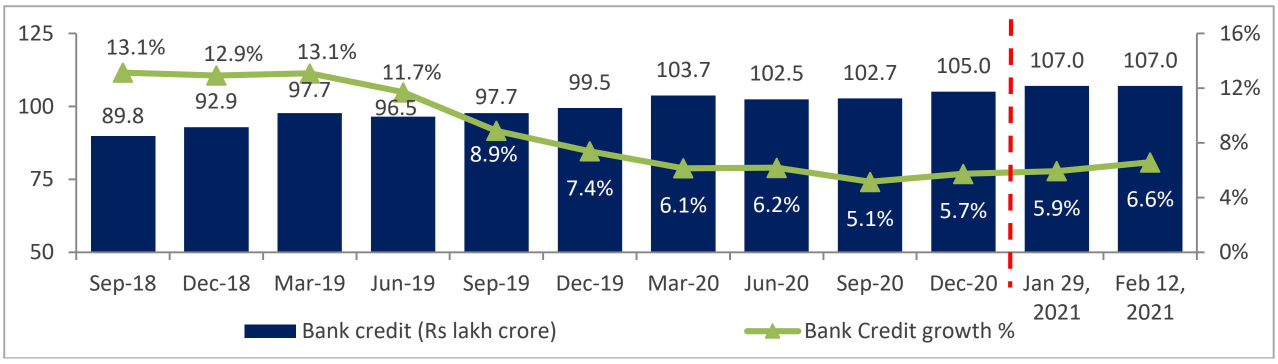
CARE Ratings
Professional Risk Opinion

CARE Ratings'
Banking Review
March 05, 2021 | BFSI Research

Growth rate in deposits and credit increased over last month

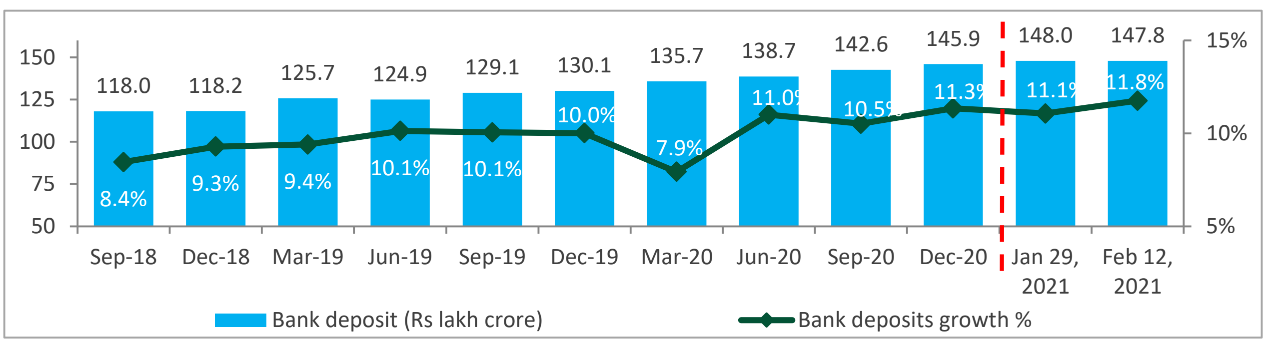
Figure 1: Growth of Bank Credit (y-o-y growth %)



Note: The quarter end data reflects the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

- The bank credit growth has increased and returned to the levels observed in the early months of the pandemic (the bank credit growth ranged between 6.5% to 7.2% during April 2020). The bank credit growth rose as compared with previous fortnight ended January 29, 2021 which can be ascribed to an increase in retail loans further led by falling weighted average lending rates (8.2% in January 2021 vs. 9.5% in January 2020). Moreover, on y-o-y basis, the credit growth remained marginally higher in comparison to the same period last year (6.4% growth during fortnight ended February 14, 2020). However, slower to declining growth in large industries, housing sector and NBFCs which accounts for around 27.0%, 14.0% and 7.0% respectively, of the gross bank credit restricted the increase in bank credit growth during the period under review.

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



Note: The quarter end data reflects the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

- Deposit growth increased during the fortnight ended February 12, 2021 compared with 11.1% growth registered during the fortnight ended January 29, 2021 and also as compared with previous year (9.1% growth during fortnight ended February 14, 2020). Additionally, the outflows in debt mutual fund and equity mutual fund (refer report "Mutual Funds Monthly Monitor: January 2021") primarily due to profit booking by investors could support the rise in bank deposits.
- As on February 12, 2021 the liquidity surplus in the banking system stood at Rs.6.2 lakh crores. The liquidity surplus can be ascribed to deposit growth outpacing credit growth persistently. However, government borrowings (Central: Rs.26,000 crores and States: Rs.37,827 crores) limited the banking system liquidity surplus during the fortnight. Furthermore, banking system liquidity is expected to remain in a surplus position aided by sustained growth in bank deposits as against slower growth in the bank credit.
- As given in figure 3, time deposits account for 89.0% of aggregate deposits (89.7% share as on February 14, 2020) grew at a slower pace compared to demand deposits which account for the balance 11.0% (10.3% share as on February 14, 2020).

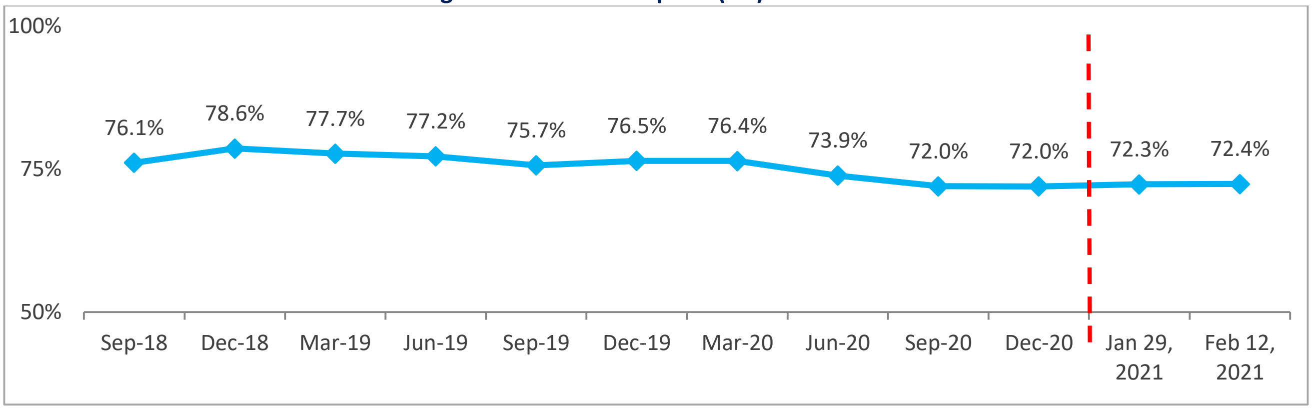
Figure 3: Demand Deposits and Time Deposits growth trend

Rs in lakh crore	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Jan 29, 2021	Feb 12, 2021
Demand Deposits	13.1	11.9	15.1	12.9	14.1	13.5	16.2	14.5	15.8	15.7	16.9	16.3
% growth y-o-y	5.9%	4.9%	10.3%	9.6%	7.6%	13.8%	7.0%	12.7%	11.9%	15.7%	18.3%	19.7%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	129.2	131.1	131.5
% growth y-o-y	8.4%	9.7%	10.0%	10.1%	9.6%	9.7%	8.1%	10.8%	10.3%	10.8%	10.2%	10.8%

Note: The quarter end data reflects the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

- The Credit to Deposit (CD) ratio of 72.4%, largely stood at similar levels as compared to last fortnight but remained low compared to March 2020 as well as last year's level of ~76.0% as on February 14, 2020, owing to a faster rise in deposits and slower growth in credit. On the other hand, if we assume credit investments (includes regular credit investments and investments due to TLTROs, PCGS, etc.) to be at Rs.8.2 lakh crore (at December 2020 level as per latest data released by RBI) for the fortnight ended February 12, 2021, then the CD ratio would be ~78%. On the other hand, if we assume the CD ratio to be constant at 76.0% (which was last observed in Mar-20) for the fortnight ended February 12, 2021, the incremental lending (considering only bank credit) would have been higher by approximately Rs.5.3 lakh crores.

Figure 4: Credit to Deposit (CD) ratio trend

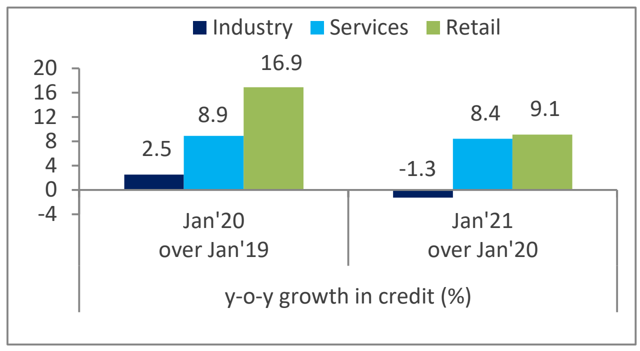


Note: The quarter end data reflects the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

Bank credit growth has been mainly led by increase in retail loans

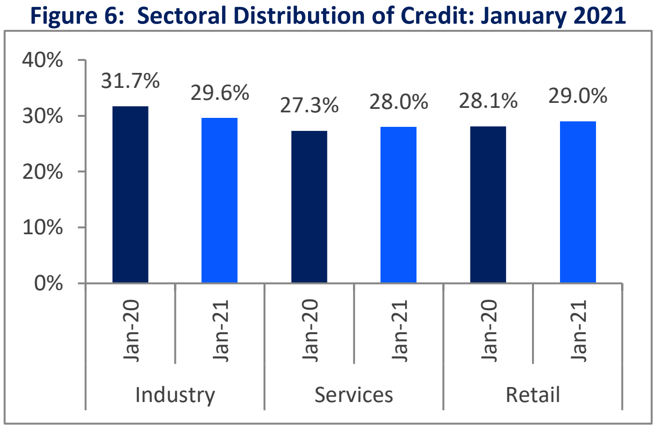
- The retail and agriculture & allied segment have driven overall credit growth in January 2021 growing by 6.7% and 9.5% respectively. Retail segment accounted for 29.0% share of the total credit during the period as compared to 28.1% a year ago.
- Services segment outstanding credit grew by 8.4% while the industrial segment registered de-growth of 1.3% during the same period.

Figure 5: Trend in sectoral credit growth (%)



Source: RBI, CARE Ratings (refer report '*Bank Credit Profile: January 2021 – Bank credit growth remains subdued'*)

Figure 6: Sectoral Distribution of Credit: January 2021



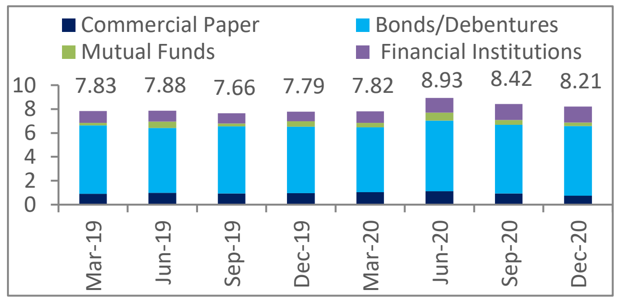
Note: The remaining percentage share in both Jan-20 and Jan-21 accounts for 'Food Credit' and 'Agriculture & Allied Activities'
Source: RBI, CARE Ratings (refer report *'Bank Credit Profile: January 2021 – Bank credit growth remains subdued'*)

- The share of industrial segment continues to be the highest in the total outstanding credit followed by retail and services segment.
- Large industries account for 81.9% share (83.0% share in January 2020) in the total outstanding credit to industries and this segment reported a reduction of 2.5% in January 2021 vs. a growth of 2.8% in January 2020.
- Micro, small & medium (MSME) industries grew by 4.9% in January 2021 (which only offset the fall in large segments marginally) as compared with a growth of 1.0% in January 2020. This was supported by ECLGS disbursements. Within MSME, micro & small industries registered a growth of 0.9%, while medium industries registered a growth of 19.1%. Large industries registered a de growth, resultantly the overall industry registered a negative growth.
- Though infrastructure has the maximum share of 35.8% in the bank credit outstanding to industries, it registered a de-growth of 3.9% as of January 2021 as compared with a growth of 5.1% a year ago.
- Trade and Tourism, Hotels & Restaurant segment registered a growth of 15.7% and 8.9% respectively (4.8% and 17.4% in January 2020). Professional services and computer software segments registered a de-growth of 25.0% and 0.2%, respectively, during the month. Of total nine segments, seven segments registered growth.
- NBFCs which form the largest part in the total credit outstanding to the services sector (33.6% share in January 2021) has registered a slower growth of 6.6% as compared with 35.8% in January 2020 and 8.4% in December 2020. Trade and commercial real estate segment has a share of 22.8% and 8.9% in the total credit outstanding to the services sector.
- Housing loans continues to remain the single-largest segment at 52.0% share of lending in the outstanding credit to retail/personal loan portfolio. However, the growth moderated to 7.7% partly due to end of festive season offers and increase in stamp duty from January 1, 2021 (in Maharashtra).

Bank credit investments increased from a year-ago level

- SCBs credit investments increased by 5.4% in December, 2020 compared with the year-ago period aided by LTRO, TLTRO, PCG schemes of RBI/Government of India.
- However, SCBs credit investments stood at 8.0% of the total bank credit, as of December 2020 (similar level observed in the previous year).
- Bonds and debentures accounted for the highest share in SCBs credit investments at 71.1% in December 2020 (vs. 71.8% share in December 2019), followed by financial institutions and CPs at 16.1% and 9.2%, respectively (10.1% and 12.2% respectively in December 2019) and mutual funds at 3.6% (5.9% in the year-ago period).
- Within bonds and debentures, private corporate bonds and debentures accounted for 54.0% share of bonds/debentures; the public sector accounted for 22.0% and others account for the balance 24.0%.
- In FY21 (April – January), the total corporate bond issuances amounted to Rs.6.17 lakh crores, 16% higher than Rs.5.34 lakh crores in the same period last year. Little over 40% of the issuances during the current fiscal have been raised by public sector undertakings (PFC, REC, HUDCO, NABARD, NHB, NTPC, NHAI, EXIM, IRFC among others). (Refer report *'Debt Market Review for January 2021'*)

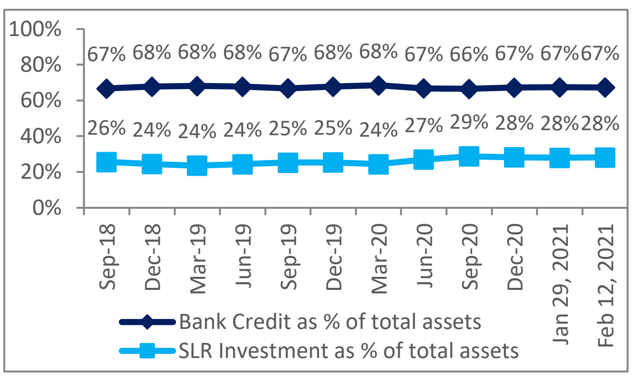
Figure 7: SCBs Credit Investment (Rs in lakh crores)



Source: RBI

Proportion of SLR investment and bank credit to total assets remained stable

Figure 8: Proportion of SLR Investment and Bank Credit to Total Assets



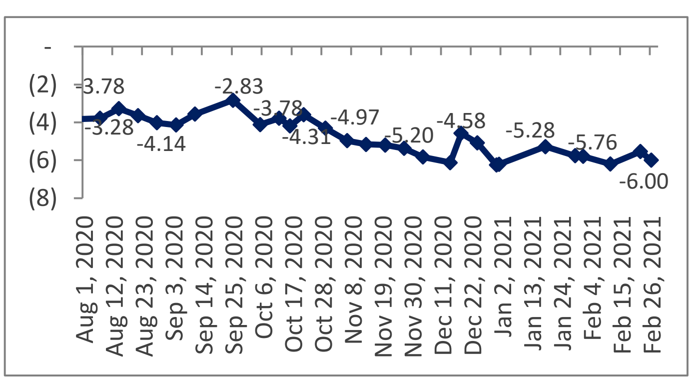
Note: The quarter end data reflects the last fortnight data of that particular quarter; 2) Total assets = Cash in hand + Assets with the Banking System + Investments + Bank Credit; Source: RBI, CARE Ratings

- The share of bank credit to total assets has stood stable at 67% for the last two fortnights but has declined (by 1%) as compared to Mar-20.
- Considering credit investments to be at Rs.8.2 lakh crore (December 2020 level), bank credit (including credit investments) to total assets would have been ~72% for the fortnight ended February 12, 2021.
- Proportion of SLR investment to total assets stood stable at 28% during last two fortnights. In absolute terms the growth of SLR investments moderated to 17.9% YoY as compared with a growth of 18.7% in the previous fortnight (13.0% YoY growth a year ago). Moreover, RBI had previously allowed banks to hold fresh acquisitions of SLR investments under HTM up to an overall limit of 22% up from 19.5% earlier of banks' net demand and time liabilities till March 2022, which has been further extended to March 31, 2023 (as per RBI's notification dated February 05, 2021). The HTM limits would be restored from 22% to 19.5% in a phased manner starting from the quarter ending June 30, 2023.

Liquidity in the banking system continued to remain in surplus position

- The outstanding liquidity in the banking system as of February 26, 2021 aggregated Rs.6.00 lakh crore, higher than a month ago (January 29, 2021) level of Rs. 5.76 lakh crore.
- Government borrowings during February 2021 (Central: Rs.0.54 lakh crore and states: Rs.0.62 lakh crore) limited the banking system liquidity surplus.
- Also, the notable widening of liquidity surplus can be ascribed to deposit growth outpacing credit growth persistently.
- As mentioned above, the liquidity surplus is approximate to reduction in Credit Deposit ratio, indicating that the liquidity largely arises out of the credit slowdown.

Figure 9: Net repo outstanding transactions (Rs lakh crore)



Net Repo Outstanding Transactions = Total Repo +MSF (Marginal Standing Facility) + SLF (Standing Liquidity Facility) – Total Reverse Repo; refer report ' Weekly Liquidity Report: February 8-12, 2021', 'Weekly Liquidity Report: February 15-18, 2021', and ' Weekly Liquidity Report: February 22 - 26, 2021'; Source: RBI

Yields of G-secs increased while corporate bonds declined in secondary market

- As given in *'Debt Market Review for January 2021'*; weighted average yield of corporate bond issuances across all rating categories and maturities declined by 34 basis points in January 2021 to 6.29%, which is the lowest level during the current financial year.

Figure 10: Issuer-wise corporate bond yields in the primary markets (in %)

AAA rated	AIFs	HFCs	NBFCs	Others*
Sep-19	7.57	7.35	8.19	7.75
Dec-19	7.74	7.36	8.34	6.72
Mar-20	7.30	7.70	7.57	7.62
Jun-20	6.86	6.62	7.03	6.95
Sep-20	6.86	6.61	7.99	6.84
Oct-20	6.39	6.93	6.85	6.79
Nov-20	6.75	5.91	7.66	7.34
Dec-20	6.67	4.95	7.02	7.86
Jan-21	5.66	6.69	7.51	7.59

Note: *Others include banks and manufacturing companies.
Source: Prime Database; CARE Ratings' Calculation

- The cost of issuances for key segments, i.e. All India Financial Institutions (AIFs), Housing Finance Companies (HFCs), Non-Banking Financial companies (NBFCs) and Non-NBFCs in the AAA rating category and the consequent changes in the yields shows mixed picture.

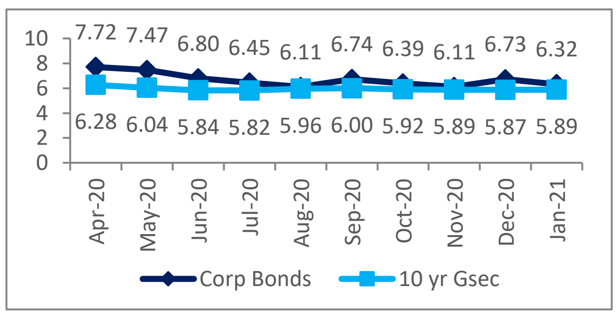
- When compared with December 2020, the weighted average yields of AIFs fell by 101 bps to 5.66% in January 2021. The cost of borrowings by AAA rated HFCs rose to a 3-month high of 6.69% during the month, which is 1.7% higher than December 2020. NBFCs too have recorded an increase in the cost of borrowings by almost 50 bps during January 2021 compared with the previous month.

- As can be seen in Figure 11, the secondary market yields of corporate debt securities declined while that of the 10-year benchmark central government securities and short-term corporate debt securities rose in January 2021 from that in December 2020.

- The average yield of the 10-year benchmark GSec rose by 2 bps to 5.89% in January 2021 from a month ago. Domestic as well as global factors influenced yield movement during the month. The RBI's resumption of normal liquidity operations from mid-January, after a gap of ten months, drained some of the liquidity surplus from the banking system and pushed up sovereign bond yields. The massive liquidity surplus in the banking system has been supporting sovereign bond yields despite the huge increase in supply of government securities in the current financial year. At the same time, the RBI's continued OMO purchases and the lower reading of retail inflation in December 2020 provided some comfort and limited the rise in yields.

- Corporate bond yields (weighted average yields across all rating categories and maturities) at 6.32% was 41 bps lower than that in the preceding month wherein yields had surged to six-month highs. The decline in the yields of corporate debt securities can be attributed to the demand for these securities from banks and mutual funds aided by the liquidity surplus in the banking system.

Figure 11: Secondary Market Yields: Gsecs and Corporate Bonds (in %)



Source: FBIL, RBI, FIMMDA and CARE Ratings calculations. Corporate Bonds yields are the weighted average yields across rating categories

Corporate bond spreads moderated in January 2021

Figure 12: Corporate Bond Spreads over GSec: 10-year maturity

Month end (%)	Gsec yield	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
28-Jun-19	6.88	1.25	1.56	1.84	2.21	2.91	3.91	4.21	5.21	5.46	5.96
30-Sep-19	6.70	1.05	1.39	1.69	2.02	3.02	3.72	4.02	5.02	5.27	5.77
31-Dec-19	6.56	1.01	1.31	1.56	1.92	3.32	3.62	4.42	4.92	5.17	5.67
31-Mar-20	6.14	0.81	1.13	1.53	1.73	2.73	3.23	3.73	3.98	4.23	4.48
30-Jun-20	5.89	0.86	1.38	1.81	2.20	3.20	3.70	4.20	4.45	4.70	4.95
30-Sep-20	6.02	0.75	1.24	1.52	1.97	3.47	3.72	4.47	4.72	4.97	5.47
29-Oct-20	5.88	0.61	1.10	1.37	1.83	3.33	3.58	4.33	4.58	4.83	5.33
27-Nov-20	5.91	0.67	1.17	1.51	1.94	3.44	3.69	4.44	4.69	4.94	5.44
31-Dec-20	5.87	0.61	1.12	1.42	1.80	3.30	3.55	4.30	4.55	4.80	5.30
29-Jan-21	5.91	0.45	1.03	1.29	1.64	2.64	2.89	3.14	3.64	3.89	4.39

Source: FIMMDA

- The risk perception of corporate bonds moderated in January 2021 from the previous month as was highlighted by the narrowing of the spread between corporate bonds and the benchmark government securities of comparable maturity (10 years).

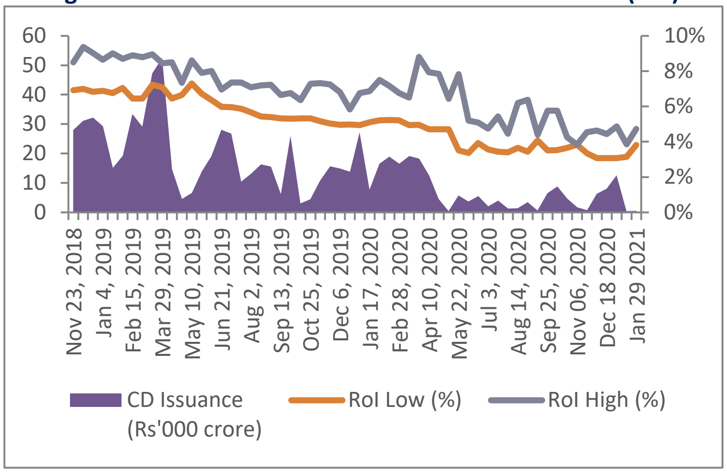
- The comparison of yield spreads on the last day of January 2021 with that of end December 2020 showed that the yield spreads for corporate bonds across rating categories were lower. In case of AAA rated bonds, the spread narrowed by 16 bps and for AA+ rated bonds fell by 9 bps.

O/s Level of CDs and CPs declined over previous month

Figure 17: Certificates of Deposit Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Jun 22, 2018	174.5	57.0%
Sep 28, 2018	151.0	31.9%
Dec 21, 2018	180.7	42.3%
Mar 29, 2019	272.3	46.6%
Jun 21, 2019	215.9	23.8%
Sep 27, 2019	188.1	24.6%
Dec 20, 2019	160.7	-11.1%
Mar 27, 2020	173.0	-36.5%
Jun 19, 2020	121.5	-43.8%
Sep 25, 2020	75.6	-59.8%
Dec 18, 2020	68.8	-57.9%
Jan 15, 2021	68.0	-61.9%
Jan 29, 2021	64.1	-64.7%

Figure 18: Trend in CD issuances and rate of interest (RoI)

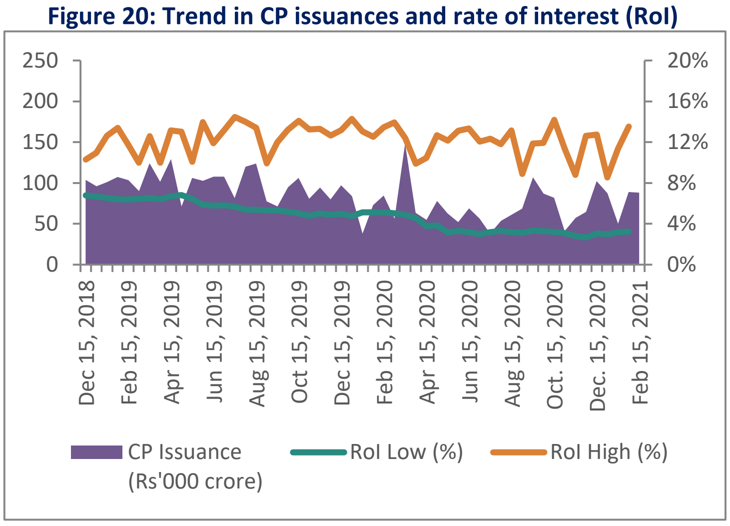


Note: The quarter end data reflects the last fortnight data of that particular quarter; Source: RBI

Figure 19: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Jun 30, 2018	491.8	49.3%
Sep 30, 2018	556.2	41.4%
Dec 31, 2018	498.7	21.9%
Mar 31, 2019	483.1	29.7%
Jun 30, 2019	503.9	2.5%
Sep 30, 2019	459.7	-17.3%
Dec 31, 2019	414.9	-16.8%
Mar 31, 2020	344.5	-28.7%
Jun 30, 2020	391.5	-22.3%
Sep. 30, 2020	362.3	-21.2%
Dec 31, 2020	365.2	-20.1%
Jan 29, 2021	410.7	-5.6%
Feb 15, 2021	399.4	-5.4%

Figure 20: Trend in CP issuances and rate of interest (RoI)



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

Select RBI Announcements

Announcement	Details
SLR Holdings in Held to Maturity category	• In order to provide certainty to the market participants in the context of the borrowing programme of the centre and states for 2021-22, RBI decided to extend the dispensation of enhanced HTM of 22% up to March 31, 2023 (from earlier March 31, 2022) to include securities acquired between April 1, 2021 and March 31, 2022. • The HTM limits would be restored from 22% to 19.5% in a phased manner starting from the quarter ending June 30, 2023. It is expected that banks will be able to plan their investments in SLR securities in an optimal manner with a clear glide path for restoration of HTM limits.
Restoration of cash reserve ratio (CRR) in two phases to 4%	• The CRR will go up from 3% to 3.5% effective from March 27,2021 and to 4% effective from May 22, 2021. Previously, the CRR was relaxed from 4% to 3% in March 2020.
Constitution of an Expert Committee on Primary (Urban) Co-operative Banks	• The RBI has decided to set up an Expert Committee on Urban Co-operative Banks (UCBs) involving all stakeholders in order to provide a medium-term road map to strengthen the sector, enable faster rehabilitation/resolution of UCBs, as well as examine other critical aspects relating to these entities.
Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021	• The RBI has compiled and released Master Directions for the better functioning of the financial system and HFCs. The current Master Directions also consolidates and repeals the directions issued by NHB (National Housing Board) and indicates the List of NBFC regulations applicable to HFCs. These directions have come into immediate effect (refer report "RBI Issues Master Directions for HFCs").

Investment by Foreign Portfolio Investors (FPI) in Defaulted Bonds – Relaxations	• Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to Foreign Exchange Management (Debt Instruments) Regulations, 2019 as amended from time to time, and the relevant directions has also been issued by RBI.
Large Exposures Framework – Exemptions	• RBI has decided to exempt the foreign sovereigns or their central banks from Large Exposures Framework subject to a 0% risk weight.

Source: RBI

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