Bank Credit Profile October 2018

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Growth in bank credit is one of the leading indicators of economic advancement as it is implicit that higher borrowings is used for productive purposes which reflects on the state of the economy and prospects thereof both in the short to medium term. In the last few years however, there has been a tendency for growth in bank credit to present an ambivalent picture with there being a structural shift from industry to retail. This has been on account of a combination of factors: banks' preference for lending to the retail end and the relatively high levels of NPAs in the other segments which has restricted both demand for credit and willingness to lend. Also, demand for credit has tended to slacken on account of growth being impacted by disruptions caused by demonetization and GST in 2016 and 2017 respectively and more recently liquidity pressures.

The study profiles the structure of credit in the first 7 months of the year so far and highlights the following:

1. The sectors which have witnessed higher growth rates during this period.
2. The industries within manufacturing that have witnessed higher growth rates.
3. Growth rates in credit juxtaposed with performance in the real sector where it is possible to map the same. Here growth in GDP for the first half of the year or IIP for the first 6 months or core sector for the first 7 months are considered based on latest availability of data. This gives an idea of whether the two are moving together.
4. The growth rates in various sectors and industries are mapped to the latest level of stressed assets as of March 2018 put out by RBI. This can give an idea of whether or not bank lending activity has been constrained on this score.

For growth in credit, it is reckoned over March rather than y-o-y as it is believed that this is truly reflective of growth during the financial year. The concept of y-o-y comparison though widely used to denote growth in credit could be loaded heavily in favour of the previous year as it includes 5 months of FY18.

Table 1: Sectoral distribution of credit: April - October 2018

	Outstanding credit Oct end 2018 (Rs bn)	Share (%)	% growth in credit			
			Oct'17 over Mar'17	Oct'18 over Mar'18	Real* growth (%)	Stress % March 2018
Gross Bank Credit	**80,574**	**100.0**	**-0.3**	**4.2**	7.4	12.5
Food Credit	**549**	**0.7**	**22.7**	**31.1**		
Non-food Credit	**80,026**	**99.3**	**-0.5**	**4.1**		
Agriculture & Allied Activities	**10,597**	**13.2**	**-1.1**	**2.9**	4.6	7.3
Industry	**26,962**	**33.5**	**-3.0**	**-0.1**	8.6	24.8
Micro & Small	3,642	**4.5**	-3.0	-2.4		8.8
Medium	1,043	**1.3**	-10.3	0.6		11.2$
Large	22,277	**27.6**	-2.7	0.2		
Services	**22,081**	**27.4**	**-3.8**	**7.7**	6.6	6.7
Transport Operators	1,286	**1.6**	1.7	6.0		
Trade	4,800	**6.0**	-0.3	2.8	6.8	
Professional Services	1,714	**2.1**	-0.8	10.3		
Commercial Real Estate	1,868	**2.3**	-1.4	0.5		
NBFCs	5,626	**7.0**	-7.6	13.3	6.4	
Other Services	6,145	**7.6**	-6.8	9.1		
Personal Loans	**20,386**	**25.3**	**7.7**	**6.8**	12.6#	2.0
Consumer Durables	33	**0.0**	-14.6	-83.4		
Housing	10,623	**13.2**	5.0	9.0		
Advances against Fixed Deposits	694	**0.9**	-19.6	-4.3		
Credit Card Outstanding	834	**1.0**	22.2	21.5		
Education	693	**0.9**	2.4	-0.5		
Vehicle Loans	1,968	**2.4**	5.8	3.7		
Other Personal Loans	5,480	**6.8**	19.5	7.9		

Source: RBI, CSO **: refers to growth in GDP for first half of the year. Broad equivalence has been used here. For services- government and construction excluded. ; #: For personal loans growth in consumption at current prices has been used. $: from MSME Pulse*

Some important observations:

- The share of industry in total credit is now down to just around 1/3. Retail has a share of around ¼ and services a little over at 27% and agriculture around 13%. NBFCs within services dominate with 7% share which also means that 93% of credit is direct while the balance is used for on-lending.
- Interestingly, the leading sub-segments are: large industry (27.6%) and mortgages (13.2%) which constitute 40% of total o/s credit. NBFCs are the third largest unique segment in this composition.
- The SME segment has a lower share of 5.8% comparable with that of trade (services segment). Credit cards have a share of 1% which is quite low given the drive at digitization in the last two years.

The positive aspects of growth so far has been that there has been an improvement in growth rates in 3 of the 4 segments with the retail segment being the exception. However, this sector has registered the highest growth rate of 6.8% as against 7.7% and is posed to be the fastest growing one this year too. This is also in consonance with growth witnessed in household consumption which has been good. Within retail loans, the two biggest drivers were mortgages and other personal loans

(loans to employees, personal occasions like marriages, gold etc.). Growth in credit against credit cards has been quite distinct even though share in total remains low at 1% with growth being above 20% on top of similar growth registered last year. Spending during the festival season could be one of the reasons for this development.

Growth to industry has been just about close to zero compared with a decline of 3% last year. Further, with the exception of micro and small industry, growth has been positive in the other two sub-segments. With the recent thrust being given to the SME segment by the government as well as the measures announced by the RBI, there could be improvement expected going ahead for the rest of the year. In case of services growth in credit has been higher with less than unitary elasticity to growth in GDP (based on 6 months). With the exception of real estate where lending has been conservative, growth has been quite steady across other sub-segments.

A look at the stressed assets profile as of March 2018 reveals that while industry had the highest ratio of 24.8%, it was lower for the SME sector relative to the larger segment. For the micro segment the ratio was 8.8%, which is much lower than that of both SME and large. Therefore, the fear of higher NPAs holding back lending may not be true. As a corollary, lending to this sector in a prudent manner would help the sector to grow.

Table 2: Distribution of credit within Industries: April- Oct 2018

Industry	O/s credit (Oct end 2018) Rs Bn	Share (%)	% growth in credit		IIP/GDP$ (%)	Stressed asset ratio (%)
			Oct'17 over Mar'17	Oct'18 over Mar'18		
Mining & Quarrying	**429**	**1.6**	**-6.0**	**3.9**	-1.0^	26.8
Food Processing	1,395	**5.2**	-8.0	-10.2	11.0	22.3
Beverage & Tobacco	136	**0.5**	-10.0	-12.9	8.5	
Textiles	1,968	**7.3**	-1.4	-6.2	3.0	22.3
Leather Products	113	**0.4**	0.7	-0.5	1.9	
Wood & Wood Products	**113**	**0.4**	**-0.5**	**3.9**	11.5	
Paper & Paper Products	301	**1.1**	-5.7	-1.7	-2.1	28.0
Petroleum, Coal	504	**1.9**	-22.6	-22.6	5.2	
Chemicals & Products	**1,697**	**6.3**	**-11.3**	**4.1**	4.7	8.8
Rubber, Plastic	**436**	**1.6**	**2.3**	**2.9**	-2.4	5.2
Glass & Glassware	**103**	**0.4**	**-1.1**	**21.3**		
Cement Products	513	**1.9**	-1.3	-2.5	15.0*	18.1
Basic Metal Product	3,779	**14.0**	-1.6	-9.2	3.1	46.3
All Engineering	**1,576**	**5.8**	**0.7**	**1.5**	4.3	34.4
Vehicles, Vehicle Parts	777	**2.9**	-4.6	-1.3	13-17	22.5
Gems & Jewellery	693	**2.6**	0.8	-4.6		25.4
Construction	**920**	**3.4**	**2.1**	**2.1**	8.3	24.0
Infrastructure	**9,550**	**35.4**	**-2.5**	**7.2**		22.6
Power	***5,339***	**19.8**	***-1.8***	***2.8***	8.2	
Telecommunications	***953***	**3.5**	***-0.5***	***12.7***		
Roads	***1,789***	**6.6**	***-4.1***	***7.4***		
Other Infrastructure	***1,469***	**5.4**	***-4.7***	***22.2***		
Other Industries	1,959	**7.3**	0.7	3.7		
Industries	**26,962**	**100.0**	**-3.0**	**-0.1**	5.1/8.6	24.8

Source: RBI **refers to the growth in the core sector; ^GDP growth for mining and quarrying has been considered*

- Infrastructure sector has the maximum share of 35% in the total bank credit disbursed to Industry as of Oct'18 followed by Basic metal products (14%), textiles (7%, Chemicals and products (6%) and engineering goods (5.8%).
- There has been an improvement in growth rates in 8 of the 18 industries with infrastructure registering a growth of 7.2% as of Oct'18 compared with a contraction of (-) 2.5% in the corresponding period last year.
- The stressed asset ratio in **the infrastructure** remains high at 22.6% and yet there was a credit growth witnessed in the sector. Therefore, the fear of higher NPAs holding back lending may not be true in case of infrastructure lending.
- Growth in credit disbursed to glass and glassware has been quite distinct (21.3% over a contraction of (-1.1%), even though the share in total remains low (below 1%).
- Stressed assets are mainly concentrated in the Industrial sector with ratio of above 20% in Mar'18. Within Industry, the leading industries with the high stressed ratio includes
    - Basic metal (46.3%)
    - Engineering sector (34.4%),
    - Paper and paper products (28%),
    - Mining and quarrying (26.8%).
- It is to be noted that the credit growth in **basic metals** (highest stressed ratio of 46.3% and one of the major drivers of industrial bank credit) witnessed a contraction of (-) 9.2% during the period over a contraction of (-) 1.6% in the corresponding period last year. However, the growth in the industrial output was positive at around 3.1%. There is hence some rollback on credit here.
- Credit growth in **engineering sector** (even after being the second highest contributor in stressed assets (34%)) registered a positive growth of 1.5% over 0.7% growth in the corresponding period last year. This is also in consonance with growth witnessed in the industrial output in the sector.
- Credit growth in **textiles industry** (with a stressed asset ratio above 25% and third highest share in o/s credit to industry) contracted by (-) 6.2% as of Oct'18.The decline in credit growth can be ascribed to reluctance of banks in lending to this industry owing to high stressed ratio. The growth in industrial output in textiles remained positive at around 3%.
- Growth in credit disbursed to **Chemical products** (6% share in o/s bank credit too industrial sector) increased by 4.1% compared with a (-) 11% contraction in the corresponding period last year. This industry has one of the lowest stressed asset ratio (8.8%). The growth in credit is also in line with the increase in industrial output at 4.7% in the sector.
- Growth in credit to **mining and quarrying** (26.8% of stressed assets) too increased by 3.9% as of Oct'18 compared with a contraction of (-) 6% during the corresponding period last year. The growth in this sector however contracted by (-) 1% during H1FY19.

Therefore, 4 of the 10 industries (having stressed ratio above 20% - Mining, engineering, Construction and Infra) witnessed positive credit growth as of Oct'18, reflecting that the fear of higher NPAs have not restrained banks from lending to these industries.

Concluding Remarks:

- *Retail sector has witnessed the highest growth in credit (6.8%),* in consonance with growth witnessed in household consumption (12.6%).

- *The growth in service sector has seen a turnaround in this financial year (upto Oct'18) with growth being at 7.7% compared with contraction of (-) 3.8% in the corresponding period last year. This is in line with the growth registered in the services sector (6.6%).*
    - *NBFC sector has witnessed one of the higher growth rates here at 13.3% partly as a result of the present liquidity challenge in this sector.*
    - *Lending to real estate sector continued to be conservative.*
- *Growth in credit to industrial sector remains lackluster (close to zero) dragged by micro and small industries. The stressed asset too remained above 20% and the highest among all the segments.*
    - *However, 4 of the 10 industries (having stressed ratio above 20%) witnessed positive credit growth as of Oct'18, reflecting that the fear of higher NPAs have not restrained banks from lending to these industries.*
    - *Although the credit growth was negative for few industries (including textiles, food processing, basic metal products and vehicles), these industries still have witnessed positive growth rates in the industrial output.*
    - *The industries with lower stressed asset ratio (including Chemicals and rubber, plastic) witnessed an increase in credit growth.*