Flow of funds: Apr-Dec 2018

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The first three quarters of the year have witnessed significant changes in the flow of funds to the corporate sector. Bond issuances which were trailing compared with last year witnessed a sudden turnaround in December while growth in bank credit too has picked up with signs that there is a pickup in economic activity. But is this indicative of investment reviving in the economy?

Corporate bonds

Total issuances through the private placement route were Rs 3.73 lkh crore during the period April-December 2018 compared with Rs 4.60 lkh crore during the same period of last year. While this is significantly lower the positive development has been the quantum of issuances in December which was Rs 84,925 crore- the highest in a month this year. It does however need to be seen if this is maintained through the rest of the year.

Public issuances, which are quite insignificant in the total bonds issued in the market, were Rs 28,565 crore during this period compared with Rs 4,126 crore last year.

Banking

Bank deposits grew by 3.4% (0.6%) during the first nine months over March 2018 while bank credit increased by 7.7% (2.9%). This has led to the persistent liquidity problem all through the last three months or so. In terms of incremental funds, deposits were Rs 3.92 lkh crore while credit was Rs 6.62 lkh crore. This has meant continuous intervention by the RBI to make up this deficit which was done through Rs 1.86 lkh crore of OMO during this period and the balance being supported by the repo (overnight and term) markets.

Where has credit been buoyant?

Data on sectoral credit is available till November which is indicative of pick-up in economic activity during this period. Non-food credit increased by 5.3% (0.3%) between April and November. All the 4 major groups now witnessed positive increase though the spread within these sectors has been different.

- Growth of credit to agriculture was 3.4% as against -0.4 % last year
- Overall industry witnessed an increase of 0.3% compared with – 2.8%. Hence it has turned positive this time.
  - Medium and large industry has witnessed growth rates of 1.4% and 0.8% respectively during this period.
  - In case of micro and small industry growth was negative at 2.7% and almost the same level as last year.

- Therefore, flow of credit to the SME sector is still under pressure and it may be hoped that the measures taken by the government and RBI to increase the same will fructify in the future.
- In case of services growth has been high at 9.9% as against -2.4% last year.
    - The largest component NBFCs has witnessed an increase of 14.1% against -7.9% last year. In 2017, there was a tendency to access the bond market more for funds given the advantage of lower interest rates.
    - Trade, which is the second largest component within services, witnessed marginally higher growth of 2.7% as against 1.1%. In case of real estate it was 1% (-2.0%).
    - Growth was higher for professional services and transport at 8.4% and 6.6% respectively. A part of the increase may be attributed to the migration of borrowing from NBFCs to banks due to the pressure on some NBFCs to raise resources especially during October and November.
- Personal loans continued to increase at a brisk pace of 8.3% on top of 8.8% witnessed last year. This has been strengthened by both the demand for such loans from households as well as banks focusing more on such loans where the delinquency rates tend to be lower.
    - Home loans were up by 10.6% (7.2%) and vehicles by 4.7% (6%).
    - Credit cards, which are the third largest identifiable component (besides the miscellaneous category) also, grew at a smart rate of 24.3% on top of 22.3% last year.

There is hence evidence to show that borrowing has increased in most sectors which is a positive sign.

In terms of lending within manufacturing there are some interesting signs.

- The sectors where growth has been higher than the average are
    - Infrastructure 7.5%
    - Cement 5.7%
    - Construction 3.2%
    - Engineering 1.7%
    - Chemicals 3.8%
- Growth in credit had fallen in case of gems and jewelry, vehicles (marginally by 0.3%), metals, food products, textiles, paper, petro products etc.

Other forms of funding

ECBs

- ECB registrations until November give a positive picture with there being $ 20.16 bn as against $ 18.84 bn last year.
- In terms of actual inflows as per BOP data for the first half they were higher at $ 9.96 bn as against $ 9.13 bn. Therefore there is a gap between registrations and actual borrowings.

Equity issuances

- Overall equity issuances were lower in these three quarters at Rs 1.05 lkh crore as against Rs 1.62 lkh crore last year.

FDI

- For the first 6 months of the year based on BOP data, **net** FDI inflows were $ 23.3 bn as against $ 24.8 bn.
- In terms of gross inflows it was $ 31.3 bn as against $ 33.6 bn during this period.

NBFCs

- Growth in loans and advances of NBFCs as per RBI's FSR during the first half of the year was 16.3% over 19.2% last year (September over September). But this period is prior to the liquidity problem which surfaced subsequently which is being addressed.

Conclusions

There has definitely been some pick-up in growth in bank credit. But the impetus has come more form the retail and services segments and not manufacturing. Within manufacturing there are signs of credit picking up in some industries. But linking the same to investments would still be premature especially when one views the other forms of long term funding which have been lower.

1. Corporate bond issuances are substantially lower this year.
2. Equity issuance also lags 2017.
3. ECB registrations are higher this year but need to fructify to qualify for financing investment.
4. FDI inflows though almost on par are slightly lower.

Therefore, while there are signs of demand for funds increasing, the thrust towards investment is still to become more prominent.

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