Services and Unsecured Personal Loans Drive Credit Offtake in Jan 24

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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 20.3% year-on-year (y-o-y) in January 2024 propped by the impact of the merger between HDFC Bank and HDFC along with the sustained demand from the personal loans and services segments which offset the comparatively tepid growth in the industry segment. Without considering the merger, the y-o-y growth stood at 16.1%, lower by 0.2% than last year's growth number of 16.3%.
    - Personal loans witnessed a robust growth of 28.8% 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 housing loans. Excluding the merger impact, the growth rate reduced by around 230 bps to 18.4% in January 2024 on a y-o-y- basis.
    - Services segment reported a rise of 23.9% y-o-y in January 2024 (higher than 22.9% in December 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 20.7% y-o-y vs. 21.4% a year ago without considering the merger.
    - Industry growth reduced to 8.3% y-o-y in January 2024 from 8.6% in December 2023 and 8.7% in January 2023 as growth in large corporates decelerated and due to slower growth in Micro, Small & Medium Enterprises (MSME).
- Incremental gross bank credit rose by 17.3% in January 2024. Without considering the merger (at 13.3%), it was higher by approximately 110 bps from 12.2% over a year ago.

Summary of Sectoral Performance

Figure 1: Sectoral Distribution of Credit: January 2024 (Rs. Lakh Crore, %)

Particulars	O/s Credit	Chg	% Growth in Credit		% Growth in Inc. Credit	
	As of Jan 26, 2024	M-o-M (%)	Jan 23 vs Jan 22	Jan 24 vs Jan 23	Jan 23 vs Mar 22	Jan 24 vs Mar 23
Gross Bank Credit	**160.4**	**0.5**	**16.3**	**20.3**	**12.2**	**17.3**
Non-Food Credit	**160.0**	**0.5**	**16.7**	**20.4**	**12.3**	**17.2**
Agriculture & Allied	20.1	0.9	14.4	20.1	12.0	16.5
Industry	36.5	-0.3	8.7	8.3	4.2	7.0
Services	44.2	0.3	21.4	23.9	15.5	19.5
Personal Loans	52.2	0.8	20.7	28.8	17.3	24.8

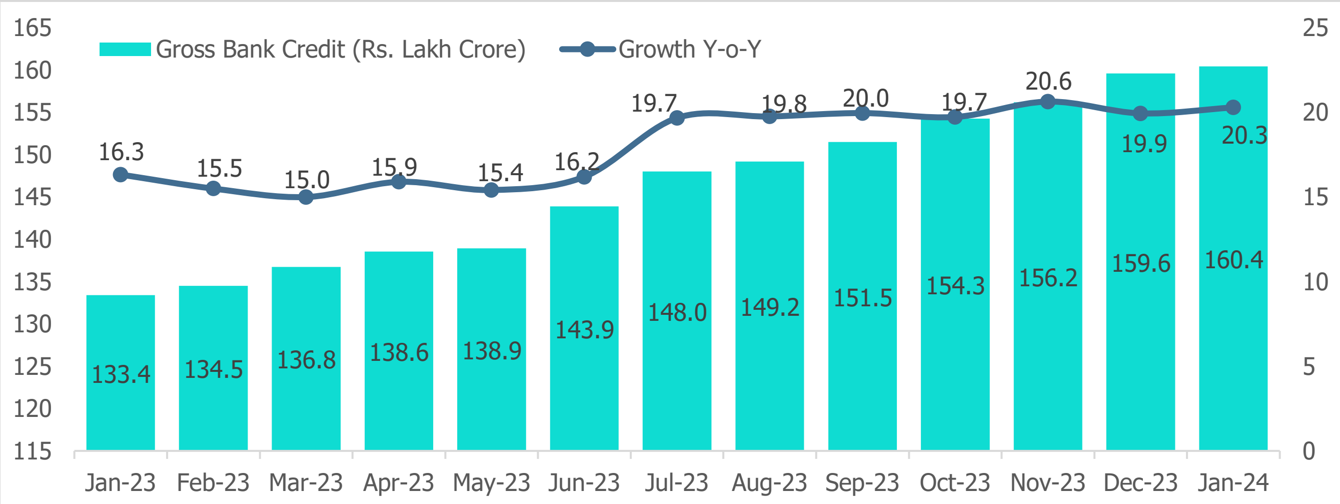
Source: RBI, Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly

Figure 2: Growth Excl. Merger Impact: Continued Moderation in Personal Loans – Jan-24, (%)

Particulars	Credit Growth (y-o-y)	Changes (y-o-y, bps)	Incremental. Credit Growth	Changes (y-o-y) (bps)
Gross Credit	**16.1**	**-19**	13.3	**114**
Non-Food Credit	**16.2**	**-49**	13.1	**84**
Industry	7.8	-92	6.5	225
Services	20.7	-68	16.4	92
Personal Loans	18.4	-233	14.7	-256

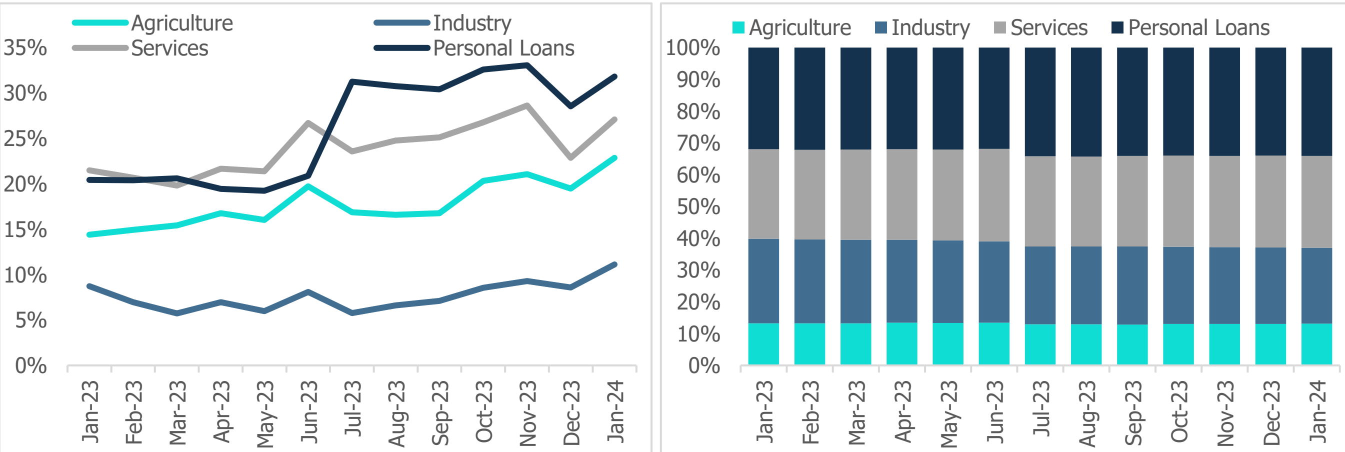
Source: RBI

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: Sectoral Distribution of Credit: January 2024 (Rs. Lakh Crore)

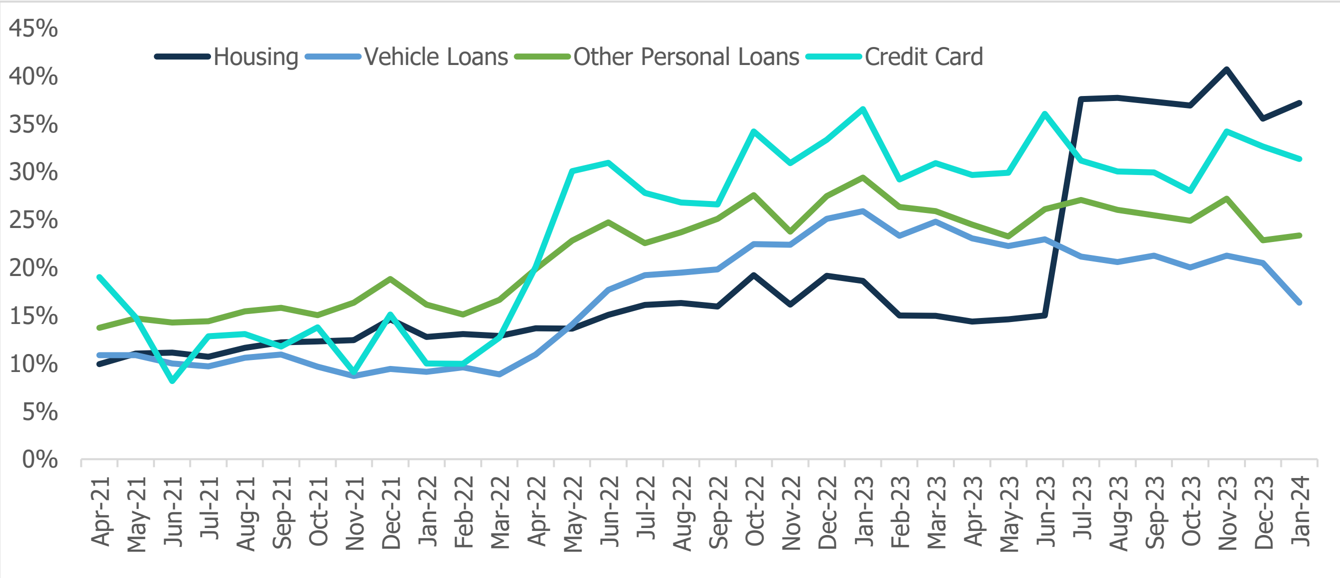
Particulars	O/s Credit	% Chg	% Chg Y-o-Y					
	Jan 26, 2024	M-o-M	Jan 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24
Gross Credit	**160.4**	**0.5**	**16.3**	**19.8**	**20.0**	**19.7**	**20.6**	**19.9**	**20.3**
Non-Food	**160.0**	**0.5**	**16.7**	**19.9**	**20.0**	**19.8**	**20.8**	**20.1**	**20.4**
Agri	**20.1**	**0.9**	**14.4**	**16.6**	**16.8**	**20.3**	**18.2**	**19.5**	**20.1**
Industry	**36.5**	**-0.3**	**8.7**	**6.6**	**7.1**	**8.6**	**6.6**	**8.6**	**8.3**
MSME	10.0	1.0	16.0	10.5	10.0	22.7	15.6	13.1	14.4
Large	26.5	-0.8	6.4	5.4	6.1	4.1	3.6	7.0	6.2
Services	**44.2**	**0.3**	**21.4**	**24.8**	**25.1**	**26.8**	**25.4**	**22.9**	**23.9**
Trade	9.6	1.6	16.7	14.2	16.2	24.0	19.0	17.1	17.8
Commercial RE	4.4	0.5	8.2	38.5	37.8	39.0	37.5	37.6	36.3
NBFCs	15.0	-1.1	30.6	25.8	26.3	23.2	21.5	15.1	15.6
Personal Loans	**52.2**	**0.8**	**20.7**	**30.8**	**30.4**	**32.6**	**30.1**	**28.5**	**28.8**
Housing	26.6	0.8	15.7	37.7	37.3	40.6	37.0	35.6	37.2
Vehicle Loans	5.8	-1.0	25.4	20.6	21.2	20.5	20.8	20.5	16.3
Other Pers. Loans	13.5	1.6	26.6	26.0	25.5	27.7	24.3	22.9	23.3

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 34.1% share) witnessed a robust growth of 28.8% y-o-y for January 2024 boosted by the impact of the HDFC merger, growth in credit card outstandings, other personal loans, and housing 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 robust demand during the month. If we consider the growth excluding the merger, it marginally moderated to 18.4% y-o-y as compared to 20.7% y-o-y in January 2023 which can be attributed to the moderation in the growth rate of other personal loans and vehicles.

Figure 6: Continued Growth in Advances of Banks to Select Personal Loan Segments (y-o-y, %)



Source: RBI

- Housing loans grew by 37.2% y-o-y in January 2024 compared to 15.7% a year ago mainly due to the merger (reclassification of HDFCs' advances), sales of high-value residencies, strong launch pipeline of residential projects and incentives and schemes offered by developers. If the merger was excluded, the growth would have been higher by roughly 100 bps to 16.7% y-o-y.
- Vehicle loans registered a lower growth of 16.3% y-o-y in January 2024 as compared to 25.4% in the year-ago period. The continued growth, albeit slower compared to previous periods, can be attributed to higher sales of passenger vehicles and two wheelers.

Figure 7: Sequential (m-o-m) Movement in Credit Card Outstandings (%)

	Jan 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24
Credit Card O/s	3.6	2.0	-0.3	10.8	1.7	2.9	2.6

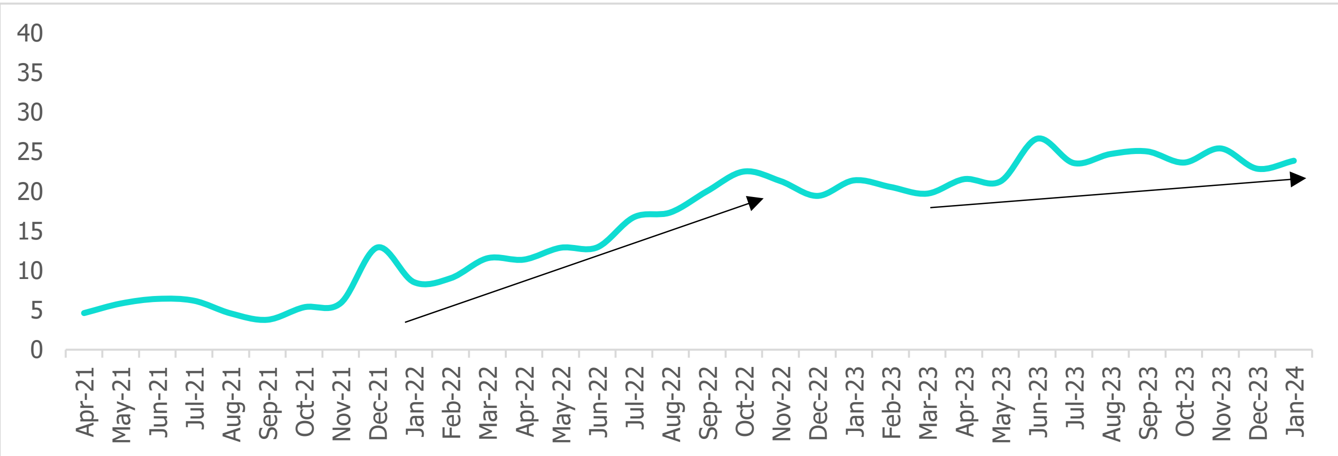
Source: RBI, Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly

- Credit card outstanding continued to be elevated in January 2024 reaching Rs 2.6 lakh crore, a y-o-y growth of 31.3%, while increasing by 2.6% sequentially (which is lower than January 2023 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 along with the number of cards in force.
- The other personal loans reached Rs 13.5 lakh crore and rose by 23.3% y-o-y, which is slower than the average growth rate of the last twelve months. reported last month given. The deceleration can be attributed to RBI's action of increasing the risk weights on consumer loans while the growth is on account of the small ticket-size loans and faster turnaround due to digitalisation.

Services

The services sector reported a robust growth of 23.9% y-o-y in January 2024 compared to a growth of 22.9% in December 2023 and 21.4% in the year-ago period due to growth in commercial real estate (merger impact and demand), and NBFCs. Without considering the merger, the growth would have been 20.7% y-o-y. Meanwhile, growth in Trade and Commercial RE improved sequentially, while growth in NBFCs moderated. In January 2024, the Services segment growth rate remained above the approximately 23% average growth in the 12 months prior to the same.

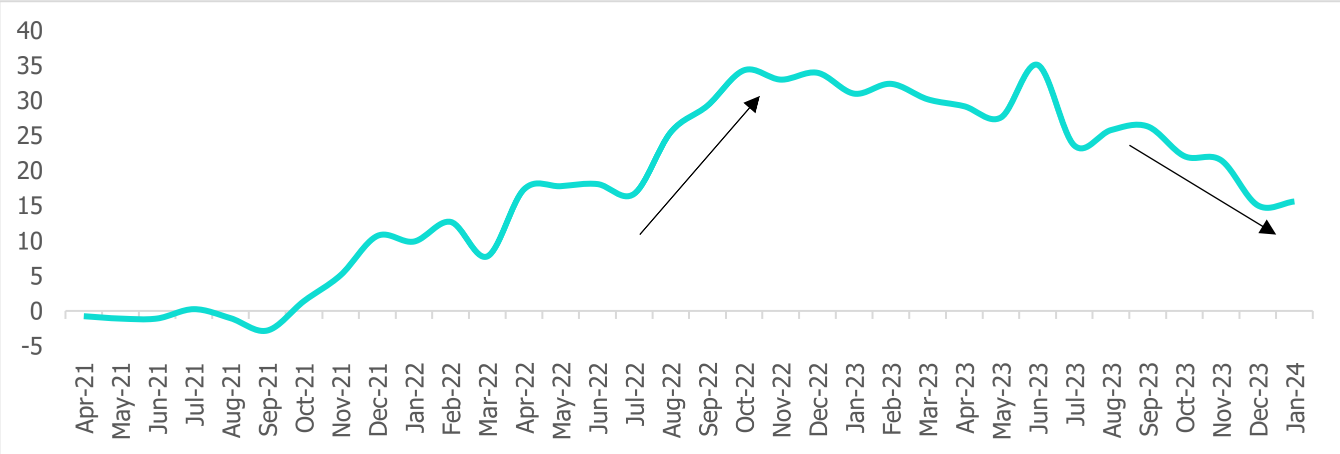
Figure 8: Movement in Services (y-o-y, %) – Continues to Remain Strong



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

- The credit exposure of banks to NBFCs stood at Rs 15.0 lakh crore in January 2024, indicating a 15.6% y-o-y growth which is nearly half of the growth rate reported in January 2023. On a month-on-month (m-o-m) basis, the amount fell by 1.1%.
- However, the proportion of NBFC exposure in relation to aggregate credit has reduced from 9.7% in January 2023 to 9.4% in January 2024.
- In January 2024, the six-month average y-o-y expansion in bank advances to NBFCs has reduced to around 21% levels compared to the approximately 28-30% average growth in the 12 months prior to the same. This could likely be attributed to the RBI's increasing risk weights and higher borrowings in the capital market.
- 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, %)



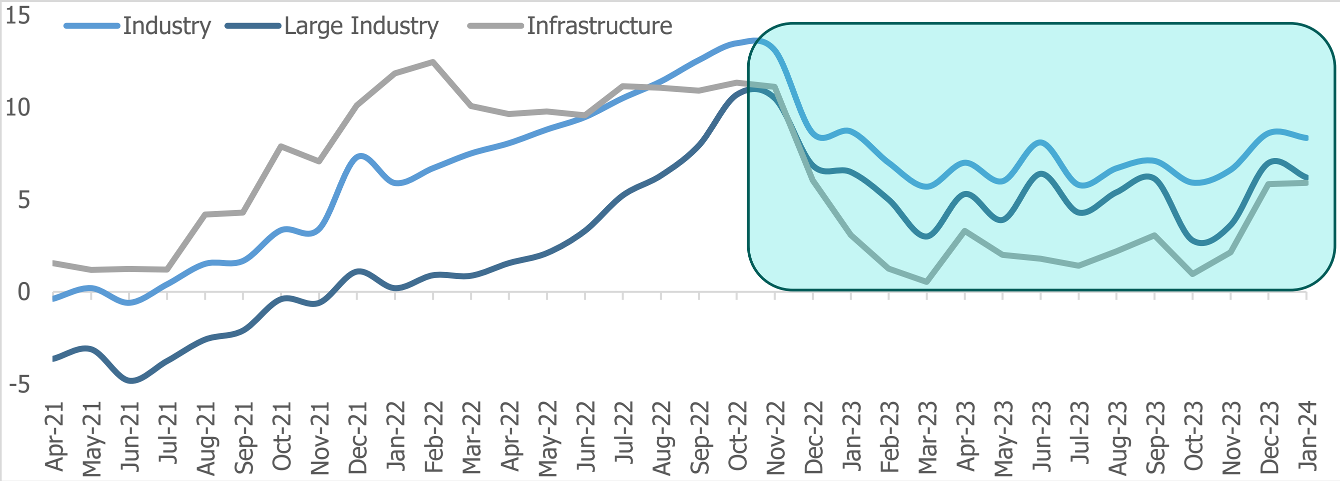
Source: RBI, Note: Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly.

- Commercial real estate rose by 36.3% y-o-y in January 2024 due to the merger and continued robust demand. Meanwhile, without considering the merger it rose by 16.3% y-o-y vs. 8.2% y-o-y in January 2023.
- Trade grew 17.8% in January 2024 as compared to 16.7% in the year-ago period due to growth in wholesale (19.4%).
- The growth in services was also led by 40.7% y-o-y growth in 'other services'. Even if we exclude the merger impact, it rose by 35.6% y-o-y in January 2024 compared to 24.2% in January 2023.

Industry

Industry growth reduced to 8.3% y-o-y in January 2024 from 8.6% in December 2023 and 8.7% in January 2023. 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 7.8%. The lower growth was due to moderation in credit for basic metal & metal products' and 'chemicals & chemical products' along with a reduction in mining & quarrying and petroleum, coal products, & nuclear fuels. This moderation was partially offset by a rise in food processing and textiles. The moderation in the growth rate can be accounted for by the fall in base metals prices compared to the year ago period as well as the exchange rate holding up leading to lower capital requirement. The industry's MSME credit growth slowed from 16.0% y-o-y in January 2023 to 14.4% y-o-y in January 2024 due to a high base. The credit to large industries slowed from 6.4% y-o-y in December 2022 to 6.2% in December 2023. Meanwhile, credit to large industries fell sequentially by 0.8%.

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 35.0% share) witnessed a credit growth of 5.9% y-o-y in January 2024 vs. a rise of 3.1% over the year-ago period due to a drop in the ports, and airports, along with comparatively slow growth in power, and roads. Meanwhile, telecommunications, railways (excl. Indian Rail), and other infrastructure segments reported faster growth compared to the same period last year. The power segment (the largest segment of infrastructure, with a share of 50.0%) witnessed a growth of 3.2% in January 2024 vs. a rise of 4.3% in January 2023. Meanwhile, the credit offtake for roads stood at two-thirds of the rate last year. i.e. 6.0% y-o-y in January 2024 from 9.2% in January 2023. This deceleration can be attributed to 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 continue to outperform the industry and service segments. The unsecured retail and NBFCs could continue to witness some deceleration ahead due to risk weights tightening. Elevated interest rates, any further rise in the repo rate, inflation, slower deposit growth and global uncertainties regarding geo-political issues are other key factors which could weigh on credit growth.

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