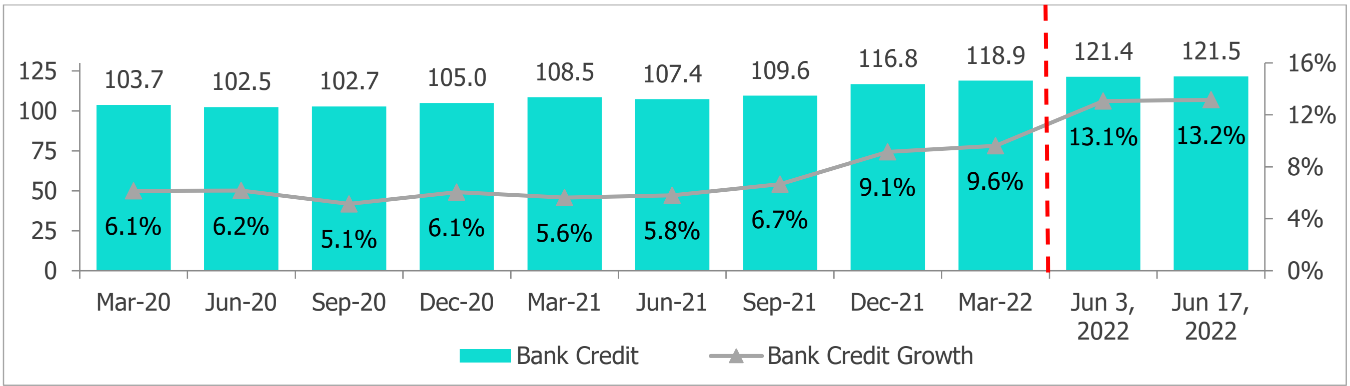
Banking Credit and Deposits: Credit Growth Continues in Double Digits

July 04, 2022 | BFSI Research

Bank Credit Sees Accelerated Double-Digit Growth – Shows Consistent Improvement

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

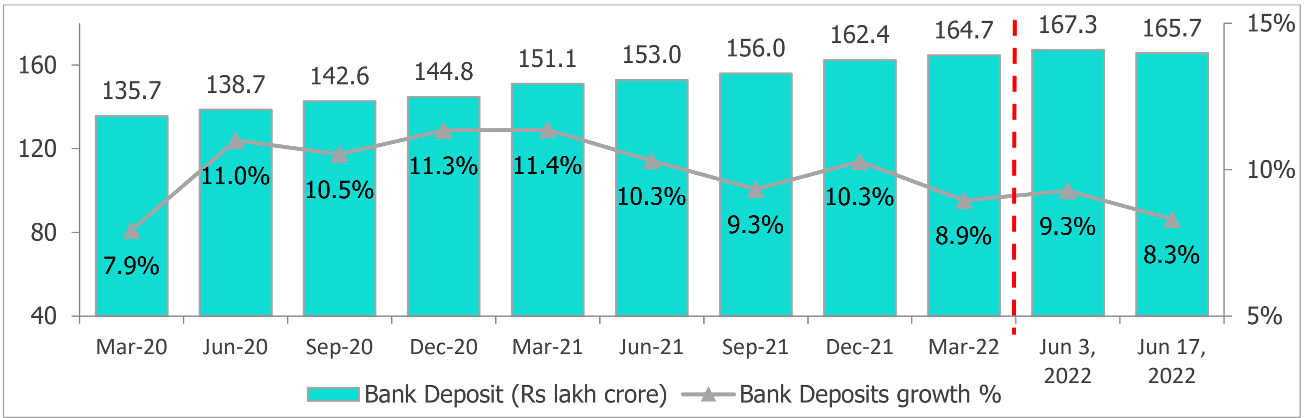
- Bank credit witnessed a strong growth of 13.2% year-on-year (y-o-y), expanding by a significant 728 basis points (bps), for the fortnight ended June 17, 2022, up from 5.9% in the year-ago period (reported June 18, 2021). In absolute terms, credit outstanding stood at Rs.121.5 lakh crore as of June 17, 2022, growing by Rs.14.1 lakh crore over the last 12 months. The growth was driven by a low base effect, small-ticket loans, an increase in working capital loans due to higher inflation and shift to bank borrowings on account of rising bond yields. Sequentially, bank credit also rose marginally by 0.1% from the immediate fortnight (June 03, 22).

- Credit outstanding of the retail segment saw continued double-digit growth at 16.4% y-o-y in May 2022 due to growth in other personal loans, credit card receivables and consumer durable loans driven by improvement in economic activities and the job market. The credit outstanding of the industry segment registered a growth of 8.7% y-o-y in May 2022 from a drop of 0.2% in the year-ago period. The rise was on account of robust growth in the micro and small (33.0%), and medium (49.3%) enterprises segments were driven by ECLGS and digitisation. Credit for the services sector also accelerated by 12.9% y-o-y in May 2022 from a growth of 3.4% in the year-ago period due to a rise in NBFCs, trade and shipping segments.

- CPI inflation came in at 7.04% in May 2022, cooled from the eight-year high in April 2022 due to the base effect and cheaper food prices. It was the fifth straight month of headline retail inflation being above the RBI's medium-term target of 4% (+/-2). High inflation has been pushing interest rates upwards. Hence, the two-Year G-Sec yield rose from 4.53% as of March 31, 2021, to 6.37% as of May 31, 2022, and 6.53% as on June 30, 2022. To manage the situation, RBI increased the repo rate twice since May 04, 2022 (an aggregate increase of 90 bps) to 4.9%. Given the situation, many banks have also raised their marginal cost of lending rate (MCLR) and deposit rates. The rise in the repo rate will increase the cost of lending and borrowing.

- The gross banking credit offtake continued its growth in June 2022 and reached 13.2% y-o-y. After witnessing modest 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, rising commodity prices, implementation of PLI schemes 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. On the other hand, rising rates could offset this growth to some extent by curbing the demand for credit. The Retail loan segment is expected to do well as compared with the industry and service segments.

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



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

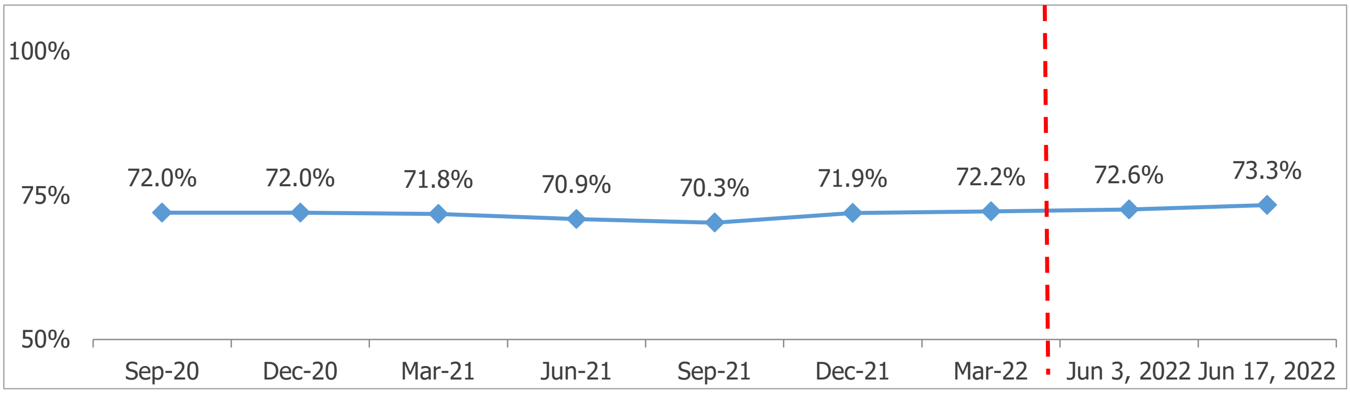
- Deposits stood at Rs.165.7 lakh crore for the fortnight ended June 17, 2022, registering a growth of 8.3% y-o-y. Meanwhile, in absolute terms, bank deposits have increased by Rs.12.7 lakh crore over the last twelve months. However, it dropped by 1.0% from the immediately preceding fortnight (reported June 03, 2022). The time deposits grew by 11.0% y-o-y, while demand deposits rose by 8.0% in the reporting fortnight when compared with 9.1% and 20.8% y-o-y, respectively, reported in the previous fortnight June 18, 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 couple of months. The outstanding (net) liquidity surplus stood at Rs.3.3 lakh crore on June 17, 2022, down from Rs.4.3 lakh crore on June 03, 2022, as RBI is reducing available liquidity in the system to control inflation.

- The Credit to Deposit (CD) ratio stood at 73.3%, expanding by 314 bps y-o-y from the previous fortnight (reported June 03, 2022), and 76 bps basis (reported June 03, 2021) as the credit base improved, overall, the CD ratio has been increasing since October 2021, which is encouraging for the banks.

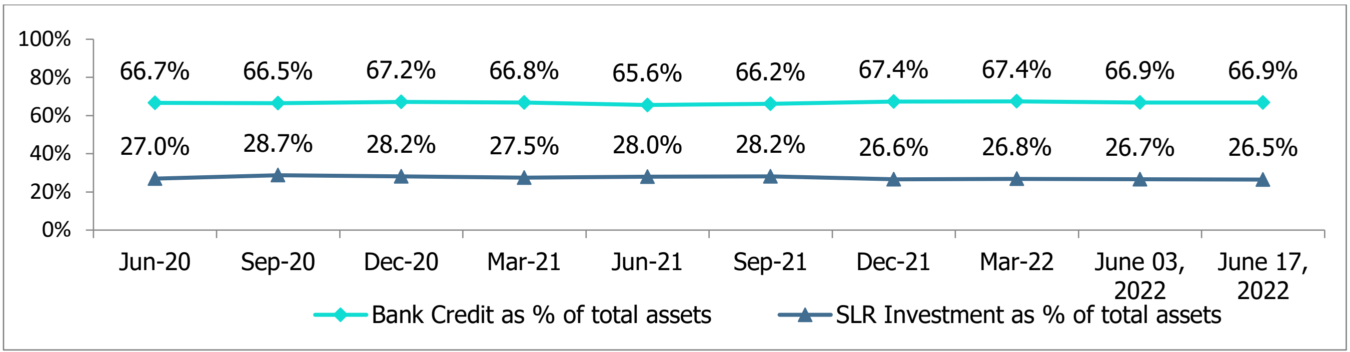
- If we assume credit investments to be at Rs.8.6 lakh crore (as of April 22, 2022, as per the latest data released by RBI) for the fortnight ended June 17, 2022, then the CD ratio would be around 78.5% higher than the 77.7% in the previous fortnight (reported June 03, 2022) and 76.5% in the fortnight ended on June 18, 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 Falls; Bank Credit to Total Assets Rises a Tad

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, CareEdge

- The share of bank credit to total assets stood at 66.9%, expanding by 5 bps in the fortnight ended June 17, 2022, as compared with the previous fortnight (reported June 03, 2022) due to higher growth credit growth. It was also higher by 130 bps on a y-o-y basis (reported June 18, 2021) due to higher credit growth.

- Considering credit investments to be at Rs.8.6 lakh crore (as of April 22, 2022, as per the latest data released by RBI), bank credit (including credit investments) to total assets would have been around 71.7% for the fortnight ended June 17, 2022, expanding by 5 bps as compared with previous fortnight (reported June 03, 2022). However, it was up by 84 bps y-o-y from the fortnight ended on June 18, 2021, due to faster growth in credit as compared to total assets.

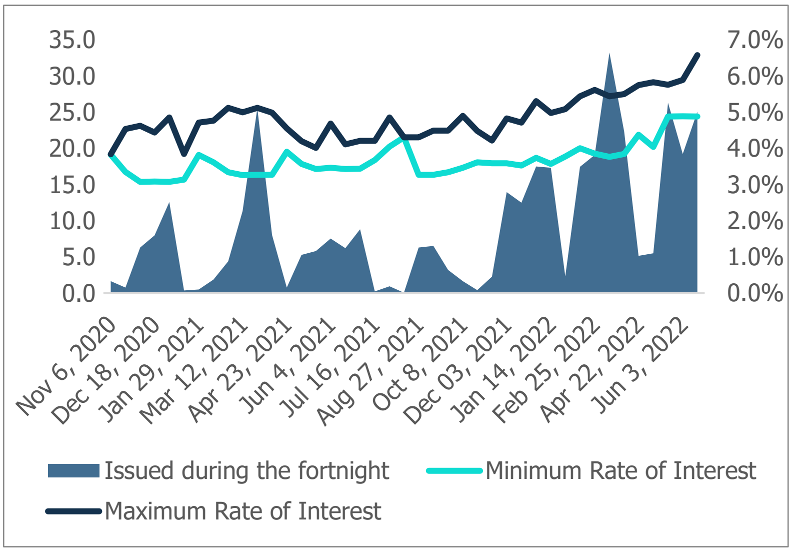
- Proportion of SLR investment to total assets dropped by 20 bps in the fortnight ended June 17, 2022, compared to the previous fortnight (reported June 03, 2022) due to a drop in SLR investments. The SLR investments stood at Rs.48.1 lakh crore as of May 20, 2022, reporting a 4.9% y-o-y growth and marginally down by 0.8% from the fortnight ended on June 03, 2022.

O/s CDs Report Significant Rise, O/s CPs Fall

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 24, 2021	60.2	-20.3%
Oct 08, 2021	59.2	-20.9%
Dec 31, 2021	84.7	13%
Feb 11, 2022	112.6	93.4%
Mar 11, 2022	154.4	168.9%
Apr 22, 2022	201.4	134.8%
May 20, 2022	193.0	113.7%
Jun 03, 2022	190.0	142.6%
Jun 17, 2022	194.4	304.1%

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

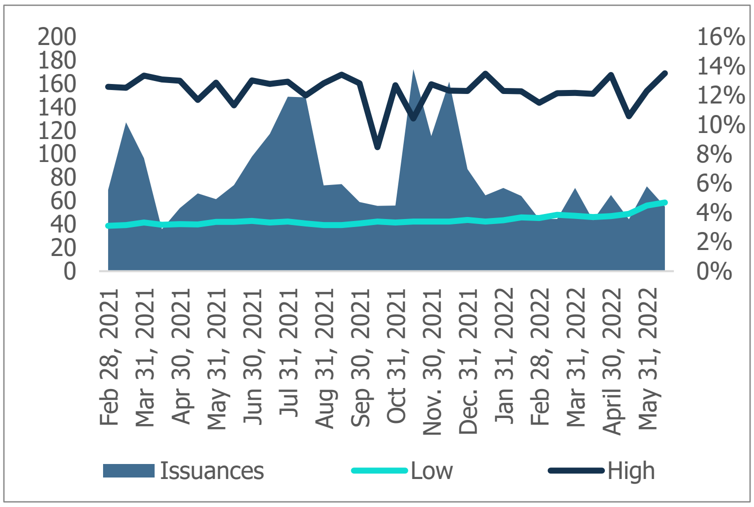


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

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%
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%
May 31, 2022	384.5	-1.1%
Jun 15, 2022	389.3	-3.8%

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
Provisioning Requirement for Investment in Security Receipts (SRs)	• In respect of the valuation of investments in SRs outstanding on the date of issuance of the Master Direction: • The difference between the carrying value of such SRs and the valuation arrived at as on the next financial reporting date after the date of issuance of Master Direction, in terms of clause 77 of the Master Direction, may be provided over a five-year period starting with the financial year ending March 31, 2022 - i.e., from FY2021-22 till FY2025-26. • All lending institutions are required to put in place a board-approved plan to ensure that the provisioning made in each of the financial years in compliance with clause 1(a) above is not less than one-fifth of the required provisioning on this count • The valuation of investments in SRs made after the issuance of the Master Direction shall be strictly in terms of the provisions of the Master Direction
Bank finance to Government-owned entities	• Banks are advised to carry out a review and place before their Boards, a comprehensive report on the status of compliance with the instructions within three months from the date of this circular.

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 I CIN: L67190MH1993PLC071691

Connect :

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

Disclaimer: