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Corporate borrowing in FY18

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Economic growth has shown signs of picking up this year, though will be lower than that in FY17. While investment levels are yet to show an upward tendency in a significant manner, the NPA issue would continue to put pressure on the ability of banks to lend more in the market. Further, with the government and RBI focusing on the better use of the corporate debt market, there would be some shift in the preferences of borrowers. More importantly with interest rate transmission being better in the market, companies too may prefer to use this mode of finance. However, it also looks likely that the interest rate trajectory for 2018 would be only upwards as it is expected that RBI may hike rates during the course of the year. This could tilt the preference to banks.

Interest rates globally are also expected to increase with the Fed likely to do so 2-3 times this year, while the quantitative easing in Euro zone would end. The ECB (external commercial borrowings) option would have to be evaluated differently in the coming year as the rupee too may be expected to decline against the dollar with the fundamentals turning slightly negative with the US trade policy and the likely reining of oil prices at the current levels. It is against this background that the pattern of borrowing during FY18 is examined in some detail.

Bank credit growth

Growth in bank credit can be looked at in two ways: year on year (y-o-y) and year to date (YTD). The former is an annualized version and also takes into account growth which may have taken place in the previous year which can distort the picture. The YTD concept captures adequately the developments taking place during the financial year. Table 1 below provides information on both the concepts on growth in credit across the major sectors for the period until end January 2018 along with the ratios of stressed assets as depicted by the RBI in the FSR (December) for September 2017.

- Growth in credit has been higher this year relative to last year.
- Industry (which has share of 36% in total) continues to under-perform with the large and medium segments witnessing negative growth over March. The better performance of the micro sector can be attributed to the directive from the government to banks to address the credit requirements of the SME segment. Overall stressed asset ratio was also the highest for the industrial sector.
- Services (share of 25% in total) segment witnessed improved credit on a y-o-y basis and recorded nil growth over March. Trade and NBFCs were the main segments which contributed to this growth.
- Trade witnessed better growth rates under both the growth concepts.

- NBFCs (with share of about 5% in total) did better y-o-y but recorded negative growth over March. The higher y-o-y growth may be attributed to increase in lending by banks towards the end of FY17 post demonetization. NBFCs have witnessed decline in lending over March, which interestingly does not correspond with higher borrowings in the corporate debt market.
- Personal loans with share of 25% in total continue to the main driver of bank credit with home loans dominating with share of 13% in total credit. Growth was higher in FY18 relative to FY17. Stressed assets ratio was lowest for this category which has made lending to this sector progressively attractive for PSBs too.
- Loans to the farm sector which account for 14% of outstanding credit were higher on y-o-y basis but lower on YTD basis. Stressed asset ratio was also higher than that for services at 6.9%.

Table 1: Growth in credit: Sector Profile (Rs bn and %)

Sector	Jan 19 2018 (o/s Rs bn)	Jan-Jan 2017 (%)	Jan-Jan 2018 (%)	Jan-Mar 2017 (%)	Jan-Mar 2018 (%)	Stressed assets (%) Sep 2017
Gross Bank Credit	73,009	3.3	**8.8**	0.9	**2.3**	**12.2**
Food Credit	473	-11.6	-46.6	-14.1	18.2	
Non-food Credit	72,536	3.5	9.5	1.2	2.2	
Agriculture & Allied Activities	10,068	8.1	**9.4**	4.2	1.5	**6.9**
Industry	26,151	-5.1	1.1	-5.3	-2.4	**23.9**
Micro & Small	3,738	-7.4	6.9	-5.9	1.1	
Medium	972	-10.2	-6.3	-9.7	-7.3	
Large	21,442	-4.4	0.5	-5.0	-2.8	
Services	18,030	8.1	**13.2**	3.3	0.0	**6.4**
Transport Operators	1,172	4.6	13.8	3.2	6.1	
Trade	4,484	5.6	15.9	1.5	4.8	
Commercial Real Estate	1,841	0.9	3.3	0.4	-0.8	
NBFCs	3,760	-0.6	16.1	-8.2	-3.8	
Personal Loans	18,286	12.9	20.0	9.4	12.9	**2.1**
Consumer Durables	184	17.1	-7.3	11.8	-11.5	
Housing	9,466	13.5	15.2	10.0	10.1	
Credit Card Outstanding	653	29.0	31.2	32.0	25.2	
Education	708	5.2	-1.5	5.4	1.1	
Vehicle Loans	1,847	18.2	10.1	9.7	8.3	
Others	4,783	13.3	45.7	11.0	27.4	

Source: RBI

Industry-wise growth in credit

Table 2 below gives a snapshot of growth in credit across various industries along with the stressed assets ratios. Two sets of observations can be made here. The first relates to the relatively high growth sectors where there is demand for credit for either or both working capital and investment purposes. The second is indicative of the level of confidence of banks in lending

to sectors depending on their NPA levels. This is also the first year when the NPA resolution process is in progress and sectors which are concentrated in the IBC framework would raise red flags to banks for further lending.

Table 2: Growth in credit: Industry-wise (Rs bn and %)

Sector	Jan 19 2018 (o/s Rs bn)	Jan-Jan 2017 (%)	Jan-Jan 2018 (%)	Jan-Mar 2017 (%)	Jan-Mar 2018 (%)	Stressed assets (%) Sep 2017
Infrastructure	8,767	-8.7	-2.9	-6.5	-3.3	**19.6**
Basic Metal & Product	4,118	0.5	0.0	-1.0	-2.2	**44.5**
Textiles	2,047	-7.8	9.5	-9.1	4.3	**23.7**
Other Industries	1,846	2.3	-4.6	-0.5	-6.5	
Chemicals & Products	1,630	-8.3	13.8	-12.9	-5.4	**8.1**
Engineering	1,505	-3.6	2.3	-4.5	0.6	**31.0**
Food Processing	1,429	-14.1	9.2	-12.8	-1.8	**24.9**
Construction	871	8.2	8.9	7.2	5.9	**26.7**
Vehicles, Parts etc	741	4.6	4.2	3.0	0.7	**21.0**
Gems & Jewellery	688	-6.1	2.0	-7.3	-0.4	**11.7**
Cement & Products	518	1.6	-5.2	0.6	-4.5	**12.8**
Petroleum, Coal Nuclear	441	3.1	-10.4	-3.9	-26.0	
Rubber, Plastic etc	424	-0.7	17.8	-3.7	8.3	**5.1**
Mining & Quarrying	353	-13.1	4.9	-13.8	2.4	**27.1**
Paper & Paper Products	311	-6.2	-8.3	-4.4	-4.6	**23.6**
Beverage & Tobacco	162	-6.0	-2.9	-7.8	-5.9	
Leather Products	111	-3.3	11.3	-4.7	3.9	
Wood & Wood Products	106	3.3	6.4	4.8	0.6	
Glass & Glassware	83	-12.8	6.5	-12.6	4.3	
Industries	**26,151**	**-5.1**	**1.1**	**-5.3**	**-2.4**	**23.9**

Source: RBI

Table 2 provides information on growth in credit to various industries sorted in terms of share in total credit.

- Almost 50% of credit is locked in infra and metals where the stressed assets ratios are very high. Growth in credit to these sectors has been restrained by banks this year so far.
- Positive growth was witnessed in 9 of the 19 industries on YTD basis and 12 on y-o-y basis.
- Higher growth compared with FY17 was witnessed in 6 of the 9 industries which had positive growth on YTD basis. In case of y-o-y basis 11 of the 12 had higher growth rates.
- Positive growth has been witnessed in textiles, construction, vehicles, rubber, leather, wood, glass and mining under both the concepts of y-o-y and YTD.
- Higher growth in the current year under both modalities of comparison was observed for textiles, engineering, rubber, mining, leather and glassware. The negative base effect was strong for all the industries.

Corporate bond market: Where has money been raised?

The corporate bond market has been viewed as being a more efficient alternative for corporates especially for funding investment. In FY18 so far (10 months) the amount raised is lower at Rs 4,237 bn compared with Rs 4,521 bn in FY17.

Table 3: Corporate debt issuances (April-January)

Rs bn	FY17	FY18
All industries	4,521	4,237
Non-financial	1,236	1,253
Manufacturing	161	347
Mining	27	5
Electricity	251	283
Services (other than financial)	594	440
Construction & real estate	202	178
Financial services	3,285	2,984

Source: CMIE

- Financial services continue to be the dominant sector raising funds in the market with share of 70% this year. However, resources raised by them were lower and followed the same trend witnessed in bank credit to NBFCs. The decline was of the order of 9.1%.
- Resources raised were higher by the non-financial companies with contributions majorly coming from manufacturing and partly from electricity sector, which is a positive sign. It has fallen for mining, , construction and non-financial services.
- However, within manufacturing, the increase was witnessed in case of textiles from Rs 8 bn to Rs 36 bn and diversified from Rs 2 bn to Rs 202 bn. Therefore, there is no evidence of any significant increase in capital raised across segments in the manufacturing sector. This can also be related to the low capacity utilization rates seen in the last two quarters at 71.8% in Q2 and 71.2% in Q1 of FY18. Typically an increase towards the 80% mark on a sustained basis would warrant fresh investment by companies provided they are not involved with the NPA issue.
- Borrowing by the infra segments is low and shows no sign of recovering. It may be expected that until the NPA issue is addressed such strains would remain.

There was however, some increase witnessed in terms of ECB approvals from $ 16.2 bn to $ 20. 7 bn. The fructification of the same would be important given the tendencies of global rates to increase and the rupee to depreciate.

Concluding remarks

- Data till January end shows that there has not been a significant change in the borrowings of corporates as evidenced through trends in the bank credit and corporate debt market.
- To the extent that there has been an improvement in growth in bank credit to different industries, the base effect has played a role as it has been negative in the previous year.

- Bank credit growth is still driven by the retail segment and services. The slowdown in NBFC borrowing in both the segments is significant.
- The future direction of ECBs would be interesting to be monitored in the coming months.

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