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A Case Study of the Financial Performance of the National Bank for Agriculture and Rural Development (NABARD)

[1]Aakriti Sharma, [2]Veerendra Kumar

[1] Research scholar, Accountancy and Law Department, Dayalbagh Educational Institute, Agra
[2] Research scholar, Accountancy and Law Department, Dayalbagh Educational Institute, Agra

A B S T R A C T

The study analyzed NABARD's financial performance for 2013-2023. The study is based on secondary data. The CAMEL rating model is used to analyze NABARD's financial performance. The findings of the study reveal that the bank performed very well. The bank has improved its deposits and operating profits ratio. The total asset turnover ratio has increased, indicating that the bank has been in a better position based on performance. Thus, the study also suggests NABARD for improving their overall financial performance.

Keywords: Capital Adequacy, Financial Performance, Management Efficiency

Introduction

The National Bank for Agriculture and Rural Development (NABARD) is the main regulatory body in the country's rural banking system. It is considered the peak development finance institution, which was established and is owned by the government of India. This bank aims to provide and regulate credit to rural areas, which will be the first step towards enhancing rural development in the country. NABARD has been responsible for formulating policies, planning, and operations in agriculture and financial development. NABARD carries these responsibilities efficiently and works towards promoting and developing man industries in rural areas like the agriculture industry, cottage industries, other small-scale industries, and rural crafts to create better infrastructure and better employment opportunities for the people living in these regions.

NABARD, through its micro-credit department of innovations, has persisted in serving as the nation's hub for microfinance programs. The department aims to enable the impoverished in rural areas to have continuous access to financial services.

Various microfinance innovations cost-effectively and sustainably. NABARD has always concentrated on uniting many stakeholders on a single platform and enhancing their ability to advance the objectives. Different strategies have led to the microfinance business in India growing tremendously. NABARD, as the development bank, is mandated to provide and regulate credit for promotional activities of agriculture, small-scale industries, cottage industries, handicrafts, rural crafts, and other associated economic activities in rural areas to promote economic growth.

NABARD is facing the problem of inadequate finance. Poor rural people cannot save anything due to poverty and low per capita income. They rely on NABARD to secure funding for their ongoing operations. These customers' low level of savings creates an obstacle for NABARD to collect sufficient deposits. High overdue and poor recovery of loans are among the most significant concerns affecting the functioning of NABARD. The reasons include limited loan availability, inadequate and unskilled personnel, inefficient or less efficient credit utilization, low output, subpar marketing infrastructure, and an incorrect channel for the recovery system. These banks have not substantially contributed substantially to the nation's efforts to reduce poverty. Although various efforts have been made in this regard, a lack of economic infrastructure, poor marketing strategies, poor knowledge of customers, low production, and low awareness about savings have created many hurdles for NABARD. There is also a problem of regional imbalance in banking facilities provided by NABARD. They are making this problem by concentrating their branches in specific states and districts that lose other prospective groups of customers. NABARD is suffering from the problem of heavy loans because of the low recycling capacity of their customers, untrained staff, low level of deposits, and severe sanction of loans without checking the creditworthiness of their customers. The lack of proper coordination between NABARD and other financial institutions like commercial banks and NABARD and other cooperative banks' performance has been badly affected. The financial performance of banks will be stable only when banks maintain proper financial statements.

Ratio analysis helps to summarize the financial data and make qualitative judgments about the financial position and performance of NABARD Bank. The broad objective of banking sector reforms in India has been to increase the efficiency and profitability of banks. This study attempts to analyze capital adequacy, asset quality, management efficiency, earnings capacity, and liquidity ratio of NABARD bank to compare their efficiency. The research paper will help to understand the financial performance of NABARD for 2013-2023.

Review of literature

Bangaru Pushpalata (2020) analyzed the financial statements of the State Bank of India. The researcher limited the study to 7 years, from 2011 to 2017. The researcher used the T-test to determine the relative importance of each variable. The study reported that SBI had healthier management and financial efficiency. It also said people prefer SBI for advance loan schemes.

Nandhini Thakur (2020) analyzed the financial statements of HDFC Bank from 2013-14 to 2017-18. Tools used in this study were ratio analysis, cash and fund flow analysis, and trend analysis. Researchers found that the bank's financial performance was strong and suggested providing more housing loans to the citizens of India for their development.

Saji Thazhungal Govindan Nair (2021) pointed out that among many techniques available today for evaluating the financial performance of banks, compared to traditional tools, the CAMELS rating model of economic analysis is considered more efficient in laying down transparent risk assessment systems, developing and monitoring quality performance identification of problems, and the correction of deficiencies.

Shweta Yadav and Jonghag Jang (2021) investigated the impact on the financial performance of HDFC Bank before and after the merger by CAMEL Analysis. The study period includes a five-year prior merger (2003-2008) and a five-year post-merger period (2009-2014). The study states that HDFC Bank's performance has increased after the merger.

Dr. Seema Pandit and Jash Gandhi (2021) compared the performance of SBI and HDFC Bank by applying the CAMEL Model. The results showed that the SBI Bank performed well on Capital Adequacy, Asset Quality, and Management parameters, whereas HDFC Bank performed well on liquidity parameters.

Objectives of the Study

- To analyze the financial performance of NABARD during the period 2013 to 2023.
- To provide suggestions for the effective functioning of NABARD.

Methodology

This study is prepared based on secondary data collected from NABARD's financial statements. Other required information was collected from annual reports and articles published in journals, magazines, and NABARD bank websites. The study covered 11 years, i.e., 2013 to 2023. The CAMEL rating model is used to analyze NABARD's financial performance.

Result of the study

The financial performance of NABARD for 2013-2023 has been found using the CAMEL Model. In C-A-M-E-L, the banks were assessed on five different criteria:

- **C**-Capital Adequacy
- **A**-Asset Quality
- **M**-Management Soundness
- **E**-earnings capacity and
- **L**-Liquidity.

Capital Adequacy

Capital adequacy is a very prominent indicator for measuring the financial strength of the banking sector. High capital adequacies give stakeholders enough confidence in their capital security. Capital adequacy shows the resilience of banks to bear unexpected losses that arise shortly.

The ratios calculated under capital adequacy are.

i. Total Advance to Assets Ratio

ii. Shareholder's Funds to Total Assets

i. Total Advance to Asset Ratio

Table 1 below shows the relationship between total advances and total assets for the period 2013 – 2023.

Table – 1 Total Advance to Asset Ratio (Rs.in crore)

S.no.	Years	Advance	Total Asset	Ratio
1	2013	184962.87	213277.41	86.7
2	2014	212894.36	254574.16	83.6
3	2015	246096.03	286101.52	86.0
4	2016	260493.44	310384.92	83.9
5	2017	305224.38	348609.91	87.5
6	2018	352110.55	406641.61	86.5
7	2019	430272.61	487470.48	88.2
8	2020	480396.46	532074.95	90.2
9	2021	603117.88	658657.82	91.5
10	2022	680882.72	758469.38	89.7
11	2023	7,31,891.69	8,02,856.31	**91.1**
			Mean	**87.71**

(Source: Balance sheet of NABARD)

This study identified that the bank ratio has increased in the years 2020, 2021, and 2023 with a ratio of 90.2, 91.5, and 91.1, respectively, which decreased to 89.7 in 2022. And the ratio indicates the fluctuations throughout the period. This increase in the total advance-to-asset ratio means that NABARD is in profit.

iii. Shareholder's Funds to Total Assets

The table shows the shareholder's funds to total assets ratio. The bank had the highest shareholders' funds to total assets ratio in 2020, with a ratio of 9.21, which decreased to 6.24 immediately in 2021 and slowly improved to 8.10 and 8.39 in 2022 and 2023, respectively. The mean value is 8.96.

Table - 2 Shareholders' funds to Total Assets Ratio (Rs.in Crore)

S.no.	Years	Shareholders' funds	Total Assets	Ratio
1	2013	192865.16	213277.41	9.04
2	2014	21856.54	254574.16	8.58
3	2015	20203.67	286101.52	7.06
4	2016	27126.00	310384.92	8.73
5	2017	25420.64	348609.91	7.29
6	2018	32915.93	406641.61	8.09
7	2019	43673.75	487470.48	8.95
8	2020	49030.99	532074.95	9.21
9	2021	41147.51	658657.82	6.24
10	2022	61471.66	758469.38	8.10
11	2023	67368.37	8,02,856.31	8.39
			Mean	**8.96**

(Source: Balance sheet of NABARD)

A low shareholders funds to asset ratio indicates that the bank has taken on more debt than shareholders' equity to finance its assets. In contrast, a higher equity ratio shows that shareholders fund more assets than borrowed money. From the above analysis, it is said that the bank has a stronger solvency position and can pay off its debts on time.

Asset Quality

The amount of credit risk connected to the loan and investment portfolios, other real estate held and assets, and off-balance sheet activities is reflected in the asset quality. The following ratios have been used to assess NABARD's asset quality.

a) Credit Deposit Ratio

b) Total Investment to Total Asset Ratio

i. Credit Deposit Ratio

Table 3 explains NABARD's credit deposit ratio. From the analysis, we can conclude that compared to the years 2020-2021, the credit deposit ratio of the bank has increased in the years 2021-2022 and decreased in the years 2022-2023.

Table - 3 Credit Deposit Ratio (Rs.in crore)

S.no.	Years	Total advances	Total deposits	Ratio
1	2013	184962.87	114060.85	162.1
2	2014	212894.36	165445.96	128.6
3	2015	246096.03	186454.24	131.9
4	2016	260493.44	189786.33	137.2
5	2017	305224.38	194414.81	156.9
6	2018	352110.55	214449.97	164.1
7	2019	430272.61	224146.66	191.9
8	2020	480396.46	236463.08	203.1
9	2021	603117.88	241572.1	249.6
10	2022	680882.72	252126.69	270
11	2023	7,31,891.69	2,78,100.87	263.17
			Mean	**187.14**

(Source: Balance sheet of NABARD)

A high ratio indicates more reliance on deposits for lending and likely pressure on resources. If the ratio is too high, the bank might not have enough liquidity to cover any unforeseen fund requirement, which may also hint at a capital adequacy issue forcing banks to raise more capital.

ii. Total Investment to Total Asset Ratio

Table 4 explains the Total Investment to Total Asset Ratio for the period 2013 – 2023.

Table – 4 Total Investment to Total Asset Ratio (Rs.in crore)

S.no.	Years	Total **investment**	Total asset	Ratio
1	2013	15614.33	213277.41	7.3
2	2014	23310.83	254574.16	9.15
3	2015	21102.41	286101.52	7.37
4	2016	26465.92	310384.92	8.52
5	2017	26270.21	348609.91	7.53
6	2018	30985.43	406641.61	7.61
7	2019	39610.29	487470.48	8.12
8	2020	34006.15	532074.95	6.39
9	2021	45052.34	658657.82	6.84
10	2022	65725.28	758469.38	8.66
11	2023	48,003.10	8,02,856.31	**5.97**
			Mean	**7.58**

(Source: Balance sheet of NABARD)

In 2014-2015, the investment-to-asset ratio was 9.15; in 2017-18, the ratio declined to 7.53. After that, it increased from 7.61 to 8.66 in 2021-2022 and then decreased to 5.97 in 2022-23. The mean value is 7.58.

Management Efficiency

Management efficiency shows how much bank management or administration can generate business and profits. The ratios used to calculate Management Efficiency are.

I. Total Expenditure to Total Income Ratio

II. Total Asset Turnover Ratio

I. Total Expenditure to Total Income Ratio

Table 5 explains the Total Expenditure to Total Income Ratio for the period 2013 – 2023.

Table – 5 Total Expenditure to Total Income Ratio (Rs.in crore)

S.no.	Years	Total expenditure	Total income	Ratio
1	2013	10276.01	12940.60	0.79
2	2014	12698.73	15570.12	0.81
3	2015	14437.83	17916.42	0.80

4	2016	17157.61	20864.87	0.82
5	2017	18547.96	22434.67	0.82
6	2018	20157.61	24596.30	0.81
7	2019	24837.37	29899.19	0.83
8	2020	27630.99	33004.28	0.84
9	2021	28812.15	35008.18	0.82
10	2022	30335.99	37175.18	0.82
11	2023	33,048.98	39,850.37	0.82
			Mean	**0.82**

(Source: Balance sheet of NABARD)

The above table – 5 analyses the total expenditure to total income ratio from 2013 to 2023. It indicates that for 2013-2014, the ratio is 0.79, and it will increase to 0.82 in 2022-2023. In this study period (2013-2023), the ratio of total expenditure to Total income increased. It means costs are rising at a higher rate than income. Thus, there is an inverse relationship between the expenses-to-income ratio and banks' profitability.

II. Total Asset Turnover Ratio

Table – 6 analyzes the total asset turnover ratio for the period 2013 – 2023.

Table – 6 Total Asset Turnover ratio (Rs.in crore)

S.no.	**Years**	**Total income**	**Total asset**	**Ratio**
1	2013	12940.60	213277.41	6.07
2	2014	15570.12	254574.16	6.12
3	2015	17916.42	286101.52	6.26
4	2016	20864.87	310384.92	6.72
5	2017	22434.67	348609.91	6.44
6	2018	24596.30	406641.61	6.05
7	2019	29899.19	487470.48	6.13
8	2020	33004.28	532074.95	6.20
9	2021	35008.18	658657.82	6.58
10	2022	37175.18	758469.38	4.90
11	2023	39,850.37	8,02,856.31	4.96
			Mean	**5.92**

(Source: Balance sheet of NABARD)

The total asset turnover ratio is more significant, which is a good sign for the NABARD. Because that means banks can generate enough reserves for themselves. The Mean value for the Total Asset Turnover ratio is 5.92. In the study period 2013-2023, we can identify that the ratio is greater than 1 for all years, indicating that NABARD bank has been in a better position based on its performance.

Earnings Capacity

Earning capacity is the expected earnings of a worker who chooses to maximize the present value of future actual earnings, while expected earnings are the expected values of real earnings. The following ratios were selected to analyze the earnings capacity of the banks.

I. Total Income Ratio

II. Operating Profit to Total Asset Ratio

i. Total Income Ratio

Table 7 is an analysis of the total income ratio for the period 2013 – 2023.

Table 7 Total Income Ratio (Rs.in crore)

S.no.	**Years**	Interest earned- **interest paid**	**Total income**	**Ratio**
1	2013	2264.90	12940.60	17.50
2	2014	1885.61	15570.12	12.11
3	2015	2403.27	17916.42	13.41
4	2016	2349.69	20864.87	11.26
5	2017	2884.52	22434.67	12.8
6	2018	19570.14	24596.30	79.5
7	2019	4107.35	29899.19	13.7

8	2020	20785.31	33004.28	62.9
9	2021	7205.86	35008.18	20.5
10	2022	7300.1	37175.18	19.6
11	2023	6454.25	39,850.37	16.19
			Mean	**25.44**

(Source: Balance sheet of NABARD)

For 2013, the calculated total income ratio was 17.50, then it decreased to 12.11 in the year 2014, and it fluctuated over the period. For 2023, the total income ratio was 16.19, and the mean value was 25.44. This shows that the bank can fulfil its financial obligations in a better way.

ii. Operating Profit to Total Asset Ratio

Table 8 is an analysis of the Operating Profit to Total Assets ratio for the period 2013 – 2023.

Table – 8 Operating Profit Ratio (Rs.in crore)

S.no.	Years	EBIT	Total Assets	Ratio
1	2013	2664.58	213277.41	1.25
2	2014	2871.39	254574.16	1.13
3	2015	3478.58	286101.52	1.22
4	2016	3707.26	310384.92	1.19
5	2017	3886.70	348609.91	1.11
6	2018	4438.68	406641.61	1.09
7	2019	5061.82	487470.48	1.04
8	2020	5373.29	532074.95	1.01
9	2021	6196.03	658657.82	0.94
10	2022	6839.19	758469.38	0.90
11	2023	6,801.39	8,02,856.31	0.85
			Mean	**1.07**

(Source: Balance sheet of NABARD)

Table - 8 shows the operating profit ratio for the study period 2013-2023. The operating profit ratio was 1.25 in 2013, slowly decreasing. In 2023, it was 0.85. It indicates that the bank's financial health was less profitable and must be more efficient and profitable over time.

Liquidity Capability

Liquidity refers to the ability of the banks to meet their short-term obligations. They are of particular interest to those extending short-term credit to the firm. An adequate liquidity position means an organization can obtain sufficient liquid funds by increasing liabilities or quickly converting assets into cash. The following ratios were selected to check the liquidity position of the banks.

i. Cash to Deposit ratio

ii. Interest Expenditure to Interest Earned ratio.

i. Cash to Deposit ratio

Table 9 analyses the cash deposit ratio by comparing the bank’s cash reserve to its total deposits for the period 2013 – 2023.

Table – 9 Cash to Deposit Ratio (Rs.in crore)

S.no.	Years	Cash	Total deposits	Ratio
1	2013	9193.95	114060.85	8.06
2	2014	13622.08	165445.96	8.23
3	2015	13314.79	186454.24	7.14
4	2016	18547.87	189786.33	9.77
5	2017	13158.84	194414.81	6.77
6	2018	18684.68	214449.97	8.71
7	2019	12124.96	224146.66	5.41
8	2020	11997.17	236463.08	5.07
9	2021	4751.09	241572.1	1.97
10	2022	6073.49	252126.69	2.41
11	2023	16,854.99	2,78,100.87	6.06
			Mean	**6.33**

(Source: Balance sheet of NABARD)

The 2013-2023 study indicated that the cash-to-deposit ratio was at its maximum for 2016 and its minimum for 2021 due to the pandemic. The mean value for the Cash to Deposit ratio is 6.33. The higher cash deposit indicates that a bank has an enormous reserve of cash relative to its total deposits, which suggests the bank can better meet the demand of depositors for cash withdrawals. The lower deposit ratio indicates banks' smaller reserves of cash relative to their total deposits, which suggests that the bank may have difficulty meeting the demand of its depositors for its cash withdrawal.

ii. Interest Expenditure to Interest Earned ratio.

Table -10 shows the Interest Expenditure to Interest Earned Ratio for the period 2013 – 2023.

Table 10 Interest Expenditure to Interest Earned Ratio (Rs.in crore)

S.no.	**Years**	Interest **Expenditure**	Interest **earned**	**Ratio**
1	2013	8954.76	11219.66	0.80
2	2014	11297.40	13183.02	0.86
3	2015	12930.29	15333.56	0.84
4	2016	15439.85	17789.54	0.87
5	2017	16269.22	19153.74	0.85
6	2018	1784.55	21354.70	0.08
7	2019	22199.60	26306.96	0.84
8	2020	23784.07	2998.76	0.93
9	2021	24235.65	31441.51	0.77
10	2022	26574.22	33874.32	0.78
11	2023	30,370.10	36,824.35	0.82
			Mean	**1.40**

(Source: Balance sheet of NABARD)

The Interest Expenditure to Interest Earned Ratio was highest for 2020 at 0.93 and slowly decreased in 2023. It was 0.82, And the mean value was 1.40. A higher ratio indicates less risk to investors and lenders. The lower ratio suggests banks generate more income to pay their debts.

Conclusion

The study concludes that NABARD has increased its total advance-to-asset ratio, which indicates that NABARD has been profitable. The bank owns more assets that shareholders finance than borrowed money. NABARD has a stronger solvency position and will be able to pay off its debts on time. The increased margin indicates that the bank is in the growing phase. And it is in a better position based on financial performance. Total income and expenses decreased during the pandemic, which suggests the bank generates more revenue to increase its profit.

Suggestions

- The bank should maintain the total assets to improve its position in the future. The necessary steps should be taken to increase the operating profit to be more efficient and profitable.
- Over the upcoming years, they should increase the interest income of NABARD, which will help to generate more income to pay off its debts.
- The bank should increase the total income and investments because the ratio is less in the years 2022-2023 compared to the other years, so the bank needs to improve the revenue, which will help to pay the bank's debts quickly.
- The bank should concentrate more on the growth of its fixed assets. They should reduce lending over deposits to maintain their position.

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