Bank Credit Growth to Continue its Upward Trajectory in FY23

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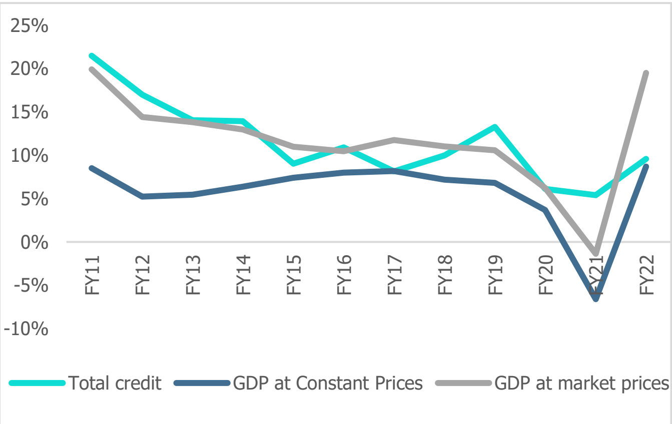
Synopsis

Bank credit growth reached double digits outpacing deposit growth by the end of FY22. The personal loans segment has remained the largest segment, credit offtake from the industrial sector improved after falling in FY21. The private sector banks (PVBs) have continued to outpace the public sector banks (PSBs). The medium-term prospects look promising with rising personal loans along with wholesale borrowings and a substantial buffer for provisions. Hence, CareEdge estimates the credit growth to be in the range of 12%-13% during FY23. However, high inflation and rate hikes could adversely impact credit growth.

Credit Growth Momentum to Sustain

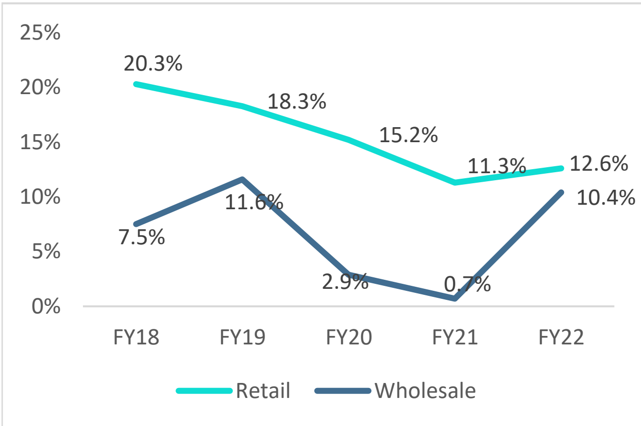
India has a relatively lower level of credit to GDP ratio when compared to other countries and to improve the same, access to credit and the cost of credit need to be addressed. In India, the credit market is dominated by the banking sector with the bond market still in a developing phase. Consequently, the banking sector's health is a priority area as it plays a key role in financial intermediation in the economy.

Figure 1: Bank Credit Growth vs GDP Growth



Source: RBI, CMIE, CareEdge Calculations

Figure 2: Movement in Bank Credit Growth



Source: RBI

Bank credit growth has generally been closely linked to the pace of economic growth. Credit growth was muted pre-Covid, reflective of macro adjustments such as NPA clean up, and risk aversion in lending, while Covid-19-led lockdowns impacted credit growth during FY21. In FY22, the economic output witnessed a growth of 8.7% and a similar trend was observed in credit growth as the gross banking credit growth registered a y-o-y increase to reach 9.6% in March 2022 due to a pick-up in business activities, comparatively lower interest rates, credit push by the banks at the close of the fiscal year and the low-base effect.

Apart from personal loans (driven by the miniaturization of credit), the major driver of this growth has been the MSME segment (which resulted in wholesale credit reporting double-digit growth after witnessing a significant slowdown last year). The recent period was marked by a structural shift in the performance of India's banking sector with the sector seeing consolidation and a reduction in the overhang of stressed assets.

Figure 3: Movement in the Annual Growth Rates of Segments (%)

Segment	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Agriculture	15.5	13.7	7.9	12.9	15.0	15.3	12.4	3.8	7.9	8.3	10.5	9.9
Industry	22.4	**20.7**	**15.1**	12.8	5.6	2.7	-1.9	0.7	6.9	2.1	-0.5	7.5
Services	**23.0**	14.4	12.6	**16.1**	5.7	9.1	**16.9**	13.8	**17.8**	10.6	3.9	8.7
Personal	17.5	13.8	14.7	12.5	**15.5**	**19.4**	16.4	**17.8**	16.4	**22.8**	**10.3**	**12.6**
Total Credit	21.5	17.0	14.1	13.9	9.0	10.9	8.2	10.0	13.3	6.1	5.4	9.6

Note: Negative in red, highest in the column in bold; Source: RBI, CMIE

Personal loans have been the main growth driver for the Indian banking sector during the past few years, as corporate lending has stalled due to NPAs and deleveraging. The credit of the personal loans segment (currently the largest segment with a 30.7% share in bank credit) continued its double-digit growth at 12.6% in y-o-y in March 2022 primarily on account of growth in other personal loans (growth of 23.1%), loans against gold jewellery (growth of 21.1%), credit card receivables (growth of 12.6%) and consumer durable loans (growth of 60.0%) due to continued improvement in business activities, push for retail credit lending by banks, however, the growth has been affected by the lower growth rate of 6.4% in housing loans, and a marginal drop of 0.04% in education loans. The other personal loans (share of 31.4% within personal loans) grew at 23.1% in March 2022 as compared with a growth of 13.7% in the year-ago period. Apart from the private sector banks, large public sector banks are also focusing on unsecured loan growth through their digital platforms. The other personal loans segment has been growing due to growth in the unsecured loans especially small ticket personal loans leading to the miniaturisation of credit. This higher growth can be attributed to changing consumer preferences, ease of access to credit, and increased usage of digital platforms. However, with the rising interest rate cycle, it will have to be observed if this segment continues its growth momentum. Within the personal loans segment, all sub-segments reported growth except education.

The housing loans (share of 47.1% within personal loans) grew at a more modest pace of 6.4% in March 2022 as compared with a growth of 9.6% in the year-ago period. Housing loans are being driven by the low-level interest rates, discounts offered by real estate developers and the perception of being a comparatively safer asset class with a lower loss given any probable default by the borrower.

Figure 4: Movement in the Share of Segments (%)

Segment	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Agriculture	13.7	13.1	12.7	12.1	12.0	12.8	13.5	14.0	13.4	12.9	12.6	13.2	13.3
Industry	43.1	43.8	45.2	45.8	45.5	44.3	41.7	37.8	35.1	33.4	30.9	29.2	28.6
Services	23.9	24.4	23.8	23.7	24.2	23.5	23.5	25.4	26.7	28.0	28.0	27.6	27.4
Personal	19.3	18.8	18.2	18.4	18.3	19.4	21.3	22.8	24.8	25.7	28.6	29.9	30.7

Source: RBI, CMIE

The services sector credit growth rose 8.9% y-o-y during March 2022 as compared to 3.9% for the same period of the last year due to growth in the major segments (NBFC and Trade) and the low base. There has also been a shift to bank borrowings on account of rising bond yields and other capital market rates.

RBI's analysis of the funded amount of companies, which accounts for 85.5% of the total funded amount to wholesale borrowers, indicates that borrowing by PSUs has remained robust throughout the period.

Figure 5: Growth in Wholesale Credit (%)

	PSU			Non-PSU		
	Mar-20	Mar-21	Mar-22	Mar-20	Mar-21	Mar-22
PSB	19.5	5.4	15.1	-4.1	-9.0	0.01
PVB	45.1	60.0	9.0	-0.8	-6.1	13.5
PSBs + PVBs	22.0	11.7	14.1	-2.8	-7.9	5.4

Source: RBI

A significant portion of new industrial loans was extended to the PSU borrowers (wholesale PSU credit grew by 14.1% in FY22, vs. 11.7% in FY21), while the private sector credit demand turned positive after the decline and deleveraging over the last couple of years (wholesale non-PSU credit grew by 5.4% in FY22 vs. a fall of 7.9% in FY21).

MSME growth was driven by ECLGS, the low-base effect, digitisation process of the banks for faster loan approvals. After a period, industrial growth returned to positive territory and is likely to improve in FY23 given the planned capital expenditure and the PLI scheme.

CareEdge View

The prospect for economic growth is contingent on multiple factors such as progress on the Russia-Ukraine war front, the pace of monetary tightening by central banks globally and the overall global economic growth trajectory. Consequently, GDP growth in FY23 will be impacted due to the widening of the trade deficit. Hence factoring for the uncertain economic environment, CareEdge expects India's GDP to grow by 7-7.5% in FY23.

After a modest credit growth in recent years, the outlook for bank credit offtake is positive due to the economic expansion tracking nominal GDP growth, rise in government & private capital expenditure, rising commodity prices, implementation of the PLI scheme, the extension of ECLGS for MSME and retail credit push. The Personal loan segment is expected to do well as compared with the industry and service segments. The medium-term prospects look promising with diminished corporate stress and a substantial buffer for provisions. Hence, CareEdge estimates the credit growth to be in the range of 12%-13% during FY23, however, high inflation and rate hikes could adversely impact credit growth. Lower treasury income (as hardening yields impact the AFS/HFT portfolio) and higher operating expenses could impact the PPOP margins. The overall earnings are expected to remain robust as most banks have maintained a positive outlook on margins for FY23.

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