Credit Offtake Moderates on Base Effect, Deposit Growth Stays Slow

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Synopsis

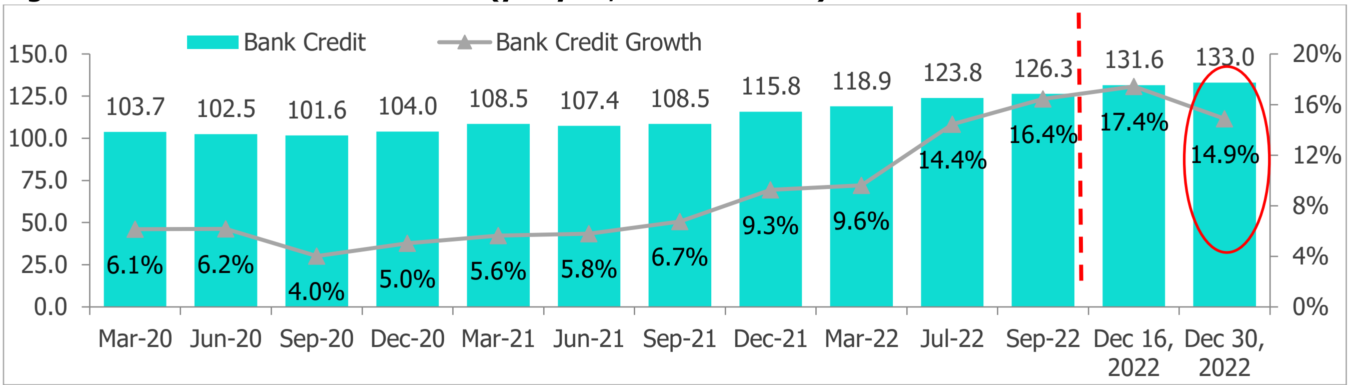
- Credit offtake rose by 14.9% year on year (y-o-y), for the fortnight ended December 30, 2022. The growth has been driven by a healthy rise in NBFCs, retail credit, and working capital demand driven by inflation and capex.

- Deposits saw a slower growth at 9.2% y-o-y compared to credit growth for the fortnight ended December 30, 2022. The short-term Weighted Average Call Rate (WACR) has increased to 6.36% as of December 30, 2022, from 3.33% as of December 31, 2021. Further, deposit rates have already risen and are expected to go up even further due to rising policy rates, intense competition between banks for sourcing deposits to meet strong credit demand, widening gap credit & deposit growth, and lower liquidity in the market. Over the last couple of years, (i.e., from March 27, 2020) credit offtake has almost reached the Covid-induced lag, rising by 29.6% in absolute terms compared to 30.7% of deposit rates.

- The credit growth has continued to be in double digits and has been broad-based across the segments and is likely to remain strong in FY23. Meanwhile, this reduction would have to be monitored in the coming fortnights to determine if the credit offtake has peaked and is returning to a lower growth rate.

Bank Credit Growth Remains Resilient

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

- As mentioned in our earlier updates, "Credit Offtake Robust in Nov, Services Grow Highest for 3rd Straight Month", credit offtake moderated to 14.9% y-o-y growth for the fortnight ended December 30, 2022, compared to 17.4% from the previous fortnight (reported December 16, 2023) as the benefit of a lower base has waned.

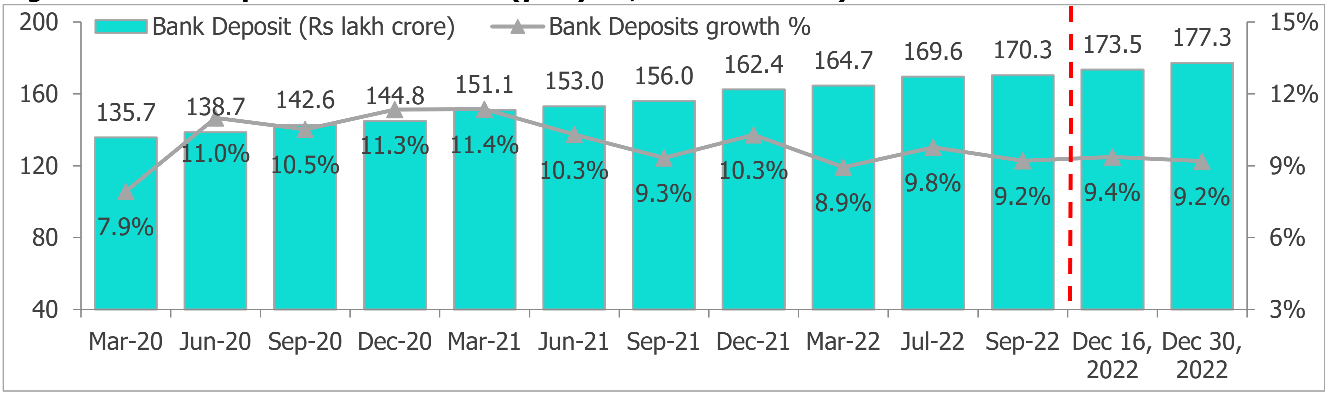
- The growth can continue to be attributed to NBFCs (shifting of borrowings to the banking systems), sustained retail credit, higher working capital demand, growth in MSME, and lower funds raised from the overseas market. In absolute terms, credit outstanding stood at Rs.133.0 lakh crore as of December 30, 2022, rising by Rs.17.2 lakh crore over the last 12 months.

- On a quarter-on-quarter basis, credit offtake rose by 5.3% in December 2022 (Q3FY23) to Rs.133.0 lakh crore compared to 6.8% in Q3FY22 (credit expanded by Rs.6.7 lakh crore in absolute terms).

- Credit for the services sector accelerated at 21.3% y-o-y in November 2022 primarily due to a rise in NBFCs and retail trade segments. Retail credit growth at 19.7% y-o-y has been strongly led by the miniaturization of credit, vehicle loans, consumer durables, and credit cards. The credit outstanding of the industry segment also grew by 13.1% due to inflation-induced higher working capital demand, and MSMEs.

- The credit growth has continued to be in double digits and has been robust in recent months even amid the significant rise in interest rates. The growth was also broad-based across the segments and is likely to remain strong in FY23. Retail and NBFCs are expected to be key growth drivers for the fiscal. Besides, demand for new capex is expected to drive industry credit growth. Meanwhile, a slowdown in global growth due to rising interest rates and multiple rate hikes in India could impact credit growth.

Figure 2: Bank Deposit Growth Trend (y-o-y %, Rs. Lakh crore)



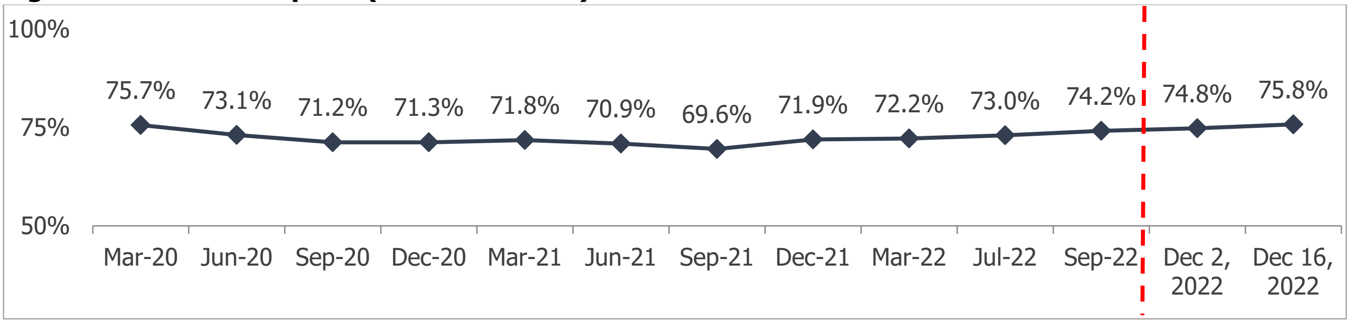
Note: The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Deposits stood at Rs.177.3 lakh crore for the fortnight ended December 30, 2022, registering a growth of 9.2% y-o-y. Time deposits grew by 9.6% y-o-y, while demand deposits rose by 6.7% in the reporting fortnight vs. 8.2% and 27.2% y-o-y, respectively, reported in the fortnight ended December 30, 2021. Meanwhile, in absolute terms, bank deposits have increased by Rs.14.9 lakh crore over the last twelve months. It also rose by Rs.3.8 Lakh crore from the immediate previous fortnight (reported December 16, 2022). To source additional deposits, banks have already raised term deposit rates of select tenures and are expected to increase further.

- Liquidity has generally been trending down with RBI seeking to reduce excess liquidity from the system to manage inflation. Banking system liquidity stayed in deficit in the second half of December due to advance tax outflows and GST payments. The liquidity deficit stood at Rs 0.16 lakh crore (as on 26 December 2022) as against a surplus of Rs 6.4 lakh crore at the start of FY23.

- RBI has already increased the repo rate by 225 bps to 6.25% (five hikes) in FY23, with an additional hike anticipated in the current financial year. Due to elevated domestic inflation, rate hikes and higher global bond yields have led to higher yields in the domestic debt capital markets, resulting in shifting of borrowings to the banking systems due to cost optimisation by borrowers.

Figure 3: Credit to Deposit (CD Ratio Trend)



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

- The Credit to Deposit (CD) ratio has been generally increasing since November 2021 and reached 75.0%, expanding by ~371 bps y-o-y from the similar fortnight last year due to continued faster growth in credit as compared to deposits. The CD ratio reached 75.8% in the immediate previous fortnight which is almost similar compared to the pre-pandemic level of 75.8% in Feb 2020 and 75.7% in March 2020.

- Considering credit investments to be at Rs.8.1 lakh crore (as of October 21, 2022, as per the latest data released by RBI). The bank credit (including credit investments) to total assets would have been around 71.8% for the fortnight ended December 30, 2022, which was almost similar to the previous year's fortnight (reported December 32, 2022). It was partially offset by a drop in credit investment (credit investment currently stood at Rs.8.1 lakh crore down from Rs.8.6 lakh crore in the same period last year).

Figure 4: Trend in y-o-y Movement

	Dec 18, 2020	Dec 17, 2021	Dec 30, 2022
Credit	5.6%	9.2%	14.9%
Deposit	11.5%	10.3%	9.2%

Source: RBI, CareEdge

- In the current year, the y-o-y change in credit has outpaced deposits reversing the earlier trend of deposits growing at a higher rate when compared to credit. The credit growth improved due to normalisation of the Indian economy post covid, pent-up demand, and policy support from the government (ECLGS to MSME and PLI scheme, etc).

Figure 5: Growth in Credit almost reached Covid-induced Lag (Rs. Lakh Crore)

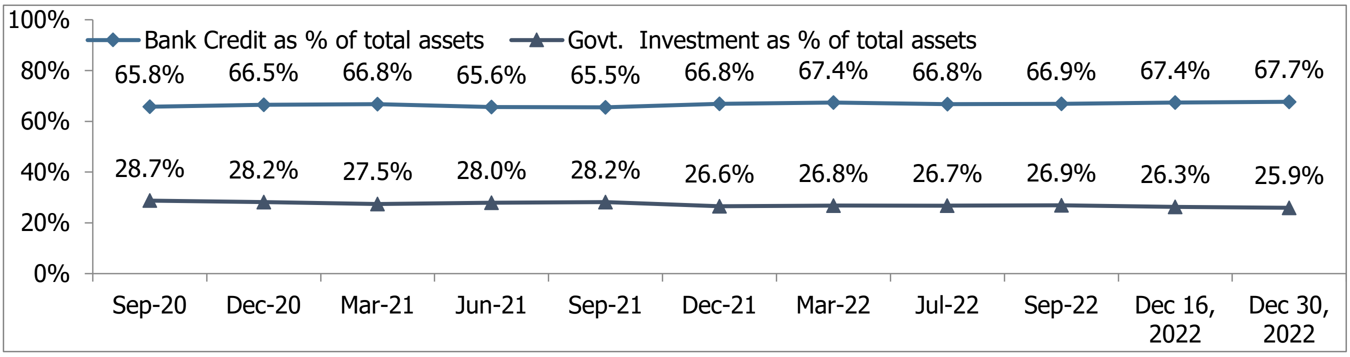
	Deposit	Credit
March 27, 2020	135.7	102.7
December 16, 2022	177.3	133.0
Growth over the period (in abs. terms)	30.7%	29.6%

Source: RBI, CareEdge

- With a growth of 29.6% over the period, credit has almost reached the Covid-induced lag relative to Deposit growth (29.6%). A significant part of the funding gap has been met by the mobilisation of Certificates of Deposit (CD). The outstanding CDs stood at Rs 2.94 lakh crores as of December 30, 2022, as compared to just Rs 0.85 lakh crore a year ago. Further, the banks are keeping their CD issuance elevated to meet their short-term need amid the lower liquidity and focusing on deposits (bulk and retail) to meet the elevated credit demand. The deposit rates have already started to increase and CareEdge expects that the rates would increase even further as competition for deposits intensifies as banks focus on sourcing deposits due to rising policy rates, strong credit demand, and comparatively lower liquidity in the market.

Proportion of Credit to Total Assets Increases, while Govt. Investment to Total Assets Reduced

Figure 6: 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

- The share of bank credit to total assets rose by 24 bps to 67.4%, compared to the fortnight ended December 16, 2022, and rose ~85 bps when compared with the same fortnight last year (reported December 31, 2021) due to higher credit growth.
- Proportion of government investment to total assets dropped by 36 bps for the fortnight ended December 30, 2022, compared to the previous fortnight (reported December 16, 2022). The Govt. investments stood at Rs.51.0 lakh crore as of December 30, 2022, reporting a 10.6% y-o-y growth.

Growth in O/s CDs Remains Robust, O/s CPs witnesses a marginal rise (y-o-y)

Figure 7: CD Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 24, 2021	60.2	-20.3%
Oct 08, 2021	59.2	-20.9%
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%
July 1, 2022	223.8	222.9%
Aug 26, 2022	237.1	269.3%
Sep 23, 2022	252.2	318.7%
Oct 21, 2022	240.8	319.8%
Dec 16, 2022	272.5	271.9%
Dec 30, 2022	294.0	247.1%

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

Figure 8: Trend in CD Issuances (Rs'000, crore) and RoI

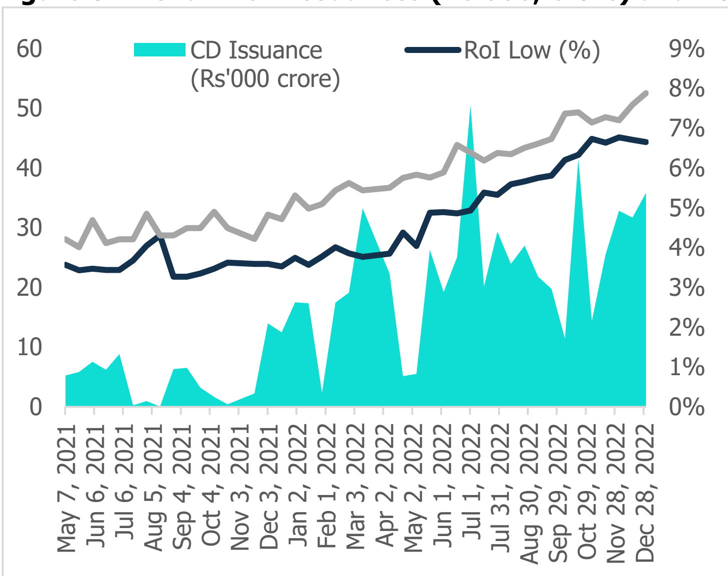
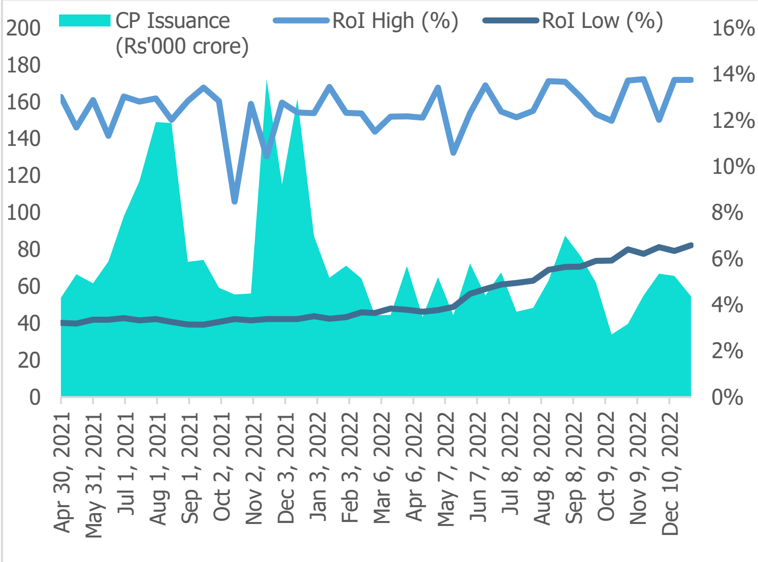


Figure 9: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
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%
Jun 30, 2022	372.5	-1.0%
Aug 31, 2022	410.1	4.7%
Sep 15, 2022	438.7	9.3%
Sep 30, 2022	400.9	8.1%
Oct 15, 2022	415.8	4.0%
Oct 31, 2022	373.3	-1.6%
Dec 15, 2022	363.7	-18.6%
Dec 31, 2022	359.7	2.7%

Figure 10: 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

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