

## IS CREDIT GROWTH HAMSTRUNG BY DELEVERAGING?

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FY21 is an outlier in India's financial system with the onset of pandemic. One direct corollary of pandemic in FY21 was a distinct slowdown in bank credit growth that has also continued into FY22. We believe such low credit growth was a direct fallout of corporates rapidly deleveraging by repaying high cost loans through funds raised through bond issuances.

Our analysis shows that top 15 sectors, from more than 1000 listed entities, reported **more than Rs 1.70 lakh crore of debt reduction in the pandemic year 2021**. Refineries, Steel, Fertilizers, Mining & Mineral products and Textile alone reduced debt by more than Rs 1.50 lakh crore during FY21. Simultaneously, primary issuance of bonds increased by 9%. This trend is continuing in FY22 also.

Interestingly, corporate willingness for new investments remains low currently as the economy is still recovering from the devastating second wave. Investment scenario is tepid as gauged by new investment announcements which saw 67% decline in FY21 as per CMIE. However, the same is reported flat as per Projects Today, where new announcements of Rs 10.7 trillion were reported in FY21 as compared to Rs 10.8 trillion in FY20. **We are unable to account for this rapid divergence in numbers in investment announcements.**

However, it is true that order inflow position of two leaders L&T and BHEL declined during last year. While L&T reported decline in order inflow by around 6%, BHEL reported a decline of 61% (up to Dec'20) as compared to FY20. However, Dilip Buildcon, KEC, Kalpataru reported growth in order flow position during FY21, Dilip Buildcon majorly because of orders from Road sector (NHAI) and Kalpataru's growth largely driven from orders in T&D business.

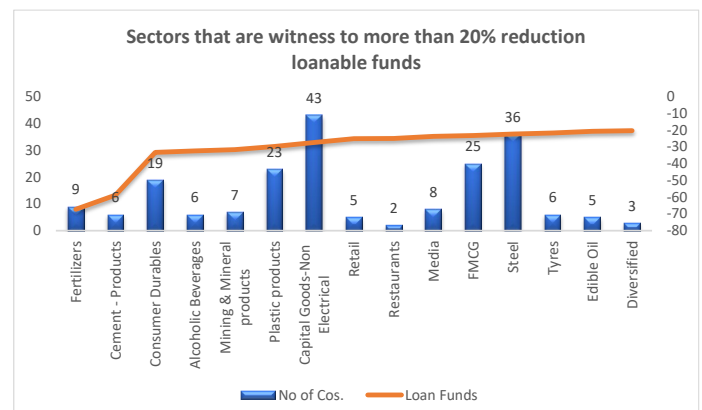
Against this background, only fiscal policy can rekindle animal spirits at this juncture – monetary policy has little headroom.

### CORPORATE PERFORMANCE AND DELEVERAGING

- While analyzing the results of more than 1000 listed entities for FY21, we observed a 4% decline in top line, while EBIDTA and PAT grew by 19% and 54% respectively over FY20. However, excluding BFSI and refineries the set **reported 2% growth in top line 36% and 34% growth** in EBIDTA and PAT respectively.
- Sectors that reported better growth numbers across parameters includes FMCG, Pharma, Steel, Cement etc. *(a list of such sectors is given in the table alongside)*
- Interestingly, taking advantage of a low term structure of interest rates, corporates are reducing their loan liabilities, to facilitate a lower finance cost. From the set of more than 1000 listed entities, **we observe that sectors such as Refineries, Steel, Fertilisers, Retail, Consumer Durable etc. have reduced their loan funds in the range of 13% to 67% in FY21.**
- Sectors where loan reduction of 20% or more were reported during 2021 include Fertilizers, Cement Products, Consumer Durable, Capital Goods etc.
- Interestingly, the above 1000 corporates, in aggregate have also **increased their cash and bank balance by around 35% in March'21** as compared to March'20 suggesting conservative approach to conserve cash during uncertain times.

Growth in key parameters FY21 vis-avis FY20 (select sector)				
Sector	No of Cos.	Growth %		
		Net Sales	EBIDTA	PAT
Edible Oil	5	41	56	97
Healthcare	14	25	54	6
Agro Chemicals	11	18	42	18
Plantation & Plantation Products	10	17	16	15
Sugar	11	16	13	2
FMCG	25	13	23	21
Pharmaceuticals	67	12	32	18
Steel	36	11	79	192
Non Ferrous Metals	8	10	26	21
Packaging	16	7	44	65
Tyres	6	7	40	33
Glass & Glass Products	5	6	49	37
IT - Software	70	5	15	7
Capital Goods - Electrical Equipment	19	3	16	27
Cement	17	3	21	20

Source: SBI Research; Cline listed entities; sorted on revenue



- In terms of numbers, the top 15 sectors, from more than 1000 listed entities, reported **more than Rs 1.70 lakh crore of debt reduction in the pandemic year 2021**. Refineries, Steel, Fertilizers, Mining & Mineral products and Textile alone reduced debt of more than Rs 1.50 lakh crore during FY21.

**GROWTH IN PRIMARY BOND ISSUANCES OUTPACE BANK CREDIT**

- The aggressive reduction in corporate debt during FY21 was facilitated by the bond market. Primary issuance of bond increased by 9% as corporates have deleveraged by repaying high cost loans through funds raised through bond issuances.
- For example, spread of AAA bond for a 10-year tenor declined from 124 bps in April 2020 to 70 bps in April 2021. Similarly spread for 5 year and 3-year bond declined from 89 bps and 147 bps in April 2020 to 9 bps and 30 bps in April 2021 respectively.
- Sectors such as Refineries, Steel, Textiles etc. also reportedly raised funds through Bond during last year i.e. FY21.

**ORDER BOOK POSITION**

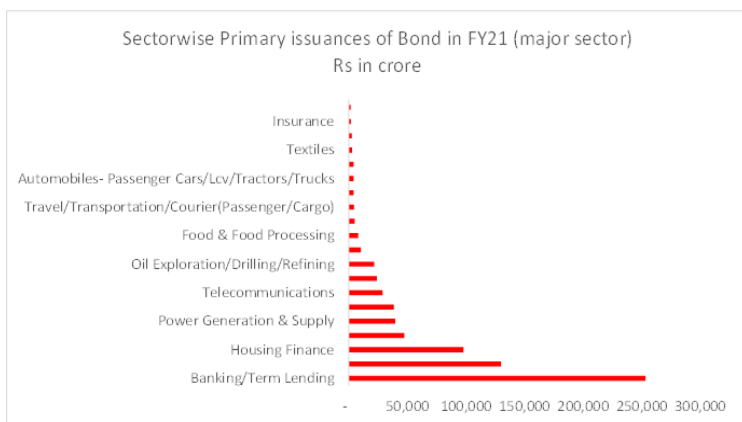
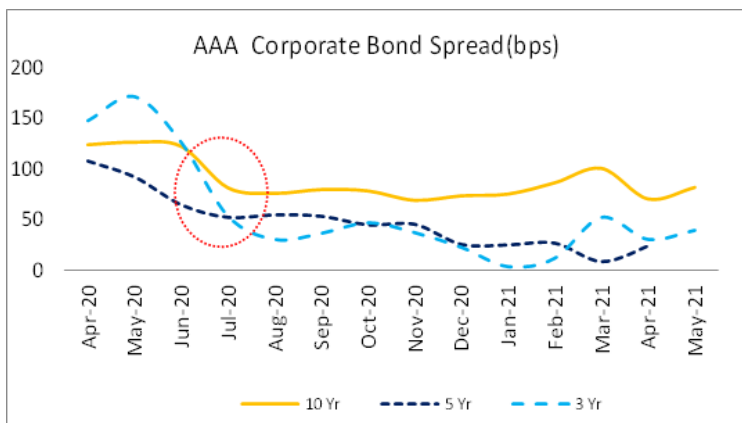
- Order Inflow position of two leaders L&T and BHEL declined during last year. While L&T reported decline in order inflow by around 6%, BHEL reported a decline of 61% (up to Dec'20) as compared FY20.
- However, Dilip Buildcon, KEC, Kalpataru reported growth in order flow position during FY21, Dilip Buildcon majorly because of orders from Road sector (NHAI) and Kalpataru's growth largely driven from orders in T&D business.
- Order Book position for L&T increased by around 8% as of March'21 as compared to March'20, even though there is a decline in fresh orders during the year, suggesting lower execution in FY21 because of Covid-19 and lockdowns.

Decrease in Loan Fund in FY21 (select sector)					
Sector	No of Cos.	Loan Funds (Rs crore)			
		March-21	March-20	Change Amount	Change in %
Refineries	6	385115	468525	-83410	-17.8
Steel	36	116971	150636	-33666	-22.3
Fertilizers	9	6861	20917	-14055	-67.2
Mining & Mineral products	7	22326	32633	-10307	-31.6
Textiles	84	55746	65233	-9487	-14.5
Cement	17	28381	33551	-5170	-15.4
Construction	20	18032	20637	-2605	-12.6
Tyres	6	8204	10478	-2274	-21.7
Retail	5	6056	8084	-2028	-25.1
FMCG	25	5044	6567	-1523	-23.2
Sugar	11	6211	7589	-1378	-18.2
Capital Goods-Non Elec. Equipment	43	3036	4179	-1143	-27.4
Entertainment	15	4713	5792	-1079	-18.6
Consumer Durables	19	2088	3126	-1038	-33.2
Trading	53	4956	5829	-873	-15.0

Source: SBI Research; CII/CIIE

Credit Consumption from different sources			
Descriptions	FY20	FY21	Growth
Bond Primary Issuances	6.90	7.52	9%
Commercial Paper Primary Issuances	21.95	17.40	-21%
ECB/FCCB	3.69	2.60	-30%
Equity (IPO/ FPO/ OFS/ QIP/ InVits etc.)	0.92	1.89	105%
<b>Total</b>	<b>33.46</b>	<b>29.41</b>	<b>-12%</b>
Bank Credit O/s	103.72	109.51	6%

Source: SBI Research; Prime database; CCI; RBI



Source: SBI Research; Prime database

## INVESTMENT SCENARIO LOOKS TEPID: DIVERGENT DATA TRENDS FROM DIFFERENT SOURCES

- ◆ There was 67% decline in new investment announcements, as per CMIE. However, the same is reported flat as per Projects Today, where new announcements of Rs 10.7 trillion were reported in FY21 as compared to Rs 10.8 trillion in FY20.
- ◆ As per the data reported by Projects today, 51% of the new announcements are from private sector whereas 28% from State Governments and rest 22% from the Central Government. Major industries where new announcements were made during last year include Roadways (Rs 2.07 lakh crore), Community Services (Rs 1.28 lakh crore), Real Estate (Rs 0.93 lakh crore), Iron & Steel (Rs 0.93 lakh crore) and non-conventional power (Rs 0.73 lakh crore).
- ◆ A rebound in the announcement of new infra projects by both the Central and State Government agencies has helped the infrastructure sector to maintain its steady growth observed since Q2FY21. In particular, Q4FY21 saw announcement of 2647 new projects with a total investment intention of Rs 3.93 lakh crore as against 2210 new projects worth Rs 2.94 lakh crore in Q3FY21.
- ◆ Among sub-sectors, the Roadways (42.57 percent), Community Services (17.39 percent), Water Supply (9.74 percent) and Railways (4.15 percent) sectors accounted for the bulk of the fresh investment. Roads and highways building activities, which gained pace in Q3FY21, continued the momentum in Q4FY21 too. In all, 458 new road projects worth Rs 81,439 crore were announced in the last quarter.

Order Inflow Rs in Bn			
Company	FY20	FY21	YoY gr.
BHEL \$	235	91	-61.28%
L&T	1,864	1,755	-5.85%
KEC International Ltd.	113	118	4.42%
Dilip Buildcon Ltd	67	219	226.87%
Kalpataru Power Transmission Ltd.	65	164	152.31%

Source: SBI Research; company reports; \$ for FY21 its for 9M

Order Book Position Rs. in Bn			
Company	March-20	March-21	YoY gr.
BHEL \$	1,084	1,066	-1.66%
L&T	3,039	3,274	7.73%
KEC International Ltd.	205	191	-6.83%
Dilip Buildcon Ltd	191	274	43.46%
Kalpataru Power Transmission Ltd.	133	279	109.77%

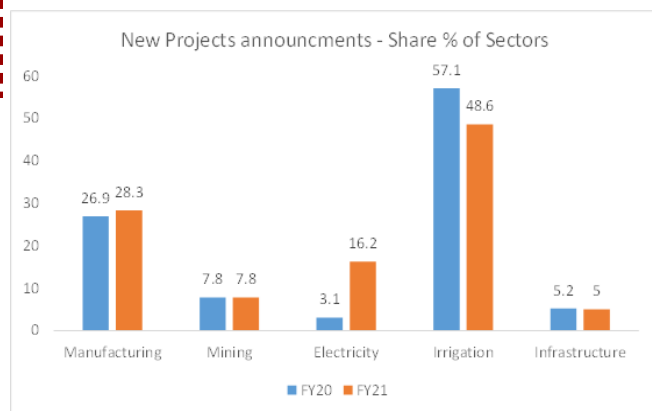
Source: SBI Research; company reports; \$ for FY21 its as on Dec'21

New Investment Announcements				
Year	Amount (Rs. in Trillion)		Growth Rate (%)	
	CMIE	Projects Today	CMIE	Projects Today
FY17	19.01	14.25	-13.4	-2.5
FY18	15.59	12.16	-18.0	-14.7
FY19	15.23	17.25	-2.3	41.9
FY20	16.29	10.85	6.9	-37.1
FY21	5.27	10.71	-67.6	-1.3

Source: CMIE; Projects Today; SBI Research

Comparative Table - New Investment Announcements						
Year	A. CMIE		B. Projects Today		GAP (A-B)	
	Govt.	Private	Govt.	Private	Govt.	Private
FY17	10.98	8.04	10.17	4.08	0.81	3.96
FY18	7.37	8.22	8.23	3.92	(0.86)	4.29
FY19	6.78	8.46	10.24	7.01	(3.47)	1.45
FY20	8.01	8.28	5.57	5.28	2.44	3.00
FY21	1.67	3.61	5.28	5.43	(3.61)	(1.82)

Source: CMIE; Projects Today; SBI Research



Source: SBI Research; Projects Today

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