Robust Credit Growth Continues, Deposit Growth Playing Catch-Up

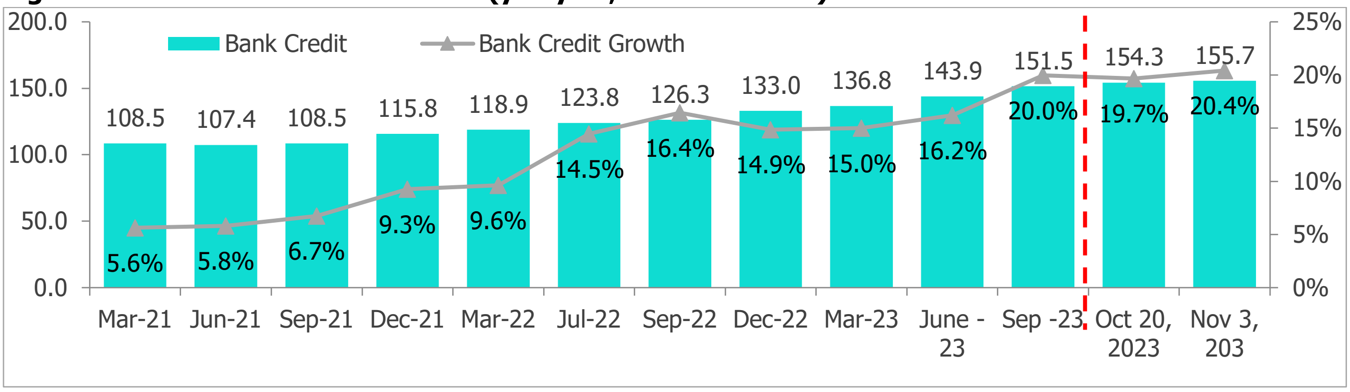
November 20, 2023 | BFSI Research

Synopsis

- Credit offtake continued to grow, increasing by 20.4% year on year (y-o-y) to reach Rs. 155.7 lakh crore for the fortnight ending November 03, 2023. This surge is also due to the impact of HDFC's merger with HDFC Bank and growth in personal loans. If we exclude the impact of the merger, credit grew at a lower rate of 15.9% y-o-y fortnight compared to last year's growth of 17.0%. The outlook for bank credit offtake continued to remain positive for FY24.
- Deposits too grew by 13.5% y-o-y for the fortnight (including the merger impact). Excluding merger impact growth stood at 12.7%. Sequentially we saw an increase of 0.5%. Deposit growth is expected to improve compared to current trends 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 6.77% as of November 10, 2023, compared to 6.16% on November 11, 2022, due to pressure on short-term rates.

Bank Credit Growth Remains Elevated

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

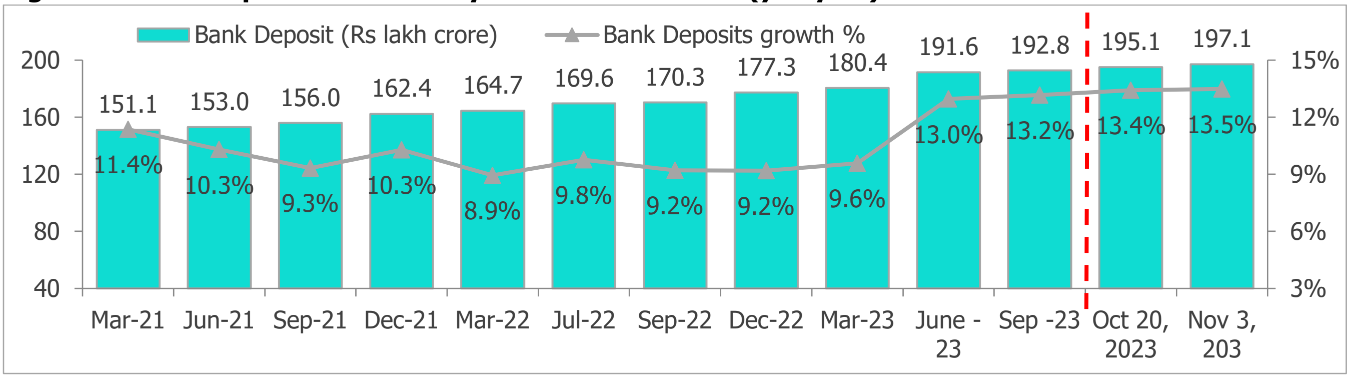


Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Credit offtake increased by 20.4% year on year (y-o-y) and a sequential improvement of 0.9% for the fortnight ended November 3, 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 November 3, 2023, includes the impact of the merger of HDFC with HDFC Bank. In absolute terms, over the last twelve months, credit offtake expanded by Rs. 26.4 lakh crore to reach Rs. 155.7 lakh crore as of November 3, 2023. Excluding the impact of the merger, the growth stood at 15.9% y-o-y for the fortnight which was lower than last year's growth number of 17.0%. This growth continues to be primarily driven by continued demand for personal loans and NBFCs.
- The outlook for bank credit offtake continues to remain positive for FY24, supported by factors such as economic expansion and a continued push for retail credit which has been supported by improving digitalisation. 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. Personal Loan and NBFC segments could witness a certain level of cooling off due to the recent RBI notification on risk weights, Currently, capital levels are quite comfortable for banks and NBFCs. Banks have sufficient cushion to absorb this impact along with the impact of ECL computation and should not need to raise additional capital. For additional details refer to our report titled **"Strong Signal by Regulator to Control Unsecured Personal Loans"**

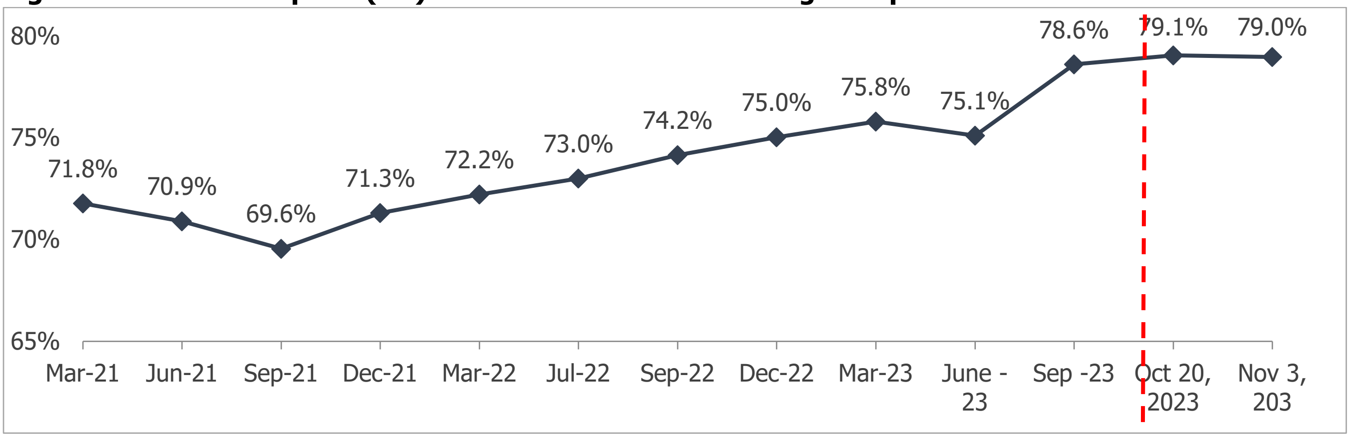
Figure 2: Bank Deposit Growth Stays at elevated levels (y-o-y %)



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

- Deposits rose at 13.5% y-o-y for the fortnight (reported November 3, 2023), however sequentially we saw a decline of 0.5%. Without considering the merger, deposits rose by 12.7% y-o-y, compared to last year, which saw a growth of 8.2%. Meanwhile, in absolute terms, deposits expanded by Rs. 23.4 lakh crore and reached Rs. 195.1 lakh crore as of November 3, 2023, compared to November 4, 2022.
- Given that threat of inflationary risks continues to linger, RBI is expected to ensure enough liquidity to meet credit demand. Liquidity conditions remained tight over the last month, with some pressure easing as the last phase of I-CRR reversal took place on October 7.

Figure 4: Credit to Deposit (CD) Ratio Trend – Includes Merger Impact



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

- The CD ratio has been generally hovering above 75% since December 2022. The CD ratio saw a downtick of 10 bps, compared to the previous fortnight, and stood at 79.0% in the fortnight (November 3, 2023)

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

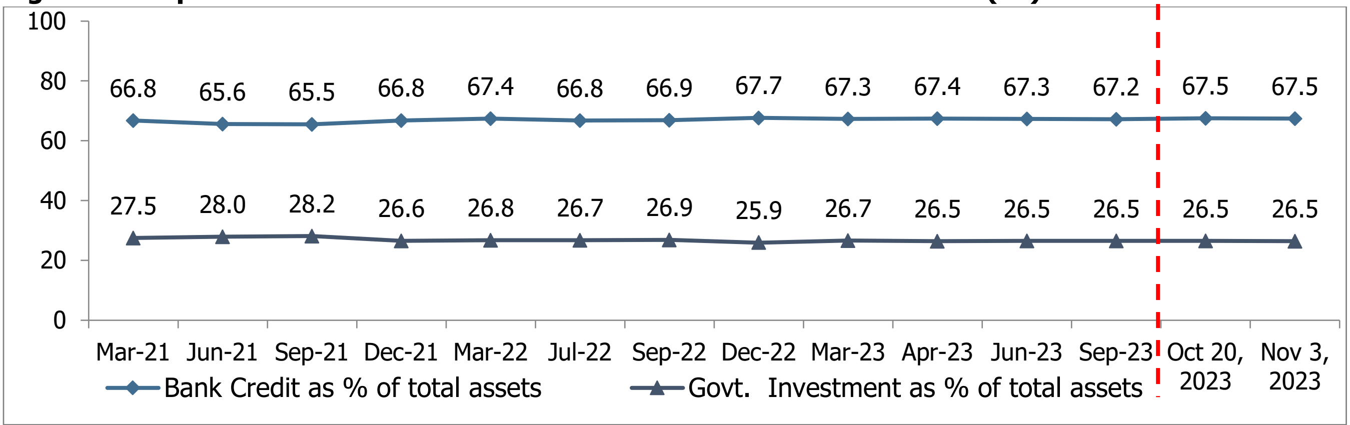
	Nov 6, 2020	Nov 5, 2021	Nov 4, 2022	Nov 3, 2023
Credit	4.7%	7.2%	17.0%	20.4%
Deposit	10.6%	11.6%	8.2%	13.5%

Source: RBI, CareEdge, compares post-merger figures

Deposits have seen robust performance since post-Covid times, however, in recent times, credit growth has been significantly outperforming deposit growth, this can be mainly attributed to lower base effect in credit and merger impact.

Proportion of Credit to Total Assets remains flat, whereas Investment to Assets Rises

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 assets ratio remained flat compared to the previous fortnight and stood at 67.5% in the fortnight (Nov 3, 2023). However, y-o-y growth was approx. 25 bps. Meanwhile, Govt. Investments stood at 61.1 lakh crore as on November 3, 2023, reporting a robust growth of 20.3% y-o-y (2 year high) and 0.8% sequentially.

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
Oct 6, 2023	290.3	28.3
Nov 3, 2023	315.8	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

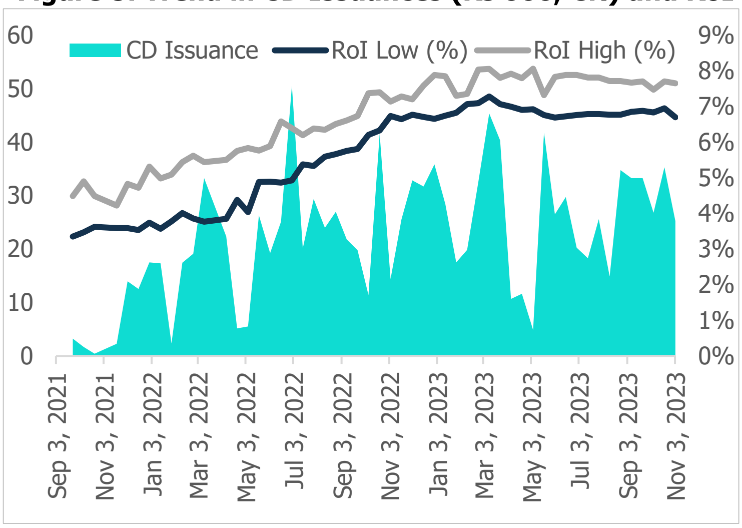
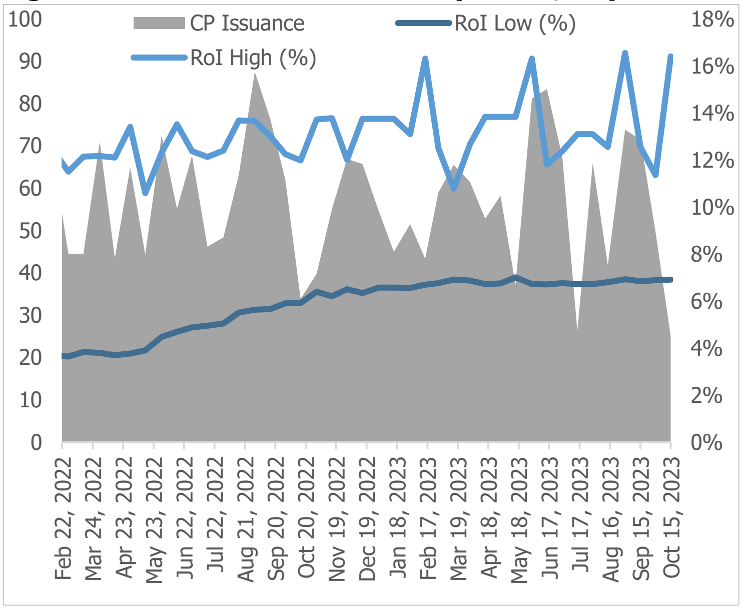


Figure 9: Commercial Paper Outstanding

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
Sep 30, 2023	412.2	2.8
Oct 15, 2023	418.8	0.7

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
Regulatory measures towards consumer credit and bank credit to NBFCs	RBI has issued a notification to all lenders for inter alia an increase in risk weights by 25% on unsecured consumer credit (excluding housing, education, vehicle and by gold loans), increase in risk weights by 25% of bank credit to NBFCs assigned for the AAA-A rated portfolio, excluding PSL-compliant loans and HFCs and review / include sectoral limits for such loans. The personal loans as well as advances to NBFCs have been growing strongly and have been the primary driver of incremental bank credit. We see this as a strong signalling impact to deter growth in the unsecured space while lenders are well-capitalised to manage decrease in CRAR which is anticipated to be around 25-45 bps. Meanwhile, the proportion of bank lending to larger NBFCs could be pared down as they approach the capital market, while aggregate dependence of mid-sized NBFCs on the banking sector for funding is likely to remain high despite an anticipated increase in lending cost by 25-30 bps. This could incentivize securitisation as a liability source for NBFCs. For additional details refer our report titled **"Strong Signal by Regulator to Control Unsecured Personal Loans"**

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