NBFCs Charge Bank Credit Growth, HDFC Merger Supports

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Note: Gross bank credit and non-food credit data are based on Section-42 return, which covers all scheduled commercial banks (SCBs), while sectoral non-food credit data is based on sector-wise and industry-wise bank credit (SIBC) return that covers 40 banks accounting for approximately 93% of non-food credit extended by SCBs.

Synopsis

- Gross bank credit offtake witnessed an elevated increase of 19.8% year-on-year (y-o-y) in August 2023 due to robust demand from the personal loans and services segments, and the impact of the merger between HDFC Bank and HDFC. Without considering the merger, the y-o-y growth stood at 14.9%.
    - Personal loans witnessed a robust growth of 30.8% y-o-y in the month due to the impact of the merger (reclassification of HDFC's loans), and growth in unsecured and vehicle loans. Sequentially, it improved by 80 basis points (bps) (on a m-o-m) from July 2023. Excluding the impact of the merger the growth rate for personal loans reduced marginally by 110 bps y-o-y from 19.4% to 18.3% on a y-o-y- basis.
    - Services segment reported a robust rise of 24.7% y-o-y in August 2023 due to growth in Non-Banking Financial Services (NBFCs), trade and commercial real estate. Without considering the merger, it also reported a robust growth of 20.7% y-o-y vs. 17.4% a year ago.
    - Industry moderated to 6.7% y-o-y in August 2023 from 11.4% over the year-ago period due to slow growth in Micro, Small & Medium Enterprises (MSME) and muted growth in infrastructure.
- Incremental gross bank credit rose by 9.1% in August 2023. Without considering the merger, it was marginally lower by 10 bps from 4.8% over a year ago.

Summary of Sectoral Performance

Figure 1: Sectoral Distribution of Credit: August 2023 (Rs. Lakh Crore)

Particulars	O/s Credit	Chg	% Growth in Credit		% Growth in Inc. Credit	
	As of Aug 25, 2023	M-o-M (%)	Aug 22 vs Aug 21	Aug 23 vs Aug 22	Aug 22 vs Mar 22	Aug 23 vs Mar 23
Gross Bank Credit	**149.2**	**0.8**	**15.5**	**19.8**	**4.8**	**9.1**
Non-Food Credit	**149.0**	**0.8**	**16.0**	**19.9**	**5.0**	**9.1**
Agriculture & Allied	18.0	0.6	13.4	16.6	5.4	6.5
Industry	34.1	1.2	11.4	6.7	1.2	2.1
Services	39.4	1.0	17.4	24.7	5.0	9.3
Personal Loans	47.7	0.8	19.4	30.8	7.7	16.8

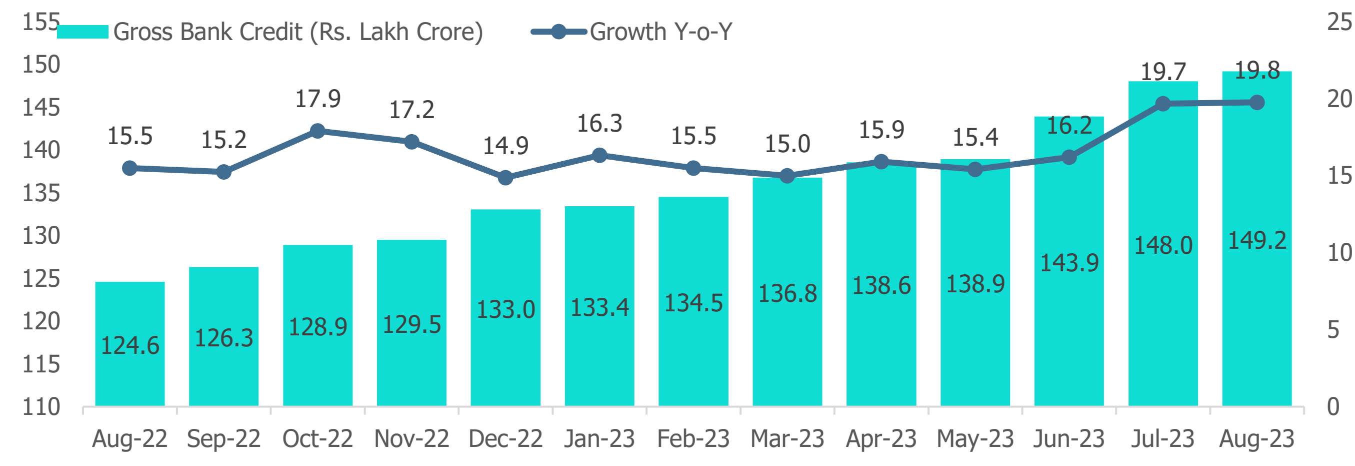
Source: RBI, Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly.

Figure 2: Growth Excluding Merger Impact: Marginal Moderation in Personal Loans – Aug-23, (%)

Particulars	Credit Growth (y-o-y)	Changes (bps) over last year	Incremental. Credit Growth (y-o-y)	Changes (Bps)
Gross Credit	**14.9**	**-60**	**4.7**	**-10**
Non-Food Credit	**15.0**	**-100**	**4.7**	**-30**
Industry	6.1	-530	1.6	40
Services	20.7	330	5.7	70
Personal Loans	18.3	-110	5.6	-210

Source: RBI

Figure 3: Monthly Trend in Gross Bank Credit Outstanding and Growth (%)



Source: RBI, Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly.

Figure 4: Sectoral Distribution of Credit: August 2023 (Rs. Lakh Crore)

Particulars	O/s Credit	% Chg	% Growth in Credit		% Growth in Inc. Credit	
	As of Aug 25, 2023	M-o-M	Aug 22 vs Aug 21	Aug 23 vs Aug 22	Aug 22 vs Mar 22	Aug 23 vs Mar 23
Gross Bank Credit	**149.2**	**0.8**	**15.5**	**19.8**	**4.8**	**9.1**
Food Credit	0.2	0.0	-59.7	-30.3	-49.5	-2.8
Non-Food Credit	**149.0**	**0.8**	**16.0**	**19.9**	**5.0**	**9.1**
Agriculture & Allied Activities	**18.0**	**0.6**	**13.4**	**16.6**	**5.4**	**6.5**
Industry	**34.1**	**1.2**	**11.4**	**6.7**	**1.2**	**2.1**
Of which						
MSME	8.8	1.1	30.2	10.4	4.8	3.0
Large	25.3	1.2	6.3	5.4	0.1	1.8
Services	**39.4**	**1.0**	**17.4**	**24.7**	**5.0**	**9.3**
Of which						
Trade	8.4	-0.5	16.9	14.2	5.1	1.9
Commercial Real Estate	4.1	-0.3	4.8	38.5	1.4	29.9
NBFCs	13.8	0.2	25.5	25.8	7.5	3.9
Personal Loans	**47.7**	**0.8**	**19.4**	**30.8**	**7.7**	**16.8**
Of which						
Housing	24.6	1.2	16.3	37.7	5.9	26.8
Vehicle Loans	5.3	0.7	19.5	20.6	10.4	6.7
Other Personal Loan	12.2	0.0	23.7	26.0	8.8	8.9

Source: RBI; Note 1: Segmental Share Calculation based on the sum of Agriculture, Industry + Services+ Personal Loans. Note 2: The merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly.

Personal Loans Segment

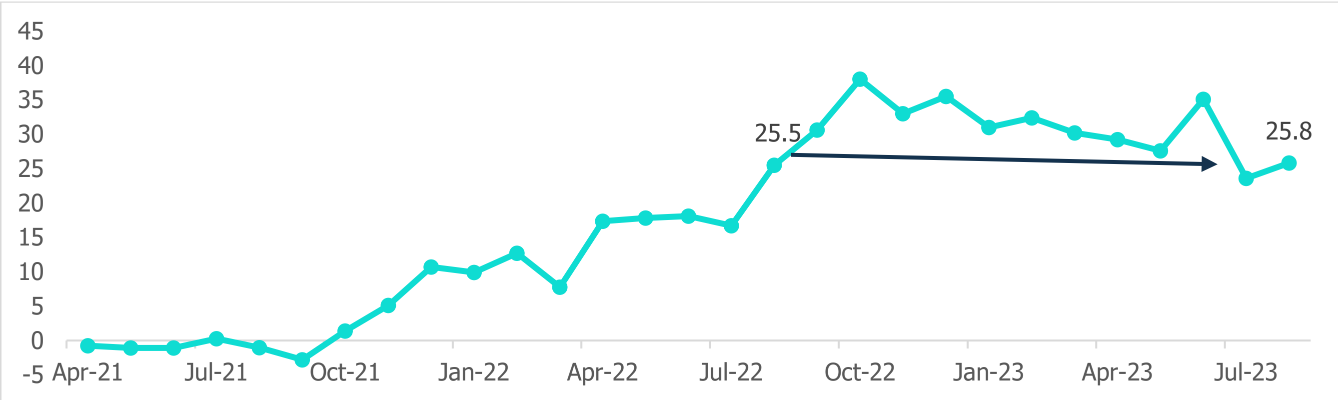
The personal loans segment (the largest segment with a 34.3% share) witnessed a robust growth of 30.8% y-o-y for August 2023 due to the impact of the merger, growth in credit card outstandings, other personal loans, and vehicle loans. Within the personal loans segment, all major sub-segments witnessed strong demand during the month. If we consider the growth excluding the merger, it marginally moderated to 18.3 y-o-y as compared to 19.4% y-o-y in August 2022.

- Housing loans grew by 37.7% y-o-y in August 2023 compared to 16.3% a year ago mainly due to the merger (reclassification of HDFCs' borrowings). If the merger is excluded, the growth would have decelerated by 250 bps to 13.8% y-o-y due to a high base, a rise in the repo rate by 250 bps and banks' focus on high-margin products. The rise in interest rates impacts more on affordable housing segment.
- Vehicle loans registered a robust growth of 20.6% y-o-y in August 2023 as compared to 19.5% in the year-ago period. Passenger Vehicle (PV) and Three-wheeler verticals witnessed strong growth, as per the Society of Indian Automobile Manufacturers (SIAM). The growth is expected to be healthy in the short term due to the upcoming festival season.
- Overall, credit growth in unsecured loans witnessed a robust rise driven by the miniaturisation of credit, the faster turnaround of small loans due to digitalisation, and an increase in e-commerce transactions. Credit Card spending reached a record high of Rs. 1.5 lakh crore in August 2023. It also registered a robust growth of 30.0% y-o-y to Rs. 2.2 Lakh crore. The other personal loans rose by 26.0% y-o-y on account of a rising trend in small ticket-size loans and faster turnaround due to digitalisation. Growth is expected to be strong in the upcoming months due to the festival season.

Services Segment

The services sector reported a robust growth of 24.7% y-o-y in August 2023 compared to a growth of 17.4% in the year-ago period due to growth in real estate (merger impact and demand), NBFCs, and other services. Without considering the merger, the growth stood at 20.7% y-o-y.

Figure 5: Continued Growth in Advances of Banks to NBFCs (y-o-y, %)



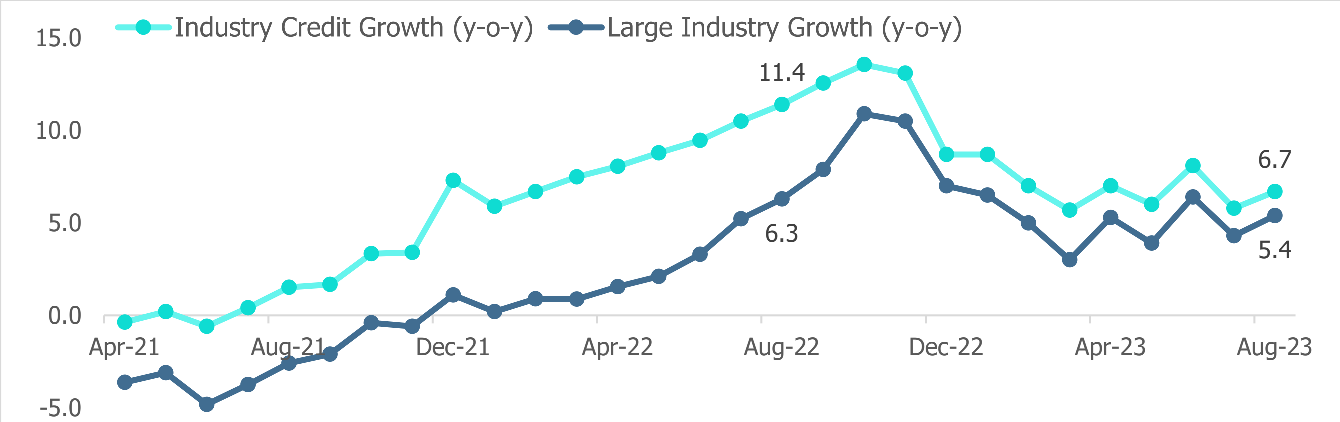
Source: RBI, Note: The merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly.

- Despite a very large base, lending to NBFCs grew by a robust 25.8% y-o-y in August 2023 from a growth of 25.5% in August 2022. The robust growth was due to continued healthy loan disbursements reported by NBFCs for their dependency on the banking system especially by the smaller NBFCs. However, NBFCs' growth reduced from 35.1% y-o-y in June 2023 due to the reclassification of HDFC's borrowings. The growth in services is largely driven by NBFCs, if it were excluded, the growth came in at 12.4% y-o-y in the month.
- Commercial real estate rose by 38.5% y-o-y in August 2023 due to merger and demand. However, without considering the merger it rose by 13.9% y-o-y vs. 4.8% y-o-y in August 2023.

- Trade grew 14.2% in August 2023 as compared to 16.9% in the year-ago period due to growth in retail (23.6%).
- The growth in services was also led by 30.3 y-o-y growth in 'other services'. If we exclude the merger impact, it also rose by 430 bps to 24.1% y-o-y in August 2023.

Industry

Figure 6: Movement in Industry (y-o-y, %) – Muted Growth in Infra Pulls Down Indus. Credit Growth



Source: RBI, Note; the merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly.

The credit outstanding of the industry segment registered a moderation in growth at 6.7% y-o-y in August 2023 from 11.4% in the year-ago period. The lower growth was due to moderation in credit for infrastructure, 'chemical and 'chemical-related', 'rubber & plastic' industries, and a drop in 'petroleum, coal products, & nuclear fuels'. The industry's MSME credit growth slowed from 27.7% y-o-y in August 2022 to 10.7% y-o-y in August 2023 due to a high base and closing down of the Emergency Credit Line Guarantee Scheme (ECLGS). The credit to large industries also moderated from 6.3% y-o-y in August 2022 to 5.4% in August 2023. The decline could not be controlled despite a small push received by the HDFC-HDFC Bank merger, if the merger impact is excluded, growth would have an even slower at 6.1%

- Credit offtake to basic metal & metal products and cement rose by 18.8% y-o-y, and 17.0% y-o-y, respectively in August 2023 due to the commissioning of new capacities. The textiles also rose by 11.7% y-o-y in the same period.
- The credit growth for Petroleum, Coal Products, and Nuclear Fuels dropped by 11.4% in August 2023 from a rise of 67.1% in August 2022 due to lower working capital requirements as crude oil prices were lower as compared to the previous years and drop in the exports.
- Chemical and chemical related industries also significantly moderated to 1.2% y-o-y in August 2023 from a rise of 23.5% over a year ago.
- The infrastructure (sub-segment, within the industry 36.4% share) witnessed a marginal credit growth of 2.2% y-o-y in August 2023 vs. a rise of 11.0% over the year-ago period due to a drop in the power and airports, also comparatively slow growth in the road segment. The credit for telecommunications also significantly moderated to 2.8% y-o-y in the month as compared to 17.2% in August 2022 as capex done by the companies for 5G.

- The power segment (the largest segment of infrastructure, with a share of 49.5%) witnessed a drop of 1.1% in August 2023 vs. a rise of 9.4% in August 2022 due to lower working capital requirements and capex. Gencos' lower working capital requirement was on account of higher and timely cash flows generated by them which were driven by a rise in the spot prices, and also the introduction of a late payment surcharge (LPS) in July 2022. The Government of India launched the Revamped Distribution Sector Scheme (RDSS) at the end of FY23 which is meant to be a facilitator to improve the operational efficiencies of discoms and help reduce their losses and make them financially sustainable.
- The credit offtake for roads also slowed from 15.3% y-o-y in August 2022 to 7.2% in August 2023 due to lower allotments of projects. The companies are also trying to focus on the completion of the ongoing projects in FY24 as FY25 is an election year.

Conclusion

The outlook for bank credit offtake remains positive, driven by economic expansion, increased capital expenditure, and a growing focus on retail credit. It is crucial to acknowledge that this growth trajectory is building upon a strong foundation established in FY23. Considering the strong growth in the previous fiscal, CareEdge expects 13.0-13.5% credit growth for FY24, excluding any impact from the merger of HDFC with HDFC Bank. For the short term, the growth is also likely to be very strong in the next couple of months due to the festival season. In terms of segmental performance, the personal loan segment, driven in part by the merger's influence, is anticipated to outperform industry and service segments in FY24. Elevated interest rates, further rise in the repo rate, and global uncertainties regarding geo-political issues are the key factors which have the potential to influence credit growth. Additionally, a decrease in inflation rates may lead to a reduced demand for working capital in the market.

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