Credit Offtake Stays Robust at 20.2% as HDFC Merger Boosts Growth

July 31, 2023 I BFSI Research

CareEdge RATINGS

Synopsis

- Credit offtake continued to show robust growth, increasing by 20.2% year on year (y-o-y) to reach Rs. 147.6 lakh crore for the fortnight ending July 14, 2023. This surge was primarily driven by the impact of HDFC's merger with HDFC Bank, which took effect in July 2023, as well as growth in personal loans and NBFCs. However, if we exclude the impact of the merger, credit offtake grew at a slightly lower rate of 14.4% y-o-y in the same fortnight (as reported on July 14, 2023). Looking ahead, the outlook for bank credit offtake remains positive, with a projected growth of 13-3.5% for FY24, excluding the merger's impact. Including the merger, the growth is likely to be higher by approximately 3%. Deposits also witnessed healthy growth, increasing by 13.2% 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 Short-term Weighted Average Call Rate (WACR) stood at 6.48% as of July 14, 2023, compared to 4.46% on July 15, 2022. This increase can be attributed to the elevated policy rates. However, it is worth noting that WACR has reduced from 6.69% as of May 04, 2023, and reached below 6.0% during Q1FY24. The net liquidity position stood at Rs. 1.92 lakh crore as of July 14, 2023, compared to Rs. 1.25 Lakh crore as of June 30, 2023, and Rs. 1.81 Lakh crore as of July 15, 2022.

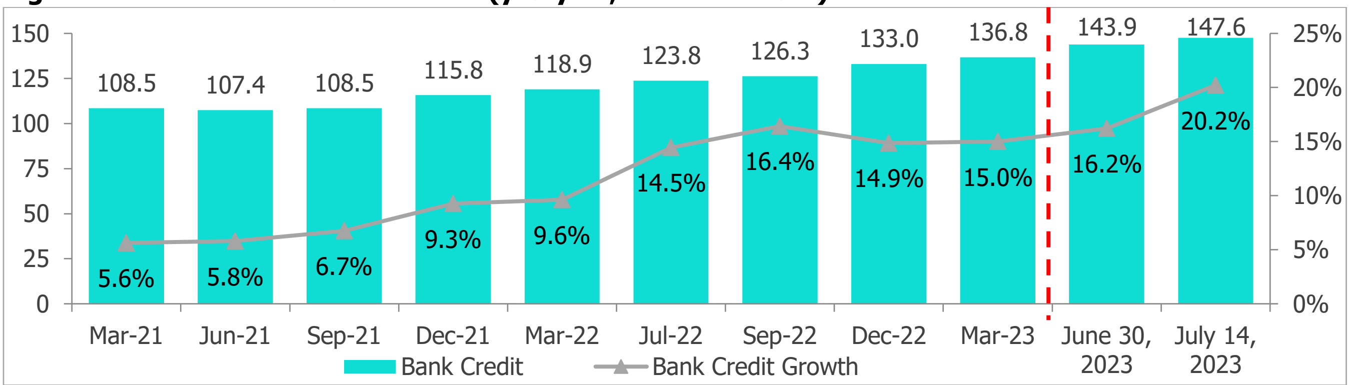
Figure 1: Summary Statistics

	With Merger Effect (%)	Without Merger Effect (%)
Credit Growth (y-o-y)	20.2*	14.4
Credit Growth (sequentially)	2.6*	-2.4
Deposit Growth (y-o-y)	13.2*	12.3
Deposit Growth (sequentially)	-0.7*	-1.5
C/D Ratio (July 14, 2023)	77.6*	74.4
C/D Ratio (June 30, 2023)		75.1

Source: RBI, CareEdge, Note: *Data since July 14, 2023, include the impact of the merger of HDFC with HDFC Bank.

Bank Credit Growth Remains Robust

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

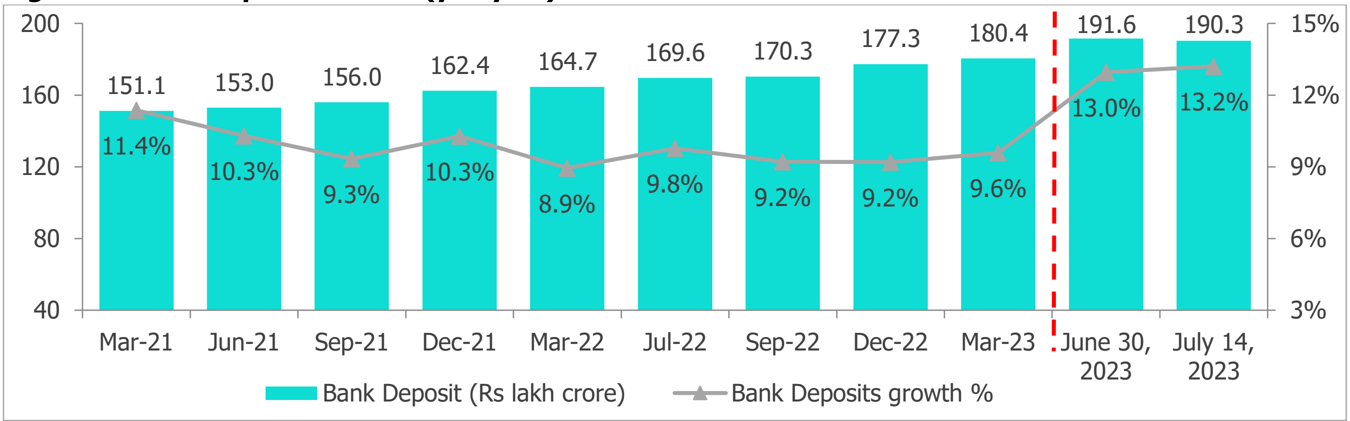


Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Credit offtake increased by 20.2% year on year (y-o-y) for the fortnight ending on July 14, 2023. Additionally, it showed a sequential improvement of 2.6% over the previous fortnight, as reported on June 30, 2023. It is important to note that the growth figures are not directly comparable, as the data reported by the RBI as of July 14, 2023, includes the impact of the merger of HDFC with HDFC Bank. In absolute terms, credit offtake expanded by Rs. 24.8 lakh crore to reach Rs. 147.6 lakh crore as of July 14, 2023, compared to July 15, 2022. Excluding the impact of the merger, the growth stood at 14.4% y-o-y for the fortnight, compared to 14.0% over the same period a year ago. This growth was primarily driven by continued demand for personal loans and NBFCs.

- 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. It is important to consider that this growth would be coming off a high base in FY23, which might have a marginal impact on the growth rate. CareEdge has forecasted GDP growth at 6.5% in FY24 (revised upwards from 6.1% earlier) compared to 7.2% in FY23. Based on GDP forecasts and sectoral credit growth expectations, 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. If the merger is included, the growth rate is expected to be higher by approximately 3.0%. 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. Moreover, a reduction in inflation could also lead to decreased working capital demand.

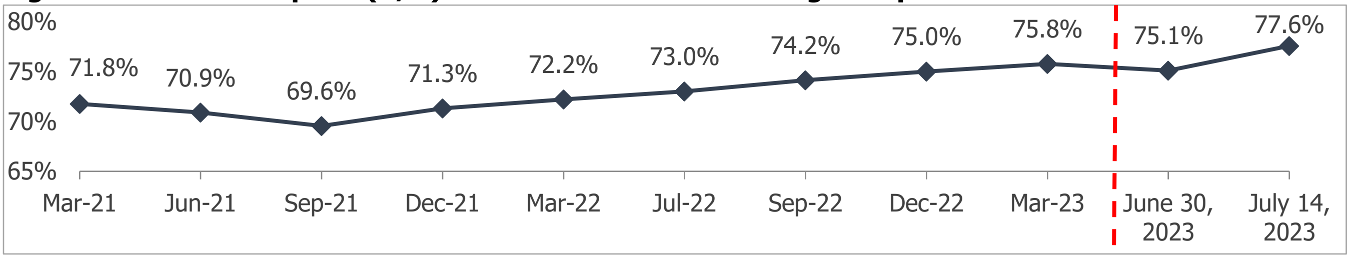
Figure 3: Bank Deposit Growth (y-o-y %)



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

- Considering the impact of the merger, deposits rose at 13.2% y-o-y the fortnight (reported July 14, 2023). However, it declined by 0.7% sequentially. Meanwhile, in absolute terms, bank deposits expanded by Rs. 22.0 lakh crore and reached Rs. 190.3 lakh crore as of July 14, 2023, from July 15, 2022. Without considering the merger, deposits rose by 12.3% y-o-y. However, it dropped by 1.5% from the previous immediate fortnight (reported June 14, 2023).

Figure 4: Credit to Deposit (C/D) Ratio Trend –Includes Merger Impact



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

- The C/D ratio has been generally trending upward since the later part of FY22 and generally hovering above 75% since December 2022. Considering the impact of the merger, the CD ratio stood at 77.6% in the fortnight (July 14, 2023). It was also attributable to faster y-oy growth in credit compared to deposits. Without the impact of the merger, the C/D ratio rose by 130 bps y-o-y to 74.5% as of July 14, 2017. Albeit it dropped by 70 bps from the immediate fortnight (reported June 30, 2023).

- On the other hand, the incremental C/D ratio declined to 44.3% as of July 14, 2023, as the merger impacted the figures. if we excluded the merger impact, C/D ratio stood at 110.4% in the fortnight as compared to 64.5% in the previous fortnight (June 30, 2023)

Figure 5: Trend in Credit and Deposit Movement (Rs. Lakh crore)

	Last 12 Mths	Last Six Mths	Last Month	Last Fortnight
Credit**	20.2	11.2	5.3	2.6
Deposits**	22.2	13.6	4.6	-1.3

Source: RBI, CareEdge, compared post-merger figures

Figure 6: Trend in y-o-y Movement (%)

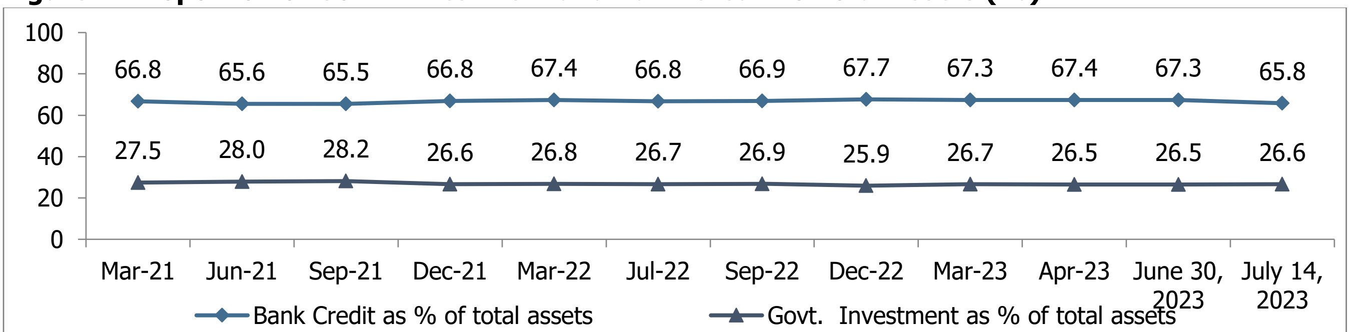
	Jul 17, 2020	Jul 16, 2021	July 15, 2022	July 14, 2023
Credit	4.7	6.2	14.0	20.2**
Deposit	10.8	10.7	8.4	13.2**

Source: RBI, CareEdge, compared post-merger figures

- In terms of absolute growth, as of July 14, 2023, credit offtake rose by 43.8% from March 27, 2020, whereas deposit growth came slightly lower at 40.2%.

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

Figure 7: 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 dropped by 71 bps y-o-y to 65.8% in the fortnight (reported July 14, 2023). It also dropped by 153 bps from the immediately preceding fortnight. Government Investments to total assets decreased by 43 bps y-o-y to 26.6% in the fortnight, as assets increased due to the merger. However, it also rose marginally by 10 bps from the immediate fortnight. The Govt. investments stood at Rs.58.1 lakh crore as on July 14, 2023, reporting a growth of 16.6% y-o-y and 2.5% over the previous fortnight.

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

Figure 8: 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	287.2	28.3
July 14, 2023	297.7	26.5

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

Figure 9: Trend in CD Issuances (Rs'000, Cr.) and RoI

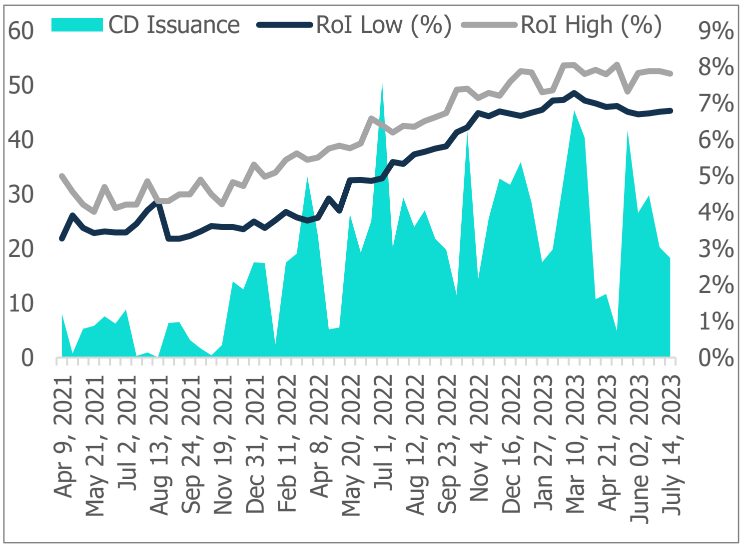
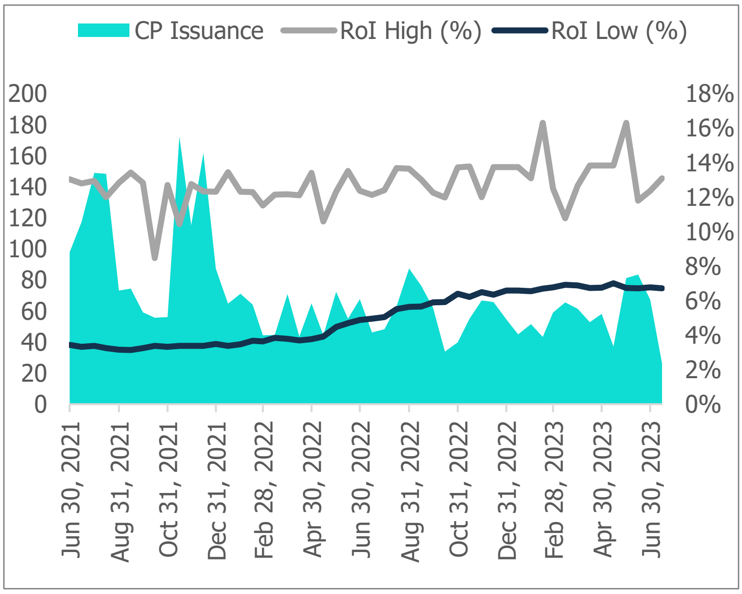


Figure 10: Commercial Paper Outstanding

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%
June 30, 2023	422.2	16.3%
July 14, 2023	434.8	14.0%

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

Figure 11: Trend in CP Issuances (Rs'000, Cr.) and RoI



RBI Announcements

Announcement	Details
RBI releases 'Master Direction on Minimum Capital Requirements for Operational Risk'	• The Reserve Bank of India has issued the Master Direction on Minimum Capital Requirements for Operational Risk after appropriately considering the feedback received from stakeholders. • The Directions require all specified Commercial Banks (excluding Local Area Banks, Payments Banks, Regional Rural Banks, and Small Finance Banks) to hold sufficient regulatory capital against their operational risk exposures. • The effective date of implementation of these Directions shall be communicated separately.

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