Banks turn to CD issuances in Sep amid deposit woes

Raise ₹5.4 trn compared to ₹3.2 trn in same period of last FY

ILLUSTRATION: BINAY SINHA

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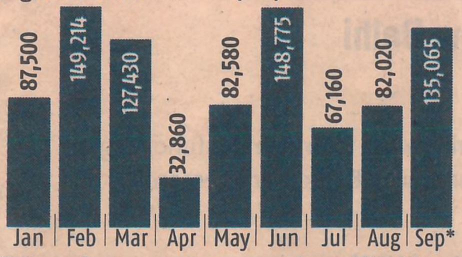
Amount raised through CDs in Sep is second highest in FY25 after Jun (₹ cr)



*Data as on Sep 25

Source: PRIME Database

ANJALI KUMARI
Mumbai, 25 September

Facing sluggish deposit growth, banks turned to issuing certificates of deposit (CDs) in September to mobilise funds. Banks have issued ₹1.35 trillion worth of CDs so far this month, marking a 65 per cent increase compared to the amount raised in August, despite a rise in rates, according to data from the Clearing Corporation of India.

The amount raised through CDs in September was the second-highest monthly figure in the current financial year (2024-25), following ₹1.45 trillion raised in June, according to data from PRIME Database.

Banks have issued ₹7.78 trillion worth of CDs in the current calendar year until August 2024, compared to ₹4.9 trillion in the same period of 2023, registering a 59 per cent growth.

Market participants noted that banks are likely to remain under pressure to raise deposits in the October-December quarter (Q3). Additionally, upcoming Reserve Bank of India (RBI) guidelines on the liquidity coverage ratio (LCR) could increase demand for high-quality liquid assets (HQLA), specifically statutory liquidity ratio (SLR) investments. The funding for these is expected to come from a combination of borrowings and deposits.

"There is a deposit crunch as all banks are competing for deposits, driving up costs. Banks can also use borrowings as a funding source, but the RBI is pressuring banks to reduce the credit-deposit ratio (CDR)," said a treasury head at a private bank.

"In Q3, pressure on deposits will persist, whether through CDs, higher rates for bulk deposits, or retail deposits. While liquidity doesn't appear to be very negative in Q3, we also have to consider the RBI's LCR circular. If it takes effect from April 1, 2025, we will need to buy more HQLA, which essentially means SLR. Funding for SLR will come from a mix of borrowings and deposits," he added.

So far this financial year, banks have raised ₹5.4 trillion through CDs, compared to ₹3.2 trillion during the same period last year — a 67 per cent increase. Canara Bank raised the highest amount, ₹68,250 crore, followed by Bank of Baroda at ₹63,325 crore, and HDFC Bank at ₹60,230 crore.

The top five banks, including four state-owned banks and HDFC Bank, contributed 61 per cent of total issuances. State-owned banks accounted for 68 per cent of the total amount raised. Issuances in the three-month segment comprised 72 per cent of total issuances, amounting to ₹3.8 trillion.

"Banks aim to maintain a prudent CDR, as advised by the RBI, and fund assets through retail and sustainable resources. While higher rates on term deposits are attracting retail deposits, CDs allow banks to quickly raise larger amounts within a day or two. To maintain the LCR, banks are issuing CDs with three-month tenors, anticipating an easing rate cycle," said V R C Reddy, head of treasury at Karur Vysya Bank.

HDFC Bank's loan growth may dip below 10% in Q2

HDFC Bank's loan growth on a year-on-year (Y-o-Y) basis could slip below 10 per cent in the second quarter of 2024-25 due to base effect and sell-down of portfolios to manage loan-deposit ratio (LDR), said Macquarie analysts in a research report on Wednesday. "Due to base effect (further run-downs of the corporate portfolio of erstwhile HDFC Ltd picked up in subsequent quarters), coupled with the sell-down, Q2FY25 loan growth could be less than 10 per cent Y-o-Y, in our view," the report said. HDFC Bank has previously indicated that the bank will grow its advances at a slower pace than its deposit, as it seeks to bring down its elevated LDR to pre-merger levels. **BS REPORTER**