



TM

01 March 2024

Indian Banking Sector

Bank loans to NBFCs moderate whilst unsecured retail credit still running strong

SECTOR UPDATE

Industry

Banking

Banking coverage - rating and target price

Company	Rating	CMP (Rs)	TP (Rs)
HDFCB	BUY	1429	1975
AXIS	BUY	1098	1270
ICICI	BUY	1085	1175
SBI	BUY	770	770
KOTAK	HOLD	1727	2095
INDUSIND	BUY	1524	1900
FEDERAL	HOLD	153	172

Source: Systematix Institutional Research

Unsecured retail still strong whilst large corporate credit retains yoy trend: Bank credit growth momentum improved to 20.3% yoy (16.5% yoy ex-merger) with non-food credit growth of 20.4% yoy (16.6% yoy ex-merger). Growth momentum remained strong across both services (20.7% yoy ex-merger) and retail (18.4% yoy, ex-merger). Three key trends were: **1)** adjusting for a high base, other personal loan growth remained strong at 21% yoy ex-merger vs 22% yoy in Sep/Oct/Nov'23. Lending to NBFCs moderated to 15-16% yoy in last 2 months vs 22-25% growth prior to that. **2)** strength in housing loans across both PSL housing (7% yoy ex-merger vs 5% yoy growth in Nov/Dec'23) and non-PSL housing (21% yoy ex-merger vs 19-20% growth in Nov/Dec'23). **3)** Industrial and large corporate credit retained the yoy trend at 8% and 6% yoy respectively.

Retail loan growth aided by unsecured personal loan growth; pickup in secured retail: Retail loan growth of 18.4% yoy ex-merger continues to be led by **unsecured loan growth of 22.4% yoy (ex-merger)**. Secured loan growth at 16% yoy (ex-merger) lagged overall retail growth and retained the momentum seen since Dec'23, on the back of pick up in housing loans to 16.7% yoy (ex-merger) vs 14-15% growth trends between July to December. The pickup was seen across both **PSL housing** (7% yoy ex-merger vs 5% yoy growth in Nov/Dec'23) and **non-PSL housing** (21% yoy ex-merger vs 19-20% growth in Nov/Dec'23). **Vehicle loan growth** moderated to 16% yoy on a higher base vs 20%+ yoy growth trends in last 9 months. Despite RBI's Nov-23 notification of higher risk weights for unsecured consumer loans, growth for unsecured loans, adjusted for a high base, remained strong at 21% yoy ex-merger. Growth momentum remained strong with **credit card advances** sustaining the 30%+ yoy growth trend. **Consumer durable loan growth** has also been strong for past 2 months at 13-14% yoy vs earlier trend of 10-11% yoy growth seen during months between Jul-Nov'23.

Services credit growth led by strong growth in other services and commercial real estate: Services credit growth improved to 21% yoy ex-merger (vs 19.6% in Dec'23) mainly due to strong growth in **credit to other services** (35.6% yoy ex-merger) which have growth by 30%+ in last 3 months vs 20-22% yoy growth prior to that. Growth momentum was sustained in **credit to commercial real estate** at 16% yoy (ex-merger) on the back of uptick in housing cycle. Growth in **bank borrowings by NBFCs** which constitutes 35% of services credit, has moderated to 15-16% yoy in last 2 months (vs 22-25% growth prior to that). This is likely on the back of RBI action on higher risk weights to mitigate systemic risk stemming from higher interconnectedness between banks and NBFCs.

Industrial credit growth sustains the growth rate of 6% yoy: Industrial credit growth at 8.3% yoy retained the trend from prior months with large corporate credit at 6% yoy. Adjusting for a higher base, MSME credit growth remained broadly stable 14% yoy. In 3QFY24, many of the large private and PSU banks have reported pickup in the corporate credit portfolio. This is reflected in the sectoral numbers for 3QFY24, For the sector, in Jan-24, growth picked up in textiles (18% yoy vs 13-14% growth trend in Aug-Dec'23) and chemicals (14% yoy vs single digit growth between Aug-Dec'23). Infrastructure credit growth was strong at 8% yoy on a low base.

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Key Charts

Exhibit 1: Regulatory impact: Loans to NBFCs moderate, unsecured retail credit growth remains buoyant.

(Growth %) - Y/Y	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
Non-food Credit	16.7	15.9	15.4	16.1	15.6	16.3	19.8	19.9	20.0	19.8	20.8	20.1	20.4
<i>Ex Merger</i>	16.7	15.9	15.4	16.1	15.6	16.3	14.8	15.0	15.3	15.3	16.3	15.8	16.6
Agriculture & Allied Activities	17.0	14.9	15.4	16.7	16.0	19.7	16.8	16.6	16.8	17.5	18.2	19.5	20.1
Industry (Micro & Small, Medium and Large)	11.5	7.0	5.6	7.0	6.0	8.1	5.8	6.7	7.1	5.9	6.6	8.6	8.3
<i>Ex Merger</i>	11.5	7.0	5.6	7.0	6.0	8.1	5.2	6.1	6.5	5.4	6.1	8.1	7.8
Micro & Small Industry	21.9	13.2	13.2	9.7	9.5	13.0	10.2	10.7	10.1	16.9	17.2	15.1	16.3
Medium industry	33.4	13.5	12.0	19.1	18.9	13.2	9.7	9.8	9.8	12.1	12.0	8.7	10.0
Large industry	7.4	5.0	3.2	5.3	3.9	6.4	4.3	5.4	6.1	2.8	3.6	7.0	6.2
Services	24.7	20.7	19.7	21.6	21.4	26.7	23.1	24.7	25.1	23.6	25.4	22.9	23.9
<i>Ex Merger</i>	24.7	20.7	19.7	21.6	21.4	26.7	19.4	20.7	21.3	20.1	21.9	19.6	20.7
Transport Operators	23.2	13.3	14.3	18.6	19.1	23.7	20.8	22.0	21.6	22.7	24.4	24.8	25.3
Computer Software	18.4	1.5	2.6	6.5	11.9	16.1	5.2	12.7	8.6	0.8	9.3	7.8	10.8
Tourism, Hotels & Restaurants	6.9	1.4	2.4	3.1	3.6	6.9	9.0	12.0	11.1	11.7	12.9	14.4	14.0
Shipping	7.1	-5.8	-19.8	-19.9	-18.3	-16.4	-21.6	-21.1	-21.7	-11.1	-10.8	-10.3	-7.8
Professional Services	21.9	15.5	16.4	15.4	13.9	21.0	19.9	20.8	22.2	19.5	21.1	19.9	22.8
Trade	21.8	16.7	17.5	18.2	17.5	17.3	17.1	14.2	16.2	18.9	19.0	17.1	17.8
Wholesale Trade (other than food procurement)	19.7	13.0	13.0	12.6	13.4	11.8	14.9	5.6	11.1	17.9	21.0	17.1	19.4
Retail Trade	24.1	20.4	22.3	24.3	21.8	23.3	19.3	23.6	21.4	19.9	17.1	17.2	16.1
Commercial Real Estate	10.4	8.5	8.5	9.1	6.6	11.3	38.1	38.5	37.8	35.6	37.5	37.6	36.3
<i>Ex Merger</i>	10.4	8.5	8.5	9.1	6.6	11.3	12.3	13.9	14.8	14.0	16.2	16.6	16.3
Non-Banking Financial Companies (NBFCs)	32.2	32.4	29.9	29.2	27.6	35.1	23.6	25.8	26.3	22.1	21.5	15.1	15.6
Housing Finance Companies (HFCs)	15.5	12.6	11.3	7.7	7.2	13.9	1.7	3.0	-0.2	2.0	-2.4	4.3	7.5
Public Financial Institutions (PFIs)	37.2	38.1	27.6	34.4	33.0	49.0	25.8	28.6	34.9	20.1	7.0	16.9	15.8
Other Services	26.0	17.6	16.1	23.5	26.6	33.8	23.9	30.3	29.7	28.2	36.2	37.8	40.7
<i>Ex Merger</i>	26.0	17.6	16.1	23.5	26.6	33.8	19.9	24.1	23.8	22.6	30.6	32.7	35.6
Retail Loans	23.3	20.4	21.0	19.4	19.2	20.9	31.7	30.8	30.4	29.7	30.1	28.5	28.8
<i>Ex Merger</i>	23.3	20.4	21.0	19.4	19.2	20.9	18.4	18.3	18.2	18.0	18.6	17.7	18.4
Consumer Durables	-17.9	39.4	17.6	30.8	14.2	17.2	11.7	11.1	10.9	7.7	10.8	13.7	14.4
Housing (Including Priority Sector Housing)	18.5	15.0	15.2	14.3	14.6	15.0	37.4	37.7	37.3	36.9	37.0	35.6	37.2
<i>Ex Merger</i>	18.5	15.0	15.2	14.3	14.6	15.0	13.1	13.8	13.8	14.5	15.0	14.4	16.7
Advances against Fixed Deposits (Including FCNR (B), NRNR Deposits etc.)	30.5	43.0	46.0	33.9	35.4	46.4	24.2	19.9	17.9	16.5	17.2	6.7	5.7
Advances to Individuals against share, bonds, etc.	24.8	12.0	10.5	12.9	9.8	5.9	3.8	4.2	4.4	-4.9	4.0	8.5	-3.4
Credit Card O/s	36.5	29.2	32.5	29.7	29.9	36.0	31.2	30.0	29.9	28.0	34.2	32.6	31.3
Education	15.7	16.0	17.1	18.0	18.3	19.4	19.9	20.2	20.8	20.6	22.8	21.9	22.9
Vehicle Loans	25.4	23.4	24.8	23.1	22.2	22.9	21.2	20.6	21.2	20.0	20.8	20.5	16.3
Loans against gold jewellery	16.1	20.0	19.7	20.4	22.1	26.0	23.1	22.1	20.1	17.3	18.5	18.6	17.4
Other Personal Loans	31.1	25.8	26.7	24.0	23.2	26.1	28.9	26.0	25.5	24.9	24.3	22.9	23.3
<i>Ex Merger</i>	31.1	25.8	26.7	24.0	23.2	26.1	24.2	23.2	22.7	22.3	21.7	20.5	21.0
Food Credit	-39.1	-48.3	-63.8	-50.0	-31.7	-35.9	-35.7	-30.1	-32.0	-22.8	-22.9	-20.1	-9.1
Total Bank Credit growth	16.3	15.5	15.0	15.9	15.4	16.2	19.7	19.8	19.9	19.7	20.6	19.9	20.3
<i>ex merger</i>	16.3	15.5	15.0	15.9	15.4	16.2	14.7	14.9	15.2	15.2	16.2	15.6	16.5

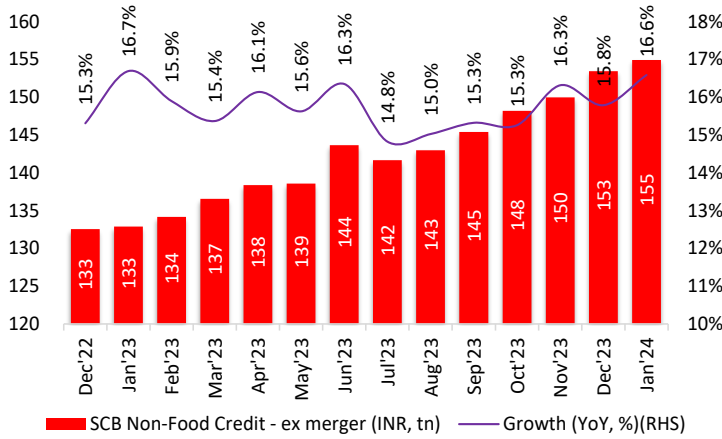
Source: Company, Systematix Institutional Research

Exhibit 2: Retail contributes dominant share of incremental credit

INR bn	Jan-23	Dec-23	Jan-24	% YoY	% MoM	% YTD annualised	Incremental contribution Mix (%) - Jan-24
Non-food Credit	1,32,874	1,59,182	1,59,991	20%	0.5%	21%	97%
<i>Ex Merger</i>	1,32,874	1,53,451	1,54,915	17%	1.0%	16%	98%
Agriculture & Allied Activities	16,761	19,945	20,125	20%	0.9%	20%	27%
Industry (Micro & Small, Medium and Large)	33,727	36,648	36,541	8%	-0.3%	8%	-16%
<i>Ex Merger</i>	33,727	36,473	36,368	8%	-0.3%	8%	-12%
Micro & Small Industry	6,126	7,041	7,126	16%	1.2%	15%	13%
Medium industry	2,656	2,905	2,923	10%	0.6%	11%	3%
Large industry	24,945	26,702	26,492	6%	-0.8%	6%	-31%
Services	35,691	44,061	44,206	24%	0.3%	23%	22%
<i>Ex Merger</i>	35,691	42,893	43,069	21%	0.4%	20%	20%
Transport Operators	1,819	2,243	2,279	25%	1.6%	22%	5%
Computer Software	243	276	269	11%	-2.3%	10%	-1%
Tourism, Hotels & Restaurants	680	774	775	14%	0.1%	14%	0%
Shipping	77	70	71	-8%	1.8%	1%	0%
Aviation	278	450	451	62%	0.1%	71%	0%
Professional Services	1,323	1,575	1,625	23%	3.2%	20%	7%
Trade	8,110	9,399	9,550	18%	1.6%	14%	23%
Wholesale Trade (other than food procurement)	4,068	4,715	4,858	19%	3.0%	18%	21%
Retail Trade	4,042	4,684	4,693	16%	0.2%	11%	1%
Commercial Real Estate	3,216	4,362	4,384	36%	0.5%	43%	3%
<i>Ex Merger</i>	3,216	3,697	3,742	16%	1.2%	19%	5%
Non-Banking Financial Companies (NBFCs)	13,003	15,208	15,033	16%	-1.1%	14%	-26%
Housing Finance Companies (HFCs)	3,140	3,288	3,377	8%	2.7%	7%	13%
Public Financial Institutions (PFIs)	1,819	2,120	2,106	16%	-0.7%	24%	-2%
Other Services	6,941	9,704	9,767	41%	0.6%	43%	9%
<i>Ex Merger</i>	6,941	9,346	9,415	36%	0.7%	37%	8%
Retail Loans	40,518	51,754	52,179	29%	0.8%	30%	64%
<i>Ex Merger</i>	40,518	47,374	47,958	18%	1.2%	18%	68%
Consumer Durables	211	243	242	14%	-0.6%	18%	0%
Housing (Including Priority Sector Housing)	19,394	26,403	26,603	37%	0.8%	41%	30%
<i>Ex Merger</i>	19,394	22,286	22,641	17%	1.6%	17%	41%
Advances against Fixed Deposits (Including FCNR (B), NRRR Deposits etc.)	1,099	1,175	1,163	6%	-1.0%	-6%	-2%
Advances to Individuals against share, bonds, etc.	77	83	74	-3%	-10.2%	-3%	-1%
Credit Card O/s	1,968	2,519	2,585	31%	2.6%	32%	10%
Education	952	1,150	1,171	23%	1.8%	25%	3%
Vehicle Loans	4,962	5,833	5,773	16%	-1.0%	18%	-9%
Loans against gold jewellery	868	1,019	1,019	17%	0.0%	17%	0%
Other Personal Loans	10,986	13,331	13,550	23%	1.6%	22%	33%
<i>Ex Merger</i>	10,986	13,071	13,294	21%	1.7%	19%	26%
Food Credit	502	431	456	-9%	5.7%	155%	3%
Total Bank Credit	1,33,375	1,59,613	1,60,447	20%	0.5%	21%	
<i>ex merger</i>	1,33,375	1,53,883	1,55,371	16%	1.0%	16%	

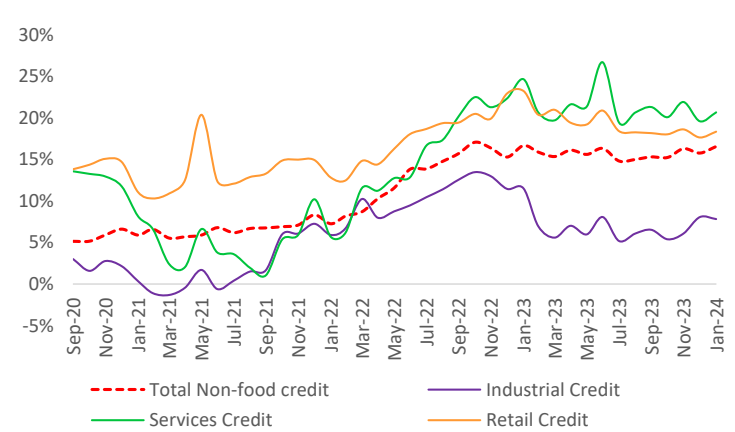
Source: Company, Systematix Institutional Research

Exhibit 3: SCB Non-Food credit growth....



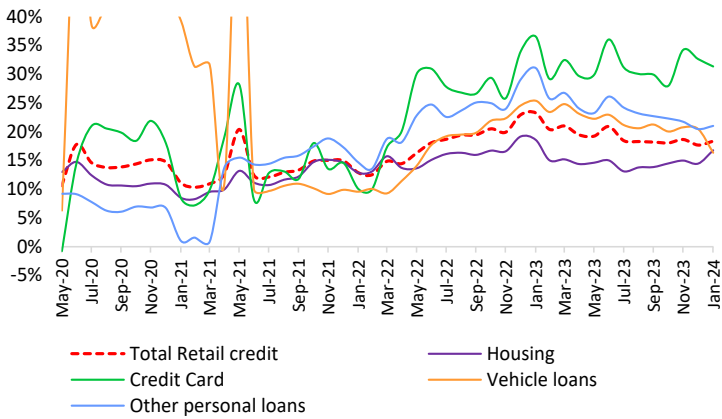
Source: Company, Systematic Institutional Research *ex-merger data

Exhibit 4: ...led by strong growth in retail credit



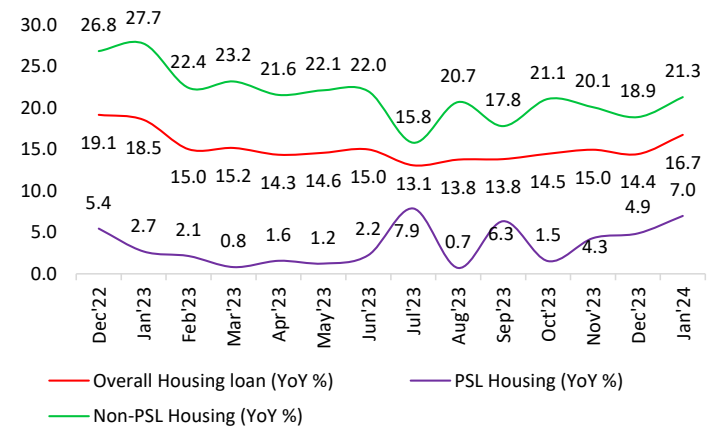
Source: Company, Systematic Institutional Research, *ex-merger growth

Exhibit 5: Pickup in secured retail with strong housing credit growth



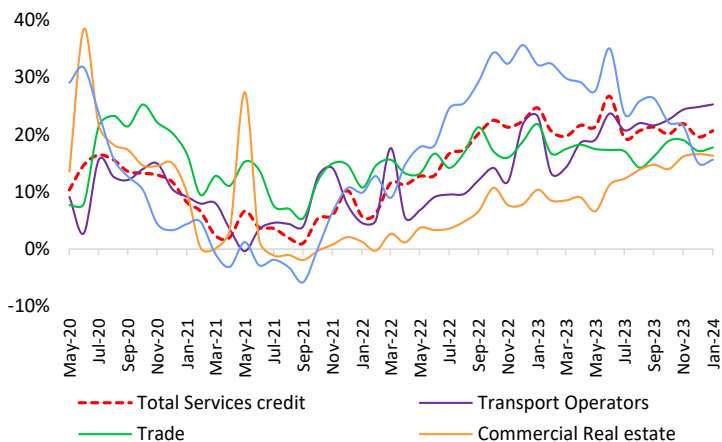
Source: Company, Systematic Institutional Research *ex merger growth

Exhibit 6: Pick-up in both PSL and non-PSL housing



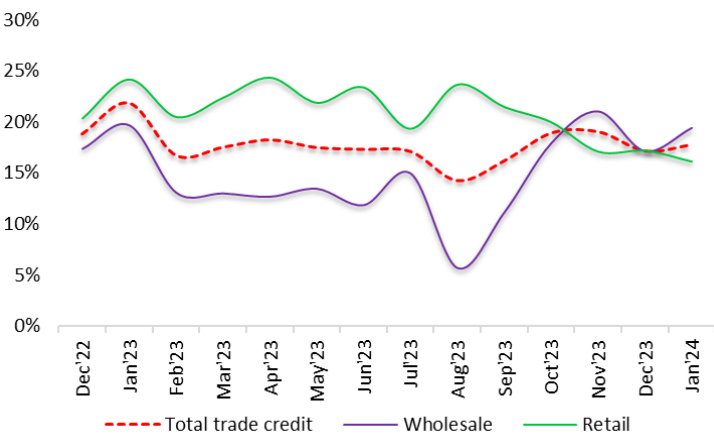
Source: Company, Systematic Institutional Research, *ex-merger growth

Exhibit 7: Services credit growth led by other services and CRE



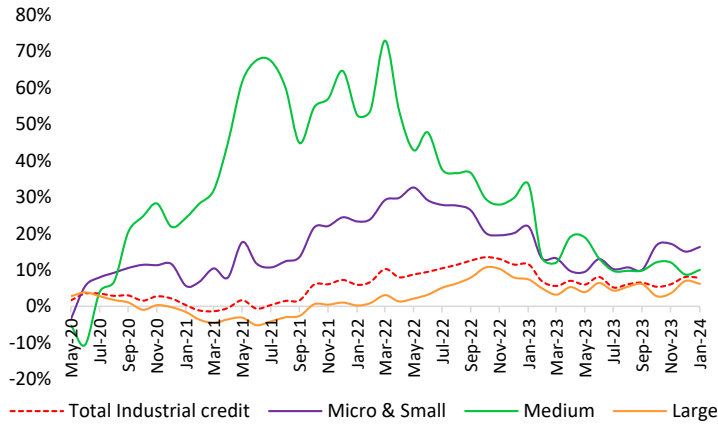
Source: Company, Systematic Institutional Research *ex-merger growth

Exhibit 8: Trade credit growth led by wholesale trade credit



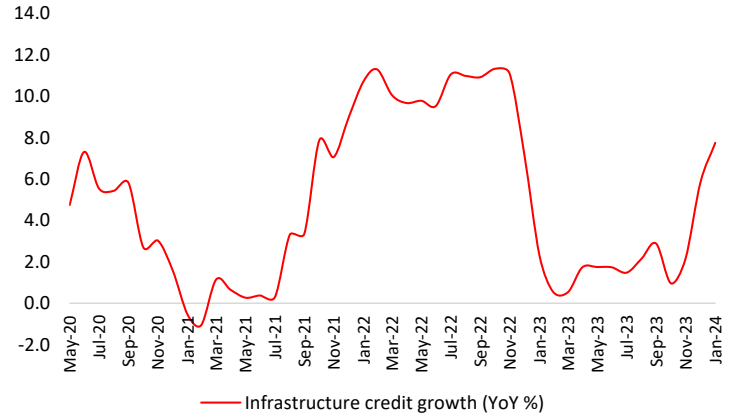
Source: Company, Systematic Institutional Research

Exhibit 9: Industrial credit sustains growth rate of 6% yoy



Source: Company, Systematix Institutional Research *ex-merger growth

Exhibit 10: Infrastructure credit growth strong on a low base



Source: Company, Systematix Institutional Research

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