

Assocham Eco Pulse Study

“Borrowing and Lending Patterns in Indian Cities”

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1. Introduction

The credit is the backbone of the economic system of any size and profile. India being a diversified country in terms of its geography, human habitation and nature of economic systems, the financial profile of various regions differs significantly from each other.

The Assocham Research Bureau has been undertaking a variety of studies on the different aspects of the cities in India. The classification of Indian cities into Tier I, Tier II and Tier III on the basis of the population and geographic size, helps in studying the behavioral patterns exhibited by the cities falling in similar group.

While the Tier I cities constituting the six metropolitans in India at present, remain the centre of economic and financial activities, a trend has gradually emerged which shows the signs of growth-led change in the structure of Tier II cities as well.

The Study, "Lending and Borrowing Patterns in Indian cities" augurs well with the concept of differentiated financial treatment subjected to various levels amongst the cities. The lending and borrowing patterns are studied through the data on size and growth of deposits and credit disbursements in the various cities through the scheduled commercial banks.

The data was taken from the Reserve Bank of India as available for the latest period upto December 2008. The growth rates are provided on annual basis.

As the data was arranged according to the centres, certain adjustments were required to be done to make it compatible to the city format. Delhi and NCR region were considered separate for the purpose of the Study. The NCR region deposit and credit base was calculated as the summation of Noida, Ghaziabad, Faridabad and Gurgaon. The growth rate was taken as simple average of all four centres. Similar adjustment was done for data on Mumbai which constitutes Navi Mumbai and Greater Mumbai.

There were seven Tier I cities, 23 Tier II cities and 66 Tier III cities analysed in the study.

2. Tier I cities

As the metro cities remain the hub of commercial and corporate activities the credit growth was maximum at the rate of 33.3 per cent. Total credit expansion in the metro cities was Rs. 1.55 lakh crore which was also the highest among the three groups.

The metropolitan city Hyderabad registered maximum growth rate in credit disbursement which was 47 per cent. The next highest credit growth (38.5 per cent) took place in the NCR region comprising Gurgaon, Noida, Ghaziabad and Faridabad. Credit growth in Delhi was at the rate of 30.8 per cent while in Chennai and Mumbai, the growth was tad lower at 29.5 per cent and 28.65 per cent.

Minimum credit growth among the Tier I cities was registered by Kolkata (22.9 per cent) and Bangalore (24.3 per cent).

The high cost of living in the metro cities has led to the lowest growth of 23 per cent in the deposits of metro cities. Total deposits made in the metro cities was Rs. 1.69 lakh crore.

Among the Tier I cities, the maximum deposit growth was recorded by the NCR region 25 per cent, followed by Chennai at 25.7 per cent. Minimum growth in the deposits among the metro cities was reported by Bangalore at 20 per cent.

Table - 2.1

Tier I Cities	
Total Deposit size (in Rs. Crore)	1,693,460
Average Annual Deposit growth (in per cent)	23.05
Total credit size (in per cent)	1,559,320
Annual average credit growth (in per cent)	33.3
Credit-Deposit Ratio	92.07

3. Tier II cities

As the Indian economy had registered average 9 per cent growth in last four years, it can be safely said that the Tier II cities are on of the beneficiaries of the boom period. Some of the Tier II cities in India are fast catching up with the metro cities as the signs of development are becoming apparent.

Total credit availed by the Twenty three Tier II cities studied under AEP was to the tune of Rs. 2,83, 636 crore and recorded 23.7 per cent growth rate.

Lucknow, the capital city of Uttar Pradesh recorded maximum rise in credit growth among the Tier II cities as the loans availed in the city rose by more than 47 per cent. Vishakapatnam, the second largest city of Andhra Pradesh and one of the largest ports in India, accounted for second highest credit growth rate of 43.1 per cent among the Tier II cities.

Bhopal, the capital of Madhya Pradesh, recorded 35.4 per cent growth in the credit offtake in the city, which was third highest among the Tier II cities in India.

With the rising income levels in the Tier II cities and economic development giving boost to the local businesses, the deposit growth was robust and highest among the three groups of cities. The deposits grew at an average annual rate of 26.8 per cent while the total deposits with the commercial banks in these cities were Rs. 3 lakh crore.

Among the 23 Tier II cities analysed by the AEP, Udaipur registered maximum annual deposit growth of 82 per cent. It was followed by Agra (45 per cent), Ahmedabad (34.6 per cent), Patna (27.6 per cent), Lucknow (24.6 per cent). The combined deposits of Tier II cities in India was reported as Rs. 3, 02,152 crore.

Table - 3.1

Tier II cities	
Total Deposit size (in Rs. Crore)	302,152
Average Annual Deposit growth (in per cent)	26.8
Total credit size (in per cent)	283,636
Annual average credit growth (in per cent)	23.7
Credit-Deposit Ratio	93.87

4. Tier III cities

The country India is marked by the presence of large number of small size cities and towns, which have classified as Tier III cities. Although such geographic concentrations are huge in number, we have taken 66 such cities for the purpose of our analysis.

The most important finding of the Study was the stark gap between the deposit base and credit disbursements in these cities. Only half of the money deposited by the residents and businessmen in the Tier III cities is ploughed back to meet the credit needs of the region. As on December 2008, while the total deposit size of 66 small cities was Rs. 4,66,174 crore, the gross bank credit disbursements were Rs. 2,48,674 crore.

The Tier III cities which inhabitate small entrepreneurs, cottage industries such as craftsmen, food processing, unorganised retailers are devoid of banks' funds as the credit deposit ratio of 66 small cities of India is found to be as low as 53 per cent as opposed to the metro and Tier II cities which enjoy 92 per cent rate of deposits conversion into credit.

The annual growth rate of credit is also lowest in the Tier III cities at 21.3 per cent as compared to Tier I (33.3 per cent) and Tier II cities (23.7 per cent).

The total credit disbursement in the Tier III cities was Rs. 2,48,674 crore with the average growth rate of 21.3 per cent. Ludhiana, one of the prime textile business centre in India was ranked first amongst the smaller cities in terms of maximum credit offtake with Rs. 21, 508 crore loan portfolio.

Coimbatore which is one of the highest revenue earning district in Tamil Nadu, is also second highest credit availing Tier III city with the gross bank credit disbursed in the area was reported as Rs. 20,948 crore. Another cities which fall in the category of top credit availing small cities include Nagpur (Rs. 9633 crore), Tirrupur (Rs. 9535 crore), Raipur (Rs. 8109 crore) and Kanpur (Rs. 7380 crore). The deposit growth rate was second fastest among the Tier III cities at the rate of 24.6 per cent, following Tier II cities which registered highest deposit growth of 26.8 per cent.

Table - 4.1

Tier III cities	
Total Deposit size (in Rs. Crore)	466,174
Average Annual Deposit growth (in per cent)	24.61
Total credit size (in per cent)	248,674
Annual average credit growth (in per cent)	21.3
Credit-Deposit Ratio	87.46

5. Recommendations

Low credit disbursement in the small cities of India is a matter of serious concern. Since the Tier III cities inhabitates small cottage industries and unorganized services, inadequate credit to this region would inhibit the growth. Consequently, considerable migration is observed from these small cities to the metropolitan cities leading to the problem of congestion and unbalanced developed.

In order to ensure balanced regional development in the country, it is essential that risk-averse banks extend appropriate lending facilities to the small business enterprises in the Tier III cities. The small-sized entrepreneurs have to rely on traditional sources of funds such as moneylenders, chit funds etc.

The policymakers should ensure that the funds mobilized by the banks in small cities and towns in India should be channelised for the development of those areas.

6. Annexure

A.1 - Credit profile of Tier I cities

Rank	City	Credit size (in Rs. Crore)	Annual growth rate (in per cent)
6	Hyderabad	94,875	47.0
7	NCR	24791	38.5
2	Delhi	330,101	30.8
3	Chennai	138,412	29.5
1	Mumbai	138,412	28.65
4	Bangalore	119,259	24.3
5	Kolkata	96,590	22.9

A.2 - Deposits profile of Tier I cities

Rank	City	Deposit size (in Rs. Crore)	Annual growth rate (in per cent)
3	Chennai	107,957	25.7
2	NCR	58,055	24.9
4	Hyderabad	79,008	24.7
5	Kolkata	114,983	21.3
6	Delhi	481,237	21.0
1	Mumbai	146,762	20.6
7	Bangalore	146,762	20.0

A.3 - Credit profile of Tier II cities

Rank	City	Credit size (in Rs. Crore)	Annual growth rate (in per cent)
1	Lucknow	16,692	47.6
2	Visakhapatnam	8,475	43.1
3	Bhopal	7,590	35.4
4	Kochi	15,756	33.8
5	Chandigarh	29,534	30.3
6	Pune	37,816	30.2
7	Ahmedabad	45,233	30.1
8	Thiruvananthapuram	9,528	29.5
9	Jaipur	27,612	28.6
10	Vadodara	16,447	26.0
11	Bhubaneswar	9,441	24.1
12	Vijayawada	5,630	23.5
13	Patna	4,675	23.2
14	Udaipur	2,370	20.9
15	Surat	8,940	20.2
16	Agra	3,602	18.3
17	Mysore	4,133	16.2
18	Mangalore	4,418	16.1
19	Indore	14,092	13.0
20	Panaji	2,349	11.8
21	Allahabad	1,901	7.6
22	Srinagar	5,142	7.5
23	Gandhinagar	2,260	7.0

A.4 - Deposit profile of Tier II cities

Rank	City	Deposit size (in Rs. Crore)	Annual growth rate (in per cent)
1	Udaipur	6,307	82.0
2	Agra	8,725	44.9
3	Ahmedabad	48,098	34.6
4	Patna	20,143	27.6
5	Lucknow	35,060	24.6
6	Gandhinagar	4,279	24.0
7	Mysore	6,946	23.6
8	Surat	11,624	23.4
9	Chandigarh	24,645	22.4
10	Bhopal	17,098	22.3
11	Allahabad	7,508	21.8
12	Vadodara	19,129	21.7
13	Pune	45,927	20.2
14	Jaipur	21,508	19.5
15	Vijayawada	5,219	19.3
16	Visakhapatnam	14,115	18.4
17	Srinagar	5,821	5.7

A.5 - Credit profile of Top Tier III cities (ranks according to size)

Rank	City	Credit size (in Rs. Crore)	Annual growth rate (in per cent)
1	Ludhiana	21,508	22.6
2	Coimbatore	20,948	21.3
3	Nagpur	9,633	20.0
4	Tiruppur	9,535	8.2
5	Patiala	8,395	34.7
6	Raipur	8,109	28.5
7	Kanpur	7,380	21.3
8	Madurai	5,844	24.0