Economics

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CARE Ratings
Professional Risk Opinion

Sectoral Deployment of Credit: July 2015

Growth in bank credit during the first 4 months of the year was just about 1% over March end compared with 1.3% last year. Non-food credit continued to grow at a low rate indicating to an extent subdued level of business activity.

There was however some substitution coming from the capital market with both the corporate bond and CP segments showing an increase. NBFCs in particular have moved over due to lower rates in these markets relative to those on bank loans. The lower growth in credit hence may be attributed to both higher rates being charged by banks causing companies to access the capital market as well as low growth conditions, which has affected demand for credit. Growth in industrial production for the first 4 months of the year has been 3.5% (3.6%). It may be pointed out that while the repo rate has come down by 75 bps this calendar year, the base rate has not come down commensurately.

Table 1: Sectoral distribution of credit

Sector	o/s July2015 (Rs bn)	Jul/March 2014 % growth	Jul/Mar 2015 % growth
Gross Bank Credit	**61,592**	**1.3**	**0.9**
Food Credit	**1,105**	**24.3**	**11.2**
Non-food Credit	**60,487**	**0.9**	**0.8**
Agriculture & Allied Activities	**8,043**	**7.6**	**5.0**
Industry	**26,220**	**-0.6**	**-1.3**
Micro & Small	3,720	0.7	-2.1
Medium	1,193	0.6	-5.7
Large	21,307	-0.9	-1.0
Services	**14,039**	**-1.4**	**-0.7**
Transport Operators	940	-1.1	2.7
Trade	3,705	-0.3	1.3
Commercial Real Estate	1,669	3.5	0.3
NBFCs	2,964	-0.1	-4.9
Other Services	3,220	-4.6	-2.1
Personal Loans	**12,184**	**3.3**	**4.5**
Consumer Durables	159	10.0	3.9
Housing	6,672	5.2	6.1
Vehicle Loans	1,305	5.3	4.8

Source: RBI

As can be seen from the Table positive growth has been witnessed only in the personal loans segment with home loans being the dominant segment, accounting for 55% of total retail loans. Growth in vehicle loans and those for consumer durables also were positive.

All the three segments within manufacturing witnessed negative growth along with NBFCs in the services sector. NBFCs had preferred to access the capital market for their funding.

Industry-wise growth in credit

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

Industry	o/s July 2015	Jul/March 2014	Jul/Mar 2015
Mining & Quarrying (incl. Coal)	343	10.6	-4.6
Food Processing	1,583	-0.3	-7.7
Beverage & Tobacco	174	-0.3	-6.8
Textiles	1,970	-3.9	-2.4
Leather & Leather Products	100	-1.9	-2.0
Wood & Wood Products	97	-0.2	-0.9
Paper & Paper Products	340	-0.1	-0.3
Petroleum, Coal Products & Nuclear Fuels	433	-10.7	-22.8
Chemicals & Chemical Products	1,510	-5.7	-2.3
Rubber, Plastic & their Products	363	-2.4	-4.0
Glass & Glassware	86	0.9	-2.8
Cement & Cement Products	560	-2.1	-0.1
Basic Metal & Metal Products	3,862	-3.2	0.2
Iron & Steel	2,861	-3.1	0.9
All Engineering	1,504	-1.1	-2.3
Vehicles, parts, & Transport Equipment	673	-1.6	-1.4
Gems & Jewellery	699	-6.5	-2.6
Construction	729	13.0	-1.9
Infrastructure	9,388	3.7	1.5
Power	5,744	5.8	3.0
Telecommunications	903	-3.7	-1.7
Roads	1,698	1.3	0.6
Other Infrastructure	1,043	3.9	-2.0
Other Industries	1,806	-6.5	-1.8
All Industries	**26,220**	**-0.6**	**-1.3**

Source: RBI

With the exception of infrastructure and metal products, all other industries witnessed negative growth in credit during the 4-months period. Power and roads in the infra space had positive growth.

When juxtaposing the IIP data for April-July 2015 with growth in credit, the picture emerging is interesting. Basic metals (8.7%), engineering (electrical 6.4% and non-electrical 4.1%) and automobiles sector (6.8%) have witnessed fairly high growth in physical terms, but growth in credit remains negative. The base effect also cannot be an explanation as growth was negative even last year. Migration to the CP market could be an explanation for the same.

Concluding remarks

Bank credit has not grown as was expected due to a combination of reasons. High NPAs and capital issues (for PSBs) have made them cautious while providing loans, which could also explain the reason for them not lowering their rates commensurately with the repo rate changes. Credit like instruments have substituted these loans to an extent given that the interest rate transmission has been swifter in these segments.

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