Credit Profile: February 2014

Data on profile of credit of the banking system for the first 11 months of the year shows that while overall growth has picked up relative to last year, the number is still low at 11.2%. Growth would be higher in March due to the year-end issues when targets are met by banks which would lead to a spike in both deposits and credit. Therefore, the April-Feb picture tends to be more indicative of developments in this sector during the year. Table 1 provides information on the distribution and growth in credit across sectors.

Table 1: Sectoral Profile of Credit

Rs bn	Feb.21, 2014	Last year	This year
		Over March %	Over March %
Gross Bank Credit	**55,193**	**10.3**	**11.2**
Food Credit	***990***	***19.5***	***4.6***
Non-food Credit (1 to 4)	***54,203***	***10.2***	***11.3***
Agriculture & Allied Activities	***6,511***	***5.3***	***10.4***
Industry	***24,648***	***12.4***	***10.5***
Micro & Small	3,404	15.0	19.7
Medium	1,275	0.6	2.2
Large	19,970	12.9	9.7
Services	***12,884***	***7.6***	***11.9***
Transport Operators	885	1.8	11.1
Computer Software	175	16.5	3.6
Tourism, Hotels & Restaurants	392	8.2	10.7
Shipping	94	-0.1	14.4
Professional Services	693	12.7	22.9
Trade	3,151	19.6	14.2
Wholesale Trade	1,665	24.3	10.9
Retail Trade	1,486	14.1	18.0
Commercial Real Estate	1,470	11.0	16.6
NBFCs	2,819	5.4	8.3
Other Services	3,205	-1.5	9.4
Personal Loans	***10,159***	***11.4***	***13.2***
Consumer Durables	124	13.7	47.7
Housing	5,291	13.0	15.9
Advances against FDs	569	-2.8	-6.9
Advances against share, bonds,	36	4.4	17.2
Credit Card Outstanding	254	24.7	1.9
Education	602	10.2	9.5
Vehicle Loans	1,285	21.5	15.7
Other Personal Loans	1,999	5.6	12.7

Source: RBI

The table highlights the following:

1. The industrial sector accounts for 44.6% of total outstanding credit followed by services with 23.3% and personal loans with 18.4%. Agriculture had a share of 11.8%.
2. Growth in credit to the industrial sector has slowed down this year which can be directly linked with the state of industry. There has been negative growth in this segment so far which has meant that there is less demand for funds. Add to this the fact that capital formation is down; manufacturing has been borrowing less in the form of term loans too.
   a. Within industry the micro and small sector has performed relatively better with growth increasing from 15% to 19.7%. For medium industry there has been a marginal increase while there is a slowdown for large industry. Quite clearly large industry has borrowed less due to the slowdown as well as accessed the ECB market which has witnessed an increase from $ 24.6 bn in the first 10 months of FY13 to $ 25.4 bn in FY14. However, the fact that there has been a higher growth in loans to the smaller segments would have to be monitored by banks as the propensity to turn into non-performing assets tends to be higher in this segment especially during a slowdown.
3. The services sector did well with growth improving from 7.6% to 11.9%. The largest segment, i.e. trade witnessed a slowdown from 19.6% to 14.2%. This was mainly due to a slowdown in wholesale trade which is related again to the overall state of the economy. The retail segment has performed well with the gradual proliferation of organized retail trade as well as growth in the number of self-employed persons who have joined the unorganized retail segment.
   a. A concern once again within this group is the growth in credit to the real estate sector which is also vulnerable to the NPA phenomenon.
4. In case of retail loans the lead does come from the housing sector which continues to do well as banks have turned their attention here. However, the slowdown in loans to the vehicles segment is indicative of a slowdown in the auto sector too which has been responsible partly for the low industrial growth this year.

Industry-wise growth profile

Growth to industry slowed down during the first 11 months of the year due to lackluster conditions across sectors. In fact, with the exception of basic goods, there was sub-optimal performance by the other sectors. The industries which witnessed higher growth in credit during this period were leather products (8.1% to 15.5%), paper products (10.1% to 16.3%), rubber products (2.1% to 16.8%), glass products (13.6% to 16.8%) and construction (10% to 16.6%).

Growth in credit had declined in case of cement, basic metals, chemicals, gems, infrastructure (including power and roads) while it remained virtually unchanged in case of engineering and vehicles.

Concluding remarks

The present fiscal year has been difficult for the economy with growth sliding for the third successive year. In particular, industrial growth has stagnated with a low being reached this year. This has affected the lending activities of banks which have witnessed their NPAs increase quite sharply this year. The growth in credit to the smaller industry segment and real estate and housing sectors would have to be monitored closely by banks to ensure that under these rather fragile economic conditions, these assets do not slip in quality.

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