

CREDIT GROWTH SHOWS MASSIVE JUMP IN MARCH: CREDIT TO NBFC AND INDUSTRY THE HIGHEST IN 147 MONTHS/ JAN'2008

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The sectoral credit growth data released by RBI reveal a significant jump in credit growth in March, with the growth the highest since the publication of RBI sectoral credit data. This in turn implies the increase in working capital limit by banks for companies and also in the last 2 fortnights, credit increased by Rs 97,910 crore and we believe that banks have extended substantial amount of credit in the last 7-days of the year ended March 2020 that includes both term loan and working capital loan with companies bracing to tide over the COVID crisis. **Credit to NBFC sector in March expanded by a sharp Rs 1.15 lakh crores, the highest in 147 months/ January 2008! Even retail credit did not perform too badly, with the March incremental growth, still higher than February even as the economic activity was nearly at a complete halt in the second fortnight of March. Incremental credit to Industry in March at Rs 1.34 lakh crores was also at 147 month high at a with credit to MSME at 24 month high and Infrastructure registering a 12 month high.**

Meanwhile, in the first fortnight (till 10 Apr) of ASCBs in 2020-21 indicate that deposits increased by Rs 1.4 lakh crore (9.5% YoY; last year 10.6%) but credit declined marginally by Rs 31,562 crore (7.2% YoY; last year 14.2%). Historical data always indicate that most of the credit disbursed in the last fortnight of March is paid back in April first fortnight. However, in the current year the trend is divergent. **In the last fortnight of Mar'20, ASCBs has disbursed Rs 2.3 lakh crore but in the first fortnight only Rs 31,562 crore credit declined. The low decline in credit growth in the first fortnight is a good sign that customers are using the limits judiciously during this uncertain times.**

Meanwhile, we anticipate that a phased exit from lockdown is the ideal solution under the current circumstances. The problem is there is no fixed pattern on when and how the second wave of pandemic starts as history of 500 years shows. Depending upon the cause, vector etc the length of the secondary waves can be more than two. In case of viral flu like infection, there is even no fixed pattern on secondary waves. Against this background, it is advisable that we must move beyond lockdown in a staggered manner and have a coherent economic strategy to account for how erosion in demand be restored in quick time. For this the following measures may be implemented: (i) Some relaxation in inland transport namely – road transport, railways may be considered keeping in mind that dependency of rural population on the same, (iii) Trading activity namely retail trade may be allowed for extended time as it supports over 25 crore households, (iv) Hotel services including home delivery is large employment generator. Social distancing has particularly impacted this sector. A limited duration of opening of these services for low risk group as explained above may be allowed, (v) Limited construction activity in districts with no cases or limited cases may be allowed.

CREDIT IMPROVED SIGNIFICANTLY IN LAST FORTNIGHT OF MARCH

- ◆ During FY20, the Credit offtake was muted with a growth at 6.1% being less than half the growth of 13.3% in 2018-19, due to low momentum and unfavorable base effects. While, aggregate deposits increased by 7.9% in FY20, compared to 7.8% growth in FY19.
- ◆ In the first fortnight (till 10 Apr) of ASCBs in 2020-21 indicate that deposits increased by Rs 1.4 lakh crore (9.5% YoY; last year 10.6%) but credit declined marginally by Rs 31,562 crore (7.2% YoY; last year 14.2%). Historical data indicate that most of the credit disbursed in the last fortnight of March is being paid in April first fortnight. However, in the current year the trend is divergent. In the last fortnight of Mar'20, ASCB has disbursed Rs 2.3 lakh crore but in the first fortnight only Rs 31,562 crore credit declined. The low decline in credit growth in the first fortnight is a good sign that customers are using the limits during this uncertain times.
- ◆ The sectoral data for the month of March 2020, which accounts about 90% of the total bank credit deployed by 39 SCBs, indicates that the incremental credit has increased only in Agri. & Allied sectors and all other sectors has shown a deceleration Credit to Industry declined to 1.4% (6.9% last year), services by 8.5% (17.8). While, personal loans declined marginally to 15.7% in FY20 from 16.4% in FY19. Credit to MSE and NBFC has increased substantially, due to the enhanced support by Banks in the form of increase in working capital limits.
- ◆ Within industry, credit growth to 'beverage & tobacco', 'mining & quarrying', 'petroleum, coal product & nuclear fuels', 'cement & cement products' and 'vehicles, vehicle parts & transport equipment' accelerated. However, credit growth to 'chemical & chemical products', 'all engineering', 'glass & glassware', 'gems & jewellery' and 'infrastructure' decelerated/contracted.
- ◆ There may be however a decline in credit to retail sector going forward with increasing restriction of travel, deferring of home, auto buying etc. However, we expect corporate will require more of working capital loans as well as term loans over the medium-term until the growth environment stabilizes. We see sectors such as NBFCs, Metal, Automobile, Power, Infrastructure, Gems and Jewellery, Tyre & Tubes, Petroleum etc. could be seeking more credit from Banks due to enhanced working capital cycle and also medium term uncertainty. While the forbearance on repayment of loans provides some cushion to banks on asset quality and provisioning, a prolonged slump would make it more vulnerable.

ASCBs Incremental Credit Offtake (Rs crore)

Year	March	April
2009	107621	-31060
2010	152038	-29509
2011	129066	-16636
2012	202757	7397
2013	170462	-19228
2014	143898	-20054
2015	302574	-151387
2016	280030	-268202
2017	352473	-259075
2018	306392	-107800
2019	251270	-150777
2020*	357200^	-31562*

Source: RBI, SBI Research, *10Apr ^ Based on RBI's sectoral data in March

ASCBs Credit Off-take : Sector-wise

Sectors	FY19	FY20	FY19	FY20
	Growth (Rs Bn)		YoY (%)	
Agri. & Allied	811	578	7.9	5.2
Industry	1865	413	6.9	1.4
MSE (Priority)	708	953	7.1	8.9
Infrastructure	1650	92	18.5	0.9
Services	3651	2054	17.8	8.5
NBFCs	1448	1779	29.2	27.7
Personal Loans	3123	3479	16.4	15.7
Housing (Including Priority)	1855	1897	19.0	16.3
Other Personal Loans	988	1215	19.4	20.0
Gross Bank Credit	9446	6624	12.2	7.6

Source: RBI, SBI Research

Sector-Wise Credit Flow (Rs bn)

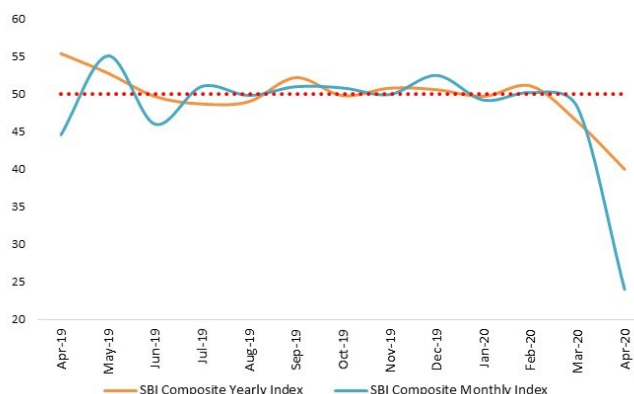
Sectors	Apr'19	May'19	Jun'19	Jul'19	Aug'19	Sep'19	Oct'19	Nov'19	Dec'19	Jan'20	Feb'20	Mar'20
Agri. & Allied	-33	-1	179	-168	40	148	69	-7	51	143	26	131
Industry	-506	-212	-20	-137	-331	97	119	-145	221	232	-247	1342
MSE (Priority)	-12	-37	5	-153	9	82	-32	40	46	387	-54	673
Infrastructure	88	-228	-154	82	-299	-10	160	54	43	74	-181	463
Services	-1006	-272	-32	282	373	117	-94	105	76	614	19	1871
NBFCs	-178	1	116	16	436	332	-2	176	-23	86	-335	1154
Personal Loans	21	186	124	217	284	519	339	150	286	640	348	365
Housing (Including Priority)	85	83	101	128	150	384	155	60	149	268	125	208
Other Personal Loans	82	85	21	112	104	96	116	74	65	215	135	110
Gross Bank Credit	-1508	-73	308	140	330	857	529	318	573	1566	13	3572

Source: SBI Research

SBI YEARLY COMPOSITE INDEX DECLINED TO ALL TIME LOW IN APRIL 2020

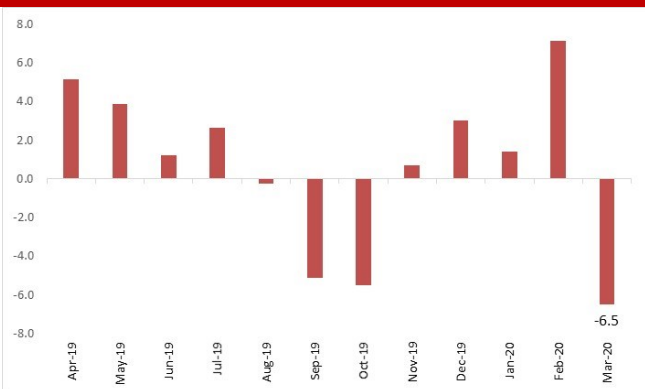
- ◆ The yearly SBI Composite Index for March declined to 40.0 (Large Decline) compared to 46.3 (Moderate Decline) in Mar'20. Also, the monthly SBI Composite index declined to 24.0 (Large Decline) in April compared to 48.2 (Low Decline) in Mar'2020.
- ◆ The SBI Composite Index, a leading indicator for manufacturing activities in the Indian Economy aims to foresee the periods of contraction and expansion. The Composite Index has mainly two indices i.e. SBI Monthly Composite Index and SBI Yearly Composite Index. We believe IIP may come to positive territory in February and will be in negative 1.0-1.5% in March 2020.
- ◆ The core sector output declined 95-month low to 6.5% in Mar'20 due to decline in 7 sectors out of 8 sectors. This is first time in the history that 7 out of 8 sectors in core are in negative territory in a given month. The impact of lockdown due to COVID-19 (7 days in March) is starkly visible in sectors like Cement (which declined by 24.7%), Natural gas (-15.2%), Steel (-13%) and fertilizers (-11.9%). Only coal sector registered a growth of 4.0% during Mar'20. The decline in core sectors is particularly worrisome for IIP growth which we expect will be in negative territory in Mar'19 and around -5% in April 2020.

SBI Yearly and Monthly Composite Index Trend



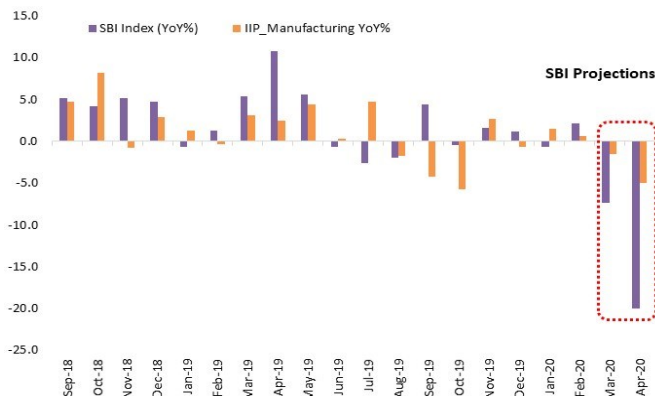
Source: SBI Research

Core Industries Growth (YoY %)



Source: SBI Research

SBI Index (YoY) vs IIP Manufacturing (YoY%)



Source: SBI Research

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