Credit Offtake Rises 16% in Q4FY23, Deposits Grow Slower at 10%

July 19, 2023 l BFSI Research

Synopsis

- Credit offtake rose by 16.3% year on year (y-o-y) for the last quarter of FY23. In absolute terms, credit expanded by Rs.19.3 lakh crore from March 2022. It has been driven by sustained personal loan demand and robust growth in Finance space.
- Deposits saw a slower growth at 10.2% compared to credit due to rise in rates and lower liquidity seen in 1st couple of months of the quarter.
  - Scheduled Commercial Banks' (SCBs) growth in term deposits outperformed current account and saving account (CASA) growth.
- Over the last couple of years, (i.e., from March 2020) credit offtake has mostly overcome the Covid-induced lag and has grown by around 35.8% to almost catch up with deposit growth of 36.6% over the same period.
- The Credit Deposit (CD) ratio of SCBs rose by 390 bps y-o-y in Q4FY23 due to higher credit growth and reached 75.9% at the end of March 2023. PSBs reported the highest rise of 410 bps in their CD ratio to 69.8%.

SCBs Credit Offtake Continues to Outpace Deposit Growth

Figure 1: Share in total Deposits and Credit %

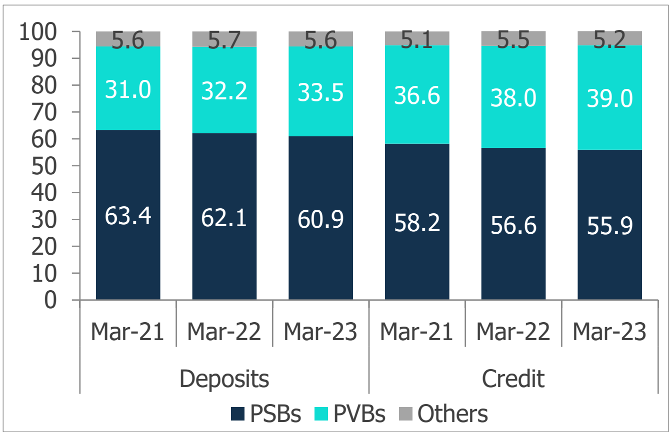
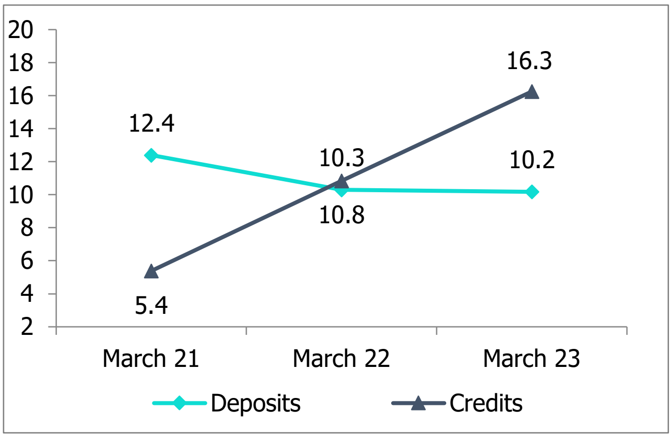


Figure 2: SCBs Growth Trend (y-o-y, %)



Note: Data excluding RRBs Source: RBI

- The outstanding credit reached Rs 137.8 lakh crore as of March 31, 2023, registering a growth of 16.3% y-o-y as compared to 5.4% in Q4FY21.
- Outstanding deposits reached Rs.181.5 lakh crore as of March 31, 2023, registering a 10.2% growth y-o-y as compared to 12.4% in Q4FY21. Overall deposits of PVBs rose in double digits, whereas PSBs reported a growth of 8.1%. Term deposits saw a double-digit growth & outpaced CASA.
- Over the last couple of years, (i.e., from March 2020) credit offtake has mostly overcome the Covid-induced lag and has grown by around 35.8% to almost catch up with deposit growth of 36.7% over the period.

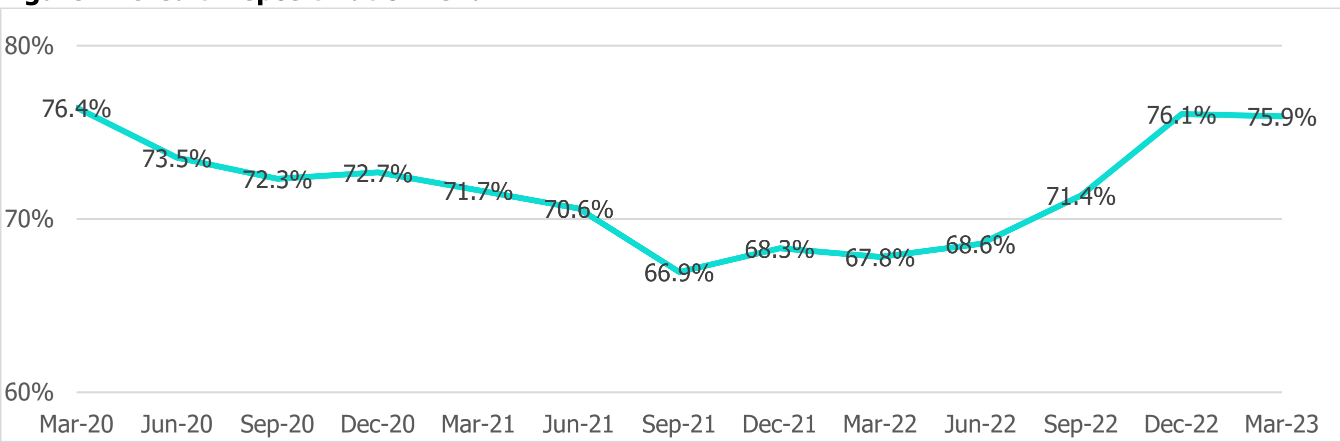
Figure 3: Growth in March 2023 vs. March 2020.

Credit			Deposits		
Group	**Credit Outs. Mar-23 (Rs. Lakh-Cr.)**	**Abs. Growth from Mar-20 (%)**	**Group**	**Dep. Outs. Mar-23(Rs. Lakh-Cr.)**	**Abs. Growth from Mar-20 (%)**
PSB	74.1	28.2	PSB	110.5	29.0
PVB	50.4	48.9	PVB	60.7	52.4
Others	7.0	33.2	Others	10.2	41.4
SCB	**131.8**	**35.8**	**SCB**	**181.5**	**36.7**

Note: Data excluding RRBs; Others include FBs & SFBs Source: RBI.

- Credit growth for almost all categories still lags the deposit growth when taken from the pre-Covid period (taken as of March 2020). In terms of credit and deposit growth, PVBs grew faster than PSBs. However, PSBs' sustained performance for credit growth in the coming quarters is expected to slow the pace of gaining share by PVBs. SFBs saw a significant increase due to lower base effect.
- The credit demand for the metro group is expected to rise due to new capex build-out by corporates and improvement in their utilisation, consequently helping to improve the share going forward.
- SCBs term deposit growth outperformed CASA deposit growth in the quarter and is expected to gain pace going forward due to a rise in term deposit rates, causing a drop in CASA ratio.
- SCBs deposit and borrowing rates are expected to expand due to a lagged effect compared to the repo rate, strong underlying credit demand, lower liquidity in the banking system, the spread in credit and deposit widened and credit push by the banks in H2FY23.
- The small SCBs are expected to pay higher deposit rates compared to the large PVBs and PSBs due to intensified competition for raising deposits amid a rising interest rate scenario.

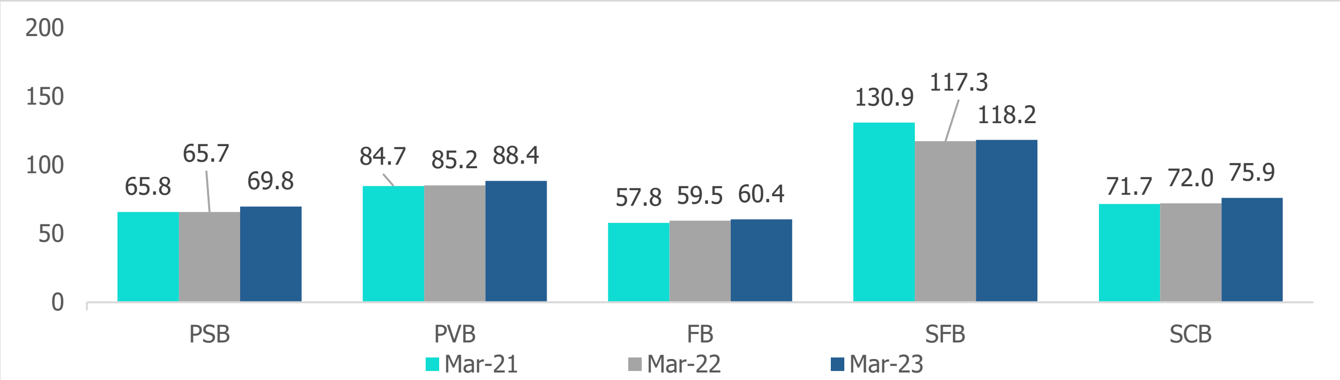
Figure 4: Credit-Deposit Ratio Trend



Note: Data excluding RRBs Source: RBI

- The Credit to Deposit (CD) ratio has been increasing since October 2021. In Q4FY23, all groups expanded their CD ratio as the credit growth was much higher than the deposit growth. PVBs & SFBs being the biggest drivers.

Figure 5: Bank Group-Wise CDR (%)



Note: Data excluding RRBs Source: RBI

- The Credit to Deposit (CD) ratio has been increasing since October 2021. In Q4FY23, all groups expanded their CD ratio as the credit growth was much higher than the deposit growth.
- PSBs reported the highest rise of 420 bps y-o-y in their CD ratio reaching 69.8% as of March 31, 2023.

Figure 6: Region-wise Credit Deposit Ratio

Region	Mar-20	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
North-east	45.1	44.9	46.6	47.5	49.1	48.6
Eastern	43.7	42.1	42.6	43.6	43.9	44.5
Central	51.9	49.9	51.2	50.9	52.6	52.9
Northern	84.9	74.6	74.6	74.0	74.8	74.2
Southern	90.7	83.6	85.4	87.1	88.4	88.7
Western	95.0	85.3	88.8	91.8	92.9	92.4

Note: Data excluding RRBs Source: RBI

- Western region having highest CD ratio saw a robust growth of 690 bps y-o-y, However, Northern region was the only outlier which saw a decline of 40 bps compared to Q4FY22.
- North-East and Eastern regions continue to maintain a CD ratio lower than 50%.

Figure 7: Population-wise Group Credit Deposit Ratio

Population Group	Mar-20	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Urban	54.5	55.9	56.8	57.7	59.2	59.7
Semi-urban	56.1	60.4	61.1	62.5	63.9	65.7
Rural	55.5	61.6	62.1	62.7	64.2	65.3
Metropolitan	96.2	83.7	86.3	87.6	88.5	87.2
Total	**76.4**	**72.0**	**73.7**	**74.9**	**76.0**	**75.9**

Note: Data excluding RRBs Source: RBI

- CD Ratio on q-o-q basis dropped marginally by 10 bps after continuous growth after October 2021, this can be mainly attributed to rise in deposits caused due to withdrawal of Rs. 2000 notes by Government of India.
- Metropolitan saw a significant drop in CD ratio by 120 bps points compared to Q4FY24, however, the uptick from other segments normalized the overall downtick.

Credit

Figure 8: Bank group-wise outstanding credit

Credit	Mar-20	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Growth %	
Bank Group	Rs lakh crore						**Vs March 20**	**y-o-y**
PSB	60.1	67.1	68.6	71.3	74.1	77.1	28.2	14.8
PVB	36.1	45.1	46.0	48.8	50.4	53.7	48.9	19.1
FB	4.3	4.9	5.1	5.2	5.2	5.1	17.6	4.0
SFB	0.9	1.4	1.5	1.6	1.8	1.9	106.6	36.3
SCB	101.5	118.5	121.2	126.9	131.4	137.8	**35.8**	**16.3**

Note: Data excluding RRBs Source: RBI

- PVBs reported a strong credit growth of 19.1% as compared to 15.1% last year, in absolute terms PVBs credit expanded by Rs. 8.6 lakh crore reaching Rs. 53.7 lakh crore in Q4FY23 over a year ago. Compared to Q4FY20 on aggregate basis, PVBs grew approx. to 1.5X outperforming PSBs by a significant margin.
- PSBs reported a healthy rise of 14.8% as compared to 7.8% over a year ago period due to retail credit, inflation-included working capital requirement and MSME driven by ECLGS. In absolute terms, credit expanded by Rs.10.0 lakh crore to Rs. 77.1 lakh crore in Q4FY23.
- In terms of credit performance, PVBs outperformed by a significant margin of 420 bps in Q4FY23. It also gained the market share from FBs and PSBs by 92 bps y-o-y and reached 39.0% due to higher retail credit growth and aggressively capturing of the credit market.

Region

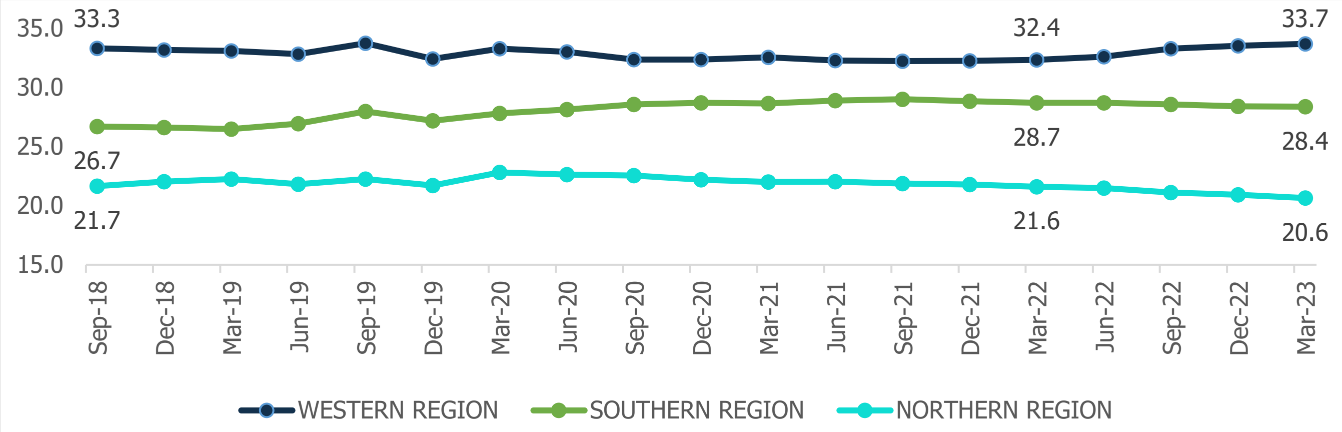
Figure 9: Region-wise Outstanding credit

Credit	Mar-20	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Growth %	
	Rs lakh crore						**Vs March 20**	**y-o-y**
Northern	23.2	25.6	26.1	26.8	27.5	28.4	22.9	11.0
North-east	1.0	1.3	1.3	1.4	1.4	1.5	53.5	18.2
Eastern	7.0	8.6	8.7	9.1	9.3	9.9	40.2	14.5
Central	8.3	10.6	10.9	11.2	11.8	12.4	49.7	16.5
Western	33.8	38.4	39.6	42.3	44.1	46.4	37.5	21.1
Southern	28.2	34.0	34.8	36.3	37.3	39.1	38.5	14.9
Total	**101.5**	**118.6**	**121.3**	**126.9**	**131.4**	**137.8**	**35.8**	**16.3**

Note: Data excluding RRBs Source: RBI

- In terms of regional performance, the western region reported the highest growth at 21.1% y-o-y and reached Rs.46.4 lakh crore. Northern region, however, was the underperformer growing moderately at 11.0%.

Figure 10: Regional Market Share Trend (%)



Note: Data excluding RRBs Source: RBI

- The Western region accounted for the largest share at 33.7% as of March 31, 2023, and gained the market share by 135 bps y-o-y. The Northern region accounted for a 20.6% share of the total outstanding credit and lost market share by 96 bps. The Southern region held a 28.4% share and it too lost market share by 33 bps.

Population

Figure 11: Group-Wise Outstanding Credit

Credit	Mar-20	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Growth %	
	Rs lakh crore						Vs March 20	y-o-y
Metropolitan	66.1	73.7	75.5	79.2	81.6	85.2	28.9	15.5
Urban	15.8	19.9	20.4	21.4	22.3	23.5	48.4	17.9
Semi-urban	12.3	15.7	16.0	16.7	17.4	18.5	49.7	17.6
Rural	7.2	9.2	9.3	9.6	10.1	10.7	47.2	15.8
Total	**101.5**	**118.6**	**121.3**	**126.9**	**131.4**	**137.8**	**35.8**	**16.3**

Note: Data excludes RRBs; Guidelines for Identifying Census Centres, Population: Rural: >10,000, Semi-Urban: 10,000-1 lakh, Urban: 1lakh -10 lakh, Metropolitan- 10 lakh and above Source: RBI

- In terms of credit market share, the urban segment gained the market share by 25 bps to 17.1% in Q4FY23 followed by semi-urban by 16 bps to 13.4%, whereas metropolitan (held the largest market share of 61.8%) and rural (held the smallest market share of 7.7%) lost the market share by 38 and 3 bps, respectively.

Deposits

Figure 12: SCBs Deposits Growth (%), y-o-y

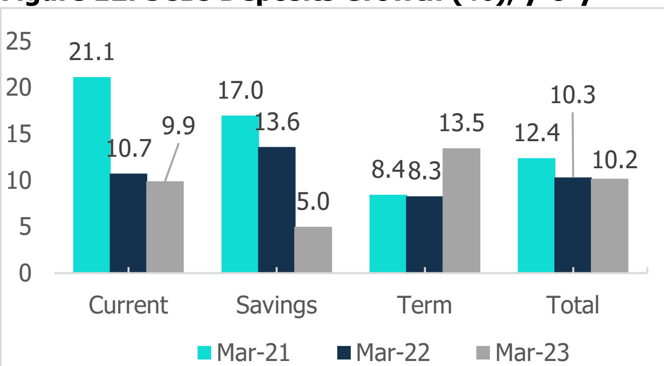
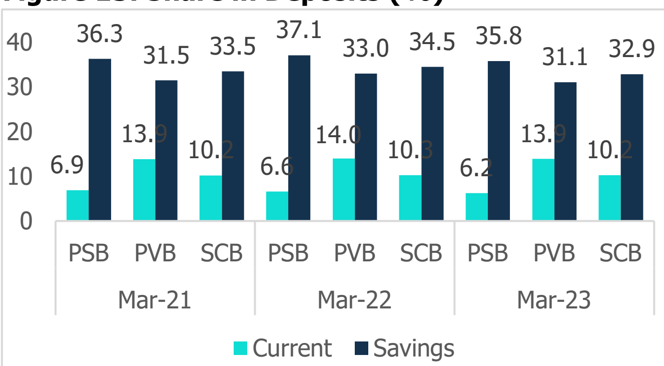


Figure 13: Share in Deposits (%)



Note: Data excluding RRBs Source: RBI

- SCBs term account deposits rose 13.5% y-o-y in Q4FY23 vs. 8.3% in the year-ago period due to a rise in interest rates on deposits driven by the elevated inflation. Term deposits outperformed other segments drastically due to growth in interest rates. In absolute terms, it increased by Rs.12.2 lakh crore from March 2022 and reached Rs.103.2 lakh crore as of March 31, 2023. Term deposits gained around 160 bps points and had a market share of 56.9% as of March 31, 2023.
- Saving account deposits witnessed a moderate growth of 5.0% y-o-y in Q4FY23 vs 13.6% over a year ago period. In absolute terms, it increased by Rs.2.8 lakh crore in Q4FY23 over Q4FY22 and reached Rs.60.0 lakh crore as of March 31, 2023. The segment lost market share by 60 bps y-o-y in Q4FY23 and held a share of 32.9% of the total deposits as of March 31, 2023. Saving accounts and current accounts reported lower growth compared to the previous year in the same period.

Figure 14: Bank Group-wise Deposits

Deposits	Mar-20	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Growth %	
	Rs lakh crore						Vs March 20	y-o-y
PSB	85.7	102.2	101.6	104.4	106.0	110.5	29.0	8.1
PVB	39.9	52.9	53.2	54.9	56.7	60.7	52.4	14.8
FB	6.6	8.3	8.5	8.6	8.6	8.5	28.3	2.5
SFB	0.6	1.2	1.3	1.4	1.5	1.6	162.9	35.3
SCB	**132.8**	**164.6**	**164.5**	**169.4**	**172.8**	**181.5**	**36.7**	**10.2**

Note: Data excluding RRBs Source: RBI

- PVBs deposits saw a healthy growth of 14.8% in Q4FY23 due to aggressively increasing deposits from the market to meet the credit demand. In addition, offering higher interest rates on saving accounts helped them to outperform PSBs (8.1%). Compared to Q4FY20 PVBs saw a huge outperformance due to higher retail credit growth.
- In terms of deposits market share, PVBs accounted for a 39.0% share gaining 92 bps y-o-y in Q4FY23, whereas PSBs held a 55.9% share, losing 69 bps y-o-y. PVBs have been continuously gaining market share due to the aggressive acquisition of clients and offering better services.

Figure 15: Bank Group- Wise CASA

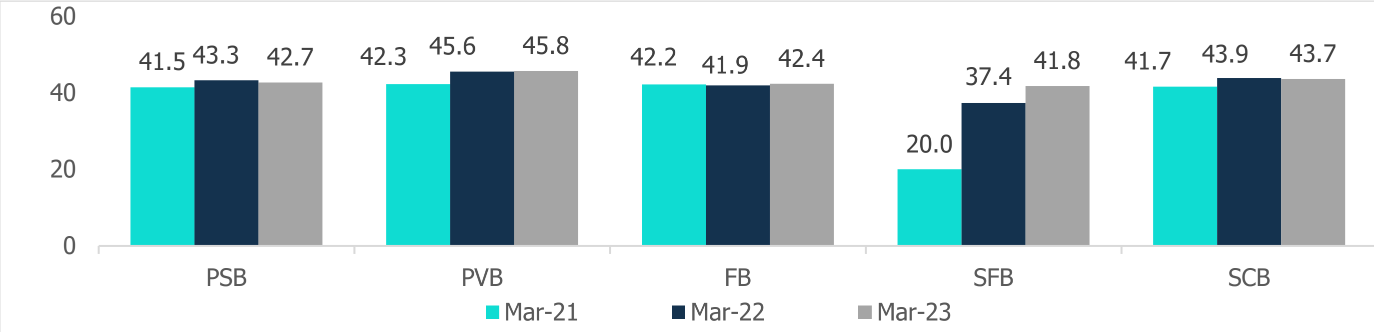
Deposits	Mar-20	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Mar-23	Growth %	
	In lakh Crore						CASA Ratio %	Vs Mar-20	y-o-y
PSB	35.5	44.7	44.0	44.6	44.5	46.5	42.7	30.8	4.0
PVB	16.9	24.9	24.4	25.1	25.2	27.3	45.0	62.1	9.8
FB	2.8	3.6	3.6	3.7	3.6	3.7	43.8	33.3	3.3
SFB	0.1	0.5	0.6	0.6	0.6	0.6	38.3	392.2	25.7
SCB	**55.3**	**73.6**	**72.5**	**74.0**	**73.9**	**78.1**	**43.1**	**41.3**	**6.1**

Note: Data excluding RRBs Source: RBI

- In absolute terms, CASA rose by Rs.4.5 lakh crore in Q4FY23 reaching Rs.78.1 lakh crore as of March 31, 2023. PVBs and PSBs expanded their CASA by Rs.2.4 lakh crore and Rs.1.8 lakh crore, respectively during the quarter. SCBs CASA rose by 6.1% y-o-y primarily driven by PVBs.
- PVBs reported a robust CASA growth at 9.8% y-o-y in Q4FY23 whereas PSBs reported a slower growth at 4.0% due to strong growth in the current account (14.1%) and saving accounts (8.1%).

- SCBs CASA ratio dropped by 160 bps and stood at 43.1% as compared to 44.7% over a year ago. As hike in term deposit rates have caused a significant uptick in term loans.

Figure 16: CASA ratio Trend – Declines by 20 bps y-o-y



Note: Data excluding RRBs Source: RBI

- SCBs CASA ratio declined by 20 bps y-o-y and stood at 43.7% as of March 31, 2023, as compared to 43.9% over a year ago due to a rise in term deposit rates which drove higher growth for the term deposit segment. Further, the term deposit saw growth due to a rise in interest rates. Within this, PVBs reported a healthy expansion of 18 bps y-o-y to 45.8% due to higher retail credit growth and aggressive capturing of the credit market, whereas PSBs dropped by 59 bps y-o-y. SFBs CASA, a small base, ratio expanded massively by 445 bps y-o-y to 41.8% as they offered high rates on term deposits.
- A decline in CASA has impacted the borrowing cost of banks where we can see a gradual increase in cost effectively impacting NIMs negatively.
- As of March 31, 2023, PSBs CASA accounted for 59.5% share of the total CASA and lost the share by 120 bps y-o-y in Q4FY23 to PVBs and SFBs.

Regional Deposits

Figure 17: Trend in Deposits- Region Wise

Deposits	Mar-20	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Growth %	
	Rs lakh Crore						Vs Mar-20	y-o-y
Northern	27.8	34.4	34.9	36.2	36.8	38.3	38.0	11.6
North-east	2.4	2.9	2.8	2.9	2.9	3.1	30.0	9.2
Eastern	17.1	20.5	20.4	20.8	21.2	22.2	30.0	8.4
Central	17.3	21.3	21.2	22.0	22.4	23.5	35.3	10.0
Western	35.7	45.0	44.6	46.0	47.4	50.3	40.7	11.8
Southern	32.4	40.7	40.8	41.6	42.2	44.1	35.8	8.3
Total	**132.8**	**164.7**	**164.7**	**169.5**	**172.9**	**181.5**	**36.7**	**10.2**

Note: Data excluding RRBs Source: RBI

- The Southern region reported deposit growth at 8.3% y-o-y, and it is the lowest growth in the last 15 quarters. Eastern region reported the lowest growth at 8.4%, and it is still below pre-Covid levels.
- Banks in the Western region reported the highest deposit growth at 11.8% y-o-y in Q4FY23 to Rs.50.3 lakh crore vs. 9.7% over the year-ago period. The growth for the Northern region reached pre-Covid levels in the quarter, moreover, it came at 11.6% in Q4FY23 which is the highest growth over the last two years.

Population Group

Figure 18: Population group Wise Deposits

Deposits	Mar-20	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Growth %	
(Population Group)	Rs lakh crore						Vs Mar-20	y-o-y
Metropolitan	85.7	88.1	87.5	90.4	92.3	97.7	42.2	10.9
Urban	39.9	35.7	35.9	37.0	37.7	39.4	35.4	10.3
Semi-urban	6.6	26.0	26.2	26.8	27.2	28.1	27.9	8.1
Rural	0.6	14.9	15.0	15.4	15.7	16.3	25.1	9.2
Total	**132.8**	**164.7**	**164.7**	**169.5**	**172.9**	**181.5**	**36.7**	**10.2**

Note: Data excluding RRBs Source: RBI

- Banks in the Metropolitan reported the highest y-o-y growth at 10.9%. The region has been performing well since Q4FY21 and reporting higher growth than the pre-Covid period. The Urban region too saw a 10.3% deposit growth. The Semi-Urban region reported the lowest deposit growth (within the group) at 8.1%. Metropolitan gained market share in deposits by 32 bps and reached 53.8% as of March 31, 2023.

Conclusion

- In Q4FY23, credit growth continued to be higher as compared to deposit growth. This can be attributed to the base effect as earlier in the pandemic, deposit growth had outpaced credit. The personal loans segment has remained the largest segment, along with NBFCs, while the industrial sector reported muted growth.
- In Q4FY23, credit o/s of Private Banks (PVBs) grew by 19.1%, Public Sector Banks (PSBs) by 14.8% and Small Finance Banks (SFBs) by 36.3%. PVBs outperformed PSBs in Q4FY23, which is expected to continue due to the aggressive acquisition of clients and offering of higher interest rates on deposits.
- Western region (within regions) reported the highest credit growth at 21.1% y-o-y in Q4FY23, while Urban (within population groups) reported the highest credit growth at 17.9% y-o-y in Q4FY23, followed by semi-urban at 17.4%.
- 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.
- SCBs CASA ratio stood at 43.1% as of March 31, 2023, as compared to 44.7% over a year ago. This decline has come about as banks focused on term deposit rates which drove higher growth for the same. Term deposits are expected to grow as banks have been further gradually increasing term deposit rates.
- 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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