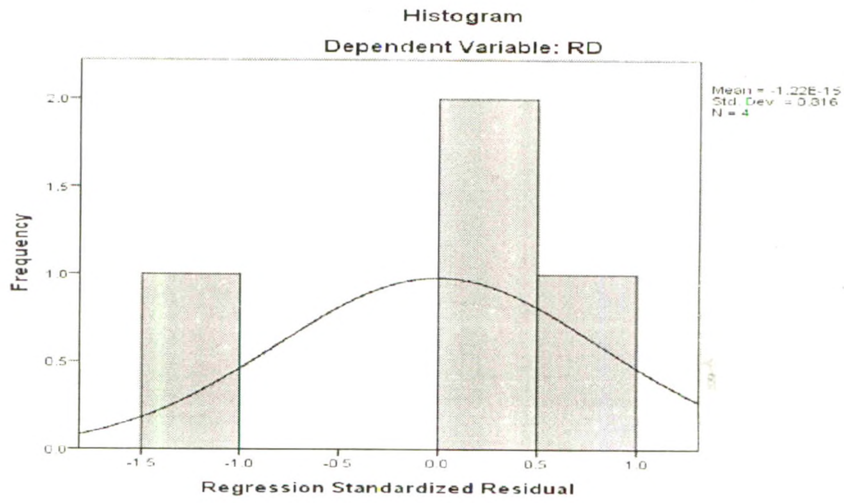
a. Dependent Variable: Capital Adequacy

b. Predictors: (Constant), Banks' Performance

Table 1.5: Coefficients[a] On Regional Rural Bank's Performance and Capital Adequacy

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-8.276	12.630		-.655	.580	-62.618	46.066
	Banks' Performance	.063	.017	.932	3.630	.068	-.012	.138

a. Dependent Variable: Capital Adequacy



Histogram 1.1 On Regional Rural Bank's Performance and Capital Adequacy

Over all model summary shows the value of linear correlation coefficient R=0.932, it is the linear correlation coefficient between observed and model predicted values of the dependent variable. Its large value indicates a strong relationship. R^2 the coefficient of determination is the squared value of the multiple correlation coefficient. Adjusted R^2=0.868, R^2 change is also 0.802 and these values are significant which shows that overall strength of association is noteworthy. The coefficient of determination R^2 is 0.802; therefore, 80.2% of the variation in Capital Adequacy is explained by Regional Rural banks' growth, recovery, profitability, loan disbursement rate and deposits. ANOVA is used to exhibit model's ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, RRBs' Performance is useful as predictor of Capital Adequacy. From the table of coefficients, the regression equation can be obtained as

Capital Adequacy= 7.094 + .530* RRB's Performance

The findings concluded that the performance which includes profitability, deposits, disbursement of regional rural Banks' performance is the way and an attempt to meet the capital adequacy.

Similar studies were conducted by many researchers on capital adequacy which is the best determinant in giving the input in measuring the financial performance of banks. Business grows mainly by taking risk as greater the risk, higher the profit and hence the entity must strike a trade-off between the two. Risk is the potentiality that both the expected and unexpected events may have an adverse impact on the bank's capital and earnings. While the expected losses are generally taken care of by suitable pricing methodology, the unexpected losses, both on account of individual exposure and the whole portfolio in entirety, is to be borne by the bank itself and hence is to be taken care of by the requisite capital. Hence the need for suitable capital structure and sufficient Capital Adequacy requirements is felt (Raghavan. 2004). Capital is essential and critical to the perpetual continuity of a bank as a going concern. A minimum amount of capital is required to ensure safety and soundness of the bank and also to build trust and confidence of the customers. A bank with a sound capital position is able to pursue business opportunities more effectively and has more time and flexibility to deal with problems arising from unexpected losses thus achieving increased profitability (Athanasoglou et al., 2005). A Study by Hassan (2001) examined the performance of Islamic banks' worldwide during 1994-2001. Variety of internal and external banking characteristics were used to predict profitability and the result indicated high capital lead to high profitability. Abreu (2002) found that well capitalized banks face lower expected bankruptcy costs and thus lower funding costs and this resulted into better profitability. Stiroh (2002) assessed the potential benefits from the diversification of activities and increasing reliance on non-interest income. The result of this present study suggested that banks' performance in terms of deposits, borrowings, profitability, loan disbursement, recovery have the greatest impact on banks' capital with regard to the capital adequacy.

CONCLUSION

It has been evident from the study of regional rural banks' performance that regarding deposits Madhyanchal Gramin Bank has mobilized aggregating Rs. 61357 lacs (13.1%) during the year which is 72% of M.O.U target. Deposits being the important source for banking business, intensive thrust for expanding the stable base of deposits was given, focusing on *public deposits* which registered a growth of Rs. 567.24 crore (13%). As regards as loans and advances-out standings total advances of the bank grew from Rs. 178805 lacs to Rs. 205899 lacs during the year of 2013-2014, net growth registering of Rs. 27094 lacs in absolute terms and 15.15% in percentage terms. In the same manner in the Central M.P Gramin Bank, the per branch deposit and per employee deposit increased to 1238 lacs in 2014-15 and Rs.344 lacs as against last year 2013-14.

Under the loan disbursement the regional rural banks have fulfilled its commitment to increase priority sector advances and simultaneously continued disbarsement under non priority sector advances also to increase yield on advances and to ensure overall development of the service area. The Central M.P Gramin Bank is continuing its policy of extending adequate credit facilities for development of Agriculture, upliftment of rural poor. In compliance of Central Government new directives, bank have revised and simplified the KCC scheme to make it farmers friendly. Bank has extended KCC facility upto Rs. 3.00 lacs at concessional interest @ Rs. 146358 lacs in 2014-15 and in 2013-2014 it was 158362. The share of agriculture and allied activities during the year 2014-15 is Rs. 156446 which is 83.24% of total loan disbursement of Rs. 187993. Bank is playing a meaningful role in rural/agriculture development through credit disbursal under Government sponsored schemes like Swarna Jayanti Gram Swarojgar Yojna, Antyavyasayee Scheme, Khadi & Village Industries, Minor Irrigation etc. It will help in removing economic imbalances in society and shows bank's commitment towards growth of rural economy and creation of employment in rural areas. During the financial year 2014-15 to extend credit facility to economically weaker section of the society, bank has inked 1688 Self Help Groups and disbursed loan of Rs. 294-97 lac under NABARD Scheme. This bank has fulfilled its commitment to increase Priority Sector advances and simultaneously continued disbursement under Non Priority Sector advances also to increase yield on advances and to ensure over all development of the service area.

It has been revealed from the above table that the recovery performance of priority sector in Narmada Jhabua Gramin Bank is a slightly variate as in 2011-12 it was 84.37% but in 2012-13 it was reduced to 83.44%. But again it was increased to 85.73% in 2013-14 and again reduced to 84.38% in 2014-15. Hence, it was concluded that performance is much better and deviate from 1-2 % does not matter. So this variable shows the performance of banks in the good parameters. In the same way in non priority sector the percentage of recovery performance was 82.67% in 2011-12 but it was increased by 2 point something percentage in 2013-14 but in 2014-15 it was reduced to 65.04%. In this sector there was much deviation in the recovery due to increasing interest rate depending on the market scenario and also some restricted guidelines in providing the time limit to customers.

SUGGESTIONS & RECOMMENDATIONS

In the light of the findings of the study, the following suggestions are made for improving the performance of the regional rural banks.

- From the findings it is revealed that the bank has adequate capital in terms of total assets. Therefore it is suggested to the banks that they should increase more profits in lieu of the loan disbursement, borrowings, investment in different avenues and also should reduce the liabilities from outside from the customers' perspective.
- In compiling of the data some fluctuations were observed so, it is recommended to the banks they should attract more customers to open their account so that profit per employee may be increased.
- The rural Banks should provide its employees incentives or benefits according to their performances based on the increase of customers and retain them for a long time. This is the best method for retaining their employees and also sustaining the number of customers. Training and development should provide to them so that they can learn to retain their customers and also at the same time they are able to maintain customer relationship management.
- To increase the profit, Banks should reduce their NPAs so that the profitability should be assessed at the fixed point.
- The extent of nonperforming loans in a financial institution's loan portfolio is often considered the best leading indicator of the institution's financial performance. A low ratio of nonperforming loans to the total outstanding loan portfolio is often correlated with low financial expenses and higher profitability. A low nonperforming loan portfolio also necessitates a lower spread for the financial institution between the interest it pays on its deposits and the interest it charges on its loans, thereby benefiting its customers.

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