Lending to Businesses Inches Up, Personal Loans Slow a Tad in March

May 03, 2024 | BFSI Research

Note: Gross bank credit and non-food credit data are based on Section-42 return, which covers all scheduled commercial banks (SCBs), while sectoral non-food credit data is based on sector-wise and industry-wise bank credit (SIBC) return that covers 41 banks accounting for approximately 95% of non-food credit extended by SCBs.

Synopsis

- Gross bank credit offtake witnessed an increase of 20.2% year-on-year (y-o-y) in March 2024 propped by the impact of the merger between HDFC twins. Without considering the merger, the y-o-y growth stood at 16.3%, higher by 130 bps than last year's growth number of 15.0%.
    - Lending to businesses (industry + services) increased by 16.3% in March 2024 compared to the 12.5% reported in March 2023. Excluding the merger impact, the growth was higher at 14.6% by over 210 bps compared to March 2023.
        - The services segment reported a rise of 22.9% y-o-y in March 2024 led by growth in trade, commercial real estate, and Non-Banking Financial Services (NBFCs).
        - Industry segment grew by 9.0% y-o-y in March 2024 led by growth in Micro, Small & Medium Enterprises (MSME).
    - Meanwhile, personal loans witnessed a robust growth of 27.6% y-o-y mainly due to the impact of the merger. Excluding the merger impact, the growth rate reduced by around 330 bps to 17.7% in March 2024 on a y-o-y basis due to slower growth in vehicle loans and other personal loans which was slower by around 330 bps compared to the 21.0% growth reported in March 2023.
    - The Agriculture & Allied segment has held the line growing by 20.1% in March 2024 compared to 15.4% in March 2023 reflecting sustained demand.

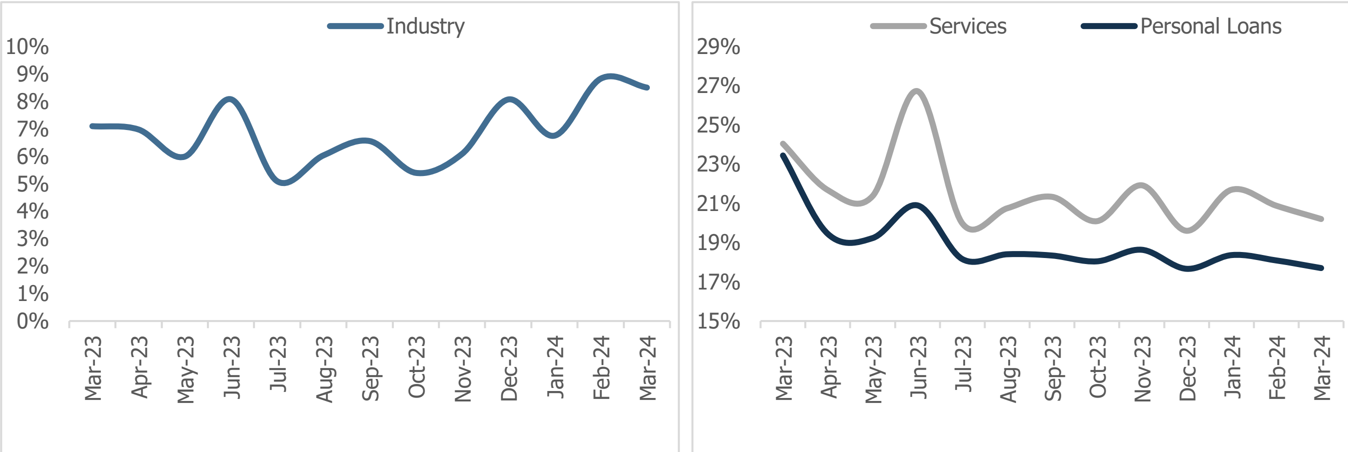
Summary of Sectoral Performance

Figure 1: Sectoral Distribution of Credit: March 2024 (Rs. Lakh Crore, %)

Particulars	O/s Credit	Chg	% Growth in Credit	
	As of Mar 22, 2024	M-o-M (%)	Mar 23 vs Mar 22	Mar 24 vs Mar 23
Gross Bank Credit	**164.3**	**1.4**	**15.0**	**20.2**
Non-Food Credit	**164.1**	**1.5**	**15.4**	**20.2**
Agriculture & Allied	20.7	1.9	15.4	20.1
Industry	36.8	0.4	5.6	9.0
Services	45.9	2.2	19.6	22.9
Personal Loans	53.4	1.3	21.0	27.6

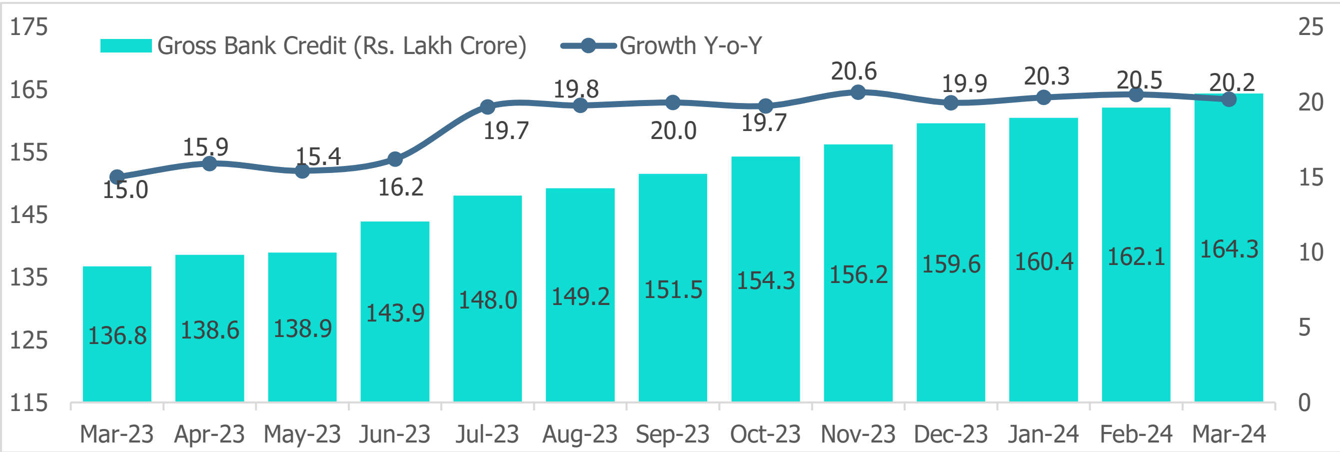
Source: RBI, Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly

Figure 2: Growth Excl. Merger Impact: Mar-24 (%) – Svcs. & Pers. Loans Growth Dips; Industry Up



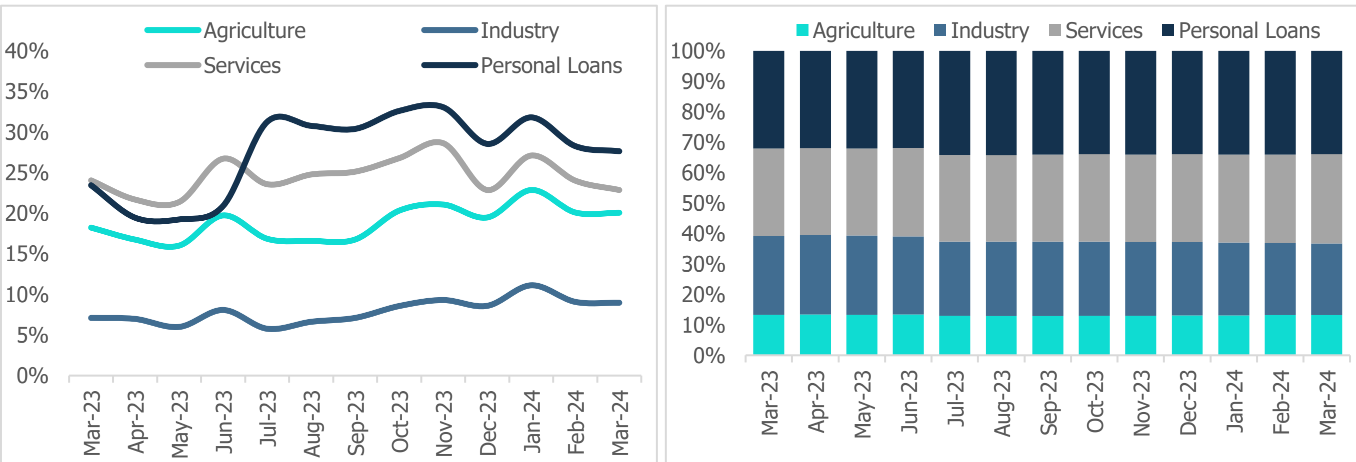
Source: RBI

Figure 3: Monthly Trend in Gross Bank Credit Outstanding and Growth (%)



Source: RBI, Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly

Figure 4: Shift Towards Retail in Bank Sectoral Credit Growth (y-o-y) and Share (%)



Source: RBI, Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly; Segmental Share Calculation based on the sum of Agriculture, Industry, Services & Personal Loans.

Figure 5: Sectoral Distribution of Credit: March 2024 (Rs. Lakh Crore)

Particulars	O/s Credit	% Chg	% Chg Y-o-Y						
	Mar 22, 2024	M-o-M	Mar 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24
Gross Credit	**164.3**	**1.4**	**15.0**	**19.7**	**20.6**	**19.9**	**20.3**	**20.5**	**20.2**
Non-Food	**164.1**	**1.5**	**15.4**	**19.8**	**20.8**	**20.1**	**20.4**	**20.5**	**20.2**
Agri	**20.7**	**1.9**	**15.4**	**20.3**	**18.2**	**19.5**	**20.1**	**20.1**	**20.1**
Industry	**36.8**	**0.4**	**5.6**	**8.6**	**6.6**	**8.6**	**8.3**	**9.1**	**9.0**
MSME	10.3	-5.5	12.9	22.7	15.6	13.1	14.4	14.0	14.4
Large	26.5	2.9	3.1	4.1	3.6	7.0	6.2	7.1	7.0
Services	**45.9**	**2.2**	**19.6**	**26.8**	**25.4**	**22.9**	**23.9**	**24.0**	**22.9**
Trade	10.2	1.4	17.8	24.0	19.0	17.1	17.8	18.5	17.4
Commercial RE	4.5	1.3	8.5	39.0	37.5	37.6	36.3	37.9	38.9
NBFCs	15.5	2.2	29.9	23.2	21.5	15.1	15.6	14.7	15.3
Personal Loans	**53.4**	**1.3**	**21.0**	**32.6**	**30.1**	**28.5**	**28.8**	**28.3**	**27.6**
Housing	27.2	1.5	15.2	40.6	37.0	35.6	37.2	36.7	36.9
Vehicle Loans	5.9	1.2	24.8	20.5	20.8	20.5	16.3	17.5	17.3
Other Pers. Loans	13.9	1.2	26.7	27.7	24.3	22.9	23.3	21.9	20.8

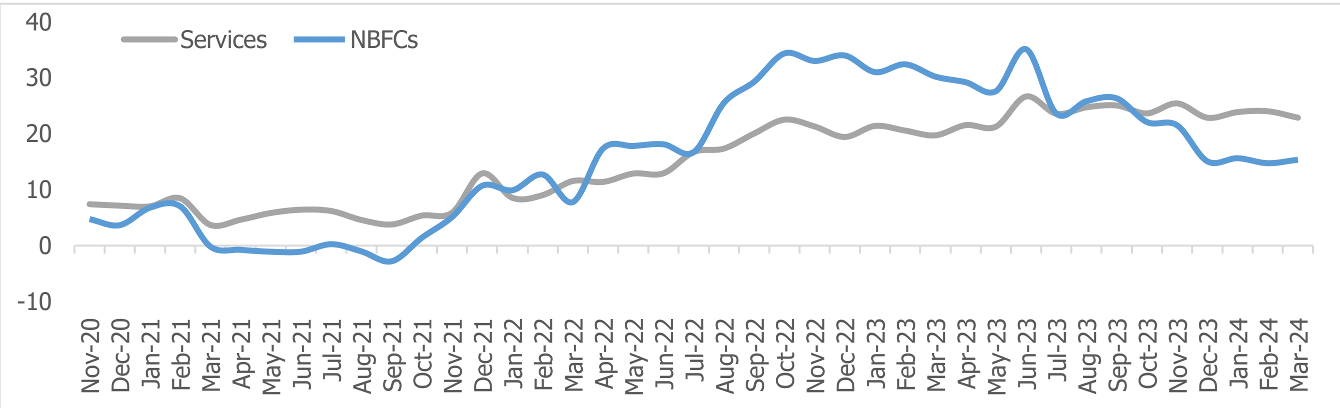
Source: RBI, CareEdge Calc.; Note: Merger between HDFC Bank and HDFC Ltd effective from July 01, 2023, data is not comparable directly.

Lending to businesses (industry + services) increased by 16.3% in March 2024 compared to 12.5% reported in March 2023. Excluding the merger impact, the growth remained higher at 14.6% by over 210 bps compared to March 2023.

Services

The services sector reported a robust growth of 22.9% y-o-y in March 2024 compared to a growth of 19.6% in the year-ago period due to growth in commercial real estate (merger impact and demand), and transport operators. Without considering the merger, the growth would have been 20.2% y-o-y. Meanwhile, the growth rate for NBFCs and trade moderated. In March 2024, the Services segment growth rate remained above the approximately 24% average growth in the prior 12 months.

Figure 6: Movement in Services and NBFCs (y-o-y, %) – NBFCs pulling Services Growth Down



Source: RBI; Note: Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly

The credit exposure of banks to NBFCs stood at Rs 15.5 lakh crore in March 2024, indicating a 15.3% y-o-y growth that is approximately half of the growth rate reported in March 2023. This growth is despite HDFC's exposures being reclassified post it's merger with HDFC Bank. On a month-on-month (m-o-m) basis, the amount rose by 2.2%. However, the proportion of NBFC exposure in relation to aggregate credit has reduced from 9.7% in March 2023 to 9.4% in March 2024. In March 2024, the six-month average y-o-y expansion in bank advances to NBFCs has reduced to around 19% levels compared to the approximately 23-25% average growth in the 12 months prior to the same. This can be attributed to the RBI's increasing risk weights and rising capital market borrowings.

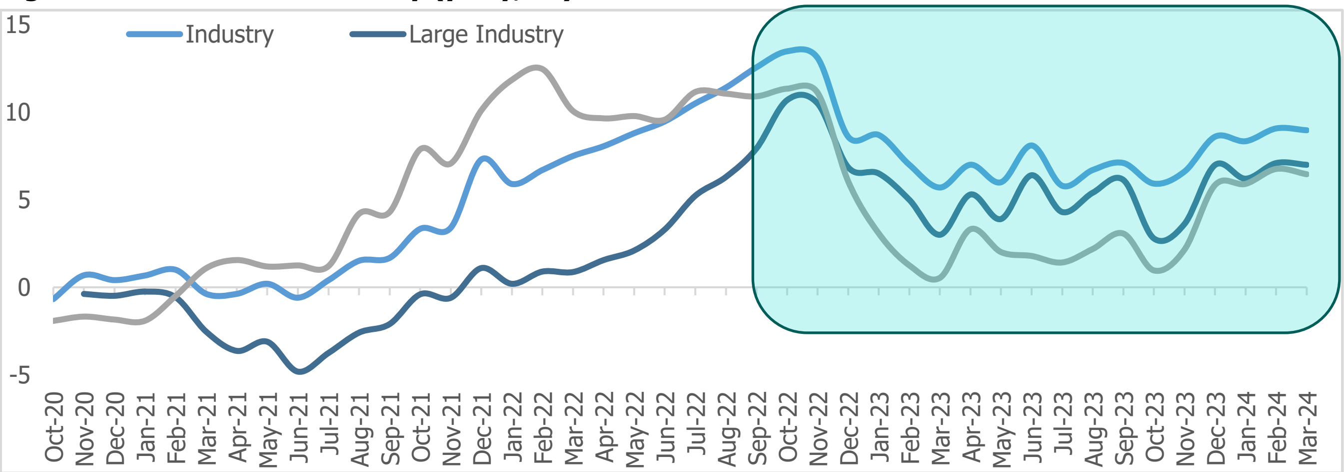
Commercial real estate rose by 38.9% y-o-y in March 2024 due to the merger and continued robust demand. Meanwhile, without considering the merger it rose by 22.9% y-o-y vs. 8.5% y-o-y in March 2023.

Trade grew 17.4% in March 2024 compared to 17.8% in the year-ago period due to wholesale trade (21.4%). The growth in services was also led by 37.7% y-o-y growth in 'other services'. Even if we exclude the merger impact, it rose by 33.1% y-o-y in March 2024 compared to 15.3% in March 2023.

Industry

Industry growth increased to 9.0% y-o-y in March 2024 compared to 9.1% y-o-y in February 2024 and 5.6% in March 2023 as slower growth in large corporates was partially offset by growth in MSME. If the merger impact had been excluded, growth would have been slower at 8.5%. Among major industries, growth in chemicals & chemical products, food processing, and infrastructure accelerated in March 2024 as compared with March 2023, while basic metal & metal products decelerated. The credit to large industries touched 7.0% y-o-y in March 2024 from 3.1% in March 2023.

Figure 7: Movement in Industry (y-o-y, %)



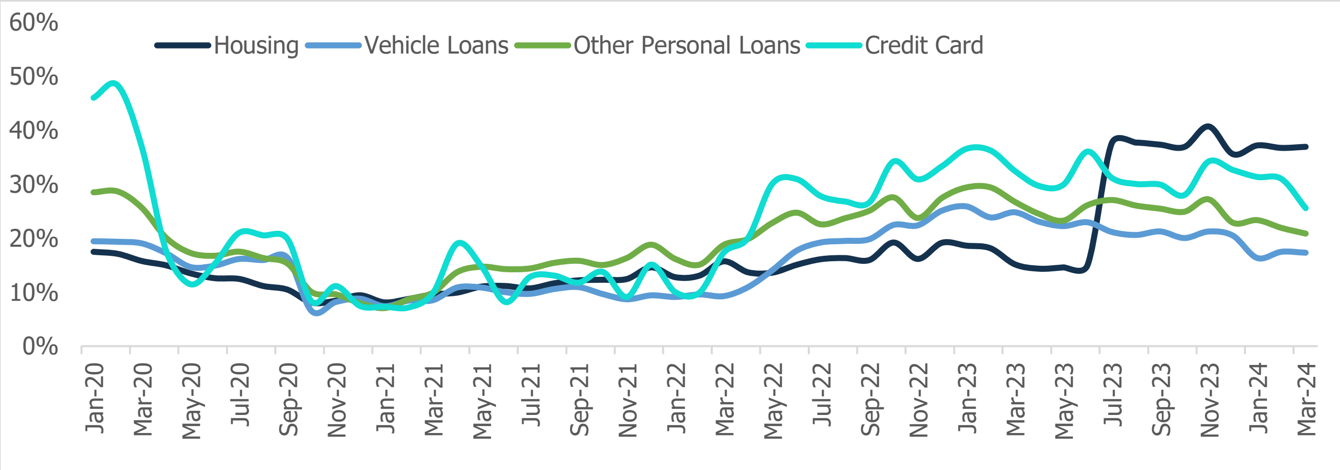
Source: RBI, Note: Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly.

The infrastructure (sub-segment, within the industry 34.8% share) witnessed a credit growth of 6.5% y-o-y in March 2024 vs. 0.4% over the year-ago period due to a growth in roads, telecommunications, power, and railways (excl. Indian Rail), which offset a drop in ports and airports. The power segment (the largest segment of infrastructure, with a share of 50.4%) witnessed a growth of 3.9% in March 2024 vs. a rise of 1.4% in March 2023. Meanwhile, the credit offtake for roads stood around 80 bps higher compared to the rate last year. i.e. 6.1% y-o-y in March 2024 from 5.3% in March 2023. Over the past few years, while exposure of Banks to the power sector has remained largely range-bound, power-focused IFCs, supported by government schemes and improved financial position, have been consistently growing their loan book. The share of power-focused IFCs in exposure to the power sector a vis-a-vis banks has gradually increased from 55% as of March 31, 2020, to 59%, as of March 31, 2023, and is expected to further increase to 63% by March 31, 2024.

Personal Loans

The personal loans segment (the largest segment with a 34.0% share) witnessed a robust growth of 27.6% y-o-y for March 2024 boosted by the impact of the HDFC merger, growth in credit card outstandings, other personal loans, and housing loans. Credit growth in this segment continues to be driven by significant digitalisation of the ecosystem with increased use of credit bureaus for faster decisions, data collation and validation and e-commerce transactions also leading to miniaturisation of credit. Within the personal loans segment, all major sub-segments witnessed robust demand during the month. If we consider the growth excluding the merger, it moderated to 17.7% y-o-y as compared to 21.0% y-o-y in March 2023 which can be attributed to the moderation in the growth rate of other personal loans and vehicles.

Figure 8: Continued Growth in Advances of Banks to Select Personal Loan Segments (y-o-y, %)



Source: RBI

Housing loans grew by 36.9% y-o-y in March 2024 compared to 15.2% a year ago mainly due to the merger (reclassification of HDFCs' advances), sales of high-value residencies, strong launch pipeline of residential projects and incentives and schemes offered by developers. If the merger had been excluded, the growth would have been higher by roughly 220 bps to 17.4% y-o-y.

Vehicle loans registered a lower growth of 17.3% y-o-y in March 2024 as compared to 24.8% in the year-ago period. The continued growth, albeit slower compared to previous periods, can be attributed to higher sales of passenger vehicles especially SUVs and two-wheelers. Passenger vehicles and commercial vehicles are expected to drive demand.

Figure 9: Sequential (m-o-m) Movement in Credit Card Outstandings (%)

	Mar 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24
Credit Card O/s	0.1	10.8	1.7	2.9	2.6	-0.2	-0.4

Source: RBI, Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly

Credit card outstanding continued to be elevated in March 2024 touching Rs 2.57 lakh crore, a y-o-y growth of 25.6%, while decreasing by 0.4% sequentially. However, the credit card segment has seen some moderation in the y-o-y growth rate sequentially after the RBI increased the risk weights. Meanwhile, credit card spending increased by 27% y-o-y to Rs 18.26 trillion in FY24 from nearly Rs 14 trillion in FY23. The festival season and the fact that March is the year-end are likely to have driven transactions during the month on a sequential basis. Credit card spending will continue to grow although it is likely to moderate owing to a higher base and regulatory scrutiny. The other personal loans touched Rs 13.9 lakh crore and rose by 20.8% y-o-y, which is slower than the average growth rate of the last twelve months. The deceleration can be ascribed to RBI's increasing risk weights on consumer loans while growth can be attributed to the digitalization of loans (faster loan turnaround and robust process), and preferences for premium consumer products. Another advantage has been that these loans typically carry relatively higher interest rates, thereby boosting margins.

Conclusion

The outlook for bank credit offtake continued to be positive due to the economic expansion, rise in capital expenditure, growth in retail credit and the anticipated expansion in capex spending. The growth is anticipated to be broad-based across the segments. The personal loan segment is expected to continue doing well compared with the industry and service segments. The medium-term prospects look promising with diminished corporate stress and a substantial buffer for provisions. This growth would be coming off a high base in FY24 which would impinge marginally on the growth rate. Further, the HDFC merger effect is anticipated to dissipate by the end of Q1FY25 and the headline numbers would show the removal of the base effect. Hence, based on GDP forecasts, sectoral credit growth expectations, and management expectations, CareEdge estimates the credit growth to be in the range of 14%-14.5% during FY25. However, elevated interest rates and global uncertainties could adversely impact credit growth. Further ebbing inflation could also reduce the working capital demand.

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