Personal Loans and NBFCs Continue to Support Bank Credit Offtake

November 08, 2023 | BFSI Research

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 20% year-on-year (y-o-y) in September 2023 buttressed by continued 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 15.3%, a tad lower than last year's growth number of 16.4%.
  - Personal loans witnessed a robust growth of 30.4% y-o-y due to the impact of the merger (reclassification of HDFC's advances), and growth in other personal loans and vehicle loans. Excluding the merger impact, growth rate reduced by 125 bps y-o-y from 19.4% to 18.2% on a y-o-y- basis.
  - Services segment reported a hearty rise of 25.1% y-o-y in September 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 21.3% y-o-y vs. 20.2% a year ago.
  - Industry moderated to 7.1% y-o-y in September 2023 from 12.6% over the year-ago period due to slower growth in Micro, Small & Medium Enterprises (MSME) and sub-par growth in the infrastructure segment.
- Incremental gross bank credit rose by 10.8% in September 2023. Without considering the merger, it was higher by nearly 30 bps from 6.2% over a year ago.

Summary of Sectoral Performance

Figure 1: Sectoral Distribution of Credit: September 2023 (Rs. Lakh Crore, %)

Particulars	O/s Credit	Chg	% Growth in Credit		% Growth in Inc. Credit	
	As of Sep 22, 2023	M-o-M (%)	Sep 22 vs Sep 21	Sep 23 vs Sep 22	Sep 22 vs Mar 22	Sep 23 vs Mar 23
Gross Bank Credit	**151.5**	**1.6**	**16.4**	**20.0**	**6.2**	**10.8**
Non-Food Credit	**151.3**	**1.6**	**16.9**	**20.0**	**6.5**	**10.8**
Agriculture & Allied	18.2	1.3	13.4	16.8	6.8	8.1
Industry	34.7	1.8	12.6	7.1	2.7	4.0
Services	40.3	2.3	20.2	25.1	7.0	11.7
Personal Loans	48.3	1.2	19.4	30.4	9.3	18.2

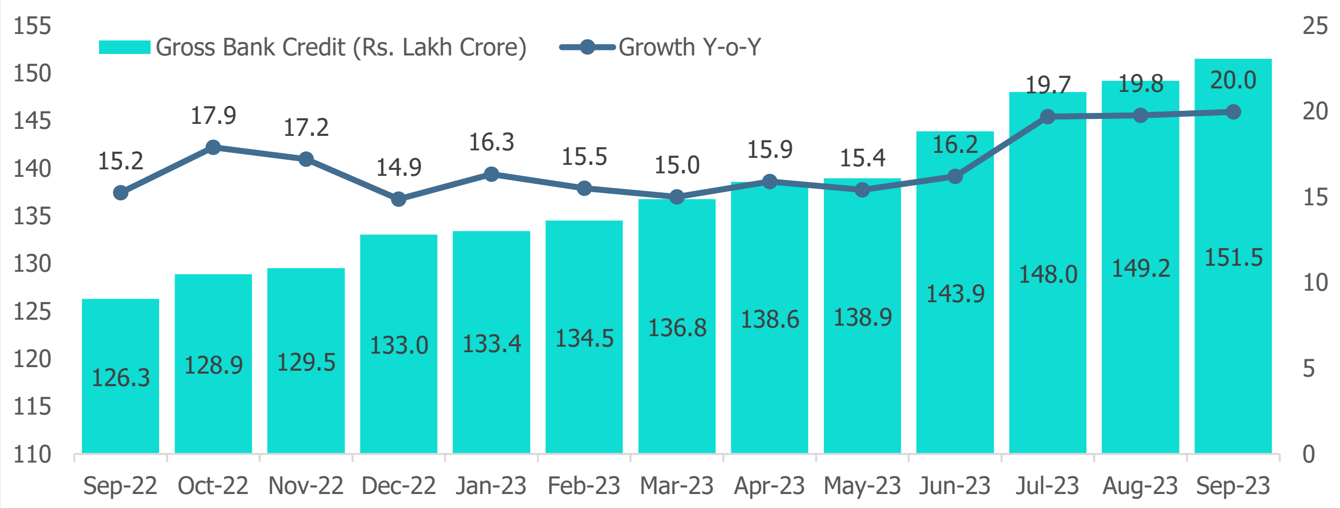
Source: RBI, Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly.

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

Particulars	Credit Growth (y-o-y)	Changes (y-o-y, bps)	Incremental. Credit Growth	Changes (y-o-y) (bps)
Gross Credit	**15.3**	**-110**	**6.5**	**29**
Non-Food Credit	**15.3**	**-160**	**6.5**	**-2**
Industry	6.5	-606	3.5	81
Services	21.3	113	8.3	132
Personal Loans	18.2	-125	7.1	-220

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: September 2023 (Rs. Lakh Crore)

Particulars	O/s Credit	% Chg	% Growth in Credit		% Growth in Inc. Credit	
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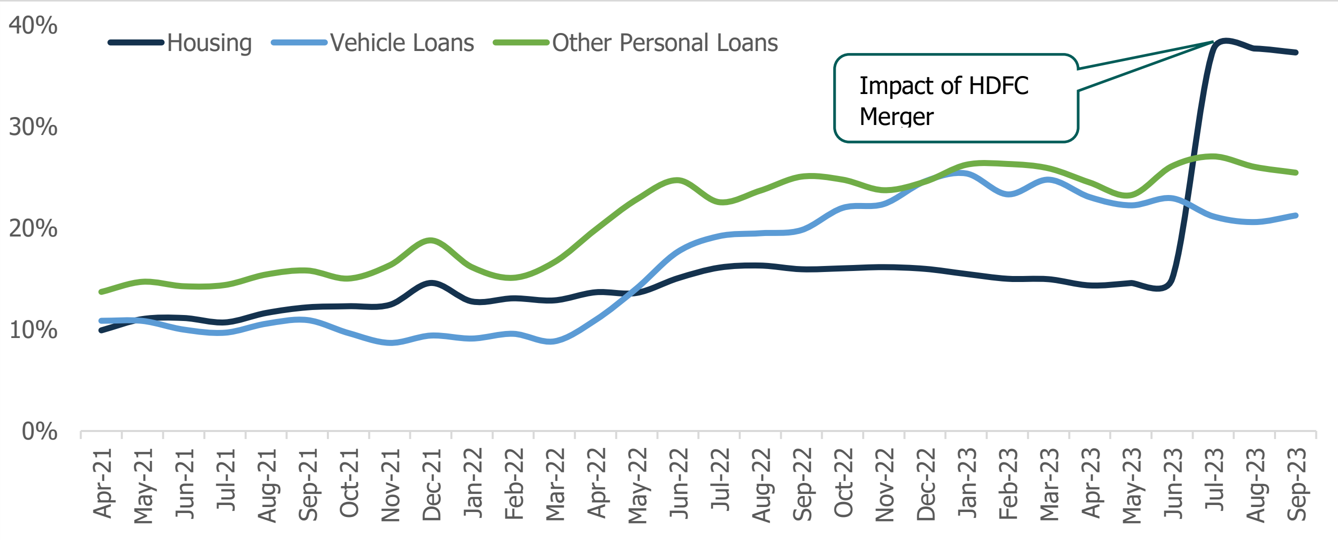
Gross Bank Credit	**151.5**	**1.6**	**16.4**	**20.0**	**6.2**	**10.8**
Non-Food Credit	**151.3**	**1.6**	**16.9**	**20.0**	**6.5**	**10.8**
Agriculture & Allied Activities	**18.2**	**1.3**	**13.4**	**16.8**	**6.8**	**8.1**
Industry	**34.7**	**1.8**	**12.6**	**7.1**	**2.7**	**4.0**
Of which						
MSME	8.9	1.3	29.2	10.0	6.9	4.6
Large	25.8	2.0	7.9	6.1	1.4	3.8
Services	**40.3**	**2.3**	**20.2**	**25.1**	**7.0**	**11.7**
Of which						
Trade	8.7	3.2	21.3	16.2	7.1	5.7
Commercial Real Estate	4.1	0.1	6.7	37.8	2.2	30.4
NBFCs	14.2	2.9	29.3	26.3	9.9	6.7
Personal Loans	**48.3**	**1.2**	**19.4**	**30.4**	**9.3**	**18.2**
Of which						
Housing	24.8	0.7	15.9	37.3	7.1	27.9
Vehicle Loans	5.4	2.3	19.8	21.2	11.5	8.4
Other Personal Loans	12.4	1.8	25.1	25.5	11.3	10.9

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

Personal Loans Segment

The personal loans segment (the largest segment with a 34.1% share) witnessed a robust growth of 30.4% y-o-y for September 2023 boosted by the impact of the HDFC merger, growth in credit card outstandings, other personal loans, housing loans, and vehicle loans. Credit growth in the personal loans space continues to also be driven by miniaturisation of credit, increased use of credit bureaus for faster decisioning and an increase in e-commerce transactions. 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 18.2% y-o-y as compared to 19.4% y-o-y in September 2022.

Figure 5: Continued Growth in Advances of Banks to Select Personal Loan Segments (y-o-y, %)



Source: RBI

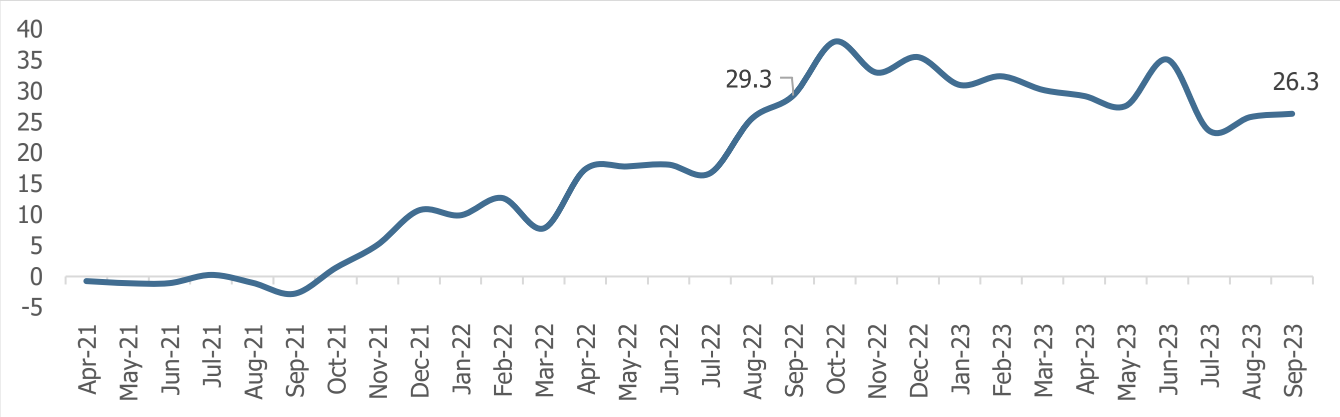
- Housing loans grew by 37.3% y-o-y in September 2023 compared to 15.9% a year ago mainly due to the merger (reclassification of HDFCs' advances). If the merger is excluded, the growth would have decelerated by 2145 bps to 13.8% y-o-y due to a high base, a rise in the repo rate by 250 bps and sales of high value residencies, The rise in interest rates has a larger impact on the affordable housing as this borrowing class faces additional burden of elevated rates.
- Vehicle loans registered a robust growth of 21.2% y-o-y in September 2023 as compared to 19.8% in the year-ago period. The growth can be attributed to premiumisation of the vehicle market and positive market sentiment. The growth would be impacted by the Shraddh period in the first part of October while, later, it is expected to be healthy due to the upcoming festival season.
- Credit Card outstanding continued to remained elevated in September 2023 reaching Rs 2.17 lakh crore, a y-o-y growth of 29.9%. The other personal loans reached Rs 12.4 lakh crore and rose by 25.5% 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 25.1% y-o-y in September 2023 compared to a growth of 20.2% in the year-ago period due to growth in commercial real estate (merger impact and demand), NBFCs, transport operators, and other services. Without considering the merger, the growth would have been 21.3% y-o-y.

- Despite a very large base, lending to NBFCs grew by a robust 26.3% y-o-y in September 2023 from a growth of 29.3% in September 2022. The robust growth was due to continued healthy loan disbursements reported by NBFCs and the borrowings by mid-sized and smaller NBFCs as they are primarily dependent on the banking system for their funding. However, NBFCs' growth reduced from 35.1% y-o-y in June 2023 due to the reclassification of HDFC's borrowings. On the other hand, the absolute o/s advances to NBFCs reached the pre-HDFC merger number.

Figure 6: Continued Growth in Advances of Banks to NBFCs (y-o-y, %)

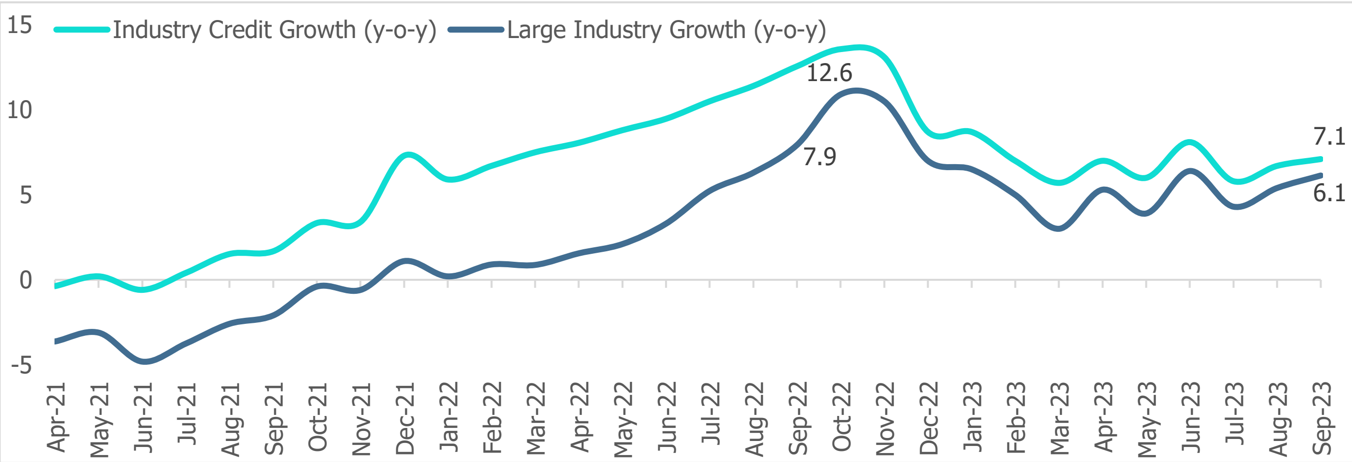


Source: RBI, Note: Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly.

- Commercial real estate rose by 37.8% y-o-y in September 2023 due to merger and demand. However, without considering the merger it rose by 14.8% y-o-y vs. 6.7% y-o-y in September 2022.
- Trade grew 16.2% in September 2023 as compared to 21.3% in the year-ago period due to growth in retail (21.4%).
- The growth in services was also led by 29.7% y-o-y growth in 'other services'. Even if we exclude the merger impact, it rose by 23.8% y-o-y in September 2023 compared to 20.1% in September 2022.

Industry

Figure 7: Movement in Industry (y-o-y, %) – Muted Growth in Infra Pulls Down Indus. Credit Growth



Source: RBI, Note: 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 7.1% y-o-y in September 2023 from 12.6% 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 29.2% y-o-y in September 2022 to 10% y-o-y in September 2023 due to a high base and with the Emergency Credit Line Guarantee Scheme (ECLGS) winding up. The credit to large industries also moderated from 7.9% y-o-y in September 2022 to 6.1% in September 2023. The reduction in growth was partially offset by the HDFC-HDFC Bank merger, if the merger impact had been excluded, growth would have been even slower at 6.5%.

- The infrastructure (sub-segment, within the industry 36.0% share) witnessed a marginal credit growth of 2.9% y-o-y in September 2023 vs. a rise of 10.9% over the year-ago period due to a drop in the power, ports, airports, along with comparatively slow growth in the telecommunications, road, and other infrastructure segments. Meanwhile, the railway segment reported a faster growth compared to the same period last year.
    - The power segment (the largest segment of infrastructure, with a share of 49.6%) witnessed a marginal reduction of 0.2% in September 2023 vs. a rise of 8.1% in September 2022 due to lower working capital requirements and capex.
    - The credit offtake for roads slowed from 13.4% y-o-y in September 2022 to 8.5% in September 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 near-term outlook for bank credit offtake is likely to be very strong in the next couple of months due to the festival season. Meanwhile, the longer-term outlook continues to remain positive, driven by economic expansion, increased capital expenditure, and a sustained focus on retail credit. CareEdge expects 13.0-13.5% credit growth for FY24, excluding any impact from the merger of HDFC with HDFC Bank. In terms of segmental performance, the personal loan segment, driven in part by the merger's influence, would outperform industry and service segments in FY24. Elevated interest rates, any further rise in the repo rate, inflation, and global uncertainties regarding geo-political issues are other key factors which could weigh on credit growth.

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