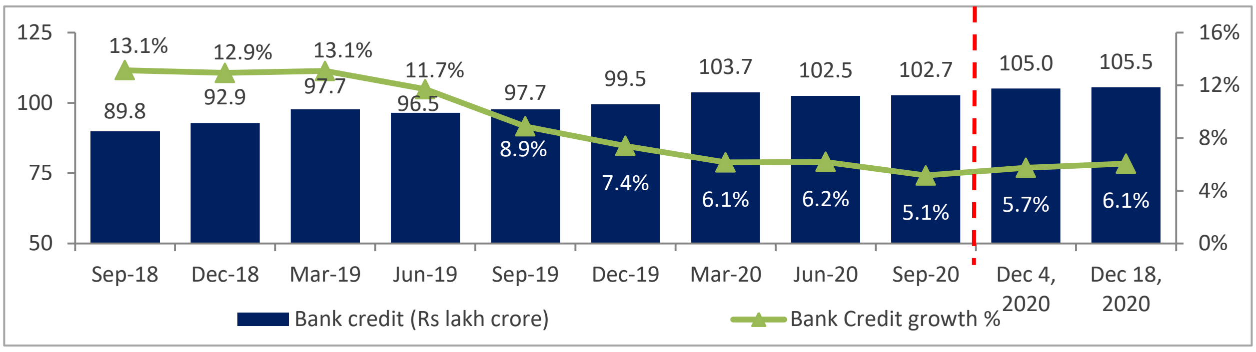
Deposits growth remained flat while credit growth rose marginally over last fortnight

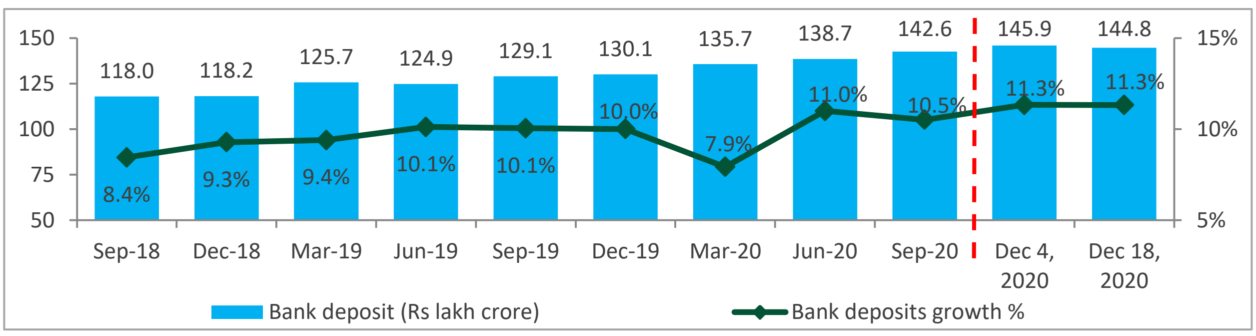
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- The bank credit growth increased marginally compared to last fortnight which can be ascribed to an increase in retail loans along with a marginal uptick in corporate loans. However, the credit growth remained low compared with year-ago period (7.1% as of December 20, 2019) reflecting subdued demand and risk aversion in the banking system especially towards the corporate segment. Additionally, the bank credit growth has also been supported by disbursements under the 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.

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 growth remained flat at 11.3% (as of December 18, 2020) compared to last fortnight and increased on y-o-y basis (10.1% as of December 20, 2019). Whereas, in value terms the bank deposits have declined compared with previous fortnight (decreased by around Rs.1 lakh crore). This similar trend has been observed in the last few years wherein deposits (value) declined during last fortnight of December. Moreover, as on December 18, 2020 the liquidity surplus in the banking system stood at Rs.4.6 lakh crores. The liquidity surplus can be ascribed to deposit growth outpacing credit growth persistently.
- However, government borrowings (Central: Rs 50,000 crores and States: Rs 20,785 crores) limited the banking system liquidity surplus during the fortnight. However, 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 89.2% of aggregate deposits (89.6% share as on December 20, 2019) grew at a slower pace compared to demand deposits which account for the balance 10.8% (10.4% share as on December 20, 2019).

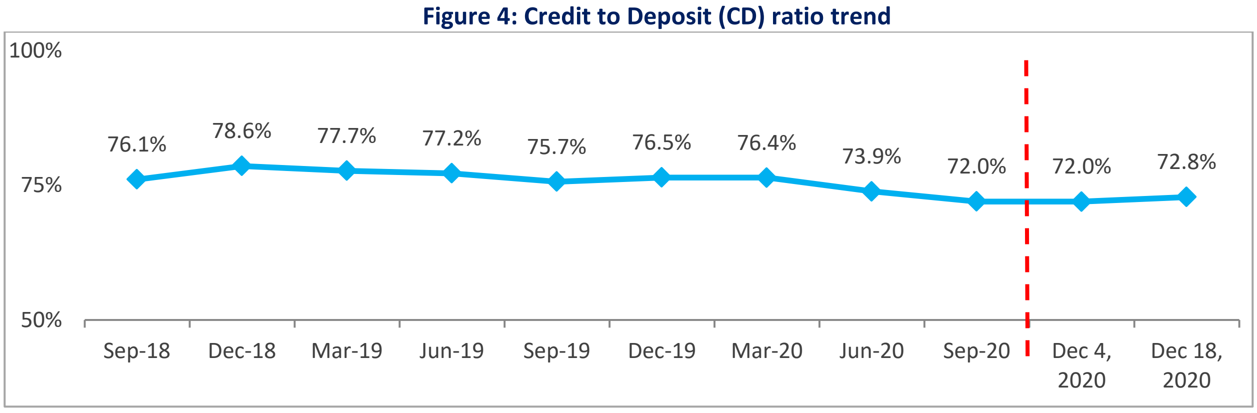
Figure 3: Demand Deposits and Time Deposits growth trend

Rs in lakh crore	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec 4, 2020	Dec 18, 2020
Demand Deposits	13.1	11.9	15.1	12.9	14.1	13.5	16.2	14.5	15.8	16.0	15.7
% growth y-o-y	5.9%	4.9%	10.3%	9.6%	7.6%	13.8%	7.0%	12.7%	11.9%	16.0%	15.7%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	129.9	129.2
% growth y-o-y	8.4%	9.7%	10.0%	10.1%	9.6%	9.7%	8.1%	10.8%	10.3%	10.8%	10.8%

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

- The Credit to Deposit (CD) ratio increased for the first time post Covid Lockdown, but this is likely a feature of lower denominator due to lower deposits which is a normal calendar feature. CD ratio remained low compared to March 2020 as well as last year's level; owing to slower growth in credit. On the other hand, if we assume credit investments (includes regular credit investments and investments due to TLTROs, PCGS, etc.) to be at Rs.8.3 lakh crores for the fortnight ended December 18, 2020 (At October 2020 level as per latest data released by RBI) then the CD ratio would have ranged between 78% to 79%. 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 December 18, 2020, the incremental lending (considering only bank credit) would have been higher by approximately Rs.4.5 to Rs.5.0 lakh crores.

Figure 4: Credit to Deposit (CD) ratio trend

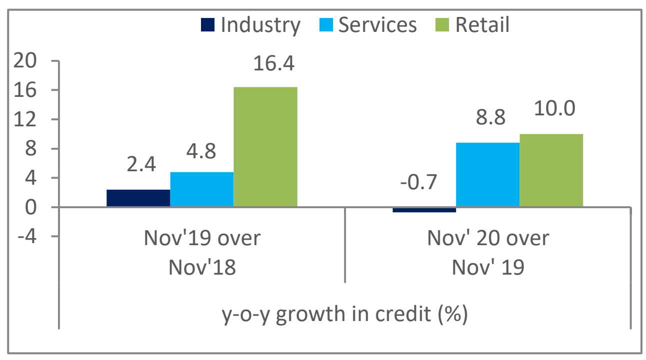


Note: The quarter end data reflects the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

Bank credit growth has been mainly led by increase in retail loans

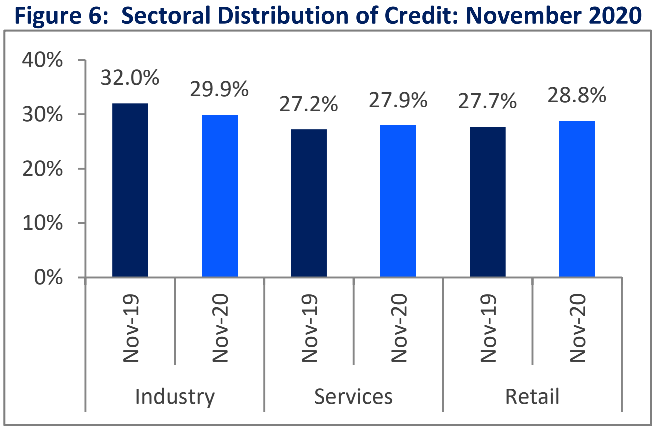
- During November 2020, the retail segment growth has witnessed a bounce back after registering a slower credit growth in September and October 2020. It accounted for 28.8% share of the total credit during the period as compared to 27.7% a year ago.
- Services segment outstanding credit grew by 8.8% and industrial segment registered de-growth of 0.7% during the same period.

Figure 5: Trend in sectoral credit growth (%)



Source: RBI, CARE Ratings (refer report '*Bank Credit Profile: November 2020 – NBFCs registered lowest growth in last 3 years*')

Figure 6: Sectoral Distribution of Credit: November 2020



Note: The remaining percentage share in both Nov-19 and Nov-20 accounts for 'Food Credit' and 'Agriculture & Allied Activities'
Source: RBI, CARE Ratings (refer report *'Bank Credit Profile: November 2020 – NBFCs registered lowest growth in last 3 years'*)

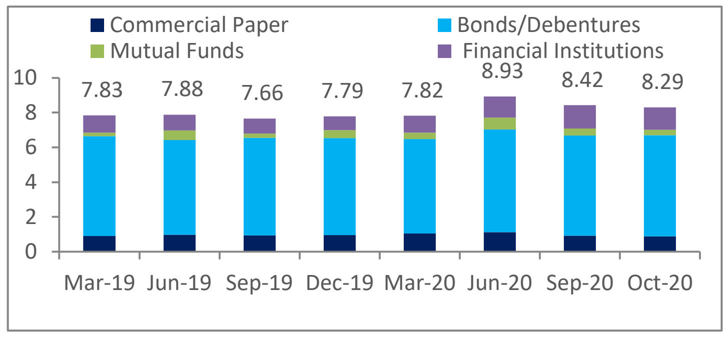
- The share of industrial segment continues to be the highest in the total outstanding credit followed by retail and services segment.
- Large industries account for 82.3% share (83.2% share in November 2019) in the total outstanding credit to industries and this segment reported a reduction of 1.8% in November 2020 vs. a growth of 3.0% in November 2019.
- Micro, small & medium industries grew by 5.0% in November 2020 supported by ECLGS as compared with de growth of 0.6% in November 2019. Within MSME, micro & small industries registered a marginal growth of 0.5%, while medium industries registered a growth of 20.9%, and large industries registered a de growth, resultantly the overall industry registered a negative growth.

- Though infrastructure has the maximum share of 36.6% in the total bank credit outstanding to industries, it registered a de growth of 1.8% as of November 2020 as compared with growth of 8.0% a year ago.
- Tourism, Hotels & Restaurant segment registered a highest growth of 18.0% (13.1% in November 2019), followed by Trade segment with a growth of 14.7% in November 2020 (4.6% in November 2019). Professional services and Shipping segment registered a de growth of 24.7% and 20.5% respectively in November 2020. Of total 9 segments, 7 segments registered growth.
- NBFCs which form the largest part in the total credit outstanding to the services sector (30.7% share in November 2020) has registered a lowest growth of 7.8% in last 3 years. Trade and commercial real estate segment has a share of 22.4% and 9.1% in the total credit outstanding to the services sector.
- Housing loans continues to remain the single largest segment of lending in outstanding credit to retail/personal loan portfolio at 52.3% share of the total credit outstanding in the personal/ retail loan segment. However, the growth has slowed down to 8.5% in November 2020 as compared with 18.3% in November 2019.

Bank credit investments increased from a year-ago level

- SCBs credit investments increased by 3.6% in October, 2020 compared with the year-ago period (October 2019) aided by LTRO, TLTRO, PCG schemes of RBI/Government of India.
- Additionally, SCBs credit investments stood at 8.0% of the total bank credit, as of October, 2020 (similar level observed in the previous year).
- Bonds and debentures accounted for the highest share in SCBs credit investments at 70.0% in October 2020 (vs. 70.3% share in October 2019), followed by financial institutions and CPs at 15.5% and 10.7%, respectively (10.4% and 12.2% respectively in October 2019) and mutual funds at 3.8% (7.1% in the year-ago period).
- Within bonds and debentures, private corporate bonds and debentures accounted for 52.8% share of bonds/debentures; the public sector accounted for 21.5% and the balance 25.7% is made up by others.
- In FY21 (April – November), the total corporate bond issuances amounted to Rs. 4.90 lakh crores, 27% higher than Rs. 3.86 lakh crores in the same period last year. Over 40% of the issuances have been raised by public sector undertakings (PFC, REC, HUDCO, NABARD, NHB, NTPC, NHAI, EXIM, IRFC among others). (refer report *'Debt Market Updates for November 2020'*)

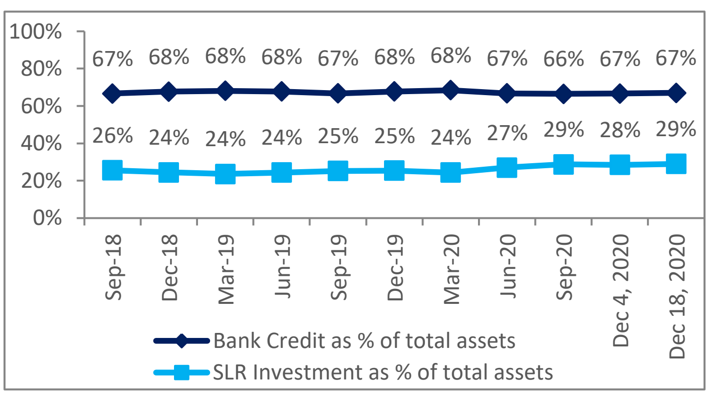
Figure 7: SCBs Credit Investment (Rs in lakh crores)



Source: RBI

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

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



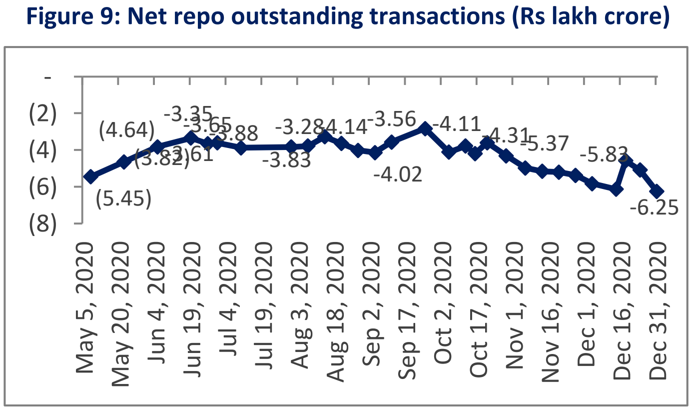
Note: The quarter end data reflects the last fortnight data of that particular quarter; 2) Total assets = Cash in hand + Assets with the Banking System + Investments + Bank Credit; Source: RBI, CARE Ratings

- The share of bank credit to total assets stood stable at 67% during the last two fortnights.
- Considering credit investment to be at Rs.8.3 lakh crore (October 2020 level), the bank credit to total assets (including credit investments) would be ~72% for the fortnight ended December 18, 2020.
- Proportion of SLR investment to total assets has increased by 1% as compared with last fortnight and stood at 29% for the fortnight ended December 18, 2020. The SLR investments grew at 22.1% YoY compared with 11.2% in the previous year and 19.0% in previous month led by banks increased preference for government securities and as RBI has allowed banks to hold fresh acquisitions of SLR investments under HTM.

Liquidity in the banking system continued to remain in surplus position

- The outstanding liquidity in the banking system as of December 31, 2020 aggregated Rs.6.25 lakh crore, higher than a month ago (November end) level of Rs. 5.37 lakh crore .
- Government borrowings during December (Central: Rs.0.72 lakh crores and states: Rs.0.34 lakh crores) limited the banking system liquidity surplus.
- Also, the notable widening of liquidity surplus can be ascribed to deposit growth outpacing credit growth persistently.
- As mentioned above, the liquidity surplus is approximate to reduction in Credit Deposit ratio, indicating that the liquidity largely arises 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: December 1 - 4, 2020', 'Weekly Liquidity Report: December 7 - 11, 2020', 'Weekly Liquidity Report: December 21 - 24, 2020' and 'Weekly Liquidity Report: 28 December'20 – 1 January'21'; Source: RBI

Yields of G-secs and corporate bonds declined in secondary market

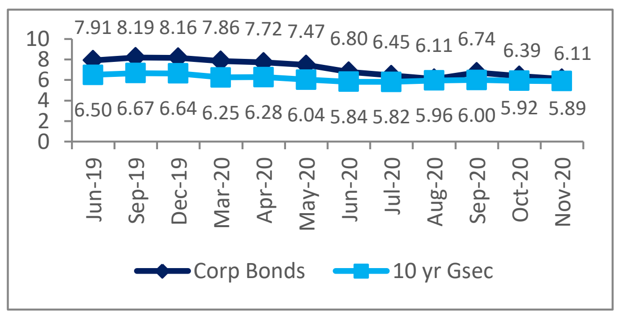
Figure 10: Issuer-wise corporate bond yields in the primary markets (in %)

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	6.86	6.62	7.03	6.95
Jul-20	6.06	7.28	7.25	8.31
Aug-20	6.00	5.41	5.93	6.74
Sep-20	6.84	6.04	5.98	6.22
Oct-20	6.19	6.93	5.98	5.94
Nov-20	6.67	5.71	6.63	7.16

Note: *Others include banks and manufacturing companies.
Source: Prime Database; CARE Ratings' Calculation

- As given in '*Debt Market Updates for November 2020*'; the weighted average yield of corporate bond issuances across all rating categories and maturities increased by 44 basis points to 6.88% compared with the previous month (6.44% in October 2020) though was 15 bps lower than that in April 2020 (7.03%). It was however, 147 bps lower than 8.35% last year.
- The cost of issuances for key segments, i.e. All India Financial Institutions (AIFs), Housing Finance Companies (HFCs), Non-Banking Financial companies (NBFCs) and Non-NBFCs in the AAA rating category and the consequent changes in the yields shows mixed picture. When compared with October 2020, the weighted average yields of AIFs rose by 48 bps to 6.67% in November 2020. The cost of borrowings by AAA rated HFCs decreased by 1.21% to 5.71%. On the other hand, the cost of borrowings by AAA rated NBFCs increased by 64 bps while that of others including manufacturing and banks were 1.22% higher than the previous month.
- As can be seen in Figure 11, the secondary market yields of government and corporate debt securities (across all rating categories and maturities) declined in November 2020 from month ago.
- The average yield of the 10 year benchmark GSec fell by 3 bps to 5.89% in November 2020 from that in October 2020. The decline in GSec yields was aided by the RBI's measures announced in the monetary policy (9 Oct'20) to boost demand for government securities viz. increase in OMO purchases, liquidity infusions through TLTRO, and increased time limit for keeping government bonds in HTM category (till March 2022).
- Corporate bond yields (weighted average yields across all rating categories and maturities) at 6.11% in November was 28 bps lower than that in the preceding month. In case of commercial paper, the average yields dropped by 13 bps to record lows of 3.19%. Yields (weighted average) of corporate bonds and commercial papers have declined by 161 bps and 163 bps respectively since April 2020.

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 increased in November 2020

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
31-Jul-20	5.83	0.75	1.26	1.64	2.04	3.54	3.79	4.54	4.79	5.04	5.54
31-Aug-20	6.12	0.73	1.18	1.57	1.98	3.48	3.73	4.48	4.73	4.98	5.48
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

Source: FIMMDA

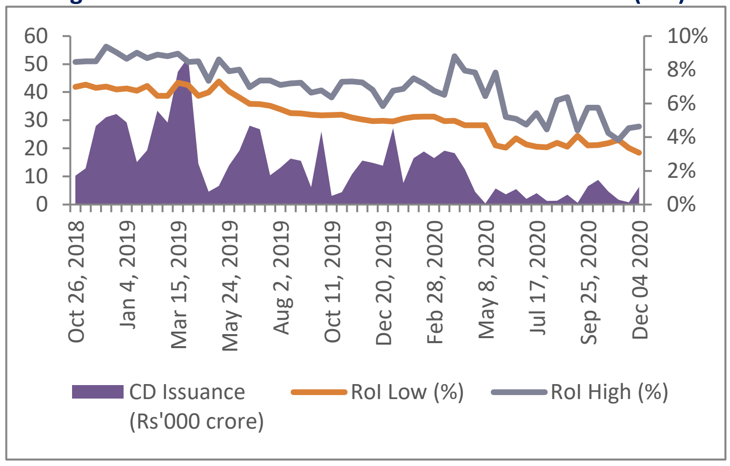
- The risk perception of corporate bonds rose in November 2020 from month ago as was highlighted by the widening of the spread between corporate bonds and the bench mark government securities of comparable maturity (10 years).
- The comparison of yield spreads on the last day of November 2020 with that of end October 2020 showed that the yield spreads for corporate bonds across rating categories from AA- to BBB- was 11 bps higher. In case of AAA rated bonds the spread widened by 6 bps and for AA+ rated bonds it rose by 7 bps.

O/s Level of CDs and CPs increased on m-o-m basis

Figure 18: Certificates of Deposit Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Jun 22, 2018	174.5	57.0%
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%
Nov 20, 2020	67.7	-60.6%
Dec 04 2020	69.4	-57.3%

Figure 19: Trend in CD issuances and rate of interest (RoI)

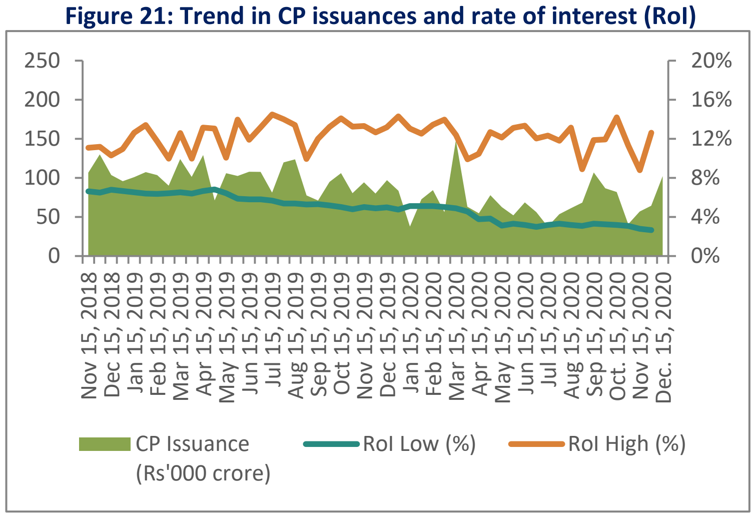


Note: The quarter end data reflects the last fortnight data of that particular quarter; Source: RBI

Figure 20: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Jun 30, 2018	491.8	49.3%
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%
Nov. 30, 2020	373.1	-19.2%
Dec. 15, 2020	390.6	-14.8%

Figure 21: Trend in CP issuances and rate of interest (RoI)



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

Select RBI Announcements

Announcement	Details
Report on Trend and Progress of Banking in India 2019-20	• The Reserve Bank of India released the Report on Trend and Progress of Banking in India 2019-20. This Report presents the performance of the banking sector, including co-operative banks, and non-banking financial institutions during FY20 and H1FY21. • The broad theme of this year's report is the impact of COVID-19 on banking and non-banking sectors, and the way forward.
RBI Cautions against unauthorized Digital Lending Platforms/Mobile Apps	• There have been reports about individuals/small businesses falling prey to growing number of unauthorized digital lending platforms/Mobile Apps on promises of getting loans in quick and hassle-free manner. • These reports also refer to excessive rates of interest and additional hidden charges being demanded from borrowers; adoption of unacceptable and high-handed recovery methods; and misuse of agreements to access data on the mobile phones of the borrowers.

Source: RBI

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