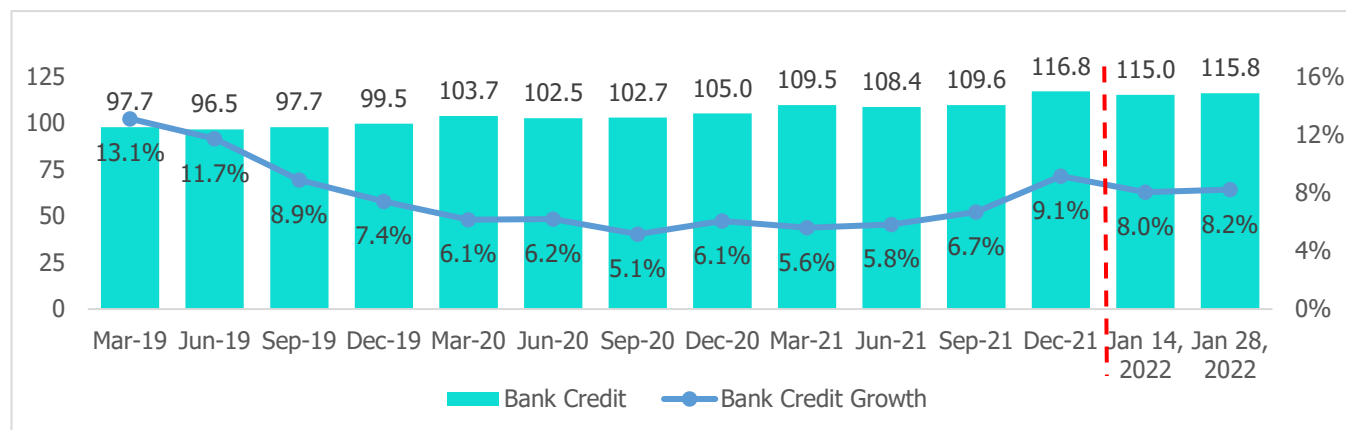


Update on Banking Credit and Deposits

February 19, 2022 | BFSI Research

Credit offtake and Deposit rise after contraction in the preceding fortnight

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

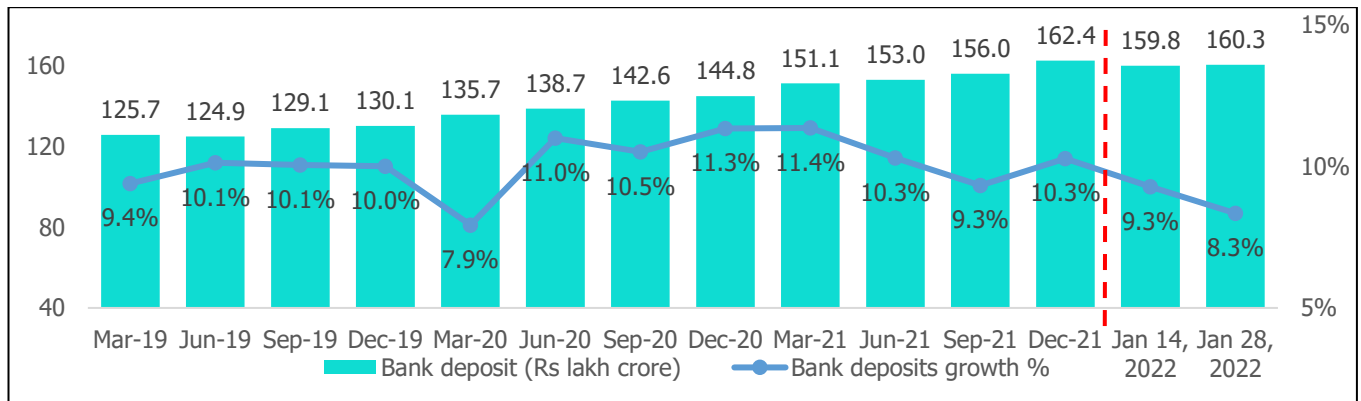


Note: The quarter-end data reflect, the last fortnight data of that particular quarter; Source: RBI, CARE Ratings Ltd.

- Bank credit growth rose by 8.2% y-o-y and expanded by 227-bps y-o-y (year-on-year) for the fortnight ended January 28, 2022, up from 5.9% in the year ago period (fortnight ending January 29, 2021) driven by uptick in business activities. Sequentially, bank credit expanded by 0.8% from the previous fortnight (ending on January 14, 2022). The credit and deposit rose in the fortnight ended January 28, 2022 signifying the resumption of normal growth post temporary contraction (in both credit and deposit) witnessed during the previous fortnight (ending January 14, 2022) as compared to fortnight ended December 31, 2021. In absolute terms, credit outstanding stood at Rs.115.8 lakh crore as on January 28, 2022, increasing by Rs.8.8 lakh crore over the last twelve months as compared to fortnight ended January 29, 2021 and by Rs.0.9 lakh crore as compared with the immediate previous fortnight (ending on January 14, 2022).
- The credit growth had been muted from February 2020 to July 2021 due to Covid-19 outbreak and deleveraging of balance sheet by large corporates as large corporates were hesitant to undertake fresh capex due to growth uncertainties and lower utilization. Further, in the past two three years, credit growth was also depressed due to resolution of high value NPAs which pushed down the headline numbers. With the high value corporate NPAs resolution now seemingly under control, the pressure on corporate headline numbers now look better.
- The banking sector is optimistic about corporate loan growth as business activities are picking up and corporates are showing interest for re-leveraging. Credit growth has been buttressed by retail and MSME loans. The gross banking credit expanded 9.2% y-o-y in December 2021 on account of growth in all segments (retail, agriculture & allied, industry and services). Credit outstanding of the retail segment rose by 14.3% y-o-y in December 2021 due to growth in housing, vehicle, and other personal loans driven by uptick in economic activities, festive seasons, low interest rates and higher discounts. The credit outstanding of the industry segment registered a growth of 7.6% y-o-y in December 2021 from a marginal growth of 0.4% in a year ago mainly on account of robust (36.6%) growth in the micro, small and medium enterprise (MSME) segment driven by ECLGS and reclassification. CPI too is trending up which is likely to support GDP growth, hence pushing up credit offtake.

- The outlook for bank credit growth is expected to be in the range of 8.0% to 9.0% for FY22 with a low base effect, economic expansion, rise in government and private capex (specially, capex for renewables and production linked incentive (PLI) schemes, extended ECLGS support, and retail credit push. The medium-term prospects look promising with diminished corporate stress and increased provisioning levels across banks. The Retail loan segment is expected to do well as compared with industry and service segments. The third wave of Covid-19 (omicron) is not expected to be as severe as the first two waves on the population and to the industry as well. However, subsequent variants if severe would lead to lockdowns and can cause slowdown in economy.

Figure 2: Growth of Bank Deposits (y-o-y growth %, Lakh Crore)

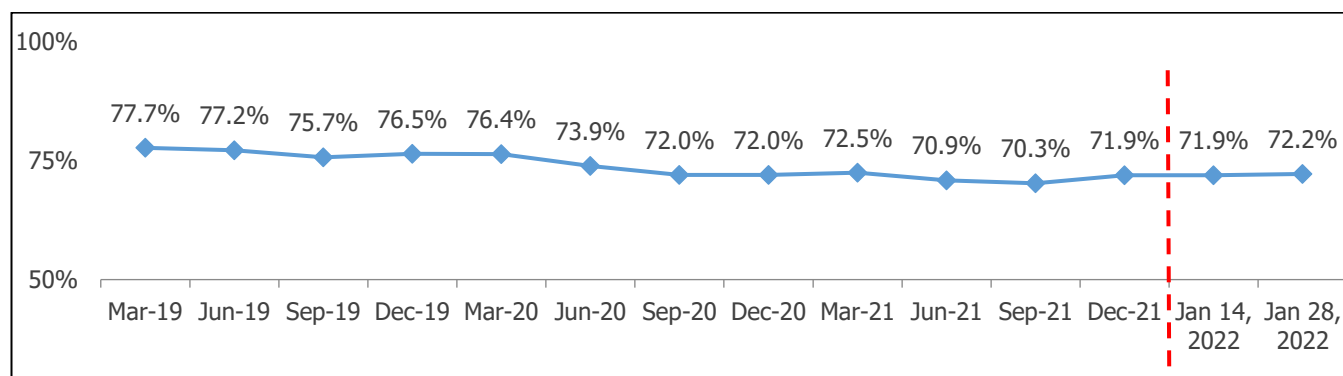


Note: The quarter-end data reflect, the last fortnight data of that particular quarter; Source: RBI, CARE Ratings Ltd.

- Deposits stood at Rs.160.3 lakh crore for the fortnight ended January 28, 2022, reporting a growth of 8.3% y-o-y, however the growth rate has contracted by 272-bps (y-o-y). It reported a growth of 31-bps when compared with the previous fortnight (January 14, 2022). The deposit growth has ranged between 9.3-11.6% from April 2021 to January 2022 with the exception of the fortnight ended January 28, 2021 where it fell to 8.3%. Meanwhile, in absolute terms, the bank deposits have increased by Rs.12.35 lakh crore over the last twelve months as compared to fortnight ended January 29, 2021, and by Rs.0.50 lakh crore from the previous fortnight (January 14, 2022). Time deposit grew by 7.8%, while demand deposit grew by 12.6% when compared with the previous year (fortnight ended on January 29, 2021).
- The banking system has been sustaining a liquidity surplus since June'19 on account of higher growth in bank deposits versus the credit disbursement. RBI's liquidity infusion measures via open market operation (OMO) have further contributed to the persistent liquidity surplus in the banking system. So far in February'22, the average outstanding (net) liquidity surplus has trended at Rs. 6.64 lakh crore, higher than the surplus of Rs. 6.40 lakh crore in January'22.
- The Credit to Deposit (CD) ratio stood at 72.2% improving from fortnight by 31-bps (ending January 14, 2022). However, CD ratio declined by 10-bps as compared with the previous year (72.3%, fortnight ended January 29, 2021) due credit growth underperformance as compared to the deposit growth.
- If we assume credit investments to be at Rs.8.6 lakh crores (as on December 31, 2021, as per latest data released by RBI), for the fortnight ended January 28, 2022, then the CD ratio would be around 77.6% (similar to the Jan 2019 levels). Considering the net addition in credit outstanding and investments over the last 12 months to be at Rs.9.2 lakh crore over additions in deposits (Rs.12.4 lakh crore), the proportion would have been at around 74.7% which is higher than the level of 44.1% witnessed in the corresponding fortnight of the previous year (January 29, 2021).
- To capture the growth, several banks have offered loans at record low-interest rate and many banks have reduced their interest rate to push credit over the last couple of quarters. This has made banks competitive

against capital markets, especially in mid-tier corporate and infrastructure sectors. As the credit growth is showing some signs of improvements, hence many banks, namely SBI, HDFC and Kotak Bank and Bank of Baroda have increased interest rate on fixed deposits. In fact, it is the third time for the HDFC Bank wherein it has increased FD rates in the past two months whereas the same stands for two times in the past two months for SBI.

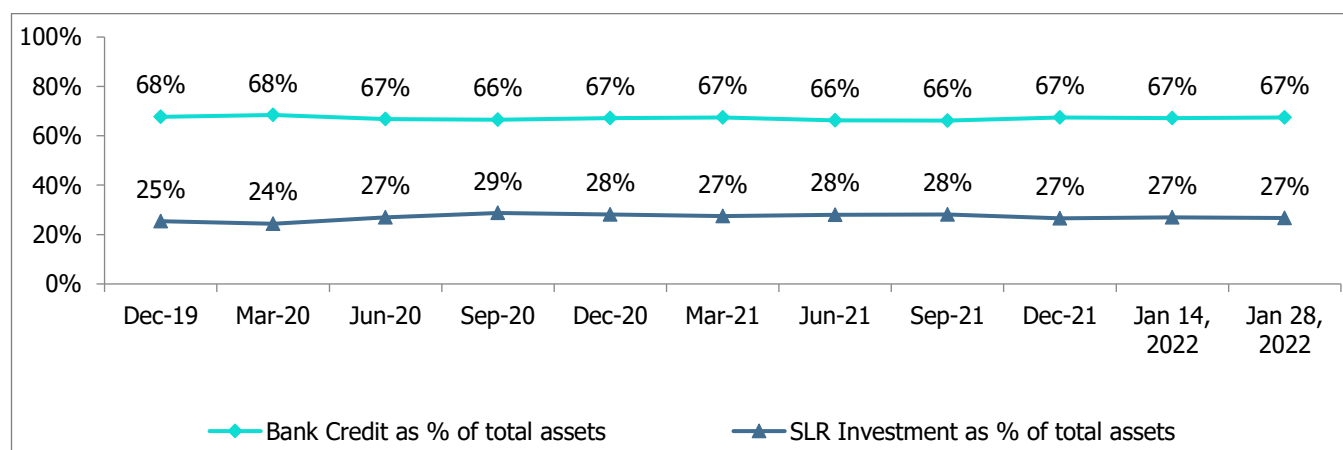
Figure 3: Credit to Deposit (CD) ratio trend



Note: The quarter-end data reflect the last fortnight data of that quarter; Source: RBI, CARE Ratings Ltd.

Proportion of SLR investments to total assets decreases 35-bps, while bank credit to total assets increases by 29-bps

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, CARE Ratings Ltd.

- The share of bank credit to total assets stood at 67.4%, increasing by 29-bps in the fortnight ended January 29, 2022, as compared with the previous fortnight (ending on January 14, 2022) as credit growth normalized after a temporary contraction witnessed during the first fortnight ended January 14, 2022 after the quarter end.
- Considering credit investments to be at Rs.8.6 lakh crore (as on December 31, 2021, as per latest data released by RBI), bank credit (including credit investments) to total assets would have been around 72.5% for the fortnight ended January 28, 2022.
- Proportion of SLR investment to total assets has decreased by 35-bps in fortnight ended January 28, 2022, compared to the previous fortnight (ended on January 14, 2022). SLR investments grew by 3.3% y-o-y in fortnight ended on January 28, 2022, as compared with a growth of 18.7% a year ago (for the fortnight

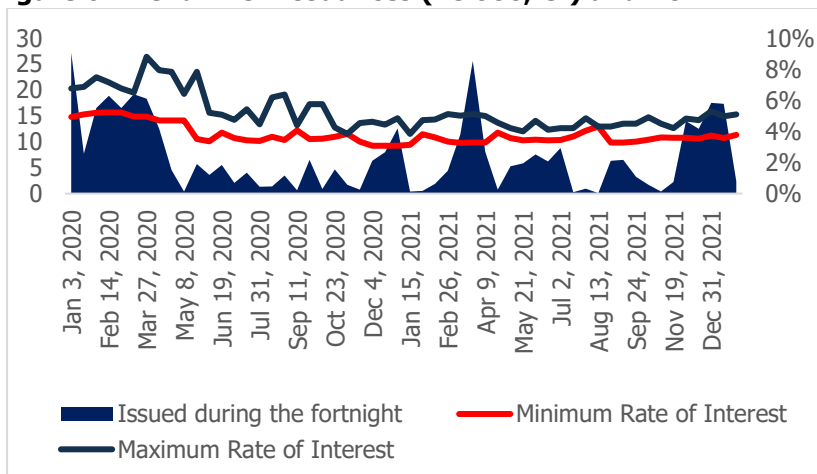
ended January 29, 2021) due to low base effect, and it was almost flat (marginal degrowth of 35-bps) as compared to the previous fortnight (ended on January 14, 2022).

O/s CDs report significant rise while O/s CPs marginally declines

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 03, 2021	63.4	-8.7%
Dec 17, 2021	73.3	6.6%
Dec 31, 2021	84.7	13%
Jan 14, 2022	101.2	48.8%
Jan 28, 2022	99.7	55.6%

Figure 6: Trend in CD issuances (Rs'000, Cr) and RoI



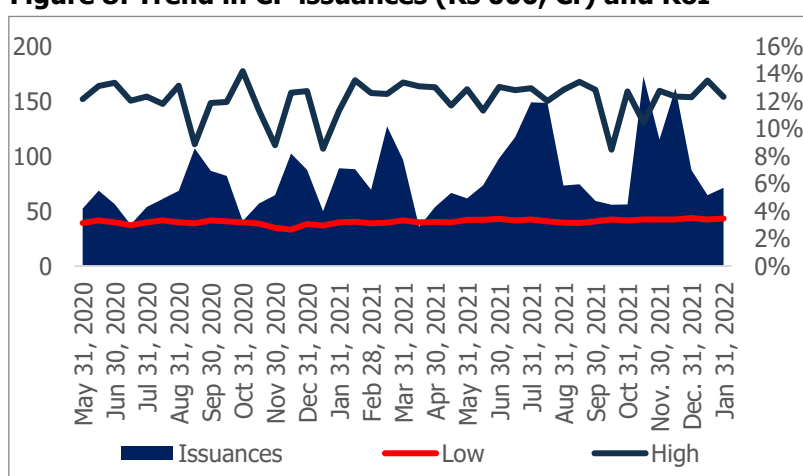
Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

- Outstanding Certificate of Deposits crossed Rs.1 lakh crore during the fortnight ended January 14, 2022, rising nearly 48.8% compared to the corresponding fortnight of previous year (ended on January 15, 2021).

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%
Jun 30, 2021	376.1	-3.9%
Sep. 30, 2021	371.0	2.4%
Nov. 30, 2021	388.4	-0.6%
Dec. 31, 2021	350.1	-4.1%
Jan. 15, 2022	386.2	0.0%
Jan 31, 2022	395.9	-3.6%

Figure 8: Trend in CP issuances (Rs'000, Cr) and RoI



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

Select RBI Announcements

Announcement	Details
RBI releases Master Circular on Housing Finance for Banks	<ul style="list-style-type: none"> RBI on February 18, 2022 issued the master circular on Housing Finance which consolidates the instructions / guidelines issued up to February 17, 2022. The earlier master circular on the same was issued on July 01, 2015.
RBI issues Clarifications on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances	<p>The clarifications provided as per circular issued on February 15, 2022 are as under:</p> <ul style="list-style-type: none"> The definition of 'out of order', as clarified in the Circular, shall be applicable to all loan products being offered as an overdraft facility, including those not meant for business purposes and/or which entail interest repayments as the only credits. The 'previous 90 days period' for determination of 'out of order' status of a CC/OD account shall be inclusive of the day for which the day-end process is being run. In case of borrowers having more than one credit facility from a lending institution, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities. NBFCs shall have time till September 30, 2022 to put in place the necessary systems to implement this provision. The circular does not make any changes to the requirements related to reporting of information to CRILC, which will continue to be governed in terms of extant instructions for respective entities.
RBI releases Master Circular on Asset Reconstruction Companies	<ul style="list-style-type: none"> RBI on February 10, 2022 issued the master circular on ARCs which consolidates the instructions / guidelines issued up to January 31, 2022.

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About:

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