

With Recent Rise, Credit Offtake Post Covid Inches Closer to Deposit Growth

December 29, 2022 | BFSI Research

The quarterly Scheduled Commercial Bank (SCB) performance review is an update on the credit and deposit situation of banks derived using data extracted from RBI's Quarterly Statistics on Deposits and Credit of SCBs as on September 30, 2022

Synopsis

- The outstanding bank credit reached Rs.130.1 lakh crore as of September 30, 2022, registering a growth of 17.2% year-on-year (y-o-y) as compared to 7.0% in Q2FY22. NBFCs (20.0%) Retail (19.6%), and Industry (12.6%) contributed to the growth.
- Outstanding deposits reached Rs.175.0 lakh crore as of September 30, 2022, registering a 9.8% growth y-o-y in Q2FY23.
 - Scheduled Commercial Banks' (SCBs) growth in term deposits outperformed current account and saving account (CASA) growth.
- Over the last couple of years, (i.e., from March 2020) credit offtake has mostly overcome the Covid-induced lag and has grown by around 25.2% to almost catch up with deposit growth of 27.3% over the same period.
- The Credit Deposit (CD) ratio of SCBs rose by 304 bps y-o-y in Q2FY23 due to higher credit growth and reached 74.8% at the end of September 2022. PVBs reported the highest rise of 589 bps in their CD ratio to 88.8%.

SCBs Credit Offtake Continues to Outpace Deposit Growth

Figure 1: SCBs Growth Trend (y-o-y, %)

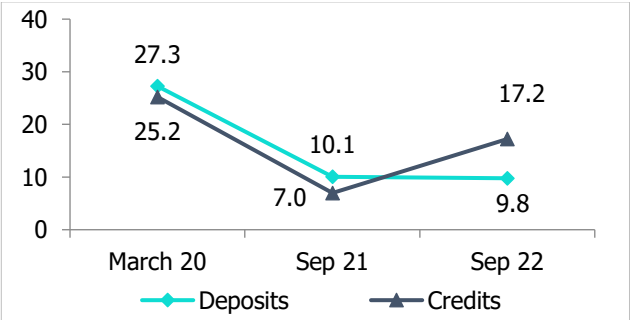
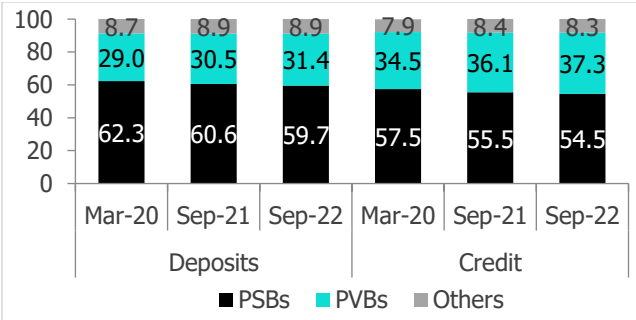


Figure 2: Share in Total Deposits and Credit (%)



Note: Others include FBs, SFBs, RRBs, Source: RBI

- The credit growth has been on an uptrend, with wholesale and retail contributing to the same. Credit for the services sector accelerated primarily due to a rise in NBFCs and trade segments. Retail credit growth has been strongly led by the miniaturisation of credit, housing, and vehicle loans, and MSME growth has remained elevated due to ECLGS. Corporate borrowings indicate increased bank funding as bond yields have prompted companies to optimize their borrowing cost. Despite a significant increase in lending rates of banks, the headline rates continue to be attractive compared to yields charged in the capital markets. The credit outstanding of the industry segment also grew due to inflation-induced higher working capital demand.
- Over the last couple of years, (i.e., from March 2020) credit offtake has mostly overcome the Covid-induced lag and has grown by around 25.2% to almost catch up with deposit growth of 27.3% over the period.

- Liquidity in the banking system has been tightening since the beginning of FY23 due to RBI's liquidity management for elevated inflation, currency depreciation and global issues such as geopolitical conflicts. RBI has already increased the repo rate by 190 bps in H1FY23 and 35 bps in Q3FY23, further hikes are anticipated in the current fiscal.

Growth in September 2022 vs. March 2020.

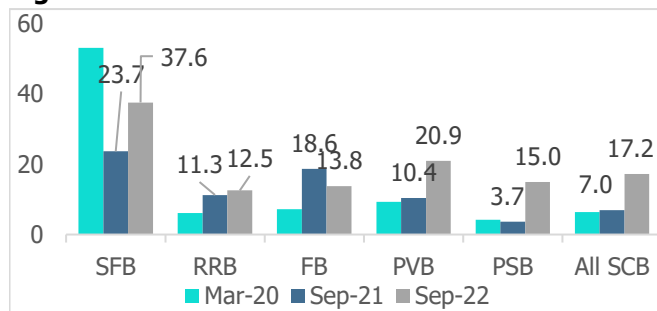
| Credit | | | Deposits | | |
|----------------|-----------------------------|------------------------------------|----------------|-----------------------------|----------------------------------|
| Group | Abs. Growth from Mar-20 (%) | Credit Outs. Sep-22 (Rs. Lakh-Cr.) | Group | Abs. Growth from Mar-20 (%) | Dep. Outs. Sep-22 (Rs. Lakh-Cr.) |
| PSB | 18.5 | 71.3 | PSB | 21.9 | 104.4 |
| PVB | 35.2 | 48.8 | PVB | 37.7 | 54.9 |
| FB | 20.1 | 5.2 | FB | 30.7 | 8.6 |
| SFB | 74.8 | 1.6 | SFB | 119.8 | 1.4 |
| RRB | 30.0 | 3.9 | RRB | 16.0 | 5.5 |
| All SCB | 25.2 | 130.8 | All SCB | 27.3 | 175.0 |

Source: RBI

- Credit growth for almost all categories still lags behind the deposit growth when taken from the pre-Covid period (taken as of March 2020). In terms of credit and deposit growth, PVBs grew faster than PSBs. However, PSBs sustained performance for credit growth in the coming quarters is expected to slow the pace of gaining share by PVBs.
- The credit demand for the metro group is expected to rise due to new capex build-out by corporates and improvement in their capacity utilisation, consequently helping to improve the share going forward.
- SCBs term deposit growth outperformed CASA deposit growth in the quarter and is expected to gain the pace going forward due to a rise in term deposit rates.
- SCBs deposit and borrowing rates are expected to expand due to a lagged effect compared to the repo rate, strong underlying credit demand, lower liquidity in the banking system, a wide gap in credit and deposit growth and credit push by the banks in H2FY23. CPI inflation declined to 5.88% in November 2022 and yields on 5-Year G-Sec stood at 6.94% for September 2022. Many of the banks have already increased their term deposit rates and are further expected to increase which will drive the deposit growth rate.
- The small PVBs are expected to pay higher deposit rates compared to the large PVBs, and PSBs due to intensified competition for raising deposits amid a rising interest rate scenario.

Credit

Figure 3: Credit Growth Trend



Source: RBI

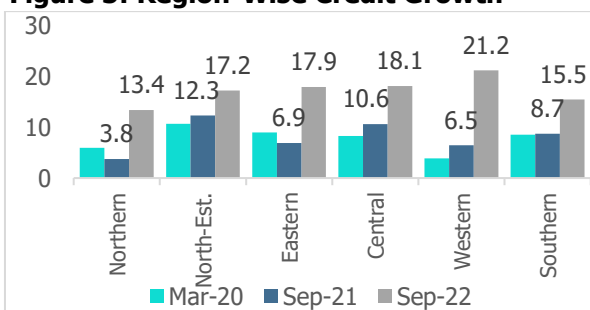
Figure 4: Credit Growth & Outstanding

| Group | Abs. Growth from Mar-20 (%) | Credit Outs. Sep-22 (Rs. Lakh-Cr.) |
|----------------|-----------------------------|------------------------------------|
| PSB | 18.5 | 71.3 |
| PVB | 35.2 | 48.8 |
| FB | 20.1 | 5.2 |
| SFB | 74.8 | 1.6 |
| RRB | 30.0 | 3.9 |
| All SCB | 25.2 | 130.8 |

- PVBs reported a strong credit growth of 20.9% y-o-y in Q2FY23 as compared to 10.4% in the year-ago period due to a low base, growth in retail credit and NBFCs. Moreover, PVBs growth was the highest in the last 12 quarters and reached pre-covid levels (growth of 19.8% y-o-y for Q3FY20). Large PVBs primarily dominated growth compared to small private banks. In absolute terms, PVBs credit expanded by Rs.8.4 lakh crore in Q2FY23 over a year ago period and reached Rs.48.8 lakh crore as of September 30, 2022.
- PSBs reported a strong rise of 15.0% y-o-y in Q2FY23 as compared to 3.7% over a year ago period due to retail credit, inflation-induced working capital requirement, and MSMEs driven by ECLGS and strengthening of their balance sheets. Besides, it was the highest growth during Q1FY19-Q2FY23. In absolute terms, credit expanded by Rs.9.3 lakh crore in Q2FY23 over the year-ago period and reached Rs.71.3 lakh crore as of September 30, 2022. All PSBs barring one reported double-digit growth in Q2FY23.
- PVBs outperformed PSBs in terms of credit growth in Q2FY23 (y-o-y basis). However, the gap between growth rates has narrowed down compared to 840 bps in Q3FY22 and 740 bps in Q4FY22 due to faster growth in PSBs (compared to the prior period).
- PVBs gained market share by 114 bps y-o-y in Q2FY23 and reached 37.3% as of September 30, 2022, due to higher retail credit growth.

Regional Credit

Figure 5: Region-Wise Credit Growth



Source: RBI

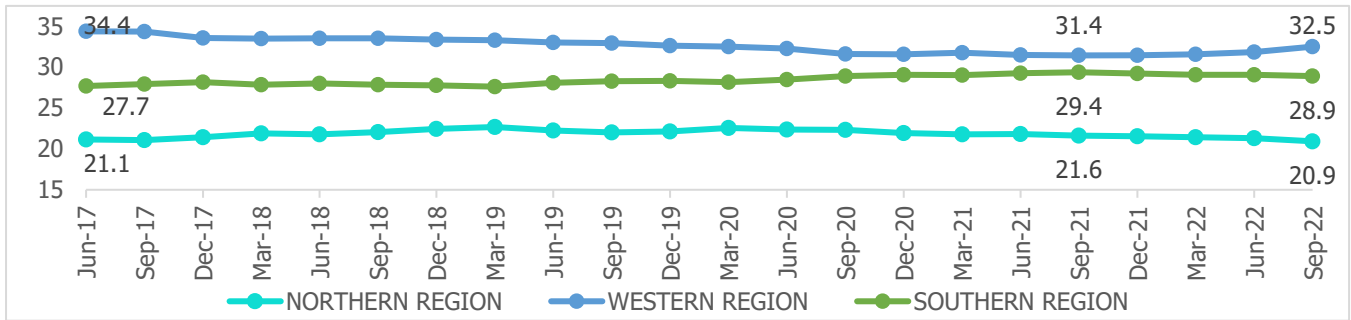
Figure 6: Region-Wise Credit Growth and Outstanding

| Group | Abs. Growth from Mar-20 (%) | Credit Outs. Sep-22 (Rs. Lakh-Cr.) |
|---------------|-----------------------------|------------------------------------|
| Northern | 16.1 | 27.4 |
| North-Eastern | 37.6 | 1.5 |
| Eastern | 28.3 | 9.6 |
| Central | 34.0 | 12.1 |
| Western | 25.2 | 42.5 |
| Southern | 28.6 | 37.8 |

- In terms of regional performance, the western region reported the highest growth at 21.2% y-o-y in Q2FY23 and reached Rs.42.5 lakh crore as of September 30, 2022. The growth is also higher than the pre-Covid level.

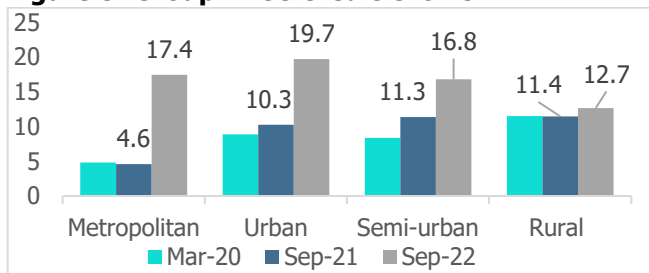
- The Western region accounted for the largest share at 32.5% as of September 30, 2022, and gained market share by 106 bps y-o-y over the last 12 months. The region has been losing market share over the last four-five years, though it began to gain back over the last couple of quarters. The Southern region accounted for a 28.9% share of the total outstanding credit and lost market share by 45 bps y-o-y. The northern region held a 20.9% share and it too lost market share by 72 bps y-o-y.

Figure 7: Regional Market Share Trend (%)



Population

Figure 8: Group-Wise Credit Growth



Source: RBI

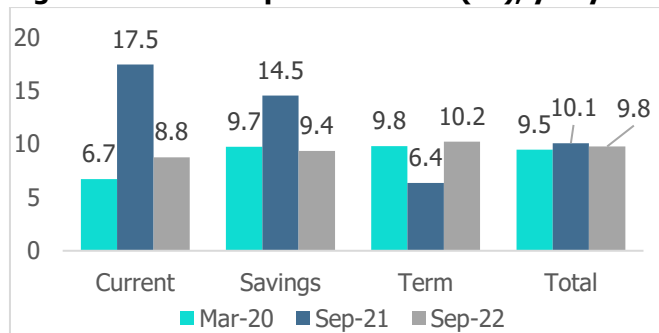
Figure 9: Credit Growth and Outstanding

| Group | Abs. Growth from Mar-20 (%) | Credit Outs. Sep-22 (Rs. Lakh-Cr.) |
|--------------|-----------------------------|------------------------------------|
| Metropolitan | 19.9 | 79.3 |
| Urban | 34.8 | 21.7 |
| Semi-urban | 35.3 | 17.8 |
| Rural | 32.5 | 12.0 |

- Metropolitan has been performing well over the last three quarters and reported a rise of 17.4% y-o-y in Q2FY23 which is higher than pre-covid levels. Metropolitan region had reported low numbers in the pandemic as NBFCs, and retail is largely from this group. Subsequently in Q2FY23, along with retail loans, borrowing by NBFCs and large industries especially in the petroleum and infrastructure space has picked up leading to gains for this segment. Further, given the size of this segment, an improved growth rate has a larger impact on market share.
- The urban and semi-urban performed well in the quarter and they reported much better growth compared to pre-covid levels. The rural segment reported double-digit growth, nevertheless underperformed the other segments.
- In terms of credit outstanding market share, urban gained market share by 34 bps y-o-y in Q2FY23 and reached 16.6% as of September 30, 2022. Besides, it has also been gaining market since Q2FY18. Metropolitan too gained market share by 10 bps y-o-y in Q2FY23 and reached 60.6%. If we compare the market positioning since March 2020, the metropolitan lost the market share by 270 bps to the urban, rural, and semi-urban by the end of Q2FY23.

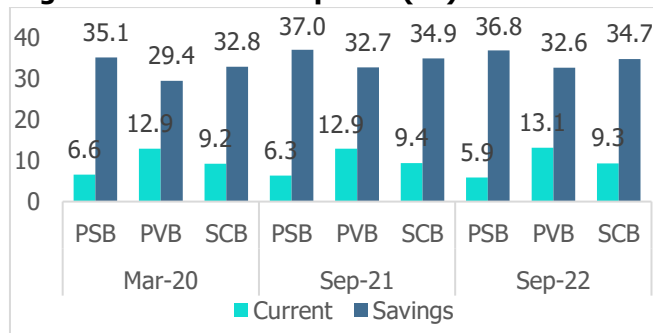
Deposits

Figure 10: SCBs Deposits Growth (%), y-o-y



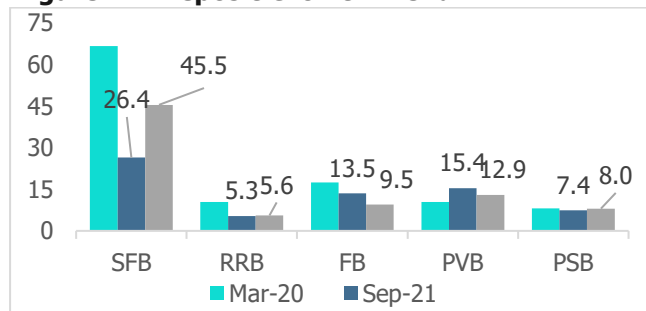
Source: RBI

Figure 11: Share in Deposits (%)



- SCBs term account deposits rose 10.2% y-o-y in Q2FY23 vs. 6.4% in the year-ago period due to a rise in interest rates on deposits driven by the elevated inflation. Term deposits growth outperformed the other segments after 9 quarters of underperformance. In absolute terms, it increased by Rs.9.1 lakh crore from September 2021 and reached Rs.97.8 lakh crore as of September 30, 2022. The segment held a share of 55.9% of the total deposits as of September 30, 2022, and gained 20 bps y-o-y in Q2FY23 driven by growth in PVB and SFBs deposits.
- Saving account deposits witnessed a growth of 9.4% y-o-y in Q2FY23 vs 14.5% over a year ago period. In absolute terms, it increased by Rs.5.2 lakh crore in Q2FY23 over Q2FY22 and reached Rs.60.7 lakh crore as of September 30, 2022. The segment lost the market share by 13 bps y-o-y in Q2FY23 and held a share of 34.7% of the total deposits as of September 30, 2022. Saving accounts and current accounts reported lower growth compared to the previous year in the same period.

Figure 12: Deposit Growth Trend



Source: RBI

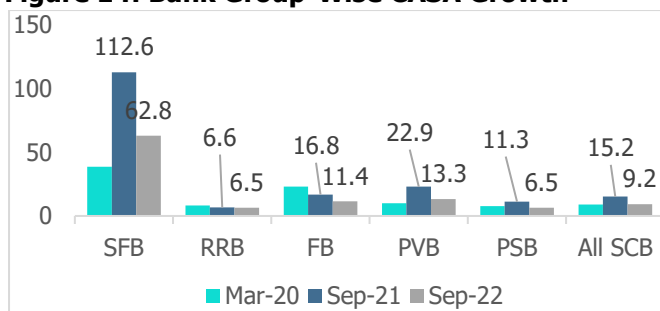
Figure 13: Deposits Growth & Outstanding

| Group | Abs. Growth from Mar-20 (%) | Depo. Outs. Sep-22 (Rs. Lakh-Cr.) |
|----------------|-----------------------------|-----------------------------------|
| PSB | 21.9 | 104.4 |
| PVB | 37.7 | 54.9 |
| FB | 30.7 | 8.6 |
| SFB | 119.8 | 1.4 |
| RRB | 16.0 | 5.5 |
| All SCB | 27.3 | 175.0 |

- PVBs’ deposits witnessed a healthy growth of 12.9% y-o-y in Q2FY23 due to aggressively raising deposits from the market to meet the credit demand. It offered the highest interest rate among the key groups on deposits.
- In terms of deposits market share, PVBs accounted for a 31.4% share as of September 30, 2022, gaining market share by 87 bps y-o-y in Q2FY23, whereas PSBs held a 59.9% share.

CASA Deposits

Figure 14: Bank Group-Wise CASA Growth



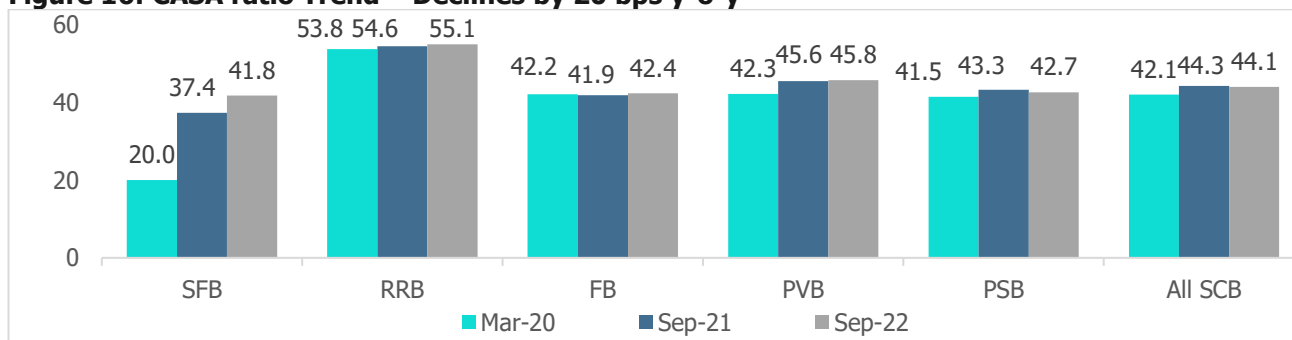
Source: RBI

Figure 15: CASA Growth and Outstanding

| Group | Abs. Growth from Mar-20 (%) | CASA Sep-22 (Rs. Lakh-Cr.) |
|----------------|-----------------------------|----------------------------|
| PSB | 25.4 | 44.6 |
| PVB | 49.1 | 25.1 |
| FB | 32.1 | 3.7 |
| SFB | 18.7 | 0.6 |
| RRB | 358.4 | 0.3 |
| All SCB | 33.3 | 77.1 |

- In absolute terms, CASA rose by Rs.6.5 lakh crore to Rs.77.1 lakh crore as of September 30, 2022 over a year ago. SCBs CASA rose by 9.2% y-o-y in Q2FY23 primarily driven by PVBs.
- PVBs reported a robust CASA growth at 13.3% y-o-y in Q2FY23 due to healthy growth in the current account (14.9%) and saving accounts. Whereas PSBs reported a slower growth at 6.5% y-o-y due to lower growth of 0.8% in the current account deposits.

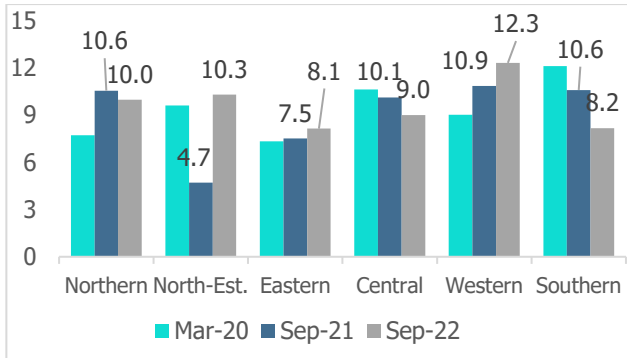
Figure 16: CASA ratio Trend – Declines by 20 bps y-o-y



- SCBs CASA ratio declined by 20 bps y-o-y and stood at 44.1% as of September 30, 2022, as compared to 44.3% over a year ago due to a rise in term deposit rates which drove higher growth for the term deposit segment. Further, the term deposit rates are expected to rise due to strong credit demand and a wide gap between credit and deposit growth, hence a decline in the CASA ratio. Within this, PVBs reported a healthy expansion of 20 bps y-o-y to 45.8% as they offered higher rates on saving accounts whereas PSBs dropped by 60 bps y-o-y. SFBs CASA, a small base, ratio expanded massively by 445 bps y-o-y to 41.8% as they offered high rates on deposits.
- As of September 30, 2022, PSBs CASA accounted for 57.8% share of the total CASA and lost the share by 150 bps y-o-y in Q2FY23 to PVBs and SFBs.

Regional Deposits

Figure 17: Trend in Deposits - Region-Wise



Source: RBI

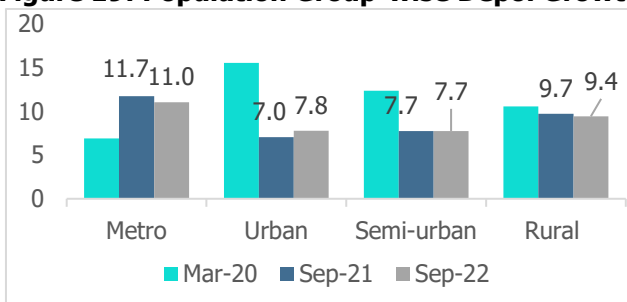
- Banks in the Western region reported the highest deposit growth at 12.3% y-o-y in Q2FY23 vs. 10.9% over the year-ago period and it reached Rs.46.4 lakh crore as of September 30, 2022. The growth for the Western region reached pre-Covid levels in the reporting period. Besides, it came in at 13.4% y-o-y in Q4FY23 which was the highest growth over the last four years.
- The Northeastern reported deposit growth at 10.3% y-o-y in Q2FY23, and it is the highest growth in the last 7 quarters. The Eastern region reported the lowest growth at 8.1%, and it is still below pre-Covid levels.
- In terms of market share, the western region held the largest share at 26.5% of total deposits as of September 30, 2022, expanded by 60 bps y-o-y. The eastern, southern, and central reported a drop in their market share. The Southern region lost its market share by 36 bps y-o-y to 24.6%, while the eastern region dropped by 19 bps to 12.4% at the end of the reporting period.

Figure 18: Regional Deposit Growth and Outstand.

| Group | Abs. Growth from Mar-20 (%) | Deposits Outs. Sep-22 (Rs. Lakh-Cr.) |
|------------|-----------------------------|--------------------------------------|
| Northern | 30.3 | 37.1 |
| North-Est. | 19.1 | 3.2 |
| Eastern | 21.2 | 21.8 |
| Central | 25.7 | 23.5 |
| Western | 28.9 | 46.4 |
| Southern | 27.7 | 43.1 |

Population Group

Figure 19: Population Group-wise Depo. Growth



Source: RBI

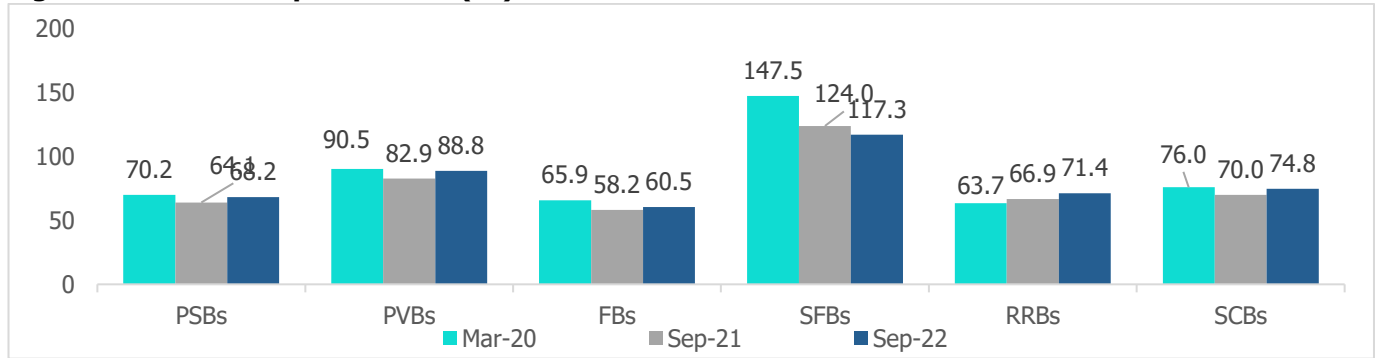
- Banks in the Metropolitan reported the highest y-o-y deposit growth at 11.0% in Q2FY23. The Semi-Urban region reported the lowest deposit growth at 7.7%. Metropolitan gained market share in deposits by 58 bps y-o-y and reached 51.8% as of September 30, 2022.

Figure 20: Deposit Growth and Outstanding

| Group | Abs. Growth from Mar-20 (%) | Depo. Outs. Sep-22 (Rs. Lakh-Cr.) |
|------------|-----------------------------|-----------------------------------|
| Metro | 31.5 | 90.6 |
| Urban | 26.9 | 37.8 |
| Semi-urban | 21.5 | 28.1 |
| Rural | 17.9 | 18.5 |

Credit-Deposit Ratio (CDR)

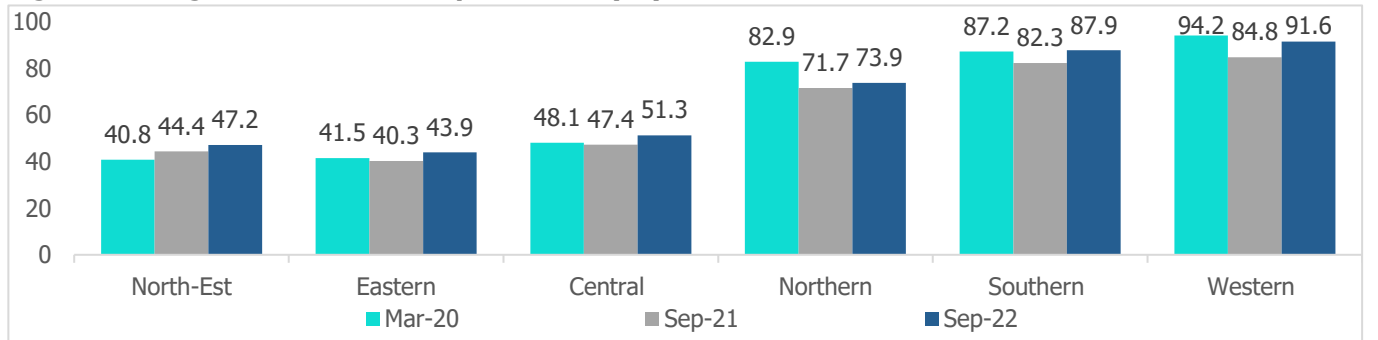
Figure 21: Bank Group-Wise CDR (%)



Source: RBI

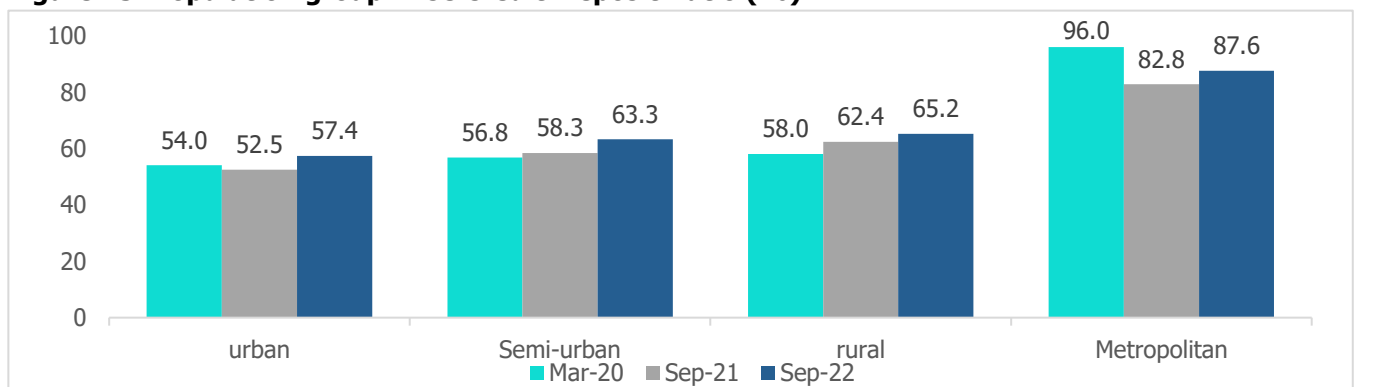
- The Credit to Deposit (CD) ratio has been increasing since October 2021. In Q2FY23, all groups expanded their CD ratio as the credit growth was much higher than the deposit growth. PVBs reported the highest rise of 321 bps y-o-y in their CD ratio reaching 86.4% as of September 30, 2022. The central region reported the highest expansion by 370 bps to 51.5% at the end of the quarter followed by the Eastern region at 335 bps to 43.0%.

Figure 22: Region-wise Credit-Deposit Ratio (%)



Source: RBI

Figure 23: Population group-wise Credit-Deposit Ratio (%)



Source: RBI

Concluding Remarks

- In Q2FY23, credit growth continued to be higher as compared to deposit growth. This can be attributed to the base effect as earlier in the pandemic, deposit growth had outpaced credit.

- In Q2FY23, credit o/s of Private Banks (PVBs) grew by 20.9%, Public Sector Banks (PSBs) by 15.0% and Small Finance Banks (SFBs) by 37.6%.
- Western region (within regions) reported the highest credit growth at 21.2% y-o-y in Q2FY23, while Urban (within population groups) reported the highest credit growth at 19.7% y-o-y in Q2FY23, followed by metropolitan at 17.4%.
- SCBs CASA ratio stood at 44.1% as of September 30, 2022, as compared to 44.3% over a year ago. This decline has come about as banks focused on term deposit rates which drove higher growth for the same. Further, the term deposit rates are expected to rise due to strong credit demand and a wide gap between credit and deposit growth, hence the share of CASA in total deposits is expected to unwind, thereby increasing the overall cost of deposits.

Contact

| | | | |
|------------------|------------------------------------|------------------------------|-------------------------------------|
| Sanjay Agarwal | Senior Director | sanjay.agarwal@careedge.in | +91-22-6754 3582 / +91-81080 07676 |
| Saurabh Bhalerao | Associate Director – BFSI Research | saurabh.bhalerao@careedge.in | +91-22-6754 3519 / +91-900 495 2514 |
| Vijay Singh Gour | Lead Analyst – BFSI Research | vijay.gour@careedge.in | +91-22-6754 3630 / +91-989 378 9622 |
| Mradul Mishra | Media Relations | mradul.mishra@careedge.in | +91-22-6754 3596 |

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East),
Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

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