

A Study on Impact of Casa Deposits on Profitability of HDFC Bank

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Abstract:- Banking sector in India have seen a sterling growth in recent years. One of the contributors for the growth was CASA deposits. Hence the study is done to see the impact of CASA deposits on profitability. For the purpose of study, the largest private sector bank “HDFC bank” is considered, whose net profit and CASA deposits are taken for period of 5 years, that is from 2018-19 to 2022-23. The study is mainly based on secondary data. Data were obtained from annual financial statements of the bank.

Keywords:- CASA Deposits, Profitability, Private Sector Bank, Net Profit.

I. INTRODUCTION

➤ Generally, Banks Offer Two Types of Deposits. They are-

- Term deposits like fixed deposits and recurring deposits.
- Non- term deposits like savings accounts and current accounts.

In case of the term deposits, banks pay higher interest rates (5 to 8%) but with an option of least liquidity. Whereas, on the other hand, banks pay comparatively less interest rate on current and savings accounts by providing higher liquidity. Therefore, banks are now looking forward for increasing current and savings accounts referred as CASA deposits.

Hence CASA deposit is the combination of Current account and savings account. It has the combined features of both current and savings account. The ratio of CASA results from the ratio of current deposits and savings deposits to total deposits i.e.,

$$\text{CASA Ratio} = \frac{\text{Current deposits} + \text{Savings deposit}}{\text{Total deposit}}$$

A higher CASA ratio means lower costs because banks usually do not pay interest on current accounts. Interest rates on savings accounts are low and fluctuate around 3%, but for very few banks offer more than 5%. If a substantial portion of bank deposits comes from these funds, this means that the bank will receive these funds at a relatively lower price. It is generally accepted that a higher CASA indicates an excellent net interest margin. In India, it is used as one of the measures to assess the profitability of the bank.

➤ Features of CASA Deposits:

- Provides liquidity, customers can deposit and withdraw the funds whenever required.
- Offers interest on deposits (lower, compared to term deposits)
- Facilities like cheque book, pass book, debit card and online banking services are provided.
- It helps banks manage their cash reserves as CASA deposits provide stability in long run.
- Everybody (individuals, businesses and other organizations) can use this for their financial transactions.

➤ Advantages of CASA Deposits:

- Customers are provided with facilities for ease of doing banking transactions.
- Conveniences and flexibility are offered to do the transactions.
- Since CASA provide stability for banks, they help banks manage their liquidity.
- These are the cheaper source of fund for banks with help in increasing profit margin.
- They help in building long term relation between banks and customers.

➤ Objectives of the Study:

The aim of the study is:

- To find the impact of CASA deposits on profitability of bank
- To understand the advantages of innovative services like CASA deposits for development of banks.

II. REVIEW OF LITERATURE

Laxman (1985) studied the problem of drop in profitability of banks in India and proposed a special deposit mobilization cell, thoughtful borrowings, control on rising over-dues, and establishing a professional investment portfolio to augment the profitability of banks.

Kishore Anil (1987) has stressed the importance of effective management of funds to counter the rise operative expenses, cost of deposits, mounting overdues, and tall customer expectations. Maintenance of optimum cash balance at the branch level, meticulous credit appraisal to

avoid non-payment of instalments and interest and periodical supervision of advances, reducing cost in all banking transactions are the vital recommendations of the study

Bhairav Desai and Mayuri (2000) opined that it is the efficiency with which available lendable funds is managed that decides its continued existence and standing in the banking industry.

Vidwans and Kaveri (2001) found that reducing non-performing assets (NPAs) to a considerable extent coupled with reducing cost of operations are responsible for increase in bank's profitability.

Uppal (2007) stated that banks would benefit if they organized funds through borrowing rather than public deposits.

Thus, the review reveals that the management of funds in banks is examined by researchers from different points of view. A study on the profitability of fund management from the perspective of using cheaper funds, such as CASA deposits, is not very well studied by researchers. This objective is achieved to a certain extent by this study.

➤ *Research Methodology:*

The secondary data are collected from the financial reports of the bank. Data are collected from the period of 2019-20 to 2022-23. The collected data are then organised, analysed and interpreted using the advance excel. In order to check the impact of CASA deposits on profitability the hypothesis testing is done using correlation.

➤ *Data Analysis and Interpretation:*

Table 1 Showing the CASA Deposits out of Total Deposits and Net Profit Earned

| Year | Total deposits (Rs in Crs) | CASA deposits (Rs. In Crs) | Net Profit |
|-----------|----------------------------|----------------------------|------------|
| 2022-2023 | 18,83,395 | 836227.38 | 46,149 |
| 2021-2022 | 15,59,217 | 751542.594 | 38,151 |
| 2020-2021 | 13,35,060 | 615462.66 | 31,857 |
| 2019-2020 | 11,47,502 | 4,84,625 | 27,296 |
| 2018-2019 | 9,23,141 | 389565.502 | 22,446 |

➤ *Hypothesis Testing:*

- H_0 : There is no significant relationship between CASA deposits and Net profit
- H_1 : There is a significant relationship between CASA deposits and Net profit

- *Correlation between CASA Deposit and Profitability is Performed and the Results are as follows:*

Table 2 Correlation Result (with 0.5 Level of Significance)

| Coefficient of Correlation | 0.986 |
|----------------------------|-------------|
| N | 5 |
| df | 3 |
| P value | 0.001983536 |
| t statistic | 10.24335929 |

From the results derived by performing correlation shown in Table 2, we can observe that

P value (0.001) < 0.5,

Hence reject the null hypothesis and accept the alternative hypothesis.

Therefore, there is a significant relationship between CASA deposits and profitability.

III. FINDINGS AND CONCLUSION

From the study with Pearson's correlation it is found that there is a highly positive correlation (0.986) between CASA deposits and profitability, which means that an increase in CASA deposits would definitely lead to an increase in the profitability.

Henceforth, one of the innovative services like CASA has proven to be fruitful for the improvement in performance of banking sector. More such innovative services should be encouraged so that banks would be able to compete and sustain for a longer term. Also, banks being direct and indirect contributor towards growth of the country's economy, encouraging them with such services would be highly beneficial for all.

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