

Credit-Deposit Ratio Falls Marginally, HDFC Merger Pushes Credit Growth

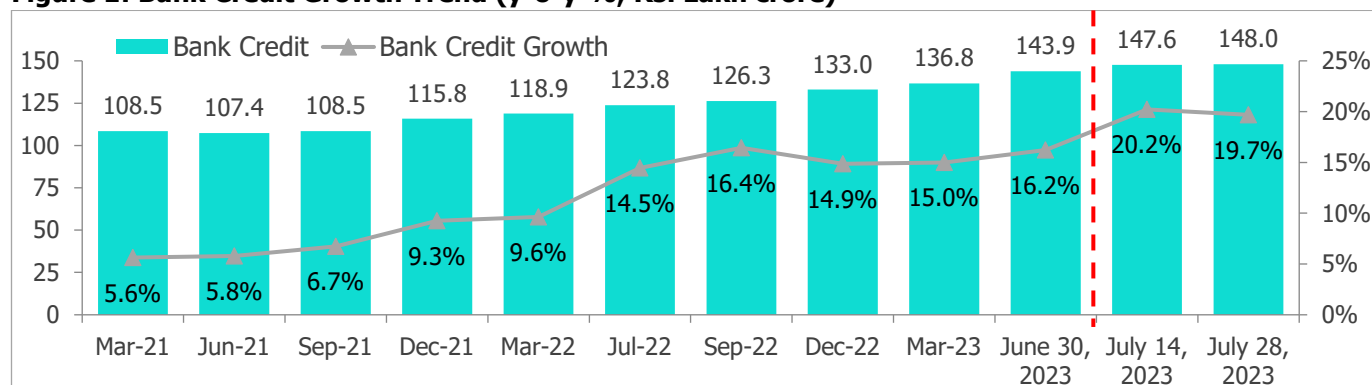
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Synopsis

- Credit offtake continued to show robust growth, increasing by 19.7% year on year (y-o-y) to reach Rs. 148.0 lakh crore for the fortnight ending July 28, 2023. This surge continues to be primarily driven by the impact of HDFC's merger with HDFC Bank, as well as growth in personal loans and NBFCs. Meanwhile, if merger impact is excluded, credit grew at a lower rate of 14.7% y-o-y for the same fortnight.
- Deposits too witnessed healthy growth, increasing by 12.9% y-o-y for the fortnight (including the merger impact). On a pro forma basis, deposits grew by 12.3% y-o-y during the same period. The growth in deposits has not been at the same pace as credit since the larger proportion of liabilities of HDFC was by way of borrowings rather than just deposits.
- The outlook for bank credit offtake remains positive, with a projected growth of 13-13.5% for FY24, excluding the merger's impact.
- Deposit growth is expected to improve in FY24 as banks look to shore up their liability franchise and ensure that deposit growth does not constrain the credit offtake.
- The Short-term Weighted Average Call Rate (WACR) stood at 6.39% as of August 04, 2023, compared to 4.72% on August 05, 2022. Banking system liquidity remained in surplus through the month, at an average monthly surplus of around Rs 1.7 lakh crore in July. A temporary provision of incremental cash reserve ratio for SCBs was introduced to manage liquidity, CareEdge Economics expects this new measure to absorb liquidity worth Rs 1 lakh crore from the system which is also likely to impact short term rates.

Bank Credit Growth Remains Elevated

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

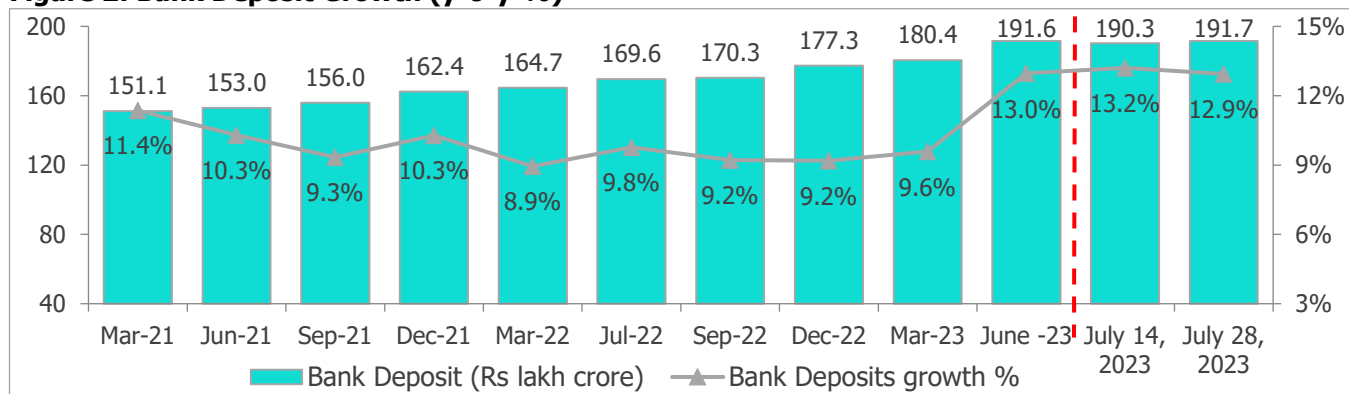


Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Credit offtake increased by 19.7% year on year (y-o-y) and a sequential improvement of 0.3% for the fortnight ended July 28, 2023. It is important to note that the y-o-y figures are not directly comparable, as the data reported by the RBI as of July 28, 2023, includes the impact of the merger of HDFC with HDFC Bank. Excluding the impact of the merger, the growth stood at 14.7% y-o-y for the fortnight, compared to 14.5% in the previous year. This growth was primarily driven by continued demand for personal loans and NBFCs. In absolute terms, credit offtake expanded by Rs. 24.3 lakh crore to reach Rs. 148.0 lakh crore as of July 28, 2023, compared to July 29, 2022.

- The outlook for bank credit offtake remains positive, supported by factors such as economic expansion, increased capital expenditure, the implementation of the PLI scheme, and a push for retail credit. CareEdge estimates that credit growth is likely to be in the range of 13.0%-13.5% for FY24, excluding the impact of the merger of HDFC with HDFC Bank. The personal loan segment is expected to perform well compared to the industry and service segments in FY24. However, elevated interest rates and global uncertainties could potentially impact credit growth in India.

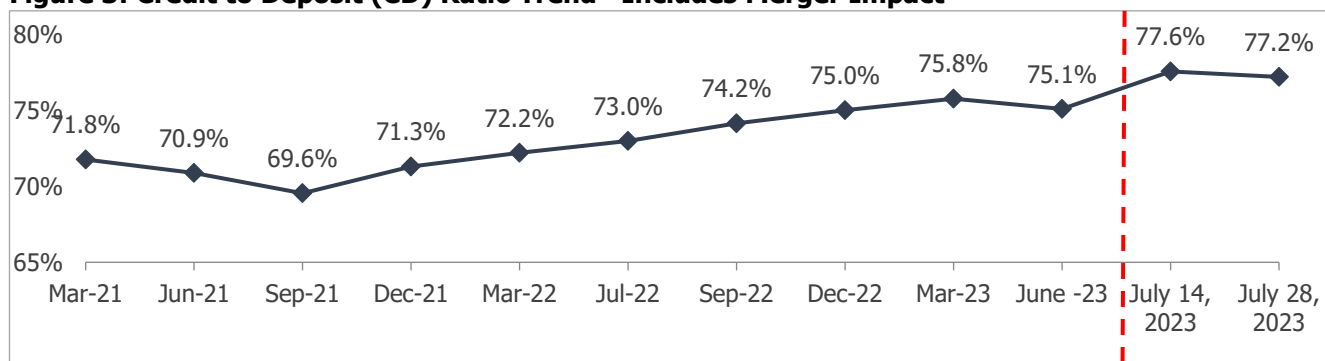
Figure 2: Bank Deposit Growth (y-o-y %)



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

- Deposits rose at 12.9% y-o-y for the fortnight (reported July 28, 2023) and by 0.7% sequentially. Without considering the merger, deposits rose by 12.3% y-o-y. Meanwhile, in absolute terms, bank deposits expanded by Rs. 22.0 lakh crore and reached Rs. 191.7 lakh crore as of July 28, 2023, compared to July 29, 2022. The growth in deposits has not been at the same pace as credit since the larger proportion of liabilities of HDFC was by way of borrowings rather than just deposits.
- In July, banking system liquidity remained in surplus at an average monthly surplus of around Rs 1.7 lakh crore. GST outflows and RBI’s intervention via variable rate reverse repo auctions saw excess liquidity shrink. Surplus liquidity conditions in the fiscal year so far are also in part reflective of healthy government spending. However, a temporary provision of incremental cash reserve ratio for SCBs was introduced to manage liquidity, CareEdge Economics expects this new measure to absorb liquidity worth Rs. 1 lakh crore from the system.

Figure 3: Credit to Deposit (CD) Ratio Trend –Includes Merger Impact



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

- The CD ratio has been generally hovering above 75% since December 2022. The CD ratio saw a decline of 40 bps compared to the previous fortnight and stood at 77.2% in the fortnight (July 28, 2023). However, y-o-y growth was approx. 440bps. (Impacted due to HDFC merger).

Figure 4: Trend in Credit and Deposit Movement (Rs. Lakh crore)

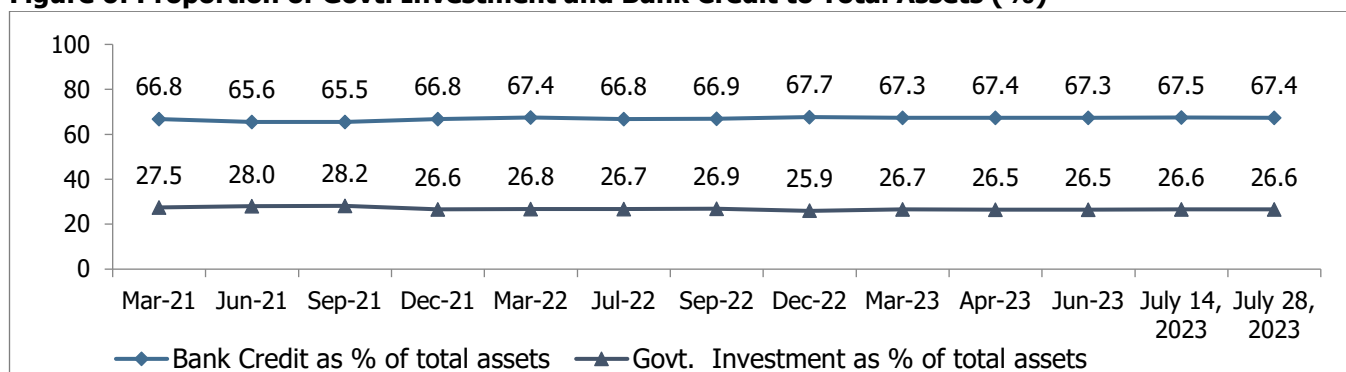
	Last 12 Mths	Last Six Mths	Last Month	Last Fortnight
Credit	24.3	14.7	4.1	0.4
Deposits	22.0	14.5	0.1	1.4

Source: RBI, CareEdge, compared post-merger figures

Figure 5: Trend in y-o-y Movement (%)

	Jul 31, 2020	Jul 30, 2021	July 29, 2022	July 28, 2023
Credit	4.2	6.1	14.5	19.7
Deposit	11.1	9.8	9.1	12.9

Source: RBI, CareEdge, compared post-merger figures

Proportion of Credit to Total Assets Rises, while Govt. Investment to Total Assets Reduces (y-o-y)**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

- Credit to total asset ratio saw a marginal decline of 10 bps compared to the previous fortnight and stood at 77.2% in the fortnight (July 28, 2023). However, y-o-y growth was approx. 440bps. Govt. Investments stood at 58.4 lakh crore as on July 28, 2023, reporting a growth of 16.5% y-o-y and 0.4% sequentially.

O/s CDs and O/s CPs Continue to Remain at Elevated Levels; CPs steadily Rising since April 2023

Figure 7: Certificate of Deposit Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
Mar 11, 2022	154.4	168.9
May 20, 2022	193.0	113.7
July 1, 2022	223.8	222.9
Sep 23, 2022	252.2	318.7
Dec 30, 2022	294.0	247.1
Jan 27, 2023	279.8	180.6
Feb 10, 2023	269.7	139.6
Feb 24, 2023	280.4	120.4
Mar 24, 2023	304.5	50.4
Apr 07, 2023	301.4	49.6
June 30, 2023	297.7	26.5
July 14, 2023	307.0	23.3

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

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

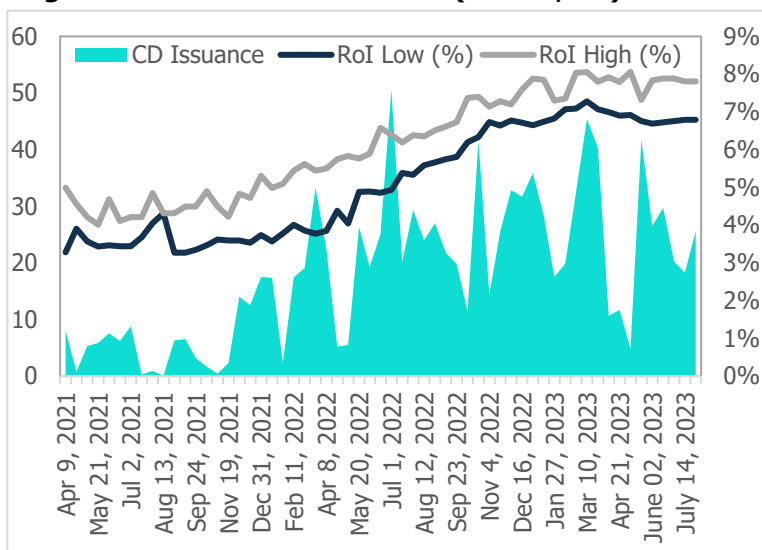
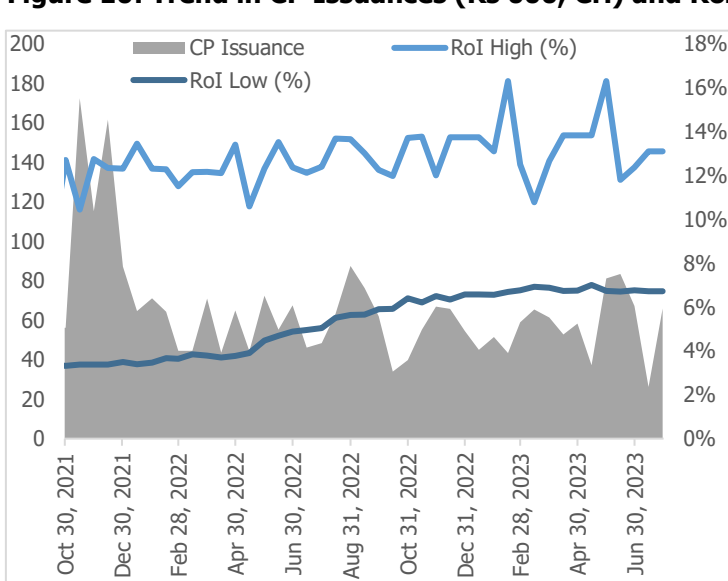


Figure 9: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
Mar 31, 2022	352.3	-3.3
Aug 31, 2022	410.1	4.7
Sep 30, 2022	400.9	8.1
Oct 31, 2022	373.3	-1.6
Dec 31, 2022	359.7	2.7
Jan 31, 2023	363.9	-8.1
Feb 28, 2023	364.5	-0.03
Mar 31, 2023	353.7	0.4
Apr 15, 2023	391.4	11.3
May 31, 2023	433.5	12.7
July 15, 2023	434.8	14.0
July 30, 2023	444.6	18.8

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

Figure 10: Trend in CP Issuances (Rs'000, Cr.) and RoI



RBI Announcements

Announcement	Details
RBI Delivers Hawkish Pause Again, Raises Inflation Projection	<p>Outcome of the Monetary Policy Meeting</p> <ul style="list-style-type: none"> • Policy repo rate unchanged at 6.5% for the third consecutive meeting. • Policy stance maintained at 'withdrawal of accommodation' amid inflationary concerns. • Policy tone displayed a more hawkish inclination compared to the previous two meetings. • FY24 inflation projection revised higher by 30 bps to 5.4%. • FY24 growth projection retained at 6.5%. • A temporary provision of incremental cash reserve ratio for SCBs was introduced to manage liquidity. All banks to maintain with the Reserve Bank of India, effective from the fortnight beginning August 12, 2023, an incremental CRR (I-CRR) of 10 per cent on the increase in NDTL between May 19, 2023 and July 28, 2023. • Amid lingering inflationary concerns, the RBI could opt for an extended pause accompanied by a hawkish stance. • The expectation of a rate cut is likely deferred to the next fiscal year.

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