CARE Ratings
Professional Risk Opinion

Credit and Debt Markets: Apr-Sep 2015

Bank credit growth was lower in the period September 2015 over March'15 at 1.6% against 1.8% during the same period of last year. Bank credit growth on y-o-y basis is 8.4% against 8.6% last year. There was positive growth witnessed in growth in for agriculture and personal loans segments with the latter growth being higher than last year.

The debt market was robust with debt issuances witnessing an increase of 18.6% in the last six months (Apr'15-Sep'15).

Table 1: Sectoral distribution of credit

Sector	o/s Sep 2015 (Rs lkh cr)	Sep/March 2014 % growth	Sep/Mar 2015 % growth
Gross Bank Credit	**62.02**	**1.8**	**1.6**
Food Credit	**1.03**	**15.6**	**3.6**
Non-food Credit	**60.99**	**1.5**	**1.6**
Agriculture & Allied Activities	**8.13**	**8.2**	**6.2**
Industry	**26.29**	**-0.4**	**-1.1**
Micro & Small	3.67	0.4	-3.3
Medium	1.14	-2.9	-10.2
Large	21.48	-0.4	-0.1
Services	**14.01**	**-1.1**	**-0.8**
Transport Operators	0.96	-2.4	4.9
Tourism, hotels	0.37	-7.6	0.6
Trade	3.68	0.7	0.6
Commercial Real Estate	1.65	5.5	-1.0
NBFCs	2.96	-0.4	-5.0
Personal Loans	**12.55**	**5.3**	**7.6**
Consumer Durables	0.16	11.1	5.0
Housing	6.83	7.5	8.6
Credit cards	0.34	11.1	10.7
Education	0.67	4.3	6.1
Vehicle Loans	1.33	7.6	6.8

Source: RBI

Table 1 gives information on growth in bank credit during the first 6 months of the year across major sectors. As can be seen, growth in credit for the manufacturing sector has been negative. Manufacturing accounts for around 42% of the total bank credit, followed by services (23%). Agriculture has a share of around 13% and personal loans 20%.

- All the three segments of manufacturing witnessed negative growth in credit despite the approach of the festive season.
- Within services sector, NBFCs have witnessed negative growth in credit although there is a high growth of 16% in the debt issuances for the June-September period. This suggests a shift in sourcing funds for NBFCs from banks to the debt market where interest rates have moved downwards at a faster rate.
- Commercial Real Estate is another sub-sector that has exhibited negative credit growth. Growth in credit to the trade sector was virtually flat.
- In the retail loans segment, the home loans segment has witnessed a higher growth in credit which is due to a higher demand for credit to purchase homes partly on account of lower interest rates offered by banks. Banks, it may be noted, have tended to lower home loan rates faster than those on other commercial loans.
    - There has been moderation in growth in the consumer durables segment. With the festive season starting October, a significant jump in credit by this sector was expected which has not materialized so far.
- On a positive note, growth in credit through credit cards has been high for the second consecutive month at 10.7%. However, this growth does not reflect extensively in the overall credit numbers due to its relatively small share of the sub-sector.

Table 2 below provides information on growth in credit to various sectors within manufacturing for both the financial year as well as year on year basis. Table 3 gives a disaggregated picture of fresh debt issuances across major sector for the first half of the year.

While the time periods are different for the two parameters as is the basis of calculation (for credit it is growth in outstanding, while for debt it is new issuances or flows during the year), the comparison is to see if there has been any substitution of bank credit by the debt market based as lower interest rates are transmitted faster by the debt market than the banks to borrowers.

Industry-wise growth in credit

Table 2: Growth in credit to Manufacturing: Industry-wise

Industry	o/s Sep 2015 lkh crore	Sep/March 2014	Sep/March 2015	Sep'15 over Sep'14
Mining & Quarrying (incl. Coal)	0.34	7.4	-5.8	-12.1
Food Processing	1.45	-3.7	-15.5	2.8
Beverage & Tobacco	0.18	5.1	-5.7	-8.5
Textiles	1.95	-4.4	-3.3	1.0
Leather & Leather Products	0.10	-1.1	-1.3	0.2
Wood & Wood Products	0.10	1.1	2.7	6.0
Paper & Paper Products	0.34	1.2	1.1	3.8
Petroleum, Coal Products & Nuclear Fuels	0.42	-16.8	-25.9	-22.9
Chemicals & Chemical Products	1.55	-9.8	0.3	3.3
Rubber, Plastic & their Products	0.37	-0.9	-1.9	1.0
Glass & Glassware	0.08	0.5	-4.2	-3.2
Cement & Cement Products	0.56	1.0	0.1	3.0
Basic Metal & Metal Products	3.90	-0.7	1.2	8.8
Iron & Steel	2.91	-0.9	2.6	9.6
All Engineering	1.55	0.1	0.6	5.7
Vehicles, parts, & Transport Equipment	0.68	-1.6	0.4	4.6
Gems & Jewellery	0.72	-1.1	0.5	4.5
Construction	0.73	15.8	-1.6	0.9
Infrastructure	9.47	4.2	2.5	8.7
Power	5.80	6.4	4.1	12.1
Telecommunications	0.90	-3.5	-2.4	5.3
Roads	1.71	3.9	1.6	4.6
Other Infrastructure	1.06	0.9	-0.6	1.3
Other Industries	1.79	-6.8	-2.7	2.1
All Industries	**26.29**	**-0.4**	**-1.1**	**4.9**

Source: RBI

- The table shows that within manufacturing:
  - metals (especially steel and iron),
  - cement,
  - wood and paper products,
  - vehicles and transport equipment and
  - infrastructure

were among the few segments that recorded positive credit growth in the Mar-Sep'15 period. This picture fares better than previous month's when infrastructure, metals and wood products were the only segments that witnessed positive growth.

- The Metals industry has accessed funds from both banks and debt market (though it is low in value terms) given the high investments and long gestation period of this sector. It witnessed significant positive growth in both bank credit and debt market.
- Construction, textiles and power (electricity), have witnessed lower or negative growth in bank credit. However, they have met some of their requirements from the bond market as can be seen in Table 3.
- Financial services segment continued to have maximum proportion in total debt issuances accounting for 72.5% of the total.

Table 4: Debt market issuances

In Rs cr	2014	2015	Growth(%)
Total	**164,403**	**194,998**	**18.6**
Non-financial sector	**41,934**	**53,521**	**27.6**
Manufacturing	**6,772**	**10,810**	**59.6**
Textiles	200	2,069	934.5
Construction material	2,175	400	-81.6
Metals	1,385	2,930	111.5
Machinery	500	630	26.0
Transport equipment	700	541	-22.8
Chemicals	200	2,660	1230.0
Mining	-	2,000	-
Electricity	12,104	18,762	55.0
Services	13,651	11,013	-19.3
Trading	1,900	675	-64.5
Transport	4,592	3,221	-29.9
Communications	2,500	4,562	82.5
Construction and real estate	**9,407**	**10,937**	**16.3**
Financial services	**121,966**	**141,476**	**16.0**

Source: CMIE

Concluding remarks

There are still no clear signs of companies borrowing more money from these two markets. There has been some substitution between bank credit and corporate debt, but still accelerated borrowing has not yet been witnessed. The financial services segment still accounts for the bulk of the borrowings in the debt market followed by infrastructure and services. Manufacturing sector has not accessed these markets in any significant manner.

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