Bank Credit Offtake Continues to Cool in September 2024

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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

- Non-food credit offtake slowed to 13.0% y-o-y in September 2024, down from 20.0% in September 2023. This slowdown is due to a higher base effect, RBI measures such as higher risk weights and the proposed LCR norms, and a focus on managing the Credit to Deposit ratio (which has remained around 80%). Credit offtake in September 2024 was driven by industry (large and MSMEs), Commercial Real Estate, and Mortgages, partially offset by lower growth in NBFCs and other personal loans.

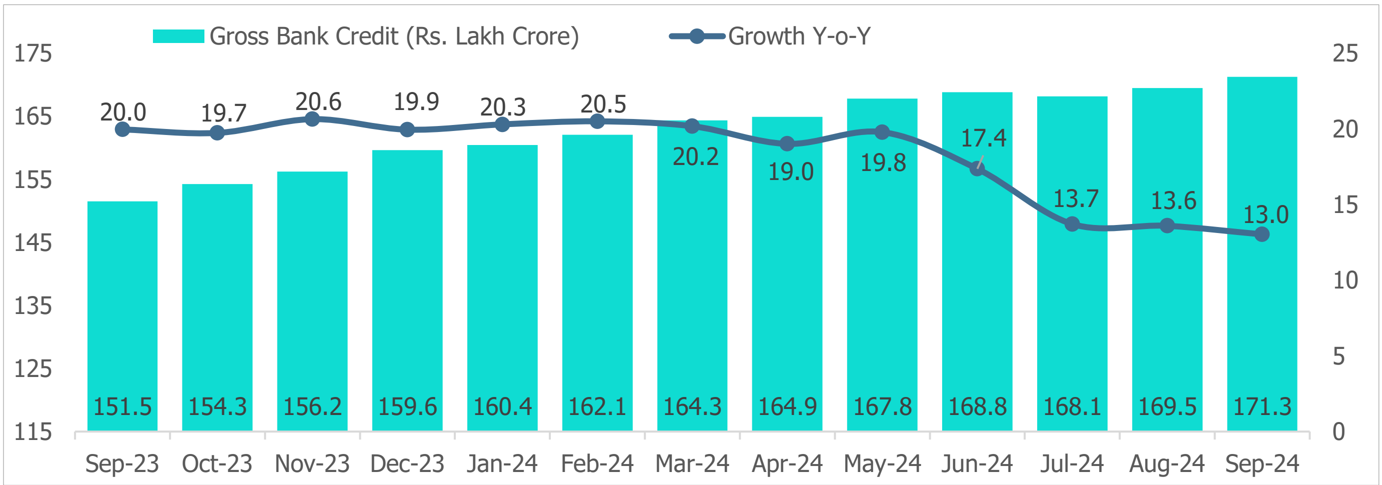
Summary of Sectoral Performance

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

Particulars	O/s Credit	Chg	% Growth in Credit		% Inc. Growth	
	As of Sep 20, 2024	M-o-M (%)	Sep 23 vs Sep 22	Sep 24 vs Sep 23	Sep 23 vs Mar 23	Sep 24 vs Mar 24
Gross Bank Credit	**171.3**	**1.1**	**20.0**	**13.0**	**10.8**	**4.2**
Non-Food Credit	**171.1**	**1.1**	**20.0**	**13.0**	**10.8**	**4.2**
Agriculture & Allied	21.7	0.3	16.7	16.4	7.9	4.6
Industry	38.0	1.2	6.5	8.9	3.7	4.1
Services	47.4	2.0	25.4	13.7	12.0	3.2
Personal Loans	56.0	1.9	30.0	13.4	18.0	5.0

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

Figure 2: 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

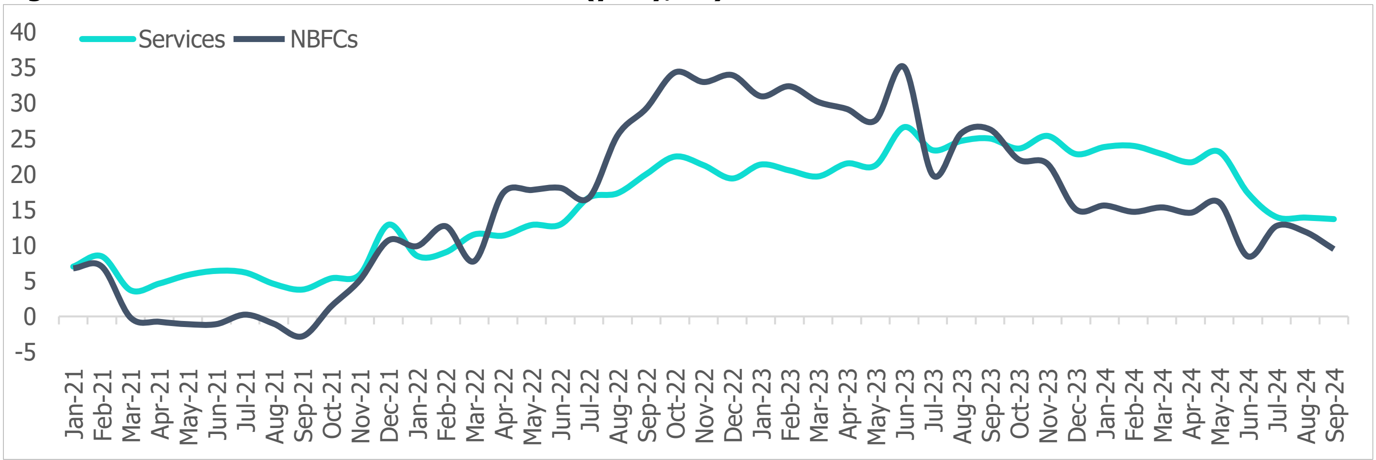
Figure 3: Sectoral Distribution of Credit: September 2024 (Rs. Lakh Crore)

Particulars	O/s Credit	% Chg	% Chg Y-o-Y (incl Merger)		% Chg Y-o-Y (excl Merger)
	Sep 20, 2024	M-o-M	Sep 23	Sep 24	Sep 23
Services	**47.4**	**2.0**	**25.4**	**13.7**	**21.6**
Trade	10.7	1.9	18.5	14.3	NA
Commercial RE	5.0	0.5	44.8	12.5	16.1
NBFCs	15.3	0.4	21.9	9.5	NA
Industry	**38.0**	**1.2**	**6.5**	**8.9**	**6.0**
MSME	10.9	1.6	9.7	15.5	NA
Large	27.2	1.1	5.4	6.5	NA

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

Services

Figure 4: Movement in Services and NBFCs (y-o-y, %)

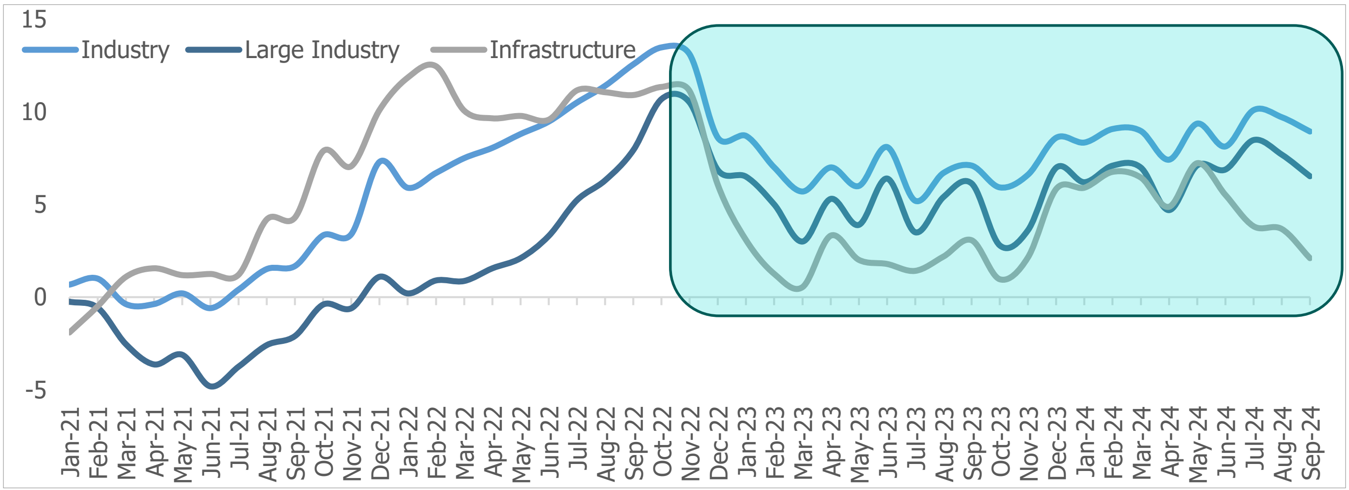


Source: RBI; Note: Merger between HDFC Bank and HDFC Ltd is effective from July 01, 2023, so data is not comparable directly

- The segment witnessed a decrease in credit growth to 13.7% y-o-y in September 2024, from 25.4% recorded in September 2023. This decline in growth can be attributed to reduced credit expansion to NBFCs (risk weights) commercial real estate and trade.
- Banks' o/s credit exposure to NBFCs stood at Rs 15.3 lakh crore as of September 2024, indicating a 9.5% y-o-y growth, which is less than half the growth rate reported in September 2023. Advances to NBFCs have been below the overall bank credit growth since December 2023, due to regulatory actions (risk weights), base effects, and capital market borrowings.
  - The proportion of NBFC exposure in relation to aggregate credit reduced from 9.2% in September 2023 to 8.9% in September 2024.
- Commercial real estate credit rose by 12.5% y-o-y in September 2024. The growth rate of trade decelerated to 14.3% in September 2024, from 18.5% in September 2023. Within Trade, retail trade grew at a slower 10.9% in September 2024 compared to 22.5% in September 2023. Other services grew by a lesser rate of 19.7% y-o-y growth compared to 33.1% last year.

Industry

Figure 5: Movement in Industry (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.

- Industry growth rose by 8.9% y-o-y in September 2024, up from 6.5% in September 2023.
    - Among major industries, credit to chemicals and chemical products, food processing, petroleum, coal products and nuclear fuels, and all-engineering sub-segments recorded higher growth in September 2024 compared to their growth a year ago. In contrast, credit to basic metal and metal products, and textiles moderated. Credit to large industries increased to 6.5% y-o-y in September 2024, compared to 5.4% in September 2023.
    - The infrastructure (sub-segment, within the industry 34.2% share) witnessed a credit growth of 2.1% y-o-y in September 2024, down from 3.0% in the year-ago period. The power segment (the largest segment of infrastructure, with a share of 49.4%) witnessed a growth of 3.4% in September 2024, compared to a decline of 0.3% in September 2023. Meanwhile, credit offtake for roads reduced to 2.8% y-o-y in September 2024, down from 8.8% in September 2023.

Personal Loans

Figure 6: Sectoral Distribution of Credit: September 2024 (Rs. Lakh Crore)

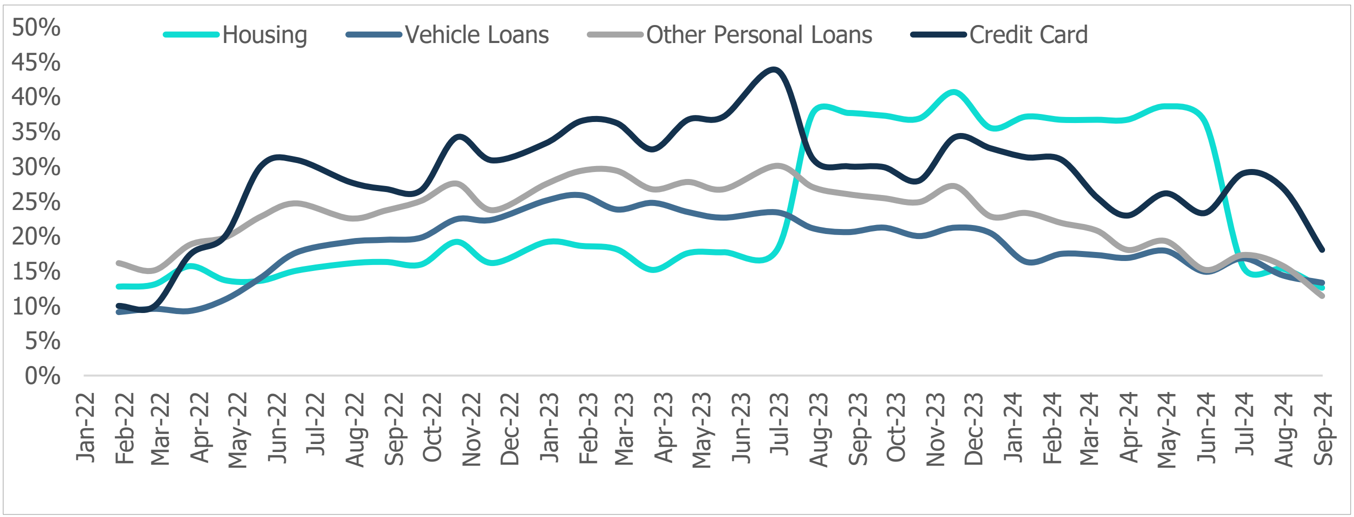
Particulars	O/s Credit	% Chg	% Chg Y-o-Y (incl Merger)		% Chg Y-o-Y (excl Merger)
	Sep 20, 2024	M-o-M	Sep 23	Sep 24	Sep 23
Personal Loans	**56.0**	**0.7**	**30.0**	**13.4**	**18.2**
Housing	28.5	0.4	36.2	12.6	13.5
Vehicle Loans	6.2	1.0	21.2	13.3	NA
Other Pers. Loans	14.3	1.0	26.3	11.4	23.6

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

- The personal loans segment's growth rate slowed to 8.1% for the December-September period, compared to 22.6% for the same period last year. This slowdown is due to unfavourable base, housing, vehicles, and unsecured consumer loans decelerated.

- Meanwhile, the personal loans segment witnessed a growth of 13.4% y-o-y for September 2024, supported by growth in credit card outstandings, gold loans, and housing loans. The slower rise can be attributed to RBI measures to restrict unsecured consumer credit.

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



Source: RBI

- Housing loans grew by 12.6% y-o-y in September 2024, compared to 36.2% (ex-merger: 13.5%) a year ago. This growth was mainly due to a high base effect but was supported by upcoming residential projects, high value sales, and incentives & schemes offered by developers.
- Vehicle loans registered a lower growth of 13.3% y-o-y in September 2024, compared to 21.2% in the year-ago period. The slower growth was slower due to muted automotive sales.
- Advances to individuals against gold rose by 51.0% in September 2024, up from 14.6% growth reported in the year-ago period. The increase in gold prices has made gold more attractive as collateral. However, RBI's strictures on inconsistencies identified during a recent review and comments on strengthening the controls could throttle growth to a certain extent.
- The other personal loans segment touched Rs 14.27 lakh crore, rising by 11.4% y-o-y, which is less than half of the 26.3% rate recorded in the year-ago period. The deceleration can be attributed to RBI's increasing risk weights on consumer loans and with some banks indicating stress in the portfolio. Growth can be attributed to the digitalisation of loans (faster loan turnaround and robust process), and preferences for premium consumer products.

Conclusion

After reporting robust growth in FY24, credit offtake would moderate in FY25, led by temperance in unsecured retail and slower growth in advances to NBFCs. Personal loans are likely to continue to outperform industry and service sectors. Medium-term prospects seem promising, with reduced corporate stress and sufficient provision buffer but ebbing inflation could also reduce the working capital demand. Further, with enhanced focus on shoring up the deposit base and managing the Credit to Deposit ratio (which hovers around 80% currently) and the proposed LCR norms, bank credit offtake could face challenges and growth is likely to moderate from our earlier expectations.

Contact

Sanjay Agarwal	Senior Director – BFSI Ratings	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
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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