

Credit growth remains lacklustre

RBI data shows subdued 12% YoY credit growth for the fortnight ended 02 August and stable 10% deposit growth. Despite steep rate cuts and surplus liquidity in the system, transmission remains a challenge – banks have lowered interest rates on fresh rupee loans by only 29bps this year (Feb-Jun) despite a 75bps reduction in repo rate (excl. the latest 35bps cut in August). In our view, credit growth will remain anaemic in FY20 despite the shift in pricing power from NBFCs to banks.

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Deposit growth stable at 10%: Deposit growth for the fortnight ended 02 August was stable at 10% YoY, in keeping with the trend seen over the past couple of quarters. In absolute terms, deposits increased by Rs 0.9tn FoF to Rs 127tn. Growth remains tepid as banks continue to bring down interest rates on deposits, while relying on excess SLR investments to fund credit.

Credit growth still subdued: As per RBI data, credit growth for the fortnight ended 02 August stood at 12% YoY. In absolute terms, credit offtake grew by Rs 0.7tn FoF to Rs 97tn. RBI data on sectoral deployment of credit for Jun'19 suggests that while corporate loan growth was low at 6.4% YoY, it is showing gradual signs of revival. Home loans have been a vital driver of retail credit over the past few months, growing 18.9% YoY in June and exhibiting steady improvement amid the slowdown in unsecured credit and sharp deceleration in auto loans.

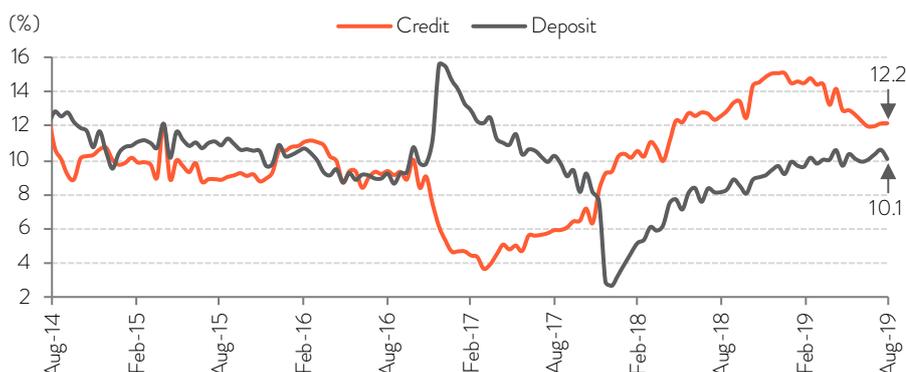
Expect sub-15% loan growth in FY20: We do not expect any material improvement in credit growth for FY20. However, market share gains by private banks are likely to continue.

KEY DATA

Particulars	02-Aug-19	03-Aug-18
Deposits (Rs tn)	127.4	115.8
YoY growth (%)	10.1	8.2
YTD growth (%)	1.4	1.3
Loans (Rs tn)	97.3	86.7
YoY growth (%)	12.2	12.6
YTD growth (%)	(0.4)	0.5
CD ratio (%)	76.3	74.9
SLR ratio (%)	26.1	28.1

Source: RBI, BOBCAPS Research

FIG 1 – CREDIT AND DEPOSIT GROWTH IN BANKING SYSTEM



Source: RBI, BOBCAPS Research

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Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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