Credit Offtake Continues to Rise, Sees Near 9-year High Growth

September 26, 2022 | BFSI Research

Synopsis

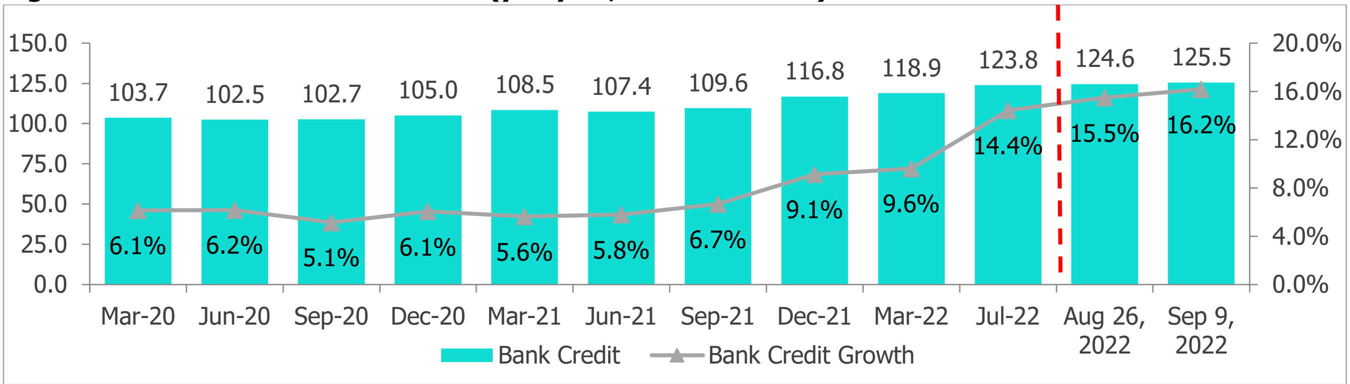
- Marching upwards since the latter of FY22, credit offtake registered a robust growth of 16.2% year-on-year (y-o-y) in the fortnight ended September 09, 2022, nearly the highest growth in the last 9 years. This has been driven by sustained retail and improving wholesale credit, which is likely to continue in FY23. However, further rate hikes due to elevated inflation and depreciating currency may adversely impact credit growth.

- The liquidity slipped into deficit as on September 20, 2022, from a surplus, which has been persisting for more than a year, due to RBI managing the liquidity in the system to cope with elevated inflation, and tax outflows. Thus, RBI had to infuse liquidity of Rs.21,800 crore, the highest since May 2019. The liquidity deficit also pushed up the call money rates in the market and surpassed the repo rate.

- Rising credit demand due to improvement in economic activities, widening credit (16.2%), slower deposit growth (9.5%), the onset of the festival season, liquidity deficit, and elevated inflation is expected to drive deposit rates.

Bank Credit Growth Continues its Upswing

Figure 1: Bank Credit Growth Trend (y-o-y %, Rs. Lakh crore)



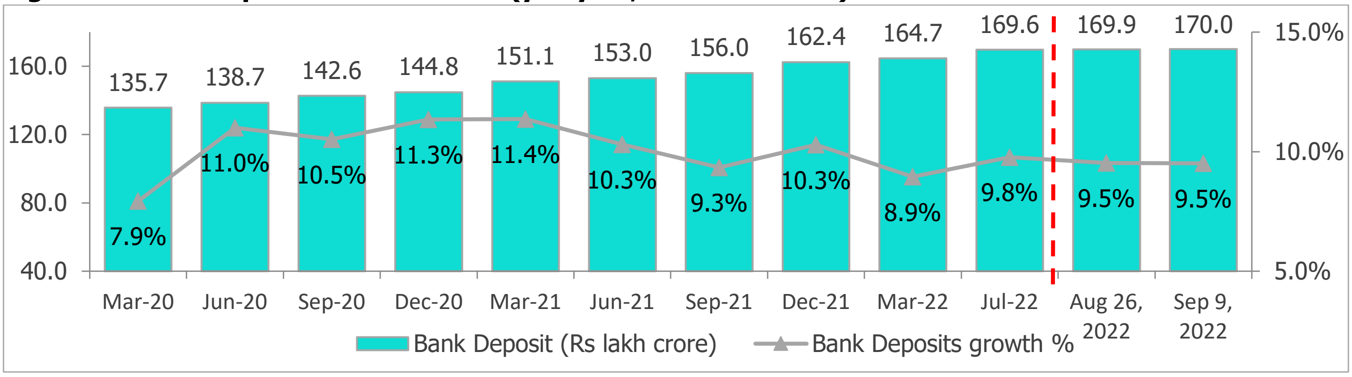
Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Credit offtake saw a 16.2% y-o-y robust growth, expanding by a significant ~948 basis points (bps), for the fortnight ended September 09, 2022. The growth is nearly the highest in the last 9 years (16.3% credit growth: October 18, 2013). It also increased sequentially by 0.7% from the immediate fortnight (ended August 26, 2022). In absolute terms, credit outstanding crossed the benchmark of Rs.125 lakh crore as of September 09, 2022, rising by Rs.17.5 lakh crore over the last 12 months.

- The growth has been on an upward trajectory since the latter half of FY22 and has been witnessing double-digit since April 2022. Retail credit growth has been strong due to underlying demand, as credit outstanding saw a robust growth at 18.8% y-o-y in July 2022 driven by the miniaturisation of credit, housing, and vehicle loans. Corporate loans indicate a shift from the capital market to bank borrowings as hardening bond yields have prompted companies to optimize their borrowing cost. The credit outstanding of the industry segment registered a growth of 10.5% y-o-y in July 2022 from a flat growth rate of 0.4% in the year-ago period due to inflation-induced higher working capital demand, commodity prices, and improvement in capacity utilization ratio. The rise was on account of robust growth in the micro and small (28.3%), and medium (36.8%) enterprise segments, while the large segment too showed a growth of 5.2% from a drop of 3.8% in the year-ago period. Credit for the services sector also accelerated by 16.5% y-o-y in July 2022 from a growth of 3.8% in the year-ago period primarily due to a rise in NBFCs and trade segments.

- In the short term, given the approaching festival season, the credit growth is likely to remain elevated. 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, strong demand for small size (ticket) loans, rise in government & private capital expenditure, commodity prices, higher demand for working capital, increase in capacity utilization ratio, implementation of the PLI scheme, and ECLGS for MSME. The medium-term prospects look promising with diminished corporate stress and a substantial buffer for provisions. However, inflation remains a key risk. Even as RBI has managed domestic inflation to some extent, global inflation has remained high despite hawkish policies. This may lead to demand issues globally causing second-order effects in India. Hence, CareEdge estimates the credit growth to be in the range of 12-13% in FY23, however, rate hikes could adversely impact credit growth.

Figure 2: Bank Deposit Growth Trend (y-o-y %, Rs. Lakh crore)



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

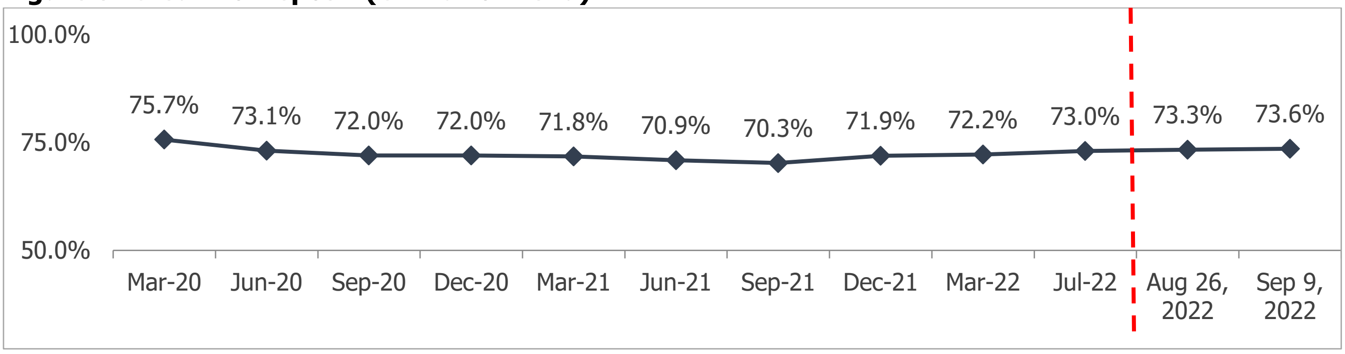
- Deposits stood at Rs.170.0 lakh crore for the fortnight ended September 09, 2022, registering a growth of 9.5% y-o-y. Meanwhile, in absolute terms, bank deposits have increased by Rs.14.8 lakh crore over the last twelve months. The deposits rose by 0.4% from the immediately preceding fortnight (reported on August 26, 2022). The time deposits grew by 9.5% y-o-y, while demand deposits rose by 8.0% in the reporting fortnight when compared with 8.6% and 15.6% y-o-y, respectively, reported in the fortnight ended September 10, 2021.

- The banking system has been sustaining a liquidity surplus since the initial months of FY20 because of a faster build-up of deposits versus credit disbursement, liquidity surplus was more than Rs.8.0 lakh crore in early April 2022. However, this trend has reversed in the last few months. The Liquidity has generally been trending down with RBI seeking to reduce excess liquidity from the system to manage inflation. According to RBI reports, the liquidity slipped into deficit on September 20, 2022, due to tax outflows. Thus, RBI had to infuse Rs.21,800 crore the highest since May 2019. The liquidity deficit also pushed up the call money rates in the market, one day call money rate jumped to 5.85% (the highest since July 2019) and settled at 5.51%, higher than the repo rate (5.4%), as per the RBI data.

- RBI has already increased the repo rate by 140 bps to 5.4% (three hikes) in FY23 and more hikes are anticipated in the current fiscal. Further G-sec yields of 2-year bonds increased to 7.03% as of September 18, 2022, from 5.16% as of April 03, 2022, whereas the 10-year paper increased to 7.36% as of September 18, 2022, from 7.12% as of April 3, 2022. The hardening bond yields have been driving for shifting of borrowings from the capital market to the banking system and are expected to continue the same.

- The Credit to Deposit (CD) ratio has been increasing since October 2021, standing at 73.6%, expanding by ~422 bps y-o-y from the similar fortnight last year (reported September 10, 2021) and by ~28 bps as compared to the immediate fortnight (reported August 26, 2022) due to faster growth in credit as compared to deposits.
- Considering credit investments to be at Rs.8.04 lakh crore (as of July 29, 2022, as per the latest data released by RBI). The bank credit (including credit investments) to total assets would have been around 78.3% for the fortnight ended September 03, 2022, which was marginally higher by ~26 bps to the previous fortnight (reported August 26, 2022) and by ~345 bps from the fortnight ended September 11, 2021, due to faster growth in credit as compared to total assets. It was also partially offset by a drop in credit investment (credit investment currently stood at Rs.8.04 lakh crore down from Rs.8.57 lakh crore as of September 10, 2022).

Figure 3: Credit to Deposit (CD Ratio Trend)



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

Figure 4: Trend in y-o-y movement (In Rs lakh crore)

	Sep. 11, 2020	Sep. 10, 2021	Sep 09, 2022
Credit	4.2%	6.7%	16.2%
Deposit	12.0%	9.3%	9.5%

Source: RBI, CareEdge

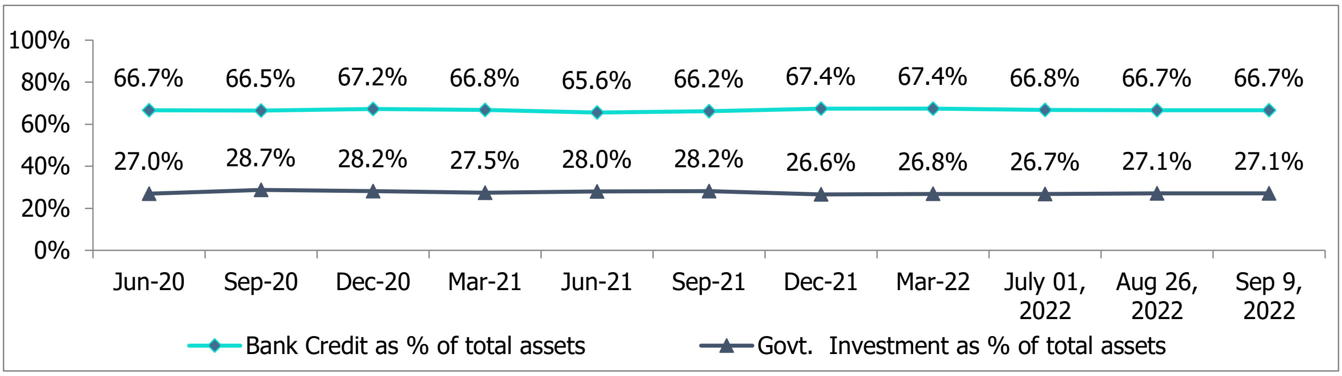
- For the last few years, deposits had been growing at a fast clip, especially when compared to credit. However, in the current year, with the reversal of this trend, the y-o-y change in credit has outpaced deposits.

- A significant part of the funding gap has been met by the mobilisation of Certificates of Deposit (CD). The outstanding CDs stand at Rs 2.44 lakh crores as of September 09, 2022, as compared to just Rs 0.7 lakh crore a year ago. Further, the banks are expected to keep their CD issuance elevated to meet their short-term need amid the liquidity deficit. They are also likely to focus on bulk deposits to meet the rising credit demand.

- The widening gap between credit growth (16.2%) and deposit growth (9.5%) may lead to supply-side issues thereby eventually constraining credit growth. The bulk deposit and retail deposit rates have already gone up, CareEdge anticipates that the rates are expected to go further up on account of strong underlying credit demand caused by the onset of festival season, elevated inflation, and liquidity deficit in the market.

Proportion of Govt. Investments to Total Assets Remains Stable

Figure 5: Proportion of Govt. 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, CareEdge

- The share of bank credit to total assets stood at 66.7%, remaining nearly constant on a sequential basis compared to the fortnight ended September 26, 2022, and increased by ~135 bps when compared with the same fortnight last year (reported September 10, 2021) due to higher credit growth.
- Proportion of Govt. investment to total assets remained flat for the fortnight ended September 9, 2022, compared to the previous fortnight (reported August 26, 2022). The Govt. investments stood at Rs.51.0 lakh crore as of September 09, 2022, reporting an 8.5% y-o-y growth and 0.7% from the immediate fortnight ended on August 26, 2022.

Growth in O/s CDs Remains Elevated, meanwhile, growth in O/s CPs Stays in Range

Figure 6: CD Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 24, 2021	60.2	-20.3%
Oct 08, 2021	59.2	-20.9%
Dec 31, 2021	84.7	13%
Feb 11, 2022	112.6	93.4%
Mar 11, 2022	154.4	168.9%
Apr 22, 2022	201.4	134.8%
May 20, 2022	193.0	113.7%
July 1, 2022	223.8	222.9%
Aug 12, 2022	242.2	281.4%
Aug 26, 2022	237.1	269.3%
Sep 09, 2022	243.6	262.8%

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

Figure 7: Trend in CD Issuances (Rs'000, crore) and RoI

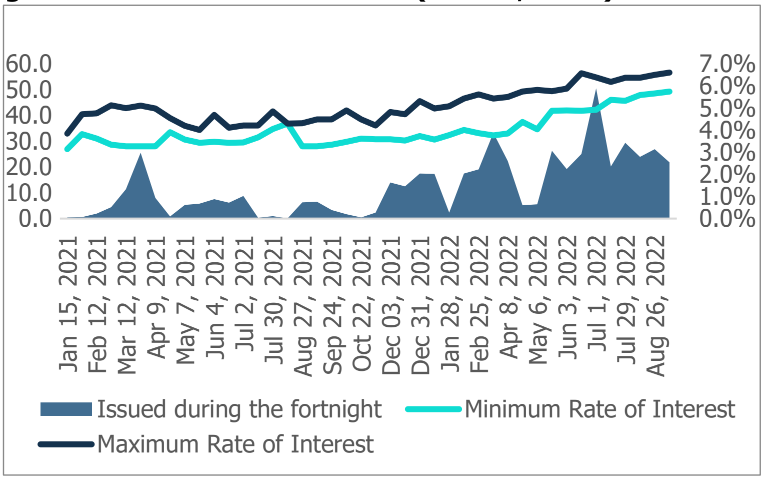
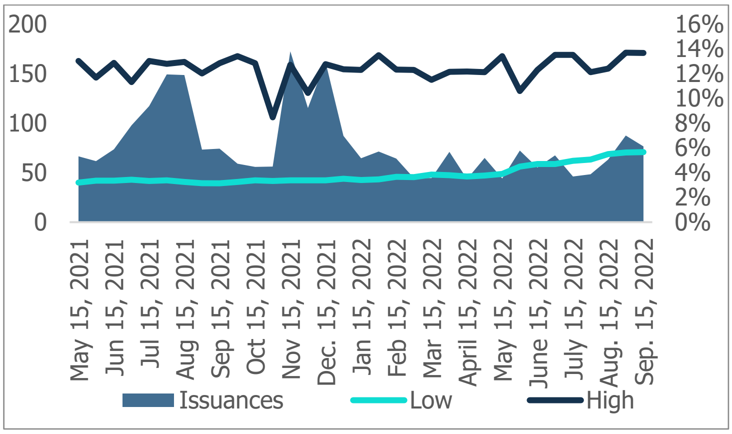


Figure 8: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 crore)	Y-o-Y growth %
Sep 30, 2020	362.3	-25.5%
Mar 31, 2021	364.4	5.8%
Sep 30, 2021	371.0	2.4%
Nov 30, 2021	388.4	-0.6%
Dec 31, 2021	350.1	-4.1%
Mar 31, 2022	352.3	-3.3%
Jun 30, 2022	372.5	-1.0%
Aug 15, 2022	411.2	-2.0%
Aug 31, 2022	410.1	4.7%
Sep 15, 2022	438.7	4.7%

Figure 9: Trend in CP issuances (Rs'000, crore) and RoI



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

Select RBI Announcements

Announcement	Details
Bharat Bill Payment System (BBPS) to process cross-border inbound Bill Payments	Reserve Bank of India has allowed the BBPS to process cross-border inbound payments to facilitate payment of utility bills by non-resident Indians.
Master Directions on Interest Rate on Deposits	1. The reference rates are being quoted/displayed by Financial Benchmarks India Pvt. Ltd. (FBIL) with effect from January 31, 2022. In this regard, the relevant sections of both the Master Directions on Interest Rate on Deposits have been suitably modified. 2. The instructions regarding eligibility for the opening of savings accounts of the above-mentioned Master Directions (MDs) have been modified to make them more explicit.

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