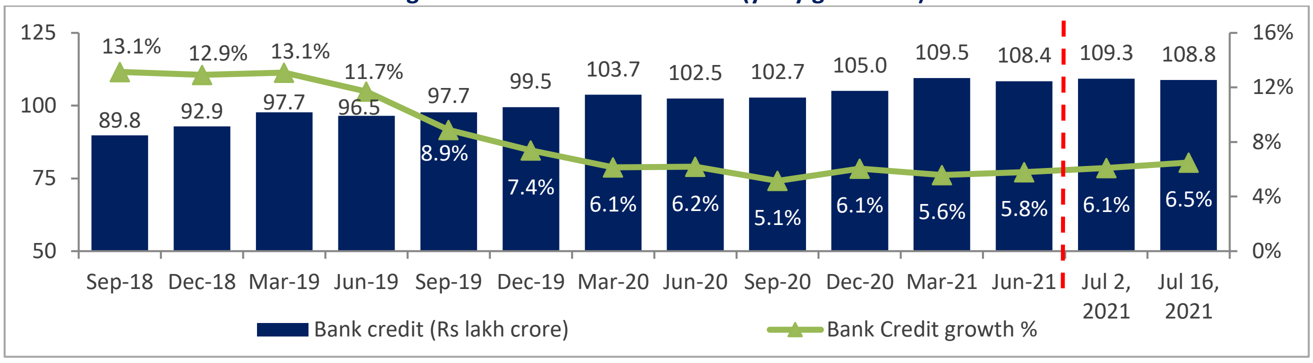
Credit and Deposit growth picked up

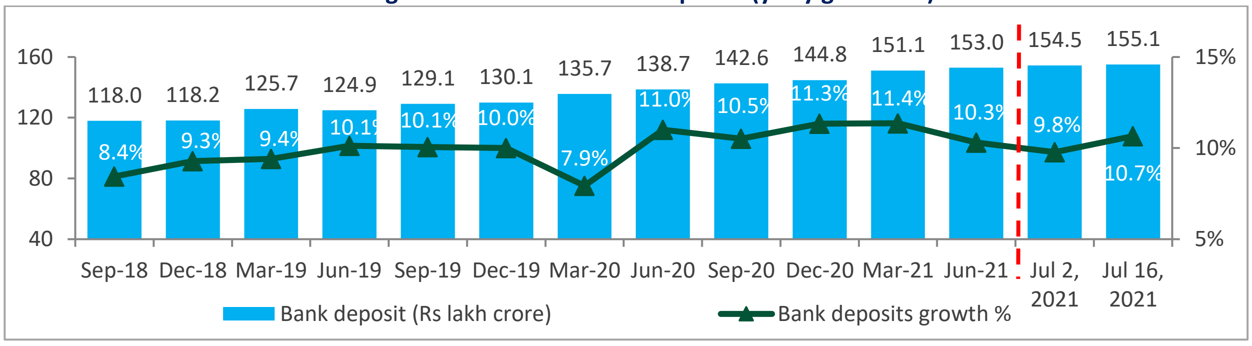
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- The y-o-y credit growth rate for the current fortnight increased when compared with the y-o-y credit growth rate in the previous month due to the base effect and as restrictions eased gradually across select regions in India. If compared with previous year, credit growth rate improved to 6.5% (5.8% for fortnight ended July 17, 2020).
- In absolute terms, credit offtake increased by Rs.6.6 lakh crore over the last twelve months but declined by Rs.0.4 lakh crore as compared with the previous month. The bank credit growth continues to remain subdued as compared with the period prior to pandemic, which can be ascribed to risk aversion (both lenders and borrowers) which has resulted in continued parking of excess liquidity with RBI.
- The retail and agriculture sectors have continued to drive the overall credit growth (double-digit y-o-y growth in the month of June 2021). Whereas negative growth in industry and slower growth in services segments (excluding the MSME segment) restricted the overall credit growth. The lower credit offtake by industry and the service sector can be attributed to lower borrowing by businesses as good quality borrowers have shifted to capital markets (corporate bond issuance was higher by 27% in June 2021 as compared with issuances in May 2021 as per provisional data from prime database), consequent to restrictions under the pandemic's second wave.
- The credit growth for FY22 is likely to remain in low double digit with growth largely expected in the H2FY22 led by gradual expansion in economic activities. The recent additional measures by Government (e.g., rate cuts, extension in TLTRO, additions to the ECLGS scheme, liquidity support along with special liquidity facility (announced on June 04, 2021) of Rs.16,000 crore to be provided to SIDBI for on-lending over and above Rs.15,000 crore which was provided in April 2021 would help support disbursements in MSME segment and on-tap liquidity window of Rs 50,000 crore for health care infrastructure to boost provision of immediate liquidity for Covid-related health care infrastructure and services in the country) to mitigate pandemic-related stress are expected to improve credit offtake. The downside risks include limited capex plans, partial restrictions in key states and concerns over the third wave, which may impact the industrial as well as service segments.

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 improved during the period ended July 16, 2021, as compared with previous month. The growth is largely stable as compared with 10.8% y-o-y growth registered in the previous year (fortnight ended July 17, 2020).
- In absolute terms, the bank deposits have increased by around Rs.15.0 lakh crore over the previous year and reached a new high since last 24 years. If we compare it with the previous fortnight, bank deposits grew by Rs.0.6 lakh crore. The marginal lower growth rate (y-o-y) in deposits can be partly attributed to the base effect and fall in deposits rate of banks (weighted average domestic term deposit rate of SCBs fell by 83 bps between June 2020 and June 2021).
- Moreover, the liquidity surplus in the banking system stood at Rs.7.58 lakh crore during the month ended July 30, 2021. The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth.
- As given in figure 3, time deposits account for 88.1% of aggregate deposits (89.4% share as on July 17, 2020) grew at a slower pace compared to demand deposits, which accounted for the balance 11.9% (10.6% share as on July 17, 2020).

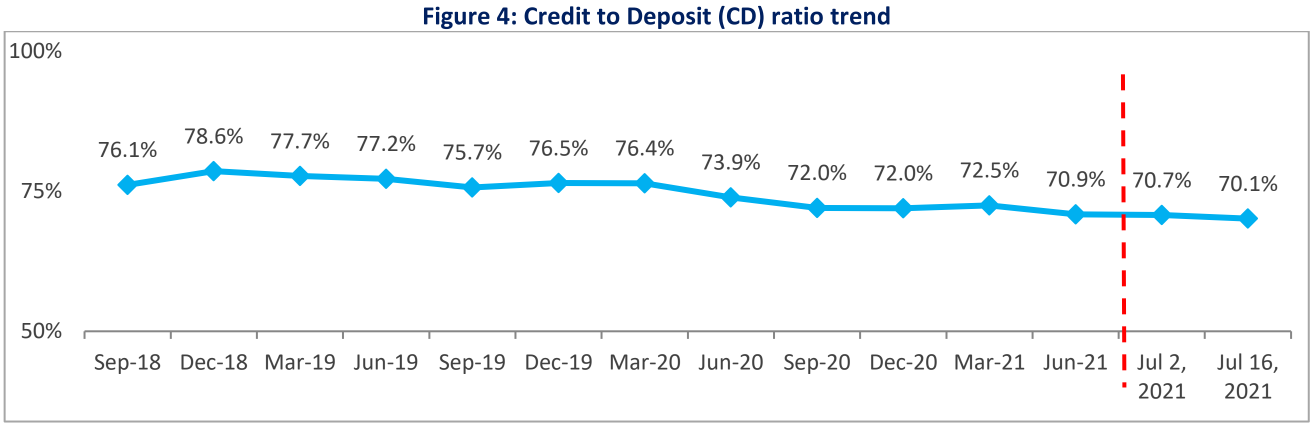
Figure 3: Demand Deposits and Time Deposits growth trend

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-21	Jun-21	Jul 2, 2021	Jul 16, 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	17.5	17.5	18.5
% 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%	20.8%	15.9%	23.9%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	129.2	132.5	135.4	137.0	136.6
% 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%	9.1%	9.0%	9.1%

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

- Bank deposits have continuously grown faster than bank credit in every fortnight since late September 2019 pushing down CD ratio by around 5%. A large part of this higher deposit flow can be seen as excess liquidity, which is being parked with the RBI under the reverse-repo window. The Credit to Deposit (CD) ratio stood at 70.1%, largely at similar level in last fortnight, while declined by around 3% as compared with previous year (72.9% as on July 17, 2020), owing to slower growth in credit. On the other hand, if we assume credit investments to be at Rs.8.6 lakh crore (at May 2021 level as per the latest data released by RBI) for the fortnight ended July 2, 2021, then the CD ratio would be around 76% (level that was last observed in March 2020).
- Considering the addition in credit outstanding over the last 12 months to be at Rs.6.6 lakh crore and additions in credit investment to be at Rs.0.1 lakh crore over additions in deposits (Rs.15.0 lakh crore), the proportion would have been around 45% which is lower as compared with around 47% in previous fortnight (addition in credit outstanding plus additions in credit investment over additions in deposits).

Figure 4: Credit to Deposit (CD) ratio trend

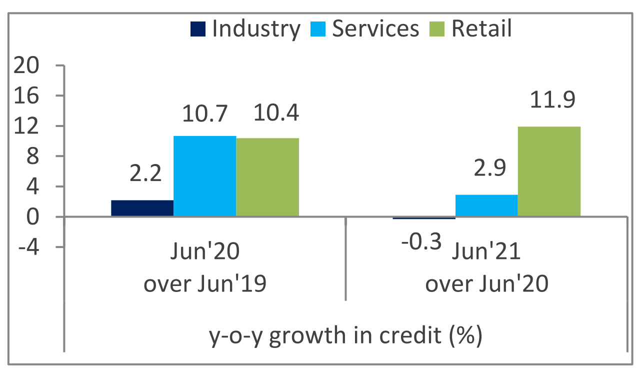


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

Retail and Agriculture sectors continue to drive bank credit growth

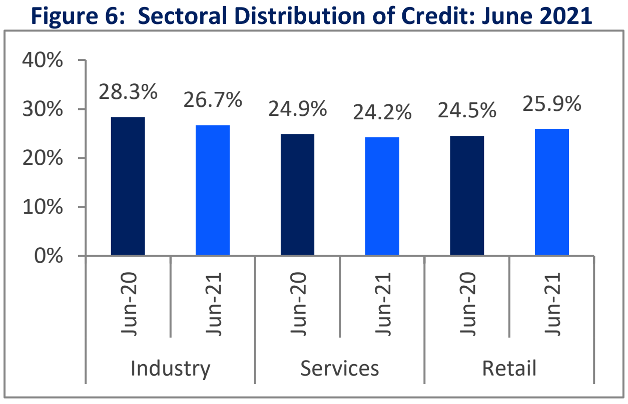
- The retail loan and agriculture & allied segment recorded highest growth of 11.9% and 11.4% respectively (y-o-y) in June 2021 compared with 10.4% and 2.4%, respectively, in the previous year. The retail segment accounted for around 25.9% share of the total credit during the period as compared with 24.5% a year ago.
- On the other hand, contraction in the industrial segment and slower growth in services segment continue to restrict the overall credit growth in June 2021.

Figure 5: Trend in sectoral credit growth (y-o-y %)



Source: RBI, CARE Ratings (refer report *‘Bank Credit Deployment Update: Retail and Agriculture sectors continue to drive credit growth in June 2021’*)

Figure 6: Sectoral Distribution of Credit: June 2021



Note: The balance percentage share in both Jun-20 and Jun-21 accounts for ‘Food Credit’ and ‘Agriculture & Allied Activities’
Source: RBI, CARE Ratings; (refer report *‘Bank Credit Deployment Update: Retail and Agriculture sectors continue to drive credit growth in June 2021’*)

- 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 81.8% share (84.4% share in June 2020) in the total outstanding credit to industries and this segment reported a drop of 0.3% in June 2021 vs. a growth of 2.2% in June 2020.
- Micro, small & medium (MSME) industries grew by 16.6% in June 2021 (which partially offset the fall in large segments) as compared with a drop of 4.3% in June 2020. The growth in lending to industry and services was almost entirely led by MSME segment, which was driven by disbursements under ECLGS scheme wherein Rs.2.14 lakh crore were disbursed up till date.
- Infrastructure has the largest share of 38.1% in the total bank credit outstanding to industries, registered a growth of 2.2% in June 2021 as compared with a growth of 4.2% a year ago.
- The services segment registered a significantly slower growth, largely due to fall in growth of NBFCs, Commercial Real Estate (CRE) and transport operators’ segment. Of all the segments, shipping segment (0.3% share) grew

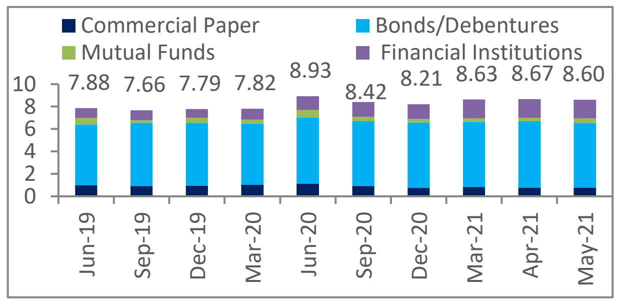
the fastest at 32.0%, while NBFCs (the largest segment accounting for 34% share) grew at a rate of -2.2% which further impacted the overall credit growth compared with significantly faster rate of 29.5% witnessed last year.

- Housing loans continue to remain the single-largest segment at 52.6% share of lending in the outstanding credit to retail/personal loan portfolio. However, this segment grew by 9.7% as compared with a growth of 12.6% in the same period year ago.

Bank credit investments declined from a year-ago level

- SCBs credit investments declined by 2.6% in May 2021 compared with the year-ago period (SCBs credit investment had increased by around Rs.0.80 crore in May 2020 over April 2020 which is the highest m-o-m increase in the last four years which was owing to lower bank credit that led to an increase in credit investments by banks during the time of lockdown as a result of outbreak of Covid-19).
- SCBs credit investments stood at 7.9% of the total bank credit, as of May 21, 2021 (marginally lower than last year; 8.1% in May 2020).
- Bonds and debentures accounted for the highest share in SCBs credit investments at 67.1% in May 2021 (vs. 65.4% share in May 2020), followed by financial institutions and CPs at 19.1% and 9.1%, respectively (13.9% and 13.6%, respectively, in May 2020) and mutual funds at 4.7% (7.0% in the year-ago period).
- Within bonds and debentures, private corporate bonds and debentures accounted for 53.0% share of bonds/debentures (50.0% share in May 2020); the public sector accounted for 21.0% and others account for the balance 26.0%.

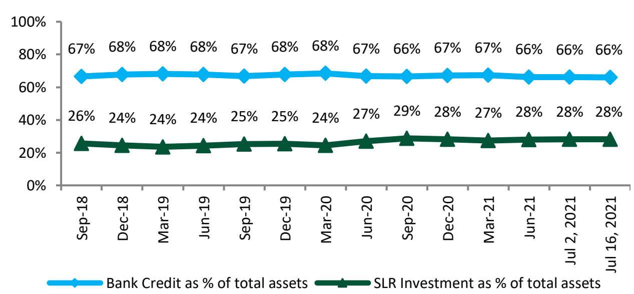
Figure 7: SCBs Credit Investment (Rs in lakh crores)



Source: RBI

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

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



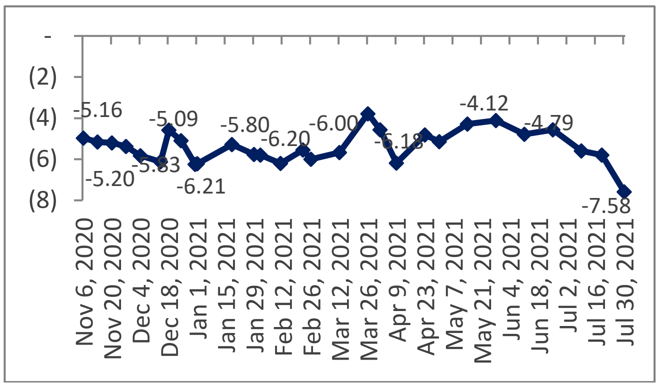
Note: The quarter-end data reflect the last fortnight data of that particular quarter; 2) Total assets = Cash in hand + Assets with the Banking System + Investments + Bank Credit; Source: RBI, CARE Ratings

- The share of bank credit to total assets stood stable in the fortnight ended July 16, 2021, as compared with previous fortnight.
- Considering credit investments to be at Rs.8.6 lakh crore (as on May 21, 2021), bank credit (including credit investments) to total assets would have been around 71% for the fortnight ended July 16, 2021. Additionally, the growth in credit investments stood at 1.4% y-o-y in May 2021; while bank credit growth stood at 6.0% y-o-y in May 2021.
- Proportion of SLR investment to total assets stood at similar levels during the last two fortnights. In absolute terms, SLR investments grew by 11.2% y-o-y as compared with a growth of 19.9% a year ago, and stood flat as compared with the previous fortnight. 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 July 30, 2021, aggregated to a record high at Rs.7.58 lakh crore, higher than a month ago (June 30, 2021) level of Rs.5.90 lakh crore. This increase can be in large part be put down to the month end inflows towards salaries and pensions and lower credit outflows.
- Government borrowings during July 2021 (Central: Rs.0.60 lakh crore and States: Rs.0.23 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 '<u>Weekly Liquidity Report: 28 June-2 July, 2021</u>', '<u>Weekly Liquidity Report: 12-16 July, 2021</u>', '<u>Weekly Liquidity Report: 12-16 July, 2021</u>', '<u>Weekly Liquidity Report: 19-23 July, 2021</u>' and '<u>Weekly Liquidity Report: 26-30 July, 2021</u>'; Source: RBI

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

- As given in *'Debt Market Review -June 2021'*; the borrowing cost for the corporates from the corporate bond market rose to a 12-month high of 7.53% (weighted average) in June 2021 which was a 134 bps increase over May 2021. The cost of borrowing for corporate bonds during June 2021 was however 13 bps lower than that in June 2020.

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
Mar-21	6.68	7.00	7.32	8.77
May-21	6.63	5.95	6.17	7.44
Jun-21	6.32	6.44	8.52	7.11

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

- The cost of issuances for non-banking financial companies (NBFCs) and housing finance companies (HFCs) witnessed a rise in June from month ago, while All India Financial Institutions (AIFs) and others have seen moderation.

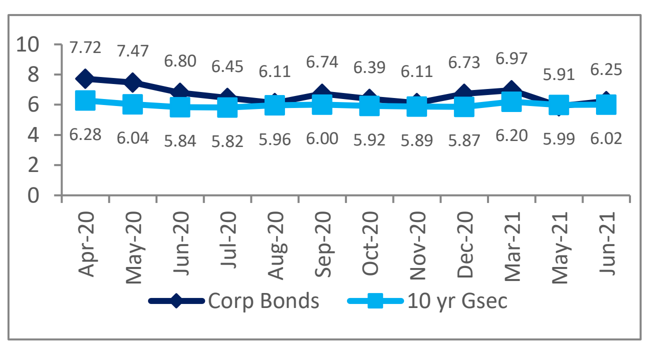
- The cost of borrowing of the NBFC sector rose sharply to 8.52% in June 2021, a 235 bps increase from May 2021, while in case of HFCs, the cost of borrowings at 6.44% in June 2021 saw a 51 bps increase from May 2021.

- 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 June 2021 from that in May 2021.

- The average 10-year benchmark GSec yield in June rose to 6.02%, a 3 bps increase from month ago. Bond yield rose with the firming up of inflation and the central government announcing pandemic relief measures, implying an increase to the already high scheduled market borrowing. The RBI's bond purchase programme, surplus liquidity in the banking system and the status quo in monetary policy helped to limit the rise in yields to an extent.

- Corporate bond yields (weighted average yields) in the secondary market stood at 6.25% in June which was 34 bps higher than in May. In the case of commercial paper, the average yields inched up by 3 bps (month-on-month) to 3.50%. The rise in yields of corporate debt securities can be attributed to the firming of GSec yields. At the same time, the surplus liquidity in the banking system and demand from mutual funds supported demand for these securities and limited the rise in yields. Net inflow into the corporate bond funds and liquid funds stood at Rs.530 crore and Rs.2,078 crore, respectively, as against the net outflows in May 2021 (Rs.1,468 crore in corporate bond funds and Rs.45,447 crore in liquid funds).

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 June 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
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
31-May-21	6.02	0.45	0.91	1.17	1.57	3.07	3.32	3.82	4.32	4.57	5.07
30-Jun-21	6.05	0.43	0.90	1.18	1.58	3.08	3.33	3.83	4.33	4.58	5.08

Source: FIMMDA; 'Debt Market Review -June 2021'

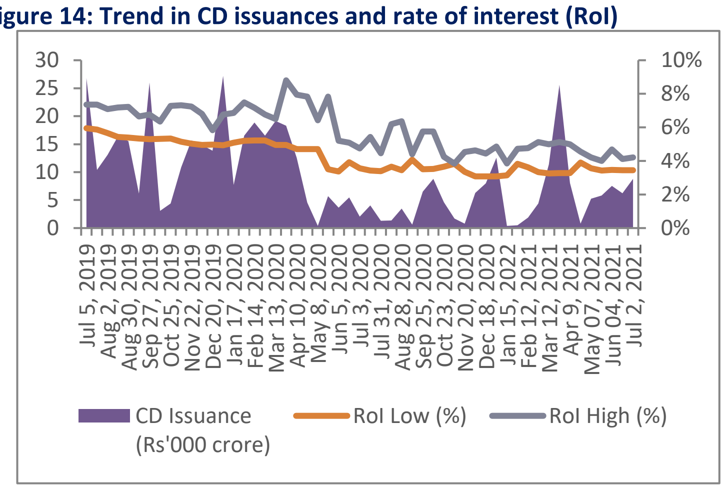
- The risk perception of the higher rated corporate bonds narrowed marginally while that of the lower rated ones witnessed a slight increase as of end June 2021 as was highlighted by the narrowing of spread between corporate bonds and the bench-mark government securities of comparable maturity (10 years).
- The comparison of yield spreads in June 2021 with that of May 2021 showed that the yield spreads for corporate bonds narrowed for bonds rated AAA to AA by 1 to 2 bp and the spreads rose by 1 bp for bonds rated AA- to BBB-.

Compared with the last year, o/s level of CDs declined while CPs increased. Conversely, both the parameters increased vs. the 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 26, 2021	80.1	-53.7%
Jun 18, 2021	68.2	-43.8%
Jul 2, 2021	69.3	-38.4%

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

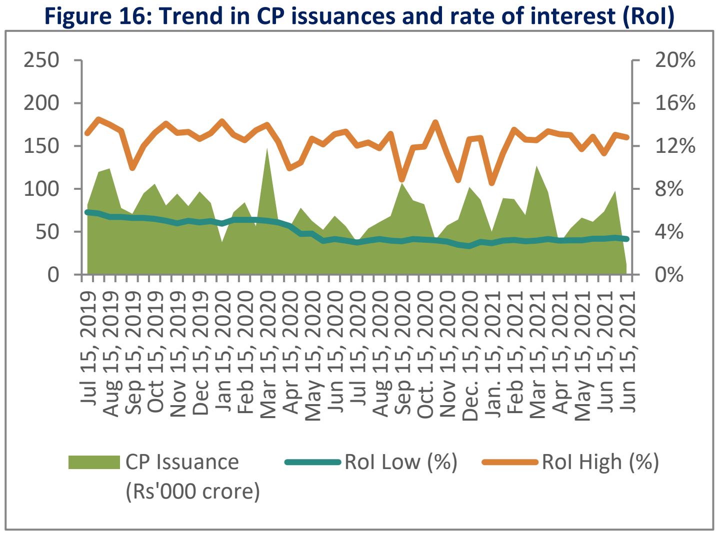


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

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%
Jun 30, 2021	376.1	-3.9%
Jul 15, 2021	471.2	17.0%

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
Key takeaways from RBI's Credit Policy	• RBI has retained the policy rate (repo rate) at a record low of 4% and has maintained the accommodative monetary policy stance. The repo rate was last revised in May 2020 and thus this is the 7th consecutive policy in which the RBI has maintained status quo. • The RBI has also indicated that it would continue to ensure that there is ample surplus liquidity in the banking system to enable lending and thereby stimulate demand in the economy. • Extension of deadline of on-tap TLTRO for stressed sectors (including NBFCs) further by a period of 3 months till December 31, 2021. • Bank will be permitted to avail of funds under the marginal standing facility (MSF) by dipping into the Statutory Liquidity Ratio (SLR) up to an additional one per cent of net demand and time liabilities (NDTL) for an additional 6 months i.e., up to December 31, 2021. • Inflation outlook for FY22 reads as 5.7%, 0.6% higher than the earlier forecast. The estimates for all the three quarter, i.e., Q2 to Q4 FY22 have been raised by an average 0.5%. • GDP growth forecast has been retained at 9.5% for FY22. • Extension of deadline for achieving financial parameters under resolution framework from March 2022 to October 2022 due to the impact of second wave of COVID-19. • For more details refer report "Analysis of Monetary Policy".
Access for Non-banks to Centralised Payment Systems	• RBI to encourage participation of non-banks in Reserve Bank of India-operated Centralised Payment Systems (CPS), viz., Real Time Gross Settlement (RTGS) and National Electronic Fund Transfer (NEFT) systems, in a phased manner.
Loans and Advances – Regulatory Restrictions	• The Reserve Bank of India (RBI) has relaxed regulatory restrictions on loans and advances to bank directors and their relatives, six years after they were announced. • As per the revised guidelines, the threshold limit for board approval for personal loans granted to directors of other banks has been raised to Rs.5 crore, from Rs.25 lakh.
Reserve Bank of India announces Digital Payments Index (RBI-DPI) for March 2021	• The RBI-DPI index has demonstrated significant growth in the index representing the rapid adoption and deepening of digital payments across the country in recent years.
New Definition of Micro, Small and Medium Enterprises - Addition of Retail and Wholesale Trade	• Ministry of Micro, Small and Medium Enterprises has decided to include Retail and Wholesale trade as MSMEs for the limited purpose of Priority Sector Lending.
Review of Instructions on Interest on overdue domestic deposits	• It has been decided that if a Term Deposit (TD) matures and proceeds are unpaid, the amount left unclaimed with the bank shall attract rate of interest as applicable to savings account or the contracted rate of interest on the matured TD, whichever is lower.
Cessation of LIBOR: Transition arrangements	• Reserve Bank of India (RBI) issued an advisory to banks and other RBI-regulated entities emphasizing the need for preparedness for the transition away from London Interbank Offered Rate (LIBOR).
Retail Direct Scheme: Allowing Retail Investors to Open Gilt Accounts with RBI	• The step taken for improving ease of access by retail investors through online access to the government securities market along with the facility to open their gilt securities account (Retail Direct) with the RBI.
RBI releases the Financial Stability Report, July 2021	• The second wave of pandemic has impacted economic activity. However, Government and RBI measures have helped to provide support to some extent. • The CRAR and PCR ratio of SCBs have improved to 16.0% and 68.9%, respectively. • As per RBI's macro stress test, GNPA ratio of SCBs may increase from 7.5% in March 2021 to 9.8% under baseline scenario and 11.2% under severe stress scenario by March 2022. • The stress test also indicates that, SCBs have sufficient capital, both at individual and aggregate level. (Refer report "Analysis of RBI's Financial Stability Report – July 2021")
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 the same scope and coverage, for a further period of three months, i.e., up to September 30, 2021. The extension takes effect from July 01, 2021 and ends on September 30, 2021 covering a period of three months.

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