Credit and Debt Markets in FY15

Growth in bank credit remained weak till August 2015 over March at just 0.9% against also a low growth rate of 1.3% last year (Table 1). This is partly a reflection of overall slow economic activity as indicated by GDP growth for the first quarter as well as industrial growth so far. The debt market appeared to be more robust with debt issuances increasing by 15.3% during the first 6 months of the year. The same for bank credit on a y-o-y basis was 8.2% as against 10.2% in August 2015.

There was a case for some substitution between the bank credit and debt market given the difference in growth in the two segments caused partly by lower interest rates in the debt market (Table 2). Growth in outstanding CPs was impressive at 45.6% for the first half of the year over 86.8% in H1-FY15. In terms of fresh issuances, growth during the first 6 months was 35% (Rs 5.52 lkh crore to Rs 7.43 lkh crore) as against 76% last year (Rs 3.14 lkh crore in H1-FY14 to Rs 5.52 lkh crore in H1-FY15).However, a disaggregated picture of the debt raised in the market shows a clear tilt towards the financial sector rather than industry.

Table 1: Sectoral distribution of credit

Sector	o/s Aug 2015 (Rs lkh cr)	Aug/March 2014 % growth	Aug/Mar 2015 % growth
Gross Bank Credit	**61.60**	**1.3**	**0.9**
Food Credit	**1.05**	**17.5**	**5.7**
Non-food Credit	**60.55**	**1.0**	**0.9**
Agriculture & Allied Activities	**8.08**	**8.2**	**5.5**
Industry	**26.23**	**-0.7**	**-1.3**
Micro & Small	3.68	-0.4	-3.2
Medium	1.14	-3.5	-9.8
Large	21.42	-0.5	-0.4
Services	**13.90**	**-1.8**	**-1.6**
Transport Operators	0.95	-1.8	3.7
Tourism, hotels	0.37	-7.8	0.4
Trade	3.65	0.0	0.0
Commercial Real Estate	1.65	3.3	-0.6
NBFCs	2.95	0.1	-5.4
Personal Loans	**12.33**	**4.1**	**5.7**
Consumer Durables	0.16	10.7	4.6
Housing	6.75	6.3	7.3
Credit cards	0.34	12.3	11.6
Education	0.66	3.7	4.4
Vehicle Loans	1.32	5.7	5.4

Source: RBI

Table 1 gives information on growth in bank credit during the first 5 months of the year across major sectors. As can be seen, growth in credit to manufacturing as well as services has registered negative numbers on top of negative growth rates last year. Agriculture and personal loans segments have registered positive growth rates, with the latter being higher than that in 2014.

- All the three segments of manufacturing witnessed negative growth in credit.
- Within services, NBFCs had witnessed negative growth, though there was positive increase of 13.4% in the debt market indicating some substitution.
- The ECB approvals taken for the period April-August, as per RBI data, which would include manufacturing and services was also lower at $ 9.17 bn as against $ 10.21 bn last year.
- There are hence indications from the financial sector that there has not been a major turnaround in economic activity so far, which is also typically the lean season.
- Within retail loans, there has been pick-up in credit through cards, which though very small in the overall picture is significant. Car loans as well as mortgages have also shown steady growth rates in this period.
- Depending on the pick-up in consumer demand in particular in the second half of the year, combined with lower base rates announced by several banks following the RBI cutting the repo rate by 50 bps in September, a further pick up in credit can be expected at the retail end too along with industry (manufacturing and services).

Table 2: Movement in yields in corporate debt market (residual maturity) and average base rate

%	10-years		5 years		Base rate
	AAA	**AA**	**AAA**	**AA**	**Banks**
Mar-15	8.36	9.63	8.43	9.21	10.19
Apr-15	8.39	9.32	8.39	8.80	10.16
May-15	8.48	8.82	8.52	8.87	10.07
Jun-15	8.57	9.47	8.56	9.73	9.95
Jul-15	8.57	9.52	8.52	9.86	9.94
Aug-15	8.48	9.45	8.39	9.65	9.93
Sep-15	8.34	9.07	8.40	9.16	9.90

Source: CMIE

Table 2 above gives the movement in yields in corporate debt market and average base rate of banks for last seven months.

- The yields on 10-yr AAA rated corporate bonds fell sharply by 14bps and AA rated bonds by 38bps in September. This comes in view of rate cut easing by the RBI to provide an impetus to markets where the transmission is more immediate.
- Both 10-yr and 5-yr corporate bond yields witnessed a downward trend, with the yield being sharper for medium term bonds (5-yr). Following the front-loaded rate cuts by RBI, base rate for banks have been declining in the last seven months, albeit gradually. The transmission of the rate cut by banks (30bps) is not as much as that by RBI which lowered the repo rate further in the last policy in September.

Table 3 below provides growth in credit to various sectors within manufacturing for both the financial year as well as year on year basis while Table 4 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), comparison is possible to show if there has been any substitution of bank credit by the debt market, which is what has been witnessed in some sectors given the differences in the interest rates following a faster transmission in the market compared with bank credit.

Industry-wise growth in credit

Table 3: Growth in credit to Manufacturing: Industry-wise

Industry	o/s July 2015	Aug/March 2014	Aug/Mar 2015	Aug'15 over Aug'14
Mining & Quarrying (incl. Coal)	0.33	7.6	-7.7	-14.0
Food Processing	1.54	-2.2	-10.0	7.9
Beverage & Tobacco	0.18	1.5	-6.3	-5.8
Textiles	1.97	-4.1	-2.5	1.5
Leather & Leather Products	0.10	-1.9	-2.5	-0.2
Wood & Wood Products	0.10	0.0	2.7	7.2
Paper & Paper Products	0.34	0.6	0.4	3.6
Petroleum, Coal Products & Nuclear Fuels	0.43	-15.2	-23.0	-21.4
Chemicals & Chemical Products	1.52	-9.8	-1.6	1.3
Rubber, Plastic & their Products	0.36	-1.3	-3.7	-0.5
Glass & Glassware	0.09	1.0	-3.5	-2.9
Cement & Cement Products	0.56	-0.7	-0.1	4.5
Basic Metal & Metal Products	3.88	-2.4	0.5	10.0
Iron & Steel	2.87	-1.9	1.2	9.3
All Engineering	1.54	-0.7	-0.3	5.7
Vehicles, parts, & Transport Equipment	0.68	-1.6	-0.3	3.9
Gems & Jewellery	0.71	-2.0	-1.3	3.5
Construction	0.73	15.0	-1.6	1.7
Infrastructure	9.41	4.0	1.8	8.2
Power	5.77	7.1	3.5	10.6
Telecommunications	0.90	-4.8	-2.1	7.1
Roads	1.70	1.6	1.0	6.3
Other Infrastructure	1.04	0.4	-2.3	0.1
Other Industries	1.77	-6.3	-3.6	0.6
All Industries	**26.24**	**-0.7**	**-1.3**	**5.0**

Source: RBI

- The table shows that within manufacturing, infrastructure, metals and wood products were the only segments that witnessed positive growth during the first 5 months with power and roads being the bright spots in the former.
- Growth in case of textiles and mining, which are 2 of the more vulnerable sectors as pointed out by RBI had witnessed negative growth, which can be attributed to both banks trying to correct their exposures as well as lower demand for credit.
- The financial services segment continued to lead in the debt market with a share of above 72%.
- Power sector continues to source funds from the debt market as well besides banks while construction and real estate does access the market as banks do treat real estate as a sensitive sector and would be cautious while lending to this sector.
- Within manufacturing, textiles and metals had accessed the debt market in a more significant manner, while growth in credit to textiles was negative for banks. There could have been substitution here.

Table 4: Debt market issuances

In Rs cr	2014	2015	Growth
Total	**164,403**	**189,559**	**15.3**
Non-financial sector	**41,934**	**51,205**	**22.1**
Manufacturing	6,772	10,084	48.9
Textiles	200	1,819	*
Construction material	2,175	400	-81.6
Metals	1,385	2,855	106.1
Machinery	500	630	26.0
Transport equipment	700	400	-42.9
Chemicals	200	2,660	*
Mining	-	2,000	*
Electricity	12,104	17,861	47.6
Services	13,651	10,912	-20.1
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**	**10,346**	**10.0**
Financial services	**121,966**	**138,354**	**13.4**

Source: CMIE

Concluding remarks

The signals from the financial market are not yet strong enough to indicate a major turnaround. Presently, banks have been slow on lending to the manufacturing and services sectors with demand also being subdued. There has been some recourse sought to the debt market and CP segment by companies, but it is not yet a generalized phenomenon.

Contact:

Madan Sabnavis
Chief Economist
91-022-67543489

Nitika Agarwal
Associate Economist
91-022-67543609