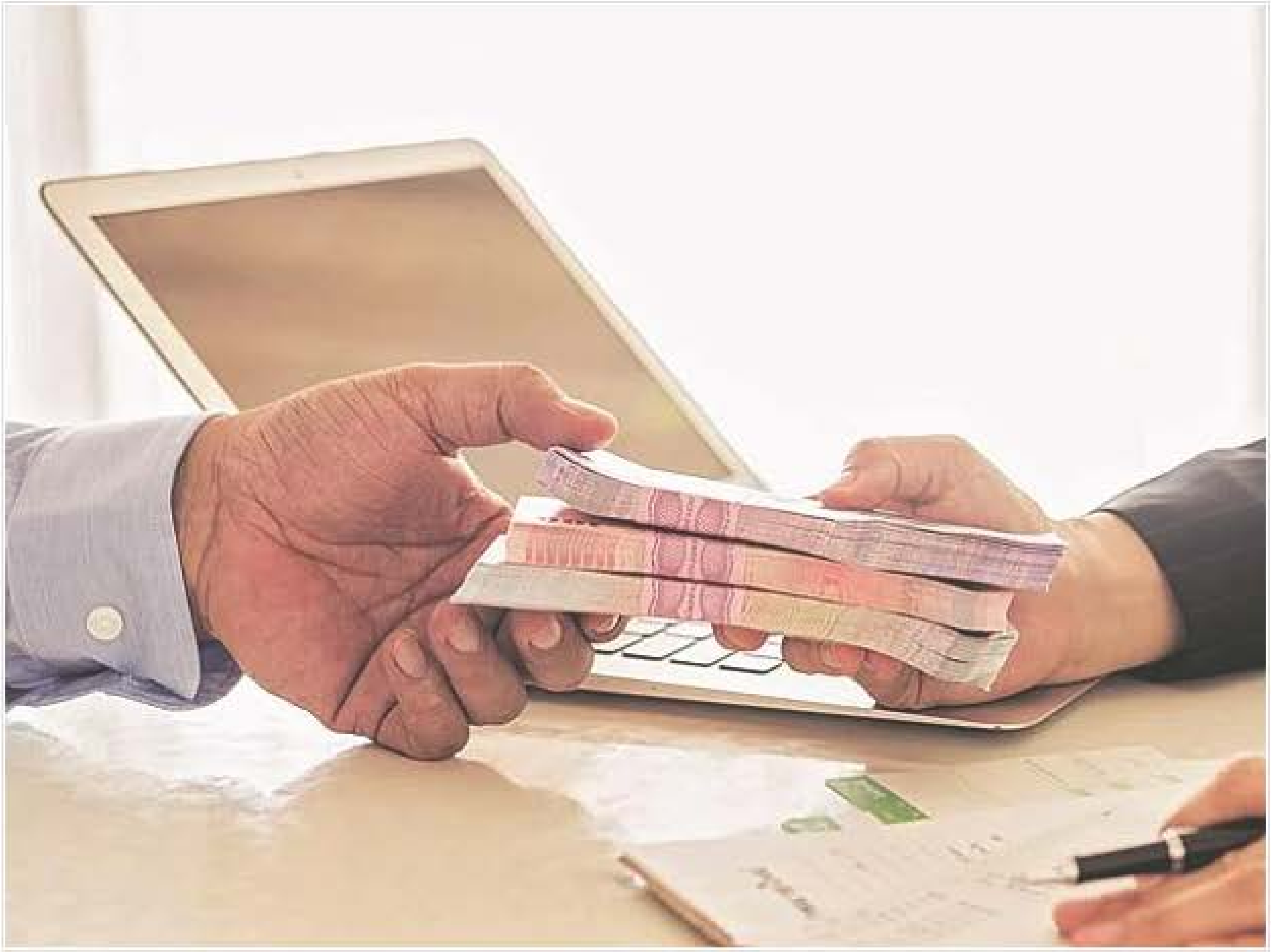
Business Standard

Growing credit demand in Q3 indicates revival of pvt capex cycle: Report

Credit growth has turned buoyant in the third quarter of this fiscal by a wide margin at Rs 3.5 trillion as against a steep Rs 2.2 trillion decline in deposits

Press Trust of India | Mumbai January 12, 2022 Last Updated at 17:32 IST



Credit growth, which has been lagging deposits for years, has turned buoyant in the third quarter of this fiscal by a wide margin at Rs 3.5 lakh crore as against a steep Rs 2.2 lakh crore decline in deposits, indicating that corporates' plans of capacity expansion across sectors, a report said.

Credit growth across banks, which had considerably weakened since FY20, has picked up significantly and was at 7.3 per cent to the week to December 17, 2021 -- a tad lower than pre-pandemic level of 7.5 per cent in December 2019.

On the other hand, deposits which was consistently in double-digits since the beginning of the pandemic and was at 12.3 per cent in March 2021 have decelerated to 9.5 per cent in December 2021 -- lower than the pre-pandemic level of 10 per cent, according to SBI Research on Wednesday.

The Q3 of FY22 has seen a visible expansion in credit growth across sectors with incremental CD (credit-deposit) ratio at 133 in Q3 as against only 2 in H1. Incremental deposits declined by Rs 2.2 lakh crore during this time while net credit sales rose by Rs 3.5 lakh crore, said Soumya Kanti Ghosh, group chief economic adviser at the State Bank of India.

Accordingly, gross bank credit grew from Rs 1,04,349 crore in November 2020 to Rs 1,09,516 crore in March 2021, and further to Rs 1,08,975 crore in August 2021, rising again to Rs 1,11,622 crore in November 2021. Of this the share of industries stood at Rs 27,602 crore, Rs 28,958 crore, Rs 28,196 crore and Rs 28,654 crore, respectively during this period, the report said.

Sectoral credit numbers also reflect better disbursements since September 2021. Growth in gross bank credit till August 2021, which was in negative by Rs 54,100 crore, was in the green with an incremental Rs 2,10,700 crore in November 2021an incremental growth of Rs 2,64,800 crore between September and November 2021--, thanks to uptick in credit to industries rose by Rs 45,800 crore, compared to net outflow of Rs 76,200 crore during April-August 2021.

New investment announcements, which were around Rs 10 lakh crore in the past two years, improved to Rs 12.79 lakh crore in the first nine months of FY22 and this can be 50 per cent more in FY22 than in FY21.

Major industries where new announcements were made during last nine months includes roads (Rs 1.79 lakh crore), community services (Rs 1.16 lakh crore), realty (Rs 1.19 lakh crore), iron & steel (Rs 1.08 lakh crore), machinery (Rs 0.86 lakh crore) and non-conventional power (Rs 0.80 lakh crore), as per the report.

The share of private participation in the investment announcements rose to 70 per cent from around 50 per cent a year ago, indicating revival of the capex and Gujarat, Maharashtra, Tamil Nadu, Karnataka and UP contributed 55 per cent of the new investment announcement in FY'22.

Sectors where demand for credit started picking up during last three months includes NBFCs, telecom, petroleum, chemicals, electronics, gems & jewellery and infrastructure including power and roads, which are seeing big ticket disbursements, said the report, adding views of market participants, suggest that demand from non-PSU credit is set to outpace that of PSU credit in Q4.

Mid-level companies sectors such as healthcare, commercial realty, pharma, infrastructure, NBFCs, and construction are also seeking large credit now. Co-lending with NBFCs remains one of the most preferred options of lending in the current scenario as it also helps NBFCs churn its capital and offer on-lending at affordable costs, Ghosh noted.

He said that the ongoing demand for credit is also substantiated by the bank's recent in-house industry survey which suggests capacity utilization remains robust, with more than two-thirds of respondents suggesting current capacity utilisation of more than 70 percent while 36 percent of them, from diverse sectors such as textiles, petrochemicals, building materials etc indicating better utilisation levels.

The report also noted that deposit growth has been led by the low-cost Casa deposits, which has far outpaced time deposits with people preferring precautionary motives, given the continued uncertainties.

Intriguingly, Ghosh said that commercial paper issuances rose 40 per cent to Rs 16.57 lakh crore in the first nine month of FY22, indicating recourse to working capital requirements, even as bond issuances declined by over 25 per cent to around Rs 4.1 lakh crore, which indicates that the reverse credit flow from banks to the bond market in FY21 is now on the wane as the deleveraging of corporates and substituting of high cost debt with low cost debt from the bond markets seems to be largely completed.

According to him, this is also possible as corporates are now taking recourse to term loans in anticipation of a future growth revival on the back of several government initiatives.

Meanwhile, capital to risk-weighted assets ratio of banks has touched a new peak of 16.6 percent and their provisioning coverage ratio too rose from 67.6 percent in March 2021 to 68.1 percent in September 2021. This will remain a positive enabler for future credit growth.

Interestingly the CD ratio has also started improving since September 2021 and is now at 71.3 per cent in the week to December 17, 2021 compared to 69.9 per cent in August 13, 2021.

The incremental CD ratio beginning September 24, 2021 till December 17, 2021 is at 133 as against the incremental CD ratio of only 2 during H1FY22. Deposits in the banking system has declined by Rs 2.2 lakh crore in this time period, whereas credit growth has picked up Rs 3.5 lakh crore in the same period.