Update on Banking Credit and Deposits

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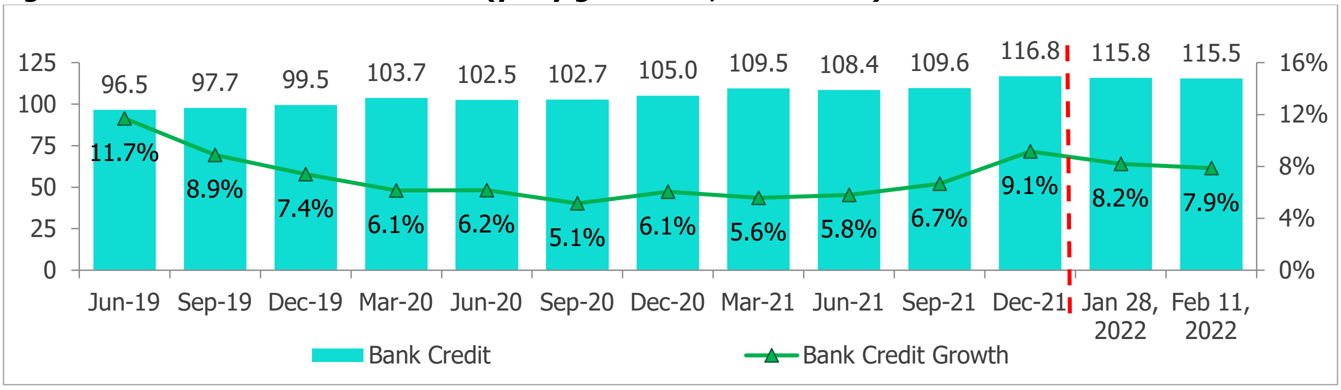
Credit offtake weakens while deposit growth holds strong

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.

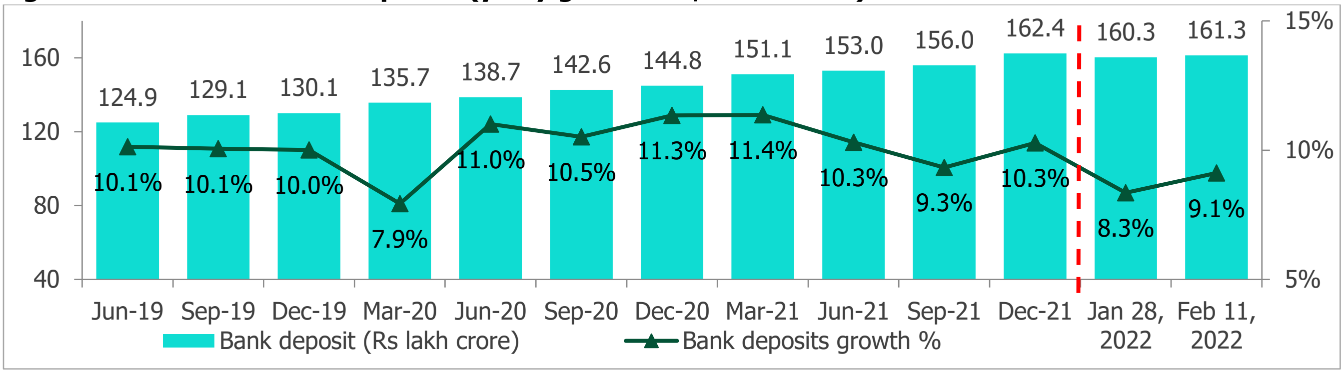
- Bank credit growth rose by 7.9% year-on-year (y-o-y) and expanded by 128-bps y-o-y for the fortnight ended February 11, 2022, up from 6.6% in the year ago period (fortnight ending February 12, 2021) mainly driven by retail loans. However, it declined sequentially by approximately 30 bps from the previous fortnight ended on January 28, 2022. In absolute terms, credit outstanding stood at Rs.115.5 lakh crore as on February14, 2022, increasing by Rs.8.4 lakh crore over the last twelve months (reporting date February 12, 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, also 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 looks better. With the Union Budget 2022-23 focusing for the expansion of capex and infrastructure, credit demand may pick up from industry.

- Credit outstanding of the retail segment rose by 11.4% y-o-y in January 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 6.4% y-o-y in January 2021 from a marginal growth of 0.7% in a year ago. CPI too is trending up which is likely to support 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) was not as severe as the first two waves. However, subsequent variants if severe could lead to lockdowns and cause a 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.

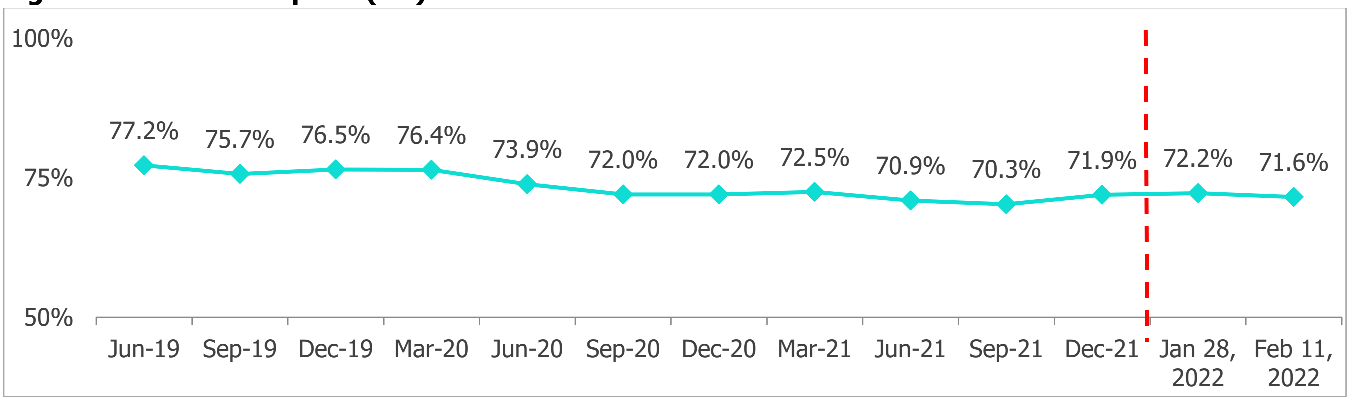
- Deposits stood at Rs. 161.3 lakh crore for the fortnight ended February 11, 2022, reporting a growth of 9.1% y-o-y, it also expanded by 76-bps from previous fortnight ended on January 28, 2022. The deposit growth has ranged between 9.3-11.6% from April 2021 to January 2022 except for the fortnight ended January 28, 2022, where it fell to 8.3%. Meanwhile, in absolute terms, the bank deposits have increased by Rs. 13.47 lakh crore over the last twelve months and by Rs.0.95 lakh crore from the previous fortnight (January 28, 2022). Time deposits grew by 8.2%, while demand deposit grew by 16.1% when compared with the previous year (reporting date on February 12, 2021). Several banks including HDFC Bank, State Bank of India (SBI), IndusInd Bank, and IDBI Bank have hiked interest rates for various FD tenures.

- The banking system has been sustaining a liquidity surplus since June 2019 on account of higher growth in bank deposits versus credit disbursement. RBI's liquidity infusion measures via open market operation (OMO) have further contributed to the persistent liquidity surplus in the banking system. So far in February 2022, the average outstanding (net) liquidity surplus has trended at Rs. 7.02 lakh crore.

- The Credit to Deposit (CD) ratio stood at 71.6% contracting by 68-bps from fortnight (ending January 28, 2022) and 83-bps (fortnight ended February 12, 2021) given that credit offtake has consistently been lower than deposit buildup.

- If we assume credit investments to be at Rs. 8.6 lakh crore (as on December 31, 2021, as per latest data released by RBI), for the fortnight ended February 11, 2022, then the CD ratio would be around 76.9% lower than 77.6%, almost similar. Considering the net addition in credit outstanding and investments over the last 12 months to be at Rs.10.2 lakh crore over additions in deposits (Rs.14.6 lakh crore), the proportion would have been at around 69.8% which is lower than 74.3% from the previous fortnight (ended on January 28, 2022)

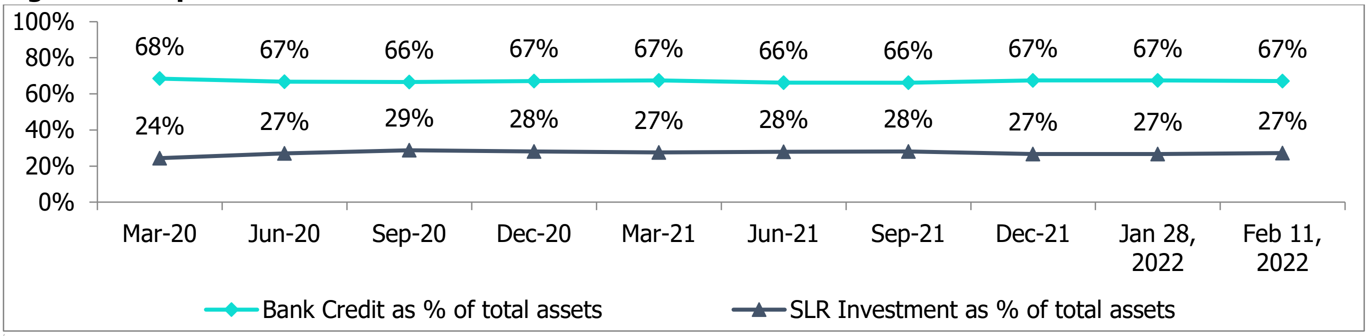
Figure 3: Credit to Deposit (CD) ratio trend



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 increased by 50-bps, while bank credit to total assets decreased by 29-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 67.2%, decreasing by 29-bps in the fortnight ended February 11, 2022, as compared with the previous fortnight (ended on January 28, 2022), and it was marginally down by 13-bps on y-o-y basis.

- Considering credit investments to be at Rs. 8.6 lakh crore (as on December 31, 2021, as per latest data released by RBI), bank credit (including credit investments) to total assets would have been around 72.2% for the fortnight ended February 11, 2022, which is lower than 72.5% from fortnight ended January 28, 2022, and 72.4% from fortnight ended on February 12, 2021.

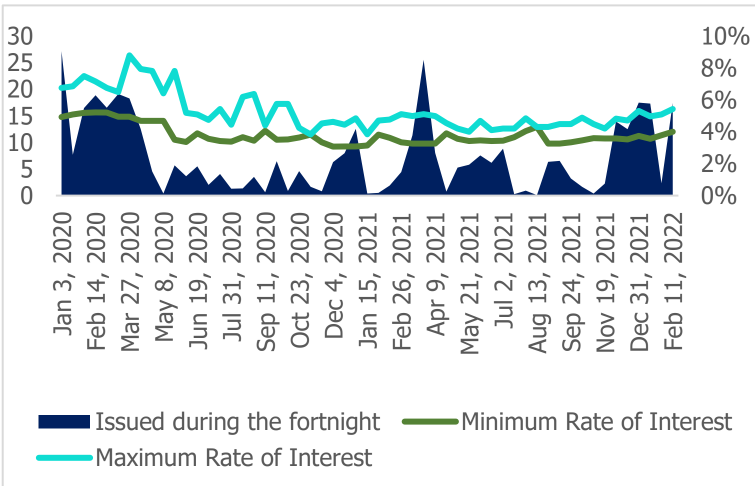
- Proportion of SLR investment to total assets has increased by 50-bps in fortnight ended February 11, 2022, compared to the previous fortnight (ended on January 28, 2022) due to growth in SLR investments. SLR investments stood at Rs. 46.7 lakh crore as of February 11, 2022, from Rs. 44.6 lakh crore as on February 12, 2021, growing by 4.5% y-o-y in fortnight ended on February 11, 2022, as compared with a growth of 17.9% a year ago (for the fortnight ended February 12, 2021) due to the base effect.

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 28, 2022	99.7	55.6%
Feb 11, 2022	112.6	93.4%

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

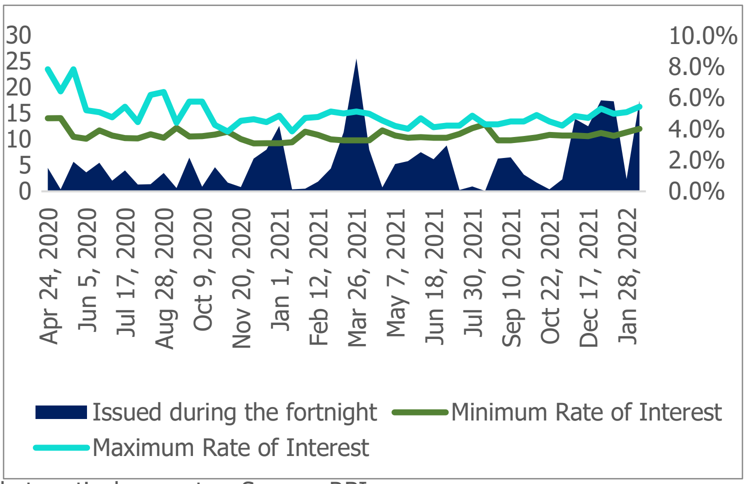


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

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 31, 2022	395.9	-3.6%
Feb 15, 2022	390.0	-2.4%

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

Select RBI Announcements

Announcement	Details
Investment in Umbrella Organization (UO) by Primary (Urban) Co-operative Banks	• As per earlier circulars, investments in non-SLR securities by Primary (Urban) Co-operative Banks is limited to ten per cent of a bank's total deposits as on March 31 of the previous year. Further, investments in unlisted securities should not exceed ten per cent of the total non-SLR investments at any time. • It has now been clarified that the investment made for subscribing to the capital of the UO, for acquiring its membership, shall be exempt from the limits prescribed in Paragraphs 2(i) and 2(iii)(b) of the relevant circulars.
Timelines for Implementation of 'Core Financial Services Solution' by Non-Banking Financial Companies (NBFCs) by September 30, 2025	• Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs' in terms of which NBFCs with 10 and more branches are mandated to adopt Core Banking Solution. Accordingly, NBFCs – Middle Layer and NBFCs - Upper Layer will have to implement Core Financial Services Solution (CFSS), akin to the Core Banking Solution (CBS) adopted by banks, by September 30, 2025. • The RBI directed the NBFC-UL to ensure that the CFSS is implemented at least in 70% of 'Fixed point service delivery units' on or before September 30, 2024. • A quarterly progress report on implementation of the Core Financial Services Solution, along with various milestones as approved by the Board / Committee of the Board, shall be furnished by the NBFC to the Senior Supervisory Manager (SSM) Office of RBI starting from quarter ending March 31, 2023.

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