Economics

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Credit Profile of Banking System: FY14

RBI data on bank credit reveals higher growth in FY14 relative to FY13 which was mainly due to steady growth in credit in the services, personal loans and agricultural sectors. Overall growth was 14% in FY14 compared with 13.6% in the previous year. In FY14 it is expected that there would only be a modest recovery in GDP growth rate from 4.5% to 4.9% (CSO while CARE's estimate is 4.7%). Overall industrial production growth has been virtually close to zero and growth in the economy has been driven more by the services sector, with agriculture providing support.

Table 1 provides details of allocation of credit across the major sectors in FY14 along with their shares as well as growth rates in FY13 and FY14.

Table 1: Sectoral distribution of bank credit

	O/s March 2014	Share	FY13	FY14
Gross Bank Credit (II + III)	**56,572**	**100.0**	**13.6**	**14.0**
Food Credit	**912**	**1.6**	**15.9**	**-3.6**
Non-food Credit (1 to 4)	**55,660**	**98.4**	**13.5**	**14.3**
Agriculture & Allied Activities	***6,694***	***11.8***	***7.9***	***13.5***
Industry	***25,229***	***44.6***	***15.1***	***13.1***
Micro & Small	3,517	6.2	20.2	23.7
Medium	1,274	2.3	-0.1	2.2
Large	20,438	36.1	15.6	12.2
Services	***13,370***	***23.6***	***12.6***	***16.1***
Transport Operators	895	1.6	4.4	12.4
Computer Software	176	0.3	18.3	3.8
Tourism, Hotels & Restaurants	392	0.7	9.7	10.5
Shipping	99	0.2	3.5	20.3
Professional Services	707	1.2	17.6	25.3
Trade	3,228	5.7	22.7	17.0
Commercial Real Estate	1,544	2.7	11.9	22.4
NBFCs	2,946	5.2	11.6	13.2
Other Services	3,375	6.0	7.2	15.2
Personal Loans	***10,367***	***18.3***	***14.7***	***15.5***
Consumer Durables	128	0.2	17.5	53.1
Housing	5,408	9.6	15.0	18.4
Advances against FDs	641	1.1	7.2	4.9
Advances against share, bonds, etc.	38	0.1	3.6	23.8
Credit Card Outstanding	249	0.4	21.9	-0.2
Education	600	1.1	10.1	9.2
Vehicle Loans	1,304	2.3	24.7	17.4
Other Personal Loans	1,998	3.5	11.4	12.6

Source: RBI

Table 1 indicates that growth in credit has been lower in FY14 in case of industry with a decline of 200 bps in this rate. This may be attributed to low growth in output in industry (0.1% in first 11 months of the year) as well as increased recourse taken by larger companies to the ECB market given the interest rate differential as well as a modicum of liberalization on this end last year. The micro, small and medium enterprises witnessed higher growth in credit this year as they were the ones which did access the banking channels for funding. This would be an area to be monitored by banks as these units as a whole had also witnessed negative growth in both sales and net profit for the first 9 months of the year as per CARE's study on 'Corporate Performance: Q3-FY14 and 9M-FY14 released in February 2014.

While services witnessed higher growth in FY14, the picture was mixed within this segment. Among the three largest sub-segments, NBFCs and commercial real estate witnessed an increase in growth in credit while growth to trade was lower. The higher growth rate in credit to commercial real estate would have to be dealt with caution given the vulnerability of this sector in terms of asset quality.

A similar picture was visible in case of personal loans too. Home loans, which are the largest segment in this sector with share of almost 10% in total credit, witnessed high growth in an environment when interest rates have increased. This means that notwithstanding rising EMIs, households continued to take loans to buy homes which combined with higher credit growth to commercial real estate indicates a fair degree of optimism in this segment. However, with interest rates being high and unlikely to come down in the next 6 months (CARE's expectation is of rates coming down only in Q4-FY15 provided inflation comes under acceptable levels) banks would have to be cautious here too.

Growth in vehicle loans was lower in FY14 and this can be corroborated with a fall in sales of passenger cars by 4.6% in FY14. However, sales of two wheelers had increased by 7.2% this year. Loans for consumer durables increased though the share in total was very low at just 0.2%. Therefore, this did not have any impact on the state of the consumer durable goods industry which had recorded a fall in growth of 12.2% during the first 11 months of the financial year.

Table 2 below provides the industry-wise profile of credit within the non-agri-personal loans-services sector. Some of the main observations are:

1. The top four industries: infrastructure, basic metals, textiles and chemicals, which account for a little over 60% of outstanding credit as of March 31, 2014 had all witnessed lower growth in FY14 relative to FY13. This may be juxtaposed with the observation made by the RBI in its Financial Stability Report that infrastructure, metals and textiles were some of the concern areas from the point of view of NPAs. The system has appeared to have taken this into account and lowered growth here. In case of infrastructure however, growth in credit had improved for telecom and roads, and was lower for power (which has the largest share in credit).
2. Food processing, automobiles and construction with shares of 5.9%, 2.7% and 2.4% respectively witnessed an increase in growth rate in FY14. Of these industries, the first two witnessed negative growth in output while in case of construction growth was positive, though low. Higher loans to the auto sector must be read along with a negative growth in this sector as well as lower growth in credit to the auto loans segment of personal loans.

Table 2: Industry-wise deployment and growth in Credit

	(Rs bn)		Change %		Sector
	Mar-14	Share %	FY13	FY14	Growth
Infrastructure	8,397.8	33.3	15.8	15.1	n.a.
Power	4,883.46	19.4	25.7	17.4	5.6
Telecommunications	903.93	3.6	-6.6	3.0	n.a.
Roads	1,573.99	6.2	18.4	19.9	n.a.
Basic Metal & Metal Product	3,619.69	14.3	20.0	15.2	-1.9
Textiles	2,039.98	8.1	15.1	11.1	4.6
Chemicals & Chemical Products	1,676.7	6.6	25.4	5.3	9.5
Food Processing	1,479.78	5.9	24.7	26.1	-2.4
All Engineering	1,455.73	5.8	13.7	13.3	4.4
Gems & Jewellery	719.68	2.9	19.1	17.7	n.a.
Vehicles, Vehicle Parts etc	677.38	2.7	13.7	15.1	-4.5
Petroleum, Coal Products & Nuclear Fuels	634.88	2.5	5.2	-1.3	5.5
Construction	614.13	2.4	7.3	17.7	1.7
Cement & Cement Products	541.16	2.1	24.2	18.0	3
Rubber, Plastic & their Products	368.22	1.5	4.4	18.0	-3
Mining & Quarrying (incl. Coal)	353.26	1.4	6.8	2.0	-1.9
Paper & Paper Products	331.4	1.3	13.2	17.2	0.4
Beverage & Tobacco	185.99	0.7	9.7	12.6	1.9
Leather & Leather Products	102.66	0.4	13.6	18.4	5.2
Wood & Wood Products	93.5	0.4	24.8	21.9	-1.4
Glass & Glassware	87.11	0.3	18.8	17.0	n.a.
Other Industries	1,849.7	7.3	0.7	2.2	n.a.
All Industry	**25,228.75**	100	**15.1**	**13.1**	**0.2**

Source: RBI and CSO for production numbers (IIP, GDP and Core sector)

Concluding remarks

1. Growth in credit in FY14 has been directed more towards the non-industry segment indicating both low growth as well as an element of diversification by banks given the state of industry. Also considering that most restructuring is in this space, banks have been cautious in lending here.
2. The exposure to property related loans has gone up, which should be monitored by banks given the sensitive nature of this sector.
3. Within industry, while lending has slowed down to the vulnerable sectors, the higher growth in credit to the MSME sector once again highlights the vulnerability of these loans at a time when industry has not been faring well for the second successive year.

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