

Banking Credit and Deposits Update: Credit Growth on a Strong Footing

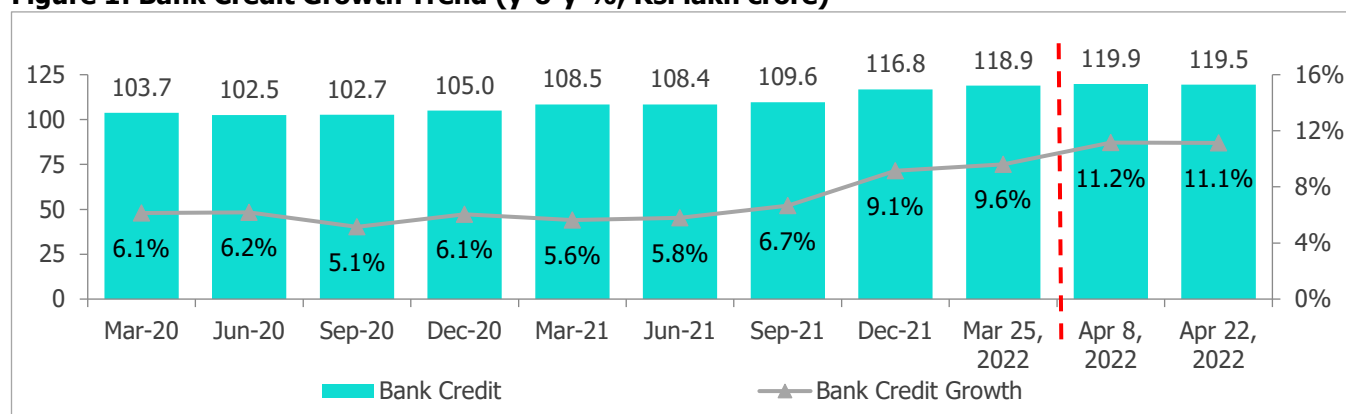


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May 16, 2022 | BFSI Research

Bank Credit Continues to Witness Double-Digit Growth

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

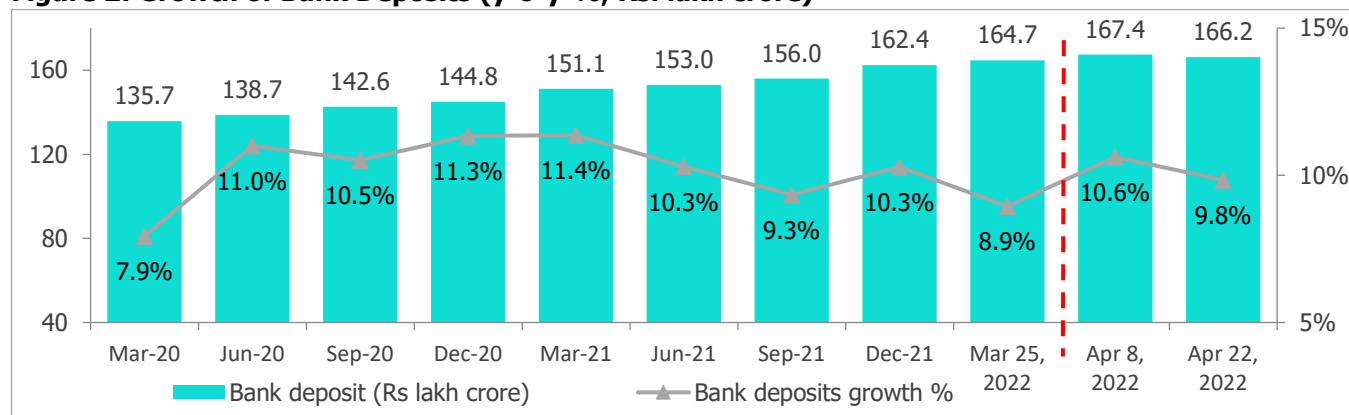


Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect,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

- Bank credit continued to witness strong growth of 11.1% year-on-year (y-o-y), expanding by a huge 537 basis points (bps) for the fortnight ended April 22, 2022, up from 5.7% in the year-ago period (reported April 23, 2021). This was driven by the low base effect, retail loans, and higher working capital requirements owing to elevated inflation. Retail growth has been picking up due to the improving in the job market and economic activities. However, the credit growth declined by 0.3% from the immediate fortnight (reported April 8, 2022). In absolute terms, credit outstanding was at Rs.119.5 lakh crore as of April 22, 2022, expanding by Rs.12 lakh crore over the last 12 months.
- Credit outstanding of the retail segment rose by 12.4% y-o-y in March 2022 due to growth in other personal loans, housing, and vehicle loans driven by low-interest rates and higher discounts. Moreover, credit outstanding of the industry segment registered a growth of 7.1% y-o-y in March 2022 from a drop of 0.4% a year ago mainly on account of robust growth in the micro and small (21.5%), and medium (71.4%) enterprises segment were driven by ECLGS. Credit for the services sector also accelerated by 8.9% y-o-y in March 2022 from 3.0% in the year-ago period.
- CPI inflation rose 6.95% y-o-y in March 2022 and 7.8% in April 2022, higher than RBI's upper-level target (6%). With the elevated inflation and uncertainties surrounding it, the bond yield of 10-Year G-Sec rose from 6.19% in March 2021 to 7.38% on May 04, 2022. To manage the situation, RBI increased the repo rate by 40 bps and the cash reserve ratio (CRR) by 50 bps in its meeting held on May 04, 2022. In view of the tightening interest rate scenario, many banks also raised their marginal cost of lending rate (MCLR). Moreover, the latest CPI print for April 2022 is much higher than expected, hence RBI is expected to take additional steps to control the inflation. The rise in the repo rate will increase the cost of lending and borrowing. The banks are expected to protect their net interest margin (NIM) by passing on the impact to their customers
- The gross banking credit picked up in the fortnight (reported April 22, 2022). After witnessing 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 and retail credit push. The medium-term prospects look promising with diminished corporate stress and a substantial buffer for provisions. CPI too is trending up which is likely to add to the credit growth. On the other hand, rising rates could offset this growth to some extent by curbing the demand for credit. The Retail loan segment is expected to do well as compared with the industry and service segments. The ongoing Russia-Ukraine war is likely to have a limited impact on the credit growth in India. The third wave of Covid-19 (omicron) was not as severe as the first two. However, subsequent variants, if severe, could lead to lockdowns and cause a slowdown in the economy.

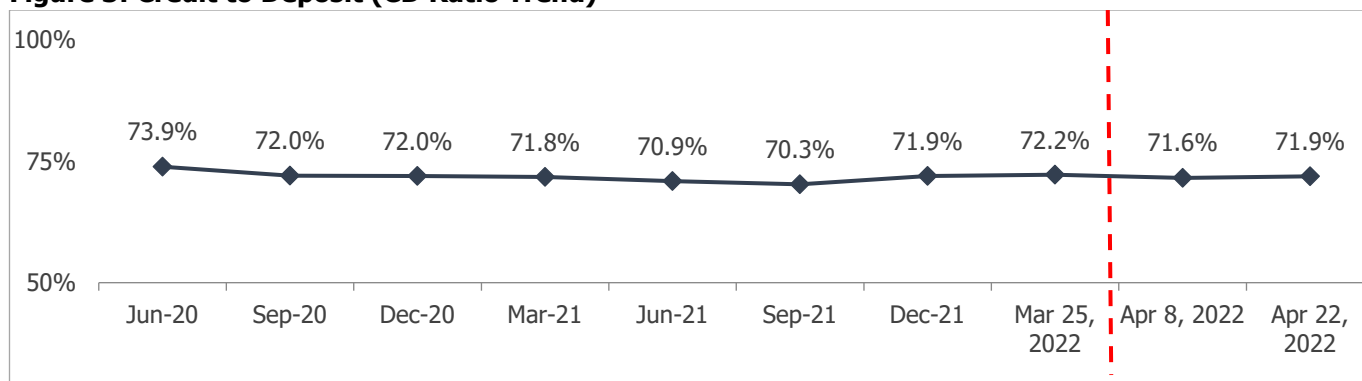
Figure 2: Growth of Bank Deposits (y-o-y %, Rs. lakh crore)



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

- Deposits stood at Rs.166.2 lakh crore for the fortnight ended April 22, 2022, registering a stable growth of 9.8% y-o-y. Meanwhile, in absolute terms, the bank deposits have increased by Rs.14.9 lakh crore over the last twelve months. However, it declined for the first time in calendar year 2022 by 0.7% on a sequential basis from the immediate fortnight (reported April 8, 2022). The time deposits grew by 9.1% y-o-y, while demand deposits rose by 15.4% when compared with 10.4% and 17.6% y-o-y, respectively, in the year-ago period (fortnight reported April 23, 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 three fortnights. The outstanding (net) liquidity surplus stood at Rs 5.51 lakh crore on April 22, 2022, down from 7.1 lakh crore on April 08, 2022, as RBI works to control inflation.
- The Credit to Deposit (CD) ratio stood at 71.9%, expanding by 31 bps from the previous fortnight (reported April 8, 2022), and 84 bps y-o-y basis (reported April 23, 2021).
- If we assume credit investments to be at Rs.8.6 lakh crore (as of February 25, 2022, as per the latest data released by RBI), for the fortnight ended April 22, 2022, then the CD ratio would be around 77.1% higher than the 76.7% in the previous fortnight (reported April 8, 2022) and 76.8% in the fortnight ended on April 23, 2021.

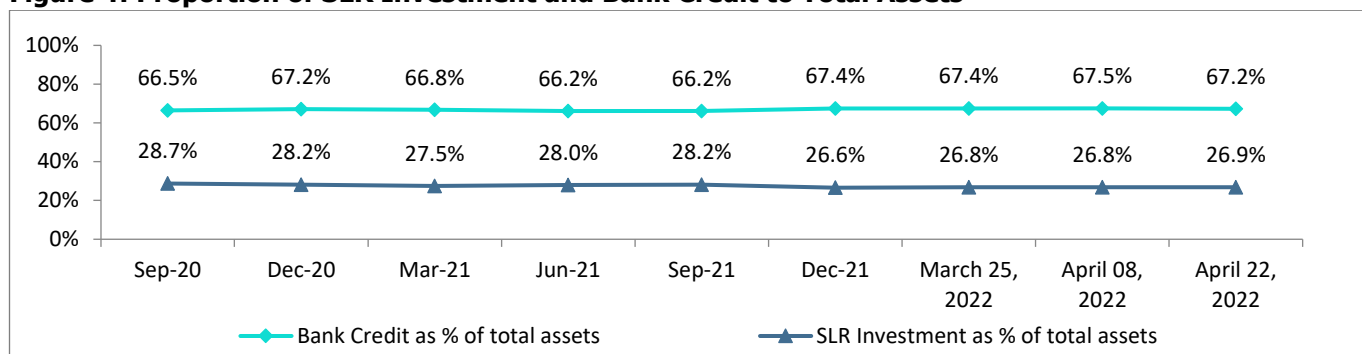
Figure 3: Credit to Deposit (CD Ratio Trend)



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

Proportion of SLR Investments to Total Assets Rises; Bank Credit to Total Assets Falls

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

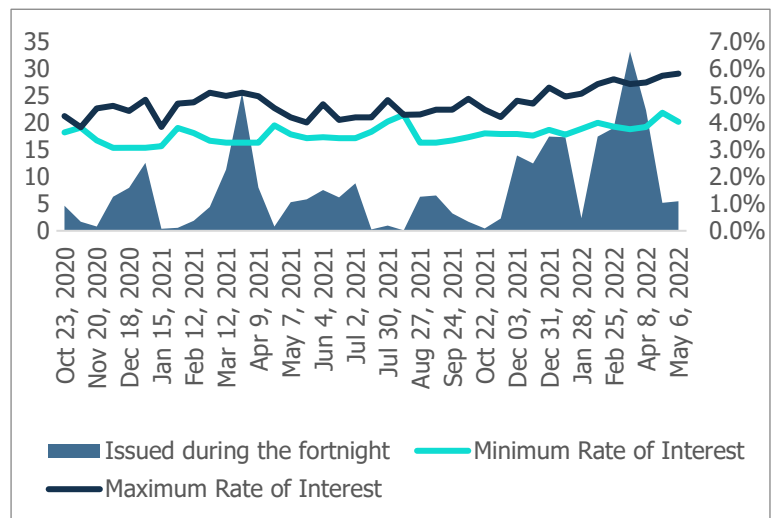
- The share of bank credit to total assets stood at 67.2%, contracting by 28 bps in the fortnight ended April 23, 2022, as compared with the previous fortnight (reported April 8, 2022), however, it was higher by 80 bps on a y-o-y basis from the previous fortnight (reported April 23, 2021) due to higher credit growth.
- Considering credit investments to be at Rs.8.6 lakh crore (as of February 25, 2022, as per the latest data released by RBI), bank credit (including credit investments) to total assets would have been around 72.0% for the fortnight ended April 22, 2022, contracting by 29 bps as compared with previous fortnight (reported April 8, 2022, however up by 26 bps y-o-y from the fortnight ended on April 23, 2021).
- Proportion of SLR investment to total assets expanded by a marginally 8 bps in the fortnight ended April 22, 2022, compared to the previous fortnight (reported April 8, 2022). SLR investments stood at Rs.47.8 lakh crore as of April 22, 2022, reporting a 6.7% y-o-y growth and marginally rose by 0.5% from the fortnight ended on March 23, 2021.

O/s CDs Report Significant Rise, 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 10, 2021	67.1	-23.4%
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 6, 2022	185.3	112.6%

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

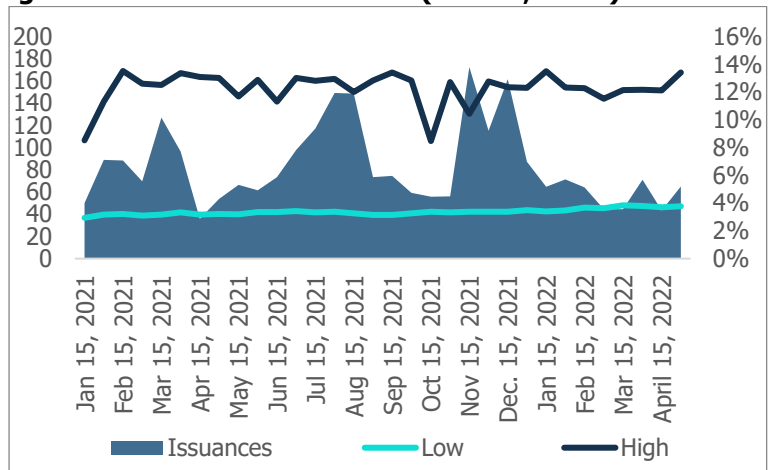


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

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%
April 15, 2022	351.6	-8.1%
April 30, 2022	365.0	-2.6%

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 Bank Rate, SDF and MSF Repo Rate by RBI	<ul style="list-style-type: none"> As announced in the Monetary Policy Statement 2022-23 dated May 4, 2022, the Bank Rate is revised upwards by 40 bps from 4.25% to 4.65% with immediate effect. Also, the repo rate has been increased by 40 bps to 4.4% from 4.0% with immediate effect. Consequently, the standing deposit facility (SDF) rate and marginal standing facility (MSF) rate stand adjusted from 3.75% to 4.15% and from 4.25% to 4.65% respectively, with immediate effect.

Standing Liquidity Facility for Primary Dealers	<ul style="list-style-type: none"> The SDF provided to Primary Dealers (PDs) from the Reserve Bank would be available at the revised repo rate of 4.4% with effect from May 4, 2022.
Maintenance of CRR	<ul style="list-style-type: none"> Effective from the reporting fortnight beginning May 21, 2022, RBI has increased CRR by 50 basis points from 4.0% to 4.5% of their Net Demand and Time Liabilities.
Lending by Commercial Banks to NBFCs and Small Finance Banks to NBFC-MFIs, for on-lending to priority sectors	<ul style="list-style-type: none"> Lending by commercial banks to NBFCs and lending by Small Finance Bank (SFBs) to NBFC-MFIs, (on-lending to certain priority sectors), was permitted up to March 31, 2022. Decided to allow the above facility on an ongoing basis. Bank credit to NBFCs for on-lending will be allowed up to an overall limit of 5% of an individual bank's total priority sector lending in the case of commercial banks. In the case of SFBs, credit to NBFC-MFIs and other MFIs will be allowed up to an overall limit of 10%. SFBs are allowed to lend to registered NBFC-MFIs and other MFIs which have a 'gross loan portfolio' of up to Rs.500 crore as of March 31 of the previous financial year, for on-lending to the priority sector.

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