Credit growth to housing and real estate normalized in July, a year after the merger impact

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September 10, 2024

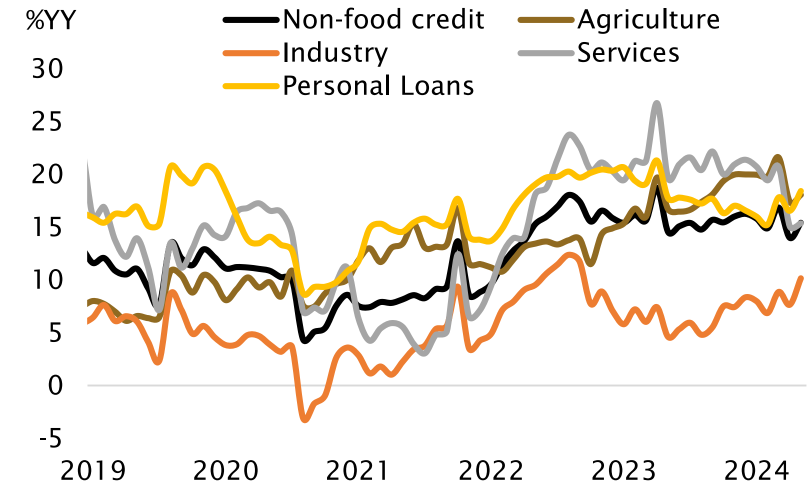
Key takeaways

- Non-food credit (excluding the impact of merger of a non-bank with a bank) grew at a faster rate of 15.4%YY in July after easing to the slowest pace in two years in June at 14%. The latest print was higher than a year ago in July 2023 at 14.5%.
- Higher year-on-year credit growth in July compared to the previous month was due to base effects, as the month-on-month momentum turned negative for the first time in a year. The underlying data across key groups – agriculture, industry, services, and personal loans – reflected a similar trend, except for personal loans, where the month-on-month momentum remained positive.
- Including the merger impact, year-on-year growth in overall non-food credit eased for the second straight month from a 13-year high of 21.2% in May. In July, credit growth stood at 13.9%YY, below 17.7% in June. Few key trends stood out in the latest data:
  - There was normalization in credit growth towards certain segments such as housing (within personal loans) and commercial real estate (within services), as base effects, reflecting the impact of the merger of a non-bank with a bank in July 2023, faded.
  - Consumer credit growth remained below the pre-pandemic trend for the second straight month in July, but year-on-year credit card outstanding growth accelerated to an eight month high.
  - Both data sets, including and excluding merger impact, showed that credit growth to industry hit a 20-month high at around 10%YY in July. Industry attracts around 23-24% share in total credit.
- Data for June and July shows that excluding the merger impact, housing loan growth has reverted to the pre-pandemic growth rates seen in end-2019. This bodes well from the perspective of demand for real estate and the continued potential fillip to the investment cycle that was also seen in FY24. The uptrend in credit for housing also pushed personal loan growth to a 13-month high.
- However, including the merger impact, personal loan growth was the lowest since May 2022, reflecting the normalization of base effects, particularly in case of housing.
- Results from the RBI's latest Bank Lending Survey show that bankers remained upbeat regarding loan demand in H2-FY25 across major sectors, and expect easy loan terms and conditions to continue. However, bankers perceive terms and conditions to be relatively less soft for infrastructure sector loans.

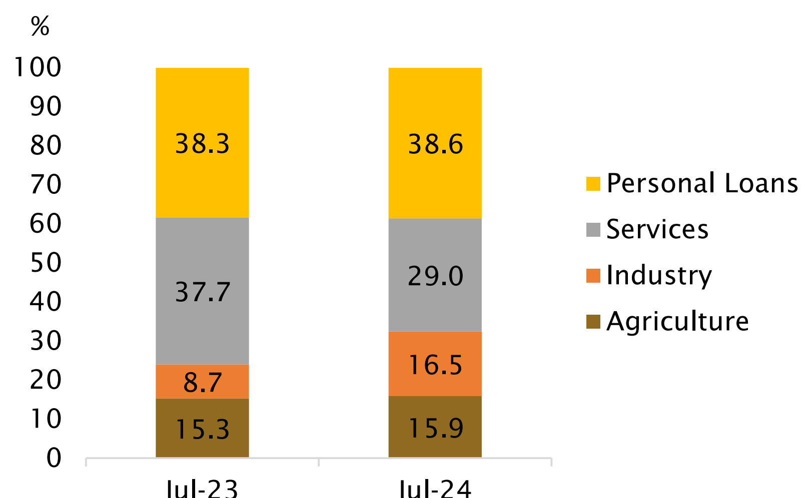
Non-food credit (ex-merger) grew at a faster pace in July

- Non-food credit (excl. impact of merger of a non-bank with a bank) increased 15.4%YY in July after easing to the slowest pace in two years at 14% in June. Credit growth was higher across key groups, with the largest improvement in contribution to growth from personal loans. The contribution of personal loans surpassed that of services for the second straight month. Personal loans was also the category where the monthly momentum was positive, unlike other groups where higher year-on-year growth vis-à-vis June was supported by base effects.
- There was fractional uptick in share of incremental credit to personal loans and agriculture, with the largest portion continuing to accrue to personal loans. Higher share of incremental credit towards industry was at the expense of decline in share towards services.
- Including the merger impact, overall credit growth eased to 13.9%YY in July from 17.7% in June.

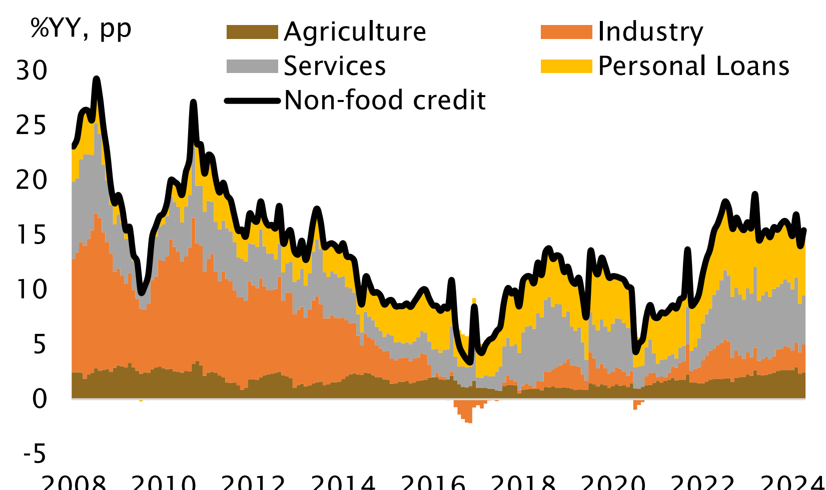
Non-food credit growth excluding impact of merger



Share in incremental non-food credit growth (year-on-year)



Contribution to non-food credit growth

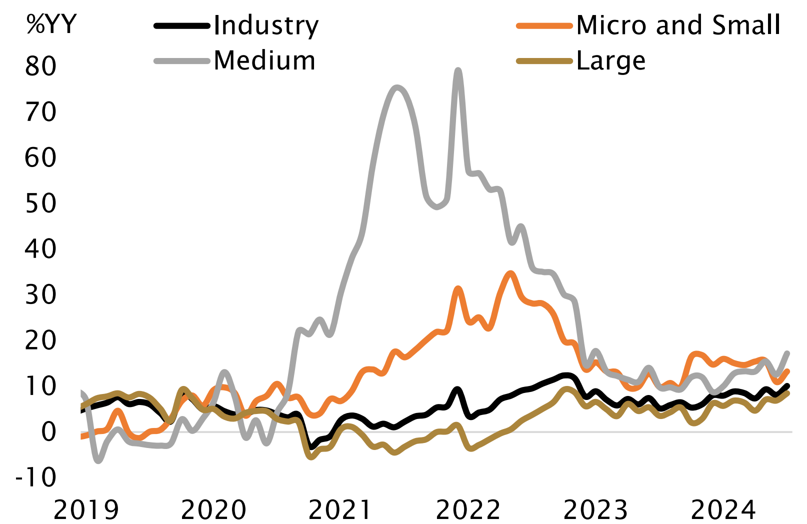


Large industries continued to attract over 60% of incremental credit

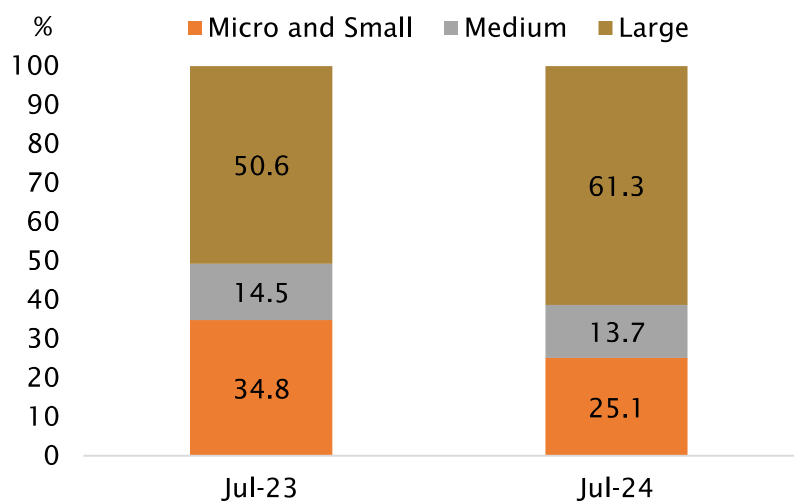
- In July, the year-on-year growth in non-food credit towards industry (including the impact of the merger) was the fastest in 20 months at 10.1% versus 8.1% in June, and almost double the growth of 5.2% in July 2023. Excluding impact of the merger, credit growth towards industry was higher at 10.2%YY in July 2024 versus 7.7% in June.

- Data including the impact of the merger shows that large industries continued to attract more than 60% of incremental credit (year-on-year increase), followed by micro and small, and medium industries. Compared to July 2023, share of incremental credit towards large industries increased, while it moderated in case of the other two industry types.

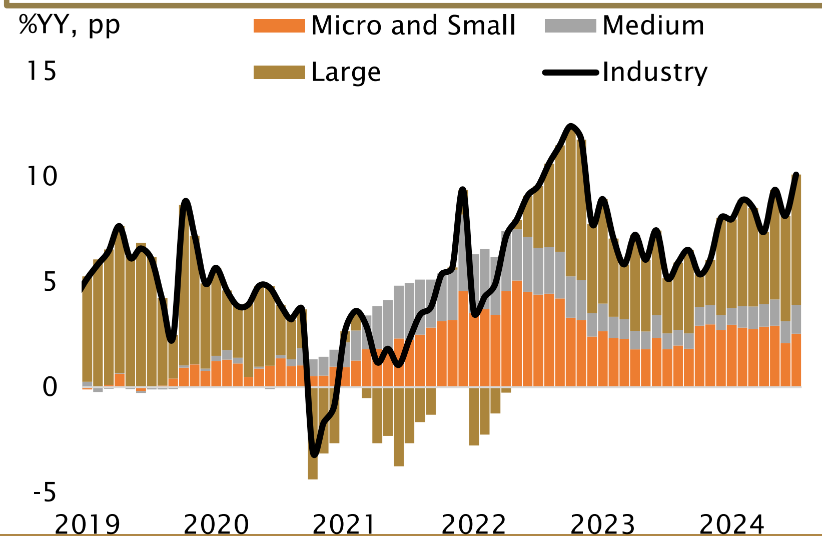
Non-food credit including merger impact: industry



Share in incremental non-food credit growth: industry



Contribution to non-food credit growth: industry



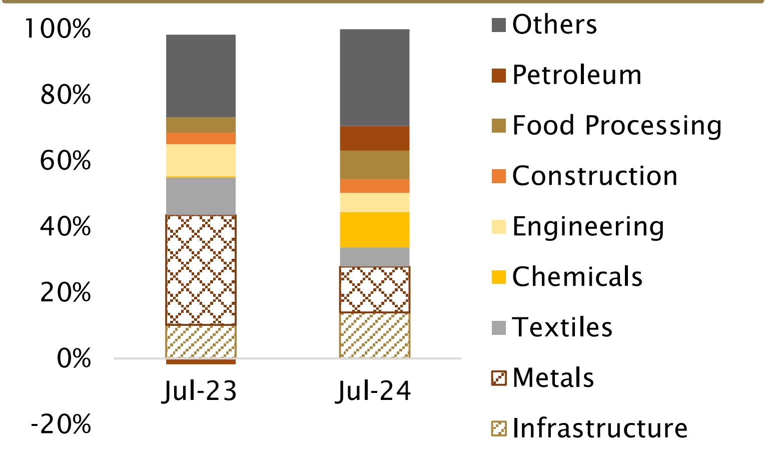
Infrastructure continued to top the list in credit flow to industry

- Among industries, infrastructure continued to attract the most share in total credit at 35%, though this was below 37% in July 2023. The largest portion of incremental credit (year-on-year increase) had been accruing to infrastructure since January but in July, the balance again titled in favor of the miscellaneous/other group. There was improvement in flow of incremental credit to chemicals and petroleum relative to their share in July 2023. Within infrastructure, almost half of credit continued to go to the power sector, followed by roads at one fourth share.
- Among other major industries attracting higher share of credit, there was double-digit year-on-year credit growth in metals, food processing, chemicals, engineering, construction and petroleum. Credit growth was muted/fell year-on-year in case of gems and jewellery, and vehicles and parts.

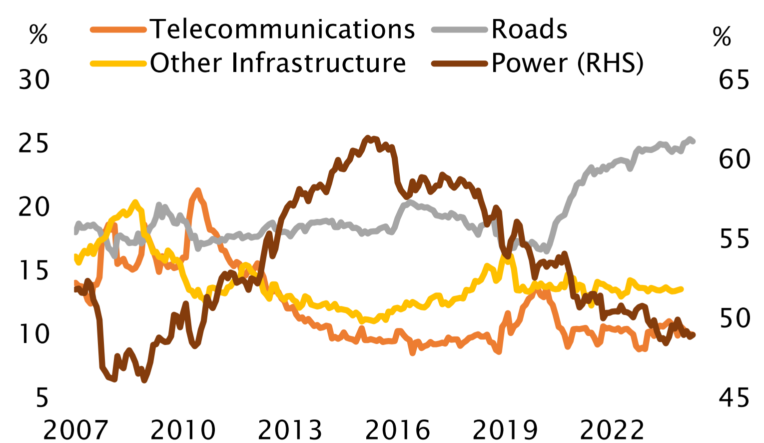
Industry-wise deployment of bank credit

	Share (%)		%YY		Share in incremental credit (%)	
	Jul-23	Jul-24	Jul-23	Jul-24	Jul-23	Jul-24
Infrastructure	37.1	35.0	1.4	3.8	10.6	14.1
Basic metals	10.5	10.8	19.3	13.3	34.5	13.8
Others	6.7	8.0	-0.6	30.6	-0.8	20.4
Textiles	6.9	6.9	9.1	8.6	11.8	5.9
Chemicals	6.5	6.8	0.3	16.6	0.4	10.6
Engineering	5.5	5.5	10.0	10.8	10.1	5.8
Food processing	5.2	5.5	4.8	16.7	4.8	8.6
Petroleum, coal, etc.	3.3	3.7	-2.6	23.2	-1.8	7.6
Construction	3.7	3.8	5.1	11.5	3.6	4.2
Vehicles and parts	3.2	2.9	8.9	2.5	5.2	0.8
Rubber, plastic	2.5	2.4	7.2	8.0	3.3	1.9
Gems and jewellery	2.5	2.2	15.2	-3.6	6.8	-0.9
Cement and products	1.7	1.6	11.9	6.2	3.7	1.0
Mining and quarrying	1.5	1.5	0.1	5.5	0.0	0.8
Paper and products	1.3	1.3	3.6	9.4	0.9	1.2
Beverage, tobacco	0.7	0.8	31.8	32.8	3.3	2.2
Wood and products	0.6	0.7	20.2	12.7	2.2	0.8
Leather and products	0.3	0.3	0.0	6.7	0.0	0.2
Glass and glassware	0.3	0.3	29.0	29.7	1.3	0.8

Share in incremental credit to industry



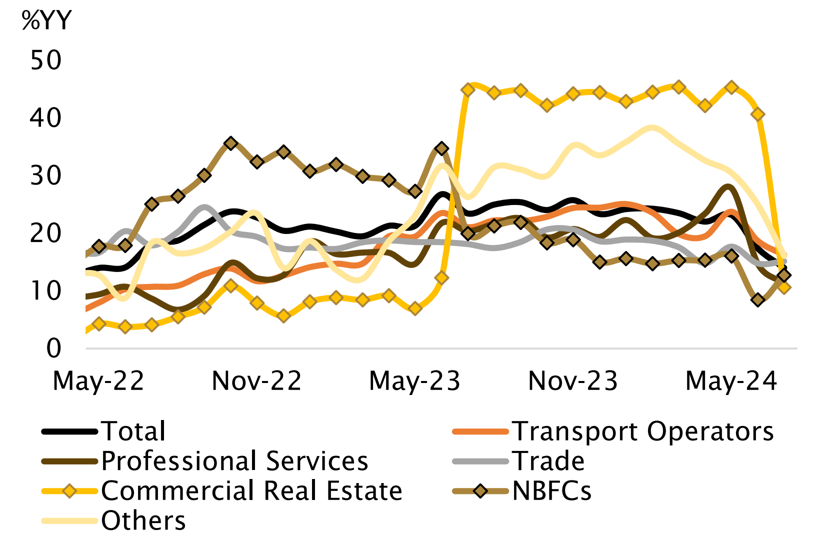
Share in deployment of bank credit: infrastructure



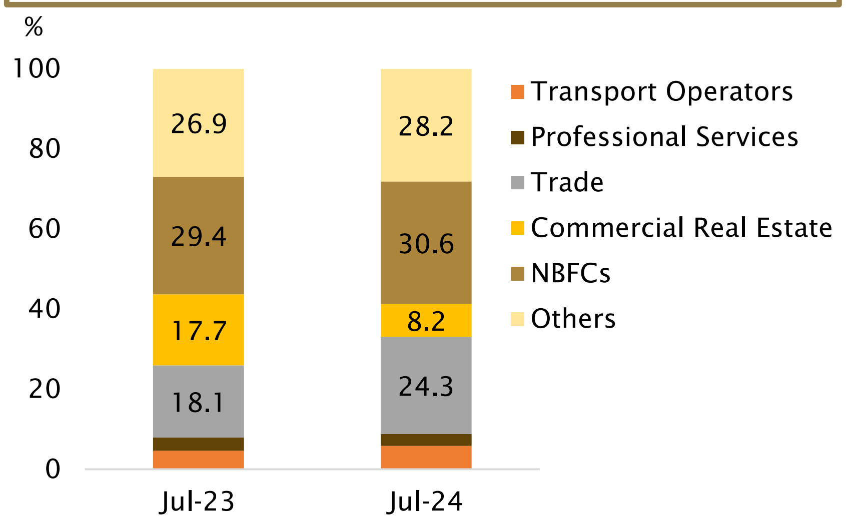
Normalization in credit growth to real estate as base effects wane

- Bank credit data incorporated the impact of merger of a non-bank with a bank from July 2023 that led to a jump in credit growth in certain segments. This normalized in July 2024. Thus, including the merger impact, credit growth to commercial real estate was at 10.6%YY, down from the average of around 44% in the past one year. Non-food credit growth to overall services eased to 14%YY in July from 17.4% in June, and was below 23.4% in July 2023. However, credit growth to NBFCs switched back to double digits after easing in June. There was also an improvement in credit growth to trade.
- Excluding the merger impact, credit growth to overall services was a tad higher at 15.4%YY in July versus 15.1% in June. Also, credit growth to commercial real estate was higher at 24.4% in July, up from 22.8% in June and 13.4% in July 2023.

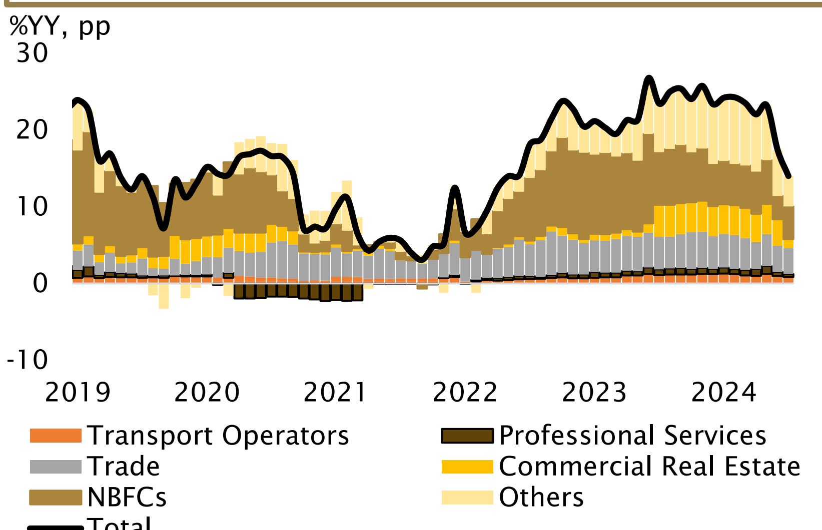
Non-food credit including merger impact: services



Share in incremental non-food credit growth: services



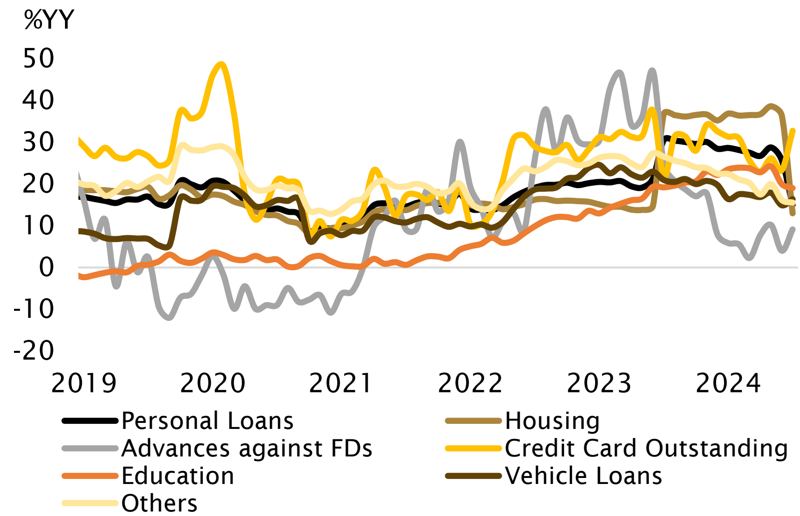
Contribution to non-food credit growth: services



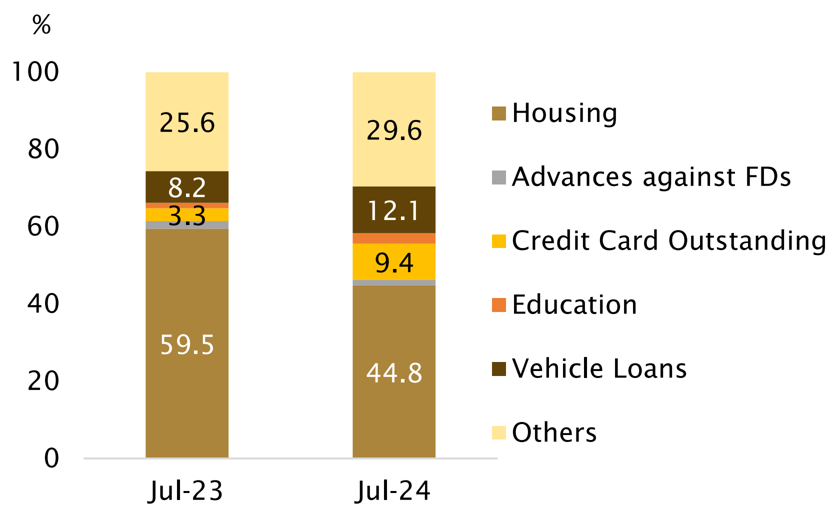
Credit growth to housing (thus personal loans) also normalized

- Including the impact of merger of bank with non-bank, personal loan growth was the lowest since May 2022 at 15%YY in July, as the merger impact faded from data during the month. The headline print captured the trend in credit growth to housing that moderated to 13%YY after averaging around 37% for a year. However, credit card outstanding growth accelerated to an eight month high of 32.8%YY from 23.3% in the previous month. Vehicle loans also rose at a faster pace than June. Loans against gold jewellery continued to grow at the fastest rates since end-2021 for the third straight month.
- Excluding merger impact, personal loan growth reached a 13-month high of 18.4%YY, up from 16.6% in June and 17.8% in July 2023. The latest uptick was largely led by the rebound in housing credit that has reverted to the pre-pandemic growth seen in end-2019.

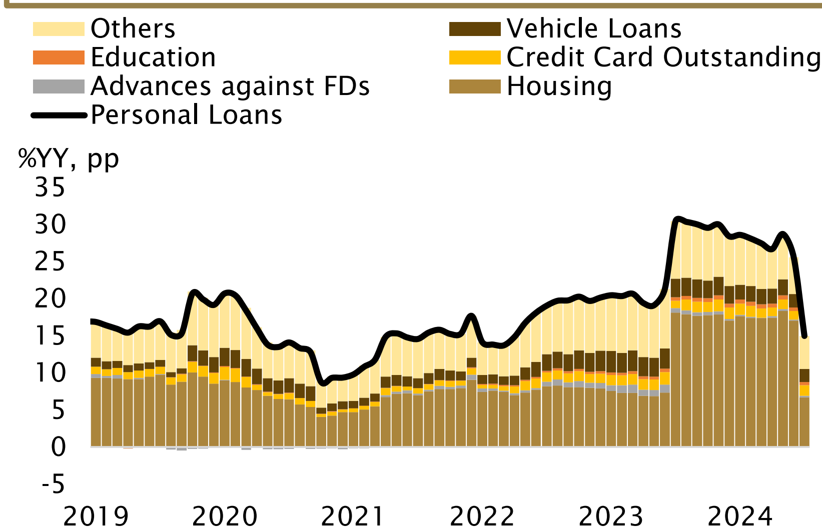
Non-food credit including merger impact: personal loans



Share in incremental non-food credit growth: personal loans



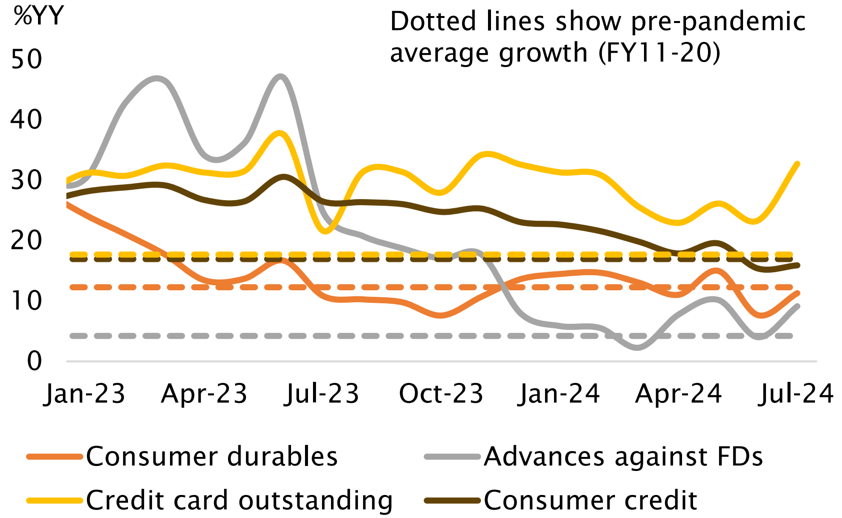
Contribution to non-food credit growth: personal loans



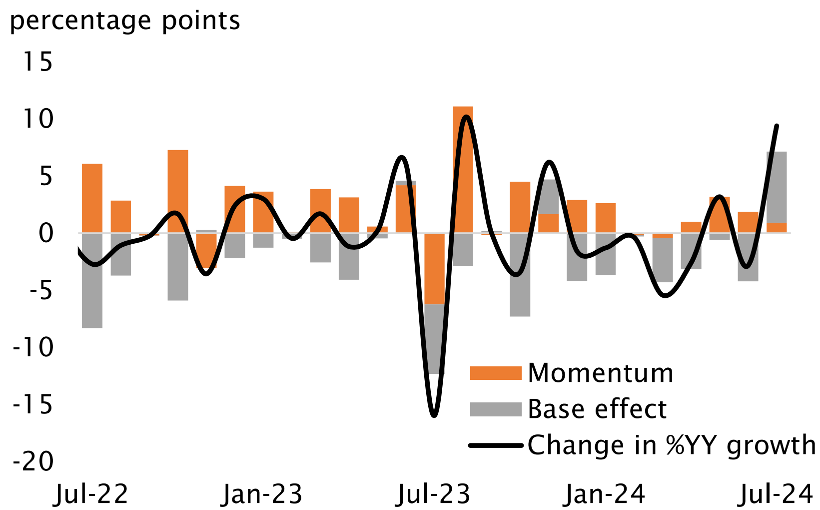
Credit card outstanding growth accelerated to eight month high

- Within personal loans, consumer credit includes credit to: 1) consumer durables 2) personal advances against fixed deposits 3) credit card 4) other personal loans.
- The year-on-year growth in consumer credit saw a slight uptick compared to June but remained below the pre-pandemic average of around 17% for the second straight month. The RBI's regulatory steps in Nov-2023 to raise risk weights on unsecured loans have started to weigh on consumer credit (including the impact of the merger). In FY23 and FY24, credit growth had averaged 25%.
- However, in July, credit card outstanding growth jumped to an eight-month high of 32.8%YY from 23.3% in June, mainly due to base effects. The month-on-month momentum also stayed positive but eased for the third straight month. There was also an increase in growth of advances against FDs, and loans for consumer durables.

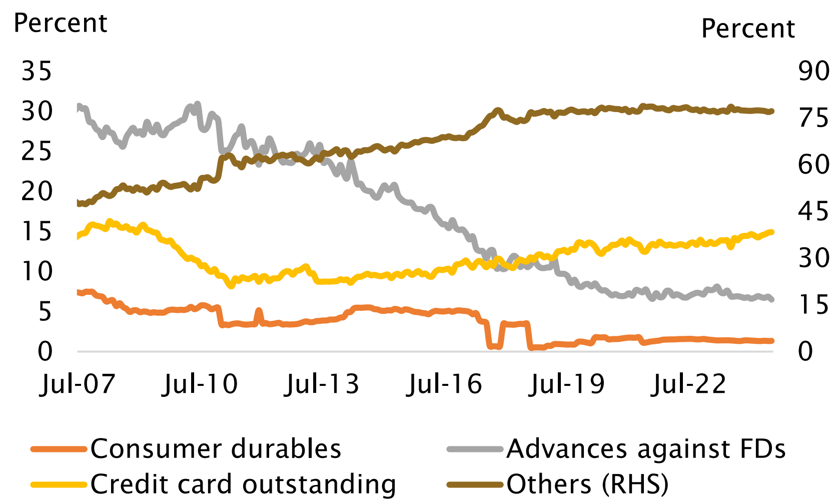
Credit card outstanding growth jumped in July



Base effects boosted growth in credit card outstanding



Largest share of consumer credit towards 'other' category



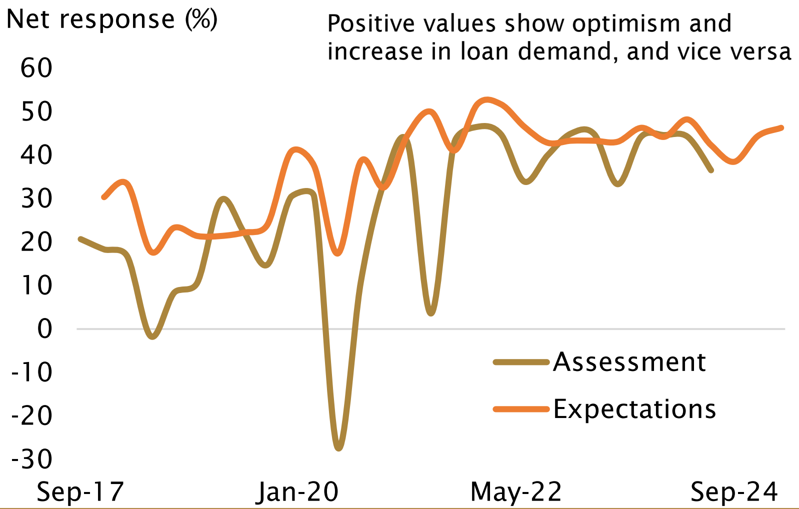
RBI survey shows bankers upbeat on loan demand across sectors

- **Assessment:**
  - Results from the RBI's latest round of Bank Lending Survey show that bankers' assessed loan demand to have seasonally moderated in Q1-FY25. Demand from the infrastructure sector is expected to have eased the most, followed by mining and personal loans.
  - Bankers assessed that loan terms and conditions remained easy for major sectors in Q1, except mining. They also noted marginal prudence in terms for retail/personal loans and agricultural credit.

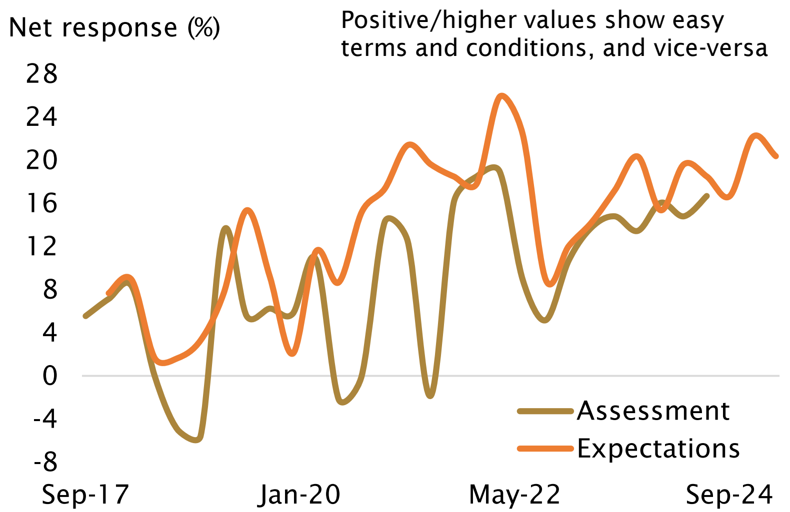
- **Expectations:**
  - Bankers remained optimistic regarding loan demand prospects in Q2-FY25 but there was slight softening in sentiment due to lower expectations from mining and services sectors. Bankers anticipate easy loan terms and conditions to continue in Q2, but similar to assessment for Q1, relatively less softer terms to prevail in case of retail/ personal loans and agricultural credit.

  - For Q3 and Q4, bankers remain upbeat regarding loan demand across major sectors. Easy loan terms are expected to continue in H2-FY24, except for the mining sector. Also, bankers perceive terms and conditions to be relatively less soft for infrastructure sector loans.

Loan demand - all sectors



Loan terms and conditions - all sectors

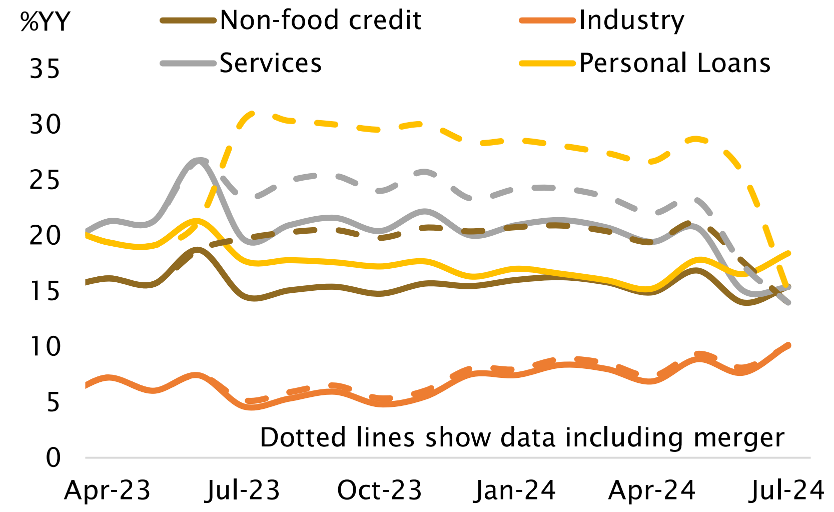


Annexure: Detailed data available only including merger impact

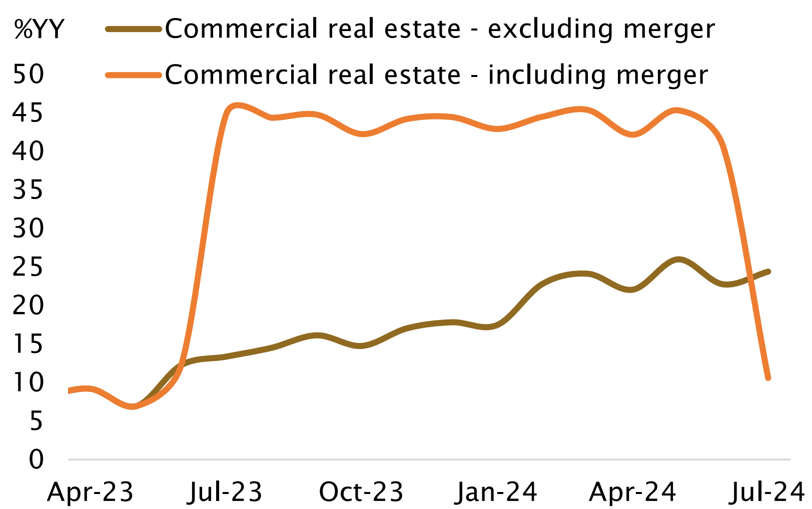
- The headline numbers across sectors (industry, services, personal loans) are available for both – including and excluding the impact of merger of a non-bank with a bank – since July 2023. However, detailed sector-wise data is available across categories only including the impact of the merger, though there are a few exceptions.

- Sector-wise credit data excluding the impact of merger is available for these categories and needs to be interpreted accordingly.
  - Services: Commercial real estate
  - Personal loans: Housing
  - Data for these two groups shows a spike post July 2023 and normalization from July 2024.

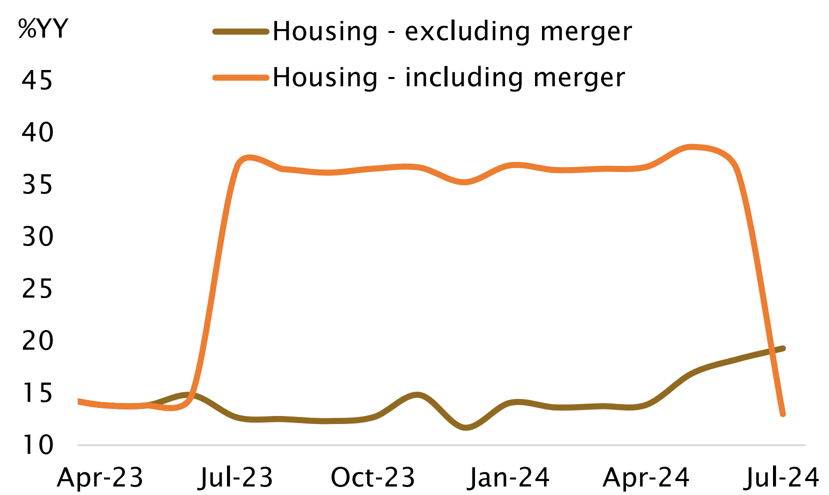
Non-food credit: including and excluding merger impact



Non-food credit: services: commercial real estate



Non-food credit: personal loans: housing



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