Credit Offtake Continues to Grow while Credit-Deposit Ratio Hits 2-Year High

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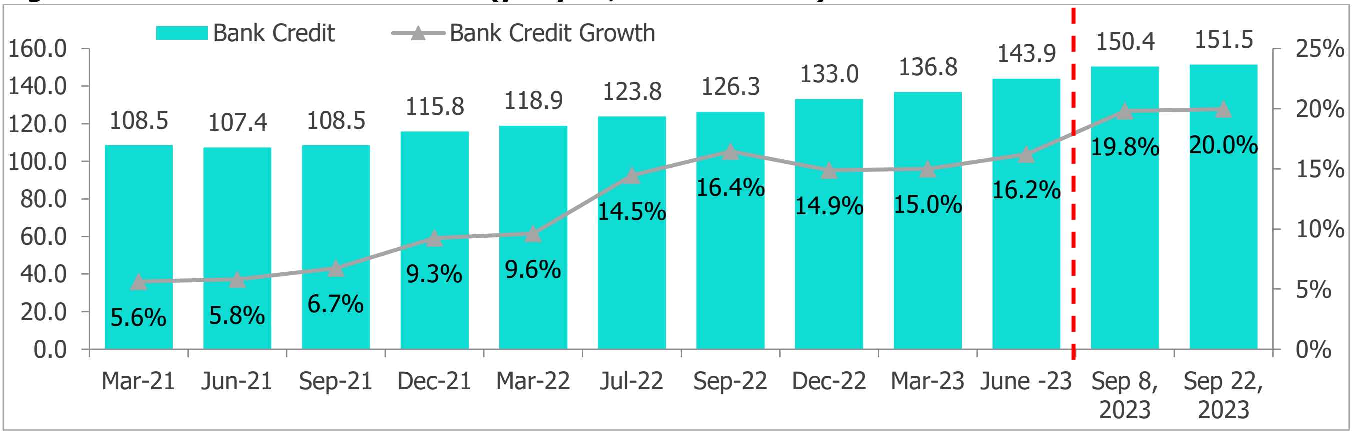
Synopsis

- Credit offtake continued to grow, increasing by 20.0% year on year (y-o-y) to reach Rs. 151.5 lakh crore for the fortnight ended Sep 22, 2023. This surge continues to be primarily driven by the impact of HDFC's merger with HDFC Bank and growth in personal loans. Meanwhile, if merger impact is excluded, credit grew at a lower rate of 15.3% 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 growth, increasing by 13.2% y-o-y for the fortnight (including the merger impact). However, sequentially we saw a decline of 0.6% as the effect of the Rs 2,000 note deposit started to fade and liquidity remains challenged. Deposit growth is expected to improve compared to current trends 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 6.75% as of September 29, 2023, compared to 5.52% on September 30, 2022, due to pressure on short-term rates.

Bank Credit Growth Remains Elevated

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

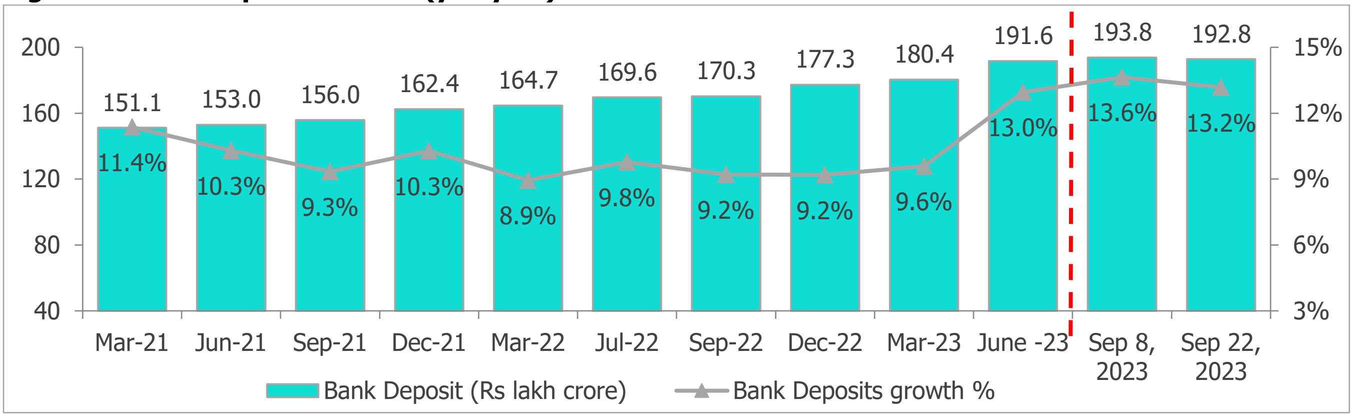


Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Credit offtake increased by 20.0% year on year (y-o-y) and a sequential improvement of 0.8% for the fortnight ended Sep 22, 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 22, 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. 25.2 lakh crore to reach Rs. 151.5 lakh crore as of Sep 22, 2023. Excluding the impact of the merger, the growth stood at 15.3% y-o-y for the fortnight. This growth continues to be primarily driven by continued demand for personal loans and NBFCs.

- The outlook for bank credit offtake continues to remain positive for FY24, supported by factors such as economic expansion and a continued 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 Credit to Deposit (CD) ratio remains elevated, growth in the liability franchise would play a significant role in sustaining loan growth. However, elevated interest rates and global uncertainties could potentially impact credit growth in India.

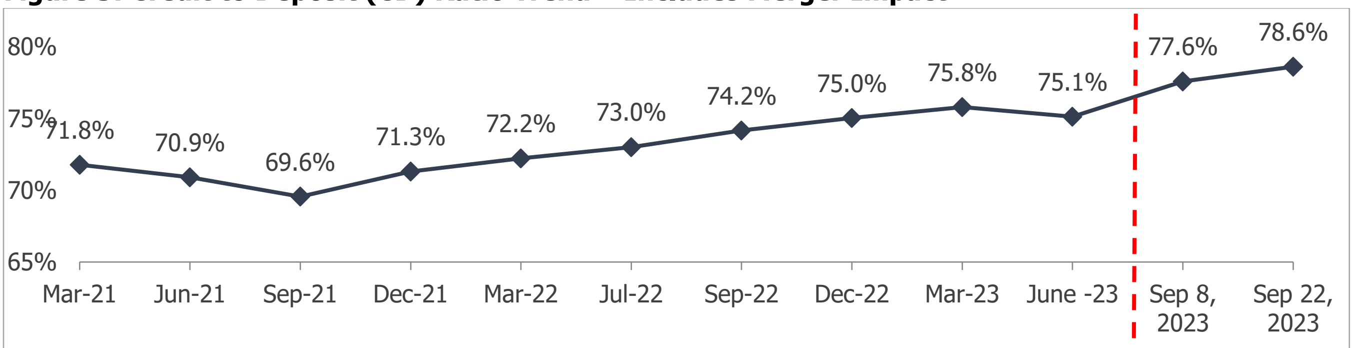
Figure 2: Bank Deposit Growth (y-o-y %)



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

- Deposits rose at 13.2% y-o-y for the fortnight (reported Sep 22, 2023) and declined by 0.6% sequentially. Without considering the merger, deposits rose by 12.8% y-o-y. Meanwhile, in absolute terms, deposits expanded by Rs. 22.4 lakh crore and reached Rs. 192.8 lakh crore as of Sep 22, 2023, compared to Sep 23, 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 102 bps, due to robust credit performance, compared to the previous fortnight and stood at 78.6% in the fortnight (Sep 8, 2023), reaching to a two year high, meanwhile the y-o-y growth was approx. 445bps (Impacted due to HDFC merger).

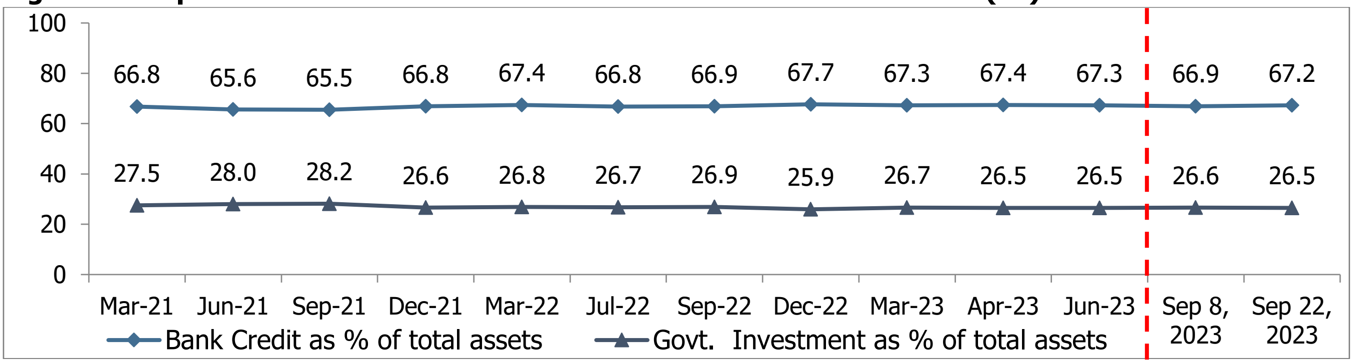
Figure 4: Trend in Credit and Deposit Movement (y-o-y, %)

	Sep 25, 2020	Sep 24, 2021	Sep 23, 2022	Sep 22, 2023
Credit	5.2	6.7	16.4	20.0
Deposit	10.5	9.3	9.2	13.2

Source: RBI, CareEdge, compares post-merger figures

Proportion of Credit to Total Assets and Investment to Assets 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 assets ratio saw an increase of 30 bps compared to the previous fortnight and stood at 67.2% in the fortnight (Sep 22, 2023). However, y-o-y growth was approx. 35 bps. Govt. Investments stood at 59.8 lakh crore as on Sep 22, 2023, reporting a growth of 17.8% y-o-y and flat 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. 22, 2023	291.8	15.7

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

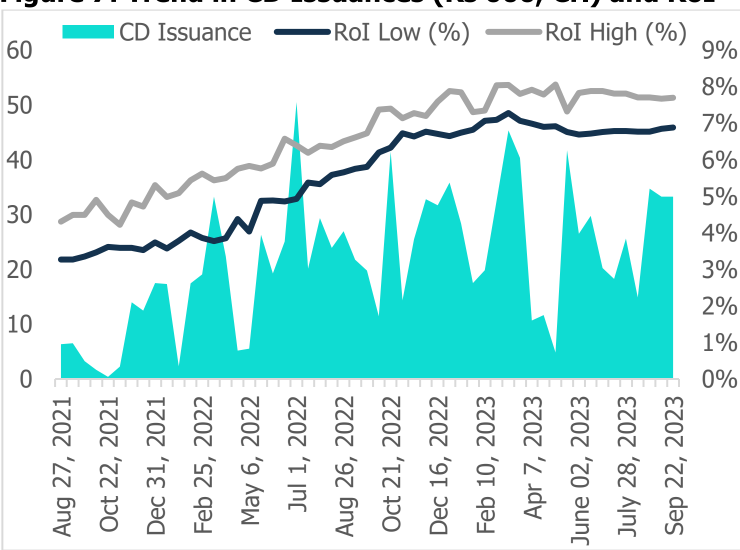
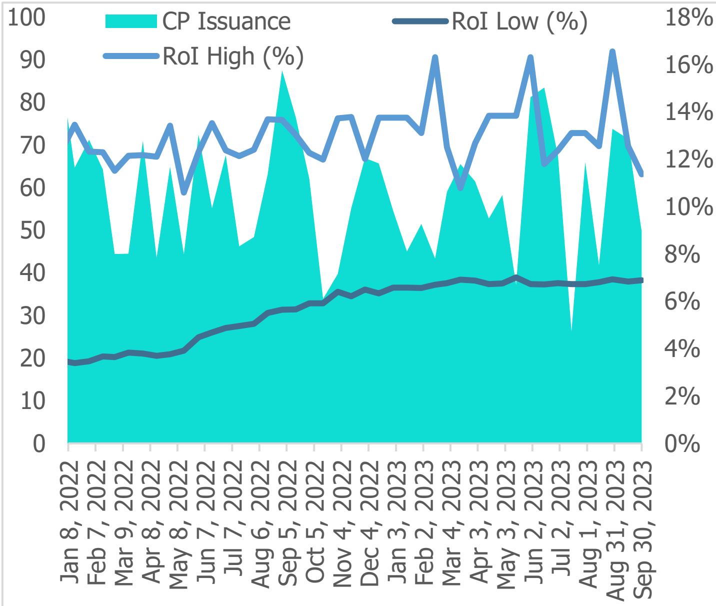


Figure 8: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Amount Outstanding
Mar 31, 2022	(Rs'000 cr.)	-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 31, 2023	450.1	9.8
Sep 30, 2023	412.2	2.8

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
Monetary Policy Statement, 2023-24 Resolution of the Monetary Policy Committee (MPC) October 4 to 6, 2023	Based on an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (October 6, 2023) decided to: • Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50 %. The standing deposit facility (SDF) rate remains unchanged at 6.25 % and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 %. • The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 % within a band of +/- 2 %, while supporting growth.

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