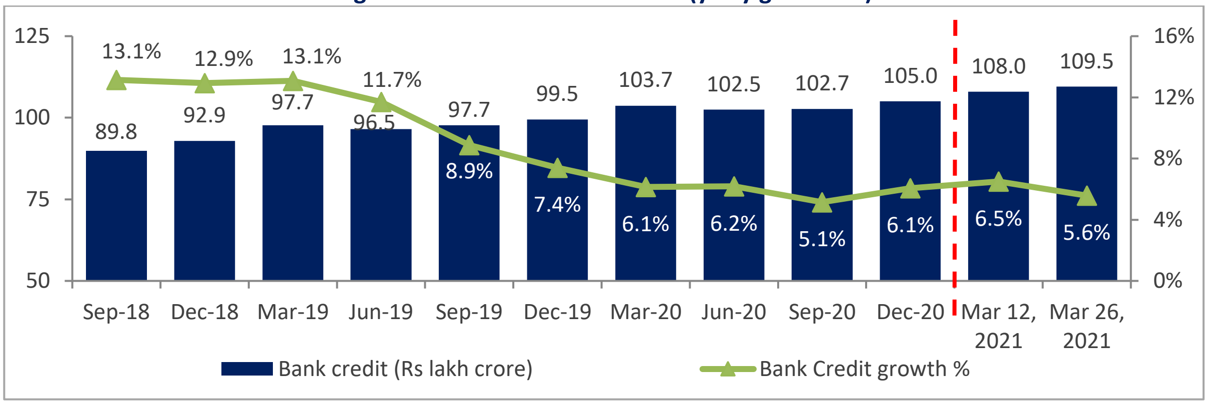
Banking Deposits cross Rs 150 lakh crore landmark. Growth declined.

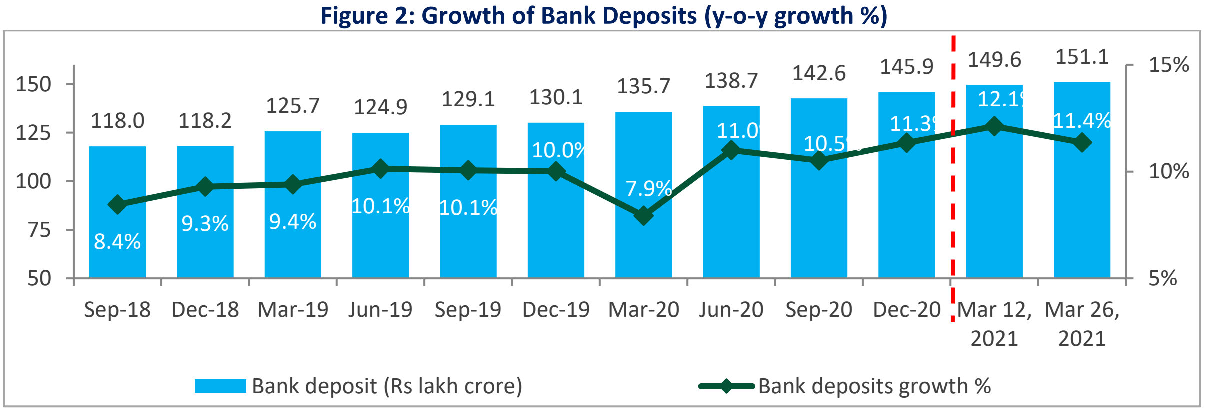
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- The bank credit growth declined compared with the last fortnight, however in absolute terms it increased by Rs 5.8 lakh crore as compared with fortnight ended March 27, 2020 and by Rs 1.5 lakh crore as compared with previous fortnight. However, the growth rate has been higher than the expected low single digit growth anticipated earlier in the year.
- The bank credit growth stood at 5.6% and 6.5% during the last two fortnights as compared with last year's level of 6.1%. The growth figures of fortnight ended March 26, 2021 have the benefit of lower base of previous year-end (initial period of lockdowns).
- Though the interest rates (Monthly fresh loans WALR) of SCBs have reduced by 107 bps from February 2020 to February 2021, the overall credit growth continued to moderate due to risk aversion and continued parking of excess liquidity with RBI. In addition, de-growth in large industries and slower growth in Housing and NBFCs segment (as compared with previous year) restricted the overall bank credit growth.
- In FY22, bank credit is likely to increase given the growth in the economy and the base effect coming into play. Downside risks include lockdowns in the key states impacting the industrial as well as the service segments. Another risk includes the ending of the ECLGS scheme, which had propped up the SME credit. However, the extension of the TLTRO operations and on lending norms could support growth.

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 at 11.4% declined during the fortnight ended March 26, 2021 as compared with fortnight ended March 12, 2021, but increased as compared with previous year (7.9% growth during fortnight ended March 27, 2020).
- Moreover, as on March 26, 2021, the liquidity surplus in the banking system stood at Rs.3.8 lakh crores. The liquidity surplus can be primarily attributed to deposit growth outpacing credit growth persistently. The bank CDs have reduced by over 70.0% on y-o-y basis, due to surplus liquidity in the system. However, government borrowings (Central: Rs.33,000 crore and State: Rs.41,402 crore) limited the banking system liquidity surplus.
- As given in figure 3, time deposits account for 87.7% of aggregate deposits (88.1% share as on March 27, 2020) grew at a slower pace compared to the demand deposits, which accounted for the balance 12.3% (11.9% share as on March 27, 2020).

Figure 3: Demand Deposits and Time Deposits growth trend

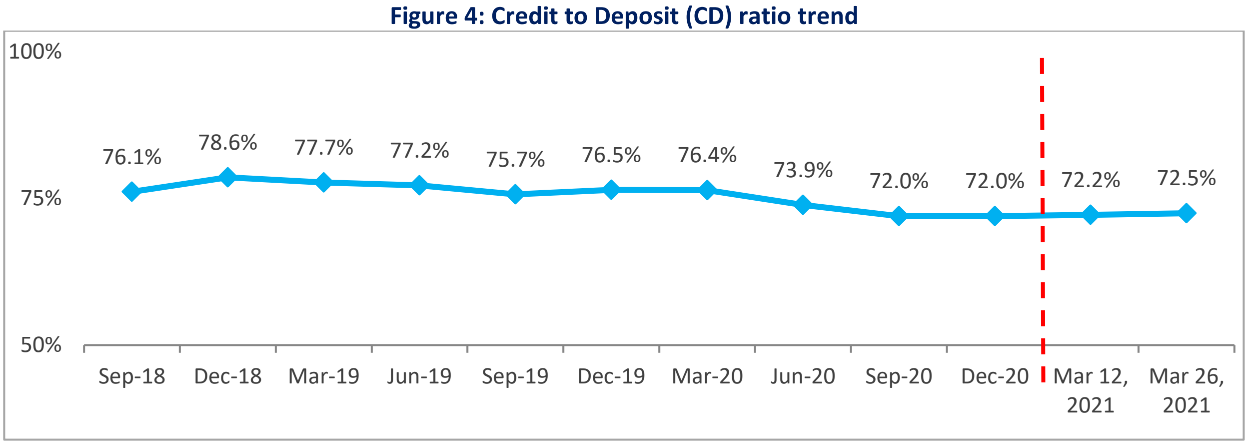
Rs in lakh crore	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar 12, 2021	Mar 26, 2021
Demand Deposits	13.1	11.9	15.1	12.9	14.1	13.5	16.2	14.5	15.8	15.7	17.0	18.6
% growth y-o-y	5.9%	4.9%	10.3%	9.6%	7.6%	13.8%	7.0%	12.7%	11.9%	15.7%	16.4%	15.1%
Time Deposits	104.9	106.3	110.6	112.0	115.0	116.5	119.5	124.1	126.9	129.2	132.6	132.5
% growth y-o-y	8.4%	9.7%	10.0%	10.1%	9.6%	9.7%	8.1%	10.8%	10.3%	10.8%	11.6%	10.9%

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

- The Credit to Deposit (CD) ratio of 72.5%, improved marginally as compared with last fortnight and has stabilised at around 72-73% range. It, however, remained low compared with March 2020, owing to a faster rise in deposits and slower growth in credit. On the other hand, if we assume credit investments to be at Rs.8.3 lakh crore (as on

January 29, 2021 level as per latest data released by RBI) for the fortnight ended March 26, 2021, then the CD ratio would be around 78%.

Figure 4: Credit to Deposit (CD) ratio trend

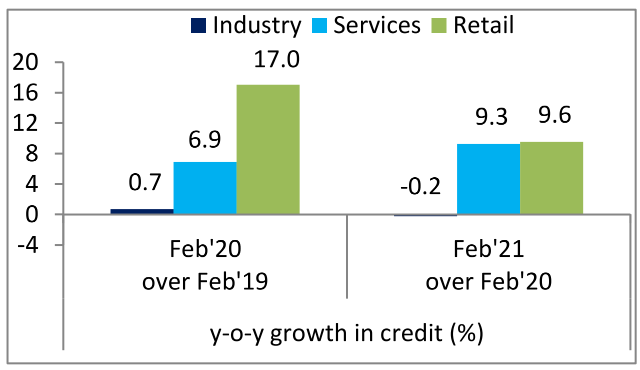


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

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

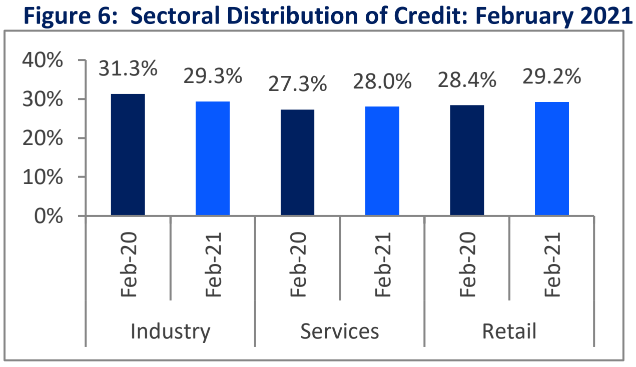
- The agriculture & allied and retail segment have driven overall credit growth in February 2021 growing by 10.2% and 9.6% respectively. The agriculture & allied segment, which accounts for around 13% share in total non-food credit, registered a highest y-o-y growth in last 4 years. The Retail segment accounted for around 29.0% share of the total credit during the period as compared with 28.4% a year ago.
- Services segment outstanding credit grew by 9.3% while the industrial segment registered de-growth of 0.2% during the same period.

Figure 5: Trend in sectoral credit growth (%)



Source: RBI, CARE Ratings (refer report '*Bank Credit Profile: February 2021 – Uptick in Bank credit growth. Share of Retail segment surpasses Service segment*')

Figure 6: Sectoral Distribution of Credit: February 2021



Note: The remaining percentage share in both Feb-20 and Feb-21 accounts for 'Food Credit' and 'Agriculture & Allied Activities'
Source: RBI, CARE Ratings (refer report '*Bank Credit Profile: February 2021 – Uptick in Bank credit growth. Share of Retail segment surpasses Service segment*')

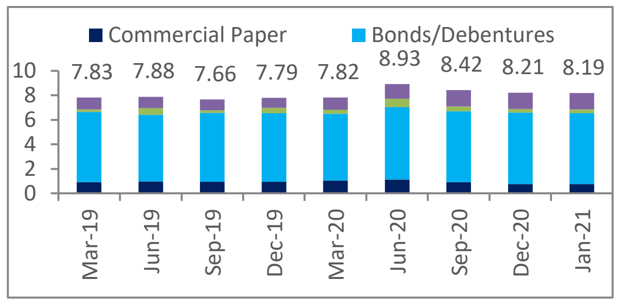
- The share of industrial segment continues to be the highest in the total outstanding credit followed by retail and services segment.
- Large industries account for 81.8% share (82.9% share in February 2020) in the total outstanding credit to industries and this segment reported a reduction of 1.5% in February 2021 vs. a growth of 0.7% in February 2020.
- Micro, small & medium (MSME) industries grew by 5.9% in February 2021 (which only partially offset the fall in large segments) as compared with a growth of 0.6% in February 2020. This was supported by ECLGS disbursements of Rs.1.65 lakh crore (as on January 08, 2021) which is around 55.0% of ambitious Rs.3.0 lakh crore. Within MSME, micro & small industries registered a growth of 1.5%, while medium industries registered a growth of 21.0%, and large industries registered a de growth, resultantly the overall industry registered a negative growth.
- Though infrastructure has the maximum share of 36.0% in the total bank credit outstanding to industries, the credit outstanding to Infrastructure segment has registered a de growth of 1.6% as of February 2021 as compared with a growth of 3.3% a year ago.
- Shipping and NBFCs segment registered a y-o-y growth of 38.9% and 9.2%, respectively (-26.5% and 24.6% in February 2020). Professional services and computer software segments registered a de growth of 28.1% and 3.6%, respectively, during the month. Of the total nine segments, seven segments registered growth.
- NBFCs which form the largest part in the total credit outstanding to the services sector (33.7% share in February 2021) has registered a growth of 9.2% (highest in last four months) as compared with a growth of 24.6% in February 2020 and 6.6% (lowest in last three years) in January 2021.

- During previous months, growth in housing loans was healthy led by retail credit push, concession on home loan interest rates. Sequentially both housing and vehicle loans segment witnessed an improvement in growth figures Housing loans continues to remain the single-largest segment at 51.9% share of lending in the outstanding credit to retail/personal loan portfolio.

Bank credit investments increased from a year-ago level

- SCBs credit investments increased by 6.7% in January 2021 compared with the year-ago period aided by LTRO, TLTRO, PCG schemes of RBI/Government of India.
- However, SCBs credit investments stood at 8.6% of the total bank credit, as of December 2020 (similar level observed in the previous year).
- Bonds and debentures accounted for the highest share in SCBs credit investments at 70.9% in January 2021 (vs. 71.7% share in January 2020), followed by financial institutions and CPs at 16.3% and 9.1%, respectively (10.4% and 12.3% respectively in January 2020) and mutual funds at 3.7% (5.5% in the year-ago period).
- Within bonds and debentures, private corporate bonds and debentures accounted for 53.7% share of bonds/debentures (41.9% share in January 2020); the public sector accounted for 21.9% and others account for the balance 24.3%.
- In FY21 (April – January), the total corporate bond issuances amounted to Rs.7.5 lakh crores, 10.9% higher than the previous year. 46% of the issuances during the current fiscal have been raised by public sector undertakings (PFC, REC, HUDCO, NABARD, NHB, NTPC, NHAI, EXIM, IRFC among others). (Refer report '*Debt Market Review for March 2021*')

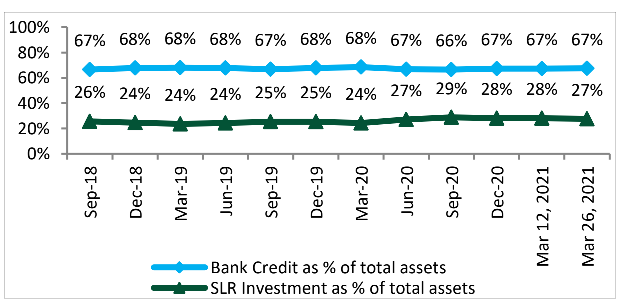
Figure 7: SCBs Credit Investment (Rs in lakh crores)



Source: RBI

Proportion of SLR investment and bank credit to total assets remained largely at similar levels

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



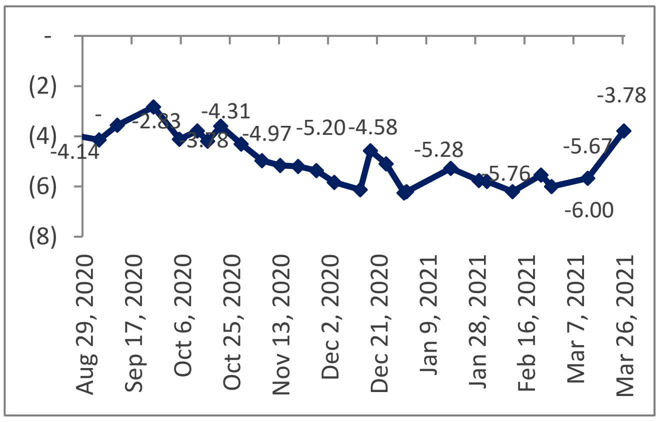
Note: The quarter-end data reflect the last fortnight data of that particular quarter; 2) Total assets = Cash in hand + Assets with the Banking System + Investments + Bank Credit; Source: RBI, CARE Ratings

- The share of bank credit to total assets has stood stable at 67% but declined (by 1%) as compared with March 2020.
- Considering credit investments to be at Rs.8.3 lakh crore (As on January 29, 2021), bank credit (including credit investments) to total assets would have been around 73% for the fortnight ended March 26, 2021.
- Proportion of SLR investment to total assets declined (by 1%) as compared with last fortnight. In absolute terms, SLR investments grew by 20.8% YoY as compared with a growth of 19.0% in the previous fortnight and 9.2% YoY growth a year ago. 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 March 26, 2021 aggregated Rs.3.78 lakh crore, lower than a month ago (February 26, 2021) level of Rs. 6.0 lakh crore.
- Government borrowings during March 2021 (Central: Rs.0.33 lakh crore and States: Rs.0.41 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 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: March 22 to April 1, 2021', 'Weekly Liquidity Report: March 15-19, 2021', and ' Weekly Liquidity Report: March 8 - 12, 2021'; Source: RBI

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

- As given in *'Debt Market Review for March 2021*; the borrowing cost for the corporates from the corporate bond market registered an uptick in March 2021 with the weighted average yield of 7.18% as compared with 6.49% in previous month. The cost of borrowings for corporate bonds has declined from 8.02% in March 2020 to 7.18% in March 2021.

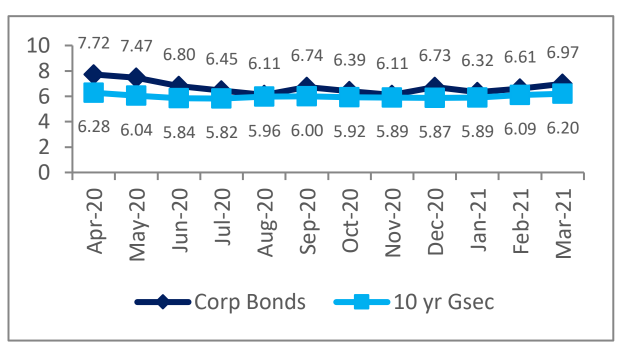
Figure 10: Issuer-wise corporate bond yields in the primary markets (in %)

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
Jan-21	5.73	6.69	7.49	7.21
Feb-21	6.19	5.76	7.12	8.43
Mar-21	6.68	7.00	7.32	8.77

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

- The cost of issuances for key segments, i.e. All India Financial Institutions (AIFs), Housing Finance Companies (HFCs), Non-Banking Financial companies (NBFCs) and others have seen an uptick in March 2021 on sequential basis.
- The cost of borrowing of the NBFC sector rose to 7.32% in March 2021 compared with 7.12% in the previous month while in case of HFCs, the cost of borrowings is 7.00% in March 2021 as against 5.76% in February 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 March 2021 from that in February 2021.
- The average 10-year benchmark GSec yield in March rose to a 11-month high and increased by 11 bps on a month-on-month basis. Domestic factors and global cues drove yield movement of Indian sovereign bonds. Demand for government securities remained subdued given the prevailing and anticipated huge supply of securities on account of the high government borrowings in FY21 and FY22 amid the build-up in inflationary pressures. Unfavourable global market conditions i.e., the rise in global bond yields, increase in commodity prices along with the strengthening of the US Dollar, further weighed down demand for these securities. The RBIs OMO purchases and the cancellation of the last auction of government securities for FY21 provided limited support to cool down yields.
- Corporate bond yields (weighted average yields) at 6.97% in March rose by 36 bps from that February 2021 and at a ten month high. In the case of commercial paper, the average yields rose by 11 bps (month-on-month) to a six- month high of 3.52%. The increase in the yields of corporate debt securities (corporate bonds and commercial papers) can be attributed to the rise in sovereign yields, both domestic and global as well as the lower demand from mutual funds (Liquid funds and money market funds saw net outflows of Rs.19,383 crore and Rs. 7,037 crore respectively in March 2021).

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 March 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
29-Jan-21	5.91	0.45	1.03	1.29	1.64	2.64	2.89	3.14	3.64	3.89	4.39
26-Feb-21	6.23	0.76	1.21	1.46	1.79	3.29	3.54	4.04	4.54	4.79	5.29
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

Source: FIMMDA

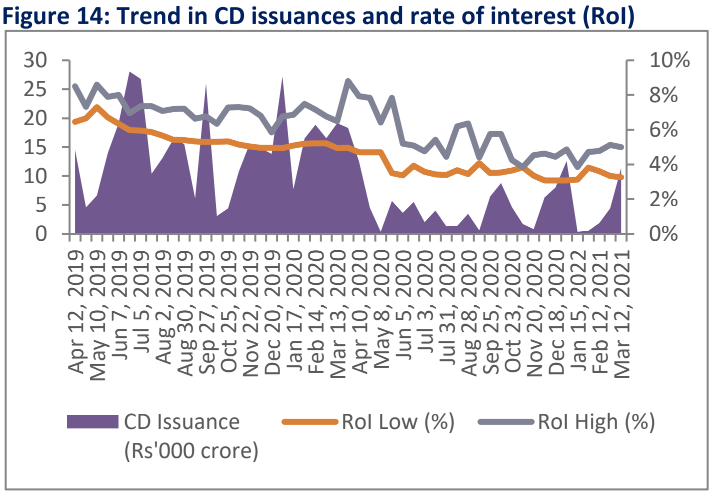
- The risk perception of corporate bonds improved as of end March 2021 as was highlighted by the narrowing of the spread between corporate bonds and the benchmark government securities of comparable maturity (10 years).
- The comparison of yield spreads in March 2021 with that of February 2021 showed that the yield spreads declined for corporate bonds across rating categories. The spreads (m-o-m) narrowed by 27 bps for bonds rated AA to BBB- and by 30 bps for bonds rated AA+ and AAA.

O/s Level of CDs and CPs declined over previous month

Figure 13: 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%
Dec 18, 2020	68.8	-57.9%
Feb 26, 2021	56.4	-69.7%
Mar 12, 2021	57.4	-67.0%

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

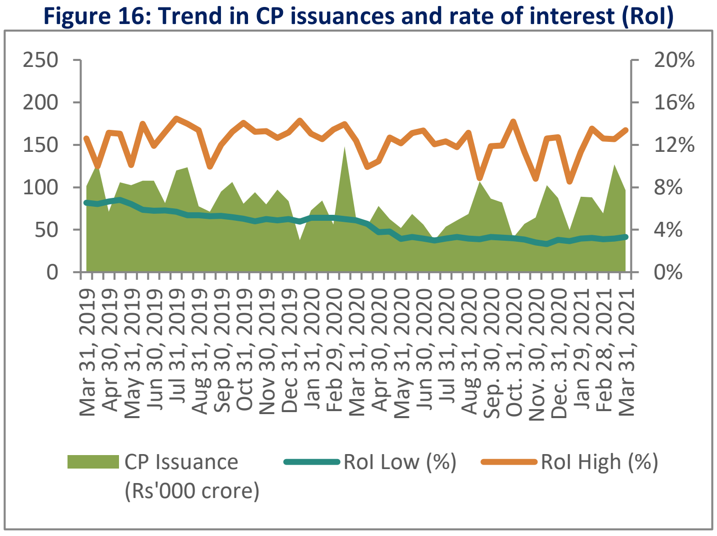


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Figure 15: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Jun 30, 2018	491.8	37.2%
Sep 30, 2018	556.2	16.0%
Dec 31, 2018	498.7	6.2%
Mar 31, 2019	483.1	11.5%
Jun 30, 2019	503.9	-10.5%
Sep 30, 2019	459.7	-22.7%
Dec 31, 2019	414.9	-25.1%
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. 15, 2021	403.4	-0.4%
Mar. 31, 2021	364.4	5.8%

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
On Tap Targeted Long-Term Repo Operations – Extension of Deadline	• The on Tap TLTRO Scheme, which was made available up to March 31, 2021, is now being further extended by a period of six months i.e., up to September 30, 2021 with a view to increasing the focus of liquidity measures on revival of activity in specific sectors.
Priority Sector Lending (PSL) - Lending by banks to NBFCs for On-Lending	• With a view to ensure continued availability of credit to these sectors to aid faster economic recovery, it has been decided to extend the PSL classification for lending by banks to NBFCs for on-lending by six months i.e. up to September 30, 2021.
Enhancement of limit of maximum balance per customer – Payments Banks (PBs)	• Considering the progress made by PBs in furthering financial inclusion and with the objective of giving more flexibility to the PBs, it has been decided to enhance the limit of maximum balance at the end of the day from Rs.1 lakh to Rs.2 lakh per individual customer of PBs.
External Commercial Borrowings (ECB) Policy – Relaxation in the period of parking of unutilised ECB proceeds in term deposits	• With a view to providing relief to the ECB borrowers affected by the Covid-19 pandemic, it has been decided to relax the above stipulation as a one-time measure. • Accordingly, unutilised ECB proceeds drawn down on or before March 01, 2020 can be parked in term deposits with AD Category-I banks in India prospectively for an additional period up to March 01, 2022.
Priority Sector Lending (PSL) – Increase in limits for bank lending against Negotiable Warehouse Receipts (NWRs) / electronic Negotiable Warehouse Receipts (eNWRs)	• With a view to ensure greater flow of credit to the farmers against pledge/hypothecation of agricultural produce, and to encourage use of NWR/eNWR issued by regulated warehouses as a preferred instrument for availing such finance by the farmers, it has been decided to enhance the PSL limit for loans against NWRs/eNWRs from Rs 50 lakh to Rs 75 lakh per borrower. • The PSL limit backed by the warehouse receipts other than NWR/eNWR will continue to be Rs 50 lakh per borrower.
Asset Classification and Income Recognition following the expiry of Covid-19 regulatory package	• All lending institutions shall immediately put in place a Board-approved policy to refund/adjust the 'interest on interest' charged to the borrowers during the moratorium period, i.e. March 1, 2020 to August 31, 2020. • For the period, commencing September 1, 2020, asset classification for all such accounts shall be as per the applicable IRAC Norms.
Liquidity Facility for All India Financial Institutions	• In consonance with the policy objective of nurturing the still nascent growth impulses, it has been decided to extend fresh support of Rs 50,000 crore to the AIFIs for new lending in 2021-22.

Source: RBI

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