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A study on credit deposit ratio on scheduled commercial banks

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Abstract
Banks play a pivotal role in any economy. Banks are the catalyst of all economic activities. The basic functions of banks are firstly to mobilise deposits and secondly to channelise the mobilised deposits into productive activities. In other words, help in capital formation. Moreover, it is through lending banks earns their 'bread and butter'. Collection of deposits by banks depends on depositors' confidence on the banks and the return promised by the banks. The more the deposit mobilised, the greater will be the lending power of the banks. The credit deposit ratio, often known as the CD ratio, measures how much a bank lends in relation to the deposits it has raised. The CD ratio indicates the success of the banks in mobilisation of deposits and their contribution to the availability of resources for economic growth of a particular place. This study is an attempt to study the CD ratio in India, among the regions and also select banks. The study reveals that at national level the banks are lending reasonably high percentage of deposits mobilised by them. However, regionally there is wide disparity between the regions. Among the regions North- Eastern Region is having a very poor CD ratio. This region is comparatively less developed than other regions and low CD ratio means banks have a significant role to play to disburse greater credit facilities to borrowers from North- Eastern region.

Keywords: scheduled commercial banks, bank deposits, bank credit, credit deposit ratio

Introduction

The credit deposit ratio, often known as the CD ratio, measures how much a bank lends in relation to the deposits it has raised. RBI does not specify a minimum or maximum level for the ratio, an extremely low ratio is a sign that banks are not using all of their resources to their potential. A high ratio, on the other hand, denotes a greater reliance on deposits for lending and possible resource pressure. Banks may not be making as much money as they may be if the ratio is too low. The CD ratio aids in determining a bank's liquidity and reflects its health. The banks may not have adequate liquidity to handle any unforeseen fund requirements, which could have an impact on capital adequacy and asset liability mismatch if the ratio is too high. An extremely high ratio might have systemic effects. The ratio should be kept in a balanced range because there is no ideal range for it to be in. It should be neither too high nor too low. CD ratio denotes the value of the loans given as a share of deposit held by banks.
CDR is computed as under:

$$\text{Credit-Deposit Ratio} = \frac{\text{Total Advances}}{\text{Total Deposits}} \text{ x } 100$$

This ratio illustrates how much of each deposit rupee is allocated to the credit markets A larger growth in the credit deposit ratio indicates that credit is expanding more quickly, which could result in borrowers taking on too many risks and using too much leverage. When the economic cycle turns, it may indicate that banks will experience an increase in non-performing loans. A useful technique for determining the systemic risks to the economy is this ratio.

Significance of the ratio

1. It is a ratio that reflects total advances as a proportion of total deposits and thus measures the spread between outflow and inflow (thereby indicating efficiency of credit creation).
2. It is a measure of the utilization of resources by the banking system as the ratio is an important tool of monetary management and magnitude of the ratio shows management's aggressiveness of management to increase loan operations and increase revenue.
3. The performance of banking industry may be gauged through value of the ratio, since it reflects as to how the funds are utilized by the banks to generate their revenue and increase the market share.

Factors influencing Cash Deposit Ratio

1. Deposits

The amount of deposits done in the bank describes the liability owned by the bank from its depositor, the more the deposits the more will be the lending's Such deposits offer a higher interest rate. If money is deposited in a savings bank account, banks allow a lower rate of interest. Therefore, money is deposited in a fixed deposit account to earn interest at a higher rate. The more the deposit is done by the people, more the bank will be capable enough giving credits to its customers and more will be the credit ratio of the banks.

2. Liquidity Position

It means on which ratio they provided loans to their customers if the ratio of the bank is too high it means that the banks did not provide enough loans. Basically, if a bank's deposits are increasing, new money and new clients are being on-boarded means that the liquidity position of the bank is in a proper position. As a result, the bank will likely have more money to lend, which should increase earnings and they will be decreasing their loan deposits.

3. Economic growth

The increase or improvement in the value of the goods and services in the market over time is growth which means that people are getting more innovative over time with their ideas to open up a start-up or firm up on their own, for which they will be needing more funds, the more the funds is being taken from the bank the more will the increase in capital stock. As Banks collects the savings of the individuals and lend them out to business people and manufacturers. Manufacturers borrow from banks the money needed for the purchase of raw materials and to meet other requirements in their business.

Scheduled Commercial Banks

Scheduled banks are those banks which are included in 2nd Schedule of the Reserve Bank of India Act, 1934. The present banking structure comprises of 78 scheduled commercial banks, 12 public sector banks 22 Indian private sector banks and 44 foreign banks. (Source: RBI) These banks account for 98 % of the banking business in India.

Statement of the problem

CD ratio (CDR) helps in assessing a bank's liquidity and indicates its health. The CD ratio in also indicates the success of the banks in mobilisation of deposits and their contribution to the availability of resources for economic growth of a particular place. From CD ratio we can find the achievement of banks in meeting the credit requirements of borrowers. The CD ratio of banks since the last few years has been hovering around 79% & 71%. However, there is disparity between the banks and among the states and different regions of the country. This study is an attempt to study the CD ratio in India, among the states and regions and also select banks.

Literature review

Goel Suman, Kumar Raj (2016) [1]*, in their work titled "Analysis of cash deposit ratio and credit deposit ratio" studied the Cash deposit ratio of 5 Public Sector Banks.* Their study reveals that the average of Cash Deposit Ratio in Bank of Baroda was higher than all the other banks i.e., Bank of Baroda has generated more assets from its deposits as contrasted to all the other banks. *Mehrotra Rashmi (1992)* [5] *in her work titled," Credit Deposit Ratio: Current status & Future correction"* studied the credit-deposit ratio of scheduled commercial bank that varies substantially across the states with the industrially advanced or traditionally well-banked states enjoying higher ratios as compared with relatively backward states having lower ratios. *Narayan D (2003)* [6] *in his work titled, "Why is the Credit Deposit Ratio Low in Kerala*?" found that CDR is low because of the nature of industries in Kerala which reports low amounts of credit per account. *Sethi Singh Amarjit and Bajaj Anu (2013)* [7]*, in their work titled "Credit Deposit Ratios of Scheduled Commercial Banks and States' Income: An Examination of Dependencies through Panel Data Approach*" found that there exist very wide variations in CD ratios of scheduled commercial banks among the states. Further, the states associated with higher per capita income, higher share of non-primary sectors in income, and, lower population density exhibited a tendency to have a larger CD ratio.

Research gap

After reviewing the available literature on Credit Deposit Ratio, it is found that many researchers studied Credit Deposit Ratio in different aspects. However, no such study is found in North Eastern Region. Hence, this study is undertaken, to ascertain the CD Ratio scenario in NE India.

Objectives of the study

1. To study the growth of deposit and lending's by SCBs.
2. To study the Credit Deposit Ratio of SCBs in India.
3. To study the Credit Deposit Ratio of SCBs in North Eastern Region.
4. To compare the Credit Deposit Ratio of select public and private sector banks in India.

Research methodology

Period of study: The Cash Deposit Ratio for the period 2012-2021 has been taken for the study.

Sources of data: The data required for this study has been acquired from secondary sources. These sources include periodicals published by government, articles,

Selection of Banks: There are 12 public sector banks and 21 private sector banks in India as on date. Based on National Stock Exchange market capitalisation 2 public sector banks, *viz*., State Bank of India and Punjab National Bank and 2 private sector banks namely HDFC Bank and ICICI Bank are selected for the study.

Tools of data analysis: The data collected has been analysed with the help of tables, graphs and mean.

Limitations of the study

1. The data of selected 2 public and 2 private sector is taken for the study.
2. The data of the past 10 years i.e., 2012-2021 is taken for the study.

Data Analysis

Analysis of growth of Deposit and credit of Scheduled Commercial Banks

Table 1: Deposit Mobilisation by SCBs (Rs. Crore)

Year	Demand deposit	Time deposit	Aggregate deposit	Annual Growth Rate (%)
2011-12	625330	5283752	5909082	---
2012-13	662299	6088155	6750454	12.46
2013-14	713921	6991639	7705560	12.39
2014-15	794029	7739256	8533285	9.70
2015-16	888996	8438294	9327290	8.51
2016-17	1281439	9476217	10757656	13.30
2017-18	1370282	10055767	11426049	6.21
2018-19	1511287	11062484	12573772	9.12
2019-20	1617003	11950489	13567492	7.9
2020-21	1861193	13252320	15113512	11.40

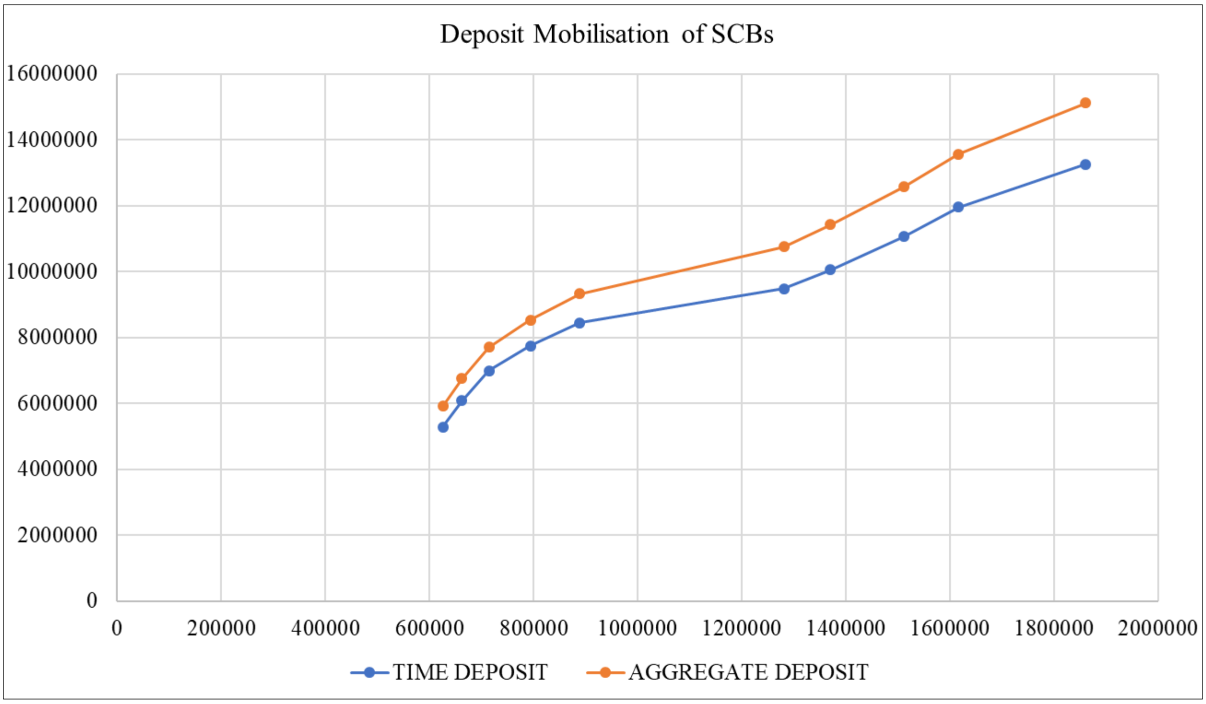

Fig 1: Deposit Mobilisation by SCBs

Interpretation

The above study reveals that the annual growth rate was highest in the year 2016-17 i.e.,13.30%, and it was the lowest in the year 2019-20 which was 7.9% for the deposit mobilised by Scheduled Commercial Banks.

Table 2: Aggregate advances by SCBs

Year	Bank Advances	Annual Growth Rate (%)
2011-12	4611852	---
2012-13	5260459	12.32
2013-14	5994096	12.23
2014-15	6536420	8.30
2015-16	7249615	9.83
2016-17	7841466	7.55
2017-18	8625425	9.08
2018-19	9771722	11.73
2019-20	10370861	5.78
2020-21	10949509	5.28

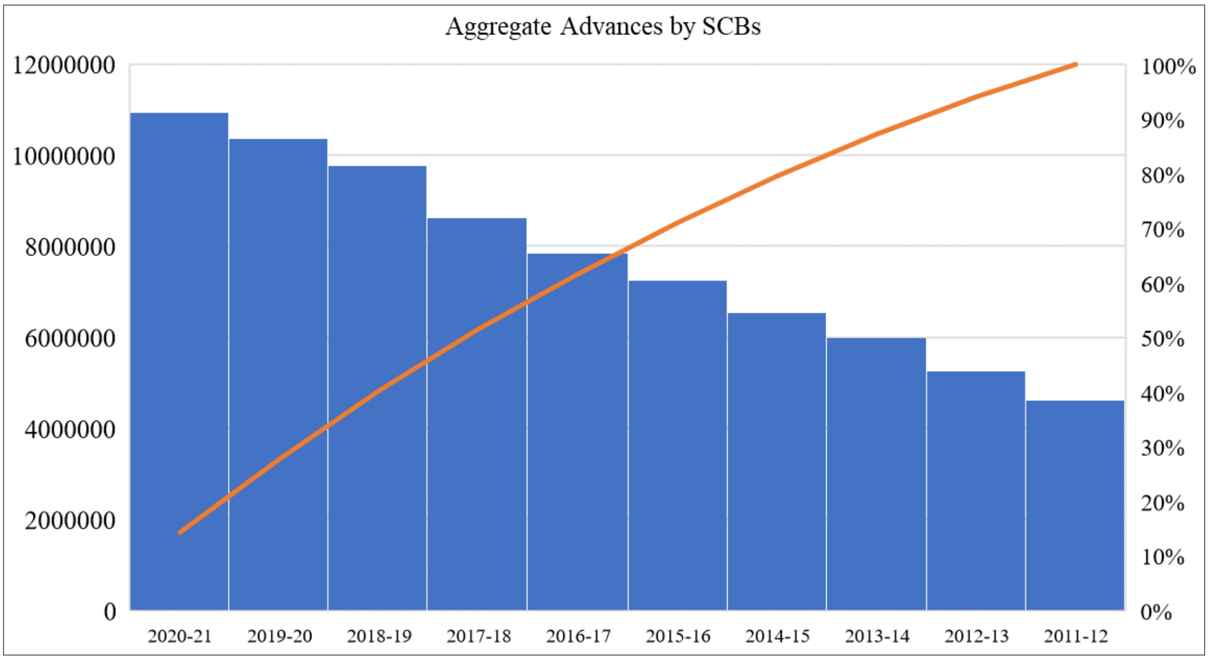

Fig 2: Aggregate advances by SCBs

Interpretation

From the above table we get to know that the bank advances had the highest growth in the year 2012-13 and 2018-19 which was 12.32% and 11.73% respectively and the lowest annual growth was in the year 2019-20 and 2020-21 which was 5.78 % and 5.28% respectively.

Analysis of Credit Deposit Ratio

Table 3: CDR of India

Year	CDR (in %)
2012-13	79.80
2013-14	78.80
2014-15	79.00
2015-16	77.10
2016-17	78.40
2017-18	73.80
2018-19	76.70
2019-20	78.30
2020-21	76.50
2021-22	71.70

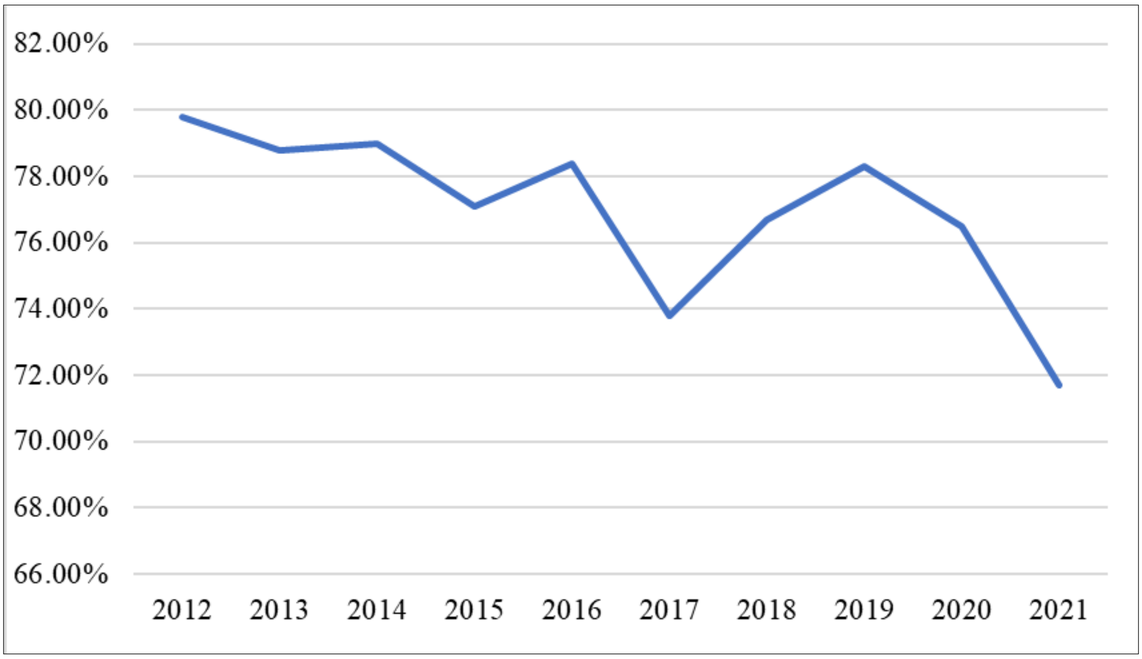

Fig 3: CDR of India (in %)

Interpretation

From the graph, we analysed the credit deposit ratio of India, which was 79.80% in 2012, showed that it decreased to 78.80% in the latter half of 2013, but decreased significantly to 71.70% in 2021

Table 4: CDR Region-Wise (in %)

Regions	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Mean
Northern region	87.70	88.80	90.60	88.50	83.60	75.00	78.10	84.50	82.90	74.90	83.46
North-eastern region	34.40	33.60	34.80	34.50	38.40	36.80	39.30	40.40	41.10	44.10	37.74
Eastern region	50.70	49.40	49.00	46.50	44.90	41.00	41.60	41.40	41.80	41.60	44.79
Central region	47.20	47.60	48.80	48.30	49.30	46.00	47.90	49.50	48.80	48.50	48.19
Western region	87.00	85.50	86.00	87.10	96.00	96.20	98.30	98.10	94.70	86.30	91.52
Southern region	95.50	97.10	97.10	89.90	89.30	84.20	90.50	90.60	88.00	83.10	90.53

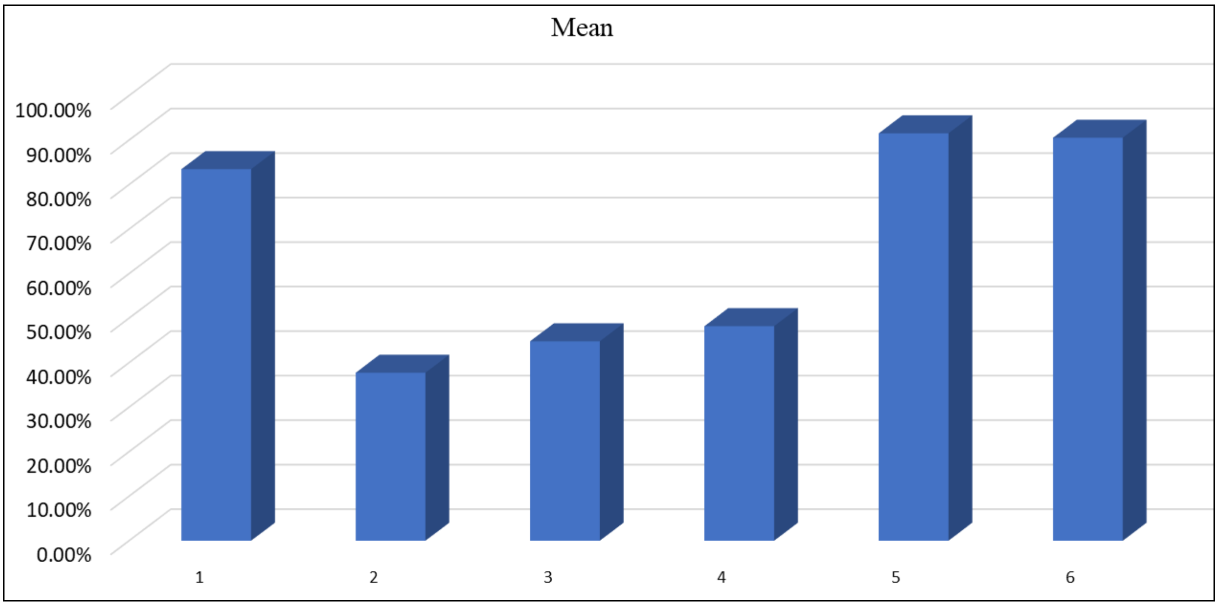

Fig 4: CDR Region-Wise

Interpretation

The rate of cash mobilization of Scheduled commercial banks in the period 2012-2021. Western and Southern region had the highest ratio 91.52% and 90.53% respectively. While on the other case North Eastern region had the lowest CDR at 37.74%.

Table 5: CDR of North-East (in %)

States	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Mean
Arunachal Pradesh	23.9	21.8	23.7	26.8	29	24	25	23	24.9	25.2	24.73
Assam	37.7	37.2	37.7	36.7	42.2	40.3	42.6	44.3	43	46.7	40.84
Manipur	31.3	28.6	33.6	34	41.1	38.7	44.6	49.4	57.2	57.7	41.62
Meghalaya	25.8	24	27.4	25.9	24.8	25.9	27.2	26.9	35.3	37.6	28.08
Mizoram	38.9	35.3	37.8	37.8	40.1	36.4	35.8	36.8	36.1	42	37.7
Nagaland	27.2	25.4	31	32.7	34.1	31.5	34.7	35.4	75.5	43.2	37.07
Sikkim	33.1	27.2	26.5	25.6	28	27.4	26.6	28.4	31.2	35.8	28.98
Tripura	31.3	32.8	32.4	33.7	35.3	35.8	36.5	43.5	42.5	42.1	36.59

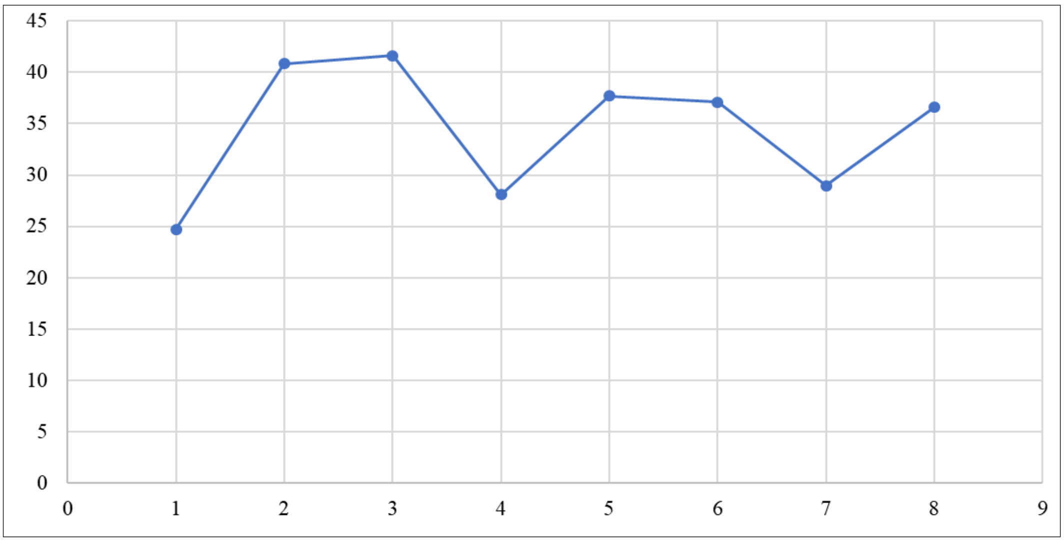

Fig 5: CDR of North-East

Interpretation

The above information is interpreted on North Eastern areas i.e., Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura. It is found out that CDR of Manipur is the highest ranging at 41.62% compared to other NE states and Arunachal radishh has the lowest ratio which is 24.73%

Table 6: CDR of selected banks (in %)

Banks	2017	2018	2019	2020	2021	Mean
HDFC Bank	86.16	83.46	88.76	86.60	84.85	85.97
ICICI Bank Ltd.	94.73	91.34	89.85	83.70	78.86	87.70
Punjab National Bank	67.47	67.54	67.79	67.04	60.94	66.16
State Bank of India	72.29	71.49	75.10	71.70	66.50	71.42

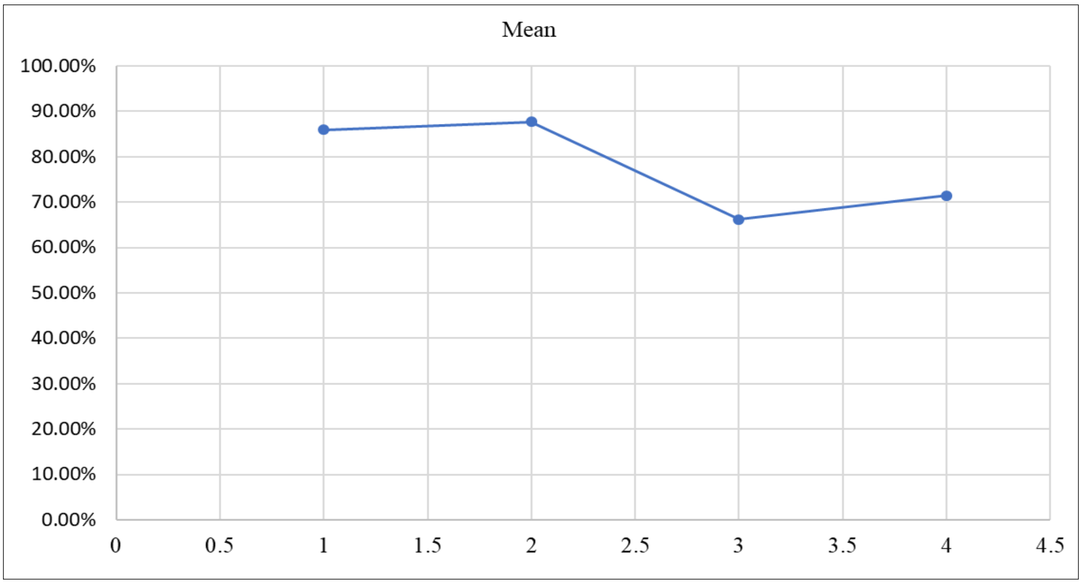

Fig 6: CDR of selected banks

Interpretation

Here the last 5 years data of 2 public and 2 private sector banks is taken for analysing the CDR on National Stock Exchange basis for HDFC Bank, ICICI Banks Ltd., Punjab National Bank, State Bank of India. It is analysed that CDR is higher for Private sector banks i.e., 85.97% &87.70% respectively, while for public sector banks it is comparatively lower i.e., 66.16% & 71.42%.

Findings

- During the period of study, banks lendings was maximum in the year 2021
- Average growth rate in deposit mobilisation by Scheduled Commercial Banks during the period of study was found to be the highest at 12.46% in the year 2012.
- The SCBs credit deposit ratio fluctuated over time from 79.80 % to 71.70 %, In other words, during this period the banks lendings was around 80% to 72% of the mobilised deposits.
- In comparison to the national CDR, the CDR in the NE states is found to be incredibly poor. Manipur has the best ratio in North East, ranging to 41.62% over the years, compared to other North Eastern regions, whereas, compared nation-wise NE Credit Deposit Ratio was the lowest.
- In comparison to the public sector banks, private sector banks have better CDR, meaning they are optimally utilising their deposits.

Conclusion

The purpose of the study was to study the deposit mobilisation and lending activities of scheduled commercial banks in India. Along with this the CD ratio state wise and region wise is studied with special reference to North eastern region. From the study it is found that banks are doing well in their deposit mobilisation and lending money. The CD ratio reveals that banks are lending around 70% to 79% of their deposits. The CD ratio in North eastern region is found to be lower than what is in other regions of the country. This reflect that there is comparatively less lendings and borrowings in this region. When compared with public sector banks, it is found that private sector banks have better CD ratio. In other words, private sector banks are optimally using their deposits.

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