Despite strong Credit Growth CD ratio yet to reach pre-pandemic levels

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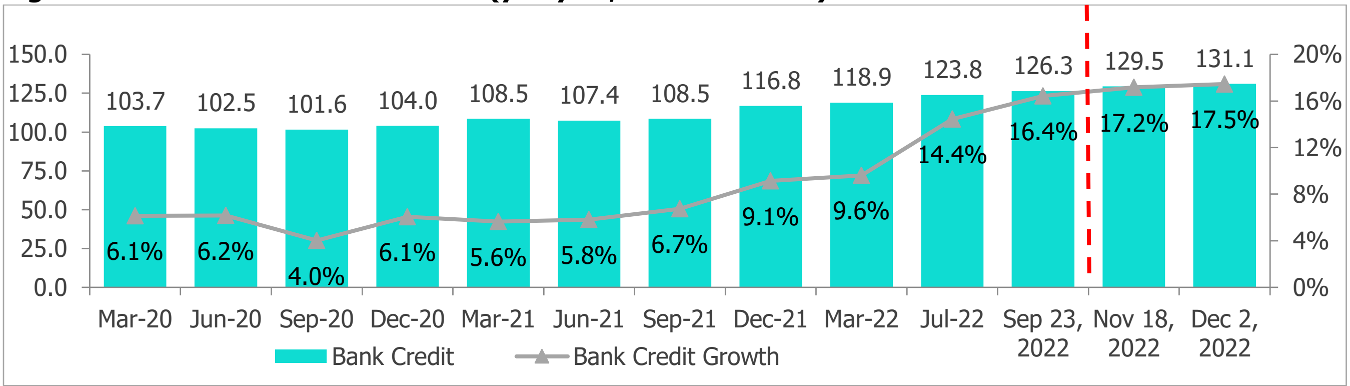
CareEdge RATINGS

Synopsis

- Credit offtake remained elevated at 17.5% y-o-y, reporting robust growth for the fortnight ended December 02, 2022. The growth is driven by a low base, NBFCs, retail credit, higher working capital demand driven by inflation and improvement in capacity utilisation ratio, and rising demand for fresh capex. The benefit of a lower base is expected to ease in the next few fortnights, optically leading to lower growth rates.
- With a large base, deposits saw a slower growth at 9.9% y-o-y compared to credit growth of 17.5% for the fortnight ended December 02, 2022. Deposits rates are expected to go up further due to rising policy rates driven by higher inflation, intense competition between banks for sourcing deposits to meet strong credit demand, widening credit deposit gap, and lower liquidity in the market. The short-term Weighted Average Call Rate (WACR) has increased to 6.18% as of December 16, 2022, from 3.41% as of December 17, 2021, due to liquidity issues in the banking Systems.
- Over the last couple of years, (i.e., from February 28, 2020) credit offtake has mostly overcome the Covid-induced lag and has grown by around 29.7% to almost catch up with deposit growth of 31.4% over the period.

Bank Credit Growth Remains Resilient

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



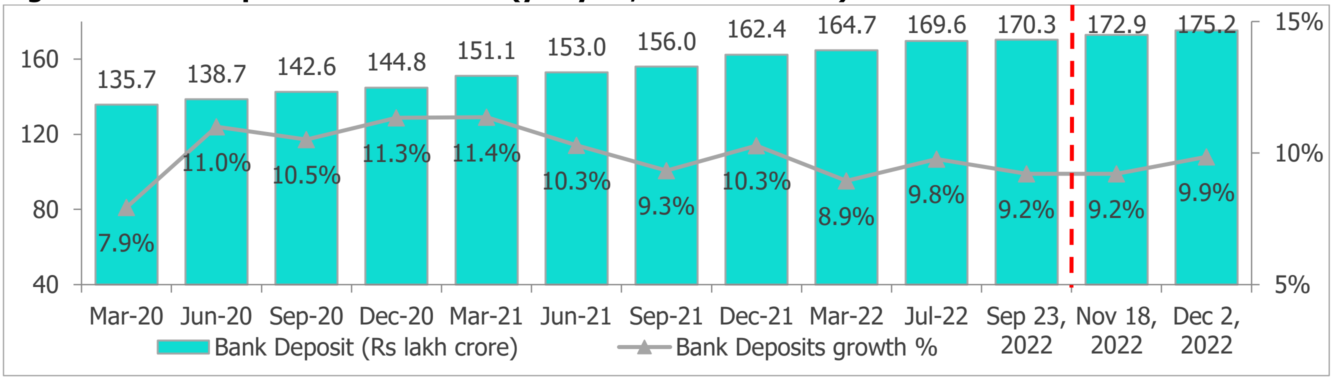
Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect,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

- Credit offtake reported a 17.5% y-o-y growth for the fortnight ended December 02, 2022. It expanded by over 1,000 bps due to a low base, retail credit, inflation-led working capital requirement and MSMEs. It also increased sequentially by 1.2% from the immediate fortnight (ended November 18, 2022). In absolute terms, credit outstanding stood at Rs.131.0 lakh crore as of December 02, 2022, rising by Rs.19.5 lakh crore over the last 12 months.
- Credit for the services sector accelerated at 22.5% y-o-y in October 2022 primarily due to a rise in NBFCs and trade segments. Retail credit growth at 20.2% y-o-y has been strongly led by miniaturization of credit, housing, and vehicle loans. The credit outstanding of the industry segment also grew by 13.6% due to inflation-induced

higher working capital demand, MSME and Capex spending mainly on renewables and roads. Further demand for new capital expenditure is expected to drive the industry's credit growth.

- The credit offtake is anticipated to remain resilient in FY23, while the benefit of lower base will ease out in the next few fortnights, optically leading to lower growth rates. A slowdown in global growth due to elevated interest rates, interminable pandemic restrictions in China, and multiple rate hikes in India could impact credit growth.

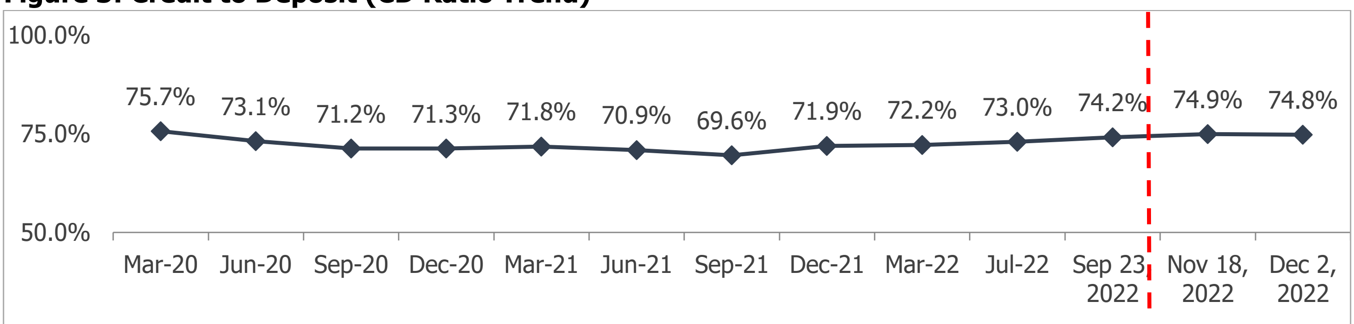
Figure 2: Bank Deposit Growth Trend (y-o-y %, Rs. Lakh crore)



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

- Deposits stood at Rs. 175.2 lakh crore for the fortnight ended December 02, 2022, registering a growth of 9.9% y-o-y. Meanwhile, in absolute terms, bank deposits have increased by Rs.15.7 lakh crore over the last twelve months. The time deposits grew by 9.6% y-o-y, while demand deposits rose by 11.8% in the reporting fortnight vs. 8.4% and 16.7% y-o-y, respectively, reported in the fortnight ended December 03, 2021. To source additional deposits, banks have already raised term deposit rates of select tenures and are expected to increase further.
- Liquidity has generally been trending down with RBI seeking to reduce excess liquidity from the system to manage inflation. The banking system liquidity surplus has narrowed to around Rs 2.8 lakh as of December 02, 2022 crore from Rs 6.3 lakh crore at the start of FY23.
- RBI has already increased the repo rate by 225 bps to 6.25% (five hikes) in FY23, with additional hikes anticipated in the current financial year. Due to elevated domestic inflation, rate hikes and higher global bond yields have led to higher yields in the domestic debt capital markets. According to CCIL, the 2-year G-sec yield has moved from 4.06% as of November 18, 2020, to 4.66% as of November 18, 2021, and to 6.94% as of November 11, 2022.

Figure 3: Credit to Deposit (CD Ratio Trend)



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

- The Credit to Deposit (CD) ratio has been increasing since November 2021 and reached 74.8%, expanding by ~480 bps y-o-y from a similar fortnight last year due to continued faster growth in credit as compared to deposits. However, the CD ratio is yet to reach its pre-pandemic levels of 75.9% as of February 2020.
- Considering credit investments to be at Rs.8.1 lakh crore (as of October 21, 2022, as per the latest data released by RBI). The bank credit (including credit investments) to total assets would have been around 71.4% for the fortnight ended December 02, 2022, which was higher by ~40 bps from the fortnight ended December 03, 2021, due to faster growth in credit as compared to total assets. It was partially offset by a drop in credit investment (credit investment currently stood at Rs.8.1 lakh crore down from Rs.8.8 lakh crore in the same period last year).

Figure 4: Trend in y-o-y Movement

	Dec 04, 2020	Dec 03, 2021	Dec 02, 2022
Credit	4.7%	7.3%	17.5%
Deposit	11.3%	9.3%	9.9%

Source: RBI, CareEdge

- In the current year, the y-o-y change in credit has outpaced deposits reversing the earlier trend of deposits growing at a higher rate when compared to credit. The credit growth improved due to normalisation of the Indian economy post covid, pent-up demand, and policy support from the government (ECLGS to MSME and PLI scheme, etc). In terms of liabilities growth, interest rates were not attractive to investors.

Figure 5: Growth in Credit almost Overcomes Covid-induced Lag (Rs. Lakh Crore)

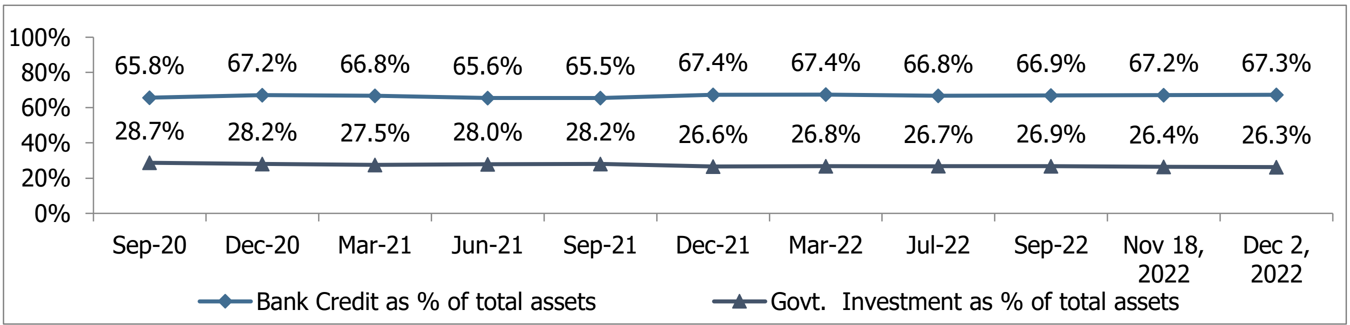
	Deposit	Credit
February 28, 2020	133.3	101.0
December 02, 2022	172.9	131.0
Growth over the period (in abs. term)	31.4%	29.7%

Source: RBI, CareEdge

- With a growth of 29.7% over the period, credit has nearly overcome the Covid-induced lag relative to Deposit growth. A significant part of the funding gap has been met by the mobilisation of Certificates of Deposit (CD). The outstanding CDs stood at Rs 2.72 lakh crores as of December 02, 2022, as compared to just Rs 0.63 lakh crore a year ago. Further, the banks are keeping their CD issuance elevated to meet their short-term need amid the lower liquidity and focusing on deposits (bulk and retail) to meet the elevated credit demand. The deposit rates have already started to increase and CareEdge expects that the rates would increase even further as competition for deposits intensifies as banks focus on sourcing deposits due to rising policy rate, strong credit demand, and comparatively lower liquidity in the market.

Proportion of Govt. Investments to Total Assets Marginally Decreased

Figure 6: Proportion of Govt. Investment and Bank Credit to Total Assets



Note: The quarter-end data reflect the last fortnight's 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 marginally rose by 12 bps to 67.3%, compared to the fortnight ended November 18, 2022, and rose ~150 bps when compared with the same fortnight last year (reported December 3, 2021) due to higher credit growth.
- Proportion of government investment to total assets too has remained broadly stable for the fortnight ended December 2, 2022, compared to the previous fortnight (reported November 18, 2022). The Govt. investments stood at Rs.51.2 lakh crore as of December 02, 2022, reporting a 9.5% y-o-y growth.

Growth in O/s CDs Remains Robust, O/s CPs decline (y-o-y)

Figure 7: 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 26, 2022	237.1	269.3%
Sep 23, 2022	252.2	318.7%
Oct 21, 2022	240.8	319.8%
Dec 02, 2022	274.6	333.4%
Dec 16, 2022	272.5	271.9%

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

Figure 8: Trend in CD Issuances (Rs'000, crore) and RoI

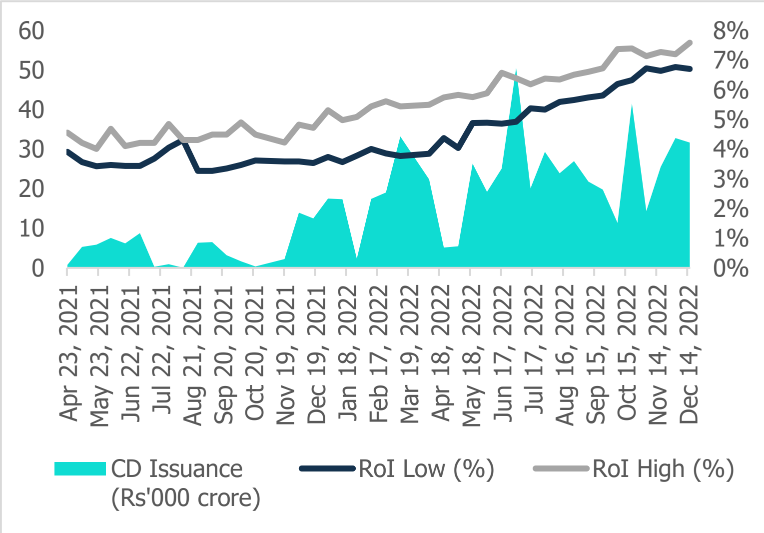
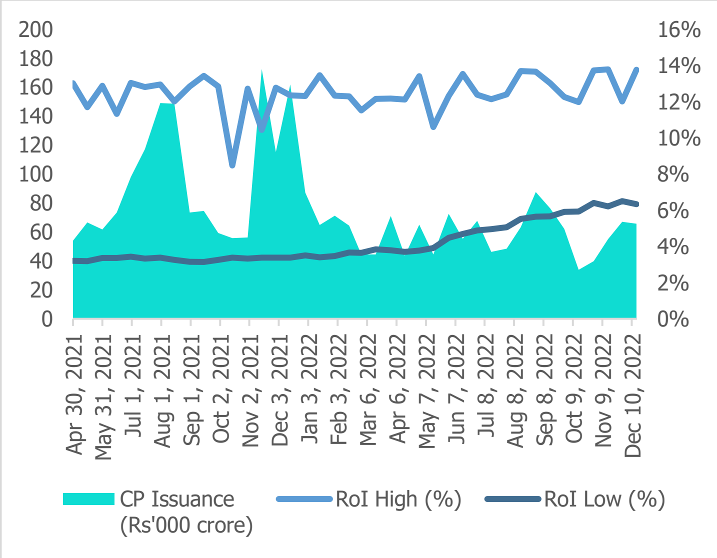


Figure 9: Commercial Paper Outstanding

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 31, 2022	410.1	4.7%
Sep 15, 2022	438.7	9.3%
Sep 30, 2022	400.9	8.1%
Oct 15, 2022	415.8	4.0%
Oct 31, 2022	373.3	-1.6%
Nov 30, 2022	362.3	-6.7%
Dec 15, 2022	363.7	-18.6%

Figure 10: 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

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