

Credit Growth Reaches 3-year High, Credit to Deposit Ratio Stays Elevated

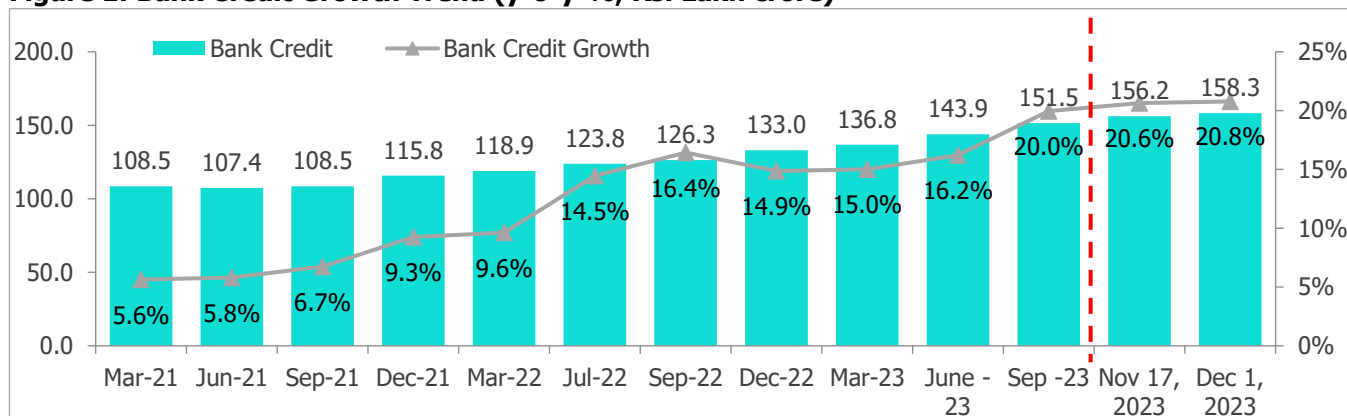
December 18, 2023 | BFSI Research

Synopsis

- Credit offtake continued to grow, increasing by 20.8% year on year (y-o-y) to reach Rs. 156.2 lakh crore for the fortnight ending December 01, 2023 reaching a 3-year high. This surge is due to the impact of HDFC's merger with HDFC Bank along with the festival season and growth in personal loans. If we exclude the impact of the merger, credit grew at a lower rate of 16.4% y-o-y fortnight compared to last year's growth of 17.5%. The outlook for bank credit offtake continues to remain positive for FY24.
- Deposits too grew by 13.4% y-o-y for the fortnight (including the merger impact). Excluding merger impact growth stood at 12.7%. Sequentially we saw a marginal decline of 0.3%. Deposit growth is expected to improve in FY24 compared to earlier periods 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 6.71% as of December 8, 2023, compared to 5.96% on December 9, 2023, due to pressure on short-term rates.

Bank Credit Growth Remains Elevated

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

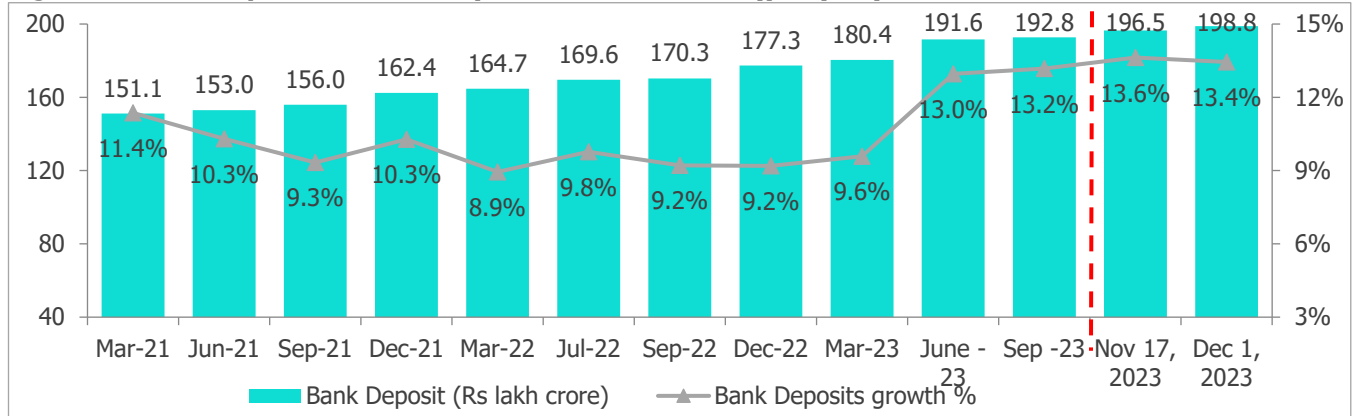


Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Credit offtake increased by 20.8% year on year (y-o-y) and a sequential improvement of 1.3% for the fortnight ended December 01, 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 December 01, 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. 27.2 lakh crore to reach Rs. 156.2 lakh crore as of November 17, 2023. Excluding the impact of the merger, the growth stood at 16.4% y-o-y for the fortnight, which was lower than last year's growth number of 17.2%. 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. Unsecured personal loans 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. Elevated interest rates, any further rise in the repo rate, inflation, and global uncertainties regarding geopolitical issues are other key factors which could weigh on credit growth.

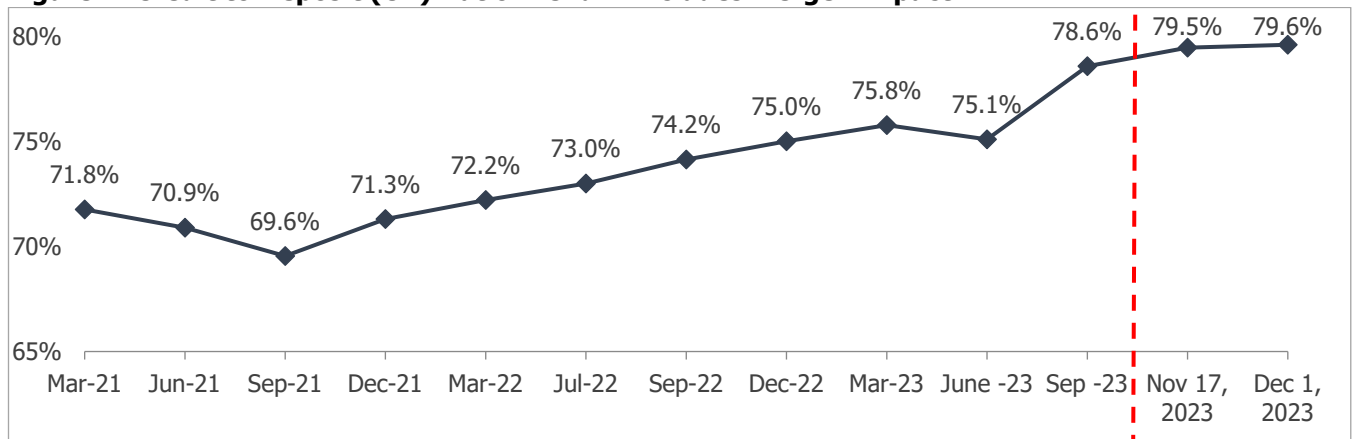
Figure 2: Bank Deposit Growth Stays at elevated levels (y-o-y %)



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

- Deposits rose at 13.4% y-o-y for the fortnight (reported December 1, 2023), however sequentially we saw a decline of 0.3%. Without considering the merger, deposits rose by 1.2% y-o-y, compared to last year, which saw a growth of 9.9%. Meanwhile, in absolute terms, deposits expanded by Rs. 23.6 lakh crore and reached Rs. 198.8 lakh crore as of December 1, 2023, compared to December 02, 2022.
- Higher currency demand during festival season along with FX intervention and OMO sales kept liquidity tight. Tight liquidity conditions weighed on short-term yields while long-term yields tracked a fall in US Treasury yields.

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 marginally below 80% since September 2023. The CD ratio saw an uptick of 14 bps, compared to the previous fortnight, and stood at 79.6% in the fortnight (December 01 2023) reaching a three-year high, however, this is mainly driven by HDFC merger, if we exclude the merger impact CD ratio for current fortnight stood at 77.2% compared to 74.8 during December 2, 2022.

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

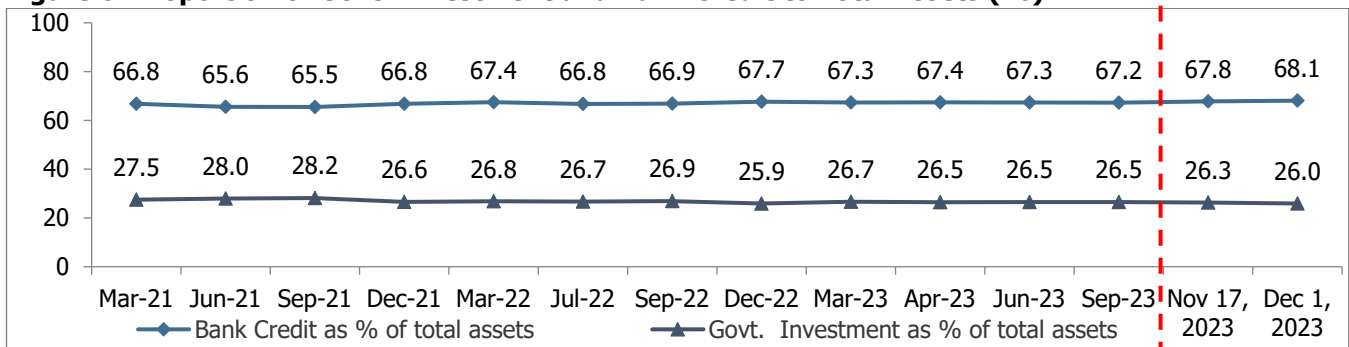
	Dec 04, 2020	Dec 03, 2021	Dec 02, 2022	Dec 01, 2023
Credit	4.7%	7.3%	17.5%	20.8%
Deposit	11.3%	9.3%	9.9%	13.4%

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 comparatively lower base in credit and merger impact.

Proportion of Credit to Total Assets Rise, whereas Investment to Assets Dips

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 assets ratio witnessed a growth of 32 bps compared to the previous fortnight and stood at 68.1% in the fortnight (Dec 1, 2023). Meanwhile, Govt. Investments stood at 60.3 lakh crore as on December 1, 2023, reporting a growth of 17.8% y-o-y and a decline of 0.6% 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
Nov 17, 2023	314.5	22.1
Dec 1, 2023	315.8	15.0

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

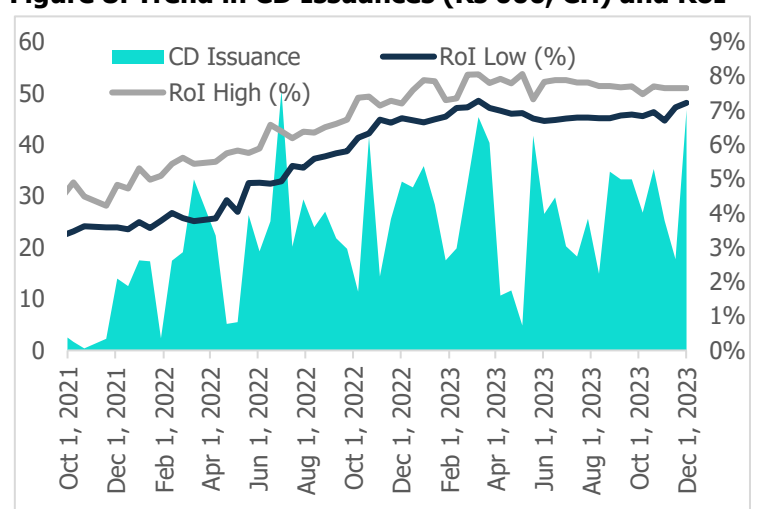
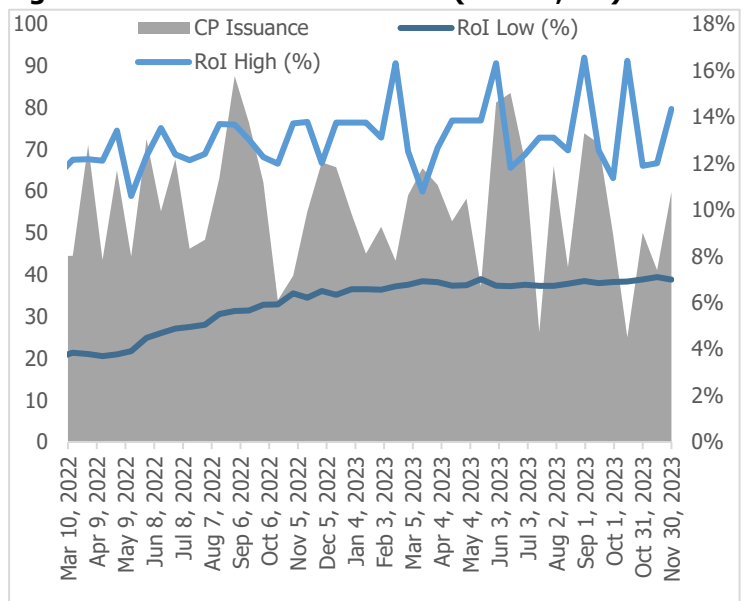


Figure 9: Commercial Paper Outstanding

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
Nov 30, 2023	395.0	9.0

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



Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91 - 22 - 6754 3582 / +91-81080 07676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careedge.in	+91 - 22 - 6754 3519 / +91-90049 52514
Tejas Poojary	Lead Analyst – BFSI Research	tejas.poojary@careedge.in	+91 - 22 - 6754 3629 / +91-97699 93903
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

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