Update on Banking Credit and Deposits

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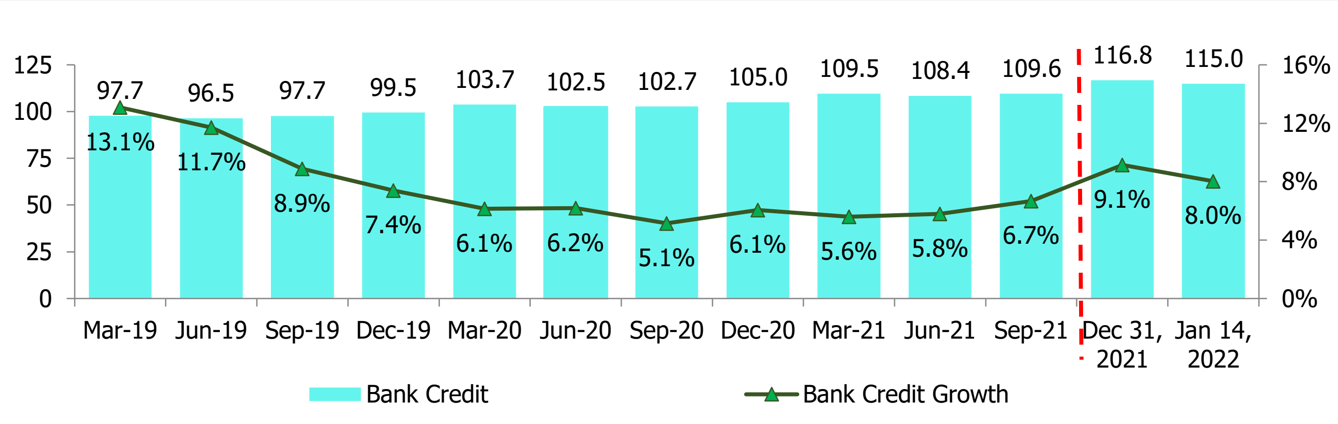
Credit offtake and Deposit remain elevated despite a contraction in the first fortnight post quarter end

Figure 1: Bank Credit Growth Trend (y-o-y growth %, Lakh-crore)



Note: The quarter-end data reflect, the last fortnight data of that particular quarter; Source: RBI, CARE Ratings Ltd.

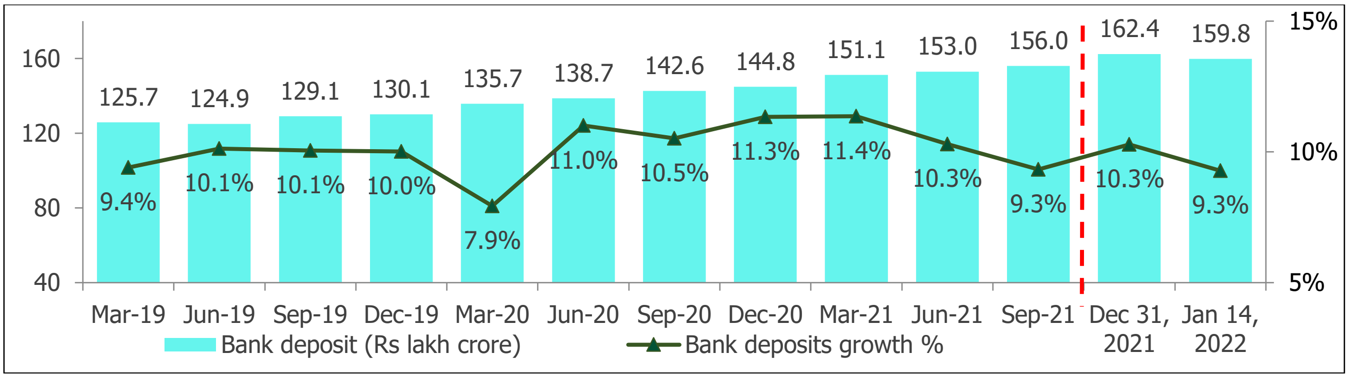
- Bank credit growth rose by 8.0% y-o-y and expanded by 167 bps y-o-y (year-on-year) for the fortnight ended January 14, 2022, up from 6.4% in the year ago period (fortnight ending January 15, 2021) driven by uptick in business activities. Sequentially, bank credit contacted by 1.6% from the previous fortnight (ending on December 31, 2021). The fall in the credit and deposit can be attributed to the marginal contraction of bank balance sheets post the quarter-end as ultra-short deposits and advances are reversed. In absolute terms, credit outstanding stood at Rs.115.0 lakh crore as on January 14, 2022, increasing by Rs.8.6 lakh crore over the last twelve months, however contracting by Rs.1.9 lakh crore as compared with the previous fortnight (ending on December 31, 2021).

- The credit growth had been muted from February 2020 to July 2021 due to Covid-19 outbreak and deleveraging of balance sheet by large corporates as large corporates were hesitant to undertake fresh capex due to growth uncertainties and lower utilization. Further, in the past two three years, credit growth was also depressed due to resolution of high value NPAs which pushed down the headline numbers. With the high value corporate NPAs resolution now seemingly under control, the pressure on corporate headline numbers now look better.

- The banking sector is optimistic about corporate loan growth as business activities are picking up and corporates are showing interest for re-leveraging. Credit growth has been buttressed by retail and MSME loans. The gross banking credit expanded 9.2% y-o-y in December 2021 on account of growth in all segments (retail, agriculture & allied, industry and services). Credit outstanding of the retail segment rose by 14.3% y-o-y in December 2021 due to growth in housing, vehicle, and other personal loans driven by uptick in economic activities, festive seasons, low interest rates and higher discounts. The credit outstanding of the industry segment registered a growth of 7.6% y-o-y in December 2021 from a marginal growth of 0.4% in a year ago mainly on account of robust (36.6%) growth in the micro, small and medium enterprise (MSME) segment driven by ECLGS and reclassification. CPI too is trending up which is likely to support GDP growth, hence pushing up credit offtake.

- The outlook for bank credit growth is expected to be in the range of 8.0% to 9.0% for FY22 with a low base effect, economic expansion, rise in government and private capex (specially, capex for renewables and production linked incentive (PLI) schemes, extended ECLGS support, and retail credit push. The medium-term prospects look promising with diminished corporate stress and increased provisioning levels across banks. The Retail loan segment is expected to do well as compared with industry and service segments. The third wave of Covid-19 (omicron) is not expected to be as severe as the first two waves on the population and to the industry as well. However, subsequent variants if severe would lead to lockdowns and can cause slowdown in economy.

Figure 2: Growth of Bank Deposits (y-o-y growth %, Lakh Crore)



Note: The quarter-end data reflect, the last fortnight data of that particular quarter; Source: RBI, CARE Ratings Ltd.

- Deposits stood at Rs.159.8 lakh crore for the fortnight ended January 14, 2022, reporting a growth of 9.3% y-o-y, however the growth rate has contracted by 213 bps (y-o-y). It reported a degrowth of 100-bps when compared with the previous fortnight (December 31, 2021). The deposit growth has ranged between 9.3-11.6% from April 2021 to January 2022. Meanwhile, in absolute terms, the bank deposits have increased by Rs.13.58 lakh crore over the last twelve months, whereas it contacted by Rs.2.6 lakh crore from the previous fortnight (December 31, 2021). Time deposit grew by 8.5%, while demand deposit grew by 16.2% when compared with the previous fortnight (ending on January 15, 2021).

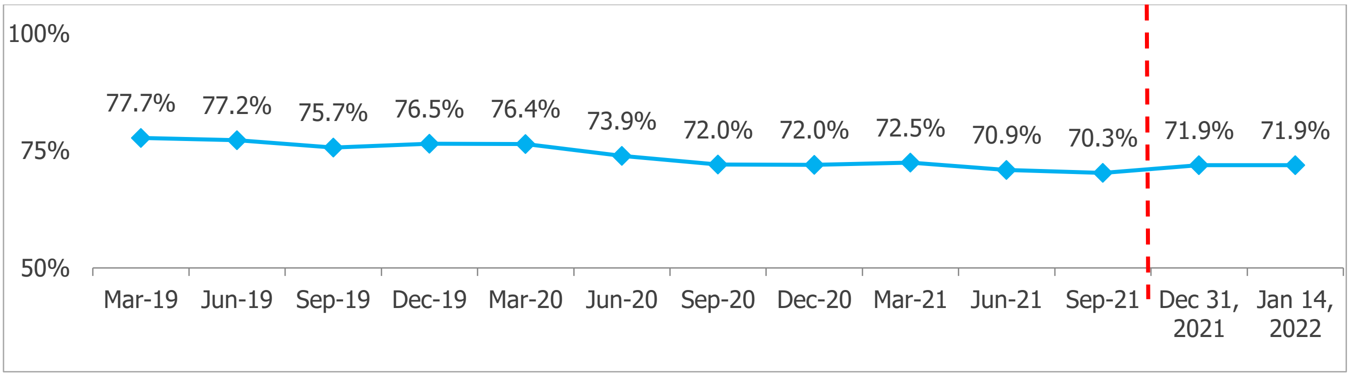
- The banking system liquidity surplus narrowed but remained sizeable with the net outstanding surplus averaging around Rs.6.6 lakh crore (Rs.7.6 lakh crore in the preceding period). The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth. However, as can been seen, the surplus has comparatively narrowed which can be attributed to the outflows towards statutory dues by businesses as well as the likely credit outflows from the banking system.

- The Credit to Deposit (CD) ratio stood at 71.9% same as last fortnight (ending December 31, 2021). However, CD ratio declined by 83-bps as compared with the previous year (72.8%, fortnight ending January 15, 2021) due credit growth underperformance as compared to the deposit growth.

- If we assume credit investments to be at Rs.8.8 lakh crores (as on November 19, 2021, as per latest data released by RBI), for the fortnight ended January 14, 2022, then the CD ratio would be around 77.4% (similar to the June 2019 levels). Considering the net addition in credit outstanding and investments over the last 12 months to be at Rs.9.2 lakh crore over additions in deposits (Rs.13.6 lakh crore), the proportion would have been at around 67.5% which is higher than the level of 44.7% witnessed in the corresponding fortnight of the previous year (January 15, 2021).

- To capture the growth, several banks have offered loans at record low-interest rate and many banks have reduced their interest rate to push credit over the last couple of quarters. This has made banks competitive against capital markets, especially in mid-tier corporate and infrastructure sectors. As the credit growth is showing some signs of improvements, hence many banks, namely SBI, HDFC and Kotak Bank and Bank of Baroda have increased interest rate on fixed deposits. In fact, it is the second time for the HDFC Bank wherein it has increased FD rates in the past one month. Also, Axis Bank recently increased its fixed deposit rates.

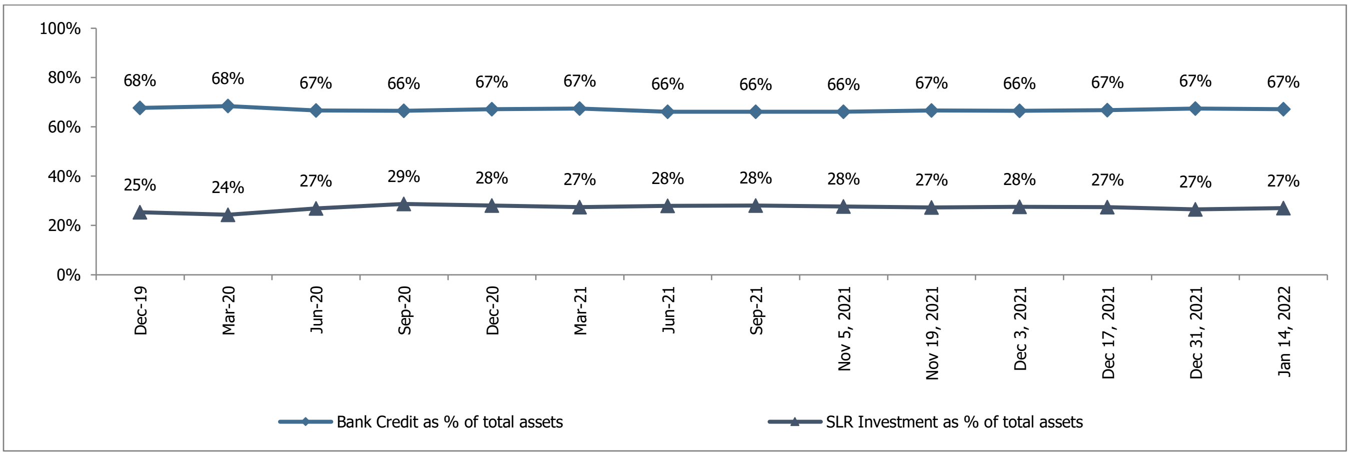
Figure 3: Credit to Deposit (CD) ratio trend



Note: The quarter-end data reflect the last fortnight data of that quarter; Source: RBI, CARE Ratings Ltd.

Proportion of SLR investments to total assets increases 43-bps, while bank credit to total assets decreases by 27-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 67.1%, decreasing by 27-bps in the fortnight ended January 14, 2022, as compared with the previous fortnight (ending on December 31, 2021) as credit receded in the first fortnight of the new year after a strong quarter end performance.

- Considering credit investments to be at Rs.8.8 lakh crore (as on November 19, 2021), bank credit (including credit investments) to total assets would have been around 72.3% for the fortnight ended January 14, 2022.

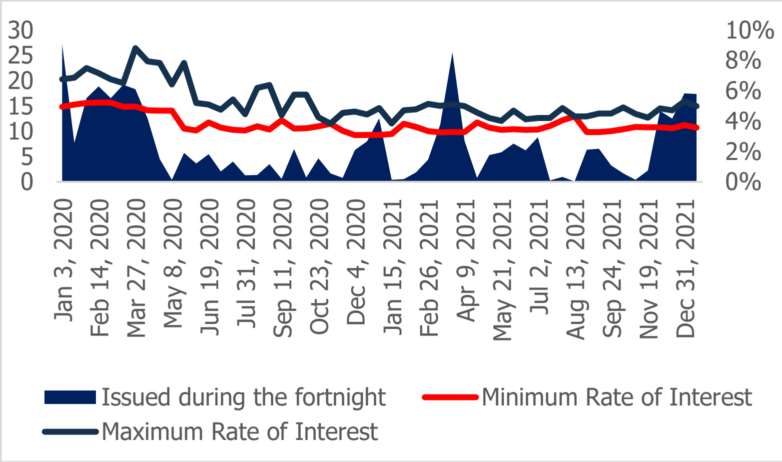
- Proportion of SLR investment to total assets has increased by 43-bps in fortnight ended January 14, 2022, compared to the previous fortnight (ended on December 31, 2021). SLR investments grew by 4.6% y-o-y (lower rate due to base effect) in fortnight ended on January 14, 2022, as compared with a growth of 19.1% a year ago, and it was almost flat (marginal growth of 39-bps) as compared to the previous fortnight (ended on December 31, 2021).

O/s CDs report significant rise while O/s CPs marginally declines

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 03, 2021	63.4	-8.7%
Dec 17, 2021	73.3	6.6%
Dec 31, 2021	84.7	13%
Jan 14, 2022	101.2	48.8%

Figure 6: Trend in CD issuances (Rs'000, Cr) and RoI



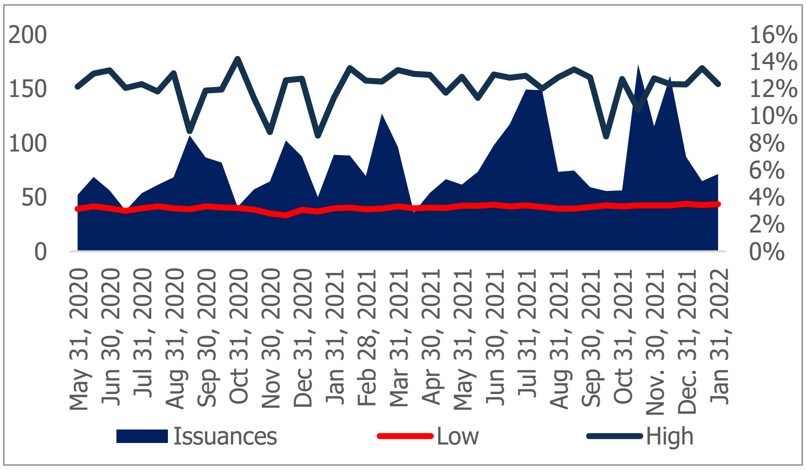
Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

- Outstanding Certificate of Deposits crossed Rs.1 lakh crore during the fortnight ended January 14, 2022, rising nearly 48.8% compared to the corresponding fortnight of previous year (ended on January 15, 2021).

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%
Jan. 15, 2022	386.2	0.0%
Jan 31, 2022	395.9	-3.6%

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



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

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