Credit Offtake Continues its Robust Growth, Deposits Fall Sequentially

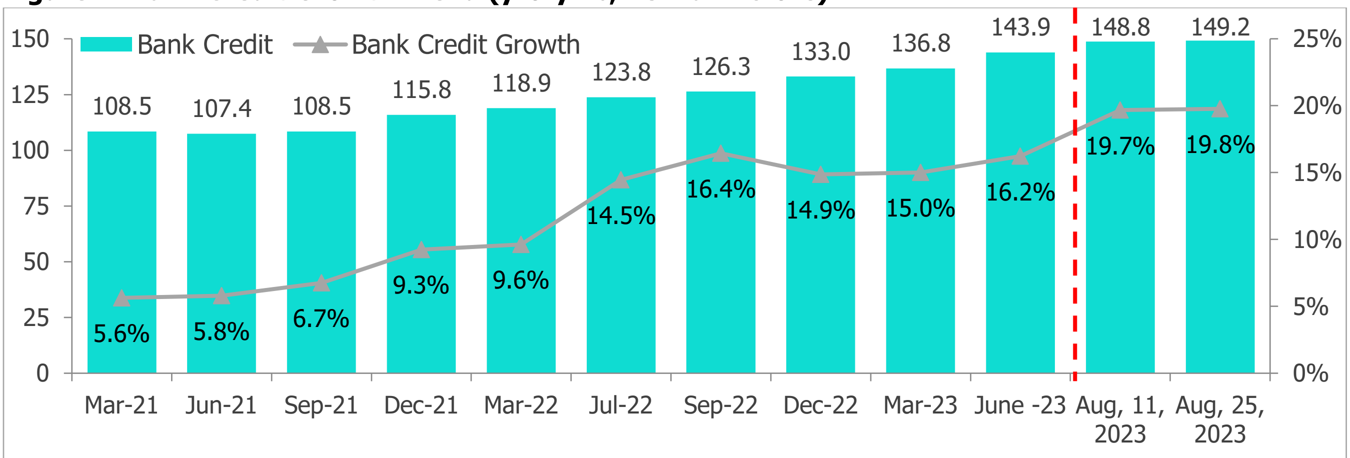
September 11, 2023 I BFSI Research

Synopsis

- Credit off-take continued its upward trajectory, posting a robust 19.8% year-on-year (y-o-y) increase, surging to Rs. 149.2 lakh crore for the fortnight ending August 25, 2023. This remarkable surge is primarily attributed to the impact of HDFC's merger with HDFC Bank, along with substantial growth in personal loans. However, when we exclude the merger's impact, credit grew at a comparatively lower rate of 14.8% y-o-y for the same fortnight, in contrast to the previous year.
- Deposits also showed healthy growth, marking a 13.2% YoY increase for the same fortnight, inclusive of the merger's impact. When excluding this impact, the growth rate stood at 12.3% y-o-y. However, it's worth noting a marginal 2 basis points (bps) sequential decrease.
- The outlook for bank Credit off-take remains optimistic, with a projected growth rate of 13-13.5% for FY24, excluding the merger's impact.
- As of September 1, 2023, the Short-term Weighted Average Call Rate (WACR) stood at 6.65%, in contrast to 5.19% on September 2, 2022. This rise can be attributed to the recent implementation of incremental cash reserve ratio (I-CRR) norms by the RBI, which exerted pressure on 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

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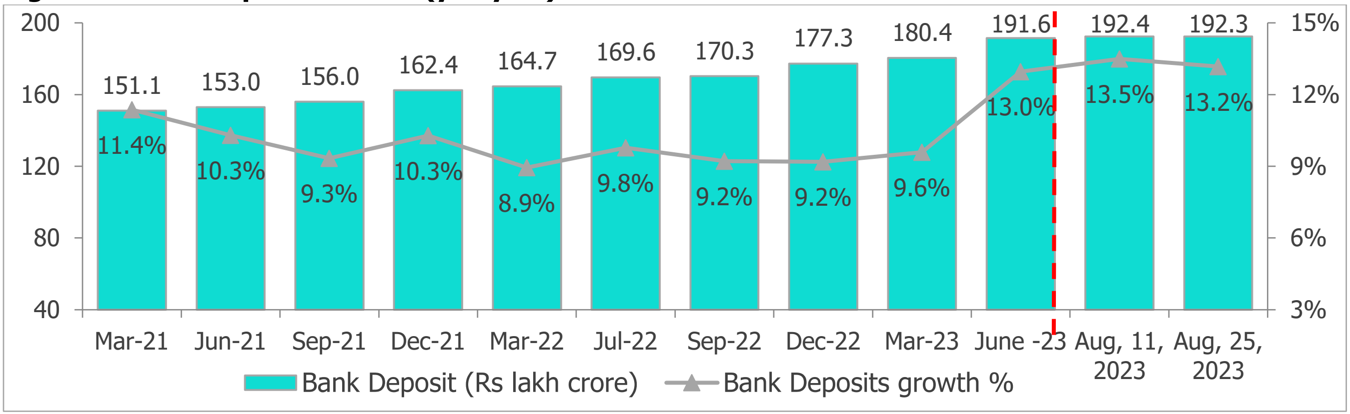
- Credit off-take exhibited a notable y-o-y increase of 19.8%, accompanied by a sequential uptick of 0.3% for the fortnight ending August 25, 2023. It's essential to clarify that y-o-y figures may not be directly comparable, given that the data reported by the RBI as of August 25, 2023, includes the impact of the merger between HDFC and HDFC Bank. In absolute terms, credit off-take expanded by Rs. 24.6 lakh crore, reaching Rs. 149.2 lakh crore as of August 25, 2023, in contrast to August 26, 2022. Excluding the merger's impact, the growth rate stood at 14.9% y-o-y for the same fortnight. This growth was primarily fueled by sustained demand for personal loans.
- The outlook for bank Credit off-take remains optimistic, underpinned by factors such as economic expansion, increased capital expenditure, the implementation of the Production Linked Incentive (PLI) scheme, and a

drive for retail credit. CareEdge estimates project credit growth to fall within the range of 13.0%-13.5% for FY24, excluding the impact of the HDFC-HDFC Bank merger. The personal loan segment is anticipated to outperform the industry and service segments in FY24. Nevertheless, heightened interest rates and global uncertainties may potentially exert an influence on credit growth in India.

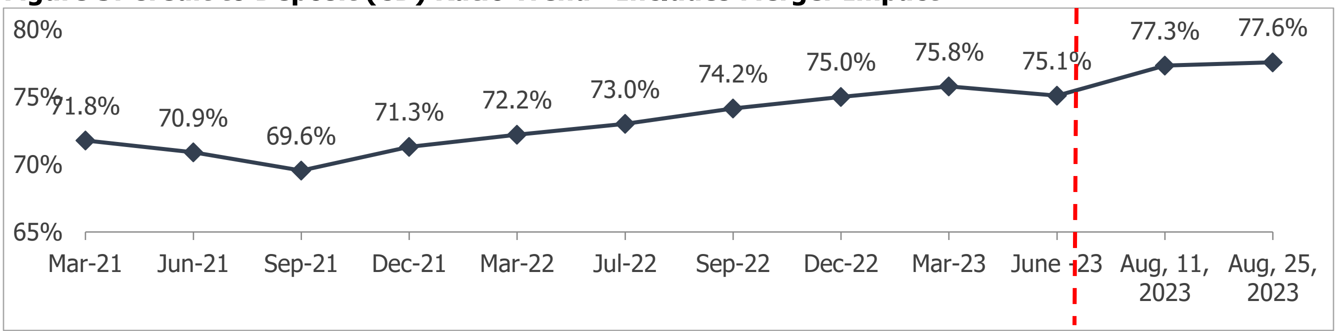
Figure 2: Bank Deposit Growth (y-o-y %)



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

- Deposits registered a y-o-y increase of 13.2% for the fortnight (reported as of August 25, 2023) but experienced a marginal sequential decline of 0.02%. When excluding the merger's impact, deposits showed a y-o-y growth of 12.3%. In terms of absolute figures, deposits expanded by Rs. 22.4 lakh crore, reaching Rs. 192.3 lakh crore as of August 25, 2023, as compared to August 26, 2022.
- Notably, deposits have witnessed a sequential decrease of 0.1 lakh crore, attributed to the gradual conclusion of the withdrawal cycle for Rs. 2000 notes. It's worth highlighting that the pace of deposit growth has not kept up with credit growth, mainly because a significant portion of HDFC's liabilities was in the form of borrowings rather than traditional deposits.

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 Credit-Deposit (CD) ratio has consistently remained above 75% since December 2022. In the most recent fortnight (ending on August 25, 2023), the CD ratio experienced an increase of 30 bps compared to the previous fortnight, reaching 77.6%. It's important to note that the y-o-y growth in the CD ratio was approximately 430 bps, influenced by the merger of HDFC, which had an impact on the ratio.

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

	Last 12 Mths	Last Six Mths	Last Month	Last Fortnight
Credit	24.6	14.7	1.2	0.4
Deposits	22.4	13.7	0.7	-0.02

Source: RBI, CareEdge, compared post-merger figures

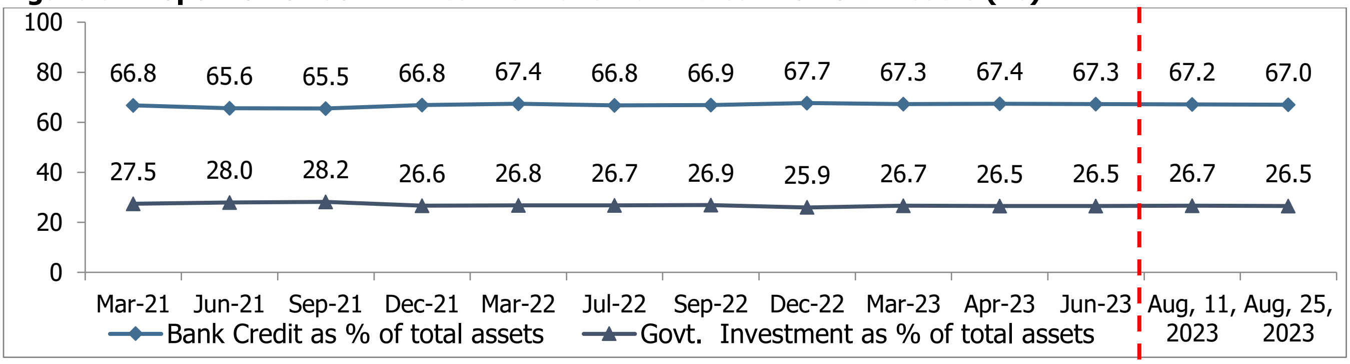
Figure 5: Trend in Credit and Deposit Movement (y-o-y, %)

	Aug 28, 2020	Aug 27, 2021	Aug 26, 2022	Aug 25, 2023
Credit	5.5	5.6	15.5	19.8
Deposit	10.9	9.5	9.5	13.2

Source: RBI, CareEdge, compared post-merger figures

Both Proportion of Credit to Total Assets and Govt. Investment to Total Assets Drop (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

The Credit-to-Total Asset ratio experienced a decline of 20 bps compared to the previous fortnight, settling at 67.0% for the fortnight ending August 25, 2023. Nevertheless, the y-o-y growth was approximately 70 bps. Meanwhile, Government Investments stood at Rs. 59.0 lakh crore as of August 25, 2023, reflecting a y-o-y growth of 16.5% but a slight sequential decline of 0.2%.

O/s CDs and O/s CPs Continue to Remain at Elevated Levels

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
Jul 14, 2023	297.7	26.5
Aug 25, 2023	301.3	27.0

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

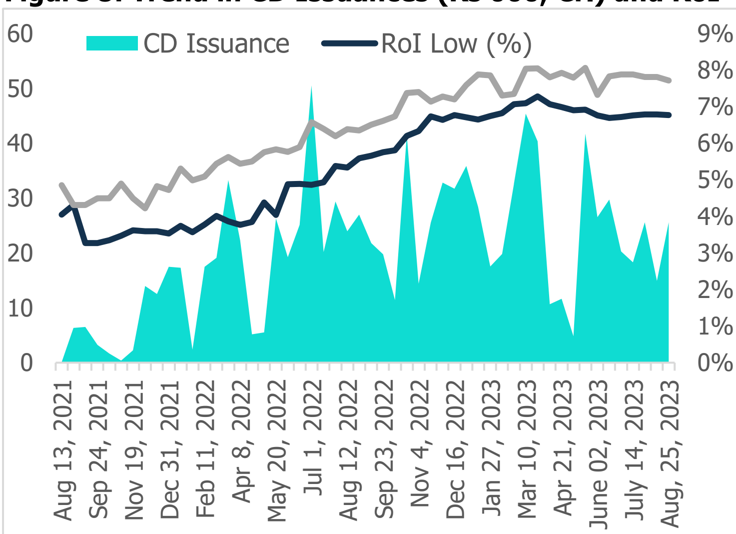
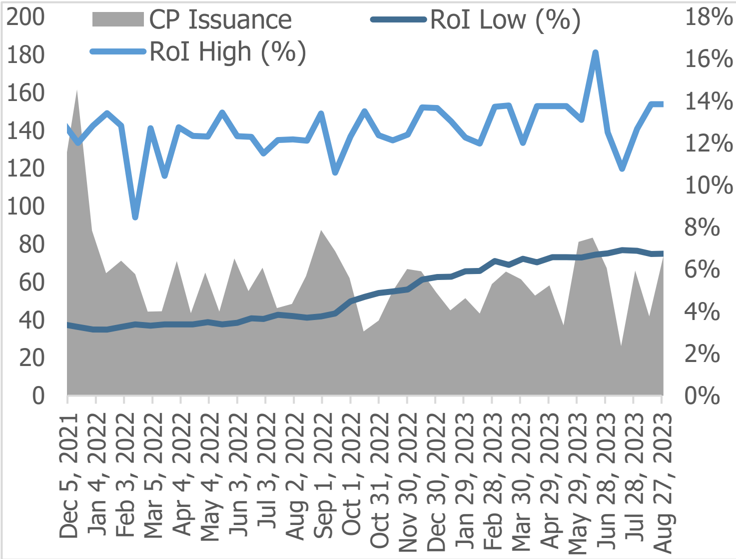


Figure 9: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
Mar 31, 2022	352.2	-3.3
May 15, 2022	384.4	-5.0
Jun 30, 2022	372.5	-1.0
Aug 31, 2022	410.0	4.7
Oct 31, 2022	373.3	-1.6
Dec 15, 2022	363.7	-18.6
Jan 31, 2023	363.9	-8.1
Mar 15, 2023	371.3	0.9
Apr 30, 2023	421.7	15.5
May 31, 2023	433.5	12.7
Jun 30, 2023	433.2	16.3
Aug 29, 2023	450.1	9.8

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 releases 'Requirement for maintaining additional CRR'	• On a review, it has been decided to discontinue the I-CRR in a phased manner. Based on an assessment of current and evolving liquidity conditions, it has been decided that the amounts impounded under the I-CRR would be released in stages so that system liquidity is not subjected to sudden shocks and money markets function in an orderly manner. The release of funds would be as follows:

Date	Amount to be released (Rs. crore)
September 9, 2023	25 % of the I-CRR maintained
September 23, 2023	25 % of the I-CRR maintained
October 7, 2023	50 % of the I-CRR maintained

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