

# Incremental Credit Growth Turns Positive after 7 Years in May

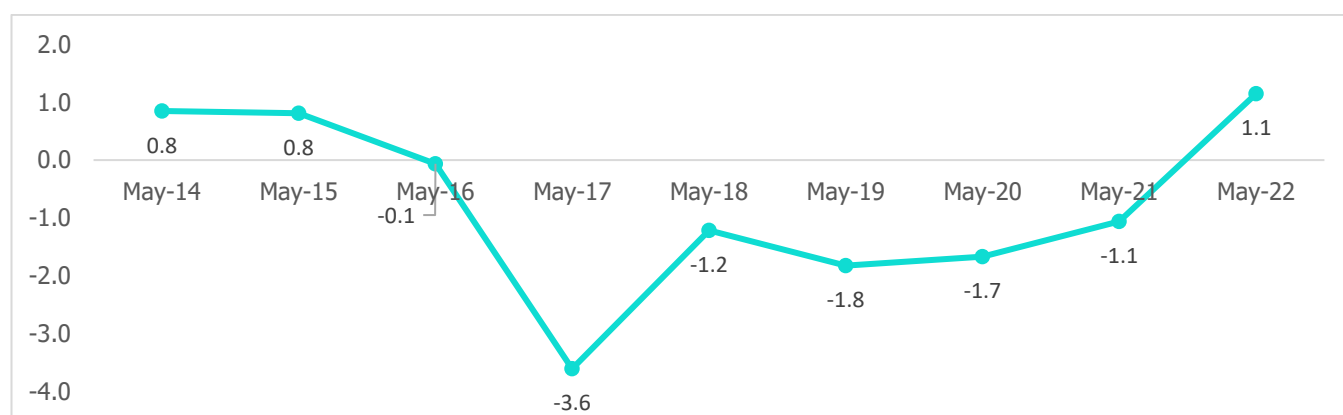
July 05, 2022 | BFSI Research

Note: Gross bank credit and non-food credit data are based on Section-42 return, which covers all scheduled commercial banks (SCBs), while sectoral non-food credit data is based on sector-wise and industry-wise bank credit (SIBC) return that covers banks accounting for approximately 93.2% of non-food credit extended by SCBs for May 2022. Bank credit growth and related variations for all fortnights since January 2021 are adjusted for past reporting errors by select SCBs. However, RBI has not yet updated these numbers in its database except for a couple of documents that were recently published.

## Overview

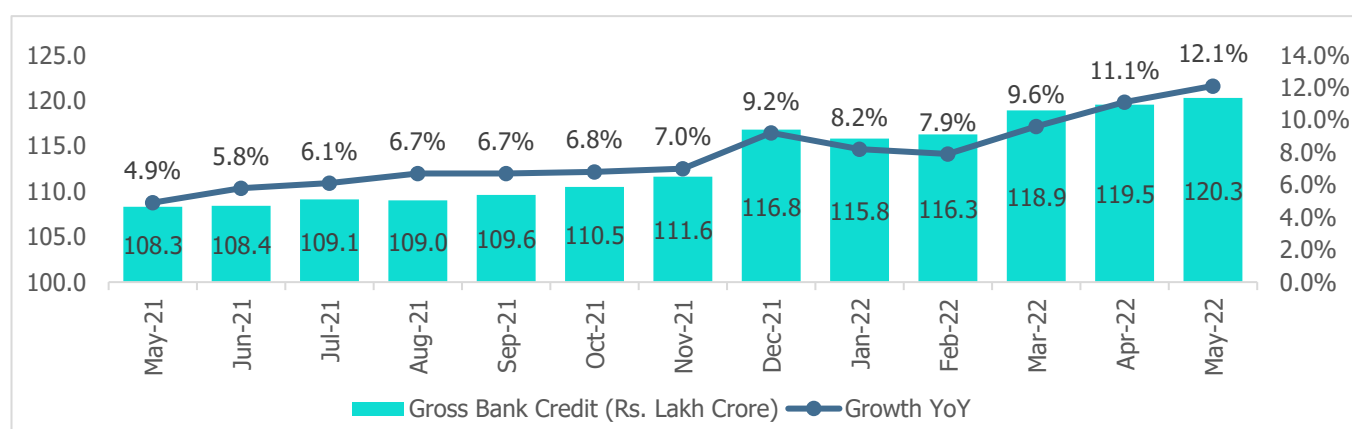
Though it is usually understood that incremental bank credit growth remains negative in May (the second month of the financial year) due to the year-end adjustments and other factors, it turned positive in May 2022 after seven years, rising by 1.1% as compared to a drop of 1.1% in May 2021. It was also higher than the 0.8% growth witnessed in May 2015.

**Figure 1: Incremental Growth: Gross Banking Credit (%)**



Source: RBI

**Figure 2: Monthly Trend of Growth in Gross Bank Credit Outstanding (Rs. Lakh Core)**



Source: RBI

The gross banking credit rose 12.1% y-o-y in May 2022, higher than 9.6% and 11.1% in March and April 2022, respectively. The non-food credit rose by 12.6% y-o-y in May 2022 as against 4.9% in May 2021. The expansion

of 771 bps was primarily due to a low base, rise in business activities, sustained rise in retail loans, higher working capital requirements, and a shift to bank borrowings owing to rising yields. The increase in May 2022 was due to credit growth in other personal loans (growth of 22.4%), housing (growth of 13.7%), vehicle loans (growth of 14.1%), Micro, Small and Medium Enterprises (MSME) (growth of 37.2%), NBFCs (growth of 20.6%) and Trade (growth of 13.4%).

Non-food incremental credit rose by 1.2% in May 2022 as compared to a drop of 1.4% in the same period in 2021. Personal loan credit rose by 2.4% in May 2022 as against a fall of 0.9% due to a pick-up in economic activities and improvement in the job market. Services' credit grew by 0.9% in May 2022 as against a drop of 2.9% in May 2022, while Industry credit was also up by 0.4%.

**Figure 3: Sectoral Distribution of Credit: May 2022 (Rs. Lakh Crore)**

Particulars	O/s Credit	% Growth in Credit		% Growth in Incremental Credit	
	As of May 20, 2022	May 21 vs May 20	May 22 vs May 21	May 21 vs Mar 21	May 22 vs Mar 22
<b>Gross Bank Credit</b>	<b>120.3</b>	<b>4.9</b>	<b>12.1</b>	<b>-1.1</b>	<b>1.1</b>
<b>Food Credit</b>	<b>0.5</b>	<b>14.2</b>	<b>-41.3</b>	<b>48.0</b>	<b>-3.2</b>
<b>Non-food Credit</b>	<b>119.7</b>	<b>4.9</b>	<b>12.6</b>	<b>-1.4</b>	<b>1.2</b>
<b>Agriculture &amp; Allied Activities</b>	<b>14.8</b>	<b>9.4</b>	<b>11.8</b>	<b>-0.2</b>	<b>1.5</b>
<b>Industry</b>	<b>31.6</b>	<b>0.2</b>	<b>8.7</b>	<b>-0.7</b>	<b>0.4</b>
Of which					
Micro, Small	5.5	8.9	<b>33.0</b>	<b>-4.0</b>	<b>3.7</b>
Medium	2.2	47.9	<b>49.3</b>	<b>5.7</b>	<b>2.1</b>
Large	23.9	-3.1	<b>1.9</b>	<b>-0.5</b>	<b>-0.5</b>
<b>Services</b>	<b>30.4</b>	<b>3.4</b>	<b>12.9</b>	<b>-2.9</b>	<b>0.9</b>
Of which					
Trade	7.1	11.1	<b>13.4</b>	<b>0.3</b>	<b>2.6</b>
Commercial Real Estate	3.0	2.8	<b>3.6</b>	<b>0.3</b>	<b>3.3</b>
Non-Banking Financial Companies	11.0	<b>-1.1</b>	<b>20.6</b>	<b>-6.3</b>	<b>1.6</b>
<b>Personal Loans</b>	<b>34.7</b>	<b>12.8</b>	<b>16.4</b>	<b>-0.9</b>	<b>2.4</b>
Of which					
Housing	17.1	11.0	13.7	0.7	1.5
Vehicle Loans	4.2	11.3	14.1	<b>-0.5</b>	3.9

Note: Gross bank credit and non-food credit data are based on Section - 42 return, which covers all SCBs, while sectoral non-food credit data are based on sector-wise and industry-wise bank credit (SIBC) return, which covers select banks accounting for about 93% of total non-food credit extended by all SCBs.

### Retail/Personal Loans

The credit of the retail/personal loans segment (largest segment with a 31.1% share in bank credit) saw robust a growth at 16.4% in y-o-y in May 2022 primarily on account of growth in unsecured loans (other personal loans (22.4%), credit card receivables (30.1%) and consumer durable loans (72.4%) due to continued improvement in economic activities, and job markets. The other personal loans segment has been rising due to the growth in the unsecured loans, especially small ticket-size personal loans. Within the retail/personal loans segment, all sub-segments have reported growth, except loans against gold and jewellery.

The housing loans (share of 49.3% within retail) grew at a pace of 13.7% in May 2022 as compared with a growth of 11.0% in the year-ago period. Housing loans are being driven by the perception of being a comparatively safer asset class with a lower loss given any probable default by borrowers and a healthy pick-up in economic activities. According to data from the Maharashtra government's Department of Registrations and Stamps (IGR), registration of properties in the Mumbai municipal area rose by 78% y-o-y to 9,523 units during May 2022. The registration data is for properties bought in both primary and secondary (resale) markets.

The other personal loans (share of 26.4% within retail) grew at 22.4% in May 2022 as compared with a growth of 13.6% in the year-ago period. Apart from the private sector banks, large public sector banks are also focusing on unsecured loan growth through their digital platforms.

- Vehicle loans (share of 12.1% within retail) registered a growth of 14.1% y-o-y in May 2022 compared to 11.3% in the year-ago period. Total vehicle sales increased by 207% y-o-y for May 2022. All segments reported positive growths where the 2W, 3W, and PV, were up by 198%, 696% and 204% respectively. The data is not comparable as many states have lockdowns in May 2021.
- Consumer durables (share of 0.9% within retail) continued its robust growth of 72.4% y-o-y in May 2022 (March growth 60.0%, April Growth 64.9%) as compared with a growth of 14.7% in the year-ago period due to a seasonally strong month.
- The credit card outstanding registered a robust growth of 30.1% y-o-y in May 2022 from a growth of 14.3% in the year-ago period due to improvement in the job market and seasonally strong monthly sales in peak summer.
- The loan against gold jewellery (share of around 2.1% within retail) registered a drop of 2.9% y-o-y in May 2022 as compared with a growth of 126.0% in May 2021. The growth in FY21 was recorded due to an increase in loan to value ratio (LTV) on gold loans from 75% to 90% in August 2020 till March 31, 2021. LTV on gold had temporarily increased due to Covid-19. In absolute terms, loans against gold jewellery stood at Rs.73,752 crore as of May 20, 2022, from Rs.75,984 crore on May 21, 2021.

Incremental credit growth of the retail segment stood at 2.4% in May 2022 from a drop of 0.9% over a year ago. In absolute terms, credit outstanding has reached Rs.34.7 lakh crore in May 2022 from Rs.33.9 lakh crore in March 2022. Within the retail segment, the other personal loans grew by 4.1% in May 2022 from a drop of 2.4% over a year ago. The vehicle loans also grew by 3.9% in May 2022 from a drop of 0.5% over a year ago due to a low base and strong recovery in auto sales. The consumer durables recorded the highest (within retail) growth of 7.2% in May 2022 from a drop of 0.5% over a year ago. Housing loan credit rose to 1.5% from 0.7% a year ago. All sub-segments excluding education loans, loans against jewellery and advances against shares, witnessed growth in May 2022. With normalisation visible in the economy, retail credit growth is likely to be strong due to an uptick in business activities, improvement and focus on retail/personal loans.

## Services

The services sector credit rose by 12.9% y-o-y during May 2022 as compared to 3.4% for the same period of the last year due to growth in the NBFCs, trade and shipping segments. The remaining segments of the services sector too reported growth except for the aviation segment (dropped by 18.3%) and computer (dropped 0.1%).

NBFCs (share of 36.0%) grew by 20.6% in May 2022 from a drop of 1.1% in the year-ago period due to shifting to bank borrowings on account of high capital market rates, and a healthy improvement in economic activities. Within NBFC, HFC and PFI grew by 12.9% and 77.5% y-o-y, respectively, in May 2022.

- The trade segment (23.5% share) grew 13.4% in May 2022 compared to 15.4% in the year-ago period.
- Commercial real estate (share of 9.9%) grew at 3.6%, a much slower pace as compared to overall service sector growth.
- The other services (share of 18.0%) reported a rise of 8.8% in May 2022.

On an incremental basis, the services grew by 0.9% in May 2022 as compared to a drop of 2.9% a year ago. The NBFCs witnessed a growth of 1.6% in May 2022 from a drop of 6.3% over the year-ago period. Trade credit improved by 2.6% in April 2022 from a drop of 0.3% over the year-ago period.

## Industry

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 growth was due to robust growth in the micro and small (33.0%) and medium (49.3%) enterprises segments were driven by ECLGS, low-base effect, higher working capital requirement, higher export and applying digitisation process by the banks for faster loan approvals. The Emergency Credit Line Guarantee Scheme (ECLGS22) has played a key role in reviving the MSME sector. Loans amounting to Rs.3.32 lakh crore were sanctioned under the ECLGS, till April 30, 2022, of which an amount of Rs.2.54 lakh crore was disbursed (Rs.2.36 lakh crore by SCBs). PVBs showed greater appetite than PSBs in utilising different ECLGSs, though the number of repeat borrowers remained similar for PSBs and PVBs. The large enterprise segment (share of 75.7% within the industry) reported a growth of 1.9% in May 2022 (from a drop of 3.1% in May 2021) due to higher working capital requirements on account of elevated inflation, improving business activities, shifting of borrowings to banking systems due to hardening capital market rates. Demand from the corporate segment is picking up as many sectors have seen de-leveraging and banks now see the potential for lending again to large corporates. Capacity utilisation of the corporates improved to 72.4% in Q3FY22 from 60% in Q1FY22, further it is likely to improve.

Of the total 19 sub-industries, 15 witnessed growth in credit outstanding, while four dropped. Rubber, plastic, and their products saw the highest growth of 24.2% y-o-y vs 12.5% in the year-ago period, followed by the petroleum, coal products and nuclear sub-segment which registered a growth of 23.9% y-o-y in May 2022 vs. a drop of 3.9% in the year-ago period. The infrastructure sub-industry (share of 37.9% within the industry) registered a growth of 9.5% in May 2022 from a marginal growth of 0.3% in the year-ago period. Within infrastructure, roads grew at a robust rate of 17.5% y-o-y in May 2022, followed by telecommunication at 12.9%, power at 7.8% and the other infrastructure at 3.0%. Airports, ports and railways (other than Indian railways) witnessed a drop of 29.3% and 28.3% and 9.1%, respectively, during May 2022.

Incremental credit growth of the large industry dropped by 0.5% in May 2022. Overall industry credit stood at Rs.31.6 lakh crore as of May 20, 2022, from Rs.31.5 lakh crore as of March 25, 2022

## Lending to the Priority Sector

Total lending of the priority sector rose by 19.2% to Rs.51.5 lakh crore in May 2022, driven by growth in the MSME, agriculture and allied activities and the other sub-segments due to healthy improvement in economic activities.

Agriculture accounts for the largest share within priority (28.3%), followed by the micro & small enterprises (27.6%) and the weaker sections (22.6%).

### Concluding Remarks

The gross banking credit offtake continued its growth in May 2022 and reached 12.1% 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. The 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.

### Annexures

**Figure A1: Credit Outstanding to Priority Sectors (Rs. Lakh Crore)**

Particulars	O/s credit	% Growth in credit		% Growth in incremental credit	
	As of May 20, 2022	May 21 vs May 20	May 22 vs May 21	May 21 vs Mar 21	May 22 vs Mar 22
Priority Sector	<b>51.5</b>	<b>5.6</b>	<b>19.2</b>	<b>-4.1</b>	0.3
Agriculture & Allied Activities	14.6	10.1	11.5	-2.1	-1.8
Micro & Small Enterprises	14.2	-4.0	27.0	-7.9	3.4
Medium Enterprises	3.6	51.2	64.8	-10.1	1.5
Housing	6.1	5.4	4.7	1.5	-0.1
Weaker Sections	11.7	6.7	17.9	-4.0	-1.3
Others	1.3	-6.0	31.8	-5.1	5.4

Source: RBI

**Figure A2: Overall Share of Segments within Retail (%)**

Personal Loans	Nov 19, 2021	Dec 31, 2021	Jan 28, 2022	Feb 25, 2022	Mar 25, 2022	Apr 22, 2022	May 20, 2022
<b>Consumer Durables</b>	0.4	0.4	0.8	0.8	0.8	0.8	0.9
<b>Housing</b>	49.9	49.3	48.8	47.7	47.1	49.6	49.3
<b>Advances against FD</b>	2.2	2.4	2.2	2.3	2.4	2.3	2.2
<b>Advances to Ind.</b>	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<b>Credit Card</b>	4.1	4.0	4.4	4.4	4.4	4.5	4.4
<b>Education</b>	2.1	2.0	2.0	1.9	1.9	2.4	2.4
<b>Vehicle Loans</b>	9.2	9.1	8.9	10.0	9.8	12.0	12.1
<b>Loans against gold jewellery</b>	2.2	2.3	2.2	2.2	2.2	2.2	2.1
<b>Other Personal Loans</b>	29.7	30.3	30.5	30.6	31.4	26.1	26.4
<b>Personal Loans</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: RBI

**Figure A3: Overall Share of Segments within Services (%)**

Services	Nov 19, 2021	Dec 31, 2021	Jan 28, 2022	Feb 25, 2022	Mar 25, 2022	Apr 22, 2022	May 22, 2022
Transport Operators	5.0	5.0	5.4	5.0	5.1	5.1	5.0
Computer Software	0.7	0.7	0.7	0.7	0.7	0.7	0.6
Tourism, Hotels & Restaurants	1.9	1.9	1.9	2.2	2.1	2.2	2.1
Shipping	0.3	0.2	0.2	0.3	0.3	0.3	0.3
Aviation	1.0	0.4	0.8	0.8	0.8	0.8	0.7
Professional Services	3.9	3.7	3.8	3.8	3.8	3.9	3.9
Trade	22.4	22.6	23.1	23.2	23.0	23.4	23.5
Commercial Real Estate	9.9	9.5	9.5	9.7	9.6	9.8	9.9
NBFCs	35.1	35.2	34.9	34.6	34.7	36.1	36.0
Other Services	19.8	20.8	19.6	19.8	19.9	17.8	18.0
<b>Services</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: RBI

**Figure A4: Overall Share of Segments within the Industry (%)**

Industry	Nov 19, 2021	Dec 31, 2021	Jan 28, 2022	Feb 25, 2022	Mar 25, 2022	Apr 22, 2022	May 20, 2022
Mining & Quarry (incl. Coal)	1.8	1.7	1.6	1.6	1.5	1.5	1.5
Food Processing	5.0	5.5	5.4	5.4	5.5	5.6	5.5
Beverage & Tobacco	0.6	0.5	0.5	0.6	0.6	0.6	0.6
Textiles	7.0	7.1	7.2	7.2	7.1	7.1	6.9
Leather & Leather Products	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Wood & Wood Products	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Paper & Paper Products	1.3	1.3	1.3	1.3	1.2	1.3	1.3
Petroleum, Coal Prod & Nuclear Fuels	2.4	2.9	2.5	2.7	2.8	3.3	3.3
Chemicals & Chem Prods	6.7	6.6	6.4	6.4	6.8	6.5	6.6
Rubber, Plastic & Products	2.2	2.2	2.2	2.3	2.3	2.3	2.3
Glass & Glassware	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Cement & Cement Prod.	1.6	1.6	1.5	1.6	1.5	1.5	1.5
Basic Metal & Metal Prod.	9.7	9.6	9.5	9.4	9.3	9.1	9.2
Engineering	5.2	5.2	5.3	5.1	5.1	5.3	5.3
Vehicles, Vehicles. Parts & Transport Equipment	3.0	2.8	2.9	2.9	2.9	2.9	2.9
Gems & Jewellery	2.4	2.3	2.4	2.5	2.5	2.5	2.3
Construction	3.3	3.2	3.2	3.3	3.3	3.6	3.6
Infrastructure	38.9	38.0	38.3	38.1	37.9	38.2	37.9
Other Industries	8.0	8.3	8.7	8.7	8.7	8.0	8.3
<b>Industries</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: RBI

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