

CD Ratio and Bank Profitability: An Empirical Study

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Abstract

This paper examines the possible determinants and their effects on banking profitability as estimated by Net Interest Margin. Using secondary data from 2008-13, the study classifies banks operating in India under high CD ratio and low CD ratio. CD ratio represents the proportion of loan asset created from deposits. An Incremental Credit Deposit Ratio (ICDR) going beyond 100%, for a prolonged period, is a cause for concern to Central Bank, banking system, and other market participants as these are the first signs of pressure on resources and capital adequacy. Savers with the banking system are seeking alternate investment avenues for real positive returns. The study tries to analyse if the NIM, ICDR and Cost of Funds of banks with high and low CD ratio vary significantly. The results show that determinants of bank profitability have varied impact for banks under high CD ratio and low CD ratio categories.

Keywords: CD Ratio, Bank Profitability

Introduction

For a developing economy like India, it is essential to have comprehensive financial intermediaries and commercial banking sector that efficiently collect the savings accessible from the public and disburse credit to the productive and demanding sectors in a well-organised manner. The role of financial intermediaries and banking sector in mobilising deposits and paying credits to various sectors of an economy leads to sustaining growth

of the economy. Hence, the quality of functioning of the banking sector in turn marks the performance and productivity of other sectors of the economy. The banking system in India has evolved to deliver a diversified, efficient and competitive financial system with primary objective of improving the allocation of resources with better operational flexibility. The Reserve Bank of India (RBI) has time and again stimulated the banking sector to expand its financial coverage in the country.

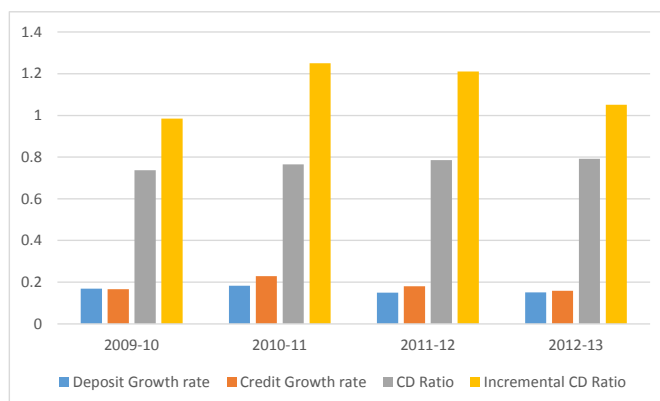
The credit-to-deposit (CD) ratio is the fraction of loan assets generated by banks from the deposits received. Higher the ratio, the higher the loan assets are created from the deposits, hence leading to more income generation options for the banks. CD ratio reveals the efficiency with which the commercial banks are able to mobilise the deposits received. The banks in India have to maintain a certain portion of deposits as reserves with RBI through the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) window. Only after that banks have available funds to mobilise for loans to various sectors. However in the past few years the banking sector has provided credit beyond that limit, either by borrowing from the other banks and RBI or by infusing funds from capital and reserves and surplus. The overall CD ratio of the banking sector has remained on the higher side for many quarters now. But what has concerned RBI is the Incremental Credit – Deposit Ratio (ICDR). It is the measure of the growth in credit provided as a portion of growth in deposits generated. When ICDR goes beyond 100 percent it can be inferred that the growth of credit is not keeping pace with the growth in deposits. This has bothered RBI as the banks are unable to generate sufficient deposits to fund their credits.

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According to an article in *profit.ndtv.com* (Oct. 05th, 2013), the CD ratio in the banking sector rose to a life time high of 78 percent, and also it was a record high of 83.34 percent year-to-date, as on September 6, 2013. Similarly, another article in *economictimes.indiatimes.com* (Oct. 3rd, 2013), quotes that deposit rose 14.05% Year-on-Year (Y-o-Y), but loans climbed to 17.9% for the fortnight ended September 20. The most obvious reason for fall in deposits in banking sector is the rising inflation as the depositors are finding the real returns from deposits are very less. According to Chakravarty (Oct. 8th, 2013), RBI brought down the Marginal Standing Facility rate on October 7, 2013. A persistently increasing ICDR forced RBI to lower money market rates and ease liquidity. The article also quoted that in the timeline between 12th July, 2013 to 20th September, 2013 the bank credit went upto Rs. 2.18 trillion, bank deposits had increased by a much lower Rs. 96, 490 crore. The incremental CD ratio over the period was around 226.7%. Figure 1 depicts some of the statistics of scheduled commercial banks for the past few years.

Figure 1: Some Relevant Bank Statistics from 2009-13, Data Source: A Profile of Banks (2012-13), RBI



A very high CD ratio is considered alarming because, in addition to indicating pressure on resources, it also hints at capital adequacy issues, and forces banks to raise more capital. RBI has raised concerns over the current scenario as it could lead to financial instability in the banking sector gradually.

Literature Review

The impact of CD ratio on bank profitability is not a

widely studied topic. However some of the relevant studies on credit, deposit, financial performance of banks as well as CD ratio and its implications are discussed in this section. The study by Verma and Kumar (2007) was aimed to analyse the performance of CD ratio of scheduled commercial banks of three major states of the western part of India i.e. Rajasthan, Gujarat and Maharashtra, and India as a whole. In their study they also considered the number of banks and per capita income of those states over the period 1977 – 2005. The findings of the study were, Maharashtra which is the backbone of growth and progress of Indian economy has been more volatile but performing well in terms of CD ratio whereas Rajasthan and Gujarat are stable at lower level. In another study of Verma and Kumar (2008), they made an attempt to study whether some bank groups, based on ownership, are better at delivering credit in an efficient manner. They used econometric techniques over the time horizon of 1991 to 2006 and found that the foreign and private bank groups exhibited the better CD ratio, whereas public sector banks were found to be needing some attention and further scope of improvement exists. They concluded with the findings as follows. Public sector banks are spread all over India with highest asset, credit and deposit, whereas foreign banks with comparatively fewer offices are contributing a good share of credit and deposit in the Indian economy. The private banks lie in between foreign and public sector banks in term of CD ratio. The paper also provided a brief overview of banking structure in India.

Similarly another study by Kaur (2012) aimed at performance evaluation of Indian Banking System where an attempt for comparative study of public sector and private sector banks was conducted. The time period of study was from 2009-2011. The study found that the overall performance of public sector banks was better than private sector banks over the period of study. The performance evaluation had many parameters like growth in CD ratio, net worth, deposits, advances, total assets etc. In the same line one more study by Singh and Tandon (2012) aimed at analysing the financial performance of SBI (public sector) and ICICI bank (public sector) for the timeline from 2007 – 2012. The study found that SBI is performing well and financially more sound than ICICI bank but in context of deposits and expenditure ICICI bank has better managing efficiency than SBI. They concluded based

on their study that banking customers have more trust on the public sector banks as compared to private sector banks.

In a study on performance of banking through CD ratio in Bihar province of India by Kumar (2013), the conclusion indicated that CD ratio does not serve as a reliable indicator of the trends in mobilisation of deposits and deployments of credit. The argument was CD ratio at times gives a misleading picture, for instance, even if the amount of deposit accretion and credit expansion could be very small, but the ratio could be very high.

Now moving to the study on determinants of Net Interest Margin (NIM) of a bank, Kalluci (2010) suggested that factors like operating expenses, risk aversion, credit risk, management quality, opportunity cost of reserves, non-interest income, market structure and market risk affect the NIM. In the study the data used was for Albanian Banks through the time period 2002-2007. (Some of the above mentioned factors are used in the present study.)

Asthana (Oct. 3rd, 2013) has views that the current CD ratio is high because there is low growth in deposits. Demand for money borrowers is more than the rate at which people are depositing money in the system. Falling growth rate, rising unemployment and rising inflation has left little money in hands of depositors who despite high rates are not willing to put money in the banking system. Low deposit has the potential of threatening the growth rate in future, but a high CD ratio can have an immediate impact on financials of banks. Borrowing at high rates and lending it to credit worthy corporates at competitive rates will impact NIM going forward as banks prefer lending only to their best customers in current scenario.

Srinivasan (Oct. 27th, 2013) suggests the profitability of Indian banks is under huge pressure due to subdued growth in interest income, sharp slowdown in deposits growth and an increase in credit cost led by a rise in non-performing assets (NPAs). Due to rise in cost of funds, the bank's NIM may decline upto 20-25 basis points in 2013-14. The drop in NIM is expected to be far sharper for public sector banks. Due to prevailing weak economic conditions in India, the asset quality of the banking system is expected to deteriorate severely.

Data and Research Methodology

The major variables used in the present study are

the CD ratio, cost of funds and NIM. Some of the other variables used in the analysis include capital, reserve and surplus, deposits, advances, investments, borrowings, operating expenses, net NPA ratio and non-interest income. All the above mentioned variables have been collected from the RBI's annual publication *A Profile of Banks 2012-13*, except borrowings which have been collected from *www.moneycontrol.com* web portal.

The analysis conducted is based on year-on-year (Y-o-Y) changes in the above mentioned variables, which is expressed as per cent change. The 40 banks that are considered in the analysis is based on a criteria i.e. the top 40 banks sorted according to the business (deposits + advances) for the financial year 2012-13. The data used in the analysis covers financial period of 2008-09 to 2012-13.

The research objective was to investigate whether there was any significant statistical difference in the Net Interest Margin (NIM), Incremental CD Ratio (ICDR) and Cost of Funds (CoF). For this purpose, independent sample T-test was conducted with CD ratio as the grouping variable where the two groups are high CD ratio and low CD ratio. In the study, a bank qualifies into the high CD ratio category when the credit provided as a proportion of deposit by the bank goes beyond the proportion of deposit supposed to be maintained with RBI for reserve purposes and the opposite is for classifying samples in to the low CD ratio category. In the study, two regression models for defining change in NIM are also developed, one for samples in low CD ratio category and other for samples in high CD ratio category. The two linear regression models are developed in order to understand how the same independent variables in both the models define dependent (or explain the variation in NIM for banks with high CD ratio and banks with low CD ratio).

For the data analysis purpose IBM SPSS predictive analysis software and Microsoft Excel have been used.

Results and Discussions

As mentioned in the research methodology section, two types of test were conducted, independent sample T-test and linear regression model in the study. The details of the results are mentioned in this section as well as the interpretation of the results.

Total Sample size: 160. High CD ratio samples: 121, Low CD ratio samples 39.

Level of confidence interval: 90%, Critical Significance: 10%

Independent Sample T-test for Statistically Significant Difference in the Means of the Following Variables for the Two Grouping Variables i.e. High CD Ratio and Low CD Ratio

Summary of SPSS output of independent sample T-test

Null Hypothesis: H_0 = Results of statistical mean of the concerned variable are statistically not different.

Alternate Hypothesis: H_1 = Result of statistical mean of the concerned variable are statistically different.

To summarize the above findings, NIM and ICDR across banks with high and low CD ratio diverge significantly but the CoF parameter is not significantly different for both the categories.

Linear Regression Model for Change in NIM of Banks with High CD Ratio and Low CD Ratio

In the linear regression model, following are the dependent and independent variables.

Dependent Variable: Change in NIM. The change in NIM is considered to be a measure of the bank's profitability and is calculated year-on-year.

Independent Variable: Various independent variables are used. They are as mentioned below.

- Incremental CD ratio (ICDR) – is the ratio of change in credit year-on-year to the change in deposit year-on-year. If the incremental CD ratio increases beyond 100% then the credit growth is outstripping growth in deposit. The impact of this variable is to be observed in the model.
- Change in CD ratio – is a measure of the per cent change in the credit – to – deposit ratio of a bank calculated year – on – year.
- Change in yield on advances and investments (YoAI) – is a measure of the per cent change in the yield rate on advances and investments of a bank calculated year-on-year. It was calculated by dividing the interest income with the sum of advances and investments. (Note: It was assumed that the interest income from other sources to be negligible.)
- Change in cost of funds (CoF) – is a measure of the per cent change in the cost of funds of a bank year – on – year. The cost of funds is calculated by dividing the interest expenses with the borrowings made and the deposits made by customers

Table 1: SPSS Output of Independent Sample T-test

Variables	Observed Significance	Interpretation
Net Interest Margin (NIM)	.012	As the critical significance level is 0.10 and the observed significance is 0.012, the alternate hypothesis is accepted and it can be concluded that the samples of 160 banks have statistically different means of NIM. So the mean of NIM of banks with high CD ratio and low CD ratio are statistically different. From the observed sample the mean of NIM of banks with high CD ratio is 0.0291 and banks with low CD ratio have a mean NIM of 0.0260.
Incremental CD ratio (ICDR)	.001	As the critical significance level is 0.10 and the observed significance is 0.001, the alternate hypothesis is accepted and it can be concluded that the samples of 160 banks have statistically different means of ICDR. So the mean of ICDR of banks with high CD ratio and low CD ratio are statistically different. From the observed sample the mean of ICDR of banks with high CD ratio is 0.9834 and banks with low CD ratio have a mean NIM of 0.4964.
Cost of Funds (CoF)	.383	As the critical significance level is 0.10 and the observed significance is 0.383, the null hypothesis is accepted and it can be concluded that the samples of 160 banks do not have statistically different means of CoF. So the mean of CoF of banks with high CD ratio and low CD ratio are statistically not different. From the observed sample the mean of CoF of banks with high CD ratio is 0.0570 and banks with low CD ratio have a mean CoF of 0.0553.

of the bank. (Note: It was assumed that the interest expenses from other sources to be negligible.)

- Change in operating expenses (OE)– is expected to have a positive and significant impact on the NIM of a bank.If the operating expenses increase then the bank will try to increase the margin in order to cover for it.
- Change in capital, reserves and surplus (Cap, R&S) – is a measure of the percent change in the capital, reserve and surplus of a bank calculated year – on – year. This parameter is necessary to be analysed, as it will explain whether the banks are infusing money from this parameter to fund the advances.
- Change in net NPA ratio– is a measure of the percent change in the net NPA ratio (i.e. net non – performing asset as percentage of net advances) of a bank calculated year – on – year. It is the measure of the asset quality and its impact on NIM is to be studied in the analysis.
- Change in non – interest income– is a measure of the percent change in the non-interest income of a bank calculated year – on – year. It is expected to have a negative relation with the NIM of a bank as if the bank is earning more from its non-interest income earning sources then it has a competitive advantage to set a lower NIM and earn more market share.
- Change in reserve maintained– is a measure of the per cent change in the reserves maintained by a bank with RBI in the form of SLR and CRR window, calculated year – on – year. It is a measure of the opportunity cost of a bank.
- Change in share of deposits (SoD) – is a measure of the percent change in the market share of deposits base of a bank calculated year–on–year.
- Change in share of advances (SoA) – is a measure of the percent change in the market share of advances disbursed by a bank calculated year–on–year.

- Change in investments– is a measure of the percent change in the investments made by a bank calculated year–on–year. It affects the interest income directly.
- Change in borrowings – is a measure of the percent change in the borrowings made by a bank for meeting fund requirements calculated year – on – year. It is expected that if the change in borrowing is positive then the NIM might be depleted given other variables are constant.

The purpose of the test is to analyse how the change in NIM is defined by the above mentioned independent parameters for both the groups of sample i.e. high and low CD ratio. The idea is to identify which variable is significant for defining the variation in change in NIM and by what margin.

Model Defining Change in NIM for Banks with High CD Ratio

Model summary: R value = 0.759, R² Value = 0.576

The model is a statistically significant as the observed significance is 0.000 whereas the critical significance level is 0.100. However since the R² value is 0.576, it can be inferred that there are certain other independent variables that might further strengthen the model. The existing independent variables can significantly define 57.6% variations in the value of change in NIM parameter.

Equation:

$$\begin{aligned} \text{Change in NIM} = & - 0.077 - 0.008 * \text{ICDR} + 1.790 * \\ & \text{Change in CD ratio} + 0.577 * \text{Change in YoAI} - 0.570 * \\ & \text{Change in CoF} + 0.368 * \text{Change in OE} + 0.196 * \text{Change} \\ & \text{in Cap, R\&S} - 0.011 * \text{Change in net NPA ratio} - 0.073 \\ & * \text{Change in non – interest income} + 0.183 * \text{Change in} \\ & \text{Reserve maintained} + 1.547 * \text{Change in SoD} - 2.002 * \\ & \text{Change in SoA} - 0.171 * \text{Change in Investments} + 0.001 \\ & * \text{Change in Borrowings} \end{aligned}$$

Table 2: ANOVA for High CD Banks

Model	Sum of Squares	Degree of freedom	Mean Square	F value	Significance
Regression	1.684	13	0.13	11.194	0.000
Residual	1.238	107	.012		
Total	2.922	120			

Table 3: Result of Coefficients for High CD Banks

Model	Unstandardized Coefficients		Standardized coefficients	T value	Significance
	B	Std. Error	Beta		
Constant	-0.077	0.047	-	1.637	0.105
ICDR	-0.008	0.014	-0.043	-0.614	0.541
Change in CD ratio	1.790	0.680	0.565	2.632	0.010
Change in YoAI	0.577	0.185	0.380	3.111	0.002
Change in CoF	-0.570	0.122	-0.661	-4.672	0.000
Change in OE	0.368	0.084	0.332	4.372	0.000
Change in Cap, R&S	0.196	0.085	0.180	2.313	0.023
Change in net NPA ratio	-0.011	0.015	-0.050	-0.727	0.469
Change in non-interest income	-0.073	0.057	-0.091	-1.282	0.203
Change in Reserve Maintained	0.183	0.248	0.153	0.740	0.461
Change in SoD	1.547	0.711	0.902	2.178	0.032
Change in SoA	-2.002	0.650	-1.063	-3.080	0.003
Change in Investments	-0.171	0.114	-0.140	-1.493	0.138
Change in Borrowings	0.001	0.006	0.007	0.090	0.928

Model Defining Change in NIM for Banks with Low CD Ratio

Model summary: R value = 0.957, R² Value = 0.916

The model is a statistically significant as the observed significance is 0.000 whereas the critical significance level is 0.100. However since the R² value is 0.916, it can be inferred that unlike the previous model the same

Table 4: ANOVA

Model	Sum of Squares	Degree of freedom	Mean Square	F value	Significance
Regression	0.738	13	.057	20.937	0.000
Residual	0.068	25	.003		
Total	0.806	38			

Table 5: Result of Coefficients

Model	Unstandardized Coefficients		Standardized coefficients	T value	Significance
	B	Std. Error	Beta		
Constant	-0.106	0.052		-2.027	0.053
ICDR	0.070	0.020	0.305	3.571	0.001
Change in CD ratio	1.160	0.902	0.585	1.286	0.201
Change in YoAI	2.236	0.466	1.394	4.795	0.000
Change in CoF	-1.733	0.309	-1.624	-5.609	0.000
Change in OE	0.087	0.138	0.072	0.629	0.535
Change in Cap, R&S	0.134	0.155	0.096	0.861	0.397
Change in net NPA ratio	-0.027	0.016	-0.121	-1.702	0.101
Change in non-interest income	-0.105	0.057	-0.180	-1.838	0.078
Change in Reserve Maintained	-0.001	0.243	-0.001	-0.005	0.996
Change in SoD	-0.105	0.991	-0.080	-0.151	0.881
Change in SoA	-0.533	1.030	-0.304	-0.517	0.610
Change in Investments	0.327	0.112	0.337	2.922	0.007
Change in Borrowings	-0.004	0.002	-0.132	-1.849	0.076

independent variables can significantly define 91.6% variation in the value of NIM for banks with low CD ratio.

Change in SoA + 0.327 * Change in Investments - 0.004 * Change in Borrowings

Equation

Change in NIM = - 0.106 - 0.070 * ICDR + 1.160 * Change in CD ratio + 2.236 * Change in YoAI - 1.733 * Change in CoF + 0.087 * Change in OE + 0.134 * Change in Cap, R&S - 0.027 * Change in net NPA ratio - 0.105 * Change in non - interest income - 0.001 * Change in Reserve maintained - 0.105 * Change in SoD - 0.533 *

Comparative Analysis of the Regression Model Results for Banks with High CD Ratio and Low CD Ratio

In Table 6, we observed that how different variable when classified based on their level of CD ratio (i.e. high and low) have different impact on the respective category's change in NIM.

Table 6: Regression Model Results for Banks with High CD Ratio and Low CD Ratio

Variables	High CD ratio model	Low CD ratio model
ICDR	This variable is statistically insignificant for defining changes in the dependent variable.	This variable is statistically significant in defining the changes in the dependent variable. For every one unit change in ICDR the change in NIM will be 0.07.
Change in CD ratio	This variable is statistically significant for defining changes in the dependent variable. According to the results, if the change in CD ratio is one unit then the change in the NIM will be 1.790.	This variable is statistically insignificant for defining changes in the dependent variable.
Change in YoAI	This variable is statistically significant for defining changes in the dependent variable. According to the results, if the change in yield on advances and investments is one unit then the change in the NIM will be 0.577.	This variable is statistically significant in defining the changes in the dependent variable. For every one unit change in yield on advances and investments the change in NIM will be 2.236. The impact is higher in this case.
Change in CoF	This variable is statistically significant in defining the changes in the dependent variable. For every one unit change in cost of funds the change in NIM will be -0.570 (negative impact).	This variable is statistically significant in defining the changes in the dependent variable. For every one unit change in ICDR the change in NIM will be -1.733. The impact is higher in this case.
Change in OE	This variable is statistically significant in defining the changes in the dependent variable. For every one unit change in operating expenses the change in NIM will be 0.368.	This variable is statistically insignificant for defining changes in the dependent variable.
Change in Cap, R&S	This variable is statistically significant for defining changes in the dependent variable. According to the results, if the change in capital and reserves & surplus is one unit then the change in the NIM will be 0.196.	This variable is statistically insignificant for defining changes in the dependent variable.
Change in net NPA ratio	This variable is statistically insignificant for defining changes in the dependent variable.	This variable is statistically insignificant for defining changes in the dependent variable.
Change in non-interest income	This variable is statistically insignificant for defining changes in the dependent variable.	This variable is statistically significant for defining changes in the dependent variable. According to the results, if the change in non-interest income is one unit then the change in the NIM will be -0.105
Change in Reserve Maintained	This variable is statistically insignificant for defining changes in the dependent variable.	This variable is statistically insignificant for defining changes in the dependent variable.
Change in SoD	This variable is statistically significant for defining changes in the dependent variable. According to the results, if the change in share of deposits in a market is one unit then the change in the NIM will be 1.547.	This variable is statistically insignificant for defining changes in the dependent variable.

Variables	High CD ratio model	Low CD ratio model
Change in SoA	This variable is statistically significant in defining the changes in the dependent variable. For every one unit change in share of advances in a market, the change in NIM will be -2.002.	This variable is statistically insignificant for defining changes in the dependent variable.
Change in Investments	This variable is statistically insignificant for defining changes in the dependent variable.	This variable is statistically significant is defining the changes in the dependent variable. For every one unit change in investments the change in NIM will be 0.327.
Change in Borrowings	This variable is statistically insignificant for defining changes in the dependent variable.	This variable is statistically significant for defining changes in the dependent variable. According to the results, if the change in borrowings is one unit then the change in the NIM will be -0.004.

Conclusion

In the present study, we have attempted to investigate the impact of CD ratio on bank profitability. First the study aimed at finding if there was any significant difference in the statistical means of the variables such as Net Interest Margin (NIM) – the measure of bank profitability, Incremental Credit-to-Deposit Ratio (ICDR) – the measure of growth in advances as a proportion of growth in deposits and the Cost of Funds (CoF) – the parameter to measure cost incurred for generating funds through deposits and borrowings. The test conducted was independent sample t-test. The observation was that the statistical means of NIM and ICDR are significantly different for banks with high CD ratio and that for banks with low CD ratio. However the test also proved that the CoF of banks with low and high CD ratio categories is not significantly different.

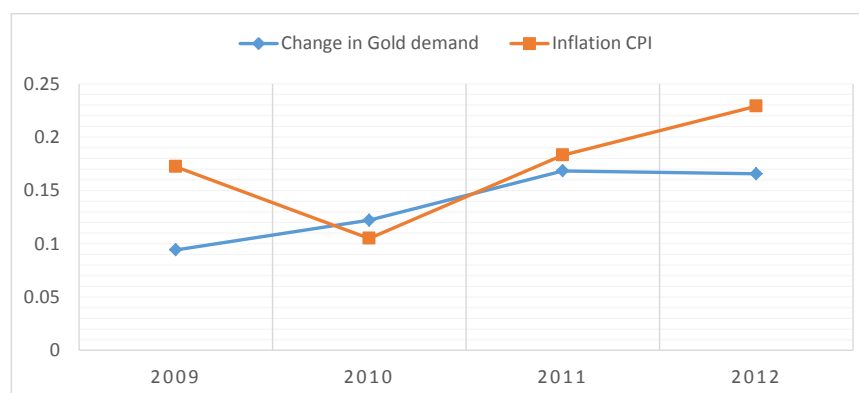
In the study we also tried developing two linear regression models, one each for high CD ratio and low CD ratio

categories. The independent and dependent variables were same for both the models but the samples were different based on the above mentioned categories. From the regression model developed for banks with high CD ratio, the independent variables can successfully define 57.6% variations in the change in NIM is defined by the independent variables chosen. Similarly, when the model was established for banks with low CD ratio, the independent variables can successfully define 91.6% of the variations in the change in NIM. In India, the main cause for incremental CD ratio shooting up is the falling rate of deposit generation in the banking sector as reflected in Figure 1.

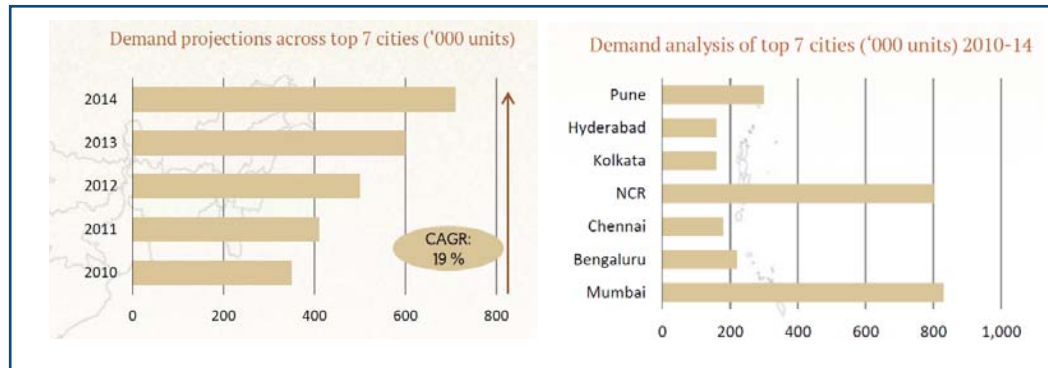
Banks in India are unable to mobilise deposits at the same pace as they are making loans. This is because the real returns on deposits are mostly negative. Households prefer investing in assets such as gold and real estate. In Figure 2 it can be observed that the change in demand for gold is in synchronisation with the inflation.

Similarly, when we analyse the demand for real estate,

Figure 2: Change in Demand of Gold and the CPI-IW Rates for Calendar Years 2009-2012, Data



Source: RBI Speech by Executive Director RBI and RBI Report of Working Group to study Issues relate to gold imports and gold loans by NBFCs

Figure 3: Demand Projections for Residential Real Estates Across Top 7 Cities.

Source: IBEF Real Estate Report Mar. 2013

based on the IBEF Real Estate report (March 2013), the demand forecast of residential real estate projections are as depicted below for top 7 cities.

RBI has time and again highlighted its concern on sustained high CD ratio and specifically at the incremental CD ratio which has been hovering around 100% for few many quarters. Because the deposit has not kept pace with credit expansion, the CD ratio has been around 80% as against 60% in 2005, clearly indicating that the banking sector is funding its loans by incrementally borrowing from other sources or from their capital base.

While it is generally accepted that a high CD ratio indicates resource pressure thereby driving the cost of funds, the study reveals that banks with high CD ratio have managed to post high profitability as measured by NIM. These are two possible explanations. First, banks, in order to maintain their spreads, are lending incrementally by dipping into their capital base. Second, banks are lending aggressively to protect or increase their margins even in a muted economy. Both of these explanations need further investigation.

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