In FY24, Credit Offtake to Continue Rising and Outpacing Deposit Growth

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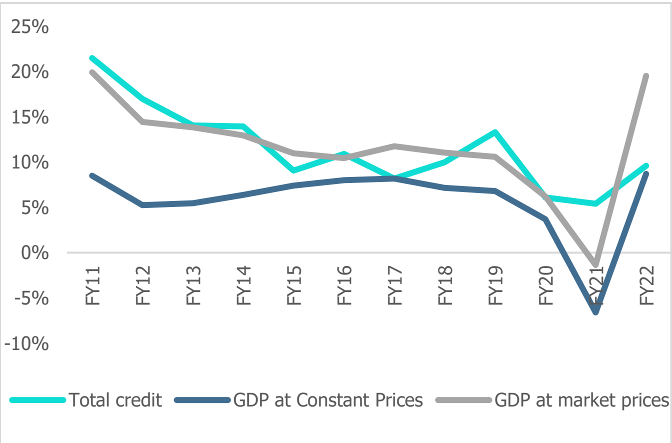
Synopsis

Bank credit growth maintained a double-digit growth and continued to outpace deposit growth in FY23. The personal loans segment has remained the largest segment, along with NBFCs, while the industrial sector reported muted growth. 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 NBFC borrowings and a substantial buffer for provisions. Additionally, given that in FY23, credit offtake closed with a growth of 15%, it would be working off a higher base CareEdge estimates the credit growth to be in the range of 13%-13.5% during FY24 excluding the impact of the merger of HDFC with HDFC Bank, if we include the merger, the growth is likely to be higher by around 3%. However, elevated interest rates and global uncertainties could adversely impact credit growth.

Credit Growth Momentum to Sustain

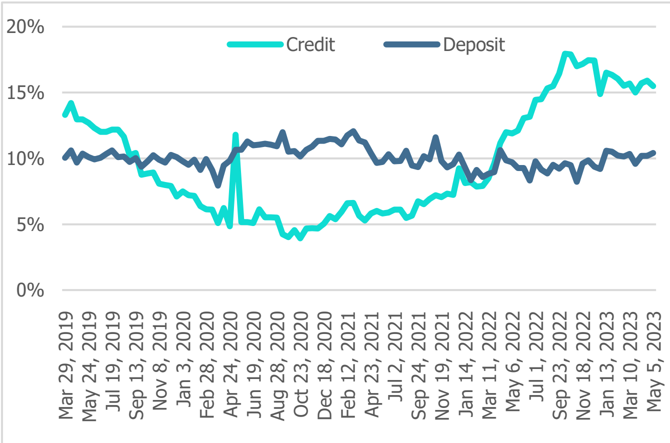
India has a relatively lower level of credit to GDP ratio when compared to other countries and to improve the same, access to credit and the cost of credit need to be addressed. In India, the credit market is dominated by the banking sector with the bond market still in a developing phase. Consequently, 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

Fig 2: Growth in Credit Plays Catch Up to Deposits



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. In FY23, credit offtake rose by 15.0% y-o-y, compared to 9.6% in FY22. In absolute terms, credit outstanding stood at Rs.136.8 lakh crore as of March 24, 2023, rising by Rs.17.8 lakh crore from March 2022 vs 10.4 lakh crore in the same period from the last year. The credit growth has been robust in FY23 driven by a lower base of the last year, unsecured personal loans, housing loans, auto loans, higher demand from NBFCs, higher working capital requirements due to elevated inflation from select industries and depreciation of the Indian Rupee (INR).

Apart from personal loans (driven by the miniaturisation of credit), the major driver of this growth has been the NBFC segment (which had pivoted to the banks given the higher market yields). The recent period has been marked by a structural shift in the performance of India's banking sector with the sector seeing a substantial reduction in the overhang of stressed assets.

Figure 3: Growth in Credit overcomes Covid-induced Lag relative to Deposit growth (Rs. Lakh Crore)

	Deposit	Credit
March 27, 2020	135.7	102.7
March 24, 2023	180.4	136.8
Growth over the period (in abs. terms)	33.0%	33.2%

Source: RBI, CareEdge

On a y-o-y basis, credit growth generally began picking up in H2FY22 and surpassed deposit growth in Q4FY22, since then it has continued the momentum. Meanwhile, in terms of absolute growth, credit offtake rose by 33.2% from March 27, 2020, whereas deposit growth came in at 33%. Credit growth overtook deposit growth in the period. Major growth has been reported in FY23 compared to FY22 and FY21. A part of the funding gap was met via Certificates of Deposits (CDs) as well as avenues like refinance from financial institutions like SIDBI, NABARD, NHB, etc.

The y-o-y credit growth of PSBs at 16.4% (5.6% a year ago) as on March 24, 2023, was lower than that of PVBs at 17.8% (12.8% a year ago), leading to a marginal increase in the share of PVBs in total SCBs' credit over last year. However, the share of PSBs in total SCBs' credit remains the largest among bank-groups.

Further, RBI's Bank Lending Survey released in April also indicates that the surveyed bankers have retained their high optimism on overall loan demand for the better part of FY24 across the major categories of borrowers and also anticipate that loan terms and conditions are expected to remain easy.

Figure 4: Movement in the Annual Growth Rates of Segments (%)

Segment	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
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	15.5
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	5.8
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	19.6
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**	**20.7**

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

Personal loans and NBFCs have been the main growth drivers for the Indian banking sector, as corporate lending has stalled due to NPAs and deleveraging. The personal loan segment (largest segment with a 32.1% share) witnessed a robust growth of 20.6% y-o-y in March 2023 due to strong growth in unsecured loans, vehicle, and home loans. Direct Assignment transactions (sale of loan books) by NBFCs of over Rs 1.7 lakh crore along with co-lending and direct lending have contributed to the growth of which around 80% was taken up by banks. This has resulted in the personal loans segment increasing its share and that is likely to continue to grow further given the focus on the segment.

- Housing loans (share of 47.4% within personal loans) grew by 15.0% y-o-y in March 2023 compared with 12.9% in the year-ago period. Despite reporting healthy growth, the share of housing loans dropped to 47.4%

in the personal loans segment as of March 24, 2023, vs. 49.7% over a year ago as unsecured loans grew at a faster pace. The real estate sector serves as one of the major pillars of the Indian economy due to its contribution to the GDP, employment opportunities and support to other ancillary industries. After seeing a steady recovery from pandemic lows, the sector continues to benefit from the government's overall focus on infrastructure and affordable housing.

- Vehicle loans (a share of 12.3% within personal loans) registered a robust growth of 24.9% y-o-y in March 2023 as compared to 9.3% in the year-ago period. In FY23, passenger vehicles grew by 27%, commercial vehicles by 34%, tractors by 12%, and 3-wheelers by 87% on a y-o-y basis. The growth in sales volume across segments was supported by healthy demand in the urban areas, increasing replacement demand, growing demand for utility vehicles in the passenger vehicle segment, vehicle scrappage policy, and higher infrastructure spending. According to CareEdge Research, the domestic automobile industry's sales volume is expected to grow by 7-9% during FY24. The growth momentum is expected to continue after the robust demand seen in FY23, supported by favourable demand sentiments and various government initiatives for rural and urban development. Passenger vehicles and commercial vehicles are expected to drive demand, while two and three-wheelers will gradually increase sales and cross the pre-pandemic level. This in turn is expected to continue the momentum in vehicle loans. However, vehicle upgrades, inflationary pressure and the mandatory implementation of BS-VI Phase II regulation from April 2024 may lead to significant price hikes across all vehicle segments, potentially affecting demand.

- Unsecured loans reported a robust growth of 26.4% y-o-y in March 2023 due to the miniaturization of credit, digitalization of loans (faster loan turnaround and easier process), and preferences for premium consumer products. Its share increased to 32.6% in the personal loans segment as of March 24, 2023, vs. 31.1% over a year ago. As corporate lending remained subdued, banks have focused on personal loans especially unsecured personal loans to drive growth. Another advantage has been that these loans typically carry relatively higher interest rates, thereby boosting margins.

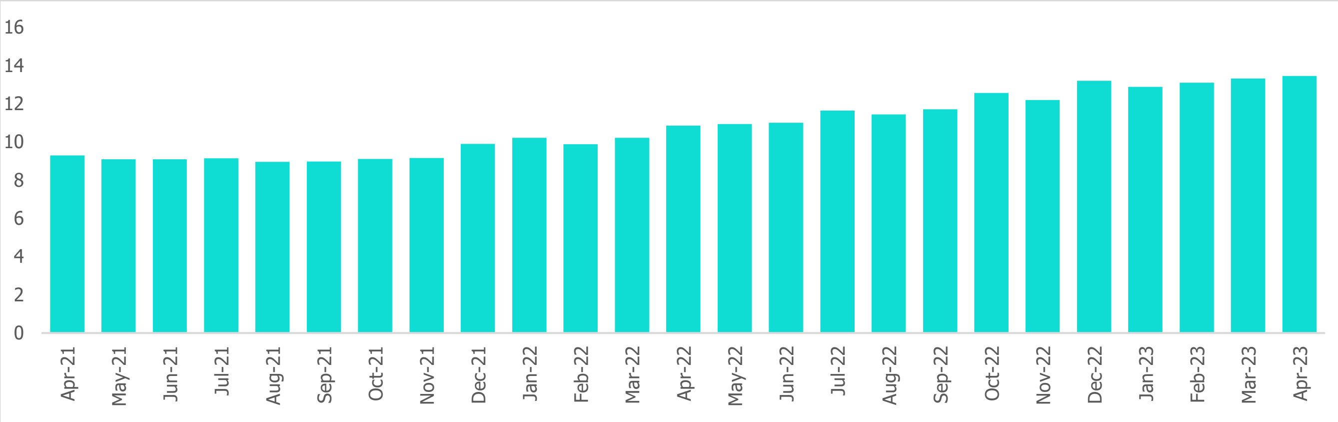
Figure 5: Movement in the Share of Segments (%)

Segment	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Agriculture	13.1	12.7	12.1	12.0	12.8	13.5	14.0	13.4	12.9	12.6	13.2	13.3	13.3
Industry	43.8	45.2	45.8	45.5	44.3	41.7	37.8	35.1	33.4	30.9	29.2	28.6	26.2
Services	24.4	23.8	23.7	24.2	23.5	23.5	25.4	26.7	28.0	28.0	27.6	27.4	28.4
Personal	18.8	18.2	18.4	18.3	19.4	21.3	22.8	24.8	25.7	28.6	29.9	30.7	32.1

Source: RBI, CMIE

The services sector credit growth rose 19.6% y-o-y during March 2023 as compared to 8.7% for the same period of the last year due to growth in the major segments (NBFC and Trade) and the low base. NBFCs shifted on account of elevated capital market yields.

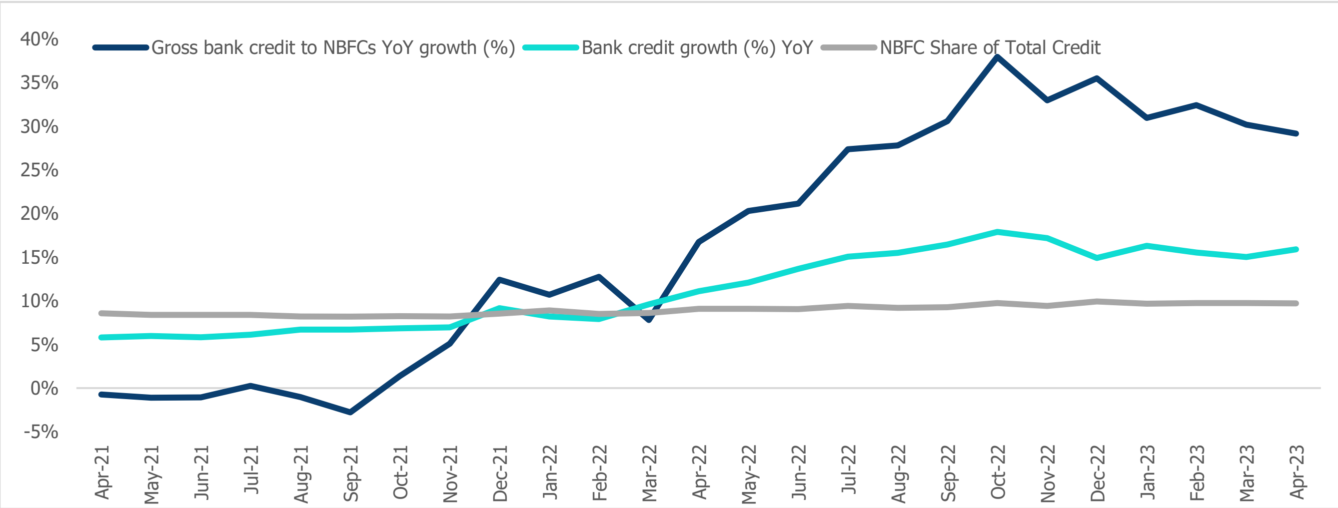
Figure 6: Banks' Loans Exposure to NBFCs (Rs. lakh crore)



Source: RBI

The latter part of FY22 saw healthy growth in bank credit to NBFCs, which continued its upward trajectory in FY23. In April 2023, banks' outstanding credit to non-banking financial companies (NBFCs) rose by 29.2% (y-o-y) to reach Rs.13.5 lakh crore. Compared to February 2018 numbers, absolute bank lending to NBFCs has more than tripled. This growth can be attributed to several factors, including deleveraging in corporate sector leading to subdued demand from most large borrower segments, the improved financial position of NBFCs, limited appetite for NBFCs in the debt capital markets, yield differentials and lower borrowings in the overseas market.

Figure 7: Banks' Loans Exposure to NBFCs (Growth and Share)



Source: RBI

As of April 2023, lending to NBFCs accounted for 7.9% of the incremental lending of aggregate credit. Additionally, NBFC exposure as a percentage of aggregate credit has moved from 9.1% (calculated) in April 2022 to 9.7% (calculated) in April 2023. Hence certain banks may face difficulties in extending further credit to the NBFC sector as they move closer to the sectoral exposure norms. Meanwhile, the merger between HDFC and HDFC Bank is expected to be completed in H1FY24, thereby reducing the exposure to NBFCs (HDFC's bank borrowings of approximately Rs 1.59 lakh crores would be reclassified as now the exposure would be to HDFC Bank (these borrowings are expected to be gradually run down)), hence while in the immediate term, the exposure to NBFCs might dip, the freeing up of limits would enable other NBFCs to borrow from the banking system maintaining the growth in exposure at an aggregate level by the end of FY24.

Figure 8: Growth in Wholesale Credit (%, y-o-y basis)

	PSU					Non-PSU				
	Mar-20	Mar-21	Sep-21	Mar-22	Sep-22	Mar-20	Mar-21	Sep-21	Mar-22	Sep-22
PSB	19.5	5.4	11.9	15.1	22.6	-4.1	-9.0	-9.1	0.0	9.7
PVB	45.1	60.0	20.1	9.0	20.2	-0.8	-6.1	-1.2	13.5	20.6
PSBs + PVBs	22.0	11.7	13.1	14.1	22.2	-2.8	-7.7	-6.0	5.4	14.2

Source: RBI

RBI's analysis of the funded amount of companies, which accounts for 86% of the total funded amount to wholesale borrowers, indicates that during the Covid-19 period, 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). However, Post covid, the pace of borrowing by large private companies remains.

Figure 9: Infrastructure o/s of Banks

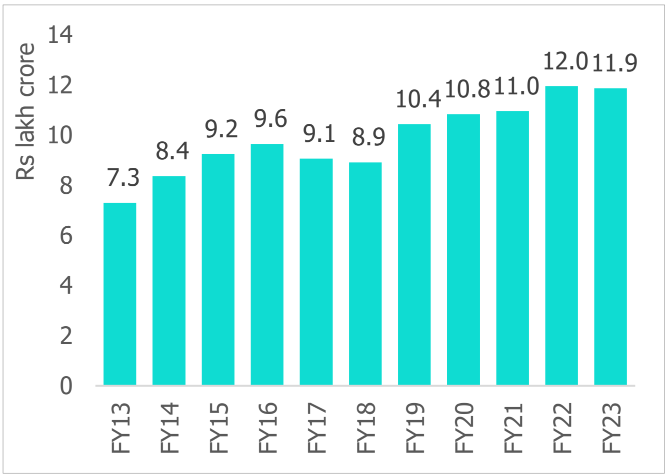
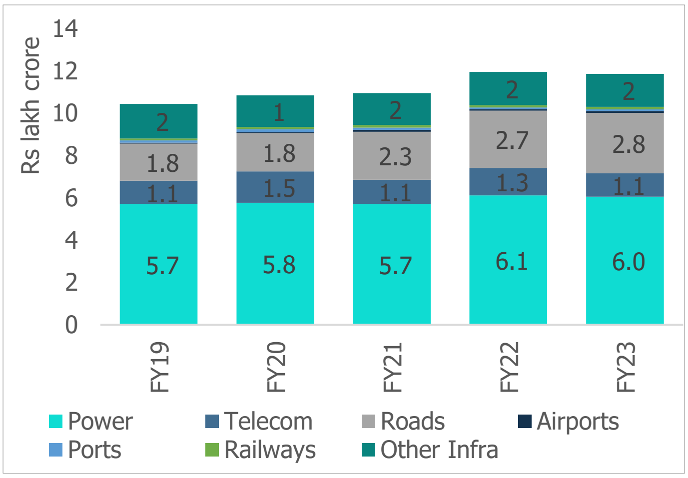


Figure 10: Infra. Sub-segment o/s of Banks



Source: RBI

Banks continue to dominate the infrastructure financing space, with financing for roads being the fastest-growing segment. However, around 50% of the infrastructure bank financing is tied up with the power sector, while ports, railways excluding Indian Railways, and airports are comparatively smaller segments in bank financing. In FY23, the infrastructure sector witnessed a marginal drop as the decrease in Power and Telecom offset the rise in Road sector.

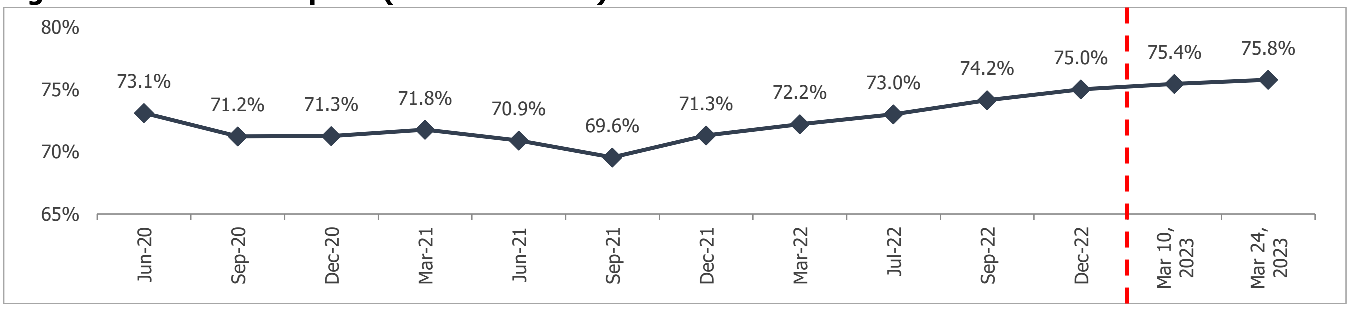
- According to the CareEdge Ratings publication titled '[Thermal Power: To Clock 64.8% PLF in FY24 as Peak Demand to Grow by 6%]', thermal power generation accounted for approximately 73% of total generation in India during FY22, and similar levels are expected for FY23. The contribution is likely to be around 72% in FY24. Hence thermal power plants are expected to remain important energy sources. With India setting up an ambitious target of achieving 500 GW of non-fossil fuel generating capacity by 2030, the regulatory framework is expected to remain supportive. The MNRE has given a bidding trajectory of 50 GW by central off-takers, which is expected to lead to continued greenfield capacity expansion in the sector. Further, the tariff competitiveness for RE projects remains high as against conventional energy and the investor interest remains buoyant. India has developed considerable plain vanilla solar and wind capacity thus far and the ability to scale up utility-scale storage/battery-based projects would be critical for the growth of the sector as the same could aid in meeting the base load requirements of the country. This is expected to continue to drive demand for financing such assets.

- According to the CareEdge Ratings publication titled 'Roads: Offer a Roadmap for Amrit Kaal Growth', the capital outlay for roads to grow from Rs 4.10 lakh crore in FY23 to Rs 5.85 lakh crore in FY25, implying a healthy CAGR of 19%. However, hurdles such as increased cost of land acquisition, and heightened competition leading to elevated funding challenges hinder the sector's progress. Nevertheless, the sector presents significant monetization potential through an increased portfolio of HAM assets and the length of NHAI's EPC projects. CareEdge Ratings estimates a monetization potential of HAM projects with an enterprise value of Rs. 2.00-2.50 lakh crore over FY24-FY27. Additionally, an EPC length of 4,000-4,500 km is expected to be operational for NHAI each year, which can potentially be transferred to InvIT. The credit perspective for the sector has remained stable with a positive bias, thanks to a satisfactory operational track record and the visibility of many project awards, offering significant refinancing potential.

Deposits Continue to Grow Slower than Credit Offtake

Deposits registered a growth of 9.6% y-o-y for March 24, 2023. Time deposits grew by 10.2% y-o-y, while demand deposits rose by 5.2% vs. 8.6% and 11.4% y-o-y, respectively, as on March 25, 2022. Meanwhile, in absolute terms, bank deposits have increased by Rs.15.8 lakh crore from March 2022. With liability franchises gaining importance, due to a high credit-deposit growth gap, bank deposit rates have risen, and deposit growth would continue to be monitored.

Figure 11: 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 generally trending upward since November 2021 and reached 75.8% by FY23 end, expanding by ~350 bps y-o-y from March 25, 2022, due to continued faster growth in credit as compared to deposits. The CD ratio has been hovering near the pre-pandemic level of 75.8% in Feb 2020 and 75.7% in March 2020. Although deposits growth has trailed credit offtake, the liquidity mismatch has been narrowing and the annual incremental credit-deposit (C-D) ratio has come down from its recent high of 141.8% in November 2022 to 94.7% on June 02, 2023.

Figure 12: Movement in CASA Share

CASA (%)	FY18	FY19	FY20	FY21	FY22	FY23
PSB	40.8%	41.7%	41.5%	43.2%	43.7%	42.1%
PVB	44.4%	42.4%	42.3%	45.3%	47.0%	45.0%
SCB	**42.2%**	**42.2%**	**42.1%**	**44.1%**	**45.1%**	**43.1%**

Source: RBI

A higher CASA ratio means the higher portion of the deposits of the bank has come from current and savings deposits, which is generally a cheaper source of funds. Many banks don't pay interest on the current account deposits and money lying in the savings accounts attracts a limited interest rate. Hence, a higher CASA ratio means a better net interest margin, which means better profitability for the bank. The rising deposit rates have incentivised banking customers to increase their term deposits, thereby reducing the CASA share in the banking system. This reduction is also expected to increase the cost of deposits thereby pressuring NIMs.

CareEdge View

CareEdge Economics expects the GDP growth to moderate to 6.5% in FY24 (revised upwards from 6.1% earlier) from 7.2% in FY23. This is due to a combination of factors such as normalisation of the base, slowing external demand and uncertain financial conditions. As the post-pandemic spurt in economic activities cools, we could witness some moderation in domestic urban demand. Additionally, high core inflation could restrain spending on discretionary items by urban consumers. However, a gradual pick-up in rural demand on the expectation of lower food inflation (food forms a larger portion of the rural consumer basket) and higher rural wages will support overall consumption demand. Having said that, the development of El-Nino conditions during the monsoon season remains a key risk for agriculture production and rural income.

The outlook for bank credit offtake continued to be positive due to the economic expansion, rise in capital expenditure, implementation of the PLI scheme, and retail credit push. The growth has been broad-based across the segments. The Personal loan segment is expected to continue doing well compared with the industry and service segments. The medium-term prospects look promising with diminished corporate stress and a substantial buffer for provisions. This growth would be coming off a high base in FY23 which would impinge marginally on the growth rate. Hence, based on GDP forecasts, sectoral credit growth expectations, and management expectations, CareEdge estimates the credit growth to be in the range of 13%-13.5% during FY24 excluding the impact of the merger of HDFC with HDFC Bank, if we include the merger, the growth is likely to be higher by around 3%. However, elevated interest rates and global uncertainties could adversely impact credit growth. Further ebbing inflation could also reduce the working capital demand.

Deposit growth is expected to improve in FY24 compared to the growth in FY23, as banks offer higher rates (lagged transmission compared to lending rates) to shore up their liability franchise and ensure that lagging deposit growth does not constrain the credit offtake. Hence, based on GDP forecasts and management expectations, CareEdge estimates the deposit growth to be in the range of 10-10.5% during FY24.

Further, as the credit offtake moderates compared to the last year but remains higher compared to the increasing deposit growth, the Credit to Deposit Ratio is also slated to continue its expansion and reach around 77.5-78% by FY24.

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