CARE Ratings
Professional Risk Opinion

Funding flows in FY16

While GDP growth has been maintained in the 7% plus range in the first two quarters of the year, the investment rate remains low at 28.1% of GDP as against 29% in H1-FY15. Industrial production has shown signs of a recovery with cumulative growth till October being 4.8% as against 2.2% last year. A proxy measure for both production and investment scenarios can be obtained from the flow of funds through the various sources of finance. The same is presented below.

Corporate debt market

Debt raised by companies: Industry-wise (April-November) Rs crore

	2014	2015	Growth (%)
All industries	**247,447**	**255,447**	**3.2**
Non-financial	**66,277**	**65,875**	-0.6
Manufacturing	***10,943***	***15,015***	37.2
Food & agro-based products	-	465	*
Textiles	200	2,939	1,369.5
Drugs & pharmaceuticals	-	2,685	*
Cosmetics, toiletries, soaps & detergents	250	300	20.0
Cement	2,995	700	-76.6
Steel	1,800	4,040	124.4
Machinery	525	805	53.3
Automobiles & ancillaries	2,100	316	-85.0
Miscellaneous manufacturing	725	675	-6.9
Diversified	1,113	1,640	47.4
Mining: Minerals	***1,500***	***2,000***	33.3
Electricity	***23,017***	***22,026***	-4.3
Services (other than financial)	***20,448***	***14,813***	-27.6
Hotels & tourism	442	426	-3.6
Wholesale & retail trading	3,143	675	-78.5
Transport services	5,052	3,866	-23.5
Telecommunication services	3,000	7,562	152.1
Real estate	***5,715***	***3,136***	-45.1
Industrial & infrastructural construction	***4,655***	***8,886***	90.9
Financial services	**180,669**	**189,573**	4.9

Source: CMIE

- Overall growth in the corporate debt market has been subdued on a cumulative basis with an increase of 3.2% being witnessed between April-November 2015 over comparable period of last year. In value terms it was Rs 2.55 lakh crore this year so far as against Rs 2.47 lakh crore last year.

- Financial services constituted 74% of total debt raised (73% last year) while manufacturing has share of just 5.8%. This has been a trend of late where most of the debt raised has been by the financial services segment for which funds are the raw material that is used for on-lending.
- Infrastructure, including mining, power, telecom, real estate and industrial construction accounted for 17% of total debt raised in the market.
- Within manufacturing, there was no sign of continuation of increase in debt raised with different sectors accessing the market in the two periods considered. As such debt raised in the market is typically used for capital investment; the overall picture for capital formation appears to be subdued.
- If this data is juxtaposed with data on bank credit growth (which comes with a lag of a month and is available till October), there is positive growth in case of the following industries. It may hence be surmised that there has been some growth in these segments when looked at from the financial side of sourcing of funds.
    - Infrastructure
    - Construction
    - Iron and steel
    - Drugs and pharmaceuticals

Bank credit growth

Data available till October reveals that the main thrust in growth in bank credit came from the retail side. Growth in non-food credit was lower than last year at 3.4% (October over March). Within this set, growth in credit to manufacturing was negative with only flows to large industry being positive at 0.8%. Growth in credit to services sector was higher at 2.6% (1.5% last year) with NBFCs and retail trade contributing to this growth.

Retail loans witnessed growth of 10.2% on top of growth of 8.9% with home loans growing by 10.7%, vehicle loans by 9.2% and credit cards by 18.1% (even though share in retail credit is just 2.5%). Education loans also grew at a higher rate of 6.5%.

On the whole it appears that once again growth in credit is driven by the retail segment, and the manufacturing and services groups have not witnessed higher demand for funding from banks.

CP market

Overall issuances increased substantially from Rs 7.21 lkh cr in the period April-November 2014 to Rs 10.14 lkh crore in same period of FY16. However, in terms of growth rate of outstanding CP, the increase was from Rs 1.93 lkh crore to Rs 3.28 lkh crore – 69.9%. In 2014, outstanding CPs increased by around 111% from Rs 1.07 lkh crore to Rs 2.25 lkh crore. CP continues to be popular due to the interest rate differential with bank lending rates.

Equity market

Total equity raised in the first 8 months of the year was more than double of that in FY15. It increased from Rs 38,525 crore to Rs 81,830 crore. In FY16, the financial sector dominated again with a share of 54% of total. Within the non-financial sector, mining, electricity, services, and construction accounted for 28% of total. Hence once again there was concentration in certain pockets of the economy when it came to raising equity. From manufacturing, automobiles were the only industry with a significant share of around 9% of total equity raised during this period.

Foreign funds

ECBs

The recourse taken to the ECB market was lower in FY16 with approvals being $ 13.9 bn till October 2015 as against $ 16.7 bn in the period April-October 2014.

The lower dependence can be attributed to a variety of factors:

- Lower investment activity necessitating less funding
- Volatile rupee affecting corporate balance sheets. Given that most of these positions are unhedged given the relatively higher cost of hedging, the attractiveness of this route would have been affected.
- The weighted average floating interest rate over LIBOR (6 months) was around 1.6% this year. With expectations of interest rates moving up companies may have reconsidered their plans and preferred to borrow form domestic markets where the rates have tended to move down in the last 2 months.

FDI

FDI flows have been relatively more buoyant and based on DIPP data for the first half of the year, total inflows were $ 16.63 bn as against $ 14.69 bn last year. In rupee terms it increased from Rs 0.88 lkh crore to Rs 1.07 lkh crore.

However, in terms of destination of such investment it was more to the services sector with IT dominating with share of 17.3%, followed by trading with 14% and other services with 8.9%. The auto sector was the dominant receiver of FDI in this period accounting for around 9% of total flows.

Summing up

The table below puts the final numbers of flow of funds through various channels for different period of time. The idea is to sum up to see if these flows have increased in 2015 compared with 2014. A limitation is that some segments like bank credit are based on changes in outstanding credit over two points of time and will not be fresh loans given. The same has been done for CPs. For ECBs and FDI it is similar to the fresh flows in the time period to equity or debt. The purpose is to provide an idea of how aggregate funding flows have behaved in the current financial year against those last year.

The main takeaways are:

1. Overall flow of funds measured (with the abovementioned limitation) shows an increase in the current year. This is a positive sign.
2. The growth rate of 9.8% in these flows as defined for this limited purpose is roughly equal to the y-o-y growth in credit that has been witnessed in the system so far. Hence, while there has been some substitution across different sources depending on purpose, cost, access etc. the growth in bank credit can be taken to be a good proxy for overall flow of funds given the choices that are available for borrowers.
3. The general impression is that these funds have been raised more by the financial sector and some infra segments and has not permeated the manufacturing sector as yet. We have to still witness a broad based growth in funds flow situation.

Flow of funds: Rs lkh crore

Source	Period	2014	2015
Debt	April-Nov	2.47	2.55
Equity	April-Nov	0.38	0.82
ECBs	April-Oct	1.01	0.89
FDI	April-Sept	0.88	1.07
Incremental nonfood bank credit	April-Oct	2.03	2.07
Incremental CPs	Apr-Nov	1.19	1.34
Total		**7.96**	**8.74**

Source: RBI/CMIE

Contact:

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

Anuja Shah
Economist
anuja.jaripatke@careratings.com
91-022-67543568