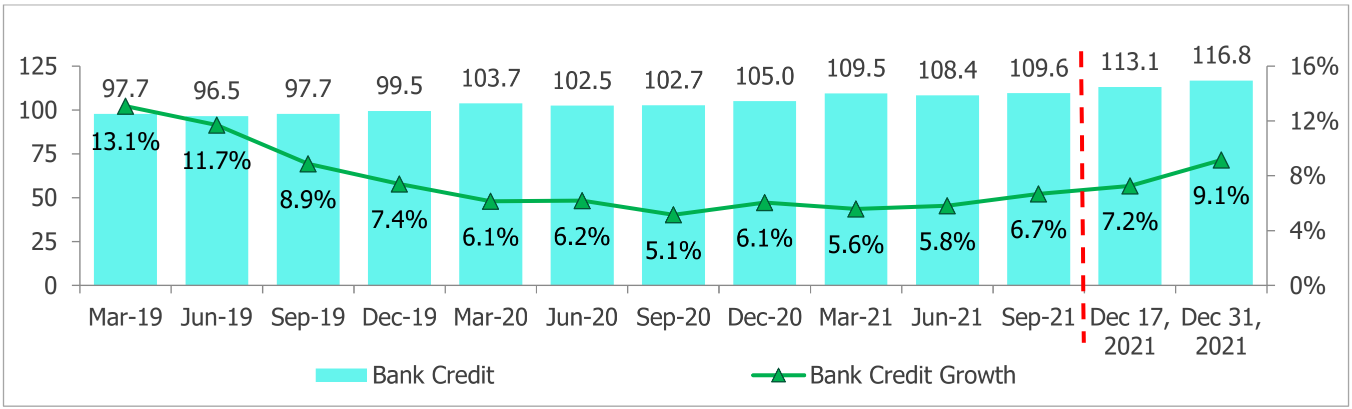
Update on Banking Credit and Deposits

January 22, 2022 | BFSI Research

Credit Growth jumps in the last fortnight of CY2021 and reverses trend

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.

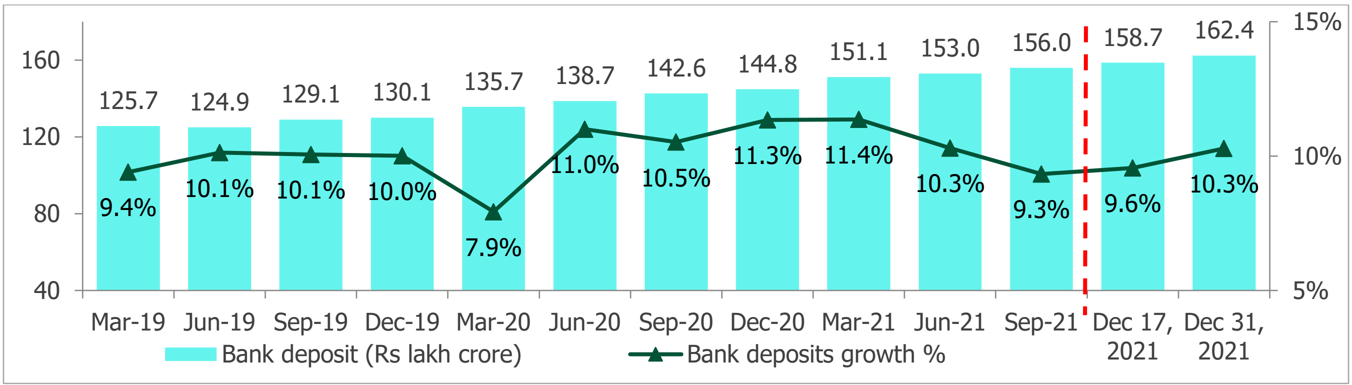
- Bank credit growth rose by 9.1% y-o-y and expanded by 248 bps y-o-y for the fortnight ended December 31, 2021, up from 6.7% in the year ago period (fortnight ending January 01, 2021), Sequentially, it also grew by 3.3% from the previous fortnight (ending on December 17, 2021), driven by uptick in business activities. It is also the highest rate in the last 2.5 years after Covid-19 outbreak. In absolute terms, credit offtake expanded to Rs.116.8 lakh crore, increasing by Rs.9.8 lakh crore over the last twelve months, and it also expanded by 3.7 lakh crore as compared with the previous fortnight (ending on December 17, 2021).

- 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 with 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 NPAs resolution now largely over, the pressure on Corporate headline numbers now look better.

- However, 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. Credit outstanding of the retail segment rose by 11.6% y-o-y in November 2021 due to growth in other personal loans, housing, vehicles, and loans against gold jewelry driven by uptick in economic activities, festive seasons, lower interest rate, push for the retail credit by banks, discounts offered by real estate developers. Industry segment too registered a growth of 3.6% y-o-y growth in November 2021 from 0.7% a year ago due to a strong growth of 49% in MSME credit driven by ECLGS and reclassification. CPI is trending up which is likely to support GDP growth, hence pushing up 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 in 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 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.162.4 lakh crore for the fortnight ended December 31, 2021, reporting a growth of 10.3% y-o-y, however the growth rate has contracted by 120 bps (y-o-y). It also reported a growth of 73-bps when compared with the previous fortnight (December 17, 2021). The deposit growth has ranged between 9.3-11.6% from April 2021 to December 2021. Meanwhile, in absolute terms, the bank deposits have increased by Rs.15.1 lakh crore over the last twelve months, it also increased by Rs.3.7 lakh crore from the previous fortnight (December 03, 2021). Time deposit grew by 8.2%, while demand deposit grew by 27.2% when compared with the previous fortnight (ending on January 01, 2021).

- The banking system liquidity surplus as on December 31, 2021, stood at Rs.6.62 lakh crore (Rs.7.5 lakh crores as on December 17, 2021). The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth also attributed to the month end inflows into the banking system towards salaries, wages and pensions. However, the liquidity surplus has also narrowed (from over Rs.8 lakh crore at the start of October 2021, primarily narrowed in the last three weeks) which can be partly attributed to the excess liquidity of banks being tied up in the VRRR auctions (variable reverse rate repo auctions carrying tenure of 8 to 14 days), GST payments and government borrowings.

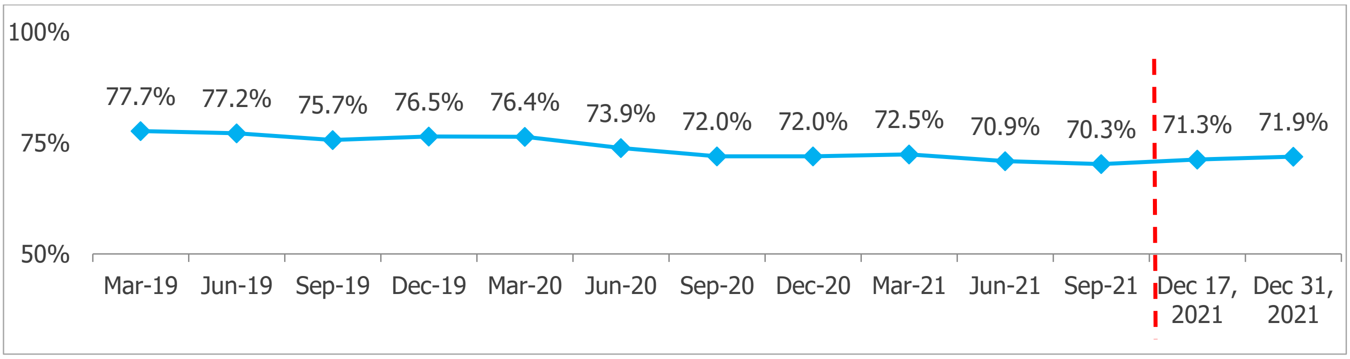
- Bank credit growth which lagged bank deposits growth every fortnight since late September 2019 had a catch up in December end fortnight after more than 27 months. Hence, the Credit to Deposit (CD) ratio stood at 71.9% higher by 63-bps as compared to last fortnight (ending December 17, 2021). However, CD ratio declined by 75-bps as compared with the previous year (72.7%, fortnight ending January 01, 2021) due Bank credit growth underperformance till mid of December 2021.

- If we assume credit investments to be at Rs.8.8 lakh crores (as on November 19, 2021, as per latest data released by RBI), for the fortnight ended December 31, 2021, then the CD ratio would be around 77.4% (similar to the June 2019 levels). Considering the net addition in credit outstanding and investments over the last 12 months to be at Rs.10.4 lakh crore over additions in deposits (Rs.15.1 lakh crore), the proportion would have been at around 68.9% % which is significantly higher than the level of 59.0% witnessed in the previous fortnight.

- 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 second time for the HDFC Bank wherein it has increased FD rates in the past one month. Also, Axis Bank recently increased its fixed deposit rates.

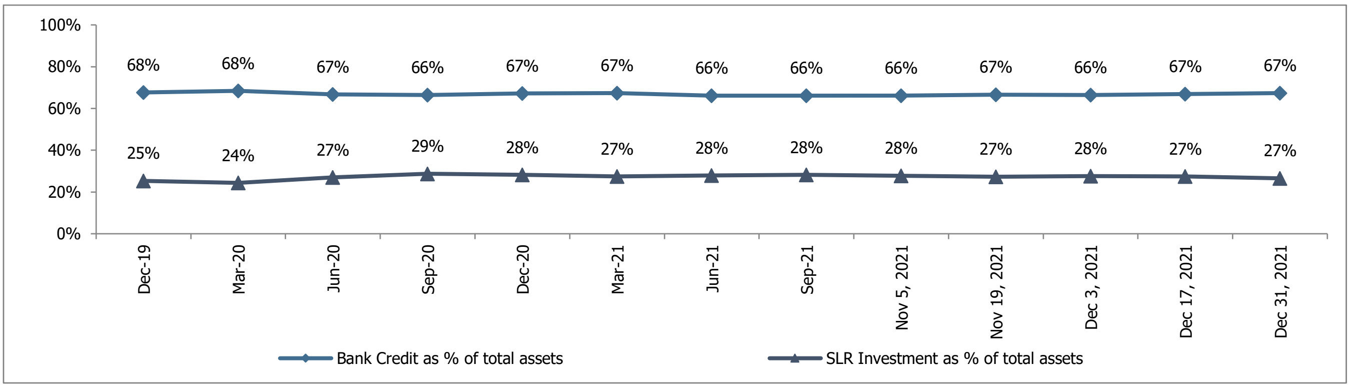
Figure 3: Credit to Deposit (CD) ratio trend



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

Proportion of SLR investments declines 84-bps, while bank credit to total assets increases 59-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 59-bps in the fortnight ended December 31, 2021, as compared with the previous fortnight (ending on December 17, 2021) due to improvement in credit offtake.

- Considering credit investments to be at Rs.8.8 lakh crore (as on November 19, 2021), bank credit (including credit investments) to total assets would have been around 72.5% for the fortnight ended December 31, 2021.

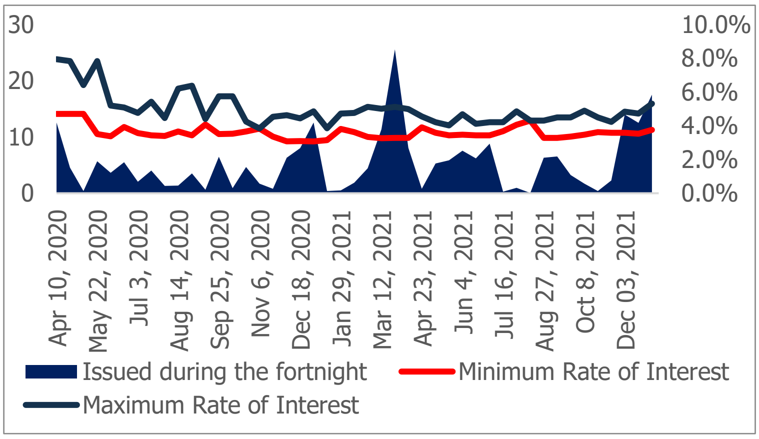
- Proportion of SLR investment to total assets has declined by 84-bps in fortnight ended December 31, 2021, compared to the previous fortnight (ended on December 17, 2021) due to faster growth in total assets (due to rising credit offtake) as compared to SLR investments. SLR investments grew by 2.8% y-o-y in fortnight ended on December 31, 2021 (slower growth which can partly be ascribed to base effect and increasing credit growth) as compared with a growth of 18.6% a year ago, and it was almost flat as compared to the previous fortnight (ended on December 17, 2021).

O/s CDs report a rise while O/s CPs remain flat

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%

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

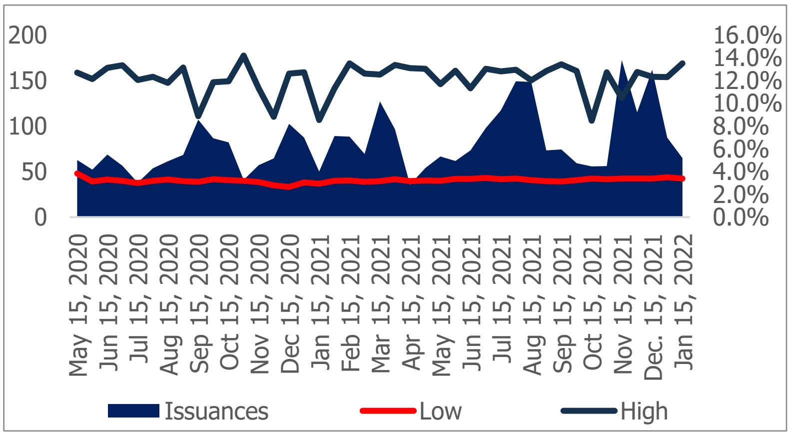


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

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%
Jan. 15, 2022	386.2	0.0%

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 Discussion Paper on Prudential Norms for Classification, Valuation and Operations of Investment Portfolio of Commercial Banks	• The RBI proposed new norms for the classification and valuation of the investment portfolio of banks, with a view to align them with the global prudential framework and accounting standards. • According to the proposed norms, the investment portfolio of banks will be divided into three categories — held-to-maturity (HTM), available for sale (AFS), and fair value through profit and loss account (FVTPL). • Within FVTPL, held-for-trading (HFT) shall be a sub-category aligned with the specifications of 'Trading Book' as per the Basel-III framework. • The new bank portfolio classification norms will come into effect from April 1, 2023, the RBI paper said, while inviting comments on a discussion paper in this regard from stakeholders by February 15. • The new norms propose to bridge the gap between the existing guidelines and global standards and practices with regards to classification, valuation and operations of the investment portfolio of commercial banks.

Factoring Regulation Act, 2011 amended to expand the number of NBFCs which can undertake factoring activities	• Under the provisions of the regulations mentioned above, all existing non-deposit taking NBFC-Investment and Credit Companies (NBFC-ICCs) with asset size of ₹1,000 crore & above will be permitted to undertake factoring business subject to satisfaction of certain conditions. • Further, in respect of trade receivables financed through a Trade Receivables Discounting System (TReDS), the particulars of assignment of receivables shall be filed with the Central Registry on behalf of the Factors by the TReDS concerned within 10 days.

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