Credit and Debt Markets in FY15 (April-November)

The financial sector to a very large extent reflects the developments taking place in the real sector. While the growth in industry and GDP do appear to be better than that of last year, there are no firm signs of resurgence in either consumption or investment in the economy. The government too is not in a position to spend owing to the fiscal deficit target that has to be honored and hence the picture is somewhat mixed. Do the developments in the financial sector tell a different story?

This report briefly provides an overview of the developments in the credit and debt markets so far this year and evaluates the same against the corresponding period of the previous year.

a. Bank credit

Growth in bank credit has been slower this year so far compared to that last year.

Table 1: Banking Statistics: April-December (Rs bn)

	o/s Dec 12	Increment 2013	Increment 2014	Growth Apr-Dec 15, 2013	Growth Apr-Dec 15, 2013
Credit	63,035	4,242	3,094	8.1	5.2
Deposits	82,930	7,453	5,874	11.0	7.6
Investments	24,601	2,215	2,473	11.0	11.2

The table above shows that there has been a slowdown in growth in credit and deposits so far this year with even the absolute increase in value terms being lower than that of last year. Investment however has grown at a marginally higher rate leading to a higher increase in monetary terms which has also supported government borrowing. The government has already borrowed Rs 4,930 bn of the Rs 6,000 bn of gross market borrowings projected for the year.

Further, while overall credit growth has slowed down, particular trends emerged under the sectoral deployment of bank credit:

- The retail and agricultural segments witnessed higher growth in credit till October.
- Credit off take in Industry and services witnessed a slowdown in growth during this period.
- Growth in credit to agriculture was 11.2% (5%) and retail 8.8% (8.1%) while that to industry was 0.7% (5.7%) and services 1.5% (8.3%).

b. CP market

The CP market is indicative of the alternative banking channels being used by corporates to raise funds. The table 2 below provides a snapshot of the developments in the CP market for the year so far.

Table 2: CP Market (Rs bn)

	2013	2014
o/s CPs as of March	1,092	1,066
o/s CPs as of December, 15th	1,875	2,342
Increment April-Dec, 15th	783	1,276
New issuances	4,990	7,777
Incremental credit	4,242	3,094
Incremental credit plus CPs	5,025	4,370

The table 2 shows that there has been buoyancy in the operation of the CP market with the issuances increasing by 55.9% from Rs 4,990 bn to Rs 7,777 bn during this period. A reason for the growing popularity of CPs was admittedly the lower rates at which they could be issued which ranged from 9.7 -10.9% on an average basis as interest rates tended to be sticky during the year.

However, this does not change the overall bank lending scenario as incremental credit plus incremental CPs still showed a decline over last year by 13%. Also the total flow of funds to the commercial sector defined as credit and credit like instruments i.e. CPs grew by 6.8% as against 9.8 % during the period April-December 15th.
Hence, while there was some substitution between bank credit and CPs, thereby pulling the overall off take lower in FY15.

c. CD market

Table 3 below captures the development in the CD market this year relatively to last year.

Table 3: CD Market (Rs bn)

	2013	2014
o/s CDs as of March	3,896	3,758
o/s CDs as of Nov 28	3,198	2,581
Increment April-Nov 28	-698	-1,177
Growth rate	-17.9	-31.3
New issuances	4,443	4,845

The CD market was muted as it registered a decline in growth relative to last year. While this is a typical trend as CD issuances and outstanding peak towards the end of the financial year, the decline was sharper in 2014 relative to 2013. As bank credit growth was tardy relative to growth in deposits, there was less need to raise funds through CDs.

d. Corporate bonds: Public issue

Table 4: Public issue of corporate debt (Rs bn)

	April-Nov 2013	April-Nov 2014
Total issuances	151.8	73.5
Number of issuances	13	19
Number of companies issuing debt	11	15

The public issue market for corporate debt was subdued in 2014 with there being a little less than half of the funds raised compared with 2013 for the period April-November. While there were more issuances from relatively higher number of companies, the quantity raised was lower.

e. **Corporate bonds: Private placement**

Table 5: Private placements (Rs bn)

	April-Nov 2013	April-Nov 2014
Total issuances	1775.6	2213.5
Number of issues	1230	1633

The private placement market was active with the total value of funds mobilized increasing by 12% in the first 8 months of the year, with the number of issues rising by 33%. However, this was lower than that raised in 2012 i.e. FY13 when Rs 2,374.1 bn was raised in the first 8 months of the year.

The secondary market in corporate debt was comparable during this period to 2013, with overall volumes of Rs 7,153 bn compared with Rs 7,013 bn in 2013.

Some conclusions that may be drawn:

1. Bank credit growth has been lower relative to last year, and while the CP market has shown higher issuances, growth of the combined has been still lower relative to last year.
2. The private placement route has been preferred to the public issues route by corporates. This segment has been more buoyant relative to last year, with more issuances. The public issues market has been downbeat so far. However within this segment, normally around 2/3 of the funds raised are by the financial sector which gets on-lent by banks and NBFCs.
3. For the sake of analysis, we can make a simplistic assumption that the funds raised through the corporate bond market is mutually exclusive from that of banks – which is not right as several such issuances are by banks which are used for on lending through the bank credit channel. Nonetheless, summing these 4 components – incremental bank credit, incremental CPs o/s, and public issues of corporate debt and private placements of corporate debt – the volume of funds is lower at Rs 6,657 bn as against Rs 6,952 bn.
4. ***Therefore, it can be inferred that the overall flow of funds has been lower through the credit and debt markets this year during April-November relative to last year.***

Contact:

Madan Sabnavis
Economist
madan.sabnavis@careratings.com
91-022-67543489

Garima Mehta
Associate Economist
garima.mehta@careratings.com
91-022-61443526