Credit Offtake Continues to Remain Elevated; Deposit Growth Slows

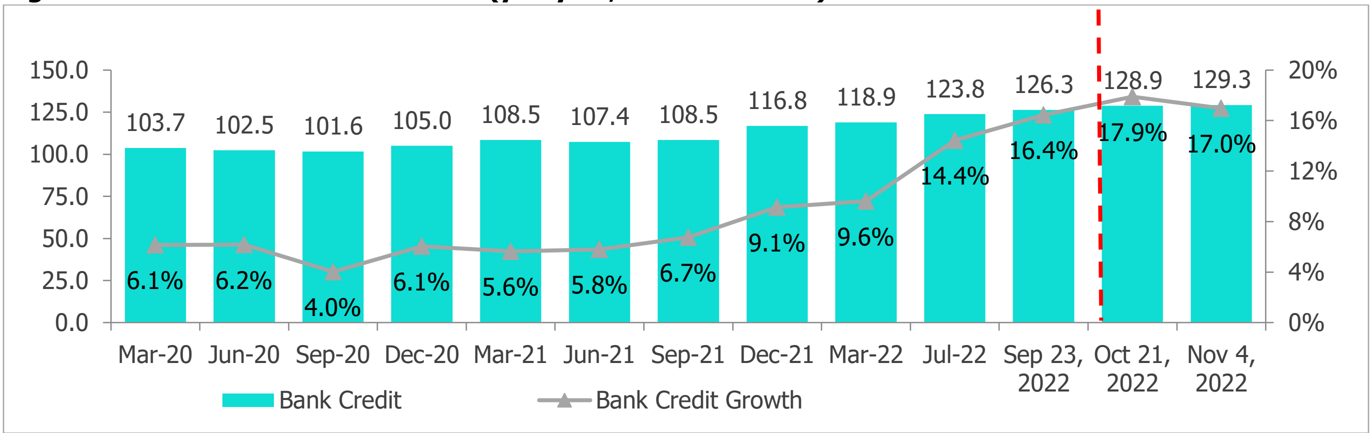
November 28, 2022 | BFSI Research

Synopsis

- Credit offtake remained elevated at 17% y-o-y, reporting robust growth for the fortnight ended November 04, 2022. The growth is driven by NBFCs, retail credit, inflation-led working capital demand, lower funds raised in the capital market and lower base. The benefit of lower base will ease out in next few fortnights, optically leading to lower growth rates.
- Deposits saw a slower growth at 8.2% y-o-y. As a result, the short-term Weighted Average Call Rate (WACR) has increased to around 6% as of November 04, 2022, from 3.34% as of November 05, 2021. Deposits rates are expected to go up even further due to intense competition between banks for sourcing deposits, elevated credit offtake, widening credit deposit gap, lower liquidity in the market, and inflation.
- Over the last couple of years, (i.e., from the February 28, 2020) credit offtake has mostly overcome the Covid-induced lag and has grown by around 27.9% to almost catch up with deposit growth of 30.3% over the period.

Bank Credit Growth Remains High

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



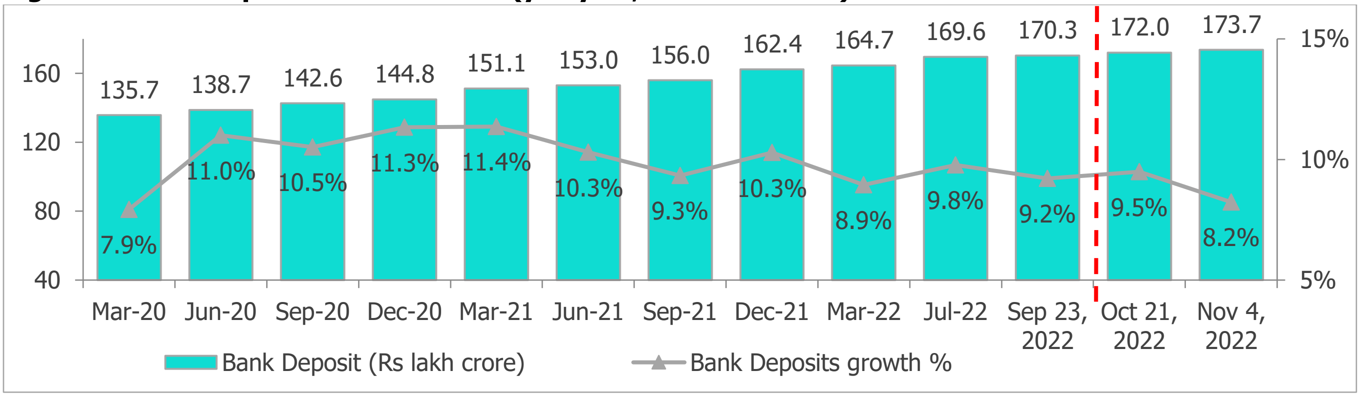
Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). However, RBI has not yet updated these numbers in its database except for fortnightly documents. The quarter-end data reflect,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

- Credit offtake reported a 17% y-o-y growth, expanding by a massive ~980 bps, for the fortnight ended November 04, 2022, due to a low base, retail credit, inflation-led working capital requirement, and low funds raised in the capital market. It also increased sequentially by 0.3% from the immediate fortnight (ended October 21, 2022). In absolute terms, credit outstanding stood at Rs.129.2 lakh crore as of November 04, 2022, rising by Rs.18.8 lakh crore over the last 12 months.
- The credit growth has been on an uptrend, with wholesale and retail contributing to the same. Credit for the services sector accelerated primarily due to a rise in NBFCs and trade segments. Retail credit growth has been strongly led by miniaturisation of credit, housing, and vehicle loans, MSME growth has remained elevated due to ECLGS. Corporate borrowings indicate a shift from the capital market to bank funding as bond yields have prompted companies to optimize their borrowing cost. Despite a significant increase in lending rates of banks,

the headline rates continue to be attractive compared to yields charged in the capital markets. The credit outstanding of the industry segment also grew due to inflation-induced higher working capital demand.

- The credit offtake is likely to remain strong, meanwhile the benefit of lower base will ease out in next few fortnights, optically leading to lower growth rates. Further, global inflation has remained elevated despite hawkish policies which could lead to demand issues affecting India.

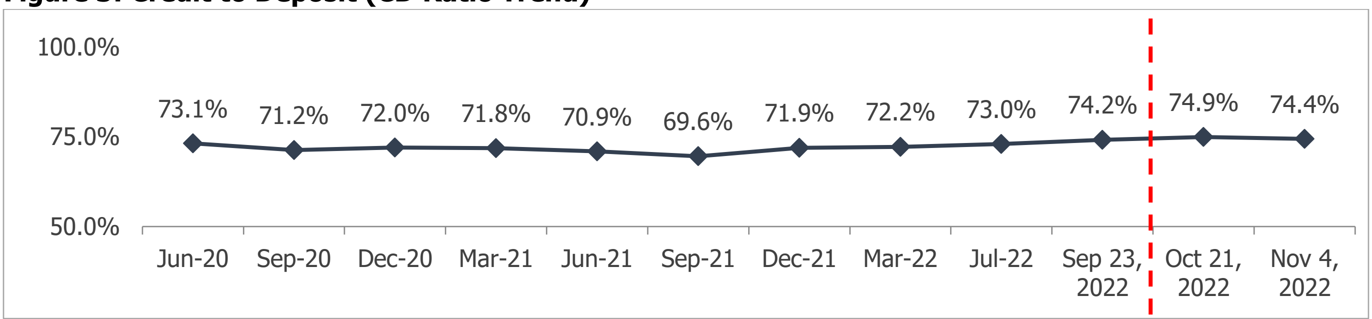
Figure 2: Bank Deposit Growth Slows (y-o-y %, Rs. Lakh crore)



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

- Deposits stood at Rs. 173.7 lakh crore for the fortnight ended November 04, 2022, registering a growth of 9.5% y-o-y. Meanwhile, in absolute terms, bank deposits have increased by Rs.13.2 lakh crore over the last twelve months. The time deposits grew by 8.8% y-o-y, while demand deposits rose by 3.8% in the reporting fortnight when compared with 9.2% and 32.2% y-o-y, respectively, reported in the fortnight ended November 05, 2021.
- 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 less than Rs 1 lakh crore from Rs 6.3 lakh crore at the start of FY23.
- RBI has already increased the repo rate by 190 bps to 5.9% (four hikes) in FY23, with additional hikes planned in the current financial year. Further, average 10-year G-sec yields crossed 7.4% in October 2022, from 6.84% in March 2022 and 6.63% in December 2019 (pre-pandemic level) due to elevated domestic inflation, rate hike expectations and higher global bond yields. According to CCIL, the 2-year G-sec yield has moved from 4.16% as of October 21, 2020, to 4.60% as of October 21, 2021, to 7.15% as of October 21, 2022, 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 the last twelve months and touched 74.4%, expanding by ~550 bps y-o-y from the similar fortnight last year (reported November 05, 2021) due to continued faster growth in credit as compared to deposits. Meanwhile, 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.8.19 lakh crore (as of September 23, 2022, as per the latest data released by RBI). The bank credit (including credit investments) to total assets would have been around 79.1% for the fortnight ended November 04, 2022, which was higher by ~500 bps from the fortnight ended November 05, 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.8.19 lakh crore down from Rs.8.55 lakh crore same period last year).

Figure 4: Trend in y-o-y movement

	Nov 06, 2020	Nov 05, 2021	Nov 04, 2022
Credit	4.7%	7.2%	17.0%
Deposit	10.6%	11.6%	8.2%

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.

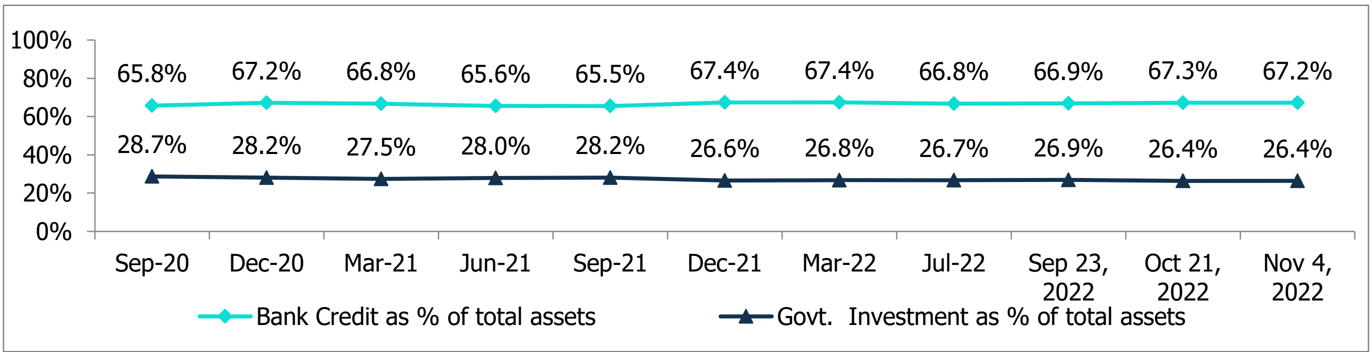
Figure 5: Growth in Credit Almost Overcomes Covid-induced Lag (Rs. Lakh Crore)

	Deposit	Credit
February 28, 2020	133.3	101.0
November 04, 2022	173.7	129.3
Growth over the period	30.3%	27.9%

- With a growth of 27.9% 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 2.6 lakh crores as of November 18, 2022, as compared to just Rs 0.55 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 strong credit demand, and comparatively lower liquidity in the market.

Proportion of Govt. Investments to Total Assets Steady

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 stood at 67.2%, decreasing marginally by ~8 bps compared to the fortnight ended October 21, 2022, and increased by ~175 bps when compared with the same fortnight last year (reported November 05, 2021) due to higher credit growth.
- Proportion of Govt. investment to total assets rose marginally by 3 bps for the fortnight ended November 04, 2022, compared to the previous fortnight (reported October 21, 2022). The Govt. investments stood at Rs.50.8 lakh crore as of November 04, 2022, reporting an 8.4% y-o-y growth.

Growth in O/s CDs Remains Elevated, meanwhile, O/s CPs declines

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%
Nov 18, 2022	257.6	363.3%

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

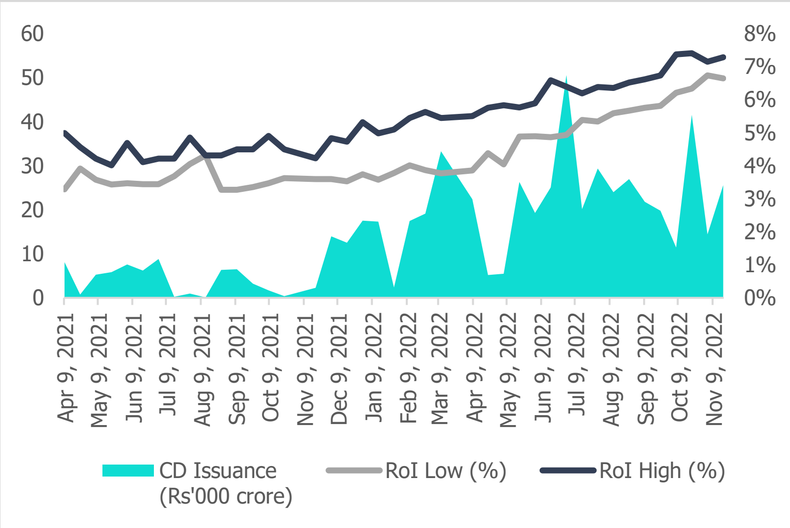
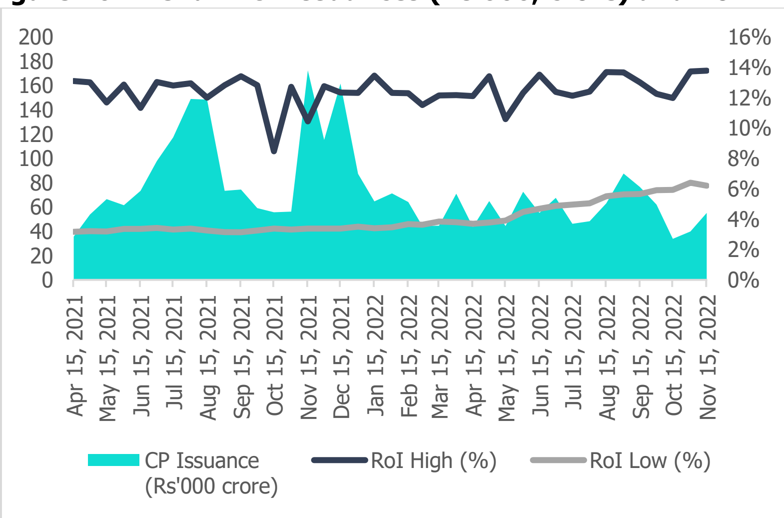


Figure 9: Commercial Paper Outstanding

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 15, 2022	381.5	-15.4%

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

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 / +91-900 495 2514
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91-22-6754 3596

CARE Ratings Limited

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

Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect :

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

About:

CareEdge is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics and detailed research. CARE Ratings Ltd, the parent company in the group, is one of the leading credit rating agencies in India. Established in 1993, it has a credible track record of rating companies across multiple sectors and has played a pivotal role in developing the corporate debt market in India. The wholly-owned subsidiaries of CARE Ratings are (I) CARE Advisory, Research & Training Ltd, which offers customised advisory services, credible business research and analytical services (II) CARE Risk Solutions Private Ltd, which provides risk management solutions.