Banking Review

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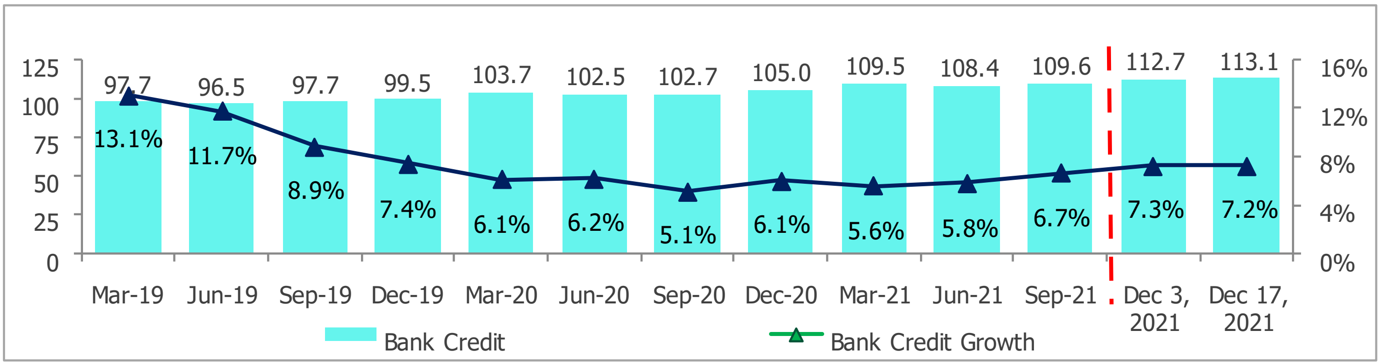
Bank Credit Offtake picks up pace

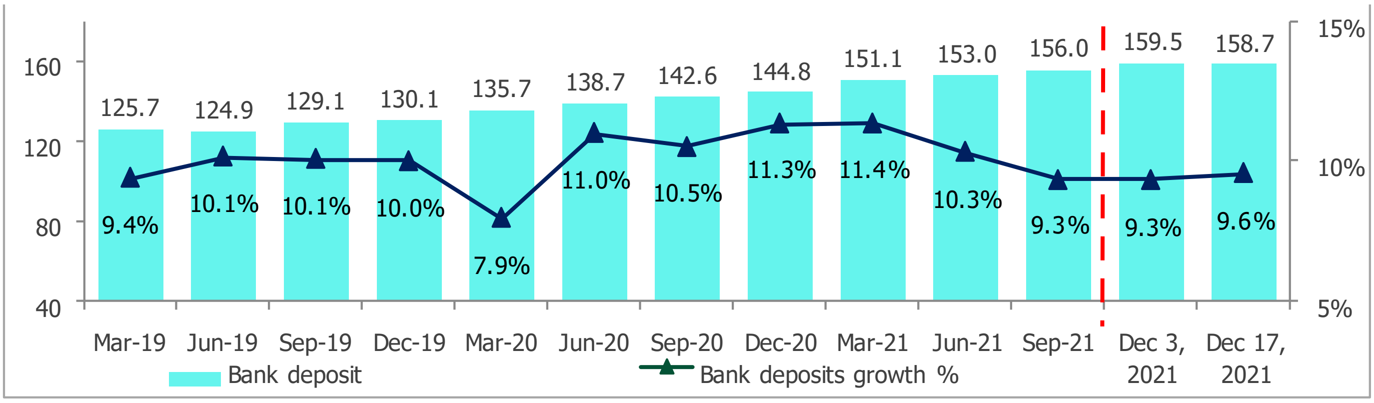
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- Bank credit growth expanded by 119.6 bps y-o-y and rose by 7.2% y-o-y for the fortnight ended December 17, 2021, up from 6.1% in the year-ago period (December 2020) due to uptick in economic activities, retail credit push coupled with a low base. However, it marginally declined by 3 bps in the previous fortnight ended December 03, 2021. In absolute terms, credit offtake expanded to Rs.113.1 lakh crore, increasing by Rs.7.6 lakh crore over the last 12 months, and it also expanded by 0.5 lakh crore as compared with the previous fortnight (December 03, 2021).
- The credit growth had been languishing through 2021 due to Covid-19 and also deleveraging of balance sheets by large corporates. However, it has been showing some signs of improvement over the last couple of months. The revival in credit demand has not been broad-based across segments. It is being driven by the retail and agriculture sector, both of which have witnessed growth in incremental credit offtake during the first eight months of FY22 over end-March 2021. 73% of the incremental credit offtake has been by the retail segment. In case of the industrial and service sector, the incremental credit offtake continues to be in contractionary territory, reflective of the deleveraging by borrowers as well as their low appetite for fresh investments. The selectiveness of banks to lend only to certain segments is probably also a factor for the low credit growth.
- 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 road, renewables and production linked incentive (PLI) schemes, extended ECLGS support (sanctions permitted till March 2022 and disbursements till June 2022), and retail credit push mortgage finance as well as small ticket lending. 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. However, the new coronavirus variant (Omicron) could dampen momentum if localized lockdown measures increase.

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

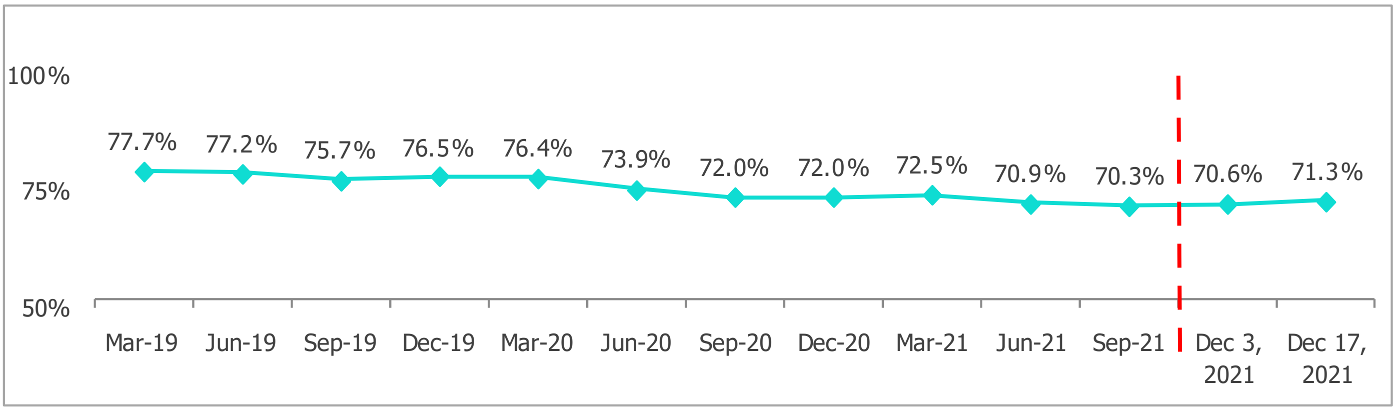


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings.

- Deposits stood at Rs.158.7 lakh crore for the fortnight ended December 17, 2021, reporting a growth of 9.6% y-o-y, however, the growth rate contracted by 178 bps (y-o-y). It reported a growth of 24-bps when compared with the previous fortnight (December 03, 2021). This dip is likely to be largely due to advance tax payment due on December 15, 2021. The deposit growth ranged between 9.3% and 11.6% from April 2021 to December 2021, and has been trending down since March 2021, except in few cases (fortnightly). Meanwhile, in absolute terms, the bank deposits have increased by Rs.13.8 lakh crore over the last 12 months. If we compare it with the previous fortnight (December 03, 2021), deposits decreased by Rs.0.85 lakh crore, and within this, the demand deposit increased by 0.30 lakh crore.
- The banking system liquidity surplus as on December 17, 2021, stood at Rs.7.5 lakh crore (Rs.8.0 lakh crore as on December 03, 2021). This decline can be attributed to the outflows towards advance taxes. The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth. However, the liquidity surplus has also narrowed (from over Rs.8 lakh crore at the start of October 2021) which can be partly attributed to the excess liquidity of banks being tied up in the VRRR auctions carrying tenure of 8 to 14 days.
- Bank deposits have continuously grown faster than bank credit in every fortnight since late September 2019. A large part of this higher deposit flow can be seen as excess liquidity, which is being parked with the RBI under the reverse-repo window. The Credit to Deposit (CD) ratio stood at 71.3% higher by 67 bps as compared with last fortnight (ended on December 03, 2021) due to consistently improving bank credit, while it declined by 154-bps as compared with the previous year (72.8% as on December 18, 2020). On the other hand, if we assume credit investments to be at Rs.8.75 lakh crore (as on October 22, 2021, as per latest data released by RBI), for the fortnight ended December 17, 2021, then the CD ratio would be around 76.8%. Considering the addition in credit outstanding over the last 12 months to be at Rs.7.7 lakh crore over additions in deposits (Rs.13.8 lakh crore), the proportion would have been at around 55.2% which is lower than previous fortnight of 56.0%.

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

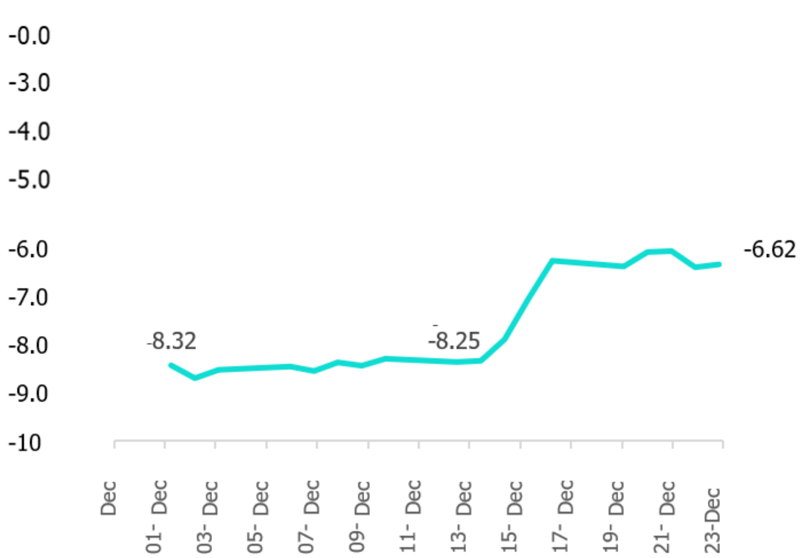


Banking system liquidity surplus continues to Expand

- The banking system liquidity surplus continues to expand for the month of December 2021. The average outstanding liquidity surplus stood at Rs.6.62 lakh crore for the month of December. The liquidity surplus has narrowed as compared with the November 2021 (Rs.6.85 lakh crore). This can be attributed to inflows towards salaries and pensions during the month end as well as the quarter-end inflow.
- The banking system has been sustaining a liquidity surplus since June 2019. The liquidity surplus widened significantly over the months and averaged Rs.7.7 lakh crore during mid-August to mid-December 2021. Although the liquidity surplus has narrowed in the last few weeks, it nevertheless remains at just over Rs.6.6 lakh crore having further added to the surplus in the banking system over time. The persistent liquidity surplus has been aided by the lower credit disbursement from banks versus the deposit inflows. Increased government spending and the liquidity injection by the RBI through open market purchases, and its foreign currency purchase.
- Despite the increase in the liquidity surplus, the overall borrowings from the call money market were higher. Notwithstanding the higher borrowing, the weighted average call rates came down to 3.25%. The sizable surplus liquidity has pushed call market rates well below the RBI's reverse repo rate of 3.35%.

Figure 4: Net repo outstanding transactions (Rs lakh crore)

Source: RBI, CARE Ratings

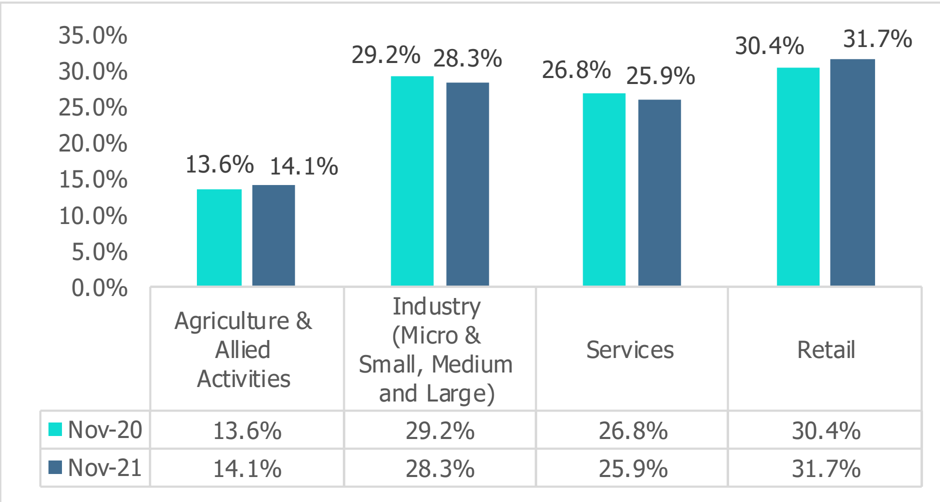


Steady growth in credit driven by retail, agriculture and MSME

- Cost of funds for the government as well as corporates rose in December 2021 as borrowings increased. Fund raising by businesses from the debt capital markets picked up pace, although they continued to be concentrated in certain segments. Credit offtake from banks too improved, led by the retail and agriculture segment. Industrial and service sector are yet to see a growth in bank credit offtake over end-March.
- The non-food credit rose by 7.1% year-on-year in November 2021 as against a rise of 5.9% growth in November 2020, expanding by 119 basis points (bps) y-o-y and 18 bps month-on-month due to a pickup in business activities and festive season. Additionally, various banks such as SBI And HDFC Bank have also conducted credit outreach program in October and November 2021, resulting in pushing the credit growth.
- The growth was driven by the retail (11.6%), agriculture (10.4%), and micro small and medium enterprises, however, large industry growth remained flat, while services segment growth decelerated in November 2021.
- Credit outstanding of the retail segment rose by 11.6% y-o-y in November 2021 due to credit push by banks in the festive season, uptick in economic activities, lower interest rate and attractive offers such as discounts offered by real estate developers. Loan against gold jewellery and advances against fixed deposit also drove retail growth.

Figure 5: Sectoral Distribution of Credit: November 2021

Source: RBI, CARE Ratings



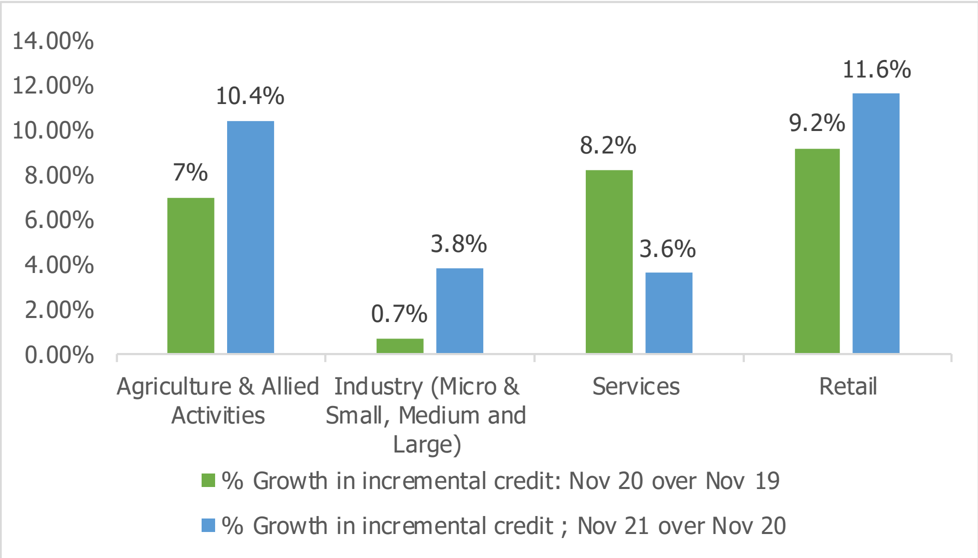
- Credit growth of the services sector decelerated to 3.6% y-o-y in November 2021 from 8.2% in the same period of the last year (better than 2.9% in October 2021) due to a decline in the trade, the commercial real estate, and the other services (sub-segments). Within services, non-banking financial companies (NBFCs) grew by 5.2% in November 2021 from 4.7% a year ago. On an incremental basis, the Service sector de-grew by 0.8% in November 2021 due to decline in trade (-0.3%), commercial real estate (-1.5%) and NBFCs (-1.8%). NBFCs have been fulfilling funding requirement through capital market, also running down the surplus liquidity, thus impacting the credit growth to the NBFCs.
- The credit outstanding of the industry segment registered a growth of 3.8% y-o-y in November 2021 from a growth of 0.7% in a year ago mainly on account of robust growth in the medium industry driven by ECLGS and reclassification (48.7%). In terms of industry-wide deployment of incremental bank

credit infrastructure sectors (ports, railways, road, power, airports), rubber & plastic products, gems & jewellery, construction, mining, petroleum products, transport equipment, paper, wood, pharmaceuticals and engineering are the sectors that have witnessed a growth in bank credit.

- The major sectors that have seen a contraction in incremental credit offtake include fertiliser, metal products, cement, food processing, petrochemicals, telecommunication, glass and glassware and leather products.

Figure 6: Trend in sectoral credit growth (y-o-y %)

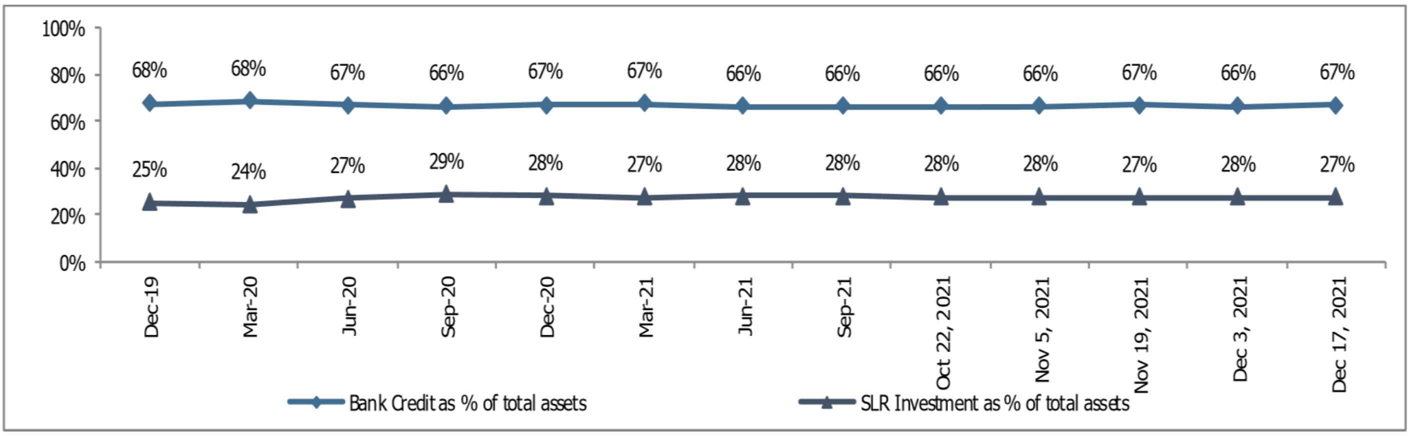
Source: RBI, CARE Ratings



SLR investment and bank credit to total assets Increase Marginally

Figure 7: Proportion of SLR Investment and Bank Credit to Total Assets

Note: The quarter-end data reflect the last fortnight data for quarter 2, Total assets = Cash in hand +Assets with the Banking System + Investments + Bank Credit; Source: RBI, CARE Ratings.



- The share of bank credit to total assets stood at 66.8%, increasing by 35-bps for the fortnight ending December 17 2021, as compared with the same on a (y.o.y) basis the SLR remained relatively unchanged, a decline of 40 bps.
- The share of bank credit to total assets stood at 66.8%, increasing by 35-bps for the fortnight ending December 17, 2021, as compared with the previous fortnight (December 03, 2021).
- Proportion of SLR investment to total assets has declined by 16-bps as on December 17, 2021, compared with the previous fortnight (ended on December 03, 2021) due to decline in SLR investments. SLR investments grew by 1.2% y-o-y in fortnight ended on December 17, 2021 (slower growth which can partly be ascribed to base effect and credit offtake increasing) as compared with a growth of 22.1% a year ago, it also declined 1.6% from the previous fortnight (December 03, 2021).

Borrowings via Commercial Papers Increase, Borrowings remain Subdued for Bonds

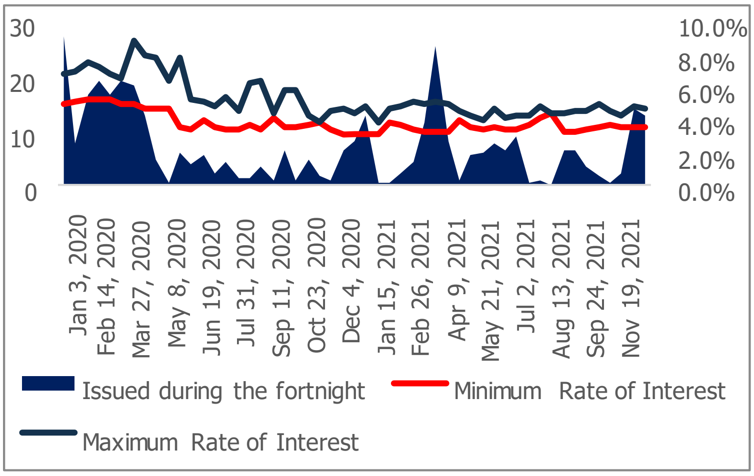
- Short-term borrowings of corporates via commercial paper issuances in December 2021 amounted to Rs.2.49 lakh crore. Issuances during the month were notably higher on an annual basis (by 31%) but lower monthly (by 14%). 96% of the issuance in December 2021 carried a credit rating of 'A1+'.
- The commercial paper issuances in December 2021 was concentrated in the ultra-short-term tenure (7 to 10 days). It accounted for 53% of the total issuances. NBFCs were the largest issuers of commercial papers during the month and accounted for 48% of the issuances. The finance sector that included financial services, banking, and housing finance had the highest share (at 67%) of commercial paper issuances for December 2021.
- Based on the provisional data on issuances from Prime database, the weighted average yield of these instruments at 4.57% was 50 bps higher than that in November 2021 and 84 bps higher than April 2021.
- Higher quantum of funds (9% increase) was raised through the issue of corporate bonds in December 2021 (Rs.0.61 lakh crore), when compared with the previous month of November 2021. Issuances, however, were lower by 3% when compared with December 2020 (Rs.0.63 lakh crore).
- As compared with the previous months, the bond issuances in December 2021 were dominated by entities belonging to the finance sector. 71% of the issuances were by banking and financial institutions. The borrowings were focused on Bonds with a credit rating of 'AA+' and 'AAA' (86%). The weighted average yield of corporate bonds stood at 7.01%, 80 bps higher than in November 2021.
- The risk perception of corporate bonds improved in December 2021. Credit spreads fell during the month even as G-Sec yields rose. The spreads over G-Sec across rating categories narrowed for the bonds of NBFCs and corporates alike from that in November 2021 (as highlighted in Table 6 below). As of end-December2021, corporate bonds spreads narrowed by 14 bps for 'AAA'-rated bonds, 16 bps for 'AA+' and 13 bps for 'AA'-rated bonds from that in November 2021
- Corporates have been seeking higher quantum of funds from the overseas markets. The external commercial borrowing (ECB) registrations in November 2021 at US $2.4 billion was higher on annual basis by 17%. Financial services accounted to about 35% of the borrowings.

O/S CPs reports a decline, while O/S CDs report a Rise

Figure 8: Certificates of Deposit O/S (ROI)

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%
Jun 18, 2021	68.2	-43.8%
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%

Figure 9: Trend in CD issuances and (RoI)

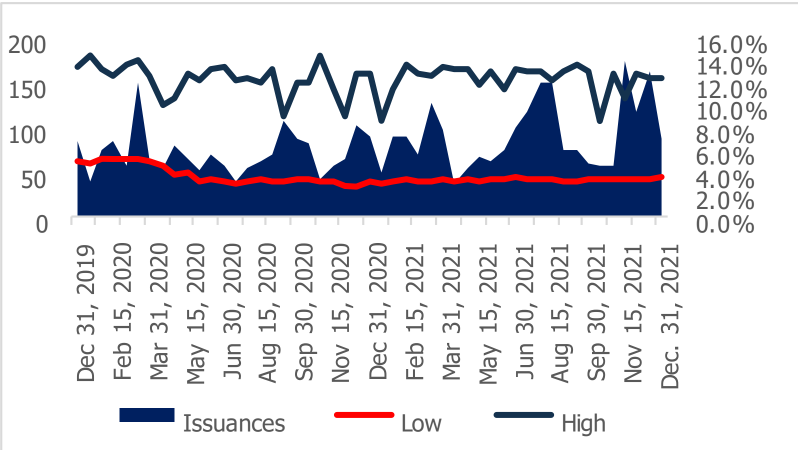


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Figure 10: 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. 15, 2021	447.0	22.4%
Dec. 31, 2021	350.1	-4.1%

Figure 11: 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
Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio, Liquidity Risk Monitoring Tools and LCR Disclosure Standards and Net Stable Funding ratio – Small Business Customers	With the objective to better align our guidelines with the Basel Committee on Banking Supervision (BCBS) standard and enable banks to manage liquidity risk more effectively, it has been decided to increase the threshold limit for deposits and other extensions of funds made by non-financial Small Business Customers from Rs.5 crore to Rs.7.5 crore for the purpose of maintenance of Liquidity Coverage Ratio (LCR).
Master Circular – Bank Finance to Non-Banking Financial Companies (NBFC)	This Master Circular consolidates instructions for the NBFCs issued up to June 30, 2015. • Purpose – To lay down the RBI's regulatory policy regarding financing of NBFCs by banks. Classification - A statutory guideline issued under Section 35A of Banking Regulation Act, 1949. • Previous guidelines superseded • Application- To all Scheduled Commercial Banks (excluding Regional Rural Banks).
RBI releases eligibility criteria for 'specified users' of CICs	The RBI released the eligibility criteria for entities to be categorised as 'Specified User' of Credit Information Companies. The criteria set out the requirements for the entities to become eligible as Specified User of CIC under the Credit Information Companies (Amendment) Regulations, 2021.
The RBI proposed to replace existing approaches for measuring minimum operational risk capital requirements	The RBI proposed to replace existing approaches for measuring minimum operational risk capital requirements of banks with a new Basel-III standardised approach. 'Operational risk' refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
RBI extends card tokenisation rule by 6 months after industry request	The RBI extended the deadline for wiping off card data on merchant sites and applying tokenization by another six months as merchants and payments companies expressed their inability to meet the December 31 deadline.
RBI introduces tough PCA framework for large NBFCs	The RBI introduced a prompt corrective action (PCA) framework for large non-banking financial companies (NBFCs), putting restrictions whenever vital financial metrics dip below the prescribed threshold.

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About:

CareEdge (CARE Group) is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics capability and detailed research methods. CareEdge (CARE Ratings Limited) is one of the leading credit rating agencies in India. It has an impressive track record of rating companies for almost three decades and has played a pivotal role in developing the corporate debt market in India. CareEdge provides near real time research on all domestic and global economic developments. The wholly owned subsidiaries include CareEdge Advisory & Research arm focused on providing advisory and consultancy services and CareEdge Risk solutions a platform that provides risk management solutions