Credit Offtake Rises, Credit-Deposit Ratio Remains at a 3-year High

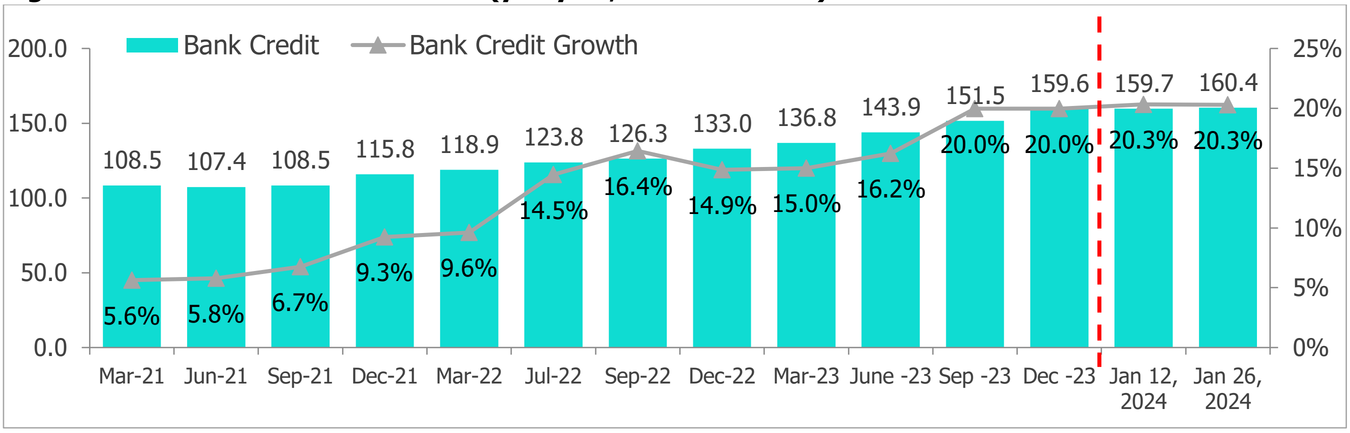
February 12, 2024 | BFSI Research

Synopsis

- Credit offtake continued to grow, increasing by 20.3% year-on-year (y-o-y) to reach Rs. 160.4 lakh crore, for the fortnight ending January 26, 2024. This rise was due to the impact of HDFC's merger with HDFC Bank along with the growth in personal loans. If we exclude the impact of the merger, credit grew at a lower rate of 16.1% y-o-y for the fortnight compared to last year's growth of 16.3%. The outlook for bank credit offtake continues to remain positive.
- Deposits too grew by 13.2% y-o-y for the fortnight (including the merger impact) and reached Rs. 200.6 lakh crore as on January 26, 2024. Excluding merger impact, growth stood at 12.6%. Sequentially we saw an increase of 0.4%, driven by growth in demand deposits. Deposit growth is expected to improve 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 6.72% as of February 2, 2024, compared to 6.28% on February 3, 2023, due to liquidity and pressure on short-term rates.

Bank Credit Growth Remains Elevated

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

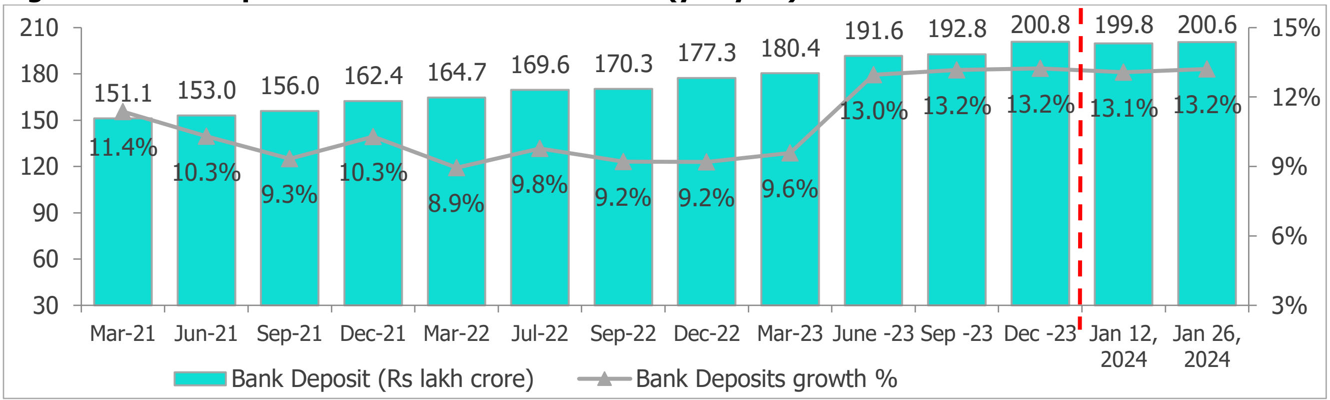


Note: Bank credit growth and related variations for all fortnights since December 3, 2021, are adjusted for past reporting errors by select scheduled commercial banks (SCBs). The quarter-end data reflect, the last fortnight's data of that particular quarter; Source: RBI, CareEdge

- Credit offtake increased by 20.3% y-o-y and up sequentially by 0.5% for the fortnight ended January 26, 2024. It is important to note that the y-o-y figures are not directly comparable, as the data reported by the RBI as of January 26, 2024, includes the impact of the merger of HDFC with HDFC Bank. In absolute terms, over the last twelve months, credit offtake expanded by Rs. 27.1 lakh crore to reach Rs. 160.4 lakh crore as of January 12, 2024. Excluding the impact of the merger, the growth stood at 16.1% y-o-y for the fortnight, which is below last year's growth rate of 16.3%. This growth continues to be primarily driven by continued demand for personal loans.
- 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. The credit exposure of banks to Non-Banking Financial Companies (NBFCs) stood at Rs 15.2 lakh crore in December 2023, indicating a 15.1% y-o-y growth, much slower than the rate witnessed in November 2023 and the approximately 27% average growth for the prior 12 months. Additionally, the growth rate of advances to NBFCs has fallen below the overall bank credit growth, which was last seen in March 2022. Currently, capital levels are quite comfortable for banks and NBFCs. Elevated interest rates, any further rise in the repo rate, inflation, Credit to Deposit growth gap, and global uncertainties regarding geo-political issues are other key factors which could weigh on credit growth.

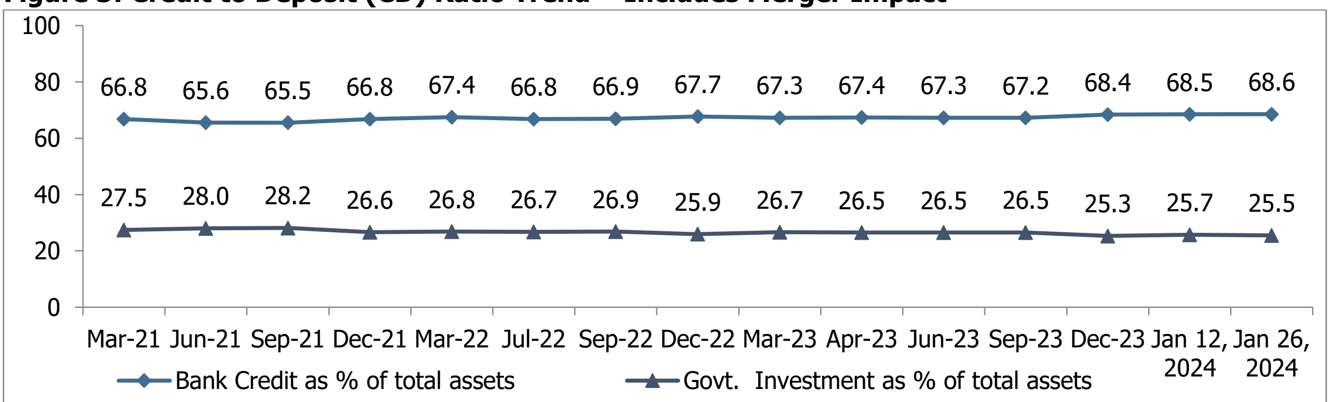
Figure 2: Bank Deposit Growth Continues to Rise (y-o-y %)



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

- Deposits rose at 13.2% y-o-y for the fortnight (reported January 26, 2024), and sequentially witnessed an increase of 0.4%. Without considering the merger, growth was 12.6%. Meanwhile, in absolute terms, deposits expanded by Rs. 23.4 lakh crore and reached Rs. 200.6 lakh crore as of January 26, 2024, compared to January 27, 2023.
- The On January 24, the liquidity deficit reached an all-time high of Rs. 3.46 lakh crore, driven by tax outflows and weak government spending. Consequently, the weighted average call rate (WACR) spread over the repo rate increased to 28 bps, compared to 15bps at December end. Liquidity deficit has moderated since then to Rs. 2.68 lakh crore as on January 29 but remains above Rs. 1.56 lakh crore as on December end. (Source: Debt Market Update)

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, and compares post-merger figures; Source: RBI, CareEdge

- The CD ratio has been generally hovering around 80% since September 2023. The CD ratio saw an uptick of 7 bps, compared to the previous fortnight, and stood at 80.0% in the fortnight (January 26, 2024), remaining at a 3-year high. This growth is mainly driven by the HDFC merger. If we exclude the merger impact, CD ratio for the current fortnight stood at 77.7% compared to 75.3% on January 27, 2023.

Figure 4: Trend in Credit and Deposit Movement (y-o-y,)

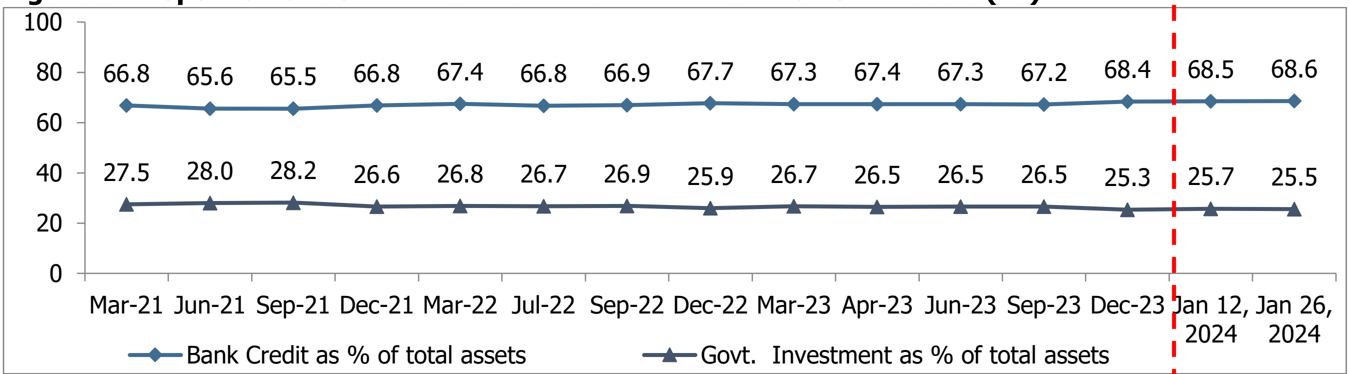
	Jan 29, 2021	Jan 28, 2022	Jan 27, 2023	Jan 26, 2024
Credit	4.9%	8.2%	16.3%	20.3%
Deposit	11.1%	8.3%	10.5%	13.2%

Source: RBI, CareEdge, compares post-merger figures

Deposits have seen relatively steady performance since Covid times. However, in recent years, credit growth has been significantly outperforming deposit growth, this can be mainly attributed to a comparatively lower base in credit as well as an increase in demand.

Proportion of Credit to Total Assets Marginally Rises, whereas Govt. Investment in Assets Falls

Figure 5: 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 approx. 8 bps compared to the previous fortnight and stood at 68.6% in the fortnight (January 26, 2024). Meanwhile, Govt. Investments stood at 59.8 lakh crore as on January 26, 2024, reporting a growth of 15.0% y-o-y, however witnessed a downtick of 0.5% sequentially.

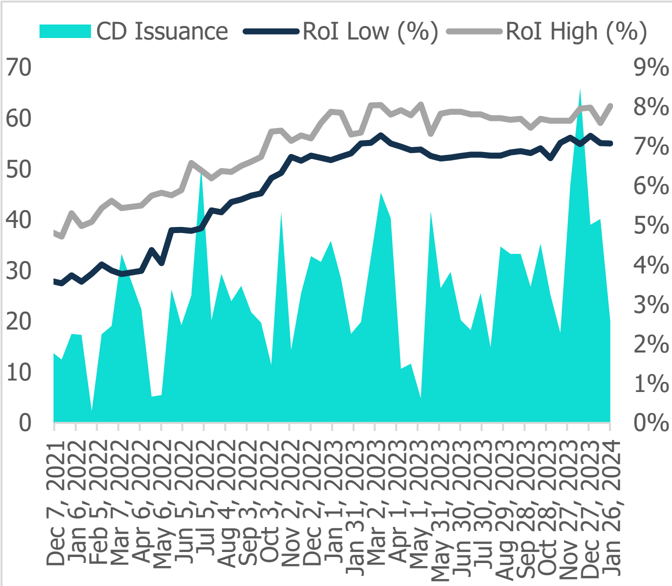
O/s CDs Continue to Remain at Elevated Levels, However CP sees a Sequential Decline

Figure 6: Certificate of Deposit Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
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
Jan 12, 2023	351.1	20.1
Jan 26, 2024	355.3	27.0

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

Figure 7: Trend in CD Issuances (Rs'000, Cr.) and RoI



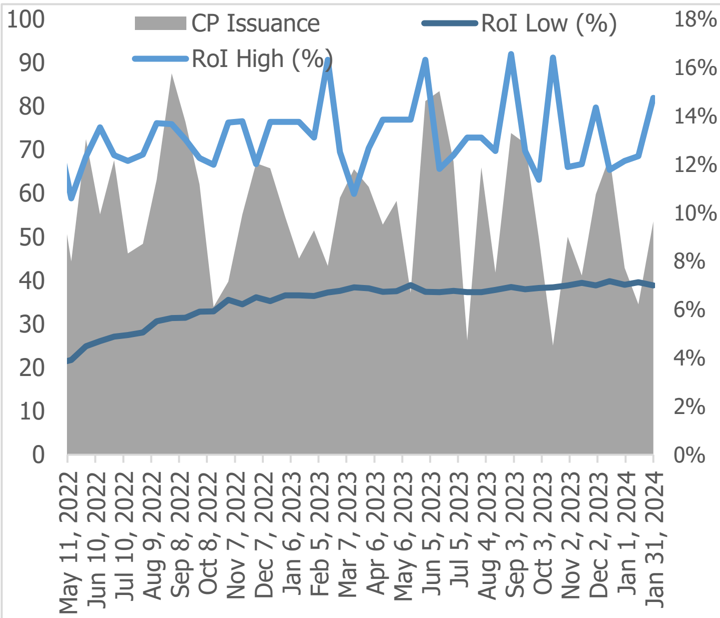
O/s CDs Continue to Remain at Elevated Levels, However CP sees a Sequential Decline

Figure 8: Commercial Paper Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
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
Jan 15, 2024	378.6	-0.7
Jan 31, 2024	377.7	3.8

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

Figure 9: Trend in CP Issuances (Rs'000, Cr.) and RoI



RBI Announcements

Announcement	Details
Monetary Policy Statement, 2023-24 Resolution of the Monetary Policy Committee	Based on an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (February 8, 2024) decided to: • Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50 %. Consequently, the standing deposit facility (SDF) rate remains unchanged at 6.25 % and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 %. • The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 % within a band of +/- 2 %, while supporting growth. (For further information Refer: MPC review report)

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