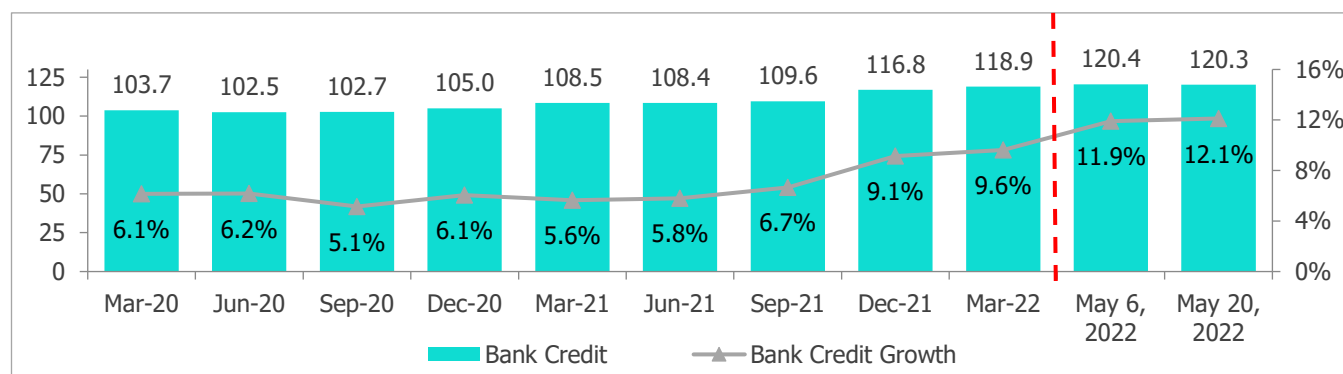


Banking Credit and Deposits: Credit Growth Remains Strong in May-22

June 13, 2022 | BFSI Research

Bank Credit Sees Double-Digit Growth – Shows Consistent Improvement

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

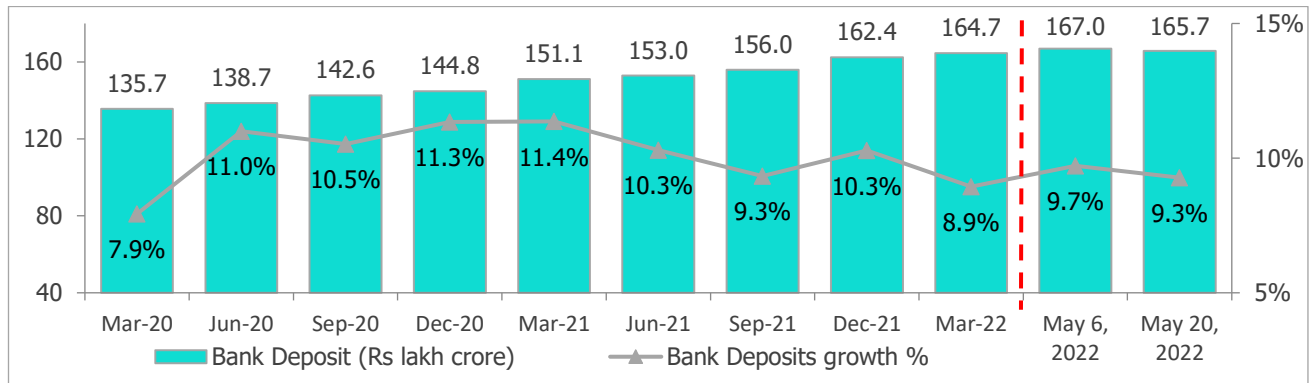


Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect,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

- Bank credit witnessed a strong growth of 12.1% year-on-year (y-o-y), expanding by a significant 611 basis points (bps) for the fortnight ended May 20, 2022, up from 6.0% in the year-ago period (reported May 21, 2021). In absolute terms, credit outstanding stood at Rs.120.3 lakh crore as of May 20, 2022, growing by Rs.13.0 lakh crore over the last 12 months. This was driven by the low base effect, sustained retail loans, increase in working capital due to higher inflation and shift to bank borrowings on account of rising bond yields and other capital market rates. However, sequentially, bank credit dropped marginally 0.1% from the immediate fortnight (reported May 06, 2022).
- Credit outstanding of the retail segment saw an accelerated double-digit growth at 14.7% y-o-y in April 2022 due to growth in other personal loans, credit card receivables and consumer durable loans driven by improvement in economic activities and job market. The credit outstanding of the industry segment registered a growth of 8.1% y-o-y in April 2022 from a drop of 0.4% in the year-ago period. The rise was on account of robust growth in the micro and small (29.0%), and medium (53.5%) enterprises segments were driven by ECLGS, low-base effect, digitisation process of the banks for faster loan approvals. Credit for the services sector also accelerated by 11.1% y-o-y in April 2022 from a growth of 2.4% in the year-ago period due to rise in NBFCs, trade and shipping segments.
- CPI inflation rose 7.8% in April 2022, witnessing at an almost 8-year high mark and much higher than RBI's upper-level target of 6%. Inflation has been ruling above than RBI's target level since beginning of the year. High inflation has been pushing interest rates upwards. Thus, the bond yield of 10-Year G-Sec rose from 6.19% in March 2021 to 7.41% on May 31, 2022 and 7.51% on June 10, 2022. To manage the situation, RBI increased the repo rate twice in the short span of time by 40 bps to 4.40% on May 4, 2022 and 50 bps to 4.90% on June 8, 2022. Given the situation, many banks have also raised their marginal cost of lending rate (MCLR) and deposit rates. The rise in the repo rate will increase the cost of lending and borrowing.
- The gross banking credit witnessed a double-digit growth in the last couple of months. After a modest credit growth in recent years, the outlook for bank credit growth is expected to remain positive due to economic expansion, rise in government and private capital expenditure, rising commodity prices, implementation of PLI

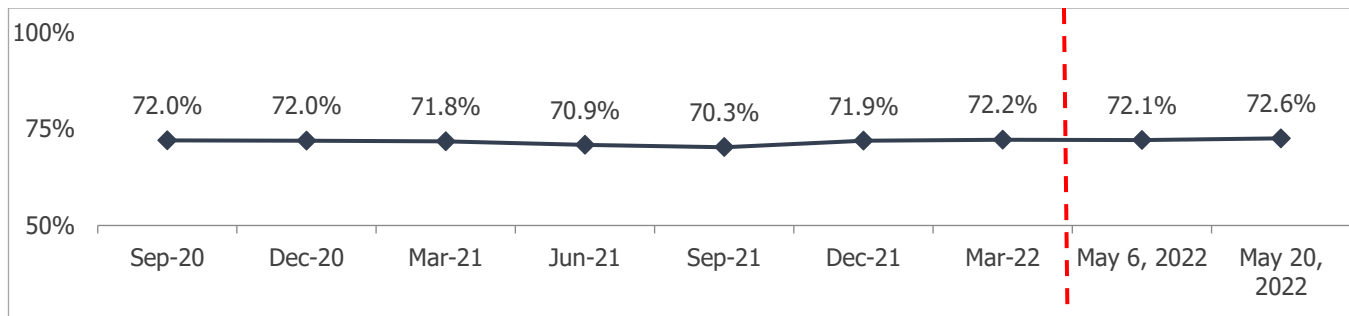
scheme, extension of ECLGS for MSME and retail credit push. The medium-term prospects look promising with diminished corporate stress and a substantial buffer for provisions. The Banks which have a higher CASA share and higher proportion of floating loans are anticipated to benefit in the current rising interest rate cycle. The earnings are expected to remain robust as most banks have maintained a positive outlook on margins for FY23, however, high inflation and several rate hikes (already two hikes have announced) could offset credit growth.

Figure 2: Growth of Bank Deposits (y-o-y %, Rs. lakh crore)



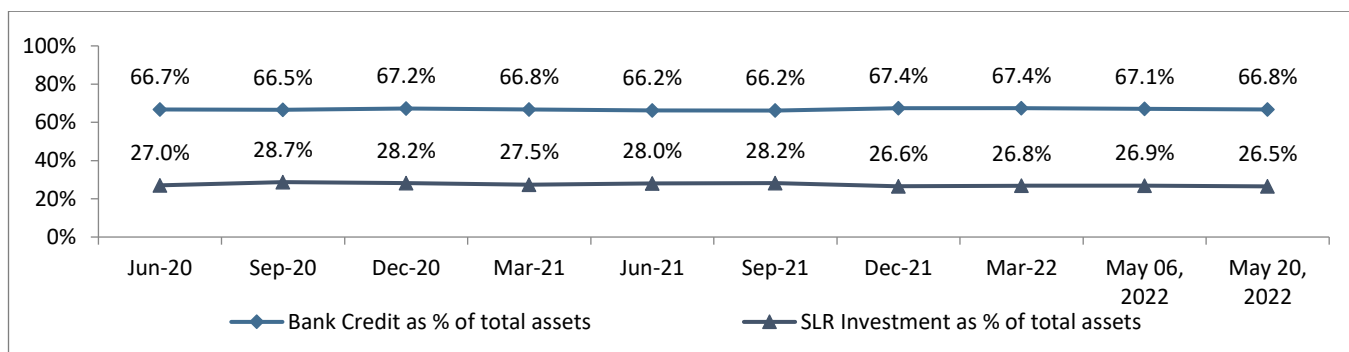
Note: The quarter-end data reflect, the last fortnight data of that particular quarter; Source: RBI, CareEdge

- Deposits stood at Rs.165.7 lakh crore for the fortnight ended May 20, 2022, registering a stable growth of 9.3% y-o-y. Meanwhile, in absolute terms, bank deposits have increased by Rs.14.1 lakh crore over the last twelve months. However, it dropped by a marginal 0.7% from the immediately preceding fortnight (reported May 06, 2022). The time deposits grew by 8.3% y-o-y, while demand deposits rose by 17.2% in the reporting fortnight when compared with 8.8% and 17.1% y-o-y, respectively, reported in the previous fortnight (May 22, 2021).
- The banking system has been sustaining a liquidity surplus since June 2019 on account of build-up deposits due to higher growth in bank deposits versus the credit disbursement, except for the last couple of fortnights. The outstanding (net) liquidity surplus stood at Rs.3.6 lakh crore on May 20, 2022, down from Rs.4.71 lakh crore on April 22, 2022, as RBI is reducing available liquidity in the system to control inflation.
- The Credit to Deposit (CD) ratio stood at 72.6%, expanding by 45 bps from the previous fortnight (reported May 06, 2022), and 184 bps y-o-y basis (reported May 21, 2021) as the credit base improved, overall, the CD ratio has been increasing since October 2021, which is encouraging for the banks.
- If we assume credit investments to be at Rs.8.6 lakh crore (as of March 25, 2022, as per the latest data released by RBI) for the fortnight ended May 20, 2022, then the CD ratio would be around 77.7% higher than the 77.3% in the previous fortnight (reported May 06, 2022) and 76.4% in the fortnight ended on May 21, 2021.

Figure 3: Credit to Deposit (CD Ratio Trend)

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

The proportion of SLR Investments to Total Assets and Bank Credit to Total Assets Fall

Figure 4: 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, CareEdge

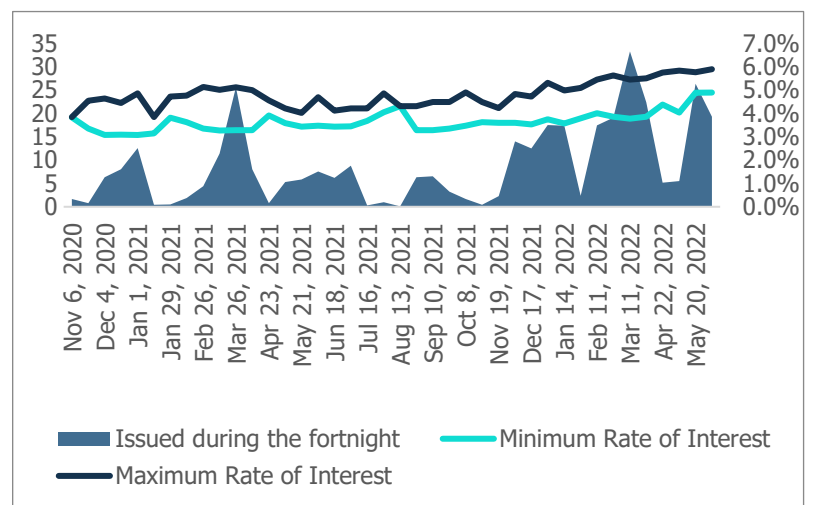
- The share of bank credit to total assets stood at 66.8%, contracting by 32 bps in the fortnight ended May 20, 2022, as compared with the previous fortnight (reported May 06, 2022) due to higher growth in total assets. However, it was higher by 75 bps on a y-o-y basis (reported May 21, 2021) due to higher credit growth.
- Considering credit investments to be at Rs.8.6 lakh crore (as of March 25, 2022, as per the latest data released by RBI), bank credit (including credit investments) to total assets would have been around 71.5% for the fortnight ended May 20, 2022, contracting by 33 bps as compared with previous fortnight (reported May 06, 2022). However, it was up by 21 bps y-o-y from the fortnight ended on May 21, 2021.
- Proportion of SLR investment to total assets dropped by 41 bps in the fortnight ended May 20, 2022, compared to the previous fortnight (reported May 06, 2022) due to higher growth in total assets. SLR investments stood at Rs.47.8 lakh crore as of May 20, 2022, reporting a 5.3% y-o-y growth and marginally down by 1.2% from the fortnight ended on May 06, 2022.

O/s CDs Report Significant Rise, meanwhile O/s CPs Fall Marginally

Figure 5: CD Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Mar 27, 2020	173.0	-36.5%
Sep 25, 2020	75.6	-59.8%
Mar 26, 2021	80.1	-53.7%
Sep 24, 2021	60.2	-20.3%
Oct 08, 2021	59.2	-20.9%
Nov 19, 2021	55.6	-17.9%
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%
Jun 03, 2022	190.0	142.6%

Figure 6: Trend in CD Issuances (Rs'000, crore) and RoI

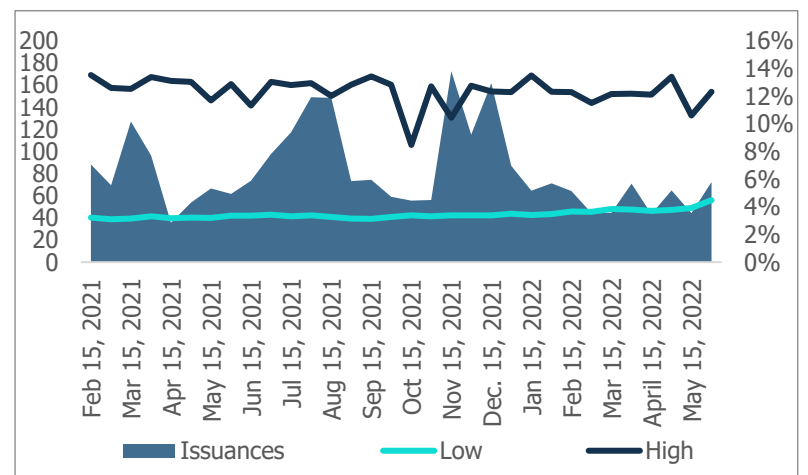


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Figure 7: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Mar 31, 2019	483.1	11.5%
Sep 30, 2019	459.7	-22.7%
Mar 31, 2020	344.5	-39.9%
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%
May 15, 2022	384.4	-5.0%
May 31, 2022	384.5	-1.1%

Figure 8: 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	<ul style="list-style-type: none"> Monetary Policy Committee (MPC) has increased the policy Repo rate under the Liquidity Adjustment Facility (LAF) by 50 basis points from 4.4% to 4.9% with immediate effect.
Change in Bank Rate	<ul style="list-style-type: none"> The Bank Rate is revised upwards by 50 bps from 4.65% to 5.15% with immediate effect.
Provisioning for Standard assets by Non-Banking Financial Company – Upper Layer	<p><u>A Revised Regulatory Framework</u></p> <ul style="list-style-type: none"> Individual housing loans and loans to Small and Micro Enterprises - rate of provision 0.25% Housing loans extended at teaser rates – rate of provision 2.0%, which will decrease to 0.40% after 1 year from the date on which the rates are reset at higher rates Advances to Commercial Real Estate – Residential Housing sector – rate of provision 0.75% Advances to Commercial Real Estate Sector – rate of provision 1.0% Restructured advances- As stipulated in the applicable prudential norms for restructuring of advances All other loans including loans to Medium Enterprises – rate of provision 0.40%

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