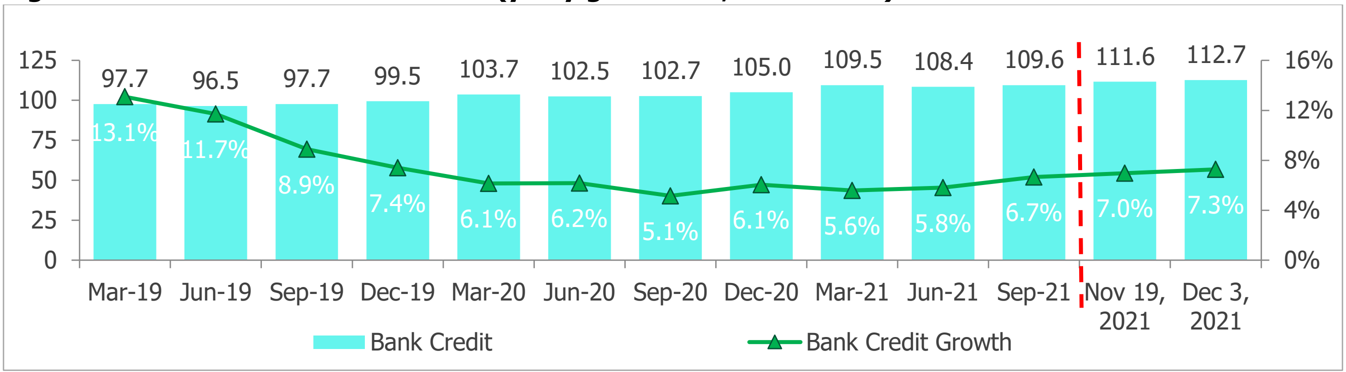
Update on Banking Credit and Deposits

December 27, 2021 | BFSI Research

Credit growth continues upward trajectory

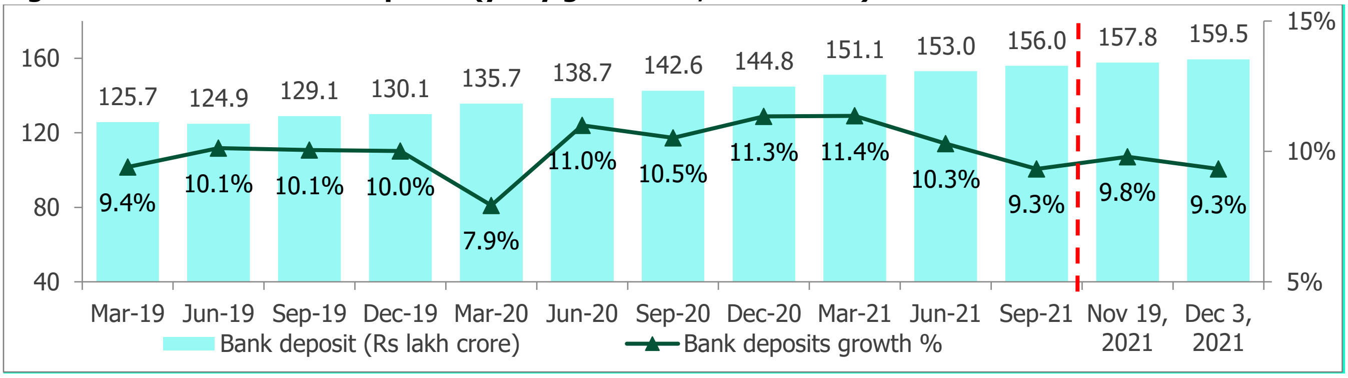
Figure 1: Bank Credit Growth Trend (y-o-y growth %, Lakh-crore)



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

- Bank credit growth expanded by 154 bps y-o-y and reached 7.3% y-o-y for the fortnight ended December 03, 2021, up from 5.7% in the year ago period (fortnight ending December 04, 2020) due to focus on retail credit, uptick in business activities coupled with a low base. It also improved by 30 bps from 7.0% (post the festive season) in the previous fortnight ended November 19, 2021. In absolute terms, credit offtake expanded to Rs.112.7 lakh crore, increasing by Rs.7.6 lakh crore over the last twelve months, it also expanded by 1.2 lakh crore as compared with the previous fortnight (November 19, 2021).
- Credit growth which was impacted by the pandemic and deleveraging of select large corporates seems to be regaining its momentum. Credit outstanding of the retail segment rose by 11.7% y-o-y in October 2021 due to growth in housing loan and vehicle loan driven by the festive season and low interest rates, agriculture & allied segment also rose by 10.2% y-o-y due to a better monsoon. The industry segment too registered a growth of 4.1% y-o-y in October 2021 from a drop of 0.7% a year ago. Incremental credit growth was also positive at 0.8% in October 2021, up from -0.5% in October 2020. CPI is trending up and hence is likely to push up the credit growth. The rise in retail credit has also been supported with rate cuts by banks to push retail credit as several banks are offering home loans at record low-interest rate. Many other banks have reduced their interest rate over the last couple of months, recently Bank of Maharashtra also reduced its home loan interest rate to 6.8% from 7.05%.
- 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 renewables and production linked incentive (PLI) schemes, extended ECLGS support (sanctions permitted till March 2022 and disbursements till June 2022), and retail credit push. The medium-term prospects look promising with diminished corporate stress and increased provisioning levels across banks. However, the new coronavirus variant (omicron) could dampen momentum if localized lockdown measures increase.

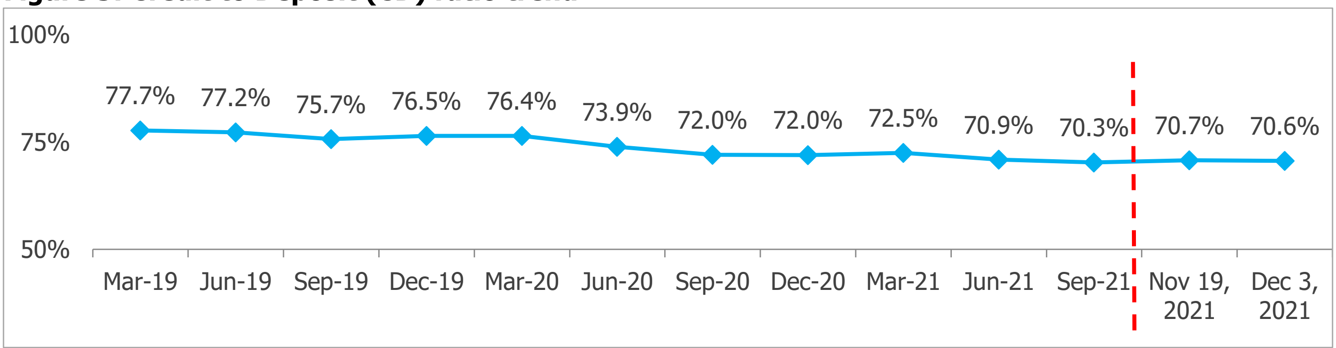
Figure 2: Growth of Bank Deposits (y-o-y growth %, Lakh Crore)



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

- Deposits stood at Rs.159.5 lakh crore for the fortnight ended December 03, 2021, reporting a growth of 9.3% y-o-y, however the growth rate contracted by 220-bps (y-o-y) and reporting a decline of 50-bps when compared with the previous fortnight (November 19, 2021). The Deposit growth has been trending down since March 21, except in few cases (fortnightly). Meanwhile, in absolute terms, the bank deposits have increased by Rs.13.6 lakh crore over the last twelve months. If we compare it with the previous fortnight (November 19, 2021), deposits increased by Rs.1.73 lakh crore, within this, time deposit increased by 1.26 lakh crore.
- The banking system liquidity surplus as on December 03, 2021, stood at Rs.7.6 lakh crore (Rs.7.92 lakh crores as on November 19, 2021). The liquidity surplus can be primarily attributed to deposit growth consistently outpacing credit growth. However, the liquidity surplus has narrowed (from over Rs.8 lakh crore at the start of October 2021) 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).
- Bank deposits have continuously grown faster than bank credit in every fortnight since late September 2019. 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 70.6% was almost flat as compared to last fortnight (ended on November 19, 2021), while it declined by 140-bps as compared with previous year (72.0% as on November 20, 2020). On the other hand, if we assume credit investments to be at Rs.8.75 lakh crores (as on October 22, 2021, as per latest data released by RBI), for the fortnight ended December 03, 2021, then the CD ratio would be around 76.1%. Considering the addition in credit outstanding over the last 12 months to be at Rs.7.6 lakh crore over additions in deposits (Rs.14.1 lakh crore), the proportion would have been at around 56.0% which is higher than previous fortnight of 51.8%.

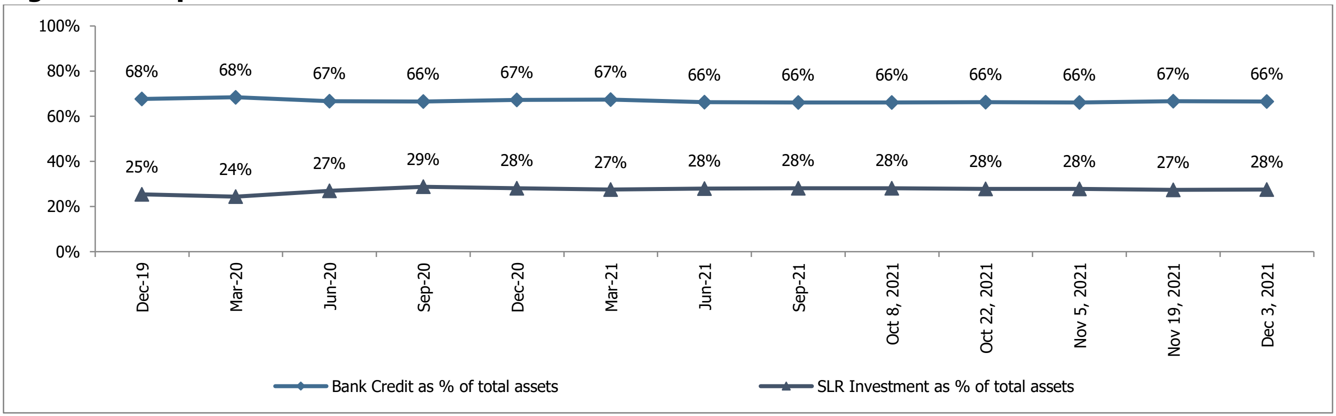
Figure 3: Credit to Deposit (CD) ratio trend



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

Proportion of SLR investments increases 21-bps, while bank credit to total assets declines 17-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.

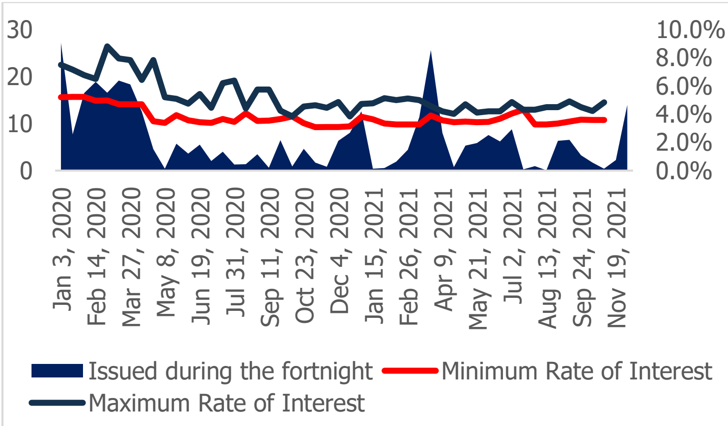
- The share of bank credit to total assets stood at 66.5%, declined by 17-bps in the fortnight ended December 03, 2021, as compared with the previous fortnight.
- Considering credit investments to be at Rs.8.75 lakh crore (as on October 21, 2021), bank credit (including credit investments) to total assets would have been around 71.6% for the fortnight ended December 03, 2021.
- Proportion of SLR investment to total assets has increased by 22-bps in fortnight ended December 03, 2021, compared to the previous fortnight (ended on November 19, 2021). SLR investments grew by 4.2% y-o-y in fortnight ended on December 03, 2021 (slower growth which can be partly ascribed to base effect) as compared with a growth of 19.4% a year ago, it also improved by 2.0% from the previous fortnight (ended on November 19, 2021). 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.

However, O/s CPs reports a rise, while O/s CDs report a decline

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%
Jun 18, 2021	68.2	-43.8%
Aug. 27, 2021	64.2	-29.0%
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%

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

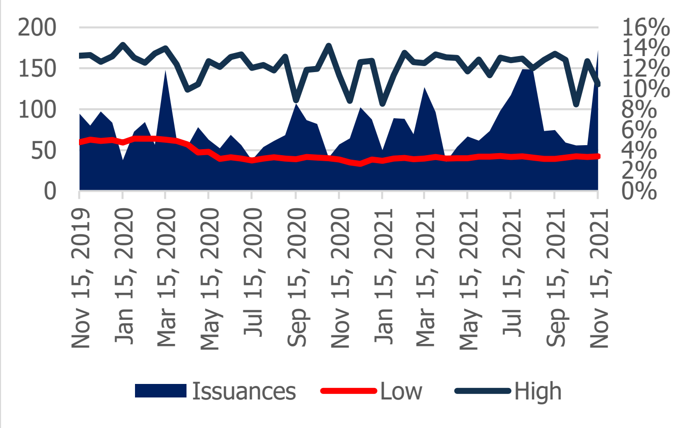


Note: The quarter-end data reflect the last fortnight data of that particular quarter; Source: RBI

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. 15, 2021	450.9	20.8%
Nov. 30, 2021	388.4	-0.6%
Dec. 15, 2021	447.0	22.4%

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 introduces tough PCA framework for large NBFCs	• The RBI introduced a prompt corrective action (PCA) framework for large non-banking financial companies (NBFCs), putting restrictions whenever vital financial metrics dip below the prescribed threshold.
The RBI proposed to replace existing approaches for measuring minimum operational risk capital requirements	• The RBI proposed to replace existing approaches for measuring minimum operational risk capital requirements of banks with a new Basel-III standardised approach. 'Operational risk' refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
RBI extends card tokenisation rule by 6 months after industry request	• The RBI extended the deadline for wiping off card data on merchant sites and applying tokenization by another six months as merchants and payments companies expressed their inability to meet the December 31 deadline.

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91-22-6754 3582 / +91-81080 07676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careedge.in	+91-22-6754 3519 / +91-90049 52514
Vijay Singh Gour	Lead Analyst – BFSI Research	vijay.gour@careedge.in	+91-22-6754 3519 / +91-98937 89622
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91-22-6837 4424

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 l CIN: L67190MH1993PLC071691

Locations: Ahmedabad l Andheri-Mumbai l Bengaluru l Chennai l Coimbatore l Hyderabad l Kolkata l New Delhi l Pune

About:

CareEdge (CARE Group) is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics capability and detailed research methods. CareEdge (CARE Ratings Limited) is one of the leading credit rating agencies in India. It has an impressive track record of rating companies for almost three decades and has played a pivotal role in developing the corporate debt market in India. CareEdge provides near real time research on all domestic and global economic developments. The wholly owned subsidiaries include CareEdge Advisory & Research arm focused on providing advisory and consultancy services and CareEdge Risk solutions a platform that provides risk management solutions