Credit Offtake Stays Robust at 17.2%, To Moderate Once Base Effect Wanes

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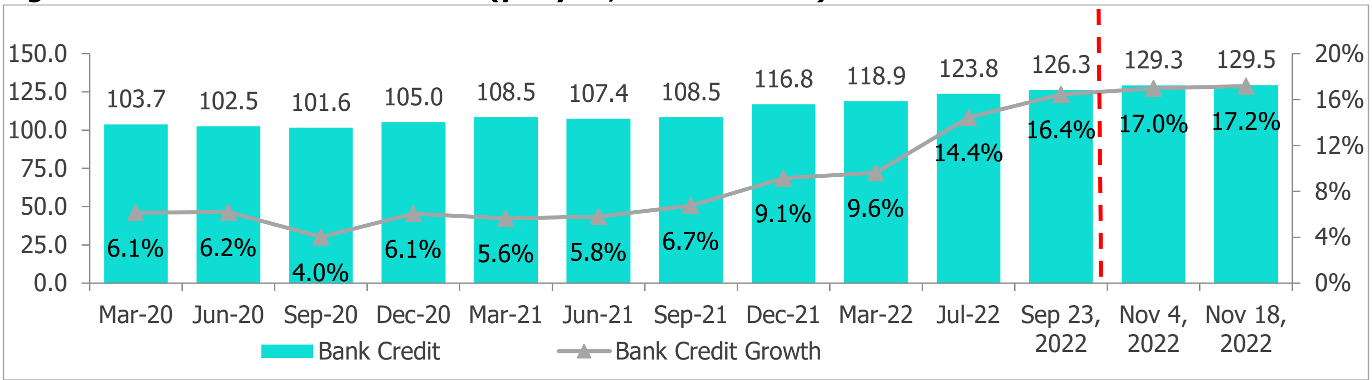
Synopsis

- Credit offtake remained elevated at 17.2% y-o-y, reporting robust growth for the fortnight ended November 18, 2022. The growth is driven by NBFCs, retail credit, inflation-led working capital demand, and a lower base. The benefit of a lower base is anticipated to ease in next few fortnights, optically leading to lower growth rates.
- However, with a large base, deposits saw a slower growth at 9.6% y-o-y. As a result, the short-term Weighted Average Call Rate (WACR) has increased to 5.88% as of December 02, 2022, from 3.3.26% as of December 03, 2021. Deposits rates are expected to go up even further due to rising policy rates, intense competition between banks for sourcing deposits, elevated credit offtake, widening credit deposit gap, lower liquidity in the market, and inflation.
- Over the last couple of years, (i.e., from February 28, 2020) credit offtake has mostly overcome the Covid-induced lag and has grown by around 28.1% to almost catch up with deposit growth of 29.8% over the period.

Bank Credit Growth Remains Resilient

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



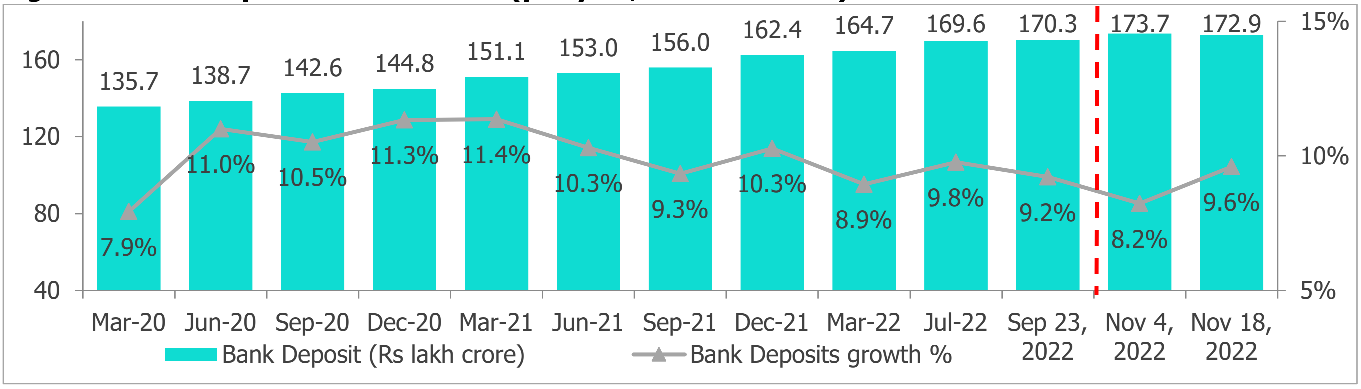
Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect,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

- Credit offtake reported a 17.2% y-o-y growth, expanding by over 1,000 bps, for the fortnight ended November 18, 2022, due to a low base, retail credit, and inflation-led working capital requirement. It also increased sequentially by 0.2% from the immediate fortnight (ended November 04, 2022). In absolute terms, credit outstanding stood at Rs.129.5 lakh crore as of November 18, 2022, rising by Rs.19 lakh crore over the last 12 months.
- The credit growth has been on an uptrend, with wholesale and retail contributing to the same. Credit for the services sector accelerated primarily due to a rise in NBFCs and trade segments. Retail credit growth has been strongly led by miniaturisation of credit, housing, and vehicle loans, and MSME growth has remained elevated due to ECLGS. Corporate borrowings indicate increased bank funding as bond yields have prompted companies to optimize their borrowing cost. Despite a significant increase in lending rates of banks, the headline rates continue to be attractive compared to yields charged in the capital markets. The credit outstanding of the

industry segment also grew due to inflation-induced higher working capital demand. Further demand for new capital expenditure will likely drive the industry's credit growth.

- The credit offtake is anticipated to remain resilient in FY23, while the benefit of lower base will ease out in next few fortnights, optically leading to lower growth rates. A slowdown in global growth due to elevated interest rates, interminable pandemic restrictions in China, and multiple rate hikes in India could impact credit growth.

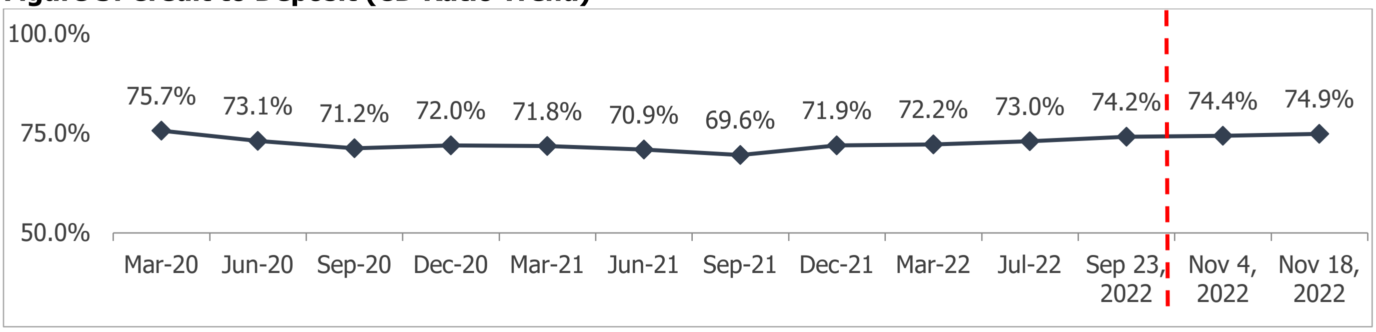
Figure 2: Bank Deposit Growth Trend (y-o-y %, Rs. Lakh crore)



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

- Deposits stood at Rs. 172.9 lakh crore for the fortnight ended November 18, 2022, registering a growth of 9.6% y-o-y. Meanwhile, in absolute terms, bank deposits have increased by Rs.15.2 lakh crore over the last twelve months. The time deposits grew by 9.2% y-o-y, while demand deposits rose by 12.7% in the reporting fortnight vs. 8.5% and 20.5% y-o-y, respectively, reported in the fortnight ended November 19, 2021.
- Liquidity has generally been trending down with RBI seeking to reduce excess liquidity from the system to manage inflation. The banking system liquidity surplus has narrowed to around Rs 1.5 lakh crore from Rs 6.3 lakh crore at the start of FY23.
- RBI has already increased the repo rate by 225 bps to 6.25% (five hikes) in FY23, with additional hikes planned in the current financial year. Further, 10-year G-sec yields reached 7.29% on November 30, 2022, from 6.84% in March 2022 and 6.63% in December 2019 (pre-pandemic level) due to elevated domestic inflation, rate hikes and higher global bond yields. According to CCIL, the 2-year G-sec yield has moved from 4.06% as of November 18, 2020, to 4.66% as of November 18, 2021, and to 6.94% as of November 11, 2022.

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

- The Credit to Deposit (CD) ratio has been increasing since the last twelve months and touched 74.9%, expanding by ~450 bps y-o-y from the similar fortnight last year due to continued faster growth in credit as compared to deposits. However, the CD ratio is yet to reach its pre-pandemic levels of 75.9% as of February 2020.

- Considering credit investments to be at Rs.8.19 lakh crore (as of September 23, 2022, as per the latest data released by RBI). The bank credit (including credit investments) to total assets would have been around 79.6% for the fortnight ended November 18, 2022, which was higher by ~400 bps from the fortnight ended November 19, 2021, due to faster growth in credit as compared to total assets. It was partially offset by a drop in credit investment (credit investment currently stood at Rs.8.19 lakh crore down from Rs.8.55 lakh crore same period last year).

Figure 4: Trend in y-o-y movement

	Nov 20, 2020	Nov 19, 2021	Nov 18, 2022
Credit	4.7%	7.0%	17.2%
Deposit	10.9%	9.8%	9.6%

Source: RBI, CareEdge

- In the current year, the y-o-y change in credit has outpaced deposits reversing the earlier trend of deposits growing at a higher rate when compared to credit.

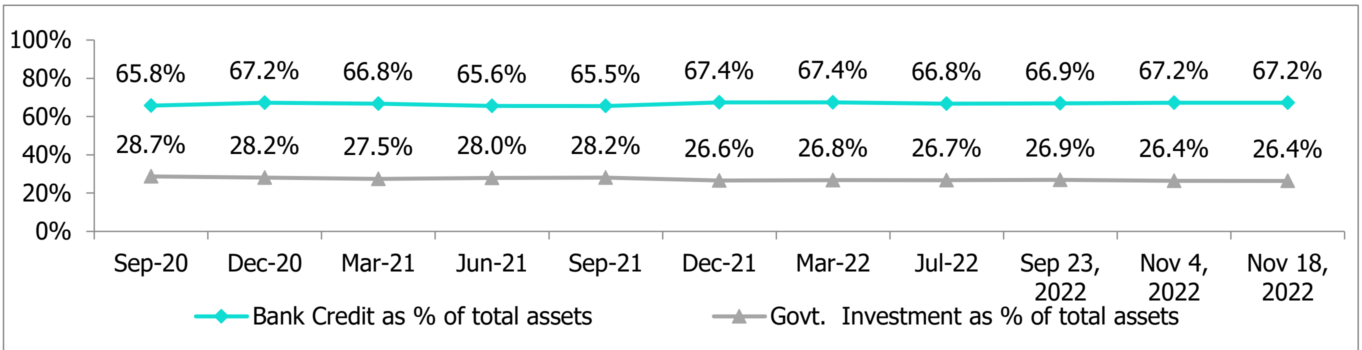
Figure 5: Growth in Credit Almost Overcomes Covid-induced Lag (Rs. Lakh Crore)

	Deposit	Credit
February 28, 2020	133.3	101.0
November 18, 2022	172.9	129.5
Growth over the period	29.8%	28.1%

- With a growth of 28.1% over the period, Credit has nearly 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 2.7 lakh crores as of December 02, 2022, as compared to just Rs 0.63 lakh crore a year ago. Further, the banks are keeping their CD issuance elevated to meet their short-term need amid the lower liquidity and focusing on deposits (bulk and retail) to meet the elevated credit demand. The deposit rates have already started to increase and CareEdge expects that the rates would increase even further as competition for deposits intensifies as banks focus on sourcing deposits due to rising policy rate, strong credit demand, and comparatively lower liquidity in the market.

Proportion of Govt. Investments to Total Assets Steady

Figure 6: Proportion of Govt. Investment and Bank Credit to Total Assets



Note: The quarter-end data reflect the last fortnight's 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 remained broadly stable at 67.2%, compared to the fortnight ended November 04, 2022, and increased by ~120 bps when compared with the same fortnight last year (reported November 19, 2021) due to higher credit growth.
- Proportion of government investment to total assets too has remained broadly stable for the fortnight ended November 18, 2022, compared to the previous fortnight (reported November 04, 2022). The Govt. investments stood at Rs.50.8 lakh crore as of November 18, 2022, reporting a 10.9% y-o-y growth.

Growth in O/s CDs Remains Robust, meanwhile, O/s CPs declines marginally

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 23, 2022	252.2	318.7%
Oct 21, 2022	240.8	319.8%
Nov 18, 2022	257.6	363.3%
Dec 02, 2022	274.6	333.4%

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

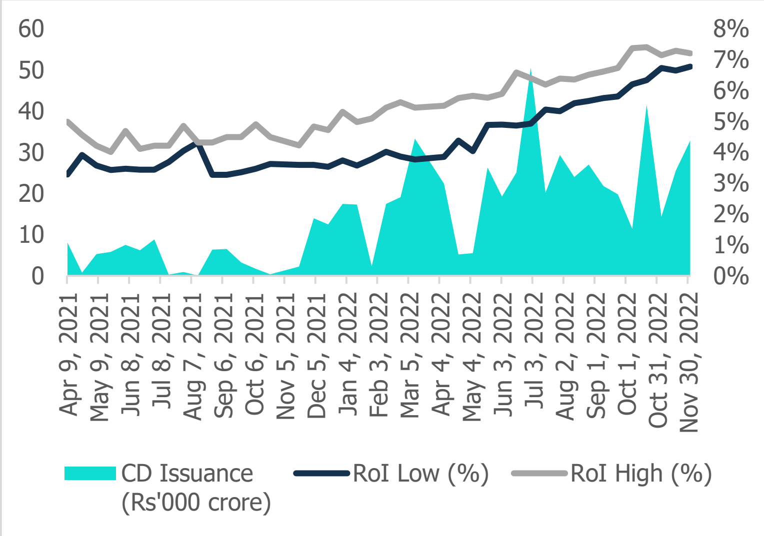
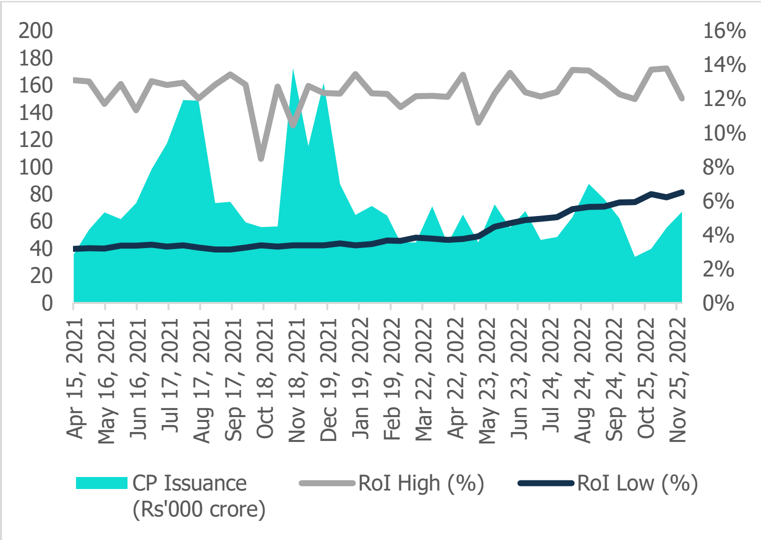


Figure 9: Commercial Paper Outstanding

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%
Oct 15, 2022	415.8	4.0%
Oct 31, 2022	373.3	-1.6%
Nov 15, 2022	381.5	-15.4%
Nov 30, 2022	362.3	-6.7%

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
Monetary Policy Outcome - December 2022	• RBI hiked the repo rate by 35 bps, taking it to 6.25%. Policy stance maintained at 'focus on withdrawal of accommodation'. RBI's less aggressive policy stance was supported by easing domestic inflation and moderation in global commodity prices. Inflation projection retained at 6.7% while GDP growth projection was revised downward to 6.8% for FY23. Going ahead, RBI's policy decisions will be contingent on the evolving domestic and external situations. Refer CareEdge note titled RBI Goes for a Balancing Act, Delivers 35 bps Repo Rate Hike
Basel III Framework on Liquidity Standards – Standing Deposit Facility	• RBI has advised that the overnight balances held by banks with RBI under SDF shall be eligible as 'Level 1 High Quality Liquid Assets (HQLA)' for computation of LCR.
Review of SLR holdings in HTM category	• The dispensation of enhanced HTM limit of 23% has been extended to March 31, 2024, and banks can include securities acquired between September 1, 2020, and March 31, 2024, under the enhanced limit. This limit would be reset to 19.5% in the following manner: ○ 22% as on June 30, 2024 ○ 21% as on September 30, 2024 ○ 20% as on December 31, 2024 ○ 19.5% as on March 31, 2025

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