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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

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   RECOMMENDATIONS/SUGGESTIONS

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   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, KurukshetraUniversity, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

PROFITABILITY ANALYSIS OF REGIONAL RURAL BANKS IN INDIA: WITH SPECIAL REFERENCE TO WESTERN REGION

DR. KAUSHAL A. BHATT
ASST. PROFESSOR
CENTRE FOR GLOBAL BUSINESS STUDIES
GUJARAT TECHNOLOGICAL UNIVERSITY
CHANDKHEDA, AHMEDABAD

ABSTRACT

The history of regional rural banks in India dates back to the year 1975. It's the Narsimham committee that conceptualized the foundation of regional rural banks in India. Regional rural banks (RRBs) can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. They have played a key role in rural institutional financing in terms of geographical coverage, clientele outreach and business volume as also contribution to development of the rural economy. Current study aims to check the profitability of selected RRBs of India. This study focuses on western region and covers three states, i.e. Gujarat, Maharashtra and Rajsthan. Prime objectives of the study are, to analyze the interest coverage ratio of selected RRBs during study period, to analyze the Return on Equity (RoE) of RRBs, to examine the Non Interest Income Ratio during period under review, to study net Interest margin ratio of selected RRBs during study period, etc. Current study focuses purely on secondary data which is collected from published annual reports of selected RRBs. To test to hypothesis One way ANOVA has been used and major findings shows that the selected banks of Rajsthan showed higher profitability than selected RRBs of Gujarat and Maharashtra.

KEYWORDS

Regional Rural Banks, Profitability, Interest Coverage Ratio, Return on Equity, Net Interest Margin Ratio.

INTRODUCTION

In India rural people such as small and marginal farmers, landless agricultural laborers, artisans and socially and economically backward castes and classes they have been exploited in the name of credit facility by informal sector. The rural credit market consists of both formal and informal financial institutions and agencies that meet the credit needs of the rural masses in India. The supply of total formal credit is inadequate and rural credit markets are imperfect and fragmented. Moreover, the distribution of formal sector credit has been unequal, particularly with respect to region and class, cast and gender in the country side. Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September1975 and the RRB Act, 1975 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural/semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. For the purpose of classification of bank branches, the Reserve bank of India defines rural area as a place with a population of less than10,000. RRBs are jointly owned by Government of India, the concerned State Government and Sponsor Banks; the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively.

REVIEW OF LITERATURE

Saveeta and **Verma Sateesh** (2001), **Shravan Singh** (2001), **Kantawala Amita S** (2004), **Ketkar W Kusum et al**. (2004), analyze the performance of banks from a profitability point of view, using various parameters. Most of the studies (**Ganesan P** 2001; **Rayapati Vijayasree**, 2002; **Das M R**, 2002-2003; and **Gupta V** & **Jain P K**, 2003) compared the performance of public, private and foreign banks by using measures of profitability, productivity, and financial management (**Trehan Ruchi** and **Sonu Nitti**, 2003).

Hosmani (1999) studied the Performance and impact of a RRB, (Malaprabha Grameena Bank) in Karnataka. A comparative assessment has also been made for the period of establishment and period of development. He found that liquidity and solvency position of the bank was sound. The pattern of credit flow to beneficiaries· remained unchanged as indicated by significant Kendall's Coefficient of Concordance (0.90) and Gini Coefficient (0.12) indicated a lower inequality in credit distribution among beneficiaries. Operating NRI account, export financing, procedure simplification, credit enhancement, long run planning and periodical evaluation were some of the recommendations made for enhancing the performance of grameena banks.

Deshpande *et al*. (1999) studied the impact of deregulation of interest rates in turning the loss making RRBs to profit making institutions. A sample of 15 RRBs were taken for the study and the information was obtained for the period 1996-97. They found that impact of deregulation of interest rates on profitability was felt more strongly via advances (through increased interest cost) compared to decomposits (through increased interest income) compared deposits (through possible reduction in interest cost) and the combined impact on both advances and deposits on profitability was found to be limited.

Kalkundrickars (1990) in his study on "Performance and Growth of regional Rural Banks in Karnataka" found that these banks had benefited the beneficiaries in raising their income, productivity, employment and use of modern practices and rehabilitate rural artisans.

Malhotra asserts that geographical location of RRBs is not the limiting factor for their performance. He further finds that µit is the specific nourishment which each RRB receives from its sponsor bank, is cardinal to its performance. In other words, the umbilical cord had its effect on the performance of RRBs. The limitation of the study is that the financial health of the sponsor bank was not considered directly to infer about the umbilical cord hypothesis. **Nitin** and **Thorat** (2004) on a different note provide a penetrating analysis as to how constraints in the institutional dimensions have seriously impaired the governance of the RRBs. They have argued that perverse institutional arrangements that gave rise to incompatible incentive structures for key stakeholders such as political leaders, policy makers, bank staff and clients have acted as constraints on their performance. The lack luster performance of the RRBs during the last two decades, according to the authors can be largely attributed to their lack of commercial orientation.

Patel and Shete (1980) of the National Institute of Banking Management made a valuable analysis of performance and prospects of RRBs. They also gave a comparative picture of performance in deposits, branch expansion and credit deployment of the co-operative banks, commercial banks and RRBs in a specified area. This was an eye opener for many researchers engaged in this field of rural credit.

Kumar Raj (1993) carried out a study on the topic "Growth and Performance of RRBs in Haryana". On the basis of the study of RRBs of Haryana, it is found that there was an enormous increase in deposits and outstanding advances. The researcher felt the need to increase the share capital and to ensure efficient us of distribution channels of finance to beneficiaries.

A. K. Jai Prakash (1996) conducted a study with the objective of analyzing the role of RRBs in Economic Development and revealed that RRBs have been playing a vital role in the field of rural development. Moreover, RRBs were more efficient in disbursal of loans to the rural borrowers as compared to the commercial banks. Support from the state Governments, local participation, and proper supervision of loans and opening urban branches were some steps recommended to make RRBs further efficient.

OBJECTIVES OF STUDY

- To analyze the interest coverage ratio of selected RRBs during study period
- To analyze the Return on Equity (RoE) of RRBs

- To analyze the Non Interest Income Ratio during period under review
- To study net Interest margin ratio of selected RRBs during study period
- To check the performance of selected banks on spread ratio

RESEARCH METHODOLOGY

STATEMENT OF PROBLEM

In recent years, there have been considerable pressures on the profitability of banks. Profitability is considered to be an index of financial health. The term profitability refers to an indication of the efficiency with which the operation of the business is carried on. Poor operational performance may indicate poor selling of bank products and hence poor profits. A lower profitability may rise due to lack of control over the expenses. Banks are urged to generate sufficient revenue to meet the rising cost of funds. Profitability is a key result area where performance and result directly and virtually affect the survival. Therefore, this study analyses the financial performance of regional rural banks in India. The Problem Statement for this research is:

"Profitability Analysis of Regional Rural Banks in India (with special reference to western region)"

SCOPE OF STUDY

The scope of this study is limited to Profitability Analysis of Regional Rural Banks in India. Current study covers RRBs of Western Region of India, which inculudes three states i.e. Gujarat, Maharashtra and Rajasthan. The study covers 2 Banks of Gujarat, 1 Bank of Maharashtra and 2 Banks of Rajasthan State.

DATA COLLECTION AND PERIOD OF STUDY

Present study is purely based on secondary data which is collected from published annual reports of selected RRBs working in western region of India. Profitability Analysis is carried out for five successive financial year i.e. 2007-08 to 2011-12.

POPULATION AND SAMPLE SIZE OF STUDY

Current study is conducted to check profitability of Regional Rural Banks in India. This study focuses on Western region of India which includes three states i.e. Gujarat, Rajasthan and Maharashtra. The Population consists of RRBs working in these three states. It was found that there were 3 RRBs working in Gujarat, 6 RRBs working in Rajasthan and 3 RRBs are working in Maharashtra. Depending upon the data availability 2 RRBs from Gujarat, 1 from Maharashtra and 2 from Rajasthan have been selected as sample of study.

TOOLS AND TECHNIQUES OF ANALYSIS

Current study has included broadly two types of tools i.e. accounting tools and Statistical tools. Accounting tools include various profitability ratios i.e. Interest Coverage Ratio, Return on Equity Ratio, Non-Interest Income Ratio, Interest Margin Ratio and Spread Ratio. Statistical tools include calculation of Mean, Standard Deviation, Coefficient of Variance and ANOVA.

LIMITATIONS OF THE STUDY

- Current study focuses only on profitability aspect of RRBs, which would become a major limitation of this study
- The concept of Regional Rural Banks is still in a developing stage, this leads to limitations of this research
- Present study is based on secondary data and secondary data has its own limitations which would definitely affect this research

PROFITABILITY ANALYSIS OF RRBS

1. INTEREST COVERAGE RATIO

A ratio used to determine how easily a company can pay interest on outstanding debt. The interest coverage ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) of one period by the company's interest expenses of the same period. The lower the ratio, the more burdens is on company by debt expense. When a company's interest coverage ratio is 1.5 or lower, its ability to meet interest expenses may be questionable. An interest coverage ratio below 1 indicates the company is not generating sufficient revenues to satisfy interest expenses.

Formula: Interest Coverage Ratio = EBIT / Interest Expenses

TABLE NO. 1: INTEREST COVERAGE RATIO

Year	GUJARAT		MAHARASHTRA	RAJSTHAN	
	DGB	BGGB	MGB	RGB	BRGB
2007-08	0.23	0.77	0.27	0.08	1.69
2008-09	0.19	0.07	0.29	0.08	1.84
2009-10	0.17	-0.27	0.29	0.14	1.87
2010-11	0.13	-1.35	0.15	0.09	2.13
2011-12	0.14	-2.06	0.17	0.13	1.75
Average	0.172	-0.568	0.234	0.104	1.856
State Avg.	-0.20		0.234	0.98	
Overall average	0.338				
Std. Dev.	0.040	1.131	0.068	0.028	0.169
CV	23.400	-199.256	29.235	27.701	9.108

Source: Calculated from the Annual Reports of selected RRBs

Above table shows the Interest Coverage ratio of selected regional rural banks during the period under review for three states. The Interest coverage ratio of Dena Gramin Bank and Baroda Gujarat Gramin Bank shows decreasing trend during the study period. The ratio was below 0.25 in DGB and 0.77 in BGGB. Interest coverage ratio of Maharashtra Gramin Bank shows fluctuating trend during the study period. It ranges between 0.15 in FY 2010-11 to 0.29 in FY 2008-09 and 2009-10. The ratio of Rajasthan Gramin Bank and Baroda Rajasthan Gramin Bank shows increasing trend during the study period except FY 2010-11 and FY 2011-12 respectively. The Average Interest Ratio of Gujarat State was -0.20 where as the average interest ratio of Maharashtra was 0.23. Rajasthan State has recorded the highest interest coverage ratio during the period under review. It has 0.98 which is very near to 1 so, it can be concluded that RRBs of Rajasthan are generating sufficient revenue during the study period.

HYPOTHESIS STATEMENT

Ho: There is no significance difference in the interest coverage ratio of selected banks during study period

H1: There is significance difference in the interest coverage ratio of selected banks during study period

TABLE NO. 2

ANOVA

Source of Variation	SS	DF	MS	F	F crit
Between Groups	16.079776	4	4.019944	15.266	2.866
Within Groups	5.26652	20	0.263326		
Total	21.346296	24			

Here, hypothesis is tested at 5% level of significance and (4,20) d.f. Here, calculated value is higher than tabulated value so, null hypothesis is rejected and alternative hypothesis is accepted. So, it can be concluded that there is significance difference in interest coverage ratio of selected Regional Rural Banks during the period under review.

2. NON INTEREST INCOME RATIO

Bank and creditor income derived primarily from fees. Examples of non-interest income include deposit and transaction fees, insufficient funds (NSF) fees, annual fees, monthly account service charges, inactivity fees, check and deposit slip fees, etc. Institutions charge fees that provide non-interest income as a way of generating revenue and ensuring liquidity in the event of increased default rates.

Formula: Noninterest income / Net income

TABLE NO. 3: NON INTEREST INCOME RATIO

YEAR	GUJARAT		MAHARASHTRA	RAJSTHAN	
	DGB	BGGB	MGB	RGB	BRGB
2007-08	0.39	0.49	0.57	0.56	0.52
2008-09	0.36	0.41	0.60	0.49	0.56
2009-10	0.28	0.39	0.37	0.35	0.57
2010-11	0.49	0.32	0.42	0.44	0.56
2011-12	0.56	0.27	0.75	0.29	0.69
Average	0.416	0.376	0.542	0.426	0.58
State Avg.	0.396		0.542	0.503	
Overall average	0.489				
Std. Dev.	0.110	0.0847	0.151	0.107	0.064
CV	26.475	22.535	27.962	25.315	11.106

Source: Calculated from the Annual Reports of selected RRBs

Above table shows the non Interest income ratio of selected Regional Rural Banks during the period under review for three states. Non Interest income ratio of Dena Gramin Bank shows fluctuating trend during the study period. It ranges between 0.28 and 0.56. Non Interest Income ratio of Baroda Gujarat Gramin Bank shows decreasing trend during the period under review. It also ranges between -0.27 in 2011-12 to 0.49 in 2007-08. Non Interest income ratio of Maharashtra Gramin Bank shows fluctuating trend during the study period, in the year 2011-12 it was 0.75 which was highest among five years. This ratio was lowest in the year 2009-10 and it was 0.37. Non Interest income ratio of Rajasthan Gramin Bank shows fluctuating trend during the study period, in the year 2007-08 it was 0.56 which was highest interest among five years. Baroda Rajasthan Gramin Bank shows decreasing trend during the study period, in the year 2007-08 it was 0.56 which was lowest interest among five years. In Gujarat state, the average ratio of last five years of Dena Gujarat Gramin Bank was 0.416 which was higher than the Baroda Gujarat Gramin Bank was 0.376. In Rajasthan state, the average ratio of last five years of Baroda Rajasthan Gramin Bank was 0.58 which was higher than Rajasthan Gramin Bank. Comparing State wise average of all states, The grand average of Gujarat state was 0.396 which was lower than the grand average of Rajasthan and Maharashtra states.

HYPOTHESIS STATEMENT

Ho: There is no significance difference in the non interest income ratio of selected banks during study period

H1: There is significance difference in the non interest income ratio of selected banks during study period

TABLE NO. 4

ANOVA					
Source of Variation	SS	DF	MS	F	F crit
Between Groups	0.185712	4	0.046428	4.997847	2.75871
Within Groups	0.23224	25	0.00929		
Total	0.417952	29			

Here, hypothesis is tested at 5% level of significance and (4,20) d.f. Here, calculated value is higher than tabulated value so, null hypothesis is rejected and alternative hypothesis is accepted. So, it can be concluded that there is significance difference in Non Interest Income ratio of selected Regional Rural Banks during the period under review.

3. OPERATING EXPENSE RATIO

The **Operating Expense Ratio (OER)** is equal to a company's operating expenses divided by its revenues. The measure is very common in real estate analysis, whereby analysts are measuring the costs to operate a piece of property versus the income it generates. Operating expenses are costs associated with running a business's core operations on a daily basis. Thus, the lower a company's operating expenses are, the more profitable it generally is. Over time, changes in the OER indicate whether the company can increase sales without increasing operating expenses proportionately (i.e., if the business is scalable). In real estate, companies can compare properties by using the ratio. As such, the OER is also a measure of managerial flexibility and competency that makes companies easier to compare.

Formula: Operating Expenses / Revenue * 100

TABLE NO. 5: OPERATING EXPENSES RATIO (Figures in Percentage)

YEAR	GUJARAT		MAHARASHTRA	RAJSTHAN	
	DGB	BGGB	MGB	RGB	BRGB
2007-08	25.56	22.17	11.28	43.96	27.91
2008-09	26.43	20.88	7.34	38.12	22.41
2009-10	22.03	22.53	33.56	26.38	24.64
2010-11	27.51	21.98	39.74	31.03	30.43
2011-12	30.86	19.63	33.37	25.22	27.45
Average	26.478	21.438	25.058	32.942	26.568
State Avg.	23.958		25.058	29.755	
Overall average	26.257				
Std. Dev.	3.197	1.183	14.668	7.977	3.102
CV	12.076	5.520	58.539	24.216	11.677

Source: Calculated from the Annual Reports of selected RRBs

Above table shows the non Interest income ratio of selected regional rural banks during the period under review for three states. Operating expense ratio of Dena Gramin Bank shows fluctuating trend during the study period, in the year 2011-12 it was 30.86 percent which was highest among five years. Operating expense ratio of Baroda Gujarat Gramin Bank shows decreasing trend during the study period which would have positive effect on profitability, in the year 2009-10 it was 22.53 which was highest among five years. This ratio was lowest in the year 2011-12 and it was 19.63. Baroda Gujarat Gramin Bank's Operating expense ratio was below 22.53 percent during the period of five years. Operating expense ratio of Maharashtra Gramin Bank shows fluctuating trend during the study period, ratio was lowest in the year 2008-09 and it was 7.34 percent which would increase profitability for the bank. Rajasthan Gramin Bank shows fluctuating trend during the study period, in the year 2007-08 it was 43.96 which was highest among five years which affected negatively to profitability of bank. Operating expense ratio of Baroda Rajasthan Gramin Bank shows decreasing trend during the study period, which affects positively to profitability of the Baroda Rajasthan Gramin Bank's Operating expense ratio was below 30.43 during the period of five years. Comparing state wise RRBs it was found that RRBs of Gujarat state had lowest operating ratio among all the states which would have positive impact on profitability. The above table also shows the overall average of all the three state was 26.257 percent.

HYPOTHESIS STATEMENT

Ho: There is no significance difference in the operating expenses ratio of selected banks during study period

H1: There is significance difference in the operating expenses ratio of selected banks during study period.

TABLE NO. 6

ANOVA					
Source of Variation	SS	DF	MS	F	F crit
Between Groups	14411.9602	4	3602.99	47.96784	2.866081
Within Groups	1502.25232	20	75.11262		
Total	15914.2125	24			

Here, hypothesis is tested at 5% level of significance and (4,20) d.f. here, f calculated value is higher than f tabulated value so, null hypothesis is rejected and alternative hypothesis is accepted. So, it can be concluded that there is significance difference in operating expense ratio of selected Regional Rural Banks during the period under review.

4. RETURN ON EQUITY

The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Formula: Return on Equity = Net Income / shareholder's Equity * 100

TABLE NO. 7: RETURN ON EQUITY (Figures in Percentage)

YEAR	GUJARAT		MAHARASHTRA	RAJSTHAN	
	DGB	BGGB	MGB	RGB	BRGB
2007-08	4.05	12.99	7.63	0.22	4.04
2008-09	4.36	17.35	9.5	0.25	4.51
2009-10	5.29	20.24	15.98	0.48	4.76
2010-11	4.2	20.2	14.48	13.64	5.63
2011-12	4.5	18.22	5.3	17.69	5.88
Average	4.48	17.8	10.578	6.456	4.964
Grand Avg.	11.14		10.578	5.71	
Overall average	9.14				
Std. Dev.	0.48327	2.96768428	4.530929265	8.528295	0.77202979
CV	10.7872	16.6723836	42.83351545	132.0987	15.5525743

Source: Calculated from the Annual Reports of selected RRBs

Above table shows the non Interest income ratio of selected Regional Rural Banks during the period under review for three states. Return on equity ratio of Dena Gramin Bank and Baroda Gujarat Gramin Bank shows fluctuating trend during the study period, it was 5.29 percent and 20.24 percent which was highest among five years. Return on equity ratio of Maharashtra Gramin Bank also shows fluctuating trend during the study period. Rajasthan Gramin Bank and Baroda Rajasthan Gramin Bank show increasing trend during the study period. RGB recorded higher ratio comparing to BRGB. Comparing Return on Equity ratio of all the states, RRBs of Gujarat has recorded highest during the period under study. Whereas RRBs all Rajasthan has recorded lower ratio during study period.

HYPOTHESIS STATEMENT

Ho: There is no significance difference in the return on equity ratio of selected banks during study period

H1: There is significance difference in the return on equity ratio of selected banks during study period

TABLE NO. 8

ANOVA					
Source of Variation	SS	df	MS	F	F crit
Between Groups	0.185712	4	0.046428	4.997847	2.75871
Within Groups	0.23224	25	0.00929		
Total	0.417952	29			

Here, hypothesis is tested at 5% level of significance and 4,20 d.f. here, f calculated value is higher than f tabulated value so, null hypothesis is rejected and alternative hypothesis is accepted. So, it can be concluded that there is significance difference in return on equity ratio of selected regional rural banks during the period under review.

5. NET INTEREST MARGIN

Performance metric that examines how successful a firm's investment decisions are compared to its debt situations, a negative value denotes that the firm did not make an optimal decision, because interest expenses were greater than the amount of returns generated by investments. A positive net interest margin means the investment strategy pays more interest than it costs. Conversely, if net interest margin is negative, it means the investment strategy costs more than it makes.

Formula: Net Interest Margin = Investment Returns – Interest Expenses / Avg. Earning Assets

TABLE. 9: NET INTEREST MARGIN

YEAR	GUJARAT		MAHARASHTRA	RAJSTHAN	
	DGB	BGGB	MGB	RGB	BRGB
2007-08	0.03	0.05	0.32	-0.3	0.03
2008-09	0.03	0.04	0.34	0.04	0.03
2009-10	0.03	0.04	0.053	0.03	0.03
2010-11	0.03	0.04	-0.02	0.03	0.03
2011-12	0.03	0.04	0.03	0.03	0.03
Average	0.03	0.04	0.1446	-0.034	0.03
Grand Avg.	0.035		0.1446	-0.002	
Overall average	0.1776				
Std. Dev.	0	0.00707107	0.171437452	0.148762	0
CV	0	17.6776695	118.5597871	-437.534	0

Source: Calculated from the Annual Reports of selected RRBs

Above table shows the non Interest income ratio of selected regional rural banks during the period under review for three states. Net interest margin ratio of Dena Gramin Bank and Baroda Gramin Bank shows constant ratio during the study period. Net interest margin ratio of Maharashtra Gramin Bank shows fluctuating trend during the study period, ratio was highest in the year 2008-09 and it was 0.34 so that it was profitable for the bank. In the year 2010-11, the ratio was -0.02 which was lowest among all the 5 years. Maharashtra Gramin Bank's Net interest margin ratio was below 0.34 during the period of five years. Net interest margin ratio of Rajasthan Gramin Bank shows fluctuating trend during the study period, in the year 2007-08 the ratio was -0.03 it was much low. Net interest margin ratio of Baroda Rajasthan Gramin Bank shows constant ratio during the study period. In Gujarat state, the average ratio of last five years was 0.035 which was higher than Rajasthan state and lower than the average ratio of Maharashtra State.

HYPOTHESIS STATEMENT

Ho: There is no significance difference in the Net Interest Margin ratio of selected banks during study period

H1: There is significance difference in the Net Interest Margin ratio of selected banks during study period

TABLE NO. 10

ANOVA					
Source of Variation	SS	df	MS	F	F crit
Between Groups	0.08297344	4	0.020743	2.011154	2.866081
Within Groups	0.2062832	20	0.010314		
Total	0.28925664	24			

Here, hypothesis is tested at 5% level of significance and 4,20 d.f. here, f calculated value is lower than f tabulated value so, null hypothesis is accepted. So, it can be concluded that there is no significance difference in Net Interest Margin ratio of selected regional rural banks during the period under review.

6. SPREAD RATIO

In banking, the net interest rate spread is the difference between interest earned on loans, securities, and other interest-earning assets and the interest paid on deposits and other interest-bearing liabilities. The higher the ratio better will be the profitability of the bank and vise a versa.

Formula: **Interest Income- Interest Expenses**

TABLE NO. 11: SPREAD RATIO (Amount in thousand rupees)

YEAR	GUJARAT		MAHARASHTRA	RAJSTHAN	
	DGB	BGGB	MGB	RGB	BRGB
2007-08	399381	422380	7815938	-5504110	703710
2008-09	446768	467880	8972676	715927	682629
2009-10	543658	525855	1505047	715632	772479
2010-11	598738	552368	-486987	1017178	1042879
2011-12	686338	572856	1109667	1216358	1059396
Average	534976.6	508267.8	3783268.2	-367803	852218.6
Grand Avg.	521622.2		2976734.24	242207.8	
Overall average	1246854.7				
Std. Dev.	115345.2	62116.144	4294353.668	2879136	184694.1
CV	0.004167	0.01730564	0.002422844	-0.01513	0.001232

Source: Calculated from the Annual Reports of selected RRBs

Above table shows the spread ratio of selected regional rural banks during the period under review for three states. The spread of Dena Gramin Bank shows increasing trend from 2007 – 08 to 2011-12 i.e. INR 3,99,381 to 6,86,338 during the study period of five years. Spread ratio of Baroda Gujarat Gramin Bank also shows increasing trend from 2007 – 08 to 2011-12 i.e. INR 4,22,380 to 5,72,856 during the study period of five years. Spread ratio of Maharashtra Gramin Bank shows fluctuating trend during the study period, ratio was highest in the year 2008-09 and it was 78,15,938 so that it is good for the bank. In the year 2011 - 12, the ratio was 1,10,967 which was lowest among all the 5 years. Spread ratio of Rajsthan Gramin Bank shows increasing trend during the study period. It shows fluctuating ratio during the study period. In the year 2008 -09 the ratio was INR 6,82,629 which was lowest period under review. In Gujarat state, the average spread ratio of last five years was INR 5,21,622.2, the grand average of Maharashtra state was INR 29,76,734.24 which was highest among all the states and the grand average of Rajasthan was INR 2,42,207.8 so the bank of Maharashtra state is having the highest Spread during the period under review.

HYPOTHESIS STATEMENT

Ho: There is no significance difference in the spread of selected banks during study period

H1: There is significance difference in the spread of selected banks during study period

TABLE NO. 12

ANOVA					
Source of Variation	SS	df	MS	F	F crit
Between Groups	0.08297344	4	0.020743	2.011154	2.866081
Within Groups	0.2062832	20	0.010314		
Total	0.28925664	24			

Here, hypothesis is tested at 5% level of significance and 4,20 d.f. here, f calculated value is lower than f tabulated value so, null hypothesis is accepted. So, it can be concluded that there is no significance difference in spread of selected regional rural banks during the period under review.

FINDINGS OF THE STUDY

1. During the study period, all five Regional Rural Banks the Interest Coverage ratio of Dena Gujarat Gramin Bank is higher than Gujarat Baroda Gramin Abnk i.e. 0.172.
2. The bank of Rajasthan is having efficient capacity to pay the interest expense.
3. Interest coverage ratio of Maharashtra Gramin Bank shows fluctuating trend during the study period.
4. In the interest coverage ratio there is significance difference between selected banks during the study period.
5. Return on equity ratio of Baroda Rajasthan Gramin Bank shows increasing trend during the study period
6. The average noninterest income ratio of Gujarat state is 0.396 which is lower than Maharashtra or Rajasthan Gramin Bank.
7. The average operating expense ratio of Rajasthan state was 29.755 i.e. Higher than Gujarat state so the bank of Gujarat state having the more profit than Rajasthan state.
8. Dena Gramin Bank's return is below 5.29 during the period of five years. The return of equity of Maharashtra state is highest then Gujarat and Rajasthan state.
9. In ROE ratio, there is a significance difference between the select banks during the study period.

CONCLUSION

The role of Regional Rural Banks is for betterment of socio-economic movement of the rural society which is functionally diverse and geographically widespread deserves for recognition. Time has come to make the rural banking system successful and the beneficiaries should not be skeptical about the purpose of its existence. The Regional Rural Bank should have strict regimen to follow and the results with a marginal error always appreciated. However the duress on the RRBs while setting the standards shall not be an impediment in delivering its responsibilities towards the rural society. The acumen by the sponsoring banks and the RRBs itself on the financial figures and selection of schemes for the beneficiaries should be appropriate in order to sustain the efficiency. The judicious mix in capital configuration and extending hand by the sponsoring banks in attaining the operational efficiency is the need of the hour. However current study shows profitability of the RRBs, it is very clear from the study that some of the RRBs are not generating handsome amount of profit as like other commercial banks in India. The seldom profit of the Loss making RRBs is worrisome and they should live up to their expectations. However the ray of hope is getting brighter over the period of years, thanks to the recommendations made by various committees for identifying the weaknesses of RRBs and the reforms taken by the Reserve Bank of India. It is evident from facts that the number of loss making RRBs are on the declining trend.

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