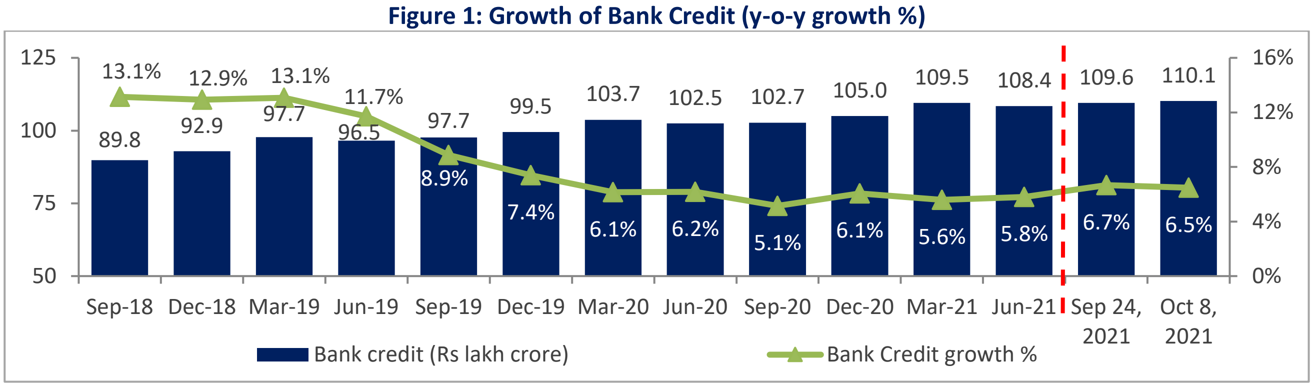
CARE Ratings
Professional Risk Opinion

Update – Growth in Deposits and Credit

October 23, 2021

Credit growth dips marginally by 20bps, while deposits growth increases by 90bps over last fortnight

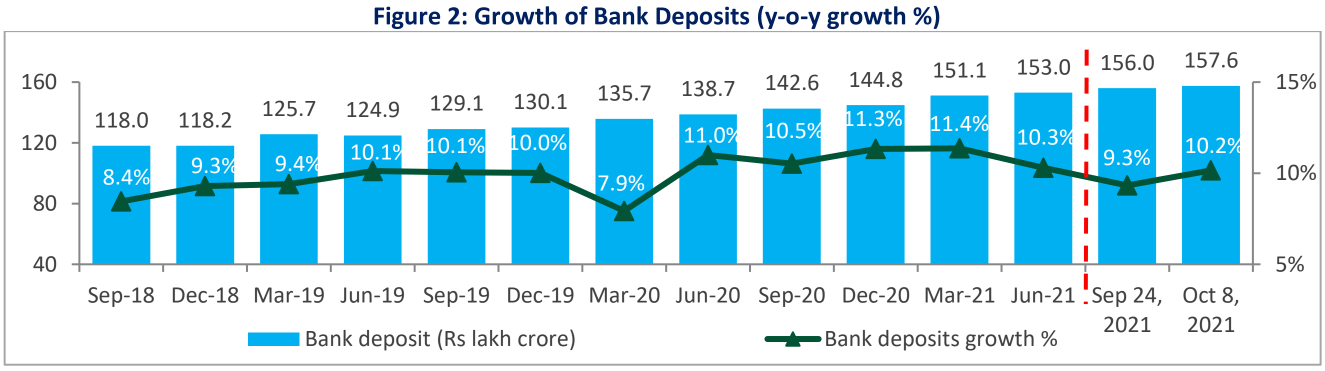
Figure 1: Growth of Bank Credit (y-o-y growth %)



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

- The bank credit growth has been marginally lower when compared with previous fortnight, however it increased by 80 bps from the year ago level of 5.7% (fortnight ended October 09, 2020). Despite the muted to slower growth in ECLGS during the period under review, bank credit registered y-o-y growth (as on September 2021 loans sanctioned have crossed Rs.2.86 lakh crore while as on May 2021 Rs.2.54 lakh crore loans were sanctioned i.e, an increase of Rs.0.32 lakh crore between May-Sept 2021, on the other hand considering the period since the ECLGS scheme was announced on May 13, 2020 - Rs.1.77 lakh crore loans were sanctioned between May 13,2020 to September 21, 2020) The increase in bank credit reflects the low base effect and the easing of lockdown restrictions across regions in India, further supported by growth in the retail segment. In absolute terms, credit offtake increased by Rs.6.7 lakh crore over the last twelve months and by Rs. 0.6 lakh crore as compared with the previous fortnight.
- The bank credit growth has remained tepid owing to the risk aversion by both lenders and borrowers and regional lockdowns imposed by states in the earlier part of this year to curb the spread of coronavirus. However, following the relaxation in lockdown since June 2021, bank credit growth has been improving gradually.
- With the onset of the festive season, bank credit is expected to improve further in the coming fortnights led by growth in the retail segment along with special festive offers announced by quite a few banks. This rise is expected to be supported with rate cuts by banks to push retail credit as several banks are offering loans at record low-interest rate ahead of the festive season. e.g. by end-September 2021, banks like Kotak Mahindra Bank and Punjab & Sind Bank cut 1-year MCLR rate (on m-o-m basis) by 5 bps each, respectively. Also, to attract borrowers several banks have slashed the home loan interest rates as a special offer in the festive season, e.g., State Bank of India, Bank of Baroda and Kotak Mahindra Bank have reduced their home loan rates by 45bps, 25bps, and 15bps, respectively. Axis bank on October 19, 2021 also announced the waiver of 12 EMIs on select home loan products, and discounts on various online purchases as part of its festival offer.
- The outlook for bank credit growth is expected to be in the range of 7.5% to 8.0% for FY22 with a low base effect, economic expansion, extended ECLGS support, and retail credit push. The medium-term prospects look promising with diminished corporate stress and increased provisioning levels across banks. Retail loan segment is expected to do well as compared with industry and service segments.

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

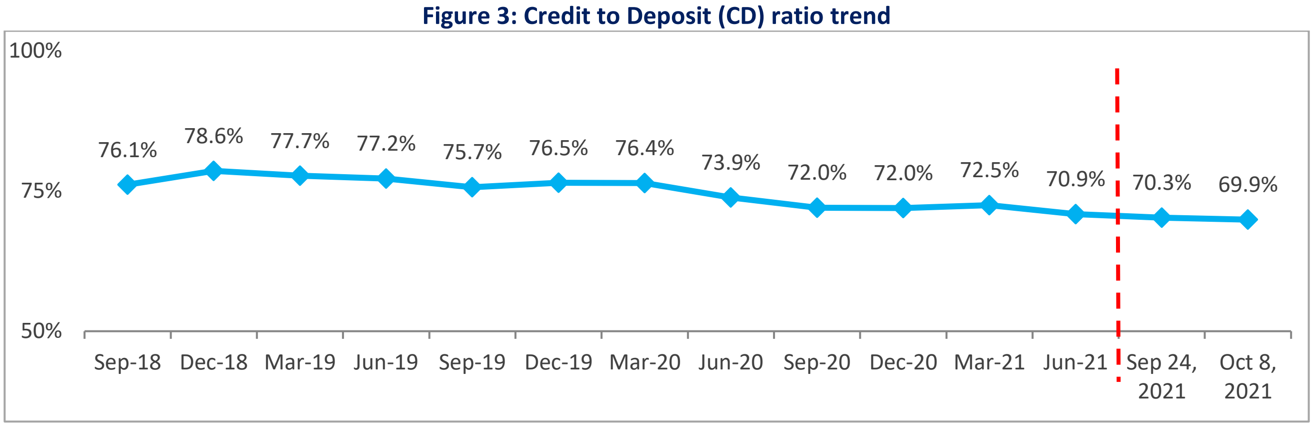


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI, CARE Ratings

- Deposit growth increased by 90 bps to 10.2% in the fortnight ended October 08, 2021, when compared with the previous fortnight however, it declined marginally as compared to the last year (10.5% in the fortnight ended October 09, 2020). In absolute terms, the bank deposits have increased by Rs.14.5 lakh crore over the last twelve months. If we compare it with the previous fortnight, bank deposits increased by Rs.1.6 lakh crore. Marginally lower growth in bank deposits compared with the previous year can be partly attributed to the base effect and fall in deposit rates of banks (as per the latest data released by RBI the weighted average domestic term deposit rate of SCBs fell by 71 bps between August 2020 to August 2021). Furthermore, to support NIMs, banks such as Axis Bank, Kotak Mahindra Bank and Punjab National Bank have cut deposit rates in September 2021. Based on the results released by banks so far for the quarter ended Sept-2021, NIMs of Bank of Maharashtra and IDBI Bank improved to 3.27% and 3.02% respectively, compared with 2.62% and 2.61% respectively in the year-ago period.
- Moreover, as on October 08, 2021, the liquidity surplus in the banking system stood at around Rs.7.5 lakh crores (Rs.7.3 lakh crores as on September 24, 2021). The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth.

- Bank deposits have continuously grown faster than bank credit in every fortnight since late September 2019 pushing down the CD ratio by around 5%. 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 69.9%, marginally lower compared to last fortnight and declined by 2.4% as compared with previous year (72.3% as on October 09, 2020), owing to muted growth in credit. On the other hand, if we assume credit investments to be at Rs.8.6 lakh crores (as of August 2021 as per latest data released by RBI) for the fortnight ended October 08, 2021, then the CD ratio would be around 75%.
- Considering the addition in credit outstanding over the last 12 months to be at Rs.6.7 lakh crore and additions in credit investment to be at Rs.0.2 lakh crore over additions in deposits (Rs.14.5 lakh crore), the proportion would have been at around 47% which is lower (52%) as compared with previous fortnight which indicates relatively weak growth in credit compared with deposits (addition in credit outstanding plus additions in credit investment over additions in deposits).

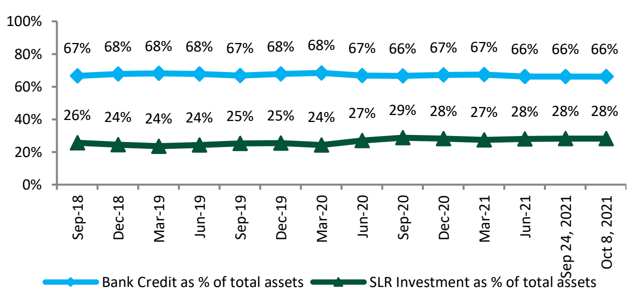
Figure 3: Credit to Deposit (CD) ratio trend



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

Proportion of SLR investment and bank credit to total assets remained stable

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

- The share of bank credit to total assets stood stable in the fortnight ended October 08, 2021, as compared with the previous fortnight.

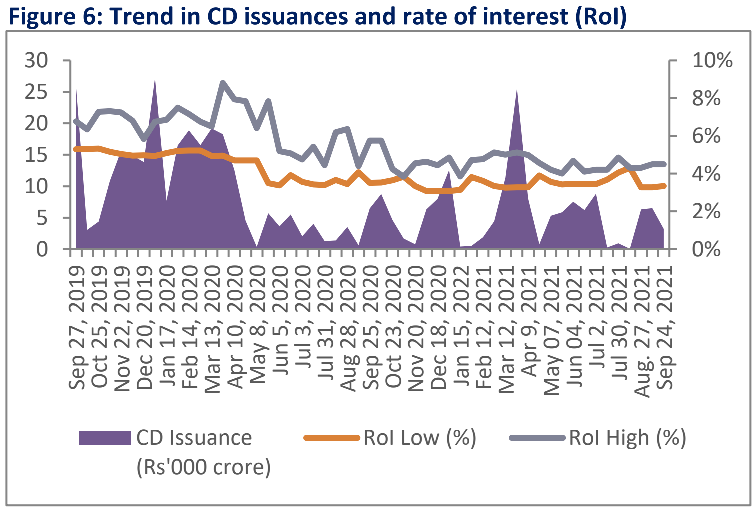
- Considering credit investments to be at Rs.8.6 lakh crore (as on August 27, 2021), bank credit (including credit investments) to total assets would have been around 71% for the fortnight ended October 08, 2021.
- Proportion of SLR investment to total assets stood at similar levels during the last two fortnights. In absolute terms, SLR investments grew by 5.0% y-o-y (slow growth which can be partly ascribed to base effect) as compared with a growth of 20.5% a year ago (remained at similar level in the previous fortnight). RBI had previously allowed banks to hold fresh acquisitions of SLR investments under HTM up to an overall limit of 22% up from 19.5% earlier of banks' net demand and time liabilities till March 2022, which has been further extended to March 31, 2023 *(as per RBI's notification dated February 05, 2021)*. The HTM limits would be restored from 22% to 19.5% in a phased manner starting from the quarter ending June 30, 2023.

CDs declined while CPs increased over last fortnight

Figure 5: Certificates of Deposit Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 28, 2018	151.0	31.9%
Mar 29, 2019	272.3	46.6%
Sep 27, 2019	188.1	24.6%
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%

Figure 6: Trend in CD issuances and rate of interest (RoI)

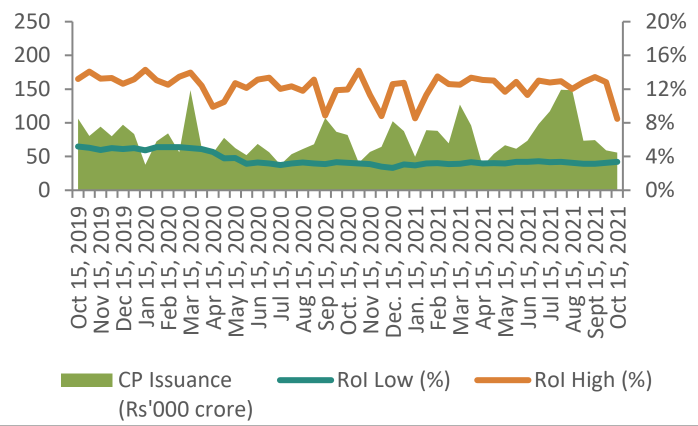


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

Figure 7: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 30, 2018	556.2	16.0%
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%
Oct 15, 2021	399.7	5.2%

Figure 8: Trend in CP issuances and rate of interest (RoI)



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

Select RBI Announcements

Announcement	Details
Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs	• RBI issued revised regulatory framework for scale-based regulation (SBR) for NBFCs. The revised ceiling on initial public offering (IPO) funding will come into effect from April 01,2021, while its guidelines would come into force from October 01, 2022.
RBI releases draft Master Direction on Prudential Regulation for AIFIs – 2021	• RBI announced directions to implement the Basel III capital framework for the AIFIs which includes EXIM Bank, NABARD, NHB, and SIDBI. The draft Directions also consolidate and contain suitable modifications to the existing instructions on Exposure Norms, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms issued to the AIFIs.

Source: RBI

Contact:

Sanjay Agarwal	Senior Director	sanjay.agarwal@careratings.com	+91-22- 6754 3582	+91- 810 800 7676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careratings.com	+91-22-6754 3573	+91- 900 495 2514
Shobhna Kanojia	Lead Analyst – BFSI Research	shobhna.kanojia@careratings.com	+91-22-6754 3519	+91- 816 945 9228
Mradul Mishra	(Media Contact)	mradul.mishra@careratings.com	+91-22-6837 4424	

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Connect: