

Bank Credit Watch

March 2017

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Credit Growth Continues to be Muted

- Non-food credit growth has remained muted reflecting the challenging environment that banks are facing.
- Fortunately, while nominal credit growth has remained subdued, there is adequate credit availability to most sectors once the numbers are adjusted for inflation and increased borrowing from the bond market, and other non-bank funding sources. Furthermore, banks have written-off/sold loans to asset reconstruction companies (ARCs), which effectively compressed their loan books and in addition a large share of the UDAY bond issuances during the financial year represent conversion/swapping of bank credit into special securities.
- As expected, deposit growth in the banking system has already accelerated post demonetisation with several implications;
    - Surplus banking system liquidity putting downward pressure on lending rates
    - A reduction in holdings of cash lowers currency leakage from the banking system, which should enhance credit creation by banks.
    - A rise in deposit base will allow banks to lower the marginal cost of funds as higher CASA deposits help to replace the high cost of borrowing and lower overall cost of funds.
- The new base rate setting mechanism of MCLR is designed to take into account the lower cost and will thereby lead to a decline in lending rates and improved transmission. However this process has somewhat been slowed down by the change in monetary policy stance.
- As economic growth picks up as it is expected to, higher credit growth will be required to sustain that growth. However as we have consistently argued sustained pick up in credit growth will require a meaningful reduction in NPAs. NPA problems will not be easily solvable as banks continue to struggle with diminished profitability while at the same time the implementation of Basel III norms raise the need for additional capital. Under such conditions we continue to believe that the current levels of capital infusions by the government are highly inadequate to support the level of credit growth that will be required for a recovering economy. News coming out of the RBI indicates that the RBI is currently evaluating options including setting up a bank to tackle the NPA problem.
- Furthermore we expect that recent regulatory developments including allowing foreign ownership of asset reconstruction companies and the bankruptcy code will start to bring down NPLs sitting on bank books. After prolonged period of deterioration, asset quality trends for public sector banks are starting to stabilize.

Credit Growth Summary

Non-Food Credit Growth

- Non-food bank credit increased by 9% y-o-y in March 2017 as compared with 9.1% during March 2016

Credit Growth by Sector*

- Credit to agriculture (13.9%) increased by 12.4% in March 2017, as compared to 15.3% increase in March 2016
- Credit to industry (37.5%) contracted by 1.9% in March 2017 as compared with increase of 2.7% in March 2016. Major sub-sectors which witnessed contraction of credit, were infrastructure, food processing, textiles and metal products
- Credit to services sector (25.8%) increased by 19.5% in March 2017 higher than the 9.1% increase recorded in March 2016
- Personal loans (22.8%) increased by 16.7% in March 2017, lower than the 19.4% growth in March 2016.

Credit Deposit Ratio

- Deposit growth was 15.9% in March 2017higher than the 9.3% growth in March 2016. Deposit growth has outstripped credit growth since September.
- The credit deposit ratio stood at 72.9% and the incremental credit deposit ratio sunk to 42.6% compared with 77.7% and 89.8% in March 2016

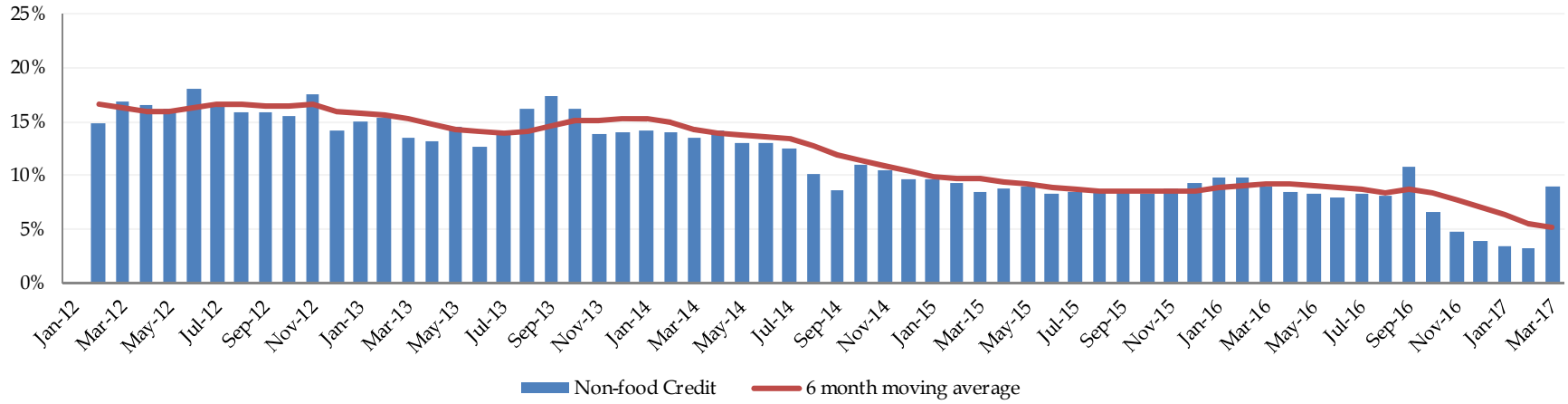
Credit Growth by Bank Group

- Credit growth differed across bank groups. Credit growth for SBI and other Public Sector banks, which make up the majority of credit, was 5.3% and 2.9% in December 2016 respectively. Private bank credit growth was 17.7% lower than 24.9% recorded in December 2015 while foreign bank credit growth was 0.8%, lower than 11.9% during the same period the prior year.

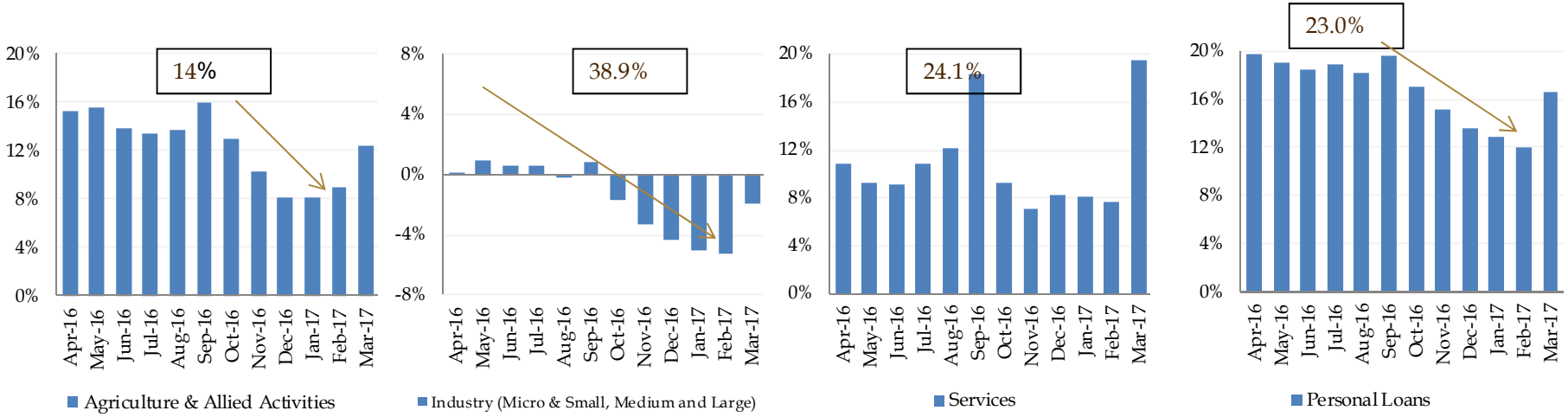
* Percentages in parenthesis refer to share of total non-food credit based on the latest available data

Sectoral Credit Growth Trends

Non-food Credit Growth



Non-food Credit Growth by Sector*



* Percentages in the boxes refer to share of total non-food credit based on the latest available data

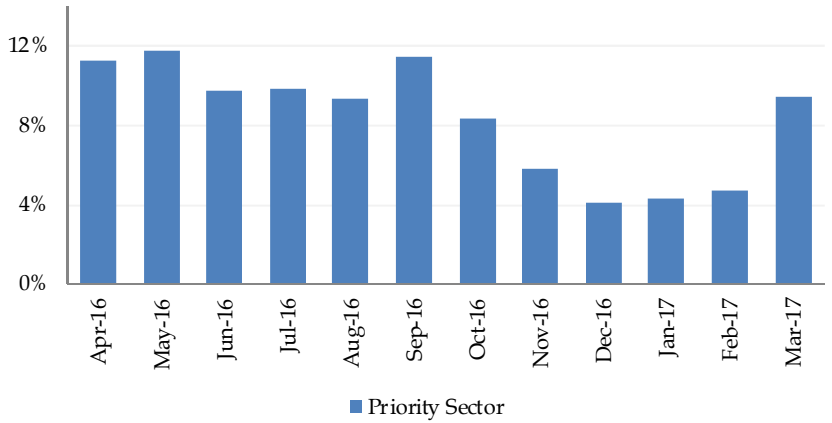
Source: RBI, Trust Research

Sector Share of Credit

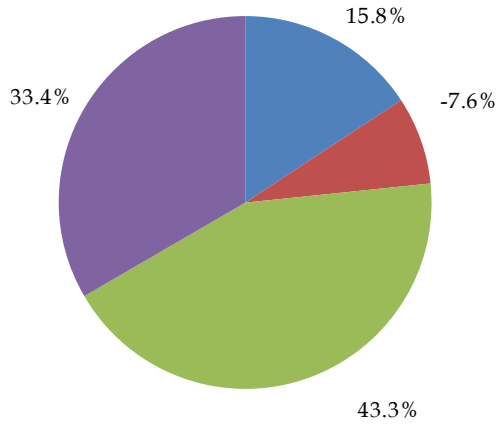
Sectoral Deployment of Credit (Rs B)

Sector	Outstanding as on			Variation (Y-oY)	
	20-Mar-2015	18-Mar-2016	31-Mar-2017	2015-16	2016-17
				%	%
Non-food Credit	60,030	65,469	71,361	9.1	9.0
Agriculture & Allied Activities	7,659	8,829	9,925	15.3	12.4
Industry	26,576	27,307	26,779	2.7	-1.9
Services	14,131	15,411	18,416	9.1	19.5
Personal Loans	11,663	13,922	16,242	19.4	16.7
Priority Sector	20,103	22,259	24,364	10.7	9.5

Priority Sector Growth

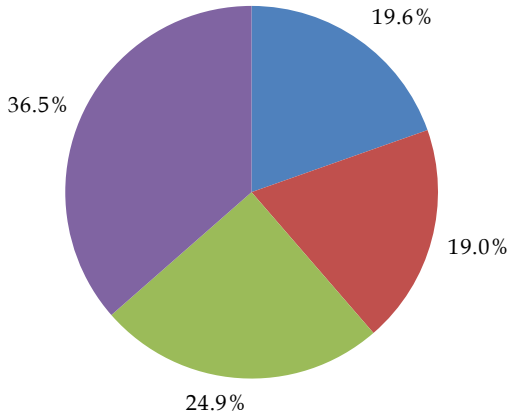


Share of Sectors in Incremental Credit Growth (March 2017)



Loans to industry have declined while services, have increased

Share of Sectors in Incremental Credit Growth (March 2016)

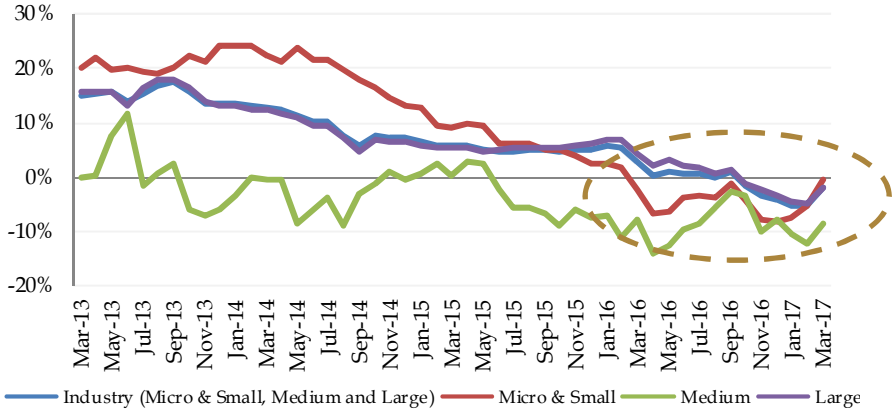


Agriculture & Allied Activities | Industry | Services | Personal Loans

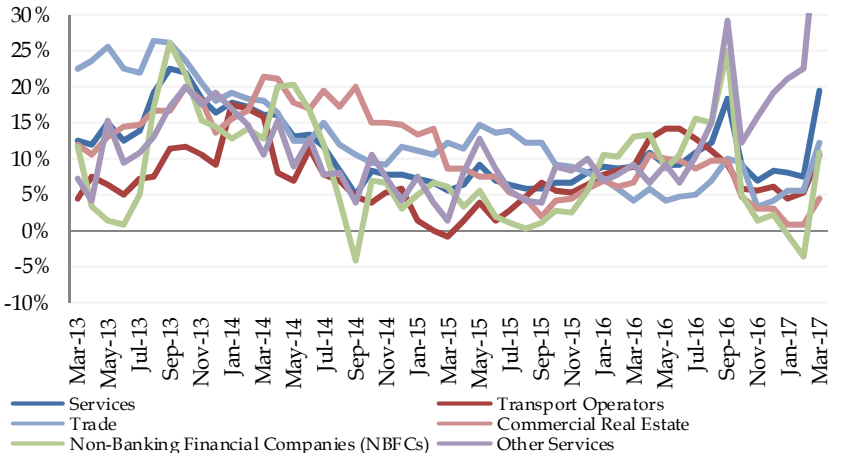
Source: RBI, Trust Research

Credit Growth Trends

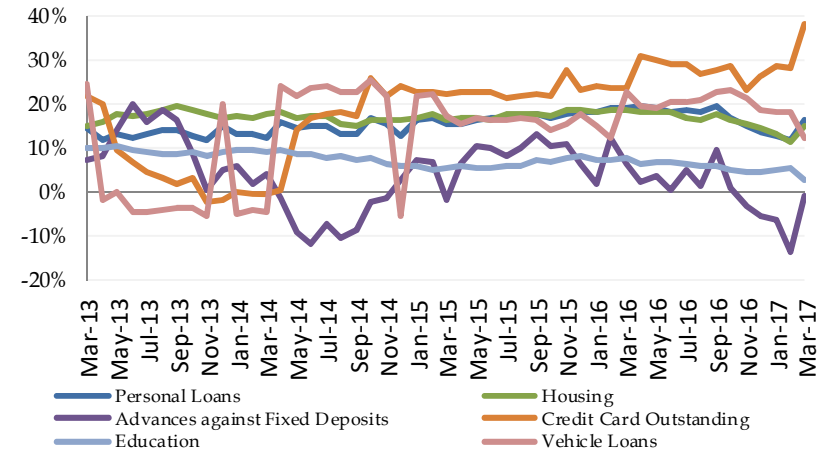
Industry Credit Growth



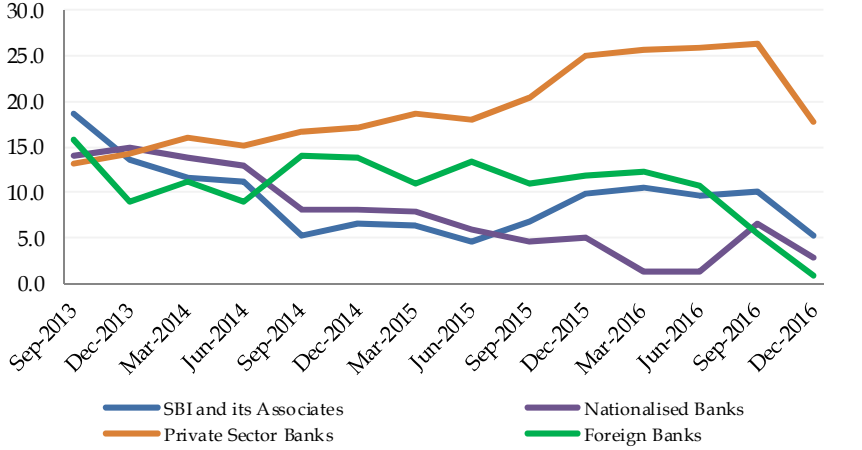
Services Sector Credit Growth



Personal Loans Credit Growth



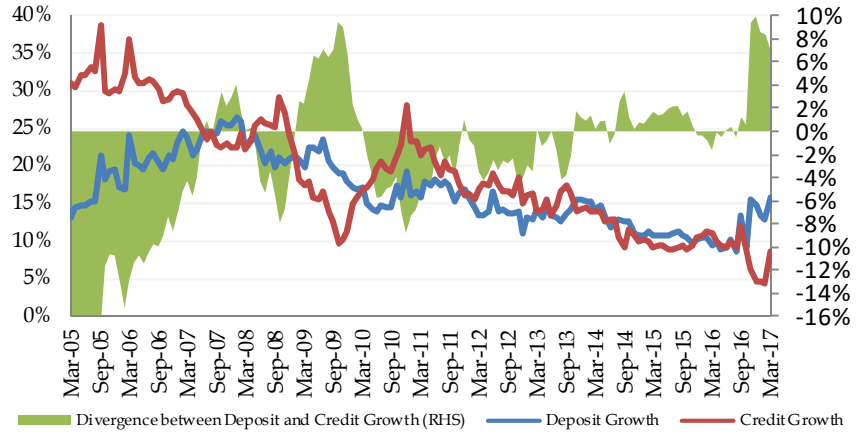
Bank Group Wise Credit Growth



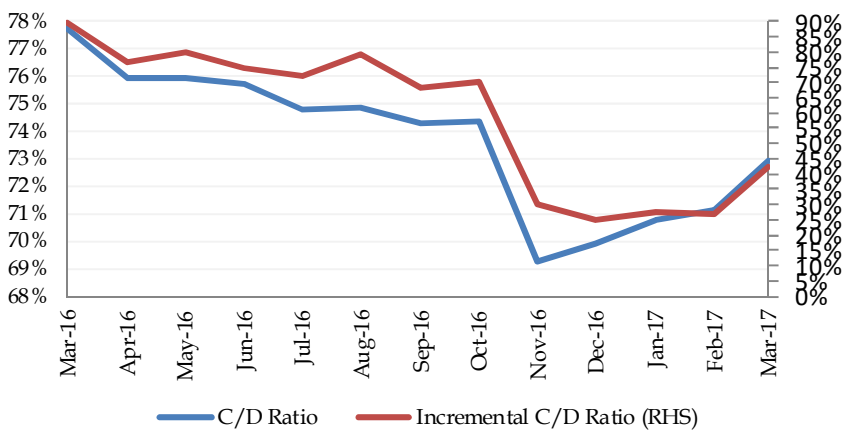
Source: RBI, Trust Research

Credit Deposit Ratio

Credit and Deposit Growth



Credit Deposit Ratio



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Thank You

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