



Financial Performance Evaluation Of Himachal Pradesh Gramin Bank

Dr. Munish Kumar Thakur^{1*}

^{1*} Associate Professor of Commerce, Govt. Degree College Lad Bharol, Mandi, Himachal Pradesh.
Gmail: munishthakur1974@gmail.com

***Corresponding Author:** Dr. Munish Kumar Thakur
Gmail: munishthakur1974@gmail.com

Abstract

A good banking system is very important for the economic strength of any country. Indian economy is also no exception to this and the Indian banking system has a huge stake in the country's economic growth and development. To analyse the financial performance of a bank, the financial efficiency, liquidity position and credit performance are the main areas. The present study is an attempt to measure the financial performance Himachal Pradesh Gramin Bank. The secondary data has been used for the study and different ratios have been applied to evaluate the performance. Study found that HPGB has achieved success in channelizing the savings of rural people into productive purpose. The amount of advance has been significantly increased at a faster rate. The ratio of advances over deposits of bank significantly improving but bank did not utilize its deposits efficiently in the study period. Study concluded that profitability position, credit performance of the bank has been found poor and liquidity position remained almost constant during the study period. It is suggested that bank can mobilize its deposits to meet credit demand and may earn higher profit by increasing the ADR ratio although it indicates lower liquidity. It is advised that bank should make more efforts to improve its financial performance

Keywords: *Financial Performance, Profitability, Liquidity, Himachal Pradesh Gramin Bank, Ratio analysis.*

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INTRODUCTION

Indian economy is an agricultural economy. Agriculture is major source of income and provides maximum employment in rural areas of the country. Three fourth of the total population of the country depend up on rural sector and occupies a key position in the Indian economy. People of rural areas are very poor and generally work in the primary sector and their income is very low as compared to other sectors of the economy. There is a need to make all round development in the rural areas of the country. In order to achieve the goal of rapid economic development, the higher growth rates in agriculture, industry and commerce in rural areas, regional rural bank have been set up in country. Regional Rural Banks' have been set up with objectives that it will fast the development of the rural economy by providing trouble-free accent of credit for the purpose of development of agriculture trade, commerce, industry and other productive activities. These banks are

expected to provide credit & other facilities particularly to small and marginal farmers, agricultural laborers', artisans and small entrepreneurs to meet their credit requirement (Sharma, 2017).

An efficient banking sector is one of the crucial components of the financial system and is a basic requirement for the economic development of any country. Its efficiency and competitiveness define the strength of any economy. Banking institutions in India have also been assigned a significant role in financing the process of planned economic-social growth and development. The Banks mobilizes the idle savings of individuals into more productive channels and plays a vital role in development of agriculture and industry (Verma,2019). In simplistic words, banking has been defined as the business investment of accepting and afterward lending this money to make a profit. Even so, with the flow of time, the actions performed by the banking business have broadened and numerous other services are once again offered by the banks. Banking services are also provided by banks. These days banking services include issuing credit and debit cards, providing secure custody of valuable items, ATM services, lockers, and online money transfer across the country/world (Sharma and Khanna,2023).The overall objective of the present research is to measure the performance of a rural bank i.e. Himachal Pradesh Gramin Bank for the period 2016-17 to 2022-23.

LITERATURE REVIEW

1. Mustafa and Taqi (2017) investigated in their paper the financial Performance Evaluation of Punjab National Bank for the period of 2012- 2016. This paper is based on secondary data and different ratios have been applied to evaluate the financial performance of the bank along with regression analysis with the help of SPSS 20.0. The study concluded that the selected bank has performed well on the sources of growth rate and financial efficiency but profitability position has been found poor during the study period. this paper suggested that decision makers to pay more attention on the major banking activities that may help in increasing the financial performance position and ranking of the bank as compared to other banks.

2. Subalakshmi, Grahalakshmi and Manikandan (2018) in their study authors highlighted financial ratio analysis of SBI [2009 - 2016]. The study was undertaken to analyze the financial status of public sector bank SBI (State Bank of India). In this study the performance of SBI bank has been analyzed in detail in terms of deposit mobilization, loans and advances, investment position, non-performing assets, earnings and profitability efficiency. According to the analysis, the SBI is maintaining the required standards and running profitability. SBI have more profitability because it enters into the industry as well as commercial market also and regularly it improving the service quality level. In this highly competitive global environment it is imperative for the SBI bank to show outstanding performance in various parameters.

3. Katoch, A.S (2018) conducted the study with the purpose to study the operational efficiency of regional rural banks: a case study of Himachal Pradesh Gramin Bank. The duration for measuring the relative performance of the Bank is between 2012- 2017.Secondary data has been used for this study. Different parameters have been used to evaluate the operational efficiency and analysis of financial position. It has been found that bank has maintained satisfactory profitability position during the entire period under study except in the year 2015-16 in which bank could generate the profit of Rs 2.32 crores. It is concluded that increasing attention has been paid by the Rural Bank of the State for deposit mobilisation but more can be done in this regard by intensification of saving campaign in rural areas by all possible means. It is suggested attractive deposits schemes are required to be identified by the Bank through various deposits mobilization and awareness campaigns in potential areas in District Kullu Mandi and Una.

4. Selvakumar and Abima (2020) in their research paper authors studied Financial Performance of Regional Rural Banks with Special Reference to Assam Gramin Vikash Bank, Maharashtra Gramin Vikash Bank and Karnataka Gramin Vikash Bank for the period (2015-2019). The study is based on secondary data and different ratios have been used as tools of analysis such as Profitability Ratios Short term solvency and long term solvency ratios. It is concluded that the financial performance of the Assam Gramin Vikash Bank, Maharashtra Gramin Bank and Karnataka Vikash Gramin Bank are good.

5. Thakur and Singh (2021) in their research entitled Performance Evaluation Of Himachal Pradesh State Cooperative Bank Ltd analysed the financial performance of the bank for seven years period from 2014-2020. The study used both secondary and primary data. Here multistage random sampling technique is used to choose the sample. The research finds that profitability is a major issue for bank, and as a result, bank must reduce their operational costs and seek other revenue streams since their non-interest income is so low. It is advised that to increase the revenue bank may consider offering Third Party goods and go for opening new Bank branches to attract more customers and adopt new technology for financing to young customers.

6. Balasubramani and Mohana (2022) in their study on Financial Performance Analysis of HDFC Bank Ltd highlighted the financial performance of bank. The study used secondary data and the various tools like Return

on assets ratio, Interest coverage ratio, and other performance ratios for the study. The study reveals that bank is generating sufficient income and they are making better profits but efficiency of the bank in generating profits is limited. Finally, Bank is performing well in terms of income and it is satisfactory.

7. Deep and Kumar (2023) in their research study researchers evaluated the Performance of Himachal Pradesh Gramin Bank. Financial ratios have been calculated for analysis and understanding of the data. Additionally, this study made use of the Liner Trend for year 2025 and the compound annual growth rate. Study suggested that HPGB should make provision consistently against NPA. Further, interpretation of data shows that the balance with other bank & money at call as well as short notice of HPGB found negative trend and negative CAGR during the study period. Hence, study suggested that the bank should keep close supervision on it.

SCOPE OF THE STUDY

This study measures the financial performance of Himachal Pradesh Gramin Bank for the period of seven years (2016-17 to 2022-23). The study will provide details about the growth of deposits and advances, profitability of HPGB. It is expected that the result of this research will suggest policy measures for the better performance of this bank in order to achieve the financial targets.

OBJECTIVES OF THE STUDY

1. To examine the financial and credit performance of Himachal Pradesh Gramin Bank.
2. To examine the profitability and liquidity position of Himachal Pradesh Gramin Bank.
3. To give suggestions based on the findings of the study.

RESEARCH METHODOLOGY

The secondary data has been used for the study. The data has been collected from website and annual reports of Himachal Pradesh Gramin Bank, journals, magazines and internet sources. The present study is conducted for the period of seven years ranging from 2016-17 to 2022-23. The variables used for the study are total deposits, total advances, total business, total assets and net profit.

METHOD USED FOR DATA ANALYSIS AND INTERPRATATION:

Different ratios are used to analyse the financial performance of Himachal Pradesh Gramin Bank.

1. Return on Total Asset Ratio
2. Return on Equity Ratio
3. Net Profit Margin Ratio
4. Advances to Deposit Ratio
5. Advances to Assets Ratio
6. Provisions to Advances Ratio
7. Provision to Assets Ratio

LIMITATIONS OF STUDY

The present study is limited to only one rural bank of India. Hence, the results will not be applied to the entire banking sector. This study is also limited to seven years period (2016-17 to 2022-23). The study is based only on secondary data which has been collected from published annual reports / Balance sheet of bank and various relevant internet sources which may contain its own limitations.

ANALYSIS AND INTERPRETATION

The present study is about the evaluation of financial performance of Himachal Pradesh Gramin Bank for seven years from 2016-17 to 2022-23 which has been carried out with the help of different financial ratios.

Table.1 Financial highlights of Himachal Pradesh Gramin Bank. (Amount in Rs. thousands)

Year	Total Business	Total Net Worth	Total Deposit	Total Advances	Total Assets	Net Profit
2016-17	52345087	1284721	40569453	11775634	45483492	51982
2017-18	59692556	1321655	44683831	15008725	50005650	46289
2018-19	68699195	1373462	50979228	17719967	56939286	51806
2019-20	78599477	1387692	58111331	20488146	64537475	7887
2020-21	88283662	1474662	64781556	23502076	76916928	86969
2021-22	99580426	1520284	72717530	26862896	85664975	45692
2022-23	110144450	1542010	78537414	31607036	88928886	21656

Source: Annual Reports / Balance sheet of Himachal Pradesh Gramin Bank from 2016-17 to 2022-23.

It is observed from the above table that overall there is an improvement in the total business and total net worth of the bank along with increased total advances. Total assets and total Deposit of the bank have also increased but net profit of the bank has declined in 2017-18, improved a bit in 2018-19 and again dropped in 2019-20, increased in 2020-21 but again declined in over the years.

RATIO ANALYSIS OF HIMACHAL PRADESH GRAMIN BANK

For the purpose of evaluating the financial performance of bank with respect to profitability, liquidity and credit performance, the Profitability, Liquidity and Credit Performance Ratios has been used.

1. PROFITABILITY PERFORMANCE OF HIMACHAL PRADESH GRAMIN BANK.

ROA, ROE, NPM, and ROD ratios are used to study the profitability.

Return on Assets (ROA)

ROA ratio which relates the income earned by the bank to the assets it used in operation. It provides information about the income generated and also shows management's performance in using assets.

Formula for calculation of Return on Total Asset (ROA) Ratio =

Net Profit / Total Asset * 100

Table.2 Return on Assets (ROA) of Himachal Pradesh Gramin Bank (Amount in Rs. thousands)

Year	Total Net Profit	Total Assets	ROA
2016-17	51982	45483492	.114
2017-18	46289	50005650	.09
2018-19	51806	56939286	.09
2019-20	7887	64537475	.01
2020-21	86969	76916928	.113
2021-22	45692	85664975	.05
2022-23	21656	88928886	.02

Source: Annual Reports / Balance sheet of Himachal Pradesh Gramin Bank from 2016-17 to 2022-23

The above table states that the ROA is .114 in 2016-17 which declined over the years, improved slightly in 2020-21 and again dropped in 2021-22 and 2022-23. It is may be concluded that the declining in ratio has shown adverse effect to the bank. So the bank needs to take care of liquid assets to maintain safe position.

Return on Equity (ROE)

This profitability ratios measure the financial performance and the managerial efficiency of bank. The higher such ratio, the more efficient is the financial performance of profitability of a bank.

Formula for calculation of Return on Equity (ROE) Ratio =

Net Profit / Net Worth * 100

Table.3 Return on Equity (ROE) of Himachal Gramin Bank (Amount in Rs. thousands)

Year	Total Net Profit	Net worth	ROE
2016-17	51982	1284721	4.04
2017-18	46289	1321655	3.50
2018-19	51806	1373462	3.77
2019-20	7887	1387692	0.56
2020-21	86969	1474662	5.89
2021-22	45692	1520284	3.00
2022-23	21656	1542010	1.40

Source: Annual Reports / Balance sheet of Himachal Pradesh Gramin Bank from 2016-17 to 2022-23

The above table reveals that the ratio of return on equity of the Himachal Pradesh Gramin Bank from 2016-17 to 2022-23. It is 4.04 percent in 2016-17, declined in 2017-18, improved little in 2018-19 and declined deeply in 2019-20, shows significant improvement in 2020-21, again declined over the years. It can be concluded that higher return on equity ratio ensures increased return to the equity shareholders and vice versa.

Net Profit Margin (NPM)

NPM ratio reflects the bank management ability to utilize the customers' deposits in order to generate profits.

FORMULA FOR CALCULATION NET PROFIT MARGIN (NPM) RATIO :

$$\text{Net Profits} / \text{Total Deposits} * 100$$

Table.4 Net Profit Margin (NPM) of Himachal Pradesh Gramin Bank (Amount in Rs. thousands)

Year	Total Net Profit	Total Deposits	NPM
2016-17	51982	40569453	0.128
2017-18	46289	44683831	0.103
2018-19	51806	50979228	0.101
2019-20	7887	58111331	0.013
2020-21	86969	64781556	0.134
2021-22	45692	72717530	0.062
2022-23	21656	78537414	0.027

Source: Annual Reports / Balance sheet of Himachal Pradesh Gramin Bank from 2016-17 to 2022-23

Table states that the NPM of the bank is only 0.128 per cent in 2016-17 which declined over the years except the year 2020-21 in which bank shows little improvement but in next years again started dropping. It indicates poor performance of the bank during the study period. Profitability reveals the earning capacity, business performance and customer satisfaction.

2. LIQUIDITY PERFORMANCE OF HIMACHAL PRADESH GRAMIN BANK.

Liquidity ratios, generally shows the ability of bank to pay its current liabilities. Higher the ratio means larger the margin of safety of a bank to cover its short-term obligations. The following liquidity ratio are used.

Advances to Deposits Ratio (ADR)-This ratio indicates the percentage of a bank's loans funded through deposits. A higher ADR ratio means more financial pressure by making excessive loans. So, the lower ADR ratio is always favourable to the higher one.

FORMULA FOR CALCULATION OF ADVANCES TO DEPOSIT (ADR) RATIO:

$$\text{Total advances} / \text{Total Deposits} * 100$$

Table.5 Advances to Deposit Ratio (ADR) of Himachal Pradesh Gramin Bank (Amount in Rs. thousands)

Year	Total Advances	Total Deposits	ADR
2016-17	11775634	40569453	29.02
2017-18	15008725	44683831	33.58
2018-19	17719967	50979228	34.75
2019-20	20488146	58111331	35.25
2020-21	23502076	64781556	36.27
2021-22	26862896	72717530	36.94
2022-23	31607036	78537414	40.24

Source: Annual Reports/ Balance sheet of Himachal Pradesh Gramin Bank from 2016-17 to 2022-23

Above table reveals that ADR is lowest in the year 2016-17 and ratio is continuously increasing during the study period it is good for the bank but the maximum ratio in study period is 40.24. It is concluded that bank did not utilize its deposits efficiently. Bank can mobilize its deposits to meet credit demand and may earn higher profit by increasing the ADR ratio although it indicates lower liquidity.

Deposits to Assets Ratio (DAR):

Total deposits to total assets ratio indicates the how much of the bank's assets are funded by deposits.

FORMULA FOR CALCULATION OF DEPOSIT TO ASSETS (DAR) RATIO:

$$\text{Total Deposits} / \text{Total Assets}$$

Table.6 Deposits to Total Assets Ratio (DAR) of Himachal Pradesh Gramin Bank

(Amount in Rs. thousands)

Year	Total Deposits	Total Assets	DAR
2016-17	40569453	45483492	.891
2017-18	44683831	50005650	.893
2018-19	50979228	56939286	.895
2019-20	58111331	64537475	.900
2020-21	64781556	76916928	.842
2021-22	72717530	85664975	.848
2022-23	78537414	88928886	.883

Source: Annual Reports / Balance sheet of Himachal Pradesh Gramin Bank from 2016-17 to 2022-23

The above table depicts the ratio of deposits to assets ratio of Himachal Pradesh Gramin Bank from 2016-17 to 2022-23. The ratio ranges from .842 per cent to .900 per cent during the study period. Deposits to assets ratio soared in the year of 2020 and declined to lowest level in 2021.

3. CREDIT PERFORMANCE OF HIMACHAL PRADESH GRAMIN BANK.

Advances is the most important activity of bank and it is expected that all banks will have loan losses due to bad loans but bank management is to minimise such losses.

Total Provisions to Total Advances Ratio

FORMULA FOR CALCULATION OF PROVISIONS TO ADVANCES RATIO:

Total Provisions / Total Advances*100

Table.7 Total Provisions to Total Advances Ratio of Himachal Pradesh Gramin Bank

(Amount in Rs. thousands)

Year	Total Provisions	Total Advances	Provisions/ Advances
2016-17	94881	11775634	.0080
2017-18	188807	15008725	.0125
2018-19	434091	17719967	.0244
2019-20	807525	20488146	.0394
2020-21	998000	23502076	.0234
2021-22	1164000	26862896	.0433
2022-23	1515000	31607036	.0479

Source: Annual Reports / Balance sheet of Himachal Pradesh Gramin Bank from 2016-17 to 2022-23

The above table indicates the total provisions to total advances for Himachal Pradesh Gramin Bank. The ratio varies from 0.0080 percent to .0479 percent in the study period.

Total Provisions to Total Assets Ratio

FORMULA FOR CALCULATION OF PROVISIONS TO ASSETS RATIO:

Total Provisions / Total Assets*100

Table.8 Total Provisions to Total Assets Ratio of Himachal Pradesh Gramin Bank

(Amount in Rs. thousands)

Year	Total Provisions	Total Assets	Provisions/Assets
2016-17	94881	45483492	.00208
2017-18	188807	50005650	.00377
2018-19	434091	56939286	.00762
2019-20	807525	64537475	.01251
2020-21	998000	76916928	.01297
2021-22	1164000	85664975	.01358
2022-23	1515000	88928886	.01703

Source: Annual Reports / Balance sheet of Himachal Pradesh Gramin Bank from 2016-17 to 2022-23

The above table depicts that provision to assets ratio is minimum in the year 2016-17 and subsequently increased to .1703 in 2022-23.

FINDINGS

1. The total business, net worth, deposits, advances and total assets of the bank has continuously increased during the years under study.
2. Net profit of the bank has declined in 2017-18, improved a bit in 2018-19 and again dropped in 2019-20, increased in 2020-21 but again declined in over the years.
3. The Return on assets ratio is.114 in 2016-17 which declined over the years, improved slightly in 2020-21 and again dropped in 2021-22 and 2022-23.
4. Return on equity ratio is 4.04 percent in 2016-17, declined in 2017-18, improved little in 2018-19 and declined deeply in 2019-20, shows significant improvement in 2020-21, again declined over the years.
5. The NPM (Net Profit Margin) ratio of the bank is 0.128 per cent in 2016-17 which declined over the years except the year 2020-21 in which bank shows little improvement but in next year again started dropping.
6. ADR (Advance to Deposit Ratio) is lowest in the year 2016-17 and ratio is continuously increasing during the study period it is good for the bank but the maximum ratio in study period is 40.24. It is concluded that bank did not utilize its deposits efficiently
7. Deposits to Assets Ratio (DAR) ranges from .842 per cent to .900 per cent during the study period.
8. Total Provisions to Total Advances Ratio varies from 0.0080 percent to .0479 percent in the study period showing increasing trend.
9. Provision to Total assets ratio is minimum in the year 2016-17 i.e. 0.0020 and subsequently increased to 0.1703 in 2022-23 which showing increasing trend.

CONCLUSION AND SUGGESTIONS

The current study examines the financial performance and profitability of Himachal Pradesh Gramin Bank with the help of various financial ratios. Profitability performance of the bank can be concluded that it is not good as both ROA and ROE have declined during the study period except one year i.e. 2020-21. The NPM (Net Profit Margin) of the bank is 0.128 per cent in 2016-17 which declined over the years except the year 2020-21 in which bank shows little improvement. ADR is lowest in the year 2016-17 and ratio is continuously increasing during the study period, trend is positive it is good but bank did not utilize its deposits efficiently. Liquidity of bank has almost remained constant during the study period as shown by liquidity ratio. Credit performance of the bank is poor as credit performance ratios show increasing trend during the years of study. It is suggested that bank can mobilize its deposits to meet credit demand and may earn higher profit by increasing the ADR ratio although it indicates lower liquidity. It is advised that bank should make more efforts to improve its financial performance and formulate those policies that will promote effective financial system.

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