Credit Offtake Overcomes Covid-induced Lag to Catch up with Deposit Growth

October 11, 2022 l BFSI Research

Ratings • Advisory • Research • Risk Solutions

Synopsis

- Over the last two years and half years, (i.e. from the last reporting Friday of March 2020) credit offtake has overcome Covid-induced lag and has grown by around 23.0% to almost catch up with Deposit growth of 25.5% over the period.

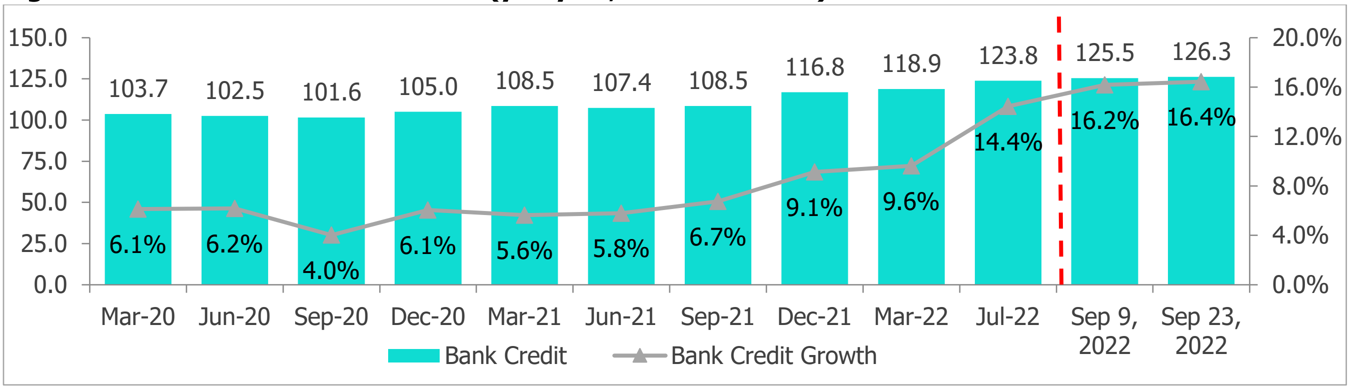
- Credit offtake accelerated at 16.4% y-o-y, reporting robust growth for the fortnight ended September 23, 2022. The growth is driven by retail credit, higher working capital demand amidst high inflation, and lower funds raised in the capital market. It is expected to remain elevated in the short term due to the festival season, and in the range of 12-13% for FY23 as previously estimated by CareEdge.

- RBI increased the repo rate by 50 bps (basis points) to 5.9% on September 30, 2022, taking the total hike by 190 bps exceeding the pre-pandemic rate of 5.4% (August 7, 2019).

- Deposits saw a slower growth at 9.2% y-o-y. For the short-term rates, the Weighted Average Call Rate (WACR) too has increased to 5.45% as of September 23, 2022, from 5.09% as of September 09, 2022. Deposits rates are expected to go up due to rising credit demand, widening credit (16.4%), slower deposit growth (9.2%), ongoing festival season, lower liquidity in the market, and elevated inflation.

Bank Credit Growth Continues on Upward Trajectory

Figure 1: Bank Credit Growth Trend (y-o-y %, Rs. Lakh crore)



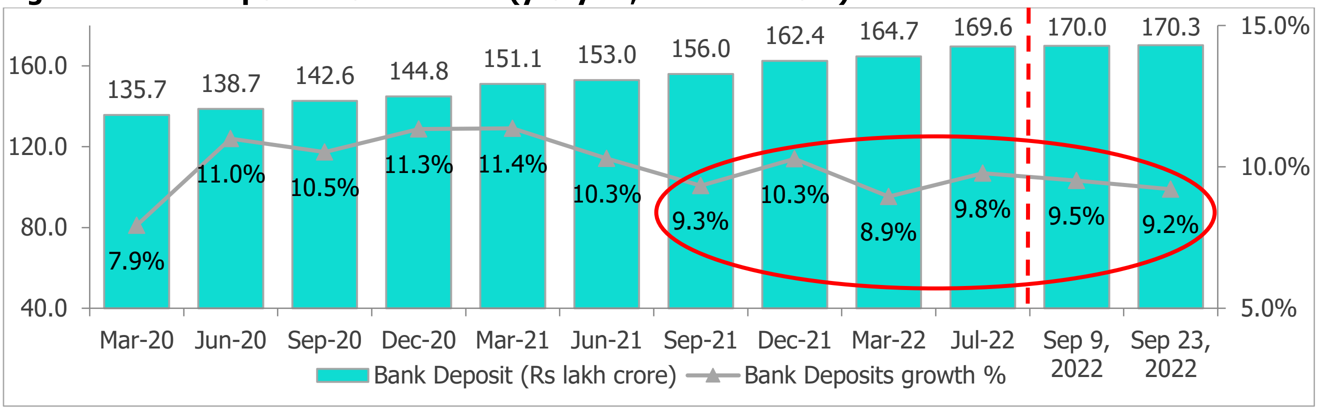
Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Credit offtake saw a 16.4% y-o-y robust growth, expanding by a significant ~970 bps, for the fortnight ended September 23, 2022, due to a low base, retail credit, higher demand for working capital requirement amidst high inflation, and low funds raised in the capital market. It also increased sequentially by 0.6% from the immediate fortnight (ended September 09, 2022). In absolute terms, credit outstanding stood at Rs.126.3 lakh crore as of September 23, 2022, rising by Rs.17.8 lakh crore over the last 12 months.

- The growth has been on an upward trajectory since the latter half of FY22 and has been witnessing double-digit since April 2022. Retail credit growth has been strong due to underlying demand, as credit outstanding saw a robust growth at 19.5% y-o-y in August 2022 driven by the miniaturisation of credit, housing, and vehicle loans. Corporate loans indicate a shift from the capital market to bank borrowings as hardening bond yields have prompted companies to optimize their borrowing cost. The credit outstanding of the industry segment registered a growth of 11.4% y-o-y in August 2022 from 1.5% in the year-ago period due to inflation-induced higher working capital demand, and MSMEs which were driven by ECLGS. The large segment too showed a growth of 6.4% from a drop of 4.1% in the year-ago period. Credit for the services sector also accelerated by 17.2% y-o-y in August 2022 2022 from a growth of 2.1% in the year-ago period primarily due to a rise in NBFCs and trade segments.

- The credit growth is likely to remain elevated in the short term due to the ongoing festival season. Even as RBI has managed domestic inflation to some extent, global inflation has remained high despite hawkish policies. This may lead to demand issues globally causing second-order effects in India. Credit growth is expected to be in the range of 12-13% for FY23 as previously estimated by CareEdge, however rate hikes could hurt credit growth.

Figure 2: Bank Deposit Growth Trend (y-o-y %, Rs. Lakh crore)



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

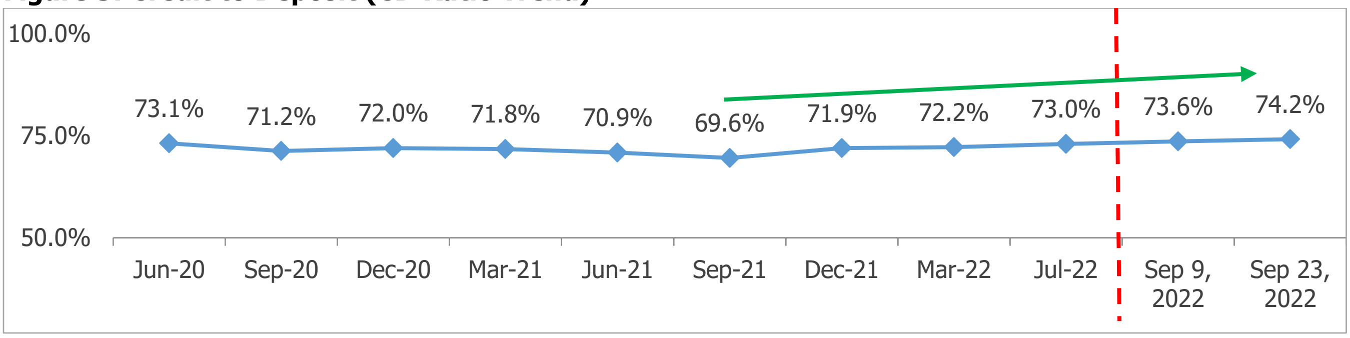
- Deposits stood at Rs.170.3 lakh crore for the fortnight ended September 23, 2022, registering a growth of 9.2% y-o-y. Meanwhile, in absolute terms, bank deposits have increased by Rs.14.4 lakh crore over the last twelve months. The deposits dropped by 0.1% from the immediately preceding fortnight (reported on September 09, 2022). The time deposits grew by 9.3% y-o-y, while demand deposits rose by 8.7% in the reporting fortnight when compared with 8.6% and 15.6% y-o-y, respectively, reported in the fortnight ended September 24, 2021.

- Liquidity surplus in the banking system stood at ~Rs.8.0 lakh crore in early 2022. However, liquidity has generally been trending down with RBI seeking to reduce excess liquidity from the system to manage inflation. According to RBI reports, the liquidity slipped into deficit on September 20, 2022, due to tax outflows. However, the net liquidity stood at around Rs.0.95 lakh crore as of September 23, 2022. Further, it is likely to be tight for FY23, and RBI may prefer to stick to term repo auctions to add funds to the banking system.

- RBI has already increased the repo rate by 190 bps to 5.9% (four hikes) in FY23, so far, and more hikes are anticipated in the current fiscal. Further, average G-sec yields of the 10-year bonds increased to 7.26% in September 2022, from 6.84% in March 2022 and 6.63% in December 2019 (Pre-pandemic level). The hardening bond yields have been driving a shift in the borrowings from the capital market to the banking system.

- The Credit to Deposit (CD) ratio has been increasing since October 2021 and touched 74.2%, expanding by ~460 bps y-o-y from the similar fortnight last year (reported September 24, 2021) and by ~57 bps as compared to the immediate fortnight (reported September 09, 2022) due to faster growth in credit as compared to deposits.
- Considering credit investments to be at Rs.8.04 lakh crore (as of July 29, 2022, as per the latest data released by RBI). The bank credit (including credit investments) to total assets would have been around 71.1% for the fortnight ended September 23, 2022, which was marginally higher by ~23 bps to the previous fortnight (reported September 09, 2022) and by ~45 bps from the fortnight ended September 24, 2021, due to faster growth in credit as compared to total assets. It was also partially offset by a drop in credit investment (credit investment currently stood at Rs.8.04 lakh crore down from Rs.8.54 lakh crore as of September 24, 2021).

Figure 3: Credit to Deposit (CD Ratio Trend)



Note: The quarter-end data reflect the last fortnight's data of that quarter; Source: RBI, CareEdge

Figure 4: Trend in y-o-y movement

	Sep. 25, 2020	Sep. 24, 2021	Sep 23, 2022
Credit	4.0%	6.7%	16.4%
Deposit	10.5%	9.3%	9.2%

Source: RBI, CareEdge

- For the last few years, deposits had been growing at a higher rate, especially when compared to credit. However, in the current year, with the reversal of this trend, the y-o-y change in credit has outpaced deposits.

Figure 5: Growth in Credit Almost Overcomes Covid-induced Lag (Rs. Lakh Crore)

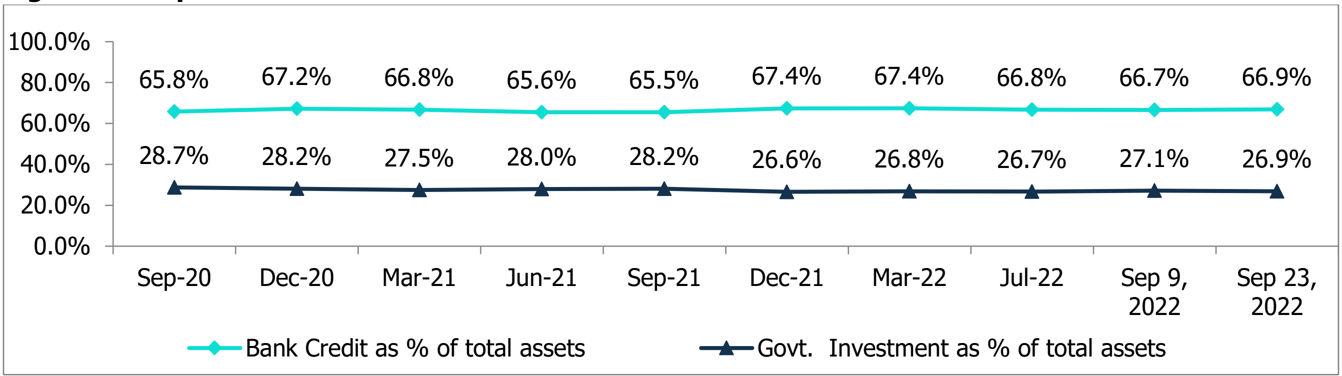
	Deposit	Credit
March 27, 2020	135.7	102.7
September 23, 2022	170.3	126.3
Growth over the period	25.5%	23.0%

- With a growth of 23% over the period, Deposits have almost overcome the Covid-induced lag relative to Deposit growth.

- A significant part of the funding gap has been met by the mobilisation of Certificates of Deposit (CD). The outstanding CDs stood at Rs 2.52 lakh crores as of September 24, 2022, as compared to just Rs 0.6 lakh crore a year ago. Further, the banks are expected to keep their CD issuance elevated to meet their short-term need amid the lower liquidity. Banks are also likely to focus on bulk deposits to meet the rising credit demand.
- The widening gap between credit growth (16.4%) and deposit growth (9.2%) may lead to supply-side issues thereby eventually constraining credit growth. The bulk deposit and retail deposit rates have already gone up, CareEdge anticipates that the rates are likely to increase as banks focus on sourcing deposits on account of strong underlying credit demand driven by the ongoing festival season, elevated inflation, and lower liquidity in the market.

Proportion of Govt. Investments to Total Assets Marginally Up

Figure 6: Proportion of Govt. 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, CareEdge

- The share of bank credit to total assets stood at 66.9%, increased marginally by 23 bps on a sequential basis compared to the fortnight ended September 09, 2022, and increased by ~139 bps when compared with the same fortnight last year (reported September 23, 2021) due to higher credit growth.
- Proportion of Govt. investment to total assets marginally dropped by 22 bps for the fortnight ended September 23, 2022, compared to the previous fortnight (reported September 09, 2022). The Govt. investments stood at Rs.51.0 lakh crore as of September 09, 2022, reporting an 8.8% y-o-y growth, however sequentially it dropped by 0.5% from the immediate fortnight ended on September 09, 2022.

Growth in O/s CDs Remains Elevated, meanwhile, growth in O/s CPs Stays in Range

Figure 7: CD Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 24, 2021	60.2	-20.3%
Oct 08, 2021	59.2	-20.9%
Dec 31, 2021	84.7	13%
Feb 11, 2022	112.6	93.4%
Mar 11, 2022	154.4	168.9%
Apr 22, 2022	201.4	134.8%
May 20, 2022	193.0	113.7%
July 1, 2022	223.8	222.9%
Aug 26, 2022	237.1	269.3%
Sep 09, 2022	243.6	262.8%
Sep 23, 2022	252.2	318.7%

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

Figure 8: Trend in CD Issuances (Rs'000, crore) and RoI

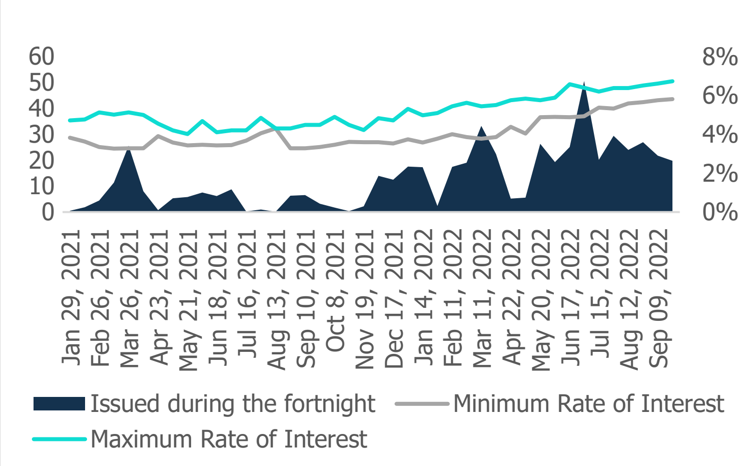
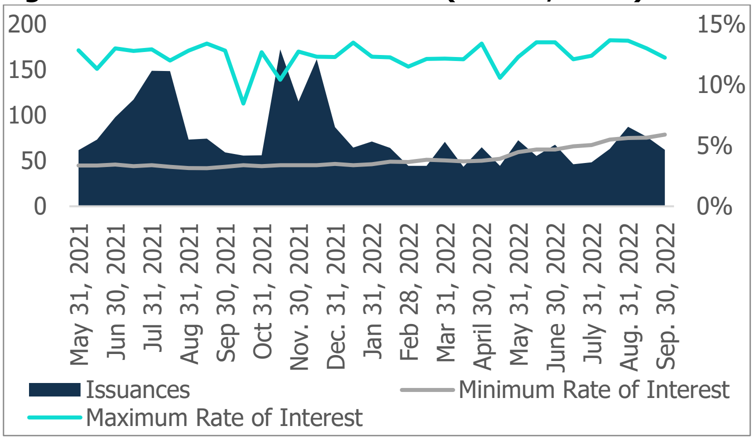


Figure 9: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 30, 2020	362.3	-25.5%
Mar 31, 2021	364.4	5.8%
Sep 30, 2021	371.0	2.4%
Nov 30, 2021	388.4	-0.6%
Dec 31, 2021	350.1	-4.1%
Mar 31, 2022	352.3	-3.3%
Jun 30, 2022	372.5	-1.0%
Aug 31, 2022	410.1	4.7%
Sep 15, 2022	438.7	9.3%
Sep 30, 2022	400.9	8.1%

Figure 10: Trend in CP issuances (Rs'000, crore) and RoI



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

Select RBI Announcements

Announcement	Details
Change in Repo Rate, Bank Rate	The Monetary Policy Committee (MPC) increased the policy repo rate by 50 bps from 5.4% to 5.9% with immediate effect from September 30, 2022. Hence, the Standing Liquidity Facility provided to Primary Dealers (PDs) (collateralised liquidity support) would be available at the revised repo rate of 5.9% with immediate effect. The bank rate is also revised upwards by 50 bps from 5.65% to 6.15% with immediate effect.

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91-22-6754 3582 / +91-81080 07676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careedge.in	+91-22-6754 3519 / +91-900 495 2514
Vijay Singh Gour	Lead Analyst– BFSI Research	vijay.gour@careedge.in	+91-22-6754 3630 / +91-989 378 9622
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91-22-6754 3596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Phone : +91 - 22 - 6754 3456 I CIN: L67190MH1993PLC071691

Connect :

Locations: Ahmedabad I Andheri-Mumbai I Bengaluru I Chennai I Coimbatore I Hyderabad I Kolkata I New Delhi I Pune

About:

CareEdge is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics and detailed research. CARE Ratings Ltd, the parent company in the group, is one of the leading credit rating agencies in India. Established in 1993, it has a credible track record of rating companies across multiple sectors and has played a pivotal role in developing the corporate debt market in India. The wholly-owned subsidiaries of CARE Ratings are (I) CARE Advisory, Research & Training Ltd, which offers customised advisory services, credible business research and analytical services (II) CARE Risk Solutions Private Ltd, which provides risk management solutions.

Disclaimer: