Credit Offtake Continues Robust Growth, Deposit Growth at 6-year High

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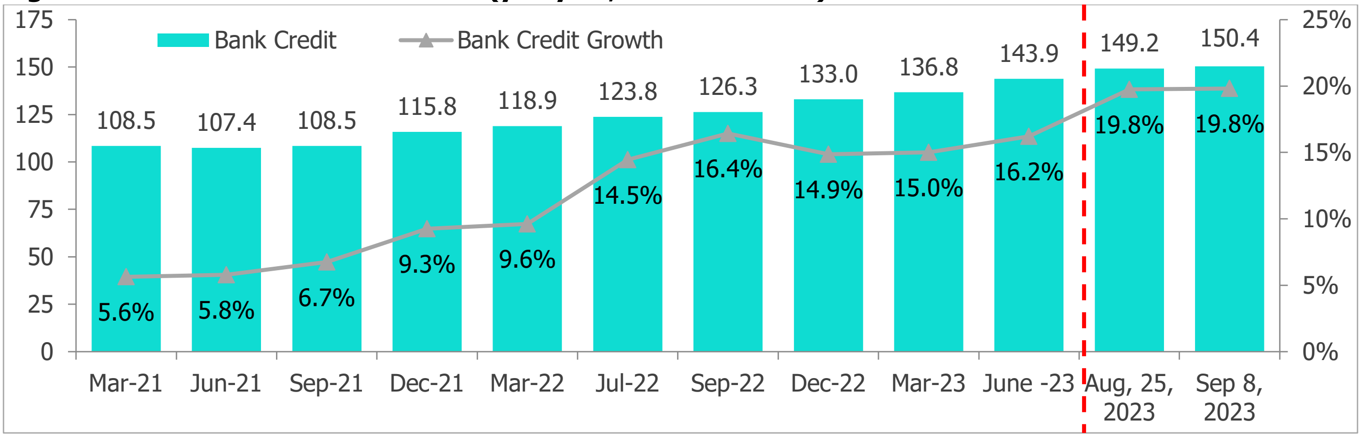
CareEdge RATINGS

Synopsis

- Credit offtake continued to grow at a similar pace sequentially, increasing by 19.8% year on year (y-o-y) to reach Rs. 150.4 lakh crore for the fortnight ended Sep 8, 2023. This surge continues to be primarily driven by the impact of HDFC's merger with HDFC Bank, as well as growth in personal loans. Meanwhile, if merger impact is excluded, credit grew at a lower rate of 15.1% y-o-y fortnight compared to last year. The outlook for bank credit offtake remains positive, with a projected growth of 13-13.5% for FY24, excluding the merger's impact.
- Deposits too witnessed healthy growth, increasing by 13.6% y-o-y for the fortnight (including the merger impact). The deposit growth has continued to increase, reaching a 6-year high. Deposit growth is expected to improve in FY24 as banks look to shore up their liability franchise and ensure that deposit growth does not constrain the credit offtake.
- The Short-term Weighted Average Call Rate (WACR) stood at 6.71% as of September 15, 2023, compared to 5.16% on September 16, 2022, due to pressure on short term rates basis recent incremental cash reserve ratio (I-CRR) norms by RBI.

Bank Credit Growth Remains Elevated

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

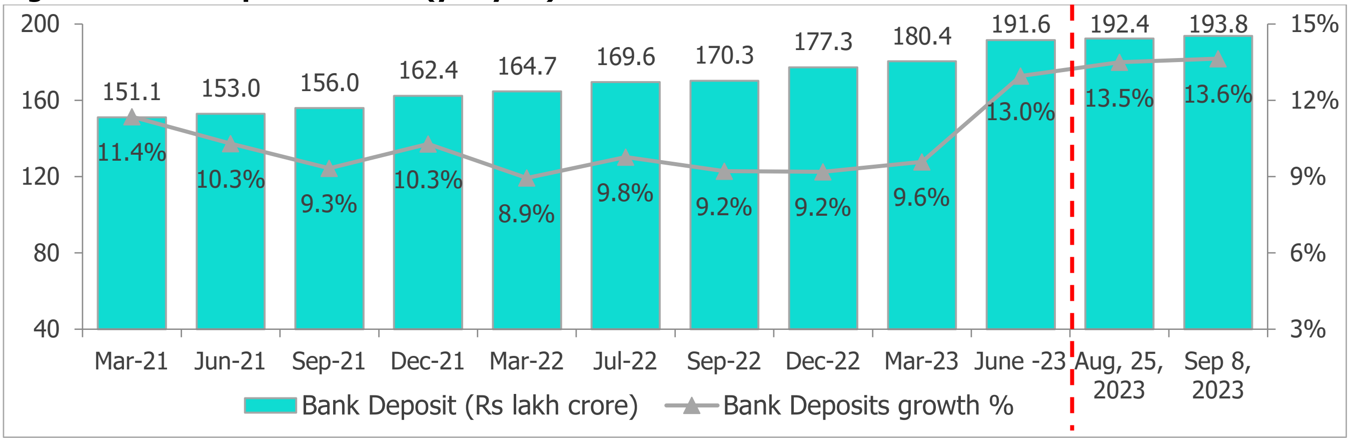


Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Credit offtake increased by 19.8% year on year (y-o-y) and a sequential improvement of 0.8% for the fortnight ended Sep 8, 2023. It is important to note that the y-o-y figures are not directly comparable, as the data reported by the RBI as of Sep 8, 2023, includes the impact of the merger of HDFC with HDFC Bank. In absolute terms, over the last twelve months, credit offtake expanded by Rs. 24.6 lakh crore to reach Rs. 150.4 lakh crore as of Sep 8, 2023. Excluding the impact of the merger, the growth stood at 15.1% y-o-y for the fortnight. This growth was primarily driven by continued demand for personal loans.
- The outlook for bank credit offtake continues to remain positive for FY24, supported by factors such as economic expansion and a push for retail credit which has been supported by improving digitalisation. CareEdge estimates that credit growth is likely to be in the range of 13.0%-13.5% for FY24, excluding the impact of the merger of HDFC with HDFC Bank. The personal loan segment is expected to perform well compared to the

industry and service segments in FY24. Furthermore, as the CD ratio remains elevated, growth in the liability franchise would play a significant role in sustaining loan growth. The competition for deposits is likely to intensify even further, resulting in a rise in funding costs in the coming quarters as rates rise and CASA share reduces. However, elevated interest rates and global uncertainties could potentially impact credit growth in India.

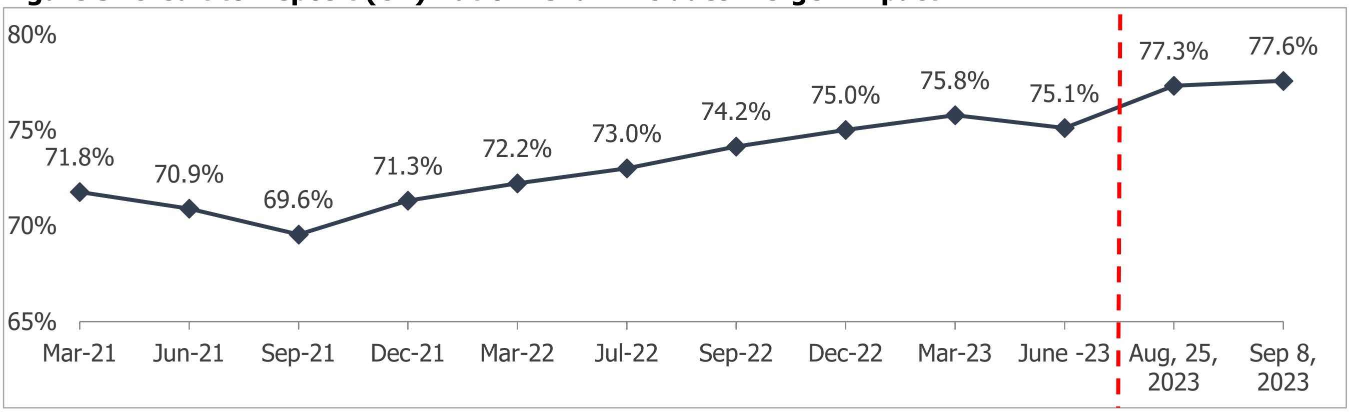
Figure 2: Bank Deposit Growth (y-o-y %)



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

- Deposits rose at 13.6% y-o-y for the fortnight (reported Sep 8, 2023) and increased by 0.8% sequentially. Without considering the merger, deposits rose by 12.8% y-o-y. Meanwhile, in absolute terms, deposits expanded by Rs. 23.3 lakh crore and reached Rs. 193.8 lakh crore as of Sep 8, 2023, compared to Sep 9, 2022.
- According to CareEdge Economics in The Economic Pathway, banking system liquidity turned to deficit on account of likely RBI FX intervention, healthy credit demand and tax outflows. Given concerns of elevated inflation, RBI would prefer to ensure there is just enough liquidity to meet credit demand (festival season) in the coming months. Healthy government spending and redemption of government securities in the coming months could aid in maintaining a balance. RBI could conduct VRRR auctions during periods when call rates touch upper end of the LAF corridor i.e., MSF rate of 6.75%.

Figure 3: Credit to Deposit (CD) Ratio Trend –Includes Merger Impact



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

- The CD ratio has been generally hovering above 75% since December 2022. The CD ratio saw an uptick of 30 bps, due to robust credit performance, compared to the previous fortnight and stood at 77.6% in the fortnight (Sep 8, 2023), meanwhile the y-o-y growth was approx. 400bps (Impacted due to HDFC merger).

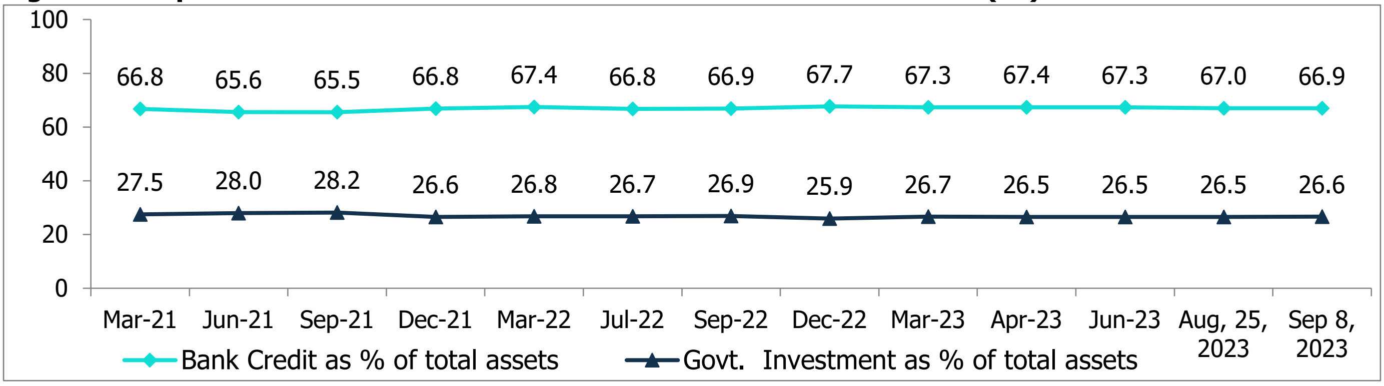
Figure 4: Trend in Credit and Deposit Movement (y-o-y, %)

	Sep 11, 2020	Sep 10, 2021	Sep 9, 2022	Sep 8, 2023
Credit	4.2	6.7	16.2	19.8
Deposit	12.0	9.3	9.5	13.6

Source: RBI, CareEdge, compares post-merger figures

Proportion of Credit to Total Assets Reduces, however Govt. Investment to Assets marginally Rises

Figure 5: 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

- Credit to total asset ratio saw a decline of 10 bps compared to the previous fortnight and stood at 66.9% in the fortnight (Sep 8, 2023). However, y-o-y growth was approx. 30bps. Govt. Investments stood at 59.8 lakh crore as on Sep 8, 2023, reporting a growth of 17.3% y-o-y and 1.4% sequentially.

O/s CDs and O/s CPs Continue to Remain at Elevated Levels

Figure 6: Certificate of Deposit Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
Mar 11, 2022	154.4	168.9
May 20, 2022	193.0	113.7
July 1, 2022	223.8	222.9
Sep 23, 2022	252.2	318.7
Dec 30, 2022	294.0	247.1
Jan 27, 2023	279.8	180.6
Feb 10, 2023	269.7	139.6
Feb 24, 2023	280.4	120.4
Mar 24, 2023	304.5	50.4
Apr 07, 2023	301.4	49.6
Jul 28, 2023	307.0	23.3
Sep. 08, 2023	297.7	22.2

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

Figure 7: Trend in CD Issuances (Rs'000, Cr.) and RoI

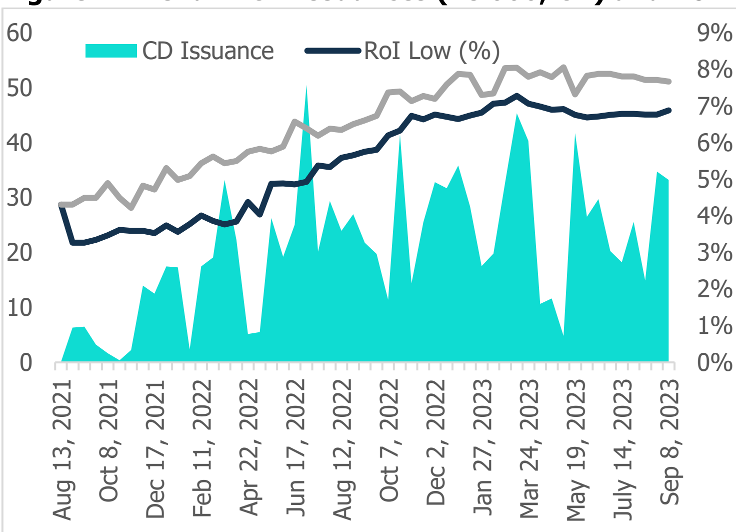
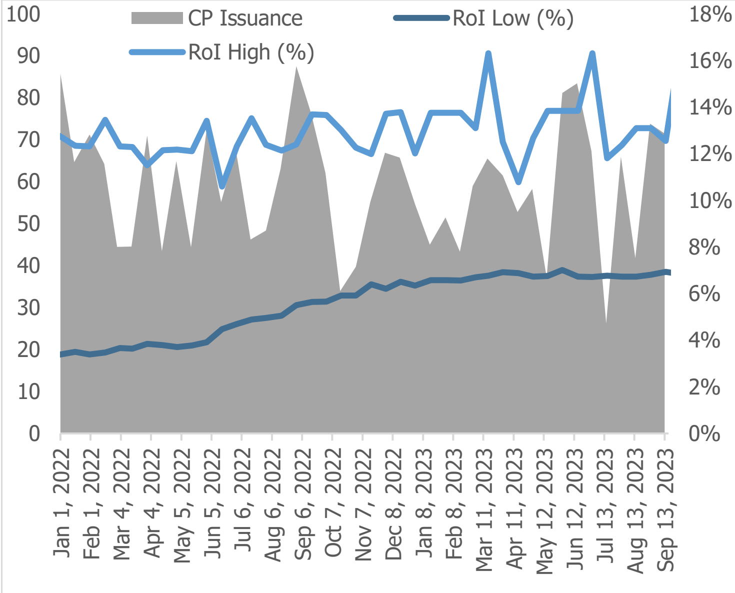


Figure 8: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
Mar 31, 2022	352.2	-3.3
May 15, 2022	384.4	-5.0
Jun 30, 2022	372.5	-1.0
Aug 31, 2022	410.0	4.7
Oct 31, 2022	373.3	-1.6
Dec 15, 2022	363.7	-18.6
Jan 31, 2023	363.9	-8.1
Mar 15, 2023	371.3	0.9
Apr 30, 2023	421.7	15.5
May 31, 2023	433.5	12.7
Jun 30, 2023	433.2	16.3
Aug 29, 2023	450.1	9.8
Sep 13, 2023	432.6	-1.4

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

Figure 9: Trend in CP Issuances (Rs'000, Cr.) and RoI



RBI Announcements

Announcement	• Details
Draft Master Direction on Treatment of Wilful Defaulters and Large Defaulters	• The Reserve Bank had introduced a scheme for handling wilful defaulters, effective from April 1, 1999. These guidelines were subsequently consolidated into the Master Circular on Wilful Defaulters, last updated on July 1, 2015. The instructions on wilful defaulters have been revised after a review of the extant instructions and consideration of various judgments/ orders from the Supreme Court and High Courts, and representations/ suggestions received from banks and other stakeholders. • The draft Master Direction expands the scope for Regulated Entities which can classify borrowers as wilful defaulters, broadens the definition of wilful default, refines the identification process, and mandates a review and finalisation on wilful default aspects within six months of an account being classified as a non-performing asset. It also addresses the treatment of wilful default loans sold to Assets Reconstruction Companies and their status under the Insolvency and Bankruptcy Code.
Prudential Regulations on Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms for AIFIs Directions, 2023	• The Reserve Bank has issued the Directions which shall be applicable to the five All India Financial Institutions (AIFIs) viz., EXIM Bank, NABARD, NABFID, NHB, and SIDBI. • They are designed to ensure that AIFIs adhere to prudential regulations that align with the Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms. • These Directions shall be applicable latest w.e.f. April 1, 2024.

Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2023	• The revised Directions include principle-based classification of investment portfolio, tightening of regulations around transfers to/from held to maturity (HTM) category and sales out of HTM, inclusion of non-SLR securities in HTM subject to fulfilment of certain conditions and symmetric recognition of gains and losses. • These Directions are expected to enhance the quality of banks' financial reporting, improve disclosures (disclosures of fair value of investments in HTM category, fair value hierarchy, sales out of HTM, etc.), provide a fillip to the corporate bond market, facilitate the use of derivatives for hedging, and strengthen the overall risk management framework of banks. While the revised Directions align the accounting norms for banks' investment portfolios with global financial reporting standards, important prudential safeguards such as investment fluctuation reserve (IFR), due diligence/limits with respect to non-SLR investments, internal control systems, reviews and reporting etc. have been retained and prudential concerns on reliability of valuation have been addressed. • The revised Directions shall apply to all commercial banks (excluding Regional Rural Banks) from the financial year commencing on April 1, 2024.
Responsible Lending Conduct – Release of Movable / Immovable Property Documents on Repayment/ Settlement of Personal Loans	• All entities shall release all the original movable / immovable property documents and remove charges registered with any registry within a period of 30 days after full repayment/ settlement of the loan account. • The borrower shall be given the option of collecting the original movable / immovable property documents either from the banking outlet / branch where the loan account was serviced or any other office of the RE where the documents are available, as per her / his preference. • The timeline and place of return of original movable / immovable property documents will be mentioned in the loan sanction letters issued on or after the effective date. • The entities shall have a well laid out and publicly available procedure for return of original movable / immovable property documents to the legal heirs. • In case of delay in releasing of original movable / immovable property documents or failing to file charge satisfaction form with relevant registry beyond 30 days after full repayment/ settlement of loan, the entities shall communicate to the borrower reasons for such delay. In case where the delay is attributable to the entities, it shall compensate the borrower at the rate of Rs 5,000/- for each day of delay.

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