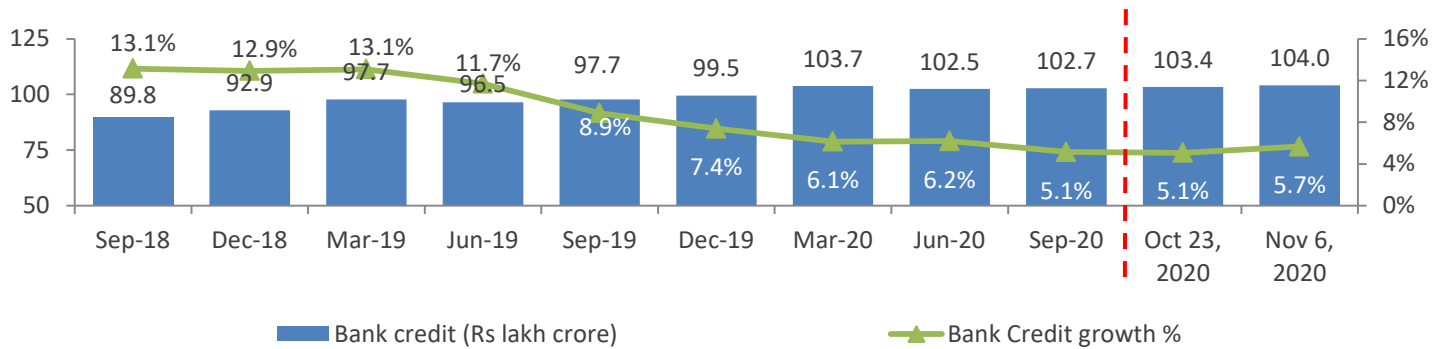


Update – Growth in Deposits and Credit

Credit and Deposit growth increased marginally over last fortnight

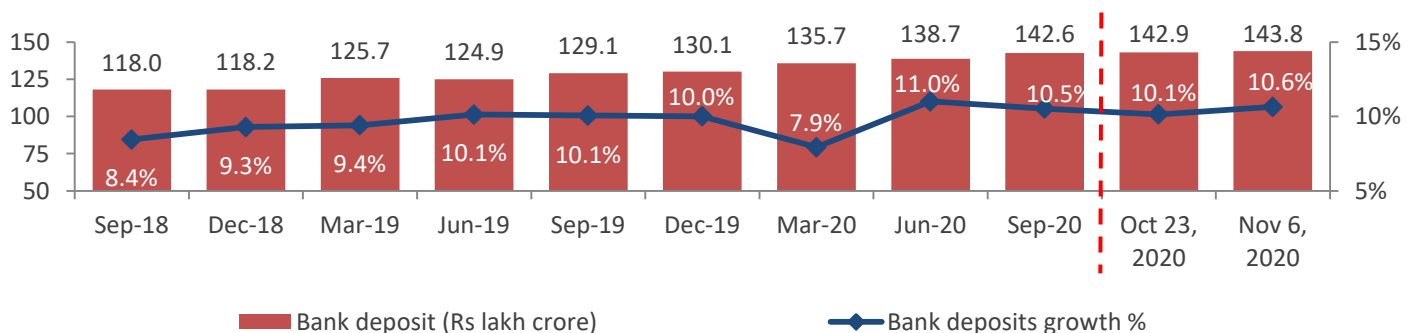
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- As can be seen in Figure 1, the overall credit growth in the banking sector increased marginally compared to last fortnight, which indicates that consumers had started purchasing with the arrival of festive season. Also, banks are coming up with various festival offers to push retail credit (e.g. State Bank of India in October 2020 announces festive season interest rate concession up to 25 bps on home loans). On the other hand, credit growth decelerated to 5.7% and 5.1% during the last two fortnights, compared to last year's level of 8.1% and 8.9%, respectively (as of October 25, 2019 and November 08, 2019) reflecting subdued demand (compared to a year-ago period) and risk aversion in the banking system towards the corporate segment. Also, SCBs are being very selective with their credit portfolios due to asset quality concerns.
- The incremental bank credit growth was supported by disbursements under ECLGS scheme. Banks have sanctioned Rs. 2.03 lakh crore out of which Rs. 1.48 lakh crore has been disbursed till October 2020 (which is higher than gross bank credit growth of Rs.1.2 lakh crore in absolute terms from May 2020 to October 2020). Additionally, ECLGS (2.0) has been announced for stressed sectors and further extended till March 2021 to enable MSME's avail additional funds under this scheme.

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

- Deposits increased by 10.6% (as of November 06, 2020) compared with 10.0% in the year ago period (November 08, 2019) and 10.1% as compared with the previous fortnight (October 23, 2020). Moreover, as on November 06, 2020 the liquidity surplus in the banking system stood at Rs.4.97 lakh crores. The liquidity surplus can be ascribed to deposit growth outpacing credit growth persistently and investments in government securities.
- However, government borrowings (Central: Rs 52,000 crores and states: Rs 38,575 crores) limited the banking system liquidity surplus during the fortnight. Additionally, the 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 89.6% of aggregate deposits (89.8% share as on November 08, 2019) grew at a slower pace compared to demand deposits which account for the balance 10.4% (10.2% share as on November 08, 2019).

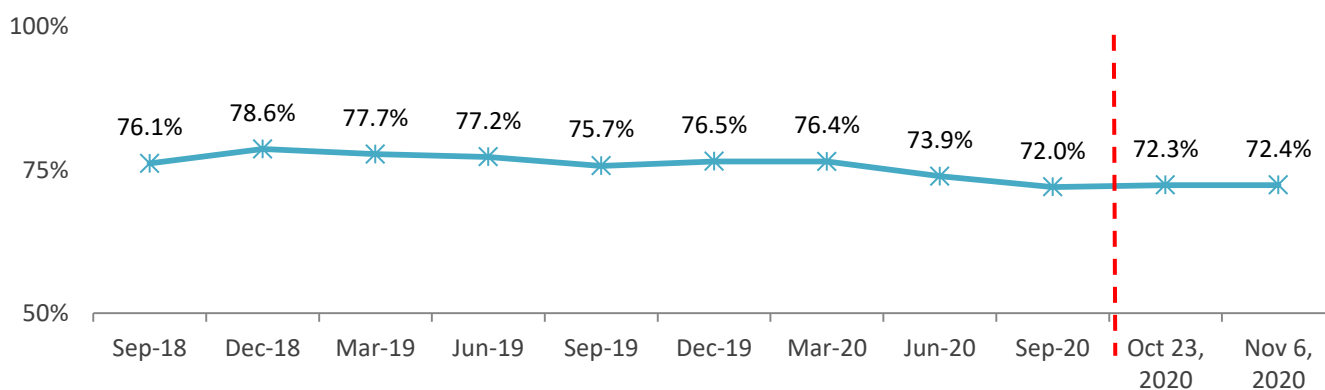
Figure 3: Demand Deposits and Time Deposits growth trend

| Rs in lakh crore | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Oct 23, 2020 | Nov 6, 2020 |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------------|-------------|
| Demand Deposits | 13.1 | 11.9 | 15.1 | 12.9 | 14.1 | 13.5 | 16.2 | 14.5 | 15.8 | 15.1 | 14.9 |
| % growth y-o-y | 5.9% | 4.9% | 10.3% | 9.6% | 7.6% | 13.8% | 7.0% | 12.7% | 11.9% | 10.6% | 12.7% |
| Time Deposits | 104.9 | 106.3 | 110.6 | 112.0 | 115.0 | 116.5 | 119.5 | 124.1 | 126.9 | 127.9 | 128.9 |
| % growth y-o-y | 8.4% | 9.7% | 10.0% | 10.1% | 9.6% | 9.7% | 8.1% | 10.8% | 10.3% | 10.1% | 10.4% |

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

- The Credit to Deposit (CD) ratio has stood at a similar level 72.4% during the last two fortnights ended November 6, 2020 and October 23, 2020 (75.8% in the year-ago period) due to slower growth in credit. On the other hand, if we assume credit investments to be at Rs.8.3 lakh crore for the fortnight ended November 06, 2020 (At September 2020 level as per latest data released by RBI), then the CD ratio would have been ~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 November 06, 2020, the incremental lending (considering only bank credit) would have been higher by approximately Rs.5.0 lakh crore.

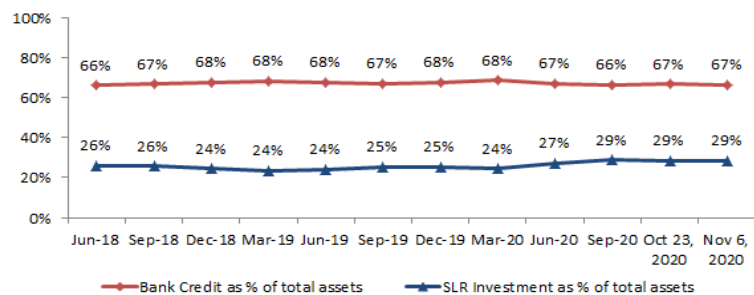
Figure 4: Credit to Deposit (CD) ratio trend



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

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

Figure 5: 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 remained stable as compared with previous fortnight but has declined (by 1%) as compared to Mar-20.
- Considering credit investment to be at ~Rs.8.3 lakh crore (September 2020 level), the bank credit to total assets (including credit investments) would be ~72% in the fortnight ended November 06, 2020.
- Proportion of SLR investment to total assets has increased from Mar-20 and stood at 29% for the fortnight ended November 06, 2020. The SLR investments grew at 19.1% YoY compared with 9.1% in the previous year due to banks increased preference for government securities and as RBI has allowed banks to hold fresh acquisitions of SLR investments under HTM.

O/s Level of CDs increased while CPs declined over last fortnight

Figure 6: Certificates of Deposit Outstanding

| Fortnight ended | Amount Outstanding (Rs'000 crore) | Y-o-Y growth % |
|-----------------|-----------------------------------|----------------|
| 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% |
| Oct 09, 2020 | 74.8 | -58.7% |
| Nov 06, 2020 | 78.3 | -54.3% |

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

Figure 7: Trend in CD issuances and rate of interest (RoI)

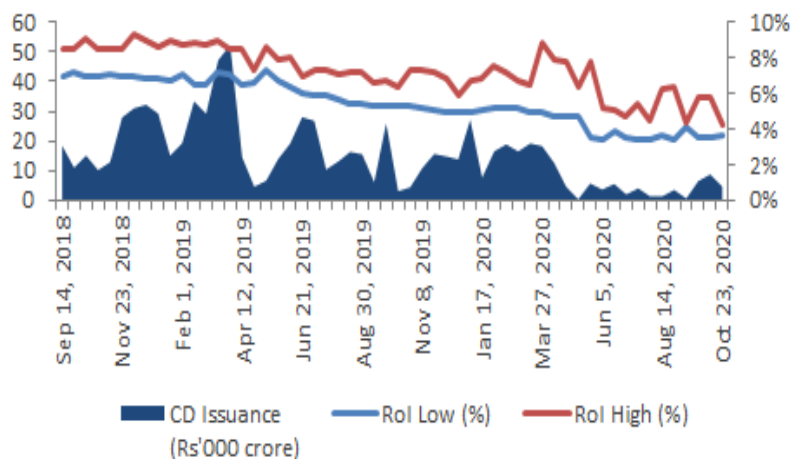
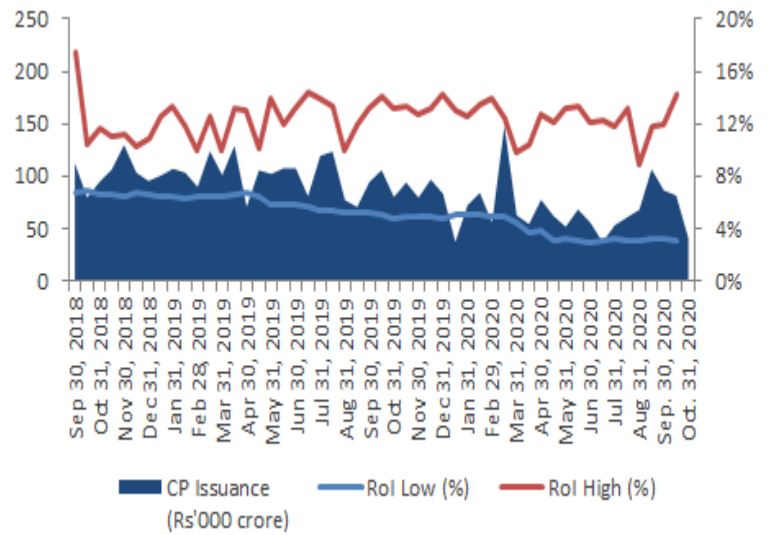


Figure 8: Commercial Paper Outstanding

| Fortnight ended | Amount Outstanding (Rs'000 crore) | Y-o-Y growth % |
|-----------------|-----------------------------------|----------------|
| 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% |
| Oct. 15, 2020 | 395.0 | -18.7% |
| Oct. 31, 2020 | 380.1 | -17.8% |

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

Figure 9: Trend in CP issuances and rate of interest (RoI)



Select RBI Announcements

| Announcement | Explanation |
|-----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RBI has announced the merger of Lakshmi Vilas Bank (LVB) and the local unit of DBS Bank | <ul style="list-style-type: none"> As part of the merger process, the Reserve Bank of India (RBI) said the Union government, on the request of the regulator, has capped deposit withdrawals at Rs.25,000 at LVB for a month. The Reserve Bank's surprise intervention to force the capital-starved LVB to merge with a stronger rival came after watching the bank struggle to find a suitor to help it meet minimum capital buffers. |

Source: RBI

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