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# Indian Banking Sector

## Bond issuances by banks reach all-time high amid tight liquidity

January 9, 2023

# Bond issuances by banks reach all-time high amid tight liquidity

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*Gross bond issuances at an all time high of Rs. 0.9 trillion in 9M FY2023, which is higher than the previous high of Rs.0.8 trillion in FY2017*

*Tight liquidity conditions likely to persist in the near to medium term. Accordingly, overall bond issuances by banks estimated at Rs.1.3-1.4 trillion in FY2023*

***The gross bond issuances by banks surged to Rs. 0.9 trillion in 9M FY2023 (Rs. 0.7 trillion in FY2022) and also surpassed the previous high of Rs. 0.8 trillion recorded in FY2017. As the credit-to-deposit ratio for the banking system is expected to continue firming up, overall gross bond issuances is expected to further rise to Rs. 1.3-1.4 trillion for FY2023. Amidst tight liquidity, banks have also relied upon other sources of funding such as refinance from All India Financial Institutions (AIFIs), drawdown of excess on-balance sheet liquidity as well, in order to bridge the gap between deposits and credit growth.***

- Incremental credit expansion during FY2023 stood at Rs. 12.7 trillion (till December 16, 2022), while deposit accretion continued to trail at Rs. 8.9 trillion
- The gap between credit and deposits (after factoring CRR/CLR requirements) widens to Rs. 5.7 trillion (as on December 16, 2022).
- The credit-to-deposit ratio for the banking system rises to 74.8% (as on December 16, 2022) and stand considerably higher than lows of 69.6% seen during the pandemic.
- The choice of debt capital instruments by banks is driven by either capital considerations/requirements (Tier-I or Tier-II) or availability of eligible assets for infrastructure bonds or benefits a bank can derive in its capital/liquidity ratio by issuing capital instruments, even if it comes at marginally higher cost.
- Tier I bonds were largely issued by public banks, while the Tier II bonds were preferred by private banks (as Tier I is costlier than Tier II) and infrastructure bonds were issued by both public and private banks.
- Within overall bond issuances of Rs. 915 billion during 9M FY2023, Tier-II issuance reached an all-time high of Rs. 472 billion and we expect infrastructure bond issuances to reach all-time high in FY2023

# Key highlights

## Strong credit growth and tight liquidity drive bank bond issuances to all-time high

| | |
|---|---|
| **Credit growth will continue to outpace deposit accretion** | ▪ Incremental deposit accretion expected at Rs. 14.0-15.0 trillion in FY2023<br>▪ Incremental credit expansion expected at Rs. 18.0-19.0 trillion in FY2023<br>▪ Credit-to-deposit (CD) ratio expected to rise to pre-Covid level (76.3-76.5% by March 2023) |
| **Bond issuances by banks pick up, helping bridge rising credit-deposit gap** | ▪ Certificates of deposit outstanding increased to Rs. 2.7 trillion (Dec 16, 2022) vis-à-vis Rs. 0.7 trillion last year (Dec 17, 2021)<br>▪ Bond issuances also hit all-time high of Rs. 0.9 trillion in 9M FY2023<br>▪ Overall bank bond issuances expected to surpass Rs. 1.3-1.4 trillion in FY2023<br>▪ Bond issuances by NABARD and SIDBI increase 60% to Rs. 484 billion in 9M FY2023 (Rs. 292 billion in 9M FY2022) to support refinance demand from banks and non-banks |
| **PSU banks drive Tier-I issuances, while PVT banks lead in infra and Tier-II issuances** | ▪ PSU banks dominated Tier-I issuances to maintain capital cushions, given stronger credit growth<br>▪ Private banks dominated Tier-II issuances to enhance resources as core capital position is relatively better<br>▪ Infrastructure (infra) bond issuances also pick up this year, though mainly led by a few large banks |
| **Bank bond issuances likely to remain strong in Q4 FY2023** | ▪ Infra and Tier-I bonds do not attract SLR/CRR requirements, which increases the net lendable amount for banks<br>▪ Accretive liquidity coverage ratio (LCR) and net stability funding ratio (NSFR), given the long-term nature of the liability<br>▪ Part of the credit-deposit gap can be met by higher bond issuances, besides refinance, repo, etc<br>▪ Investor appetite remains supportive, given the rise in bond yields and better risk-adjusted returns |

*SIDBI: Small Industries Development Bank of India, NABARD: National Bank for Agriculture and Rural Development*
*CRR: Cash Reserve Ratio, SLR: Statutory Liquidity Ratio*

# Robust credit growth; liquidity remains tight

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**Exhibit: Incremental non-food bank credit growth**

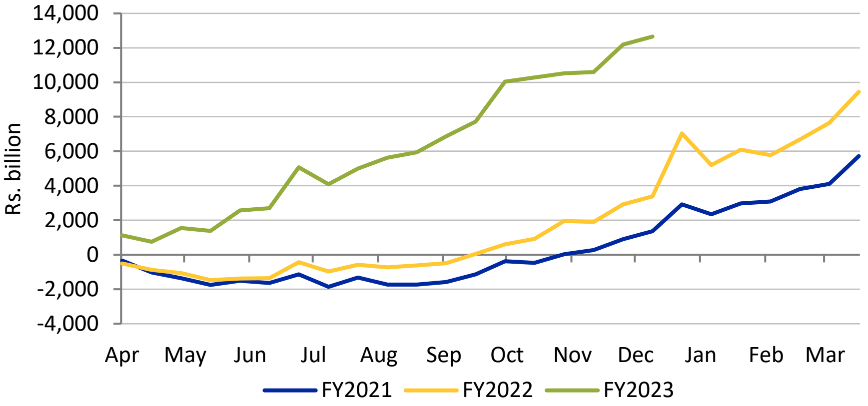
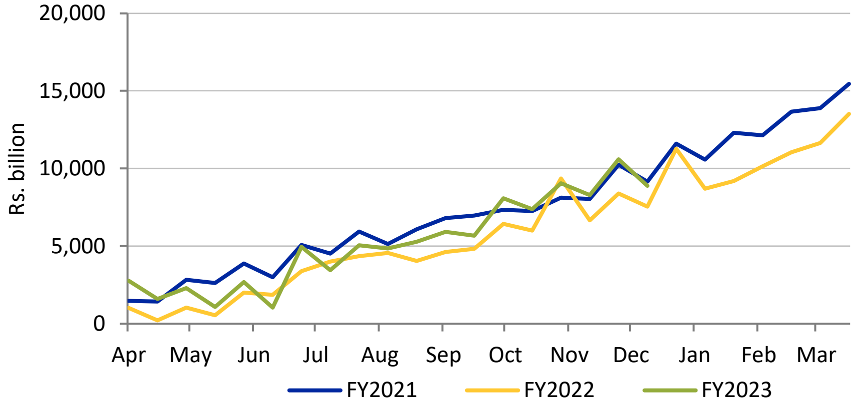



**Exhibit: Incremental deposit growth**




*Source: RBI, CEIC, ICRA Research*

- Incremental credit and deposit stood at Rs. 12.7 trillion and Rs. 8.9 trillion, respectively, till December 16, 2022
- YTD credit growth in FY2023 surpasses the previous all-time high of Rs. 11.5 trillion in FY2019
- Net of CRR/SLR requirements, gap between incremental credit and deposit at Rs. 5.7 trillion (till December 16, 2022)
- Credit deposit gap being bridged by bond issuances, refinance from SIDBI/NABARD, reduction in on-balance sheet liquidity
- Among All India Financial Institutions (AIFIs), SIDBI has witnessed a higher share of the incremental refinance demand from banks and non-banks
- In H1 FY2023, borrowings of banks increased by Rs. 2.2 trillion (+Rs. 1.6 trillion in FY2022, decline of Rs. 1.9 trillion in FY2021)

# CD ratio trending towards pre-Covid level

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**Exhibit: Incremental credit and deposit growth (YoY%)**

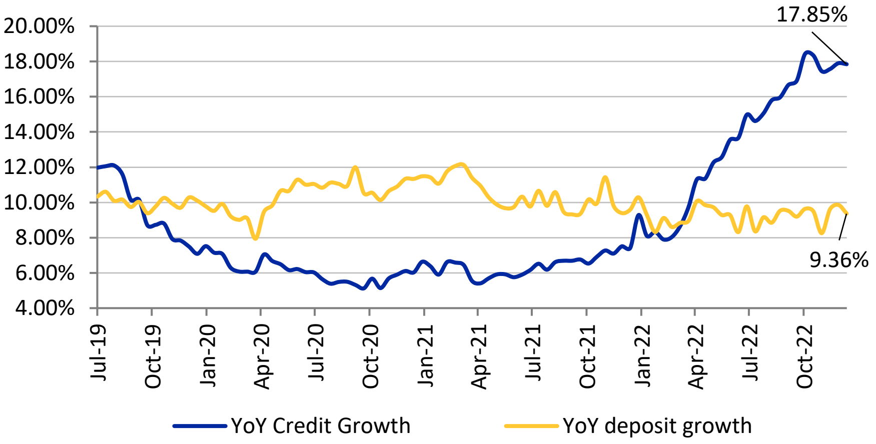
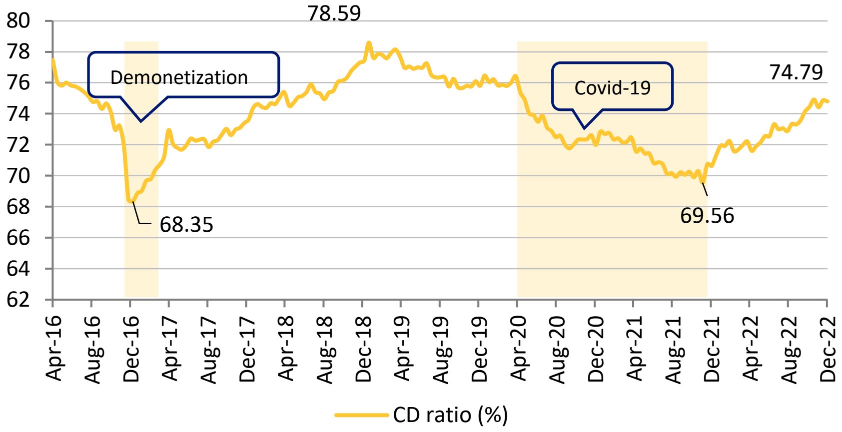



**Exhibit: CD ratio**

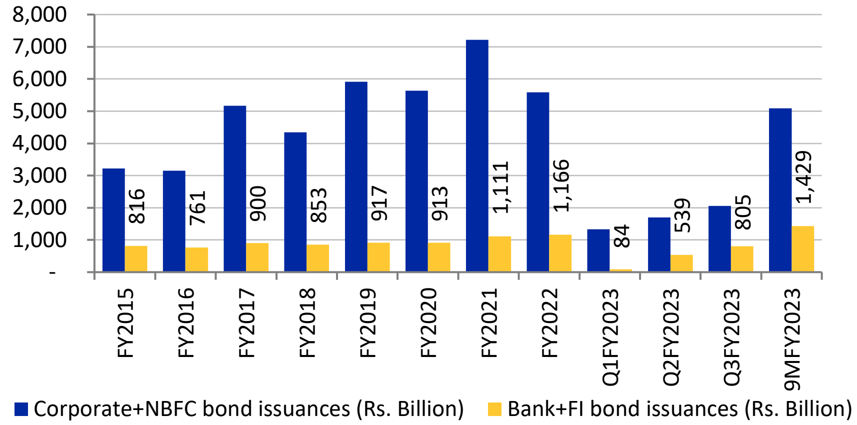



*Source: RBI, CEIC, ICRA Research*

- YoY credit and deposit growth expected to be 15.2-16.1% and 8.5-9.1%, respectively, by March 2023
- Lagging deposit growth heightens competition among banks and drives up deposit rates
- CD ratio still lower than the last peak (pre-Covid-19); expected to reach 76.3-76.5% in March 2023 and 79.0-79.2% by March 2024
- In the past, one-offs like demonetisation and the Covid-19 pandemic shored up system liquidity or curtailed growth and decline in the CD ratio

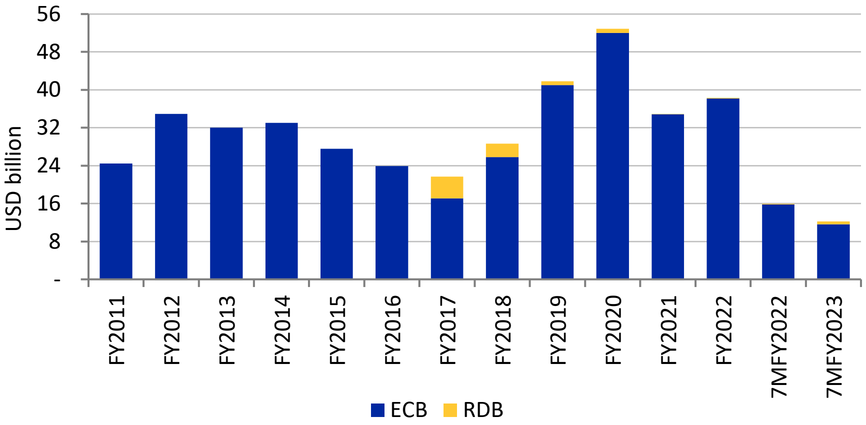
# Corporate borrowings shift from overseas/ debt markets to bank credit

**Exhibit: Bank + AIFI bond issuances at all-time high**




*Source: AIMIN, ICRA Research*

**Exhibit: Trend in External Commercial Borrowing (ECB) approvals**




*Source: RBI, ICRA Research*

- Including hedging costs, ECBs more costly vis-à-vis domestic bank funding. ECB approvals likely to be at multi-year low in FY2023
- Overall bond volumes muted in Q1 FY2023; higher issuances by banks/AIFIs, and higher yields drove bond issuance volumes in Q2-Q3 FY2023
- Overall gross bond issuances likely to be Rs. 8.0-8.5 trillion in FY2023 (YoY growth of 18-26%)
- Bank bond issuances expected to remain strong in Q4 FY2023 as well because liquidity conditions may tighten further

# Public sector banks also contributing towards improved credit growth

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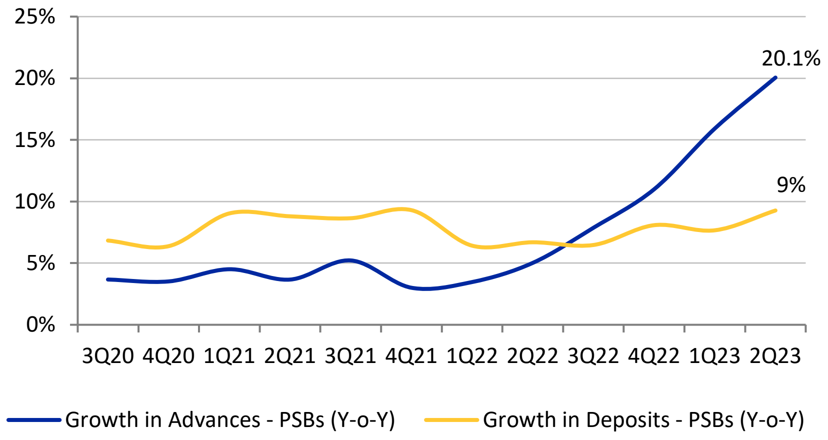
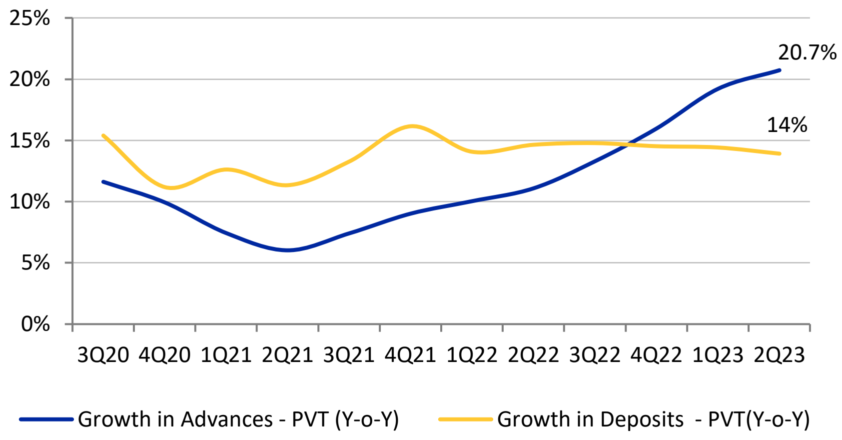
**Exhibit: YoY growth trends – Public banks**




*Source: Aggregate of 13 PSBs (including IDBI)*

**Exhibit: YoY growth trends – Private banks**




*Source: Aggregate of 18 private banks*

- Public banks' lending benchmarks competitive vis-à-vis debt capital markets and large/better rated borrowers tapping public sector undertaking (PSU) banks
- Better profitability and capital position of public banks also improving their ability to support credit growth
- Private banks continue to focus on retail and micro, small and medium enterprise (MSME) lending

# Bank bond issuances at all-time high amid tight liquidity

**Exhibit: Total bond issuances**

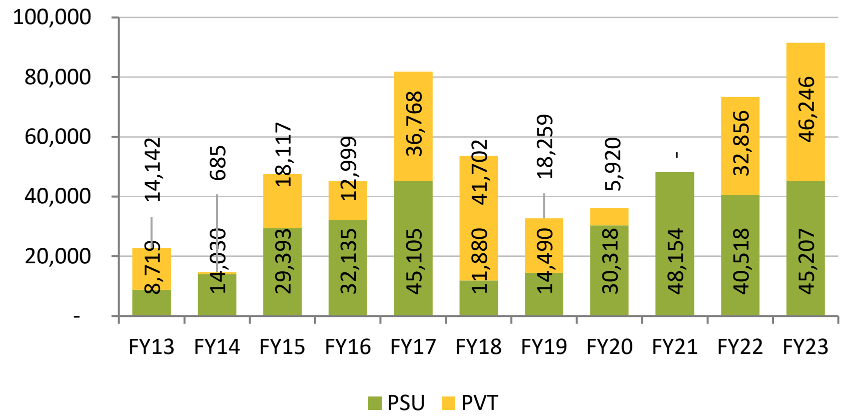
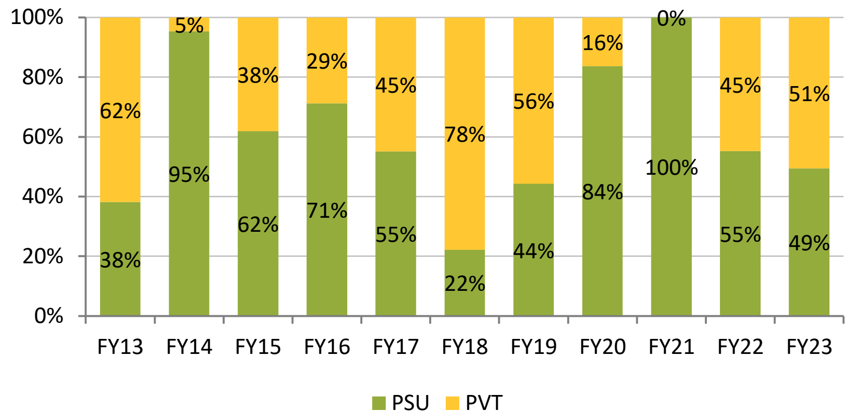



**Exhibit: Breakup of bond issuances (PSU and PVT)**




*Source: AIMIN, ICRA Research; Amount in Rs. crore; FY2023 data is for 9M*

- Bank bond issuances at all-time high in 9M FY2023 (Rs. 0.9 trillion)
- Previous record issuance in FY2017; however, Rs. 0.5 trillion of issuances preceded demonetisation apart from the need to raise Tier-I capital by public banks
- Incremental issuances in Q4 FY2023 expected at Rs. 0.4-0.5 trillion; SBI alone has approval for raising Rs. 0.2 trillion of infra and Tier-I bonds
- PSU bank issuances largely driven by capital considerations, while issuances by private banks largely driven by credit-deposit growth mismatch

# Record Tier-II issuances, though two large issuers drive higher volume

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**Exhibit: Instrument-wise breakup of total bank bond issuances**

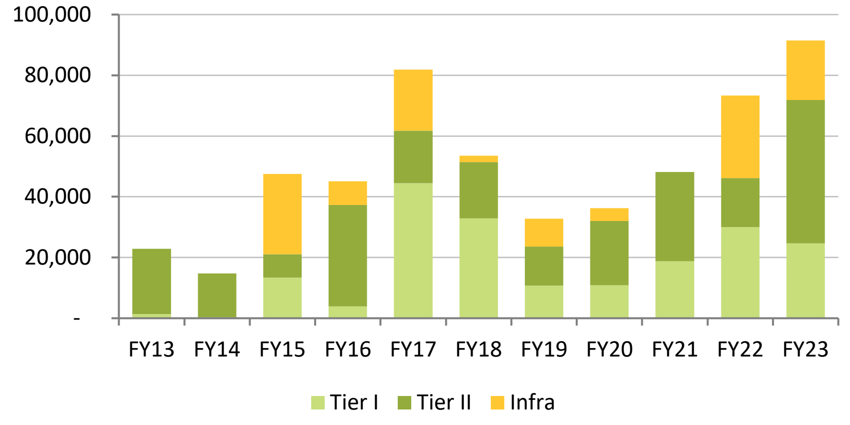
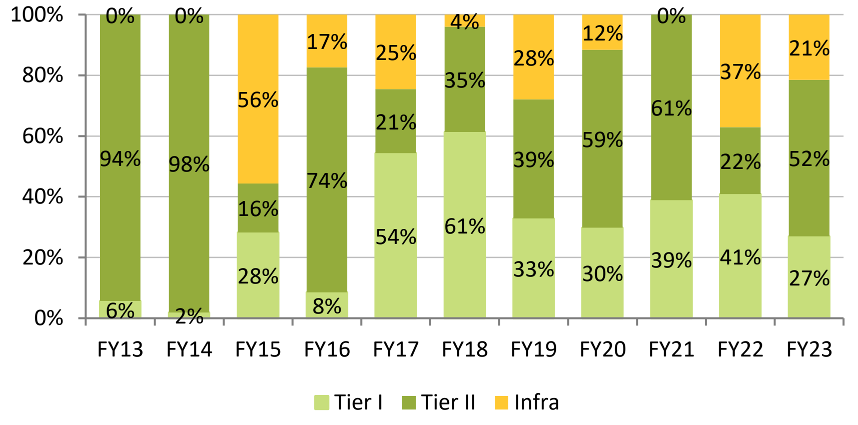



**Exhibit: Instrument-wise share of total issuances**




*Source: AIMIN, ICRA Research; Amount in Rs. crore; FY2023 data is for 9M*

- Tier-II bond issuances stood at Rs. 472 billion in 9M FY2023, higher than the total combined Tier-II issuance in FY2021-FY2022 (Rs. 456 billion)
- Total Tier-I bond issuance at Rs. 247 billion in 9M FY2023, against call option of ~Rs. 254 billion falling due for banks in FY2023
- Infra bonds at Rs.196 billion during 9M FY2023; likely to surpass previous high of Rs.272 billion in FY2022
- Lagging deposit growth together with investor appetite driving higher volumes

# Private banks contribute to strong rebound in overall issuances

**Exhibit: PSU bank bond issuance trend**

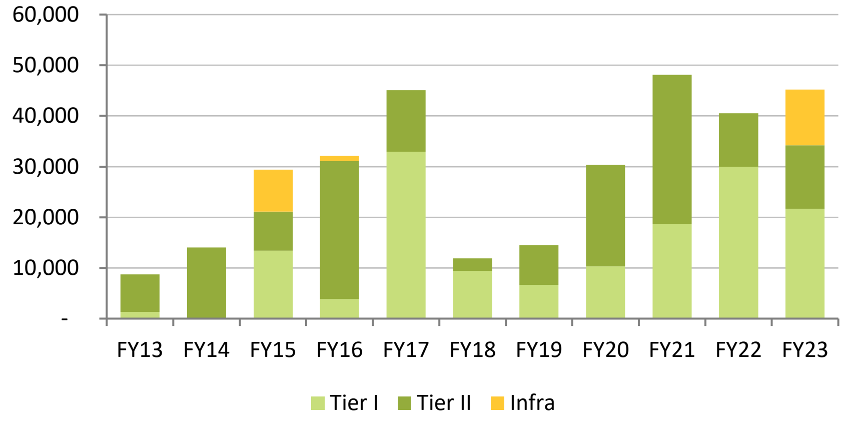
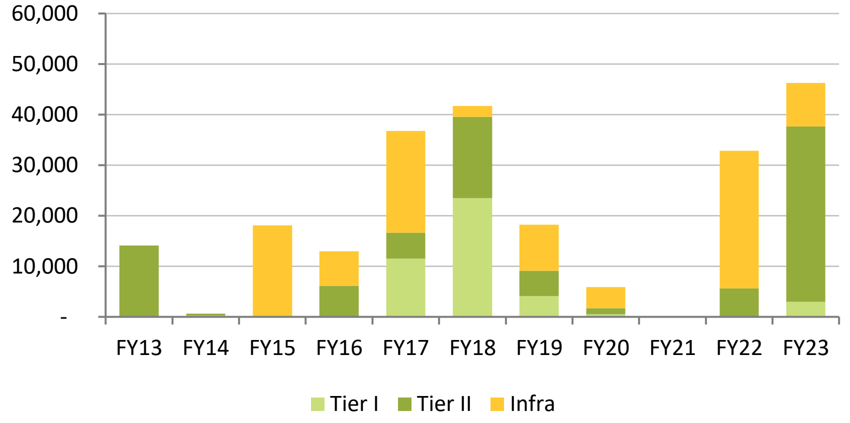



**Exhibit: PVT bank bond issuance trend**




*Source: AIMIN, ICRA Research; Amount in Rs. crore; FY2023 data is for 9M*

- Large private banks (usually large bond issuers as well) raised equity capital in FY2021 and strong on core capital, resulting in lower Tier-I by private banks
- Apart from above domestic issuances, HDFC ($1 billion) and Axis ($0.6 billion) raised Tier-I from the overseas market in FY2022
- Strong credit growth and lagging deposits driving up bond issuances (Tier-II/infra)
- Tier-I has been go-to instrument for PSU banks for growth capital, unlike past when issuances were driven by regulatory capital

# Tier-I issuances largely driven by Public banks

**Exhibit: Trend in Tier-I bond issuances (PSU vs PVT)**

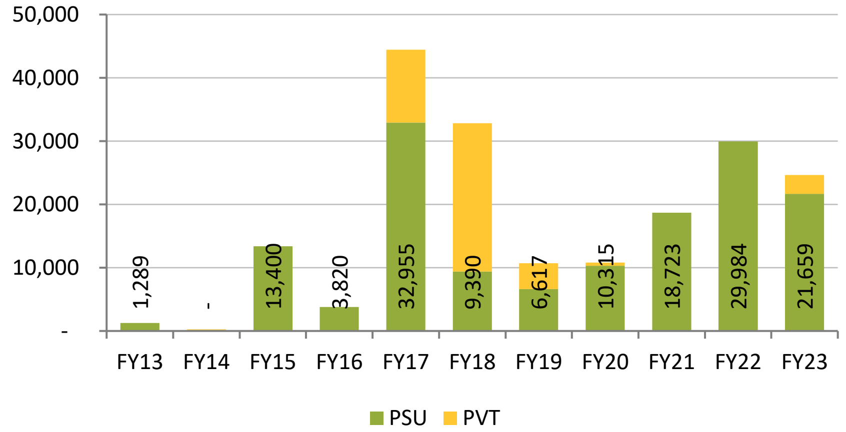
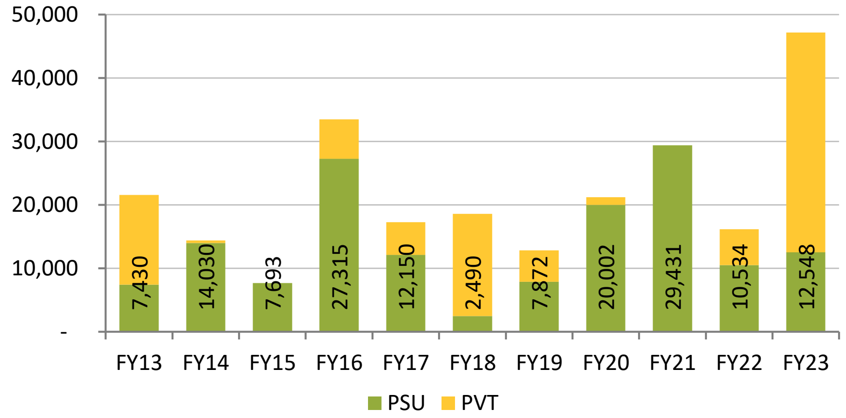



**Exhibit: Trend in Tier-II bond issuances (PSU vs PVT)**

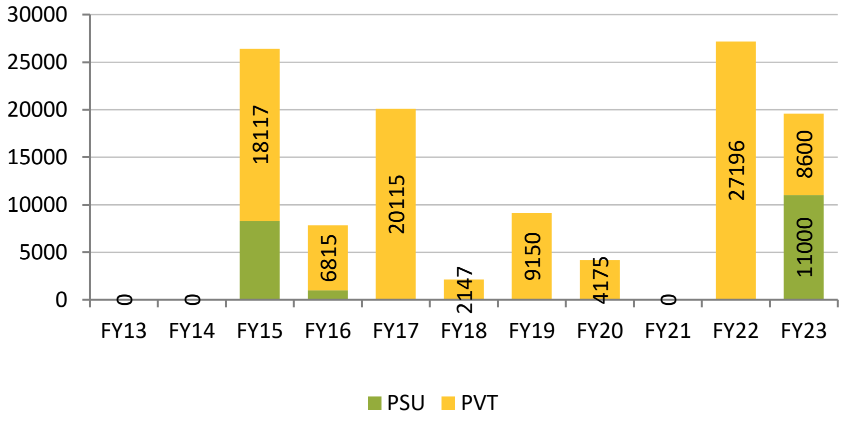



*Source: AIMIN, ICRA Research; Amount in Rs. crore; FY2023 data is for 9M*

- PSU banks have historically dominated Tier-I volumes, given the rising regulatory capital requirements in the past and recently driven by high credit growth
- Tier-I bonds raised by PSUs in FY2017 were rolled over in FY2022, keeping issuances high despite the muted credit growth in FY2022
- Private banks have not seen much rollover/fresh issuance of Tier-I bonds in FY2023, given their better core capital position
- HDFC and Axis were among the larger issuers of Tier-II bonds in 9M FY2023; PSU banks have been regular and large issuers in nine of the last 11 years

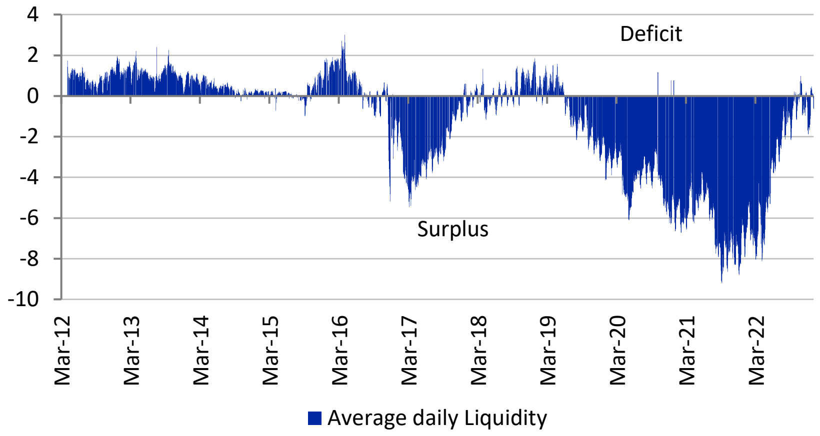
# Infra bond issuances also pick up amid tight liquidity

**Exhibit: Trend in infra bond issuances**




*Source: AIMIN, ICRA Research; Amount in Rs. crore; FY2023 data is for 9M*

**Exhibit: Average daily liquidity (FY2012-9M FY2023)**




*Source: RBI, ICRA Research, Amount in Rs. trillion*

- Public banks have historically operated with a lower CD ratio and a superior deposit profile, thereby limiting their dependence on infra bonds
- In the past, infra bond issuances tended to be higher amid tight liquidity; however, the previous high in FY2022 was largely driven by ICICI Bank
- Infra bond issuances may also reach all-time high in FY2023 as liquidity conditions are likely to remain tight in the near term

# Recent issuance volumes of public banks

Exhibit: Issuer-wise breakup (FY2022-9M FY2023)

| Rs. Crore | FY2022 | 9M FY2023 | FY2022 | 9M FY2023 | FY2022 | 9M FY2023 | FY2022 | 9M FY2023 |
|---|---|---|---|---|---|---|---|---|
| | Infra | Infra | Tier I | Tier I | Tier II | Tier II | Total | Total |
| STATE BANK OF INDIA | - | 10,000 | 13,974 | 6,872 | - | 4,000 | 13,974 | 20,872 |
| PUNJAB NATIONAL BANK | - | - | 3,971 | 3,240 | 1,919 | 4,000 | 5,890 | 7,240 |
| CANARA BANK | - | - | 4,000 | 4,000 | 2,500 | 2,000 | 6,500 | 6,000 |
| UNION BANK OF INDIA | - | - | 5,000 | 1,983 | 2,150 | 2,200 | 7,150 | 4,183 |
| BANK OF BARODA | - | 1,000 | 2,749 | 2,474 | - | - | 2,749 | 3,474 |
| BANK OF MAHARASHTRA | - | - | 290 | 1,590 | 1,000 | 348 | 1,290 | 1,938 |
| BANK OF INDIA | - | - | - | 1,500 | 1,800 | - | 1,800 | 1,500 |
| INDIAN OVERSEAS BANK | - | - | - | - | 665 | - | 665 | - |
| UCO BANK | - | - | - | - | 500 | - | 500 | - |
| **Total Public Banks** | **-** | **11,000** | **29,984** | **21,659** | **10,534** | **12,548** | **40,518** | **45,207** |

# Recent issuance volumes of private banks

Exhibit: Issuer-wise breakup (FY2022-9M FY2023)

| Rs. Crore | FY2022 | 9M FY2023 | FY2022 | 9M FY2023 | FY2022 | 9M FY2023 | FY2022 | 9M FY2023 |
|---|---|---|---|---|---|---|---|---|
| | Infra | Infra | Tier I | Tier I | Tier II | Tier II | Total | Total |
| HDFC BANK LIMITED | 5,000 | - | - | 3,000 | - | 20,000 | 5,000 | 23,000 |
| AXIS BANK LIMITED | 2,600 | - | - | - | - | 12,000 | 2,600 | 12,000 |
| ICICI BANK LIMITED | 19,596 | 7,100 | - | - | - | - | 19,596 | 7,100 |
| IDFC FIRST BANK LIMITED | - | - | - | - | 1,500 | 1,500 | 1,500 | 1,500 |
| KOTAK MAHINDRA BANK LIMITED | - | 1,500 | - | - | - | - | - | 1,500 |
| J&K BANK LIMITED | - | - | - | - | 360 | 1,021 | 360 | 1,021 |
| SBM BANK (INDIA) LIMITED | - | - | - | - | - | 125 | - | 125 |
| INDUSIND BANK LIMITED | - | - | - | - | 2,800 | - | 2,800 | - |
| THE FEDERAL BANK LIMITED | - | - | - | - | 700 | - | 700 | - |
| KARNATAKA BANK LIMITED | - | - | - | - | 300 | - | 300 | - |
| **Total Private Banks** | **27,196** | **8,600** | **-** | **3,000** | **5,660** | **34,646** | **32,856** | **46,246** |

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# Thank You!