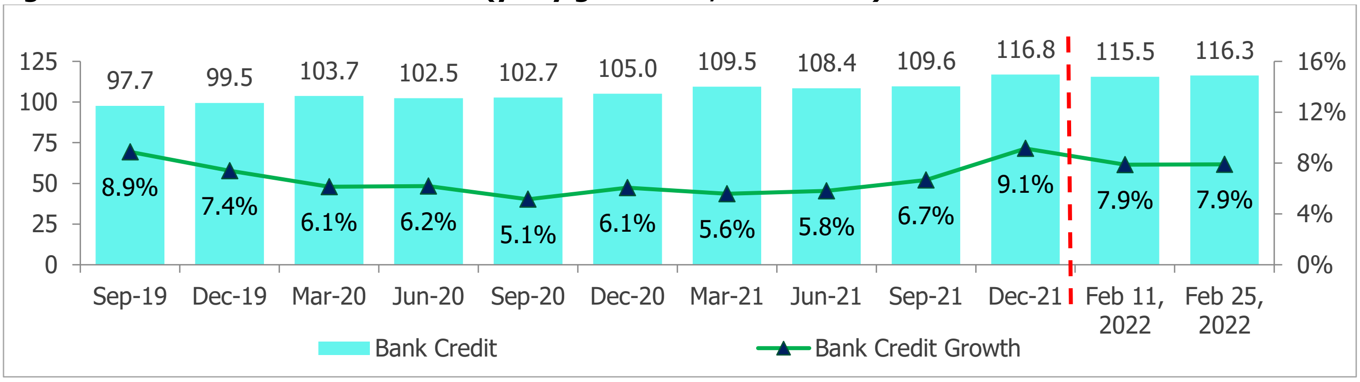
Update on Banking Credit and Deposits

March 19, 2022 I BFSI Research

Credit offtake stabilizes, while deposit growth marginally down

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.

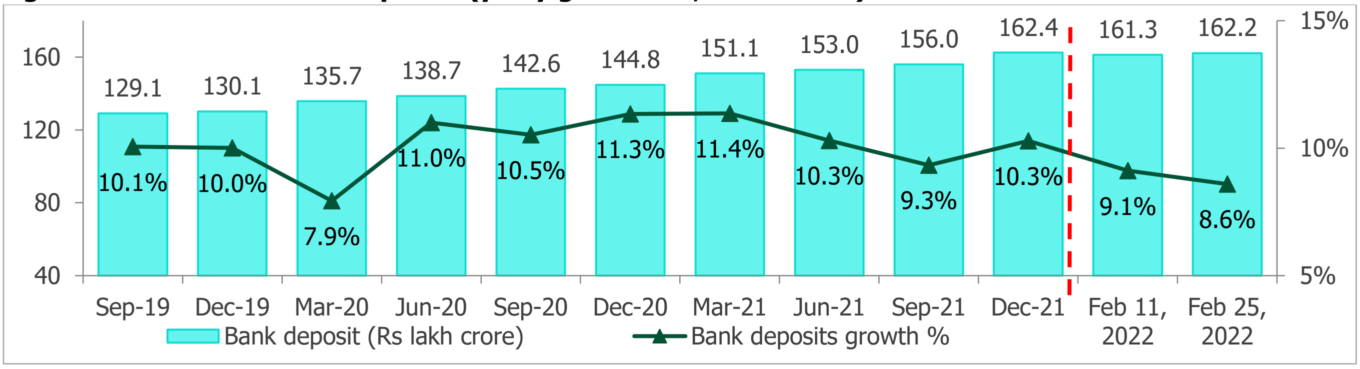
- Bank credit rose by 7.9% year-on-year(y-o-y) and expanded by 128-bps y-o-y for the fortnight ended February 25, 2022, up from 6.6% in the year ago period (fortnight ending February 26, 2021) mainly driven by retail loans, coupled with support extended under the ECLGS. However, the credit growth rate stood at same level as compared with the previous fortnight ended on February 11, 2022. In absolute terms, credit outstanding stood at Rs.116.3 lakh crore as on February 25, 2022, expanding by Rs.8.5 lakh crore over the last twelve months (reporting date February 26, 2021).

- Credit offtake of 7.9% for the fortnight ended on February 25, 2022, seems slower than the 9.1% reported in December 2021 which was boosted by seasonal factors. However, the growth improvement is better than the 6-7% growth range reported over the last two years. Retail credit has been the key driver for the total credit offtake, but corporate credit growth pick-up due to overall improvement in business activity is also supportive of aggregate credit growth. With the Union Budget 2022-23 focusing on the expansion of capex and infrastructure, credit demand may pick up from industry.

- Credit outstanding of the retail segment rose by 11.4% y-o-y in January 2022 due to growth in housing, vehicle, and other personal loans driven by low interest rates and higher discounts. The credit outstanding of the industry segment registered a growth of 6.4% y-o-y in January 2022 from a marginal growth of 0.7% in the year ago period. CPI too is trending up which is likely to support 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. Ongoing Russia and Ukraine war is likely to have a limited impact for the credit growth in India due to substantial liquidity available in the market. The third wave of Covid-19 (omicron) was not as severe as the first two waves. However, subsequent variants if severe could lead to lockdowns and cause a 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.

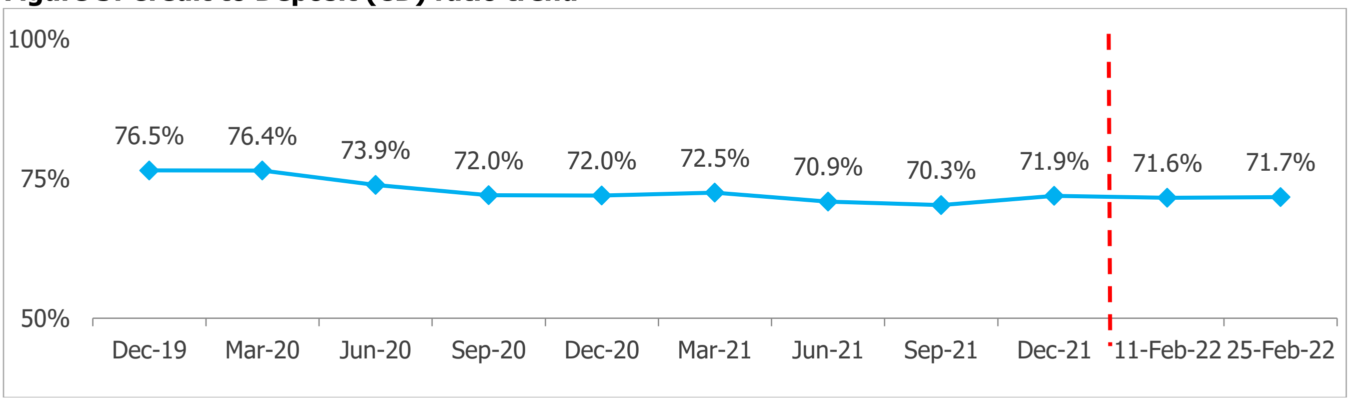
- Deposits stood at Rs.162.2 lakh crore for the fortnight ended February 25, 2022, registering a slower growth of 8.6% y-o-y. The deposit growth has ranged between 9.3-11.6% from April 2021 to January 2022 except for the fortnight ended January 28, 2022, where it fell to 8.3%. Meanwhile, in absolute terms, the bank deposits have increased by Rs.12.8 lakh crore over the last twelve months and by Rs.0.90 lakh crore from the previous fortnight (reported date February 11, 2022). Time deposits grew by 7.7%, while demand deposit grew by 15.3% when compared with the previous year (reported date February 26, 2021).

- The banking system has been sustaining a liquidity surplus since June 2019 on account of higher growth in bank deposits versus the credit disbursement. RBI's liquidity infusion measures via open market operations (OMO) have further contributed to the liquidity surplus in the banking system. So far in February 2022, the average outstanding (net) liquidity surplus has trended at Rs 6.84 lakh crore, higher than the surplus of Rs 6.40 lakh crore in January 2022.

- The Credit to Deposit (CD) ratio stood at 71.7%, expanding by 11-bps from the previous fortnight (reported date- February11, 2022) However, contracting by 46-bps from fortnight (reported date - February 26, 2021) given that credit offtake has consistently been lower than deposit buildup.

- If we assume credit investments to be at Rs.8.7 lakh crore (as on January 28, 2022, as per latest data released by RBI), for the fortnight ended February 25, 2022, then the CD ratio would be around 77.1% marginally lower than 76.9% from the previous fortnight (reported date - February 11, 2022) and 78% from fortnight ended on February 25, 2021. Considering the net addition in credit outstanding and investments over the last 12 months to be at Rs.9.0 lakh crore over additions in deposits (Rs.12.8 lakh crore), the proportion would have been at around 70.0% which is higher than 69.8% from the previous fortnight (ended on February 11, 2022).

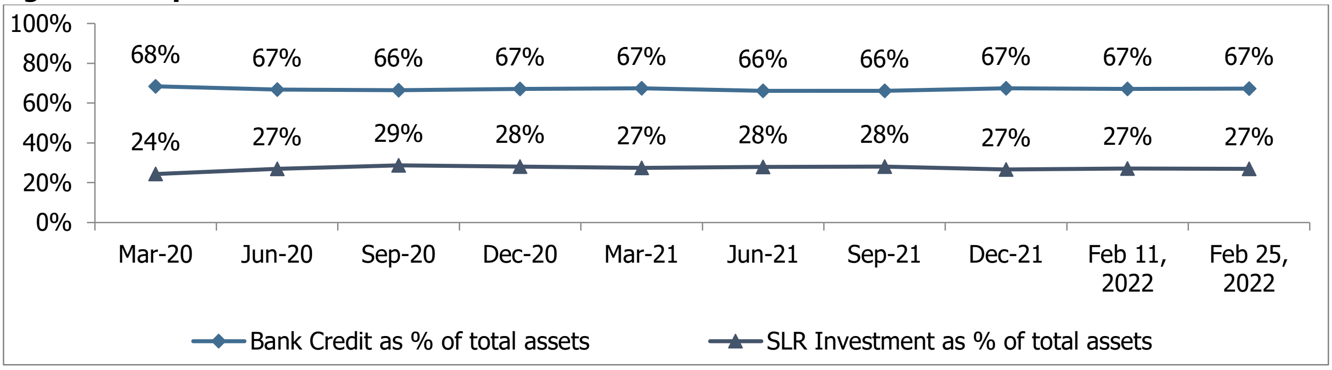
Figure 3: Credit to Deposit (CD) ratio trend



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 contracted by 15-bps, while bank credit to total assets increased by 12-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 67.3%, expanding by 12-bps in the fortnight ended February 25, 2022, as compared with the previous fortnight (reported date -February 11, 2022), and was marginally down by15-bps on y-o-y basis.

- Considering credit investments to be at Rs.8.7 lakh crore (as on January 28, 2022, as per latest data released by RBI), bank credit (including credit investments) to total assets would have been around 72.7% for the fortnight ended February 28, 2022, which is higher than 72.3% from fortnight ended February 11, 2022, and 72.6% from fortnight ended on February 12, 2021.

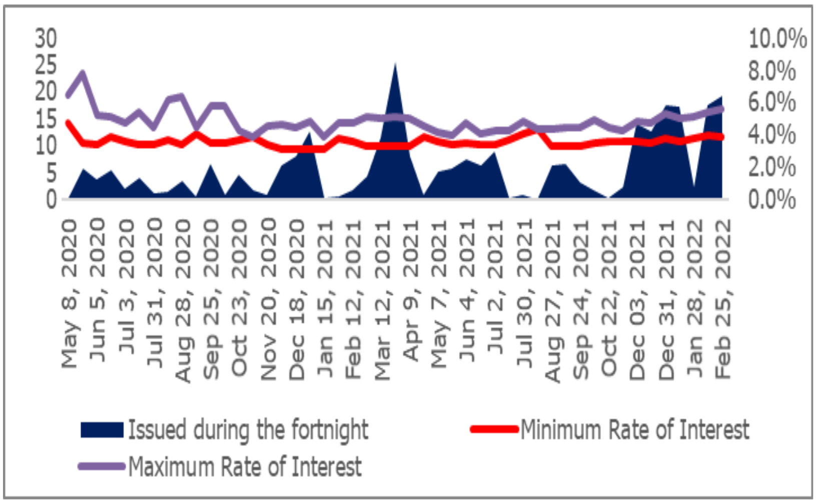
- Proportion of SLR investment to total assets declined by 15-bps in fortnight ended February 28, 2022, compared to the previous fortnight (ended on February 11, 2022). SLR investments stood at Rs. 46.7 lakh crore as of February 28, 2022, reporting a 4.7% y-o-y growth and remained flat compared to the immediate fortnight ended on Feb 11, 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%
Feb 11, 2022	112.6	93.4%
Feb 25, 2022	127.6	125.5%

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

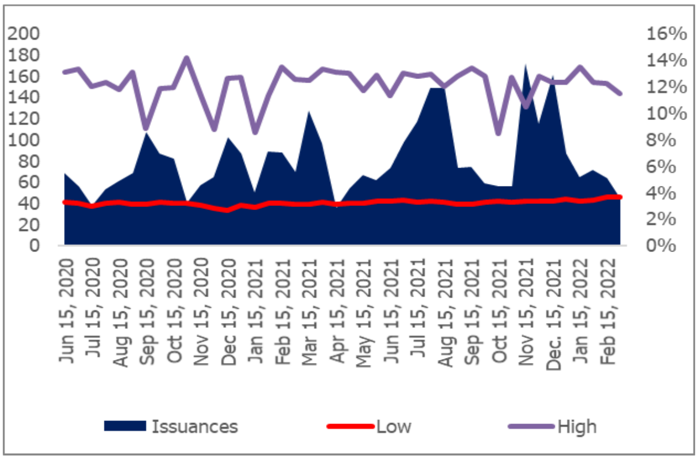


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

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%
Feb 15, 2022	390.0	-2.4%
Feb 28, 2022	364.6	-6.7%

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
Interest Equalization Scheme on Pre and Post Shipment Rupee Export Credit - Extension	Government of India has approved the extension of Interest Equalization Scheme for Pre and Post Shipment Rupee Export Credit ('Scheme') up to March 31, 2024. The extension takes effect from October 1, 2021 and ends on March 31, 2024. • Telecom Instruments sector having six HS lines shall be out of the purview of the Scheme, except for MSME manufacturer exporters • Revised interest equalisation rates under the Scheme will now be 3.0% for MSME manufacturer exporters exporting under any HS lines, and 2.0% for manufacturer exporters and merchant exporters exporting under 410 HS lines. • The extended Scheme will not be available to those beneficiaries who are availing the benefit under any Production Linked Incentive (PLI) scheme of the government. • With effect from April 1, 2022, banks shall reduce the interest rate charged to the eligible exporters upfront as per the guidelines and submit the claims in original within 15 days from the end of the respective month, • Other provisions of the extant instructions issued by the Bank on the captioned Scheme shall remain unchanged
Issue and regulation of share capital and securities - Primary (Urban) Co-operative Banks	• The Banking Regulation (Amendment) Act, 2020 is deemed to have come into force with effect from June 29, 2020 for Primary (Urban) Co-operative Banks (UCBs). • The extant instructions for UCBs on issue and regulation of capital funds have been reviewed keeping in view, inter alia, the provisions of Section 12 read with Section 56 of the amended Banking Regulation Act, 1949 (BR Act) **Augmentation of capital funds** • UCBs are permitted to raise share capital, as hitherto, by way of (i)

	issue of shares to persons within their area of operation (ii) issue of additional shares to the existing members. **UCBs are also permitted to issue the following instruments to augment their capital:** Preference Shares o Perpetual Non-Cumulative Preference Shares (PNCPS) eligible for inclusion in Tier I capital o Perpetual Cumulative Preference Shares (PCPS) eligible for inclusion in Tier II capital o Redeemable Non-Cumulative Preference Shares (RNCPS) eligible for inclusion in Tier II capital o Redeemable Cumulative Preference Shares (RCPS) eligible for inclusion in Tier II capital Debt instruments • Perpetual Debt Instruments (PDI) eligible for inclusion in Tier I capital • Long Term Subordinated Bonds (LTSB) eligible for inclusion in Tier II capital

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