Credit scenario

Contact:

Economics
91-022-6754 3489

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-022-6754 3515

Fiscal 2018 started off on a positive note on the hope that the negative impact of demonetization was behind us and that economic growth would only pick-up at a faster pace from hereon. Also with the government starting the spending process from April onwards on account of having an early Budget it was expected that the impetus from this end would start from the beginning of the year and private investment would follow subsequently.

Industrial growth for April came at 3.1% which was backed by growth in the primary (3.4%) and infra (5.8%) segments which can be linked directly with government expenditure.

The financial sector is a good indicator of borrowing activity for both working capital purposes as well as investment. The emerging picture for the first two months of the year is *not yet positive*, with borrowing levels being subdued relative to last year, reflecting thus limited private sector activity.

A. **Bank credit:** Bank credit declined over March by 3.2% compared with -0.3% last year to Rs 75,936 bn. In incremental terms bank credit declined by Rs 2,547 bn compared with negative Rs 232 bn last year. For the month of April for which data is available across sectors, growth has been negative for the four segments: agriculture, industry, services and retail. Positive growth was witnessed only in case of credit cards, automobile vehicles and consumer durable loans.

B. **Commercial paper market:** Outstanding CPs in the market declined marginally by 0.02% to Rs 3,913 bn as of May end. In FY17, o/s CPs had increased by 39.6% during this period indicating to an extent substitution. Hence, there was not a case of substitution of bank credit by CPs this year as both the segments witnessed decline in growth. In terms of fresh issuances, they amounted to Rs 2,999 bn for April-May 2017 compared with Rs 3,416 bn in 2016. Therefore there is reason to believe that overall offtake from the banking sector has been limited so far this year.

C. **Corporate debt market.** Issuances too were low key so far this yea**r.** Public issuances were Rs 2 bn for these two months compared with Rs 18.9 bn last year. Private placements too were low at Rs 972 bn (Rs 1009 bn) for the period April-May. The domination of these issuances was still from the financial sector and hence participation of the manufacturing and infrastructure companies is limited.

D. **ECBs:** ECBs approved for the month of April 2017 was $ 1.3 bn which is lower than that in 2016 when it was $ 3.04 bn.

E. **FPIs.** FPI flows were $ 3.6 bn and $ 3.9 bn in April and May respectively. Of this, debt inflows were $ 3.1 and $ 2.7 bn respectively.

Movements in interest rates

1. In the last two months the base rate has moved from a range of 9.25-9.60% to 9.1-9.6%
2. MCLR (overnight) moved from a range of 7.75-8.20% to 7.75-8.10%.
3. 10-years benchmark GSec has moved from 7% on March 31 to 6.69% as of May 31 and is now 6.53%.
4. Repo rate unchanged at 6.25% during these two months.

Other Developments in the real sector

1. Core sector data shows growth of 2.5% in April with steel increasing by 9.3% and fertilizers by 6.2%. Electricity grew by 4.7%.
2. In April 161 IEMs filed for investment of Rs 1,277 bn as against 167 in April 2016 for Rs 145 bn.
3. IEMs implemented were 66 in April for Rs 64 bn as against 59 in April 2016 for Rs 63 bn.
4. Exports during April 2017 have shown growth of 19.8% in dollar terms valued at $ 24.6 bn compared with $ 20.6 bn during April, 2016.

CORPORATE OFFICE:
CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road,
Off Eastern Express Highway, Sion (East), Mumbai - 400 022.
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com
CIN : L67190MH1993PLC071691