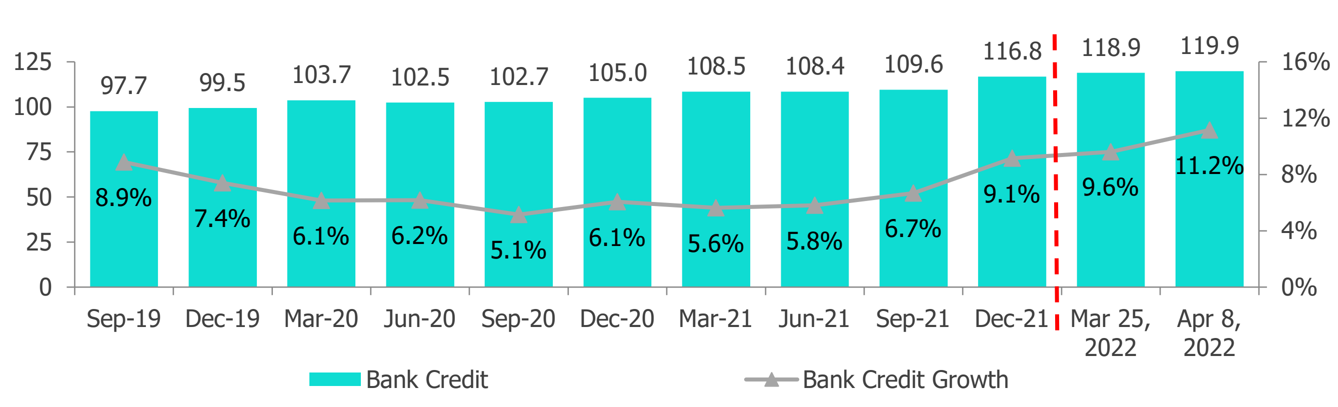
Banking Credit and Deposit Update: FY23 Starts on Positive Note

May 2, 2022 | BFSI Research

FY23 Credit Growth Begins with Double-Digit Growth after 2.5 Years, Overtakes Growth in Deposits

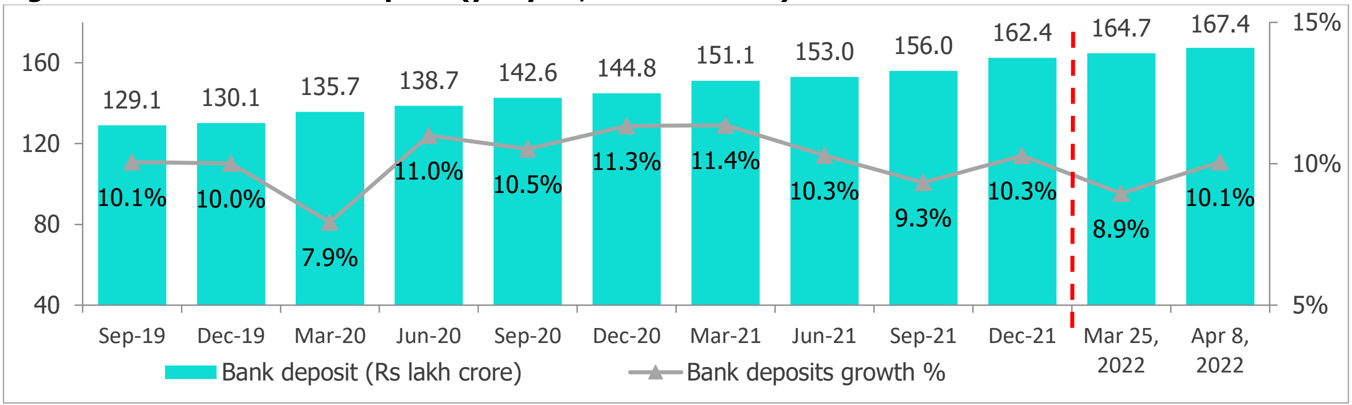
Figure 1: Bank Credit Growth Trend (y-o-y %, Rs. lakh crore)



Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Bank credit growth reached 11.2% year-on-year (y-o-y) expanding by a huge 589 bps y-o-y for the fortnight ended April 8, 2022, up from 5.3% in the year-ago period (reported on April 9, 2021) driven by retail loans, rise in working capital requirements due to increasing inflation, low base effect, and capital raising by select corporates from the banking system instead of the bond market due to attractive rates. Sequentially, credit growth improved by 0.8% and 154 bps from the immediate fortnight (reported March 25, 2022). In absolute terms, credit outstanding was at Rs.119.9 lakh crore as April 08, 2022, expanding by Rs.12 lakh crore over the last 12 months.
- Credit outstanding of the retail segment rose by 12.4% y-o-y in March 2022 due to growth in other personal loans, housing, and vehicle loans driven by low-interest rates and higher discounts. Moreover, credit outstanding of the industry segment registered a growth of 7.1% y-o-y in March 2022 from a d of 0.4% in a year ago mainly on account of robust growth in the micro and small (21.5%), and medium (71.4%) enterprises segment were driven by ECLGS. Credit for the service sector also accelerated to 8.9% y-o-y in March 2022 from 3.0% in the year-ago period.
- The gross banking credit picked up in the fortnight (reported date April 8, 2022). After witnessing modest credit growth in recent years, the outlook for bank credit growth is expected to remain positive due to economic expansion, rise in government and private capital expenditure, extended ECLGS support, rising commodity prices and retail credit push. The medium-term prospects look promising with diminished corporate stress and a substantial buffer for provisions. CPI too is trending up which is likely to add to the credit growth. The Retail loan segment is expected to do well as compared with the industry and service segments. The ongoing Russia-Ukraine war is likely to have a limited impact on the credit growth in India. The third wave of Covid-19 (omicron) was not as severe as the first two. However, subsequent variants, if severe, could lead to lockdowns and cause a slowdown in the economy. The RBI is monitoring the inflation situation in the economy and would likely take appropriate actions, however, any sharp hike in interest rates could impact the credit growth.

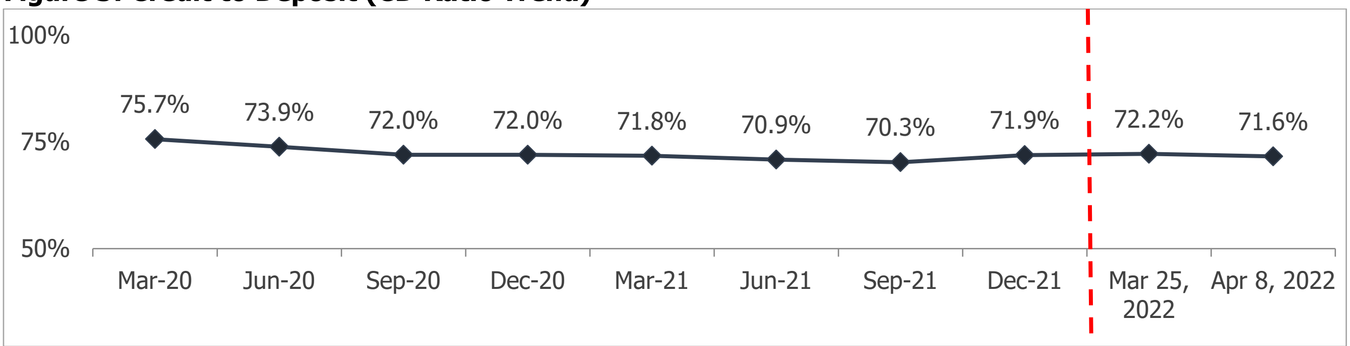
Figure 2: Growth of Bank Deposit (y-o-y %, Rs. lakh crore)



Note: The quarter-end data reflect, the last fortnight data of that particular quarter; Source: RBI, CareEdge

- Deposits stood at Rs.167.4 lakh crore for the fortnight ended April 08, 2022, registering a stable growth of 10.1% y-o-y. Meanwhile, in absolute terms, the bank deposits have increased by Rs.15.3 lakh crore over the last twelve months and by Rs.2.8 lakh crore from the previous fortnight (reported March 25, 2022). Time deposits grew by 16.1%, while demand deposits rose 9.3% when compared with the previous year (reported April 9, 2021).
- The banking system has been sustaining a liquidity surplus since June 2019 on account of build-up deposits due to higher growth in bank deposits versus the credit disbursement, except for the last two fortnights. RBI's liquidity infusion measures via open market operations (OMO) have further contributed to the liquidity surplus in the banking system. The outstanding (net) liquidity surplus stood at Rs 7.8 lakh crore on April 09, 2022, up from 5.21 lakh crore on March 25, 2022.
- The Credit to Deposit (CD) ratio stood at 71.6%, contracting by 61 bps from the previous fortnight (reported March 25, 2022), however, it expanded by 71 bps y-o-y basis (reported April 9, 2021).
- If we assume credit investments to be at Rs.8.6 lakh crore (as on February 25, 2022, as per the latest data released by RBI), for the fortnight ended April 09, 2022, then the CD ratio would be around 76.7% lower than 77.4% from the previous fortnight (reported date – March 25, 2022) and almost at a similar level of 77.6% from fortnight ended on April 9, 2021.

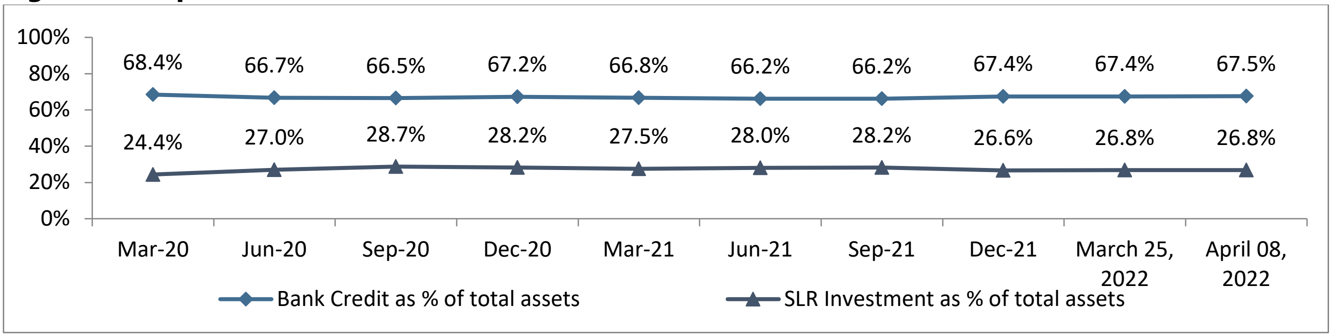
Figure 3: Credit to Deposit (CD Ratio Trend)



Note: The quarter-end data reflect the last fortnight data of that quarter; Source: RBI, CareEdge

Proportion of SLR Investments to Total Assets at Similar Level, Bank Credit to Total Assets Up 7 bps

Figure 4: Proportion of SLR Investment and Bank Credit to Total Assets



Note: The quarter-end data reflect the last fortnight data of that particular quarter; 2) Total assets = Cash in hand + Assets with the Banking System + Investments + Bank Credit; Source: RBI, CARE Ratings Ltd.

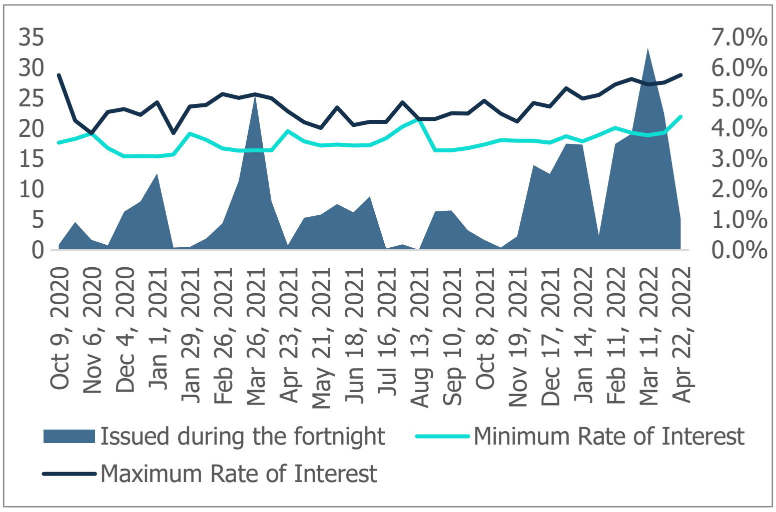
- The share of bank credit to total assets stood at 67.5%, increasing by 7 bps in the fortnight ended April 8, 2022, as compared with the previous fortnight (reported March 25, 2022), and was also higher by 119 bps on a y-o-y basis from the previous fortnight (reported April 9, 2021).
- Considering credit investments to be at Rs.8.6 lakh crore (as of February 25, 2022, as per the latest data released by RBI), bank credit (including credit investments) to total assets would have been around 72.3% for the fortnight ended April 8, 2022, which is almost at a similar level as compared with previous fortnight (reported date March 25, 2022, however up by 57 bps y-o-y from the fortnight ended on April 08, 2021.
- Proportion of SLR investment to total assets was at an almost similar level the in fortnight ended April 8, 2022, compared to the previous fortnight (ended on March 25, 2022). SLR investments stood at Rs.47.6 lakh crore as of April 8, 2022, reporting a 4.6% y-o-y growth and rose marginally by 0.6% from the immediately preceding fortnight ended on March 25, 2022.

O/s CDs Report Significant Rise, O/s CPs decline Marginally

Figure 5: CD Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Mar 27, 2020	173.0	-36.5%
Sep 25, 2020	75.6	-59.8%
Mar 26, 2021	80.1	-53.7%
Sep 10, 2021	67.1	-23.4%
Sep 24, 2021	60.2	-20.3%
Oct 08, 2021	59.2	-20.9%
Nov 19, 2021	55.6	-17.9%
Dec 31, 2021	84.7	13%
Feb 11, 2022	112.6	93.4%
Mar 11, 2022	154.4	168.9%
Apr 8, 2022	202.4	128.3%
Apr 22, 2022	201.4	134.8%

Figure 6: Trend in CD Issuances (Rs'000, crore) and RoI

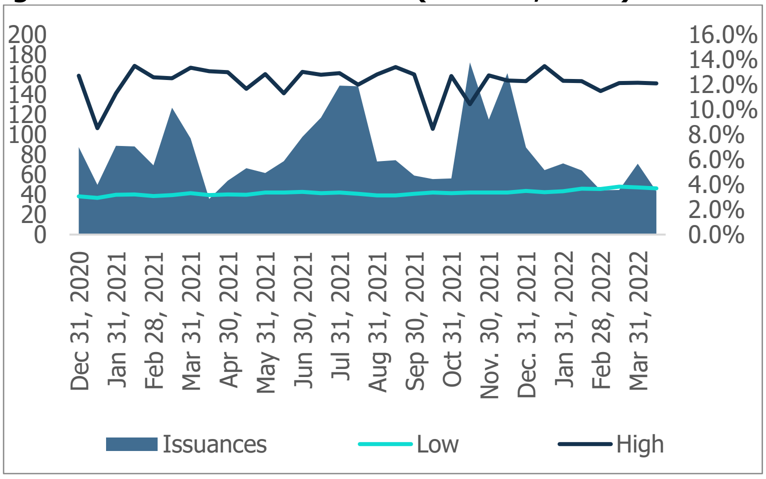


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Figure 7: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Mar 31, 2019	483.1	11.5%
Sep 30, 2019	459.7	-22.7%
Mar 31, 2020	344.5	-39.9%
Sep 30, 2020	362.3	-25.5%
Mar 31, 2021	364.4	5.8%
Jun 30, 2021	376.1	-3.9%
Sep 30, 2021	371.0	2.4%
Nov 30, 2021	388.4	-0.6%
Dec 31, 2021	350.1	-4.1%
Mar 31, 2022	352.3	-3.3%
April 15,2022	351.6	-8.1%

Figure 8: Trend in CP issuances (Rs. '000, crore) and RoI



Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Select RBI Announcements

Announcement	Details
Large Exposures Framework for Non-Banking Financial Company - Upper Layer (NBFC-UL)	• The sum of all the exposure values of an NBFC placed in the UL, to a single counterparty and a group of connected counterparties, must not be higher than 20% and 25%, respectively, of its available eligible capital. • The board may allow additional 5% exposure beyond 20% but at no time higher than 25% of the NBFC-UL's eligible capital base subject to terms and conditions. • An NBFC-UL may exceed the exposure limit by 5% of its Tier I capital for exposure to a single counterparty if the additional exposure is on account of infrastructure 'loan and/ or investment'. • However, the single counterparty limit shall not exceed 25% in any case for NBFC-UL (other than IFC) and 30% for NBFC-UL (IFC).
Loans and Advances – Regulatory Restrictions – NBFCs	Guidelines applicable to NBFC - Middle Layer (ML) and NBFC - UL • Unless sanctioned by the Board, NBFCs shall not grant loans and advances aggregating Rs.5 crore and above to o Directors or their relatives o Any firm in which any of their directors or their relatives is interested as a major shareholder, director, manager, employee, or guarantor. • Loans sanctioned to senior officers shall be reported to the Board. • Such a facility shall be sanctioned by the next higher sanctioning authority. Guidelines applicable to NBFC - Base Layer (BL) - Loans to Directors, Senior

	Officers and relatives of Directors - NBFCs shall have a Board approved policy on the grant of loans. • These guidelines shall be effective from October 1, 2022.
Disclosures in Financial Statements- Notes to Accounts of NBFCs	Disclosures in Financial Statements- Notes to Accounts of NBFCs • NBFCs are required to make disclosures in their financial statements in accordance with existing prudential guidelines • These disclosures are in addition to and not in substitution for the requirements specified under other laws. More comprehensive disclosures than the minimum required are encouraged. • It applies to all NBFCs and guidelines shall be effective for the year ending March 31, 2023, and onwards.
Scale Based Regulation (SBR) for NBFCs	Capital requirements for NBFC-UL: • NBFC-UL shall maintain Common Equity Tier 1 (CET1) capital of at least 9% of Risk-Weighted Assets.

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91-22-6754 3582 / +91-810 800 7676
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

Connect :

Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | New Delhi | Pune

About:

CareEdge (earlier known as CARE Group) is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics capability and detailed research methods. CareEdge Ratings is one of the leading credit rating agencies in India. It has an impressive track record of rating companies for almost three decades and has played a pivotal role in developing the corporate debt market in India. CareEdge provides near real time research on all domestic and global economic developments. The wholly owned subsidiaries include CareEdge Advisory & Research arm focused on providing advisory and consultancy services and CareEdge Risk solutions a platform that provides risk management solutions