Slower Growth Seen in NBFCs and Other Personal Loans in December

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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 41 banks accounting for approximately 95% of non-food credit extended by SCBs.

Synopsis

- Gross bank credit offtake witnessed an increase of 19.9% year-on-year (y-o-y) in December 2023 propped by sustained demand from the personal loans and services segments (however, both categories have moderated compared to prior periods) and the impact of the merger between HDFC Bank and HDFC which offset the tepid growth in the industry segment. Without considering the merger, the y-o-y growth stood at 15.6%, higher by 0.7% than last year's growth number of 14.9%.
  - Personal loans witnessed a robust growth of 28.5% y-o-y due to the impact of the merger (reclassification of HDFC's advances), and growth in credit card outstanding, other personal loans and vehicle loans. Excluding the merger impact, the growth rate reduced by around 270 bps to 17.7% in December 2023 on a y-o-y- basis.
  - Services segment reported a rise of 22.9% y-o-y in December 2023 (lower than 25.4% in November 2023) due to growth in trade, commercial real estate, and Non-Banking Financial Services (NBFCs) (lower compared to the prior period). It also reported a robust growth of 19.6% y-o-y vs. 19.4% a year ago without considering the merger.
  - Industry growth remained the same at 8.6% y-o-y in December 2023 and December 2022 due to slower growth in Micro, Small & Medium Enterprises (MSME) and marginal growth in the infrastructure segment.
- Incremental gross bank credit rose by 16.7% in December 2023. Without considering the merger (at 12.5%), it was higher by approximately 60 bps from 11.9% over a year ago.

Summary of Sectoral Performance

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

Particulars	O/s Credit As of Dec 29, 2023	Chg M-o-M (%)	% Growth in Credit		% Growth in Inc. Credit	
			Dec 22 vs Dec 21	Dec 23 vs Dec 22	Dec 22 vs Mar 22	Dec 23 vs Mar 23
Gross Bank Credit	**159.6**	**2.2**	**14.9**	**19.9**	**11.9**	**16.7**
Non-Food Credit	**159.2**	**2.2**	**15.3**	**20.1**	**12.0**	**16.6**
Agriculture & Allied	19.9	3.3	11.6	19.5	11.5	15.4
Industry	36.6	1.8	8.6	8.6	4.3	7.3
Services	44.1	3.3	19.4	22.9	16.0	19.1
Personal Loans	51.8	2.4	20.4	28.5	16.5	23.8

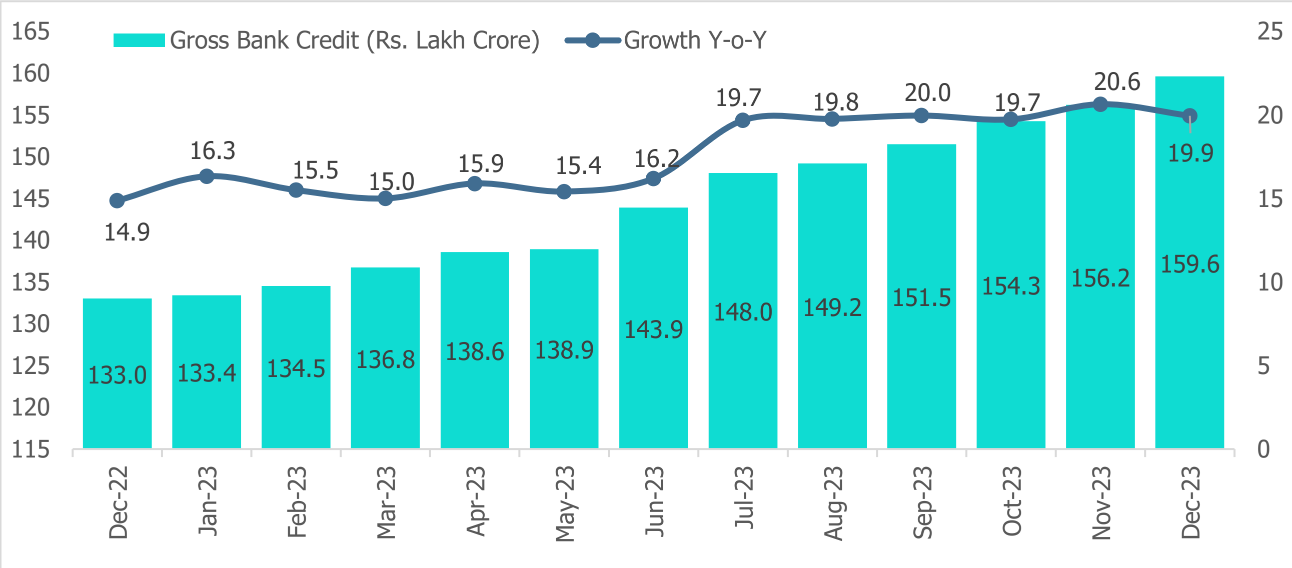
Source: RBI, Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly

Figure 2: Growth Excl. Merger Impact: Continued Moderation in Personal Loans – Dec-23, (%)

Particulars	Credit Growth (y-o-y)	Changes (y-o-y, bps)	Incremental. Credit Growth	Changes (y-o-y) (bps)
Gross Credit	**15.6**	**71**	**12.5**	**60**
Non-Food Credit	**15.8**	**49**	**12.4**	**43**
Industry	8.1	-55	6.8	248
Services	19.6	18	15.9	-14
Personal Loans	17.7	-272	13.3	-322

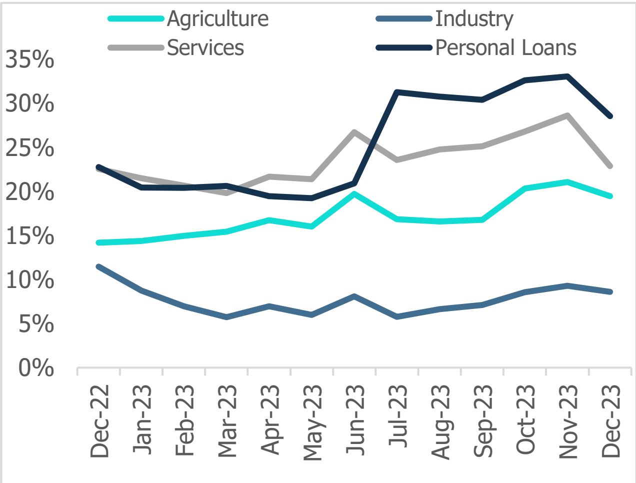
Source: RBI

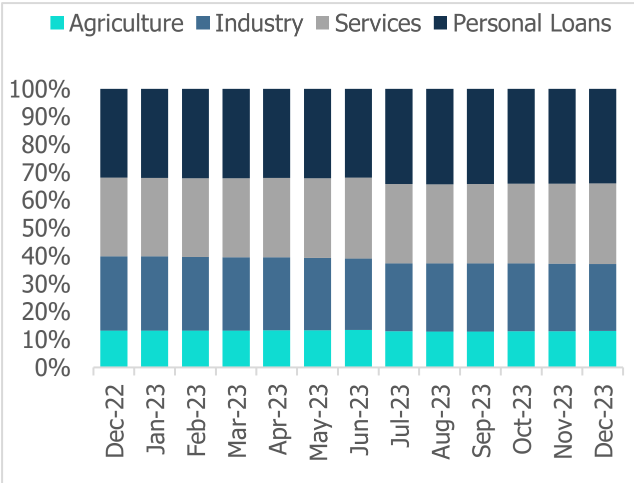
Figure 3: Monthly Trend in Gross Bank Credit Outstanding and Growth (%)



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

Figure 4: Shift Towards Retail in Bank Sectoral Credit Growth (y-o-y) and Share (%)





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

Figure 5: Sequential (m-o-m) Movement in Select Segments (%)

	Dec 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23
NBFCs	7.4	-3.3	0.5	2.6	4.0	1.2	1.8
Other Personal Loans	6.5	2.1	1.1	1.8	3.6	0.8	2.8

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

The above figure exhibits the sequential growth in select segments, while the growth is more than the November 2023 numbers and the average over the last 12 months, it is lower than the growth exhibited in December 2021 and December 2022. It can be observed that although the growth has continued, it has been at a lower level implying that the RBI notification may be having some effect. [RBI Looks to Reduce Risk Build-up in the Unsecured Lending Segment]

Figure 6: Sectoral Distribution of Credit: December 2023 (Rs. Lakh Crore)

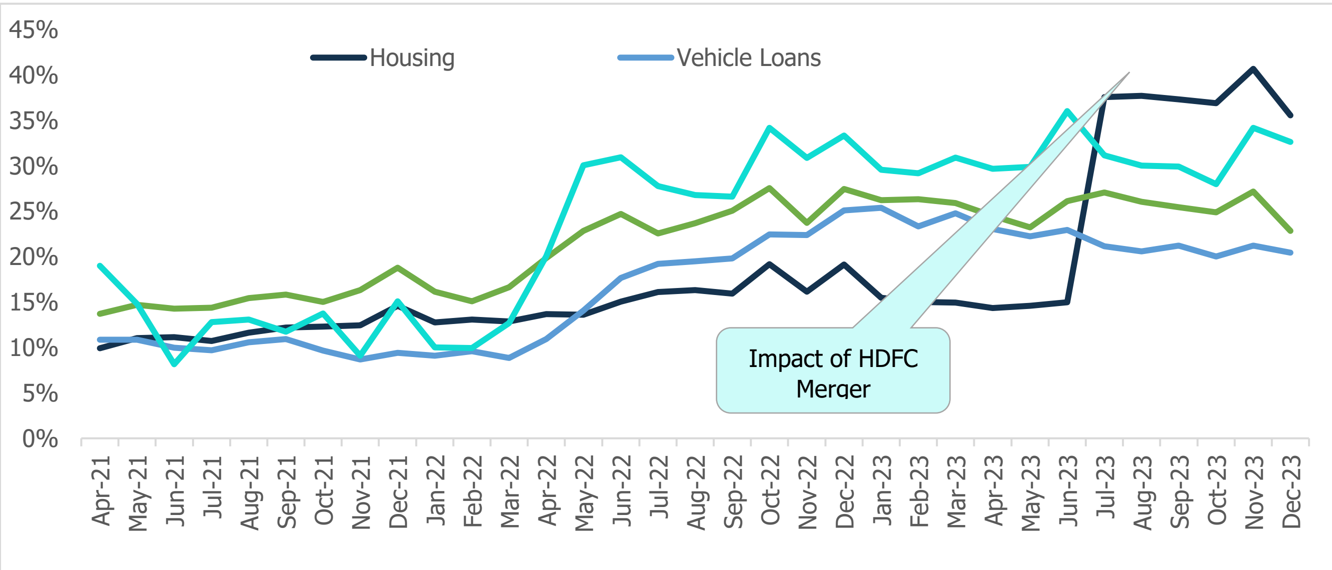
Particulars	O/s Credit	% Chg	% Chg Y-o-Y						
	Dec 29, 2023	M-o-M	Dec 22	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23
Gross Credit	**159.6**	**2.2**	**14.9**	**19.7**	**19.8**	**20.0**	**19.7**	**20.6**	**19.9**
Non-Food	**159.2**	**2.2**	**15.3**	**19.8**	**19.9**	**20.0**	**19.8**	**20.8**	**20.1**
Agri	**19.9**	**3.3**	**11.6**	**16.8**	**16.6**	**16.8**	**20.3**	**18.2**	**19.5**
Industry	**36.6**	**1.8**	**8.6**	**5.8**	**6.6**	**7.1**	**8.6**	**6.6**	**8.6**
MSME	9.9	2.2	14.1	9.8	10.5	10.0	22.7	15.6	13.1
Large	26.7	1.6	6.9	4.4	5.4	6.1	4.1	3.6	7.0
Services	**44.1**	**3.3**	**19.4**	**23.6**	**24.8**	**25.1**	**26.8**	**25.4**	**22.9**
Trade	9.4	3.2	13.9	17.1	14.2	16.2	24.0	19.0	17.1
Commercial RE	4.4	1.7	5.6	38.0	38.5	37.8	39.0	37.5	37.6
NBFCs	15.2	1.8	34.0	23.6	25.8	26.3	23.2	21.5	15.1
Personal Loans	**51.8**	**2.4**	**20.4**	**31.2**	**30.8**	**30.4**	**32.6**	**30.1**	**28.5**
Housing	26.4	1.8	16.4	37.6	37.7	37.3	40.6	37.0	35.6
Vehicle Loans	5.8	3.3	24.6	21.2	20.6	21.2	20.5	20.8	20.5
Other Pers. Loans	13.3	2.8	25.2	27.1	26.0	25.5	27.7	24.3	22.9

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

The personal loans segment (the largest segment with a 34% share) witnessed a robust growth of 28.5% y-o-y for December 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 be driven by miniaturisation of credit, increased use of credit bureaus for faster decisions and 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 17.7% y-o-y as compared to 20.4% y-o-y in December 2022 which can be attributed to the moderation in the growth rate of housing and vehicles.

Figure 7: Continued Growth in Advances of Banks to Select Personal Loan Segments (y-o-y, %)



Source: RBI

- Housing loans grew by 35.6% y-o-y in December 2023 compared to 16.4% a year ago mainly due to the merger (reclassification of HDFCs' advances), sales of high-value residencies, a pause in the interest rate cycle, strong launch pipeline of residential projects and incentives and schemes offered by developers. If the merger was excluded, the growth would have decelerated by roughly 190 bps to 14.4% y-o-y.
- Vehicle loans registered a slightly lower growth of 20.5% y-o-y in December 2023 as compared to 24.6% in the year-ago period. The growth can be attributed to comparatively higher sales of passenger vehicles and premiumisation of the vehicle market.

Figure 8: Sequential (m-o-m) Movement in Credit Card Outstandings (%)

	Dec 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23
Credit Card O/s	4.2	2.0	2.0	-0.3	10.8	1.7	2.9

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

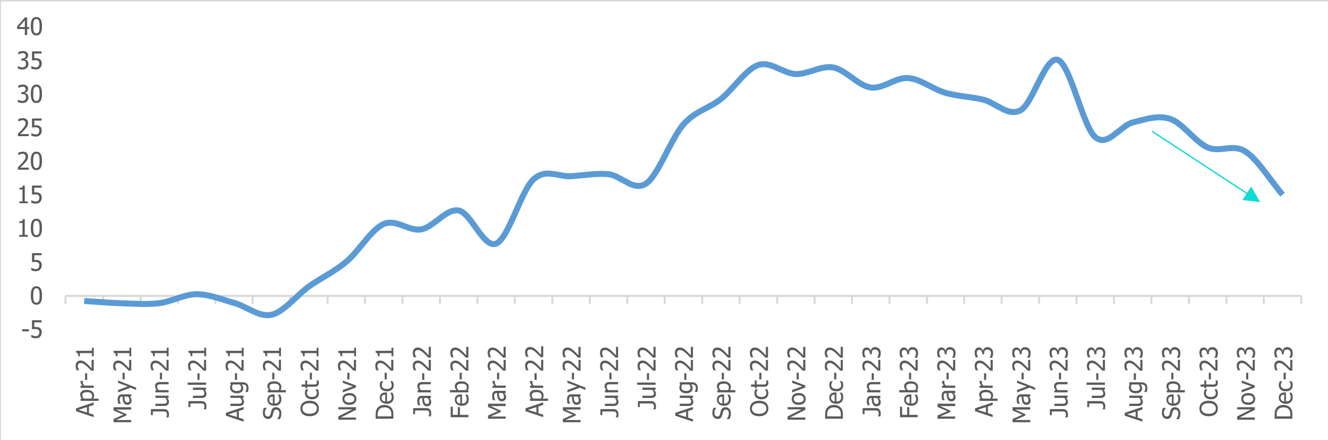
- Credit card outstanding continued to be elevated in December 2023 reaching Rs 2.5 lakh crore, a y-o-y growth of 32.6%, while increasing by 2.9% sequentially (which is lower than December 2022 rate). However, the credit card segment has seen some moderation in the y-o-y growth rate sequentially after the RBI increased the risk weights. Meanwhile, the monthly spending has increased significantly along with the number of cards in force, hence the spending per card has increased marginally.
- The other personal loans reached Rs 13.3 lakh crore and rose by 22.9% y-o-y which is slower than the growth rate reported last month given RBI's action of increasing the risk weights on consumer loans. The growth can be attributed to a rise in small ticket-size loans and faster turnaround due to digitalisation.

Services

The services sector reported a robust growth of 22.9% y-o-y in December 2023 compared to a growth of 24.5% in November 2023 and 19.4% 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 19.6% y-o-y. Meanwhile, growth in NBFCs and trade moderated sequentially.

- The credit exposure of banks to NBFCs stood at Rs 15.2 lakh crore in December 2023, indicating a 15.1% y-o-y growth. However, the proportion of NBFC exposure in relation to aggregate credit has reduced from 9.9% in December 2022 to 9.5% in December 2023. In December 2023, the six-month average y-o-y expansion in bank advances to NBFCs has reduced to around 22% levels compared to the approximately 30% average growth in the 12 months prior to the same. This may likely be attributed to the RBI's increasing risk weights. On a month-on-month (m-o-m) basis, the amount rose by 1.8%. After the merger of HDFC Limited with HDFC Bank, the quantum of outstanding exposure of banks to NBFCs reduced sequentially, albeit maintaining the y-o-y growth rate which has since moved past the pre-merger level.

Figure 9: Continued Growth in Advances of Banks to NBFCs (y-o-y, %)



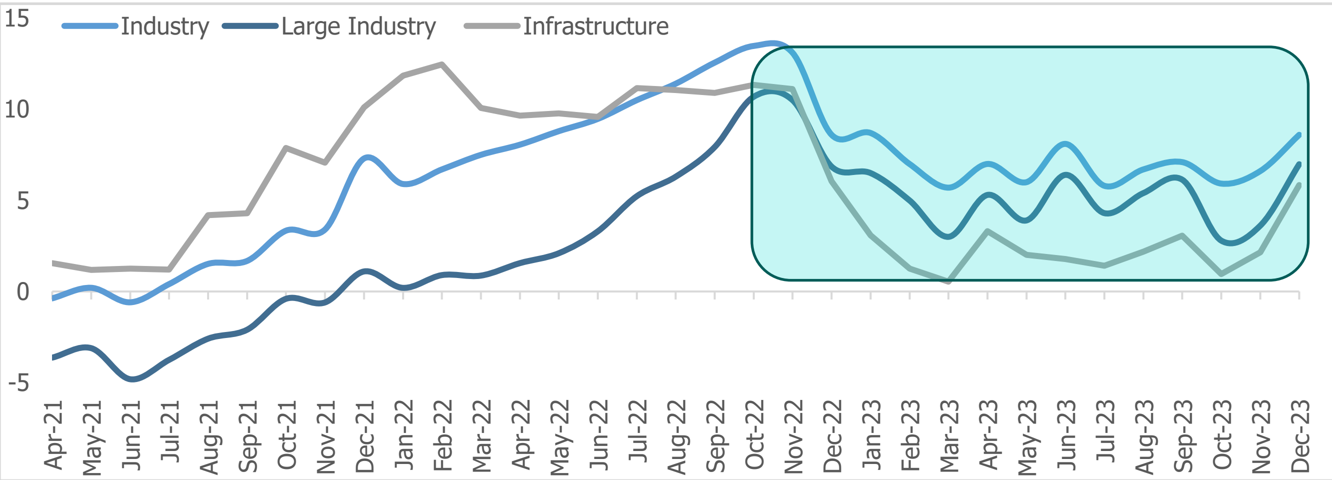
Source: RBI, Note: Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly.

- Commercial real estate rose by 37.6% y-o-y in December 2023 due to mergers and continued robust demand. However, without considering the merger it rose by 16.6% y-o-y vs. 5.6% y-o-y in December 2022.
- Trade grew 17.1% in December 2023 as compared to 13.9% in the year-ago period due to growth in retail (17.2%).
- The growth in services was also led by 37.8% y-o-y growth in 'other services'. Even if we exclude the merger impact, it rose by 32.7% y-o-y in December 2023 compared to 12.9% in December 2022.

Industry

The credit outstanding of the industry segment registered a similar growth at 8.6% y-o-y in December 2023 and December 2022. The moderation 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 8.1%. The lower growth was due to moderation in credit for basic metal & metal products, chemicals & chemical products and infrastructure along with a reduction in petroleum, coal products, & nuclear fuels. This moderation was partially offset by a rise in food processing and textiles. The industry's MSME credit growth slowed from 14.1% y-o-y in December 2022 to 13.1% y-o-y in December 2023 due to a high base. The credit to large industries increased from 6.9% y-o-y in December 2022 to 7.0% in December 2023.

Figure 10: Movement in Industry (y-o-y, %) – Muted Growth in Infra Pulls Down 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 infrastructure (sub-segment, within the industry 35.2% share) witnessed a credit growth of 5.8% y-o-y in December 2023 vs. a rise of 6.1% over the year-ago period due to a drop in the ports, and airports, along with comparatively slow growth in road and railways (ex. Indian Rail). Meanwhile, the telecommunications segment reported faster growth compared to the same period last year. The power segment (the largest segment of infrastructure, with a share of 50.1) witnessed a growth of 3.8% in December 2023 vs. a rise of 3.6% in December 2022. Meanwhile, the credit offtake for roads halved from 12.9% y-o-y in December 2022 to 6.1% in December 2023. This deceleration can be attributed to lower allotments of projects and lower working capital requirements. Additionally advances from banks have stagnated as companies borrowed more from other sources like the bond market and non-bank lenders.

Conclusion

The longer-term outlook continues to remain positive, driven by economic expansion, increased capital expenditure, and a sustained focus on retail credit. In terms of segmental performance, the personal loan segment, driven in part by the merger's influence, would outperform industry and service segments. The unsecured retail and NBFCs could likely witness some deceleration ahead due to risk weights tightening. Revival of credit growth in large industries could accelerate the overall non-food credit growth and provide some cushion in case of a slowdown in growth momentum in the retail vertical. 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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