

Bank Credit Update: Subdued Growth continues in May 2021

July 01, 2021 | BFSI Research

Note: Gross bank credit and non-food credit data based on Section-42 return, which covers all scheduled commercial banks (SCBs), while sectoral non-food credit data based on sector-wise and industry-wise bank credit (SIBC) return, which covers banks accounting for approximately 90% of non-food credit extended by SCBs for May 2021. Growth comparisons are in y-o-y terms, unless stated otherwise.

Overview

The gross bank credit growth stood at 6% in May 2021 as compared to a growth of 6.2% in May 2020, while non-food credit growth stood at 5.9% y-o-y as compared with a growth of 6.1% in May 2020. The non-food credit growth registered a marginal fall of 20 bps (y-o-y) in May 2021, while m-o-m trend also remain subdued due to second wave at its peak. The first quarter of a financial year generally witnesses moderate growth. The overall bank credit growth continues to remain modest as compared with the period before pandemic, mainly due to risk aversion and parking of excess liquidity with RBI.

The overall non-food credit growth continues to be driven by agriculture & allied activities and retail segments during the month of May 2021. Muted growth in industry and services segments continue to restrict the overall credit growth. The incremental non-food credit registered a negative growth, a similar trend can be observed for most of the years. The incremental credit growth stood negative in the month of May for three years out of last five years.

Figure 1: Sectoral Distribution of Credit: May 2021

Particulars	Outstanding credit	% growth in credit		% growth in incremental credit	
	As on May 21, 2021 (Rs Lakh Crore)	May'20 over May'19	May'21 over May'20	May' 20 over Mar' 20	May' 21 over Mar' 21
Gross Bank Credit	108.3	6.2%	6.0%	-1.4%	-1.1%
Food Credit	0.9	20.8%	14.2%	53.4%	48.0%
Non-food Credit	107.4	6.1%	5.9%	-1.7%	-1.3%
Agriculture & Allied Activities	12.8	5.2%	10.3%	0.6%	-1.2%
Industry (Micro & Small, Medium and Large)	28.8	1.7%	0.8%	-1.5%	-1.2%
<i>Of which</i>					
Micro, Small & Medium	5.2	-3.8%	14.0%	-7.1%	-0.7%
Large	23.7	2.8%	-1.7%	-0.4%	-1.3%
Services	25.7	10.3%	1.9%	-2.7%	-2.3%
<i>Of which</i>					
Trade	6.1	7.7%	12.4%	-1.1%	-0.5%
Commercial Real Estate	2.3	13.6%	2.6%	-0.8%	-0.8%
Non-Banking Financial Companies (NBFCs)	9.0	29.1%	2.2%	-2.7%	-4.8%
Personal Loans	27.9	10.6%	12.4%	-2.9%	-0.9%
<i>Of which</i>					
Housing	14.6	13.0%	10.1%	-0.7%	0.2%
Vehicle Loans	2.4	6.3%	11.9%	-2.7%	-0.6%

Note: Gross bank credit and non-food credit data are based on Section - 42 return, which covers all scheduled commercial banks (SCBs), while sectoral non-food credit data are based on sector-wise and industry-wise bank credit (SIBC) return, which covers select banks accounting for about 90% of total non-food credit extended by all SCBs; May 2021 over May 2020 and May 2021 over Mar 2021: Red – negative growth, Grey – growth < 5%, Green - growth > 5%; Source: Reserve Bank of India.

Retail/Personal loans

The growth rate of the retail/personal loans segment at 12.4% was higher by 1.8% in May 2021 when compared with May 2020. The growth rate came in higher by 2.3% as compared with March 2021. In absolute terms, credit outstanding has increased from Rs.24.8 lakh crore in May 2020 to Rs.27.9 lakh crore in May 2021. The Retail/Personal loans segment has continued to be the second largest amongst the four major segments with a share of around 26.0%.

Within retail segment, the housing loan with highest share of 52.5%, slowed to 10.1% as compared with a growth of 13.0% last year. Despite the low base, increase in affordability and concessions in home loan interest rates, there is no reasonable pickup seen in housing segment. The higher growth for vehicle loans is partly due to low base of last year (initial months of nationwide lockdown). Credit card outstanding (share of 3.7%) registered a growth of 12.5% y-o-y as compared with de-growth of 0.8% in May 2020, as discretionary spending was significantly impacted in May 2020 due to COVID outbreak. The growth in retail loans has been driven by personal unsecured and gold loan lending by some banks to select high end

customers. On a sequential basis, the amount outstanding has witnessed a marginal decline (<1.0%), where again discretionary spending impacted marginally, partly due to the beginning period of second wave.

Incrementally, retail/personal loans segment registered a de-growth. Within retail/personal segment, housing loans and loans against gold witnessed an increase, while the other segments reported a decline.

Services

The services segment registered a significantly slower growth (y-o-y), largely due to fall in growth of NBFCs, Commercial Real Estate (CRE) and transport operators' segment. Of all the segments, trade segment (second largest segment) grew the fastest at 12.4%, while NBFCs (the largest segment) grew at a much slower rate of 2.2% versus the significantly faster rate of 29.1% witnessed last year. The slower growth in NBFCs segment can be attributed to slowdown in disbursements and preference to bond market for funding needs. Tourism, Hotels & Restaurants and aviation segment registered a growth of 8.2% and 4.7% respectively. Professional services, shipping and other services segment registered a de growth of 4.4%, 0.1% and 9.1%, respectively, during May 2021. On an incremental basis, only aviation segment reported a growth rate while, the other segments all reported a decline.

Industry

Large industries account for 82.1% share (84.2% share in May 2020) in the total outstanding credit to industries and this segment reported a drop of 1.7% in May 2021 compared with a growth of 2.8% in May 2020 (de growth of 1.9% in April 2021). The growth movement is weak as corporates continue to de-leverage and there is no material improvement in capex requirements. MSME industries grew by 14.0% in May 2021 (which offset the fall in large segments) as compared with a drop of 3.8% in May 2020. The growth in lending to industry and services was almost entirely led by MSME segment which was driven by disbursements under ECLGS scheme wherein approximately Rs. 2.5 lakh crore were disbursed up to May 2021.

Of total nineteen industries, eight industries witnessed a drop in credit outstanding. Paper and paper products segment (1.2% share) has continued to register the highest growth of 14.0% within industries (growth of 5.0% in May 2020). Rubber, Plastic, and their Products segment growth stood at 12.1% as compared with a growth of 6.2% in May 2020.

Infrastructure segment, which has the highest share of 37.6% in the total bank credit outstanding to industries, registered a growth of 2.7% in May 2021 as compared with a growth of 1.3% a year ago. Within Infrastructure segment, airport segment registered a robust growth of 109.4% followed by the road segment at 29.8% in May 2021. While ports, telecommunication and power segments registered a de growth of 23.4%, 17.6%, and 1.5%, respectively in May 2021 as compared with a growth of 10.0%, 11.7%, and 2.1%, respectively in May 2020.

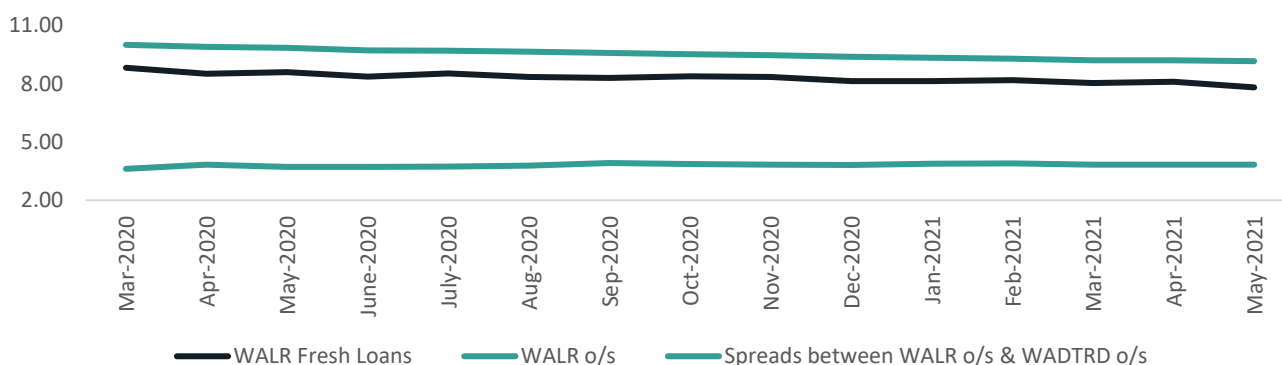
Lending to the priority sector

Within priority sector, agriculture accounts for the highest share in outstanding credit followed by Micro & Small Enterprises and weaker sections. In absolute terms, the outstanding credit for MSMEs grew from Rs.11.8 lakh crore in May 2020 to Rs.12.1 lakh crore in May 2021, whereas the incremental growth in this sector stood negative despite the ECLGS scheme. The MSME credit grew by Rs 0.34 lakh crore from May 2020 to May 2021, while till date disbursements under ECLGS scheme were Rs 2.69 lakh crore (around 90% of earlier targeted Rs 3.0 lakh crore).

Banking system interest rates

The interest rates (monthly fresh loans WALR) of SCBs have reduced by 78 bps from May 2020 to May 2021, The spread between the Weighted Average Lending Rates (WALR) on outstanding loans and Weighted Average Domestic Term Deposit Rates (WADTDR) on outstanding term deposits stood at 3.8% in May 2021 and remain largely at similar range from May 2020.

Figure 2: Movement in banking system interest rates (%)



Source: RBI

Concluding remarks and outlook

The risk aversion from both borrowers and lenders failed to report a pick-up in bank credit growth. This is despite the low base of previous year (initial period of nationwide lockdowns) and rate cuts by SCBs.

The bank credit growth continues to be supported by agriculture, retail segment and disbursements under the ECLGS scheme. The recent additional measures by Government to mitigate pandemic related stress are expected to improve credit offtake. For instance, additional Rs 1.5 lakh crore of ECLGS disbursements would further help the bank credit growth by providing additional credit support to MSMEs.

The credit growth for FY22 is likely to remain in low double digit and substantial growth is expected in H2FY22 led by growth in the economy, base effect coming into play, and measures such as the credit guarantee schemes. Retail loan segment is expected to do well as compared with industry and service segment supported by retail credit push. The downside risks include limited capex plans, lower discretionary spending compared to pre-pandemic levels, concerns over third wave, partial/complete lockdown in key states, which may impact the industrial as well as service segments.

Annexure

Figure A1: Distribution of credit within Industries: May 2021

Particulars	Outstanding credit	% growth in credit		% growth in incremental credit	
	As on May 21, 2021 (Rs Lakh Crore)	May'20 over May'19	May'21 over May'20	May' 20 over Mar' 20	May' 21 over Mar' 21
Mining & Quarrying (incl. Coal)	0.4	1.7%	6.0%	-4.2%	-3.2%
Food Processing	1.7	-1.5%	10.7%	-3.1%	-0.2%
Beverage & Tobacco	0.2	16.4%	-3.8%	-2.5%	-1.1%
Textiles	2.0	-2.7%	8.2%	-1.6%	1.7%
Leather & Leather Products	0.1	-4.1%	8.2%	-4.4%	1.6%
Wood & Wood Products	0.1	7.0%	8.8%	1.6%	1.7%
Paper & Paper Products	0.4	5.0%	14.0%	2.0%	1.3%
Petroleum, Coal Products & Nuclear Fuels	0.7	40.3%	-4.6%	-2.6%	-2.6%
Chemicals & Chemical Products	1.8	3.6%	-0.7%	-10.2%	-3.1%
Rubber, Plastic & their Products	0.5	6.2%	12.1%	-3.5%	1.9%
Glass & Glassware	0.1	-17.2%	10.6%	-7.0%	-1.1%
Cement & Cement Products	0.5	4.9%	-13.2%	-0.8%	-3.1%
Basic Metal & Metal Product	3.1	0.8%	-13.2%	1.2%	-6.4%
All Engineering	1.5	-6.0%	-4.6%	-1.3%	0.5%
Vehicles, Vehicle Parts & Transport Equipment	0.8	7.2%	-1.7%	2.3%	-0.6%
Gems & Jewellery	0.6	-12.5%	0.9%	-3.5%	-7.5%
Construction	1.0	3.1%	-2.2%	-3.7%	2.8%
Infrastructure	10.8	1.3%	2.7%	0.2%	-0.6%
Other Industries	0.1	10.0%	6.9%	-3.4%	0.5%

Note: May 2021 over May 2020; May 2021 over Mar 2021: Red – negative growth, Grey – growth < 5%, Green - growth > 5%. Source: RBI

Figure A2: Credit outstanding to priority sectors

Particulars	Outstanding credit	% growth in credit		% growth in incremental credit	
	As on May 21, 2021 (Rs Lakh Crore)	May'20 over May'19	May'21 over May'20	May' 20 over Mar' 20	May' 21 over Mar' 21
Priority Sector					
<i>of which</i>					
Agriculture & Allied Activities	12.6	3.8%	10.5%	0.6%	-0.5%
Micro & Small Enterprises	10.3	2.2%	-3.6%	-1.3%	-7.2%
Medium Enterprises	1.8	-0.8%	64.7%	-14.6%	-10.9%
Housing	4.7	7.0%	2.0%	0.7%	0.5%
Weaker Sections	8.1	8.3%	5.9%	5.6%	0.0%
Others	0.9	-1.8%	6.1%	-0.4%	-0.5%

Note: May 2021 over May 2020, May 2021 over Mar 2021: Red – negative growth, Grey – growth < 5%, Green - growth > 5%. Source: RBI

Figure A3: Overall share of segments within the Industries segment

Industry	Nov 20, 2020	Dec 18, 2020	Jan 29, 2021	Feb 26, 2021	Mar 26, 2021	Apr 23, 2021	May 21, 2021
Mining & Quarrying (incl. Coal)	1.6%	1.6%	1.6%	1.6%	1.6%	1.5%	1.5%
Food Processing	5.4%	5.6%	5.6%	5.5%	5.7%	5.7%	5.7%
Beverage & Tobacco	0.5%	0.5%	0.5%	0.6%	0.5%	0.5%	0.5%
Textiles	6.8%	6.9%	7.5%	7.3%	6.9%	7.1%	7.1%
Leather & Leather Products	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Wood & Wood Products	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Paper & Paper Products	1.2%	1.2%	1.3%	1.3%	1.2%	1.2%	1.2%
Petroleum, Coal Products & Nuclear Fuels	2.2%	2.1%	2.0%	2.2%	2.5%	2.3%	2.4%
Chemicals & Chemical Products	6.5%	6.4%	6.5%	6.4%	6.4%	6.5%	6.3%
Rubber, Plastic & their Products	1.8%	1.8%	1.8%	1.9%	1.8%	1.9%	1.9%
Glass & Glassware	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Cement & Cement Products	2.1%	2.1%	2.1%	2.1%	1.8%	1.7%	1.8%
Basic Metal & Metal Product	12.1%	11.9%	11.8%	11.8%	11.3%	10.8%	10.7%
All Engineering	5.0%	5.2%	5.1%	5.2%	5.0%	5.1%	5.1%
Vehicles, Vehicle Parts & Transport Equipment	3.1%	3.1%	3.0%	3.0%	2.9%	2.9%	2.9%
Gems & Jewellery	2.2%	2.3%	2.2%	2.2%	2.1%	2.0%	2.0%
Construction	3.7%	3.7%	3.6%	3.5%	3.3%	3.4%	3.4%
Infrastructure	36.6%	36.3%	35.8%	36.0%	37.4%	37.7%	37.6%
Other Industries	8.0%	8.0%	8.3%	8.4%	8.4%	8.5%	8.6%
Industries	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: RBI

Figure A4: Overall share of segments within the Retail segment

Industry	Nov 20, 2020	Dec 18, 2020	Jan 29, 2021	Feb 26, 2021	Mar 26, 2021	Apr 23, 2021	May 21, 2021
Consumer Durables	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Housing (Including Priority Sector Housing)	52.3%	52.3%	52.0%	51.9%	51.9%	52.0%	52.5%
Advances against Fixed Deposits (Including FCNR (B), NRRR Deposits etc.)	2.4%	2.5%	2.5%	2.4%	2.5%	2.5%	2.4%
Advances to Individuals against share, bonds, etc.	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Credit Card Outstanding	4.3%	4.1%	4.3%	4.2%	4.1%	4.0%	3.7%
Education	2.5%	2.4%	2.4%	2.3%	2.3%	2.2%	2.3%
Vehicle Loans	8.7%	8.6%	8.7%	8.6%	8.6%	8.6%	8.6%
Loans against gold jewellery	NA	NA	1.6%	2.0%	2.2%	2.2%	2.2%
Other Personal Loans	29.4%	29.6%	28.2%	28.1%	28.0%	27.9%	27.9%
Personal Loans	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Reserve Bank of India

Figure A5: Overall share of segments within the Services segment

Industry	Nov 20, 2020	Dec 18, 2020	Jan 29, 2021	Feb 26, 2021	Mar 26, 2021	Apr 23, 2021	May 21, 2021
Transport Operators	6.0%	6.0%	5.7%	5.6%	5.5%	5.6%	5.5%
Computer Software	0.7%	0.7%	0.7%	0.7%	0.8%	0.8%	0.8%
Tourism, Hotels & Restaurants	2.0%	2.0%	1.9%	1.8%	1.9%	1.9%	1.9%
Shipping	0.2%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%
Aviation	NA	NA	0.5%	0.8%	1.0%	1.0%	1.0%
Professional Services	5.0%	5.0%	4.9%	4.7%	4.5%	4.4%	4.4%
<u>Trade</u>	22.4%	22.9%	22.8%	22.0%	23.5%	23.5%	23.9%
<i>Of which</i>							
<i>Wholesale Trade (other than food procurement)</i>	47.8%	48.5%	49.6%	50.3%	51.7%	52.0%	51.4%
<i>Retail Trade</i>	52.2%	51.5%	50.4%	49.7%	48.3%	48.0%	48.6%
Commercial Real Estate	9.1%	9.0%	8.9%	8.7%	9.0%	9.1%	9.1%
<u>Non-Banking Financial Companies (NBFCs)</u>	30.7%	30.6%	33.6%	33.7%	35.9%	35.6%	35.0%
<i>Of which</i>							
<i>Housing Finance Companies (HFCs)</i>	NA	NA	17.0%	18.8%	19.8%	19.9%	18.7%
<i>Public Finance Institutions (PFIs)</i>	NA	NA	8.0%	8.9%	8.3%	8.1%	8.3%
Other Services	23.9%	23.6%	20.8%	21.7%	17.6%	17.9%	18.2%
Services	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Reserve Bank of India

Contact:

Sanjay Agarwal
Saurabh Bhalerao
Pravin Mule
Mradul Mishra

Senior Director
Associate Director – BFSI Research
Research Analyst – BFSI Research
(Media Contact)

sanjay.agarwal@careratings.com
saurabh.bhalerao@careratings.com
pravin.mule@careratings.com
mradul.mishra@careratings.com

+91-22- 6754 3582
+91-22-6754 3573
+91-22-6754 3553
+91-22-6754 3631

+91- 81080 07676
+91- 90049 52514
+91- 98192 80043

Disclaimer: This report is prepared by CARE Ratings Limited. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road,
Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel. : +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect:

