

Profitability of Agricultural Credit Disbursed by Banks in Kerala

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ABSTRACT: *Agricultural credit is an inevitable input for agricultural operations since majority of the agriculturalists are facing the problem of shortage of fund to invest in their agricultural endeavours. Banks and other financial institutions have been issuing vast amount of credit to this sector due to the stipulations framed by the Government. Notwithstanding the disbursal performance with regard to agricultural credit of the banks is highly exemplary, the profitability of banks as to the same is not satisfactory due to lower interest rate, heavy overdues and wilful default on the part of the agricultural borrowers. There exists many other reasons also for no or less profitability in the agricultural credit, the identification of the same only can open up how these sad plight can be wiped out fully. Therefore, it becomes necessary that certain thoughtful and stringent measures are to be initiated in its strict sense so as to enrich and retain the agricultural credit system for the benefit of agriculturist as well as the society at large.*

KEYWORDS: *Agricultural Credit, Profitability, Bank, RRB, Commercial Bank, Co-operative Bank.*

I. INTRODUCTION

Agriculture occupies a very decisive role to the country since majority of its population is living in villages with agriculture and allied activities as their main occupation. If agriculture fails, it is a shameful failure for the government and the nation. Hence the Government at various levels have been framing large number appropriate policies and programmes to enrich the sector. As a result the flow of agricultural credit has been increased year after year and has consistently exceeded the target all the years. The statistics shows that the total agricultural credit disbursed by banks in the country comes to Rs.12,54,762crore as against the target of Rs.11,00,000 crore in the year 2018-19. Even though the disbursal performance of bankers as to agricultural credit shows a positive sign, its productivity, utilisation, repayment and profitability are not up to the expected standard. In order to have a better agricultural credit system all the forces affecting the same have to contribute and perform their part well. The bankers are facing large number of problems with regard to agricultural credit comprising heavy default and overdues, and huge level of NPA leading to lesser profitability. The credit must be utilised properly and must be repaid promptly by the borrowers as agreed with the lending bankers, which only can contribute recycling of credit leading to profitability to the bankers, prompt credit delivery to agriculturists and speedy growth in the agricultural sector as well as economic sector.

1.1 SIGNIFICANCE

Agricultural credit is an essential requirement for stimulating agriculture and so Government and bankers have been taken various initiatives to ensure better credit delivery to the agricultural sector. Although the excessive flow of institutional agricultural credit, the repayment performance leading to profitability of the bankers is not satisfactory at present. There arises a need to have an in-depth study covering the level of profitability of bankers disbursing agricultural credit and the reasons for no profit in agricultural credit. Contrary to this background, an attempt is made to examine the profitability of bankers in Kerala with regard to their agricultural lending.

1.2 OBJECTIVES

The study hangs on achieving the following objectives;

- 1.To analyse the profitability of agricultural credit disbursed by banks in Kerala,
- 2.To compare the profitability of agricultural credit disbursed by Commercial, Co-operative and Regional Rural Banks in Kerala,
- 3.To explore the reasons for no profit in agricultural credit disbursed by banks in Kerala, and
- 4.To analyse the bank wise reasons for no profit in agricultural credit disbursed by banks in Kerala.

II. REVIEW OF LITERATURE

John Mathew (2010) made a study on agricultural financing by commercial banks in Kerala from borrowers as well as bankers level. The bank level analysis revealed that the majority of the banks had less than 2 percent NPA in their agricultural financing.

Sakshi Sharma (2015) in the article, ‘Priority Sector Lending and Situations of Agricultural Credit in India’, states that the Interest Subvention Scheme introduced by the Government of India as an incentive to farmers for prompt repayment has not helped in improving the asset quality in the agricultural sector. The ratio of NPA in agricultural credit has been increasing steadily over the past few years. It also reveals that the recovery of agricultural advances is about 75 percent during the past few years and needs to be improved further.

Praveen Kumar (2017) states that despite the increase in number and coverage of financial institutions in the country, the truth is that most of the farming community is still outside the frame work of these institutions. These institutions are also reluctant to provide credit to small and marginal farmers. They are unwilling because of the lack of adequate resources and they fear that providing credit would further accumulate their non-performing assets.

III. METHODOLOGY

The study is analytical in nature and is based mainly on primary data, which was collected from the bankers disbursing agricultural credit with the use of a structured interview schedule. For the selection of sample respondents Stratified Random Sampling Technique was adopted. Primarily, the whole State of Kerala was divided in to three strata considering the geographical entity, namely, southern, central, and northern regions. One district was selected at random from each stratum and appropriate sample size was taken by giving equal representations to the three groups of banks selected for the study namely, commercial banks, co-operative banks and regional rural banks. The sample size of the borrowers was determined by using appropriate statistical equations. Accordingly 153 bankers were selected by giving equal representation to each region and each group of banks. Several mathematical and statistical tools like Percentage, Mean, Standard Deviation, Rank, ANOVA and Post hoc ANOVA were used for analysing the data.

IV. RESULTS AND DISCUSSIONS

The profitability of banks with regard to agricultural credit is analysed in detail and its results are narrated under the following heads.

IV.1. BANK WISE PROFITABILITY OF AGRICULTURAL CREDIT

It is the profitability of lenders which is highly influenced by the entire aspects of agricultural financing. Table 1 gives a clear picture about the opinion of bank officials regarding the profitability of agricultural lending. It reveals that majority of the respondent banks have made profits comprising ‘Profitable’ to 46.41% banks and ‘Highly Profitable’ to 5.88 banks. In addition, the bank wise analysis states that the profitability of RRB is higher (74.51%) than co-operative bank (45.09%) and commercial bank (37.25%). It is also notable that 15% of the bank officials have the opinion that they have not earned any profits, of which the share of co-operative bank is high (21.57%). More than that, about one-third of the bank officials are neutral in this regard, in which quite minimum share is occupied by RRBs (17.65%) as compared to co-operative bank (33.33%) and commercial banks (47.06%).

Table 1 Bank Wise Profitability of Agricultural Credit

Profitability	Name of the Bank			Total
	Com. Bank	RRB	Co-op. Bank	
Highly Profitable	0 (0%)	3 (5.88%)	6 (11.76%)	9 (5.88%)
Profitable	19 (37.25%)	35 (68.63%)	17 (33.33%)	71 (46.41%)
Neutral	24 (47.06%)	9 (17.65%)	17 (33.33%)	50 (32.68%)
Not Profitable	7 (13.73%)	4 (7.84%)	10 (19.61%)	21 (13.73%)
Not at all Profitable	1 (1.96%)	0 (0%)	1 (1.96%)	2 (1.31%)
Total	51 (100%)	51 (100%)	51 (100%)	153 (100%)

Source: Primary Data

IV.2. BANK WISE PROFITABILITY OF AGRICULTURAL CREDIT (ANOVA)

In order to verify whether there is any bank wise variation in the profitability of agricultural credit, an hypothesis is formulated and tested with ANOVA. The result of the ANOVA as shown in the Table 2 reveals a 'P' value which is lower than 0.05 (0.005). Therefore the null hypothesis is rejected at 5% level of significance and it can be concluded that there exists significant difference in the profitability of agricultural credit among the type of banks.

Table 2 Bank Wise Profitability of Agricultural Credit (ANOVA)

	Sum of Squares	DF	Mean Square	F Value	P Value
Between Groups	7.511	2	3.755	5.577	0.005
Within Groups	100.999	150	.673		
Total	108.510	152			

Source: Primary Data

IV.3. Banks and Profitability of Agricultural Credit - Post Hoc Test (Tukey HSD)

Since ANOVA signifies statistical difference in the mean profitability of agricultural credit among the type of banks as a whole, it is proper to find out the significant differences in the same between the types of banks. Hence Post Hoc test is conducted and the result of the same is reported in Table 3. The table reveals that there exist significant difference as to the profitability of agricultural credit between RRB with commercial bank (P = 0.005) and co-operative bank (P = 0.045) and no significant difference exist between co-operative bank and commercial bank (P = 0.708).

Table 3 Banks and Profitability of Agricultural Credit - Post Hoc Test (Tukey HSD)

(I) Name of the Bank	(J) Name of the Bank	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Com. Bank	RRB	.521*	.162	.005	.14	.91
	Co-op. Bank	.129	.162	.708	-.26	.51
RRB	Com. Bank	-.521*	.162	.005	-.91	-.14
	Co-op. Bank	-.392*	.162	.045	-.78	-.01
Co-op. Bank	Com. Bank	-.129	.162	.708	-.51	.26
	RRB	.392*	.162	.045	.01	.78

*Significant at 5% level

IV.4. REASONS FOR NO PROFIT IN AGRICULTURAL CREDIT

The state of being no profit in agricultural credit is usually backed by many reasons at varying levels and a proper analysis of the same is made rank wise as well as bank wise under the following heads.

IV.5. RANK WISE REASONS FOR NO PROFIT IN AGRICULTURAL CREDIT

The respondent banks that have no profit in agricultural credit were asked to give their opinions as to the reasons for the same under five point scaling and the scores are assigned as 1, 2, 3, 4 and 5 respectively for 'strongly agree', 'agree', 'neutral', 'disagree' and 'strongly disagree'. Finally, they were totalled, averaged and ranked in the order of mean scores so obtained and the result is exhibited in Table 4. It is evident from the table that lower rate of interest is the main reason for no profit noted by the banks under study in general. High overdue and wilful-default occupy second and third rank wise reasons respectively. Diversion of credit, loss from the project, project not feasible, natural calamity or crop failure also form consecutive rank wise reasons for no profit in agricultural credit.

Table 4 Rank Wise Reasons for No Profit in Agricultural Credit

Reasons	Mean	Std. Deviation	Rank
Lower Rate of Interest	3.56	1.025	1
Diversion of Credit	3.76	0.657	4
Project Not Feasible	3.92	0.406	6
Loss from the Project	3.84	0.552	5
High Overdues	3.58	0.943	2
Natural Calamity/ Crop Failure	3.93	0.327	7
Wilful Default	3.74	0.705	3

Source: Primary Data

IV.6.BANK WISE REASONS FOR NO PROFIT IN AGRICULTURAL CREDIT (ANOVA)

In order to establish whether there is any significant difference among the type of banks as to the various reasons for no profit in agricultural credit ANOVA test is conducted. As per the Table 5 all the reasons have higher 'P' values than 0.05. Therefore, it can be inferred that, with regard to the various reasons for no profit, there exists no significant difference among the type of banks under study.

Table 5 Bank Wise Reasons for No Profit in Agricultural Credit (ANOVA)

Reasons for No Profit	Mean Values			F value	P value	Action
	Com. Bank	RRB	Co-op. Bank			
Lower Rate of Interest	3.55	3.69	3.45	0.675	0.511	Accept
Diversion of Credit	3.86	3.76	3.67	1.139	0.323	Accept
Project Not Feasible	3.90	4.00	3.86	1.558	0.214	Accept
Loss from the Project	3.84	3.92	3.76	1.032	0.359	Accept
High Overdues	3.55	3.65	3.55	0.182	0.834	Accept
Natural Calamity/ Crop Failure	3.96	3.94	3.88	0.795	0.454	Accept
Wilful Default	3.71	3.75	3.76	0.091	0.913	Accept

Source: Primary Data

V. MAJOR FINDINGS

The major findings derived from the study are:

- (i) Majority of the respondent banks have made profits in their agricultural lending and the bank wise analysis states that the profitability of RRB is higher (74.51%) than co-operative bank (45.09%) and commercial bank (37.25%).
- (ii) ANOVA test reveals that there exists significant statistical difference in the profitability of agricultural credit among the type of banks. However, Post hoc test reveals that there exist significant difference as to the profitability of agricultural credit between RRB with commercial bank and co-operative bank and no significant difference exist between co-operative bank and commercial bank.
- (iii) Lower rate of interest is the main reason for no profit in agricultural lending noted by the banks under study in general. High overdue and wilful-default occupy second and third rank wise reasons respectively.
- (iv) ANOVA test reveals that there exists no significant difference among the type of banks under study with regard to the various reasons for no profit in agricultural credit.

VI. CONCLUSION

Agricultural credit is an inescapable input for agricultural activities since majority of the agriculturalists are facing the problem of shortage of fund to invest in their agricultural endeavours. As a result banks and other financial institutions have been issuing huge amount of credit to this sector backed by clear cut directions on the part of the Government. Even though the disbursal performance of the banks with regard to agricultural credit is highly praiseworthy, the profitability of banks as to the same is not satisfactory due to lower interest rate, heavy overdues and wilful default on the part of the agricultural borrowers. Therefore, it becomes necessary that certain thoughtful and stringent measures are to be initiated in its strict sense so as to enrich and retain the agricultural credit system for the benefit of agriculturist as well as the society at large.

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