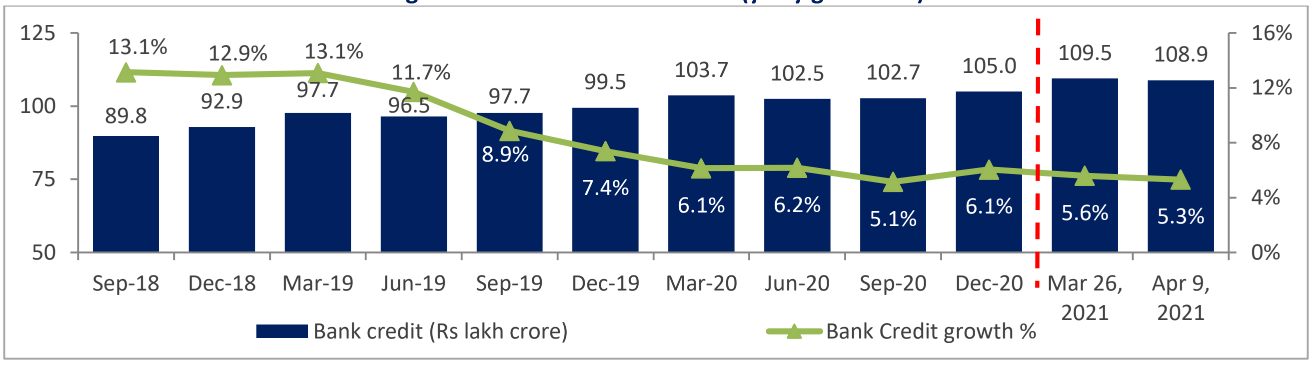
Bank credit and deposits growth witness a modest start in FY22

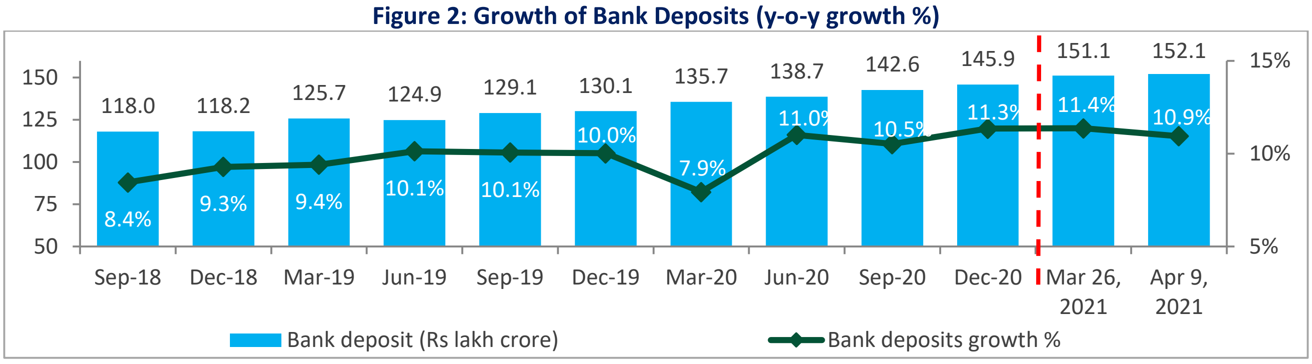
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- The bank credit growth rate continues to decline. In absolute terms, bank credit increased by Rs.5.5 lakh crore as compared with fortnight ended April 10, 2020, but declined by Rs.0.62 lakh crore as compared with the previous fortnight. In absolute terms, bank credit usually declines in first month of the new financial year, as it is a lean period (this trend can be observed for the last five years). However, the y-o-y growth rate has fallen in the first month of new financial year (i.e., April 2021) for the first time in last five years, reflecting subdued credit demand amidst the rising second wave of the pandemic.
- The bank credit growth stood at 5.3% and 5.6% on y-o-y basis during the last two fortnights as compared with last year's level of 7.2% and 6.1%. With significant deleveraging by large industrial borrowers and the risk aversion from both lenders and borrowers there is no pick-up in bank credit growth, despite low base of previous year (initial period of lockdowns).
- Though the interest rates (monthly fresh loans WALR) of SCBs have reduced by 107 bps from February 2020 to February 2021, the overall credit growth continued to moderate due to risk aversion and continued parking of excess liquidity with RBI. In addition, de-growth in large industries and slower growth in Housing (Housing loans constitute around 52% share in retail segment has also slowed down in recent past) and NBFCs segments (as compared with previous year) has also restricted the overall bank credit growth.
- Such to abatement of risk aversion amongst eligible borrowers, bank credit growth is likely to increase in FY22, given the growth in the economy and the base effect coming into play. The other downside risks include lockdowns in key states, which may impact the industrial as well as the service segments. Another risk includes the ending of the ECLGS scheme in June 2021, which had propped up the MSME credit. However, the extension of the TLTRO operations and on lending norms could support growth.

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



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

- Deposit growth at 10.9% declined during the fortnight ended April 9, 2021, as compared with fortnight ended March 26, 2021, but increased as compared with previous year (9.5% growth during fortnight ended April 10, 2020). In absolute terms, the bank deposits have increased by around Rs.14.0 lakh crore in FY21, which is partly attributed to a net outflow in equity mutual fund during the year.
- Moreover, as on April 9, 2021, the liquidity surplus in the banking system stood at Rs.6.2 lakh crore. The liquidity surplus can be primarily attributed to deposit growth outpacing credit growth persistently. The bank CDs have reduced by over 54.0% on y-o-y basis, due to surplus liquidity in the system. However, government borrowings (Central: Rs.37,853 crore and State: Rs.4,000 crore) has limited the banking system liquidity surplus.
- As given in figure 3, time deposits account for 88.5% of aggregate deposits (89.2% share as on April 10, 2020) grew at a slower pace compared to demand deposits, which accounted for the balance 11.5% (10.8% share as on April 10, 2020). In absolute terms, demand deposits have declined during the fortnight ended April 9, 2021, and this trend can be observed since last 4-5 years.

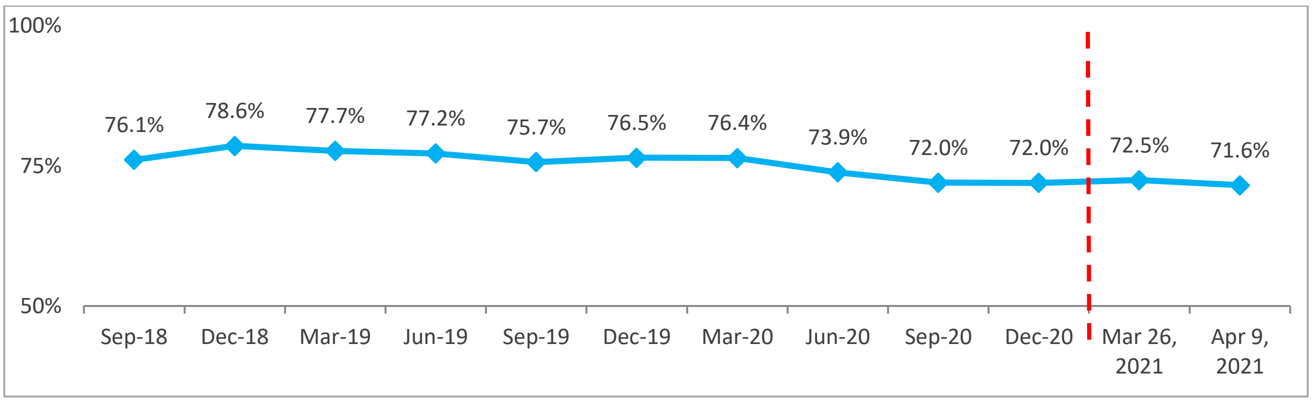
Figure 3: Demand Deposits and Time Deposits growth trend

Rs in lakh crore	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar 26, 2021	Apr 9, 2021
Demand Deposits	13.1	11.9	15.1	12.9	14.1	13.5	16.2	14.5	15.8	15.7	18.6	17.4
% growth y-o-y	5.9%	4.9%	10.3%	9.6%	7.6%	13.8%	7.0%	12.7%	11.9%	15.7%	15.1%	17.7%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	129.2	132.5	134.7
% growth y-o-y	8.4%	9.7%	10.0%	10.1%	9.6%	9.7%	8.1%	10.8%	10.3%	10.8%	10.9%	10.1%

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

- The Credit to Deposit (CD) ratio of 71.6% declined further as compared with last fortnight and remained lowest in last four years, owing to a faster rise in deposits and slower growth in credit. On the other hand, if we assume credit investments to be at Rs.8.3 lakh crore (as on February 26, 2021, level as per latest data released by RBI) for the fortnight ended April 9, 2021, then the CD ratio would be around 77%.

Figure 4: Credit to Deposit (CD) ratio trend

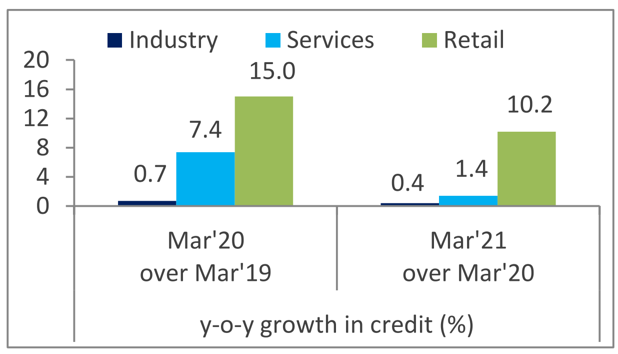


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

Year-end bank credit growth inches ahead at a significant low

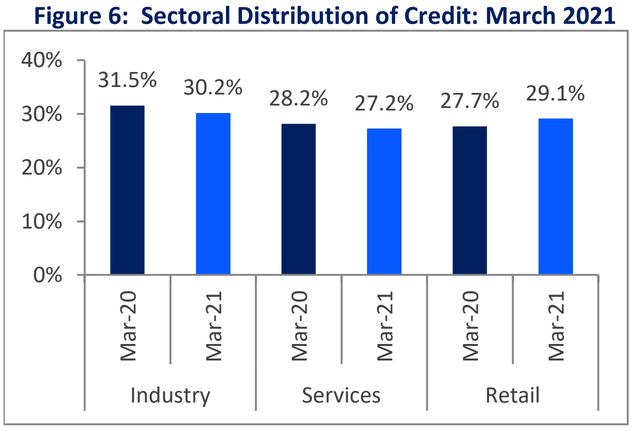
- The agriculture & allied segment recorded highest growth of 12.3% y-o-y in March 2021 in the last four years, which was led by strong monsoon, a good harvest season and government measures. This was followed by retail loan segment which registered growth of 10.2% y-o-y, while growth in services segment decelerated to 1.4% y-o-y. The retail segment accounted for around 29.1% share of the total credit during the period as compared with 27.7% a year ago.
- Industry segment registered a growth of 0.4% in March 2021 after witnessing a negative growth since October 2020.

Figure 5: Trend in sectoral credit growth (%)



Source: RBI, CARE Ratings (refer report *'Bank Credit Profile: March 2021 – Non-food credit growth recorded a lowest growth in last four years'*)

Figure 6: Sectoral Distribution of Credit: March 2021



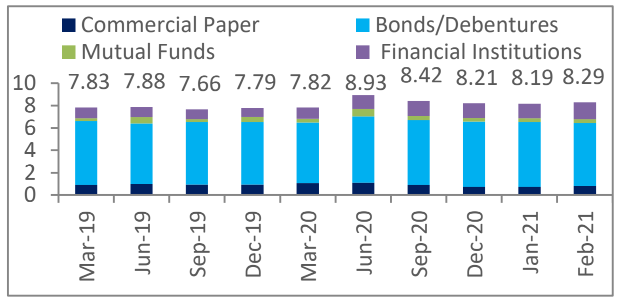
Note: The remaining percentage share in both Mar-20 and Mar-21 accounts for 'Food Credit' and 'Agriculture & Allied Activities' Source: RBI, CARE Ratings; (refer report *'Bank Credit Profile: March 2021 – Non-food credit growth recorded a lowest growth in last four years'*)

- 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 82.2% share (83.2% share in March 2020) in the total outstanding credit to industries and this segment reported a growth of negative 0.8% in March 2021 versus a growth of 0.6% in February 2020.
- Micro, small & medium (MSME) industries grew by 6.7% in March 2021 (which offset the fall in large segments) as compared with a growth of 1.1% in March 2020. This was supported by ECLGS disbursements of Rs.1.81 lakh crore (as on February 28, 2021) which is around 60.0% of the Rs.3.0 lakh crore. Within MSME, micro & small industries registered a growth of 0.5%, while medium industries registered a growth of 28.8%, and large industries registered a de growth. The higher growth of medium segment offset the fall in large segment and overall industry segment registered a growth of 0.4% in March 2021.
- Infrastructure has the largest share of 37.4% in the total bank credit outstanding to industries, registered a growth of 3.6% in March 2021 as compared with a de growth of 0.2% a year ago.
- NBFCs and transport operators' segments registered a y-o-y growth of 4.5% and 5.4%, respectively (growth of 29.0% and 7.4% in March 2020). Professional services and other services segment registered a de-growth of 31.2% and 7.6%, respectively, during the month. Of the total nine segments, seven segments registered growth.
- NBFCs which form the largest part in the total credit outstanding to the services sector (35.9% share in March 2021) has registered a growth of 4.5% (growth has fallen by around 480 bps as compared with February 2021).
- Housing loans continues to remain the single-largest segment at 51.9% share of lending in the outstanding credit to retail/personal loan portfolio. However, this segment grew by 9.1% in March 2021 as compared with a growth of 15.4% in the same period year ago.

Bank credit investments increased from a year-ago level

- SCBs credit investments increased by 7.5% in February 2021 compared with the year-ago period aided by LTRO, TLTRO, PCG schemes of RBI/ Government of India.
- SCBs credit investments stood at 7.7% of the total bank credit, as of February 28, 2021 (similar level observed in the previous year).
- Bonds and debentures accounted for the highest share in SCBs credit investments at 68.1% in February 2021 (vs. 69.8% share in February 2020), followed by financial institutions and CPs at 18.4% and 9.8%, respectively (11.1% and 12.9%, respectively, in February 2020) and mutual funds at 3.7% (6.2% in the year-ago period).
- Within bonds and debentures, private corporate bonds and debentures accounted for 53.1% share of bonds/debentures (41.4% share in January 2020); the public sector accounted for 21.4% and others account for the balance 25.5%.
- In FY21 (April – February), the total corporate bond issuances amounted to Rs. 6.6 lakh crores, 6% higher than Rs. 6.2 lakh crores in the same period last year. 46% 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 - February 2021'*)

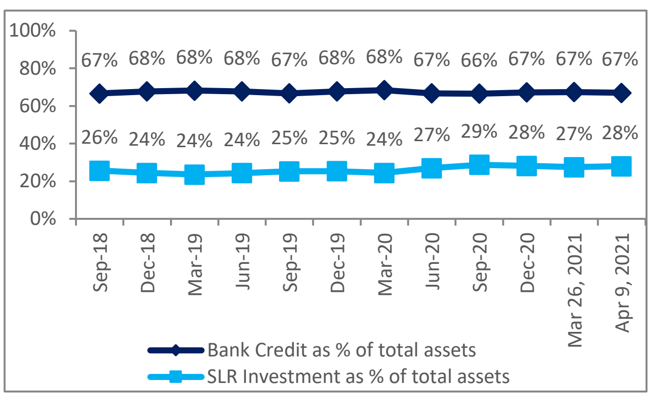
Figure 7: SCBs Credit Investment (Rs in lakh crores)



Source: RBI

Proportion of SLR investment and bank credit to total assets remained largely at similar level on m-o-m basis

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



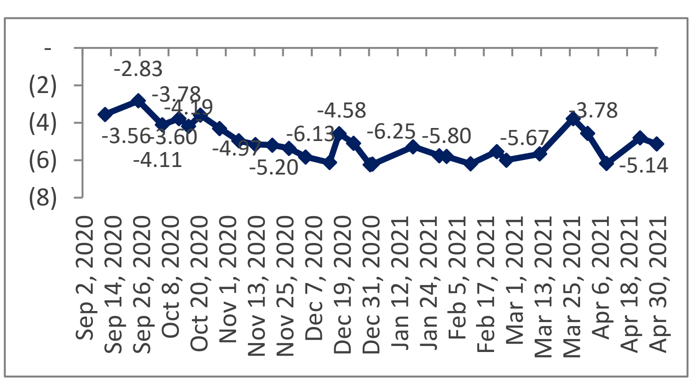
Note: The quarter-end data reflect the last fortnight data of that particular quarter; 2) Total assets = Cash in hand + Assets with the Banking System + Investments + Bank Credit; Source: RBI, CARE Ratings

- The share of bank credit to total assets has stood stable (as compared to preceding months) at 67% but declined by 1% as compared with March 2020.
- Considering credit investments to be at Rs.8.3 lakh crore (as on February 26, 2021), bank credit (including credit investments) to total assets would have been around 72% for the fortnight ended April 9, 2021.
- Proportion of SLR investment to total assets increased (by 1%) as compared with last month. In absolute terms, SLR investments grew by 15.9% YoY as compared with a growth of 20.8% as on March 26, 2021 and 14.1% 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 April 30, 2021, aggregated Rs.5.14 lakh crore, higher than a month ago (March 26, 2021) level of Rs.3.78 lakh crore.
- Government borrowings during April 2021 (Central: Rs.0.80 lakh crore and States: Rs.0.06 lakh crore) limited the banking system liquidity surplus.
- Also, the notable widening of liquidity surplus can be ascribed to deposit growth consistently outpacing credit growth.
- As mentioned above, the liquidity surplus is approximate to reduction in Credit Deposit ratio, indicating that the liquidity has largely arisen 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: March 22 – April 1,2021', 'Weekly Liquidity Report: April 5 – April 9, 2021', 'Weekly Liquidity Report: April 12 – April 16, 2021'; 'Weekly Liquidity Report: April 19 – April 23, 2021' and 'Weekly Liquidity Report: 26 – 30 April, 2021'; Source: RBI

Yields of G-secs and corporate bonds increased in the secondary market

- As given in *'Debt Market Review -March 2021'*; the borrowing cost for the corporates from the corporate bond market registered an uptick in March 2021 with the weighted average yield of 7.18% as compared with 6.49% in previous month. The cost of borrowings for corporate bonds has declined from 8.02% in March 2020 to 7.18% in March 2021.

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	7.25	7.12	8.38	8.05
Sep-20	6.86	6.61	8.19	6.84
Oct-20	6.39	6.93	6.92	6.79
Nov-20	6.69	5.92	7.66	7.33
Dec-20	6.49	4.98	7.04	7.99
Jan-21	5.73	6.69	7.49	7.21
Feb-21	6.19	5.76	7.12	8.43
Mar-21	6.68	7.00	7.32	8.77

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 others have seen an uptick in March 2021 on sequential basis.

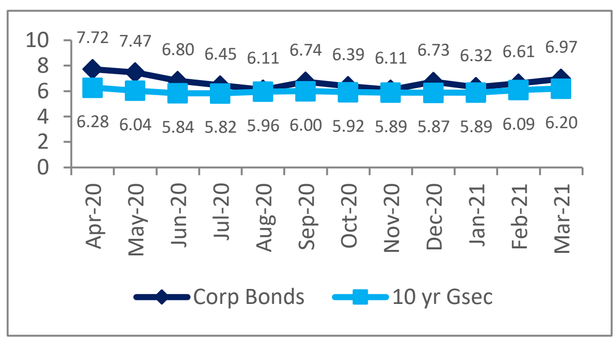
- The cost of borrowing of the NBFC sector rose to 7.32% in March 2021 compared with 7.12% in the previous month, while in case of HFCs, the cost of borrowings is 7.00% in March 2021 as against 5.76% in February 2021.

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

- The average 10-year benchmark GSec yield in March rose to 11-month high and increased by 11 bps on a month-on-month basis. Domestic factors and global cues drove yield movement of Indian sovereign bonds. The demand for government securities remained subdued given the prevailing and anticipated huge supply of securities on account of the high government borrowings in FY21 and FY22 amid the build-up in inflationary pressures. Unfavourable global market conditions, i.e., the rise in global bond yields, increase in commodity prices along with the strengthening of the US Dollar, further weighed down demand for these securities. The RBIs OMO purchases and the cancellation of the last auction of government securities for FY21 provided limited support to cool down yields.

- Corporate bond yields (weighted average yields) at 6.97% in March rose by 36 bps from that February 2021 and at a ten-month high. In the case of commercial paper, the average yields rose by 11 bps (month-on-month) to a six-month high of 3.52%. The increase in the yields of corporate debt securities (corporate bonds and commercial papers) can be attributed to the rise in sovereign yields, both domestic and global as well as the lower demand from mutual funds (liquid funds and money market funds saw net outflows of Rs.19,383 crore and Rs.7,037 crore, respectively, in March 2021).

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 March 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
26-Feb-21	6.23	0.76	1.21	1.46	1.79	3.29	3.54	4.04	4.54	4.79	5.29
31-Mar-21	6.18	0.46	0.91	1.19	1.52	3.02	3.27	3.77	4.27	4.52	5.02

Source: FIMMDA

- The risk perception of corporate bonds improved as of end March 2021 as was highlighted by the narrowing of the spread between corporate bonds and the benchmark government securities of comparable maturity (10 years).

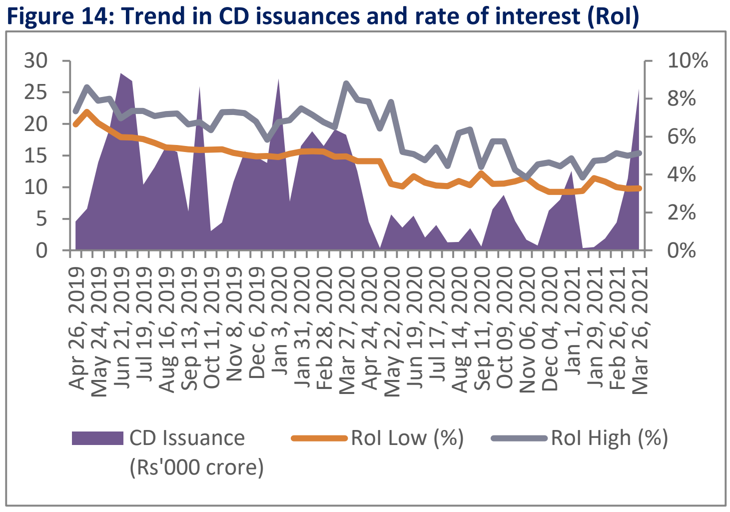
- The comparison of yield spreads in March 2021 with that of February 2021 showed that the yield spreads declined for corporate bonds across rating categories. The spreads (m-o-m) narrowed by 27 bps for bonds rated AA to BBB- and by 30 bps for bonds rated AA+ and AAA.

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

Figure 13: Certificates of Deposit Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 28, 2018	151.0	31.9%
Mar 29, 2019	272.3	46.6%
Sep 27, 2019	188.1	24.6%
Mar 27, 2020	173.0	-36.5%
Sep 25, 2020	75.6	-59.8%
Dec 18, 2020	68.8	-57.9%
Mar 12 ,2021	57.4	-67.0%
Mar 26, 2021	80.1	-53.7%

Figure 14: Trend in CD issuances and rate of interest (RoI)

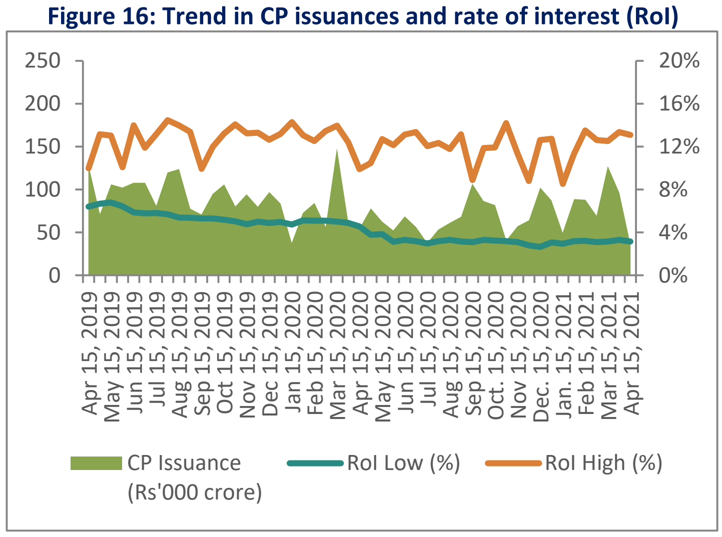


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Figure 15: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 30, 2018	556.2	16.0%
Mar 31, 2019	483.1	11.5%
Sep 30, 2019	459.7	-22.7%
Mar 31, 2020	344.5	-39.9%
Jun 30, 2020	391.5	-28.2%
Sep. 30, 2020	362.3	-25.5%
Dec 31, 2020	365.2	-20.1%
Mar 31, 2021	364.4	5.8%
Apr 15, 2021	382.8	0.4%

Figure 16: Trend in CP issuances and rate of interest (RoI)



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

Select RBI Announcements

Announcement	Details
Resolution Framework 2.0 – Resolution of Covid-19-related stress of MSMEs, Individuals and Small Businesses	• The RBI has permitted retail borrowers and small businesses to recast their loans, without being downgraded to non-performing category, under the scheme. (refer report '*RBI Announces Resolution Framework 2.0 for MSMEs and Individuals*')
Credit to MSME Entrepreneurs	• The credit facility to new MSMEs (up to exposure of Rs.25 lakh) which banks could deduct from the NDTL (Net Demand and Time Liabilities) for calculation of CRR has been extended till December 31, 2021.
Priority Sector Lending (PSL) - On-lending by Small Finance Banks (SFBs) to NBFC-MFIs	• To address the emergent liquidity position of smaller MFIs, SFBs are now being permitted to reckon fresh lending to smaller MFIs (with asset size of up to Rs.500 crore) for on-lending to individual borrowers as priority sector lending (refer report '*RBI Policy – Access to credit for smaller Microfinance Institutions to improve*').
Term Liquidity Facility of Rs.50,000 crore for Emergency Health Services	• On-tap liquidity window for tenor of 3 years at "repo rate", i.e., 4% till March 31, 2022. Services to which banks can lend include – vaccine manufacturers, importers/suppliers of vaccines, hospitals/dispensaries, pathology labs, manufacturers and suppliers of oxygen and ventilators among others. Banks are supposed to create a "COVID Loan Book" under this scheme.
Special Long-term Repo Operations (SLTRO) for Small Finance Banks (SFBs)	• A Special 3-year long-term repo operations of Rs.10,000 crore at repo rate to be deployed for fresh lending of Rs.10 lakh per borrower. The facility is open till October 31, 2021.
Utilisation of Floating Provisions/Counter Cyclical Provisioning Buffer	• Banks have been allowed to utilise 100% of floating provisions/ countercyclical provisioning buffer held by them as on December 31, 2020, for making specific provisions for non-performing assets with prior approval of their Boards. Such utilisation is permitted with immediate effect and upto March 31, 2022.

Corporate Governance in Banks - Appointment of Directors and Constitution of Committees of the Board	• The RBI capped the tenure of managing directors (MDs) and chief executive officers (CEOs) of private banks at 15 years. Promoters or major shareholders, however, cannot hold these posts for more than 12 years, but the RBI can choose to give them a three-year extension under extraordinary circumstances.
Review of Requirement of Counter-Cyclical Capital Buffer	• The framework envisages the credit-to-GDP gap as the main indicator, which may be used in conjunction with other supplementary indicators. • Based on the review and empirical testing of CCyB indicators, it has been decided that it is not necessary to activate CCyB now.
Interest Equalization Scheme on Pre and Post Shipment Rupee Export Credit- Extension	• Government of India has approved the extension of Interest Equalization Scheme for pre and post shipment Rupee export credit, with same scope and coverage, for three more months, i.e., up to June 30, 2021.
Declaration of dividends by banks	• RBI allowed banks to pay dividend on equity shares from the profits for the financial year ended March 31, 2021, subject to the quantum of dividend being not more than 50% of the amount determined as per the dividend pay-out ratio.

Source: RBI; refer report 'RBI's Surprise Liquidity Booster and additional relaxations'

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