

Credit growth decelerated further in Q2FY21, while deposits growth continued to increase

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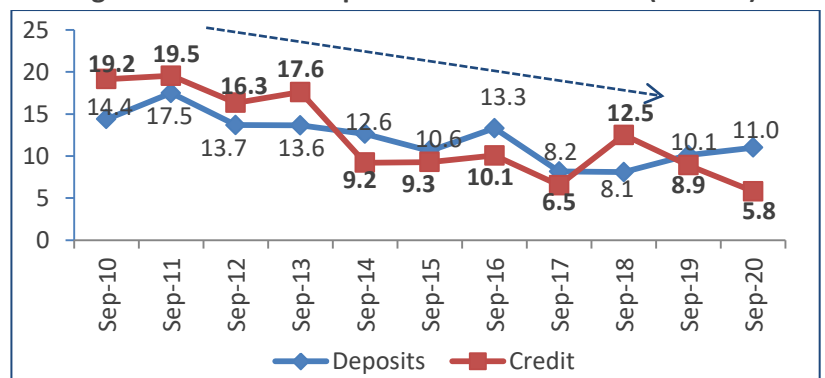
The quarterly Scheduled Commercial Bank (SCB) performance review is an update on the credit and deposit situation of banks derived using data extracted from RBI’s *Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks (SCBs) as on September 30, 2020*.

Introduction

In absolute terms, overall bank deposits as on September 30, 2020, stood at Rs.144.8 lakh crore as compared with Rs.130.4 lakh crore on September 30, 2019. The outstanding bank credit stood at Rs.104.3 lakh crore at the end of September 2020 vis-à-vis Rs.98.6 lakh crore as of September 30, 2019.

The overall credit growth in the banking sector slowed down in the quarter-ended Sept-20 compared with last year’s level of 8.9% (Sept-19) owing to risk aversion in the banking system and weak demand. The rise in the overall deposits of the SCBs as of September 30, 2020, stood at 11.0% y-o-y (compared with last year’s level of 8.9%), outpacing the credit growth of 5.8%.

Figure 1: Growth in deposits and credit of SCBs (Y-o-Y %)



Source: RBI

The incremental deposit of SCBs grew by 5.3% against decline in incremental credit as of September 30, 2020 (Figure 2). This indicates that the depositors are stocking up funds in bank deposits. The incremental credit growth contracted by 0.2% at the end of Sept-20 quarter compared with 0.4% growth in Sept-19, in absolute terms the incremental credit declined by around Rs 17,537 crore in Sept-20. This was owing to decline in industrial and service sector growth (industrial sector declined by 4.5% growth and services sector declined by 0.7% growth). However, a larger fall in credit was prevented by growth in retail segment. The credit growth is however likely to be positive till September 30, 2020, if credit investments are taken into account.

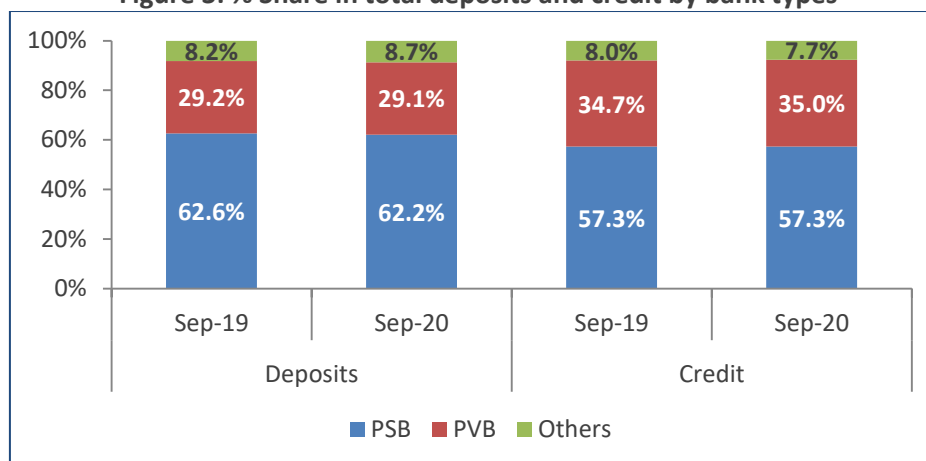
Figure 2: Incremental growth %*

Incremental Growth	Sep-19	Sep-20
Deposit	3.8%	5.3%
Credit	0.4%	-0.2%

*Sept-19 over Mar-19 and Sept-20 over Mar-20, Source: RBI

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Figure 3: % Share in total deposits and credit by bank types



Note: Other banks include Foreign Banks (FBs), Regional Rural Banks (RRBs) and Small Finance Banks (SFBs)
Source: RBI

As seen in figure 3, the share of Private Sector Banks (PVBs) in the total deposits of SCBs continued to remain at similar level on y-o-y basis and increased marginally compared to last quarter (28.8% in Jun-20). Whereas, PVBs share in credit offtake of SCBs increased marginally on y-o-y basis.

Figure 4: Rates of deposit and credit for SCBs

Month	Policy Repo rate (%)	Change in Repo (bps)	TDR* (%)	Change in TDR (bps)	WALR (%)	Change in WALR (bps)
Dec-17	6.00		6.60		9.44	
Mar-18	6.00	0	6.75	15	9.46	2
Jun-18	6.25	25	6.83	8	9.52	6
Sep-18	6.50	25	6.88	5	9.76	24
Dec-18	6.50	0	7.00	12	9.91	15
Mar-19	6.25	25	7.01	1	9.87	4
Jun-19	5.75	50	7.01	0	9.79	8
Sep-19	5.40	35	6.95	6	9.67	12
Dec-19	5.15	25	6.66	29	9.40	27
Mar-20	4.40	75	6.46	20	8.97	43
Jun-20	4.00	40	6.10	36	8.48	49
Sep-20	4.00	0	5.79	31	8.39	9
Oct-20	4.00	0	5.76	3	8.50	11
Nov-20	4.00	0	5.74	2	8.45	5
Change in Sept-20 over Sept-19		140		116		128

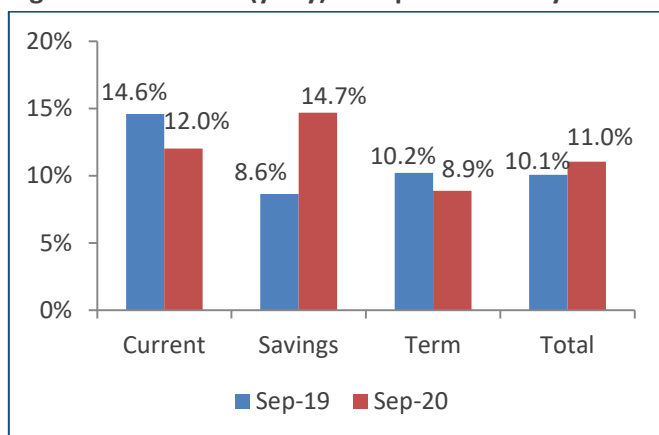
*TDR for greater than one year deposits and is a average of PSBs and PVBs rate, TDR : Mean Term Deposit Rate , WALR: Weighted Average Lending Rates on Fresh Rupee loans; All rates given as at end of the respective quarters

Source: RBI

The SCBs continue to remain risk averse due to the pandemic-led uncertainty. SCBs have witnessed a consistent growth in deposits over the last few quarters despite a declining deposit rate scenario since July 2019 (6.97%) to September 2020 as SCBs have been lowering their deposit rates to protect margins. On the credit side, growth remains low despite availability of ample liquidity in the banking system along with fall in the weighted average lending rates (WALR) (Figure 4). The rate cuts would work more effectively when credit growth picks up, as banks are selective in giving fresh loans due to asset quality concerns.

Deposits

Figure 5: % Growth (y-o-y) in deposits held by SCBs



Source: RBI

The current and savings deposits which accounts for around 8.8% and 33.5% share of total deposits held by SCBs grew at 12.0% and 14.7% respectively on y-o-y basis. The growth of term deposits which accounts for the balance 57.7% share of total deposits grew at 8.9% in the period under review compared to 10.2% growth in the previous year. On an overall basis, deposits growth in year to date for September 2020 was higher than the previous year.

Figure 6: Incremental deposit* (%) growth

Deposit Type	Sep-19	Sep-20
Current	-4.1	0.6
Savings	2.8	7.4
Term	5.7	4.8
Total	3.8	5.3

* Sept-19 over Mar-19; and Sept-20 over Mar-20

Source:RBI

Bank Group

Figure 7: Bank group-wise deposits (Rs lakh crore)

Deposits (Bank Type)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Growth %	
						Q-o-Q	Y-o-Y
PSB	81.70	83.30	85.68	88.35	90.04	1.9%	10.2%
PVB	38.10	38.57	39.87	40.66	42.14	3.6%	10.6%
FB	5.73	5.95	6.60	6.76	6.94	2.7%	21.2%
SFB	0.53	0.59	0.63	0.65	0.75	14.5%	41.3%
RRB	4.41	4.51	4.73	4.85	4.94	1.8%	12.1%
All SCB	130.4	132.9	137.5	141.3	144.8	2.5%	11.0%

Source: RBI

Deposits of all SCBs rose by 2.5% in q-o-q terms, as a result of 1.9% q-o-q growth in PSBs deposits which accounts for 62.2% share of the overall deposits of SCBs followed by PVBs which accounts for 29.1% share. Small Finance Banks (SFBs) and RRBs grew at 14.5% and 1.8% respectively, however, together they account for a small share (around 4%) of the total deposits of the SCBs. As seen earlier, the increase in overall deposits was largely due to stocking up funds in banks by depositors. Also, debt mutual funds and equity mutual funds witnessed outflows during the quarter ended Sept-20 (equity mutual fund observed net outflows after four years since Mar-16), indicative of risk aversion by investors which could support the rise in bank deposits.

The y-o-y growth of PSBs increased from a year-ago level of 3.7% by growing in double-digit in Sept-20. While, the PVBs growth slowed down to 10.6% y-o-y compared with 25.3% in the year-ago period. Deposits with the FBs increased from a year-ago level (11.7% y-o-y growth in Sept-19), while deposits with RRBs largely remained stable (11.0% y-o-y growth in Sept-19).

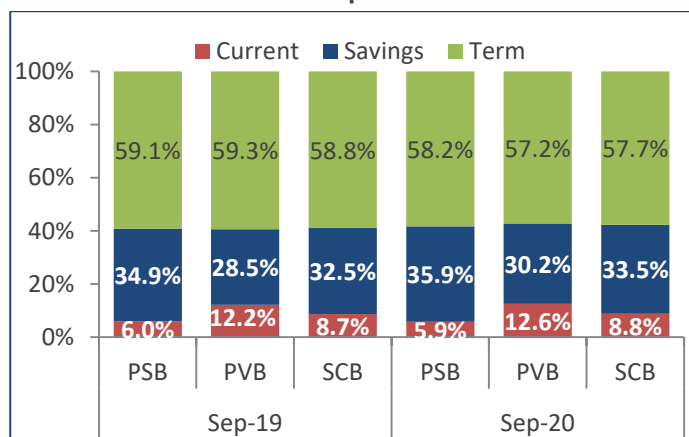
Figure 8: Bank type-wise incremental deposits* (%) growth

Bank Type	Sep-19	Sep-20
PSB	3.1%	5.1%
PVB	5.5%	5.7%
FB	2.0%	5.1%
SFB	41.0%	19.5%
RRB	2.9%	4.5%
All SCB	3.8%	5.3%

* Sep-19 over Mar-19 and Sept-20 over Mar-20

Source: RBI

Figure 9: Share of deposit types held by PSBs, PVBs and all SCBs as a % of their total deposits



Source: RBI

The incremental deposit growth of SCBs over Mar-20 rose to 5.3% in Sept-20 (3.8% incremental deposit growth in Sept-19) which was majorly fueled by the PSBs that recorded 5.1% incremental growth at the end of Q2FY21. In absolute terms, the incremental deposits of PSBs grew by Rs.4.4 lakh crore compared with Rs.2.3 lakh crore of PVBs.

Current and Savings Deposits (CASA)

Figure 10: Bank group-wise CASA (Rs lakh crore)

Deposits (Bank Type)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Growth %		CASA Ratio % Sept-20
						Q-o-Q	Y-o-Y	
PSB	33.39	34.04	35.54	36.90	37.59	1.9%	12.6%	41.8%
PVB	15.49	15.87	16.85	16.87	18.03	6.9%	16.4%	42.8%
FB	2.35	2.37	2.79	2.80	2.81	0.2%	19.5%	40.7%
RRB	2.37	2.41	2.54	2.63	2.65	0.9%	11.9%	53.8%
SFB	0.11	0.12	0.13	0.13	0.16	22.4%	50.0%	22.2%
All SCB	53.7	54.8	57.8	59.3	61.3	3.3%	14.1%	42.3%

Source: RBI

The CASA ratio for SCBs stood at 42.3% on account of growth in the overall savings deposit, at the end of Q2FY21. Moreover, due to liquidity surplus in the system, most major PSBs as well as PVBs have been reducing the rates offered on term deposits which resulted in moderation in growth of term deposits (8.9% y-o-y growth in Sept-20 against 10.2% y-o-y growth in Sept-19), further leading to an increase in overall CASA ratio at 42.3% compared with 41.2% witnessed in the quarter ended Sept-19. The CASA of SCBs as of September 2020 stood at Rs.61.3 lakh crore, i.e., a growth of 14.1% y-o-y. Share of PSBs in CASA has declined marginally from 62% by end September 2019 to 61% in the period under review, while losing its share to PVBs.

Additionally, on August 06, 2020 RBI announced guidelines on the opening of current accounts by banks for borrowing companies. The borrowing companies are required to open current accounts or cash-credit/overdraft accounts only with banks who have lent substantial loans to them. RBI has also directed lending banks to not use current accounts to route loans. These guidelines may over the longer term result in realignment of the CASA share of banks as borrowers take term loans from one bank and operate current accounts in different banks. However, on December 14, 2020, RBI exempted certain accounts from its current account norm. The excluded cases include accounts for real estate projects mandated under Section 4 (2) I (D) of the Real Estate (Regulation and Development) Act, 2016 for the purpose of maintaining 70% of

advance payments collected from the home buyers, nodal or escrow accounts of payment aggregators or prepaid payment instrument issuers for specific activities as permitted by RBI under the Payment and Settlement Systems Act, 2007, accounts for settlement of dues related to debit card, ATM card, and credit card issuers or acquirers.

Regions

Figure 11: Region-wise deposits (Rs lakh crore)

Deposits (Region)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Growth %	
						Q-o-Q	Y-o-Y
Northern	27.57	28.14	28.44	29.57	30.48	3.1%	10.5%
North Eastern	2.45	2.48	2.66	2.71	2.75	1.5%	12.2%
Eastern	17.22	17.47	17.97	18.29	18.73	2.5%	8.8%
Central	17.65	18.02	18.68	19.10	19.57	2.5%	10.9%
Western	34.04	34.54	36.03	36.69	37.29	1.6%	9.5%
Southern	31.49	32.27	33.72	34.93	35.99	3.0%	14.3%
Total	130.4	132.9	137.5	141.3	144.8	2.5%	11.0%

Source: RBI

All regions recorded a marked improvement in their deposit in q-o-q and y-o-y terms for the quarter ending September 2020. Banks in the southern region continue to account for the highest growth amongst all regions at 14.3% y-o-y, followed by the North Eastern region at 12.2% and Central region at 10.9%. The western and eastern region observed marginal moderation in growth compared to previous year (Western region: 12.1% y-o-y growth in the quarter-ended Sept-19; Eastern region: 9.3% y-o-y growth in the quarter-ended Sept-19). The western, southern and northern regions house a major part of the organized sector.

Population Group

Figure 12: Population group-wise deposits (Rs lakh crore)

Deposits (Population Group)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Growth %	
						Q-o-Q	Y-o-Y
Metropolitan	66.33	67.30	68.87	71.52	73.04	2.1%	10.1%
Urban	28.23	28.88	29.80	30.54	31.51	3.2%	11.6%
Semi-urban	21.64	22.13	23.17	23.59	24.25	2.8%	12.0%
Rural	14.21	14.61	15.66	15.64	16.01	2.4%	12.6%
Total	130.4	132.9	137.5	141.3	144.8	2.5%	11.0%

Source: RBI

The rural population group continued to record the highest y-o-y deposit growth, on account of the increasing penetration of the SCBs in the rural areas. Banks in the metropolitan region recorded the largest share in total deposits at 50.0%. The urban and semi-urban bank deposit accounts for 22.0% and 17.0%, respectively. The growth in bank deposits in the rural segment is fueled by higher rural deposits of PSBs. The PSBs continue to hold major share (around 73%) of the total rural deposits at Rs.11.7 lakh crore as of September 30, 2020.

Credit

Sector-wise Credit Growth

Figure 13: Trend in y-o-y growth (%) in sector-wise Non-Food Bank Credit

Sector	Sep-15	Sep-16	Sep-17	Sep-18	Sep-19	Sep-20	5-Year CAGR
1. Agriculture & Allied Activities	12.8	15.9	5.8	5.8	7.0	5.9	8.0
2. Industry	4.9	0.9	-0.4	2.3	2.7	0.0	1.1
3. Services	5.9	18.4	7.0	24.0	7.3	9.1	13.0
4. Personal Loans (Retail)	18.0	19.7	16.8	15.1	16.6	9.2	15.4
Priority Sector	10.9	11.4	3.7	6.6	6.7	4.5	6.6
Non-food Credit (1 to 4)	8.6	10.8	6.1	11.3	8.1	5.8	8.4

Source: Monthly Bulletin, RBI

Credit to the industrial sector (accounts for 30.4% share in non-food credit) registered nil growth on the back of decline in growth of large industries which accounts for 82.7% share in the total outstanding credit to industries, the balance 17.3% accounts towards micro, small & medium industries. Micro, small & medium industries grew 3.2% in September 2020 as compared with de-growth of 0.6% in previous year. In absolute terms the outstanding credit for micro, small and medium industries grew from Rs. 4.6 lakh crores in September 2019 to Rs. 4.8 lakh crore in September 2020. Under Rs. 3 lakh crore of Emergency Credit Line Guarantee Scheme (ECLGS) for MSMEs, banks have sanctioned Rs. 2.05 lakh crore out of which Rs. 1.52 lakh crore were disbursed till October 2020. The bank credit growth has been mainly supported by disbursements in ECLGS scheme which is extended further till March 31, 2021.

The retail/personal loans segment slowed down compared to March 2020 (15.0%), and on y-o-y basis, has registered a much lower growth rate. However, housing loans continue to remain the single largest segment of lending in outstanding credit to retail/personal loan portfolio. Housing loans segment growth has slowed to 8.5% in September 2020 as compared with 19.3% in September 2019 and formed ~53.0% share of the total credit outstanding in the retail/personal loan segment. The growth in credit to services sector increased by 9.1% in Sept-20 compared with 7.3% in the year-ago period, on account of increase in credit to trade segment (accounts for 22.0% share in service sector loan) which grew by 11.5% in Sept-20 against 5.5% in Sept-19.

Bank Group

Figure 14: Bank group-wise outstanding credit (Rs lakh crore)

Credit (Bank Type)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Growth %	
						Q-o-Q	Y-o-Y
PSB	56.55	57.45	60.13	59.66	59.78	0.2%	5.7%
PVB	34.18	35.27	36.06	35.57	36.55	2.7%	6.9%
FB	4.18	4.13	4.35	4.18	3.89	-7.1%	-7.1%
SFB	0.82	0.89	0.95	0.94	0.97	3.7%	18.8%
RRB	2.89	2.93	3.01	2.98	3.13	4.8%	8.3%
All SCB	98.6	100.7	104.5	103.3	104.3	1.0%	5.8%

Source: RBI

Credit of the SCBs decelerated to 5.8% in the quarter-ended Sept-20 compared with last year's level of 8.9% (Sept-19) owing to risk aversion in the banking system and weak demand. All bank groups registered slowdown in the y-o-y growth with PSBs registering an increase in growth from 1.8% in the quarter ended Sept-19 to 5.7% in Sept-20. PSBs account for 57.0% share of the total credit followed by PVBs accounting for 35.0% share, FBs accounting for 4.0% share; and RRBs and

SFBs accounting for the balance 4.0% share. In q-o-q terms, the overall credit growth registered flat growth at 1.0% on the back of slow growth in all categories of bank type.

Figure 15: Bank type-wise incremental credit* growth (%)

Bank Type	Sep-19	Sep-20
PSB	-2.0%	-0.6%
PVB	3.6%	1.3%
FB	3.1%	-10.6%
SFB	36.0%	2.6%
RRB	1.8%	3.9%
All SCB	0.4%	-0.2%

* Sept-19 over Mar-19 and Sept-20 over Mar-20

Source: RBI

The PSBs continued to record credit de-growth incrementally since Jun-19 until Dec-19, while it recorded a growth of 4.2% in Mar-20 with SBI accounting for around 35% share, which posted a negligible (-0.2%) growth incrementally in Sept-20. Similarly, remaining all bank group registered negative to slow growth on incremental basis during the quarter under review.

Region

Figure 16: Region-wise outstanding credit (Rs lakh crore)

Credit (Region)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Growth %	
						Q-o-Q	Y-o-Y
Northern	21.70	22.27	23.59	23.13	23.27	0.6%	7.2%
North Eastern	1.03	1.06	1.09	1.09	1.14	5.0%	10.8%
Eastern	6.99	7.17	7.46	7.34	7.59	3.5%	8.6%
Central	8.50	8.82	8.99	9.03	9.23	2.1%	8.5%
Western	32.49	32.84	33.95	33.33	32.95	-1.1%	1.4%
Southern	27.90	28.52	29.42	29.42	30.14	2.4%	8.0%
Total	98.6	100.7	104.5	103.3	104.3	1.0%	5.8%

Source: RBI

The western region accounts for the largest share (32%) in the region-wise credit deployment in Sept-20, however, it grew at a slower rate compared with other regions. The southern region accounts for 29.0% share of the total outstanding credit followed by northern region accounting for 22.0% share, central region accounting for 9.0% share, eastern region accounting for 7.0% share and north-eastern region accounting for just 1% share. However, all regions registered moderation in growth compared with the previous year. In q-o-q terms too, all regions registered muted to declining trend.

Population

Figure 17: Population group-wise outstanding credit (Rs lakh crore)

Credit (Population Group)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Growth %	
						Q-o-Q	Y-o-Y
Metropolitan	62.34	63.09	66.15	65.03	64.58	-0.7%	3.6%
Urban	15.13	15.66	16.10	15.92	16.45	3.3%	8.7%
Semi-urban	12.52	12.91	13.16	13.14	13.70	4.3%	9.4%
Rural	8.63	9.01	9.09	9.24	9.60	3.8%	11.2%
Total	98.6	100.7	104.5	103.3	104.3	1.0%	5.8%

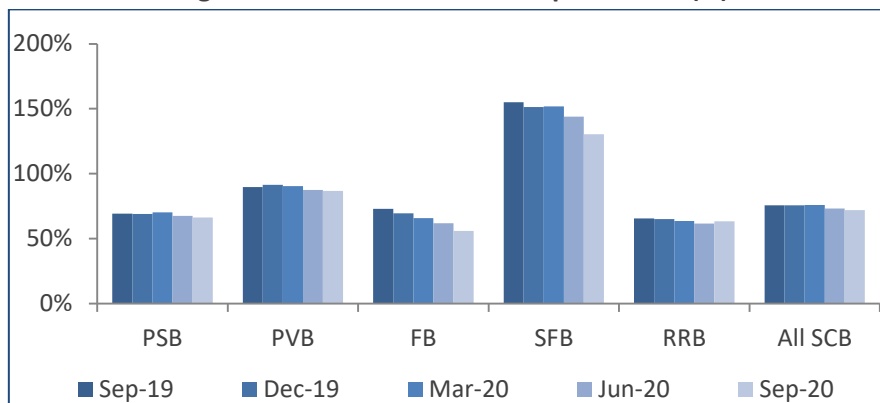
Source: RBI

A major part of the outstanding credit is deployed in the metropolitan region with around 62.0% share, recording a growth of less than half the level posted in the previous year (7.2% in Sept-20). The urban and semi-urban region accounted for

16.0% and 13.0% respectively, recorded moderation in y-o-y growth compared with 9.9% and 12.3% in the quarter ended Sept-19. The balance 9.0% share accounted for rural region, which grew at 11.2% y-o-y compared with 14.8% in the year-ago period. In q-o-q terms, the metropolitan region recorded de-growth compared with positive 0.7% growth in Sept-19, while all other population groups apart from rural region (3.2% q-o-q growth in Sept-19) registered slow growth.

Credit-Deposit Ratio

Figure 18: Bank-wise Credit-Deposit Ratio (%)



Source: RBI, CARE Ratings Calculations

The CD ratio stood at 72.0% compared with 76.0% in Mar-20 owing to slower growth in credit. Similarly, all bank types have recorded a moderation in their CD ratio as of September 2020. Furthermore, y-o-y moderation in CD ratio is also observed across regions and population in the period under review. The CD ratio of metropolitan region has been the highest compared with all other regions, while urban region stands at only 52.2%. The CD ratio stood above 100% for Tamil Nadu, Puducherry, Telangana, Chandigarh and the National Capital Territory (NCT) of Delhi. Region-wise and population-wise CD ratio is given below (figure 19 and figure 20).

Figure 19: Region-wise Credit-Deposit Ratio (%)

Region	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Northern	78.7%	79.2%	82.9%	78.2%	76.4%
North Eastern	42.0%	43.0%	41.0%	40.2%	41.5%
Eastern	40.6%	41.0%	41.5%	40.1%	40.5%
Central	48.2%	49.0%	48.1%	47.3%	47.1%
Western	95.4%	95.1%	94.2%	90.8%	88.4%
Southern	88.6%	88.4%	87.2%	84.2%	83.7%
Total	75.6%	75.7%	76.0%	73.1%	72.0%

Source: RBI, CARE Ratings Calculations

Figure 20: Population group-wise Credit-Deposit Ratio (%)

Population Group	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Metropolitan	94.0%	93.8%	96.0%	90.9%	88.4%
Rural	60.7%	61.7%	58.0%	59.1%	60.0%
Semi-urban	57.9%	58.4%	56.8%	55.7%	56.5%
Urban	53.6%	54.2%	54.0%	52.2%	52.2%
Total	75.6%	75.7%	76.0%	73.1%	72.0%

Source: RBI, CARE Ratings Calculations

CARE Ratings View

Credit growth continues to remain low despite availability of ample liquidity in the banking system along with rate cuts by SCBs leading to low weighted average lending rates (WALR) for fresh loans of all SCBs. However, the rate cuts would work more effectively when credit growth picks up. Additionally, the bank credit growth is also supported by disbursements under ECLGS scheme which has been extended further till March 31, 2021. However, SCBs are being very selective with their credit portfolios due to asset quality concerns. The overall bank credit growth is expected to remain slower in the near term. In the recent times deposits growth has been faster compared to the last two years where deposit registered growth between 8-10%. Consequently the banking system remained in liquidity surplus.

However, RBI permitted a one-time restructuring of loans across three segments – corporate loans, MSME loans and personal loans – as the ongoing Covid-19 pandemic significantly impacted the businesses across the board (the last date

for initiating this facility ended on December 31, 2020, while for smaller businesses the OTR has been extended by another three months to March 2021). Following this, many banks announced capital raising plans for catering post COVID-19 economy by maintaining adequate capital buffers. On the other hand, the stringent conditions laid down by RBI for eligibility of borrower for OTR scheme made it difficult for them to qualify for the same.