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CREDIT GROWTH BUOYANT: SBI INHOUSE SURVEY SUGGESTS PLANS OF CAPACITY EXPANSION ACROSS SECTORS

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The Q3 of current fiscal has witnessed a visible expansion in credit growth across sectors. The incremental CD ratio beginning Q3 FY22 is currently at 133 as against the incremental CD ratio of only 2 during H1 FY22. Incremental deposits in the banking system has declined by Rs 2.2 lakh crores in this time period, whereas credit growth has picked up by Rs 3.5 lakh crores. It may be noted that the deposit growth in banking system has been led by CASA deposits far outpacing time deposits with people preferring precautionary motive given the continued uncertainties.

The recent credit growth is visible across sectors. Sectors where demand for credit started picking up during last three months includes NBFCs, Telecom, Petroleum, Chemical, Electronics, Gems & Jewellery and Infrastructure including Power and Roads. These are mostly having big ticket disbursements. This, apart our recent understanding of market participants, suggest that demand from non-PSU credit is set to outpace that of PSU credit in Q4 FY22. Sectors such as Healthcare, Commercial Real Estate, Pharmaceuticals, Infrastructure, NBFCs, and Construction will be the largesse of such credit. These are credit sought mostly by mid-rung entities. Co-lending with NBFCs remains one of the most preferred options of lending in current scenario as it also helps NBFCs churn its capital and offer on-lending at affordable costs.

The recent increase in credit is also substantiated by our recent in-house industry survey that is grounded in optimism. The survey suggests capacity utilization remains robust, with more than two-thirds of respondents suggesting current capacity utilisation of more than 70% while 36% respondents, from diverse sectors such as Textile, Petrochemicals, Building Materials etc. indicated better utilisation levels.

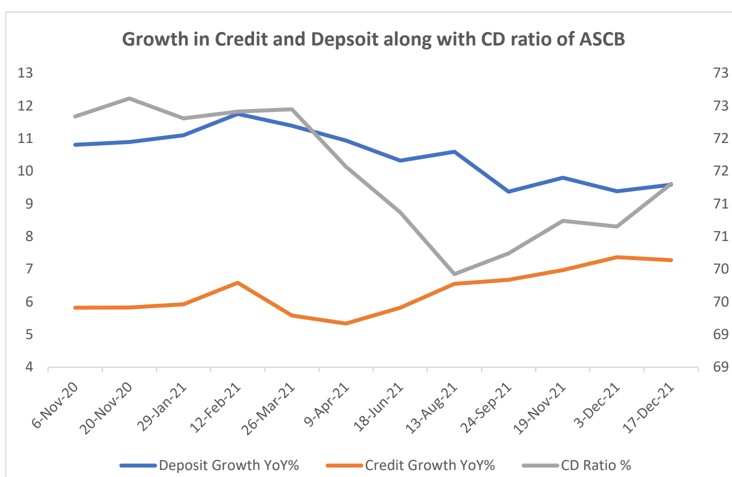
Intriguingly, the Commercial Paper (CP) issuances increased by around 40% in the first nine month of FY22 indicating recourse to working capital requirement. However, bond primary issuances declined by more than 25% during the same period. This indicates that the reverse credit flow from Banks to Bond market in FY21 is now on the wane as the deleveraging of corporates and substituting of high cost debt with low cost debt from the bond markets seems to have been largely completed. This is also possible as corporates across sectors are now taking recourse to term loans in anticipation of a future growth revival on the back of several Government initiatives.

The worry is the recent surge in omicron infections has pulled down the SBI Business Activity Index to a two month low. However, the percentage of rural infections to new cases at 18.8% are still at significantly low levels. The share of top 15 districts in new cases is also at 51%.

Most importantly, the capital to risk-weighted assets ratio (CRAR) of scheduled commercial banks (SCBs) has touched a new peak of 16.6 % and their provisioning coverage ratio (PCR) too increased from 67.6% in March 2021 to 68.1% in September 2021 (excluding AUCA). This will remain a positive enabler for future credit growth.

VISIBLE PICK UP IN CREDIT GROWTH

- Credit growth of ASCBs, which had considerably weakened since in FY20 has picked up significantly and was at 7.3% till 17 Dec'21. This is just a tad lower than pre pandemic level at 7.5% in Dec'19. Deposit growth which was consistently in double digits since the beginning of pandemic and was at 12.3% in March'21 has now decelerated to 9.5% in Dec'21, lower than the pre-pandemic level at 10%.
- Interestingly CD ratio has also started improving since Sep'21 and is now at 71.3% as on 17th Dec'21, as compared to 69.9% as on 13th Aug'21.



Source: SBI Research

Sectoral Deployment of Credit (Rs in billion)

Sector	Nov-20	Mar-21	Aug-21	Nov-21	Growth			
					YoY	YTD	Apr to Aug	Sept to Nov
Gross Bank Credit	**104349**	**109516**	**108975**	**111622**	**7274**	**2107**	**-541**	**2648**
Industries	**27602**	**28958**	**28196**	**28654**	**1052**	**-304**	**-762**	**458**
Mining & Quarrying (incl. Coal)	438	461	499	511	73	50	39	12
Beverage & Tobacco	145	160	146	158	13	-2	-14	12
Textiles	1867	2005	1998	2006	138	1	-7	8
Chemicals & Chemical Products	1782	1923	1788	1912	130	-11	-135	124
Petro Chemicals	384	456	404	432	47	-24	-52	28
Rubber, Plastic & their Products	507	543	585	617	111	74	41	33
Electronics	297	339	342	364	67	25	3	22
Gems & Jewellery	676	630	617	701	25	72	-13	85
Infrastructure	10275	10922	10850	11153	878	231	-72	303
Power	5508	5676	5673	5768	260	92	-3	95
Roads	2003	2371	2401	2468	465	98	30	68

Source: SBI Research; RBI

- What is interesting to note that the incremental CD ratio beginning 24th Sept'21 till 17th Dec'21 is at 133 as against the incremental CD ratio of only 2 during H1FY2022. Deposits in the banking system has declined by Rs 2.2 lakh crores in this time period, whereas credit growth has picked up Rs 3.5 lakh crores in the same period.
- Sectoral credit number (see above table) also reflects better disbursements during since Sept'2021. Growth in Gross Bank Credit, YTD till August'21, which was in negative by Rs 541 bn, has now reported a positive growth of Rs 2107 bn till Nov'21, as contributed by incremental growth of Rs 2648 bn during Sept to Nov'21 period.
- Credit to Industries also reported net credit inflow of Rs 458 bn during Sept to Nov'21 as compared to net outflow of Rs 762 bn during April to August'21 period. Sectors where demand for credit started picking up during last three months **includes NBFCs, Telecom, Petroleum, Telecom, Chemical, Electronics, Gems & Jewellery and Infrastructure including Power and Roads. These are mostly in big ticket disbursements.**
- The short term paper market i.e. Commercial Paper (CP) issuances increased by around 40% to Rs 16.57 lakh crore in first nine month of FY22 indicating recourse to working capital requirement. However, bond primary issuances declined by more than 25% to around Rs 4.1 lakh crore in 9MFY22 as compared to same period previous year.

Incremental Deposit and Advances (Rs billion)

Period	Deposits	Advances	CD Ratio
27th March to 24th Sep'21	4855	73	2
25th Sep to 17th Dec'21	2679	3574	133

Source: SBI Research; RBI

- This indicates that the reverse credit flow from Banks to Bond market in FY21 is now on the wane as the deleveraging of corporates and substituting of high cost debt with low cost debt from the bond markets seems to have been largely completed. This is also possible as corporates across sectors are now taking recourse to term loans in anticipation of a future growth revival on the back of several Government initiatives.
- This augur well with various Govt. initiatives including Production Linked Incentives (PLI), National Monetisation Plan (NMP) and incentivising Export etc. to name a few to drive the economy at a faster rate.

SCBS REDUCED WEIGHTED AVERAGE LENDING RATES (WALR) ON FRESH RUPEE LOAN—PSBS LEAD

- WALR on fresh rupee loan sanctioned has declined by 48 bps to 7.98% in Nov'2021 as compared to 8.46% in April'2020.
- **PSBs lead the race in reducing WALR with a reduction of 102 bps to 7.32% in Nov'2021 from 8.34% in April'2020.** While Private Sector Banks WALR has increased marginally to 8.92% in Nov'2021 as compared to 8.91% in April'2020.

INCREASING PRIVATE PARTICIPATION IN NEW INVESTMENT ANNOUNCEMENTS

- New investment announcements which were around Rs 10 trillion in last two years, as per Projects Today, improved to Rs 12.79 trillion in first nine months of FY22 (April – Dec), and can report a 50% growth in FY22 as compared to previous year.
- Major industries where new announcements were made during last nine month includes Roadways (Rs 1.79 lakh crore), Community Services (Rs 1.16 lakh crore), Real Estate (Rs 1.19 lakh crore), Iron & Steel (Rs 1.08 lakh crore), Machinery (Rs 0.86 lakh crore) and Non-Conventional power (Rs 0.80 lakh crore). The share of private participation in the investment announcements increased to 70% from around 50% a year ago, indicating revival of the capex in the economy. Top five States i.e. Gujarat, Maharashtra, Tamil Nadu, Karnataka and Uttar Pradesh contribute around 55% of the new investment announcement in FY22.

ASSET QUALITY OF BANKS REMAIN SATISFACTORY

- As per the latest RBI report, the capital to risk-weighted assets ratio (CRAR) of scheduled commercial banks (SCBs) rose to a new peak of 16.6 per cent and their provisioning coverage ratio (PCR) too increased from 67.6% in March 2021 to 68.1 per cent in September 2021
- Further, the asset quality of banks showed improvement, with the gross non-performing assets (GNPA) and net NPA (NNPA) ratios declining to 6.9 per cent and 2.3 per cent respectively, as on September'2021. However, the third wave and it's severity can be a important variable to watch out for towards close monitoring of the portfolios going forward.

SBI IN HOUSE INDUSTRY SURVEY—SUGGESTS CAPACITY EXPANSION ACROSS SECTOR

- The recent increase in credit is also substantiated by our recent in house industry survey that is grounded in optimism. The survey suggests capacity utilization remains robust, with more than two-thirds of respondents suggesting current capacity utilisation of more than 70% while 36% respondents, from diverse sectors such as Textile, Petrochemicals, Building Materials etc., indicated capacity utilisation much in excess.

New Investment Announcements

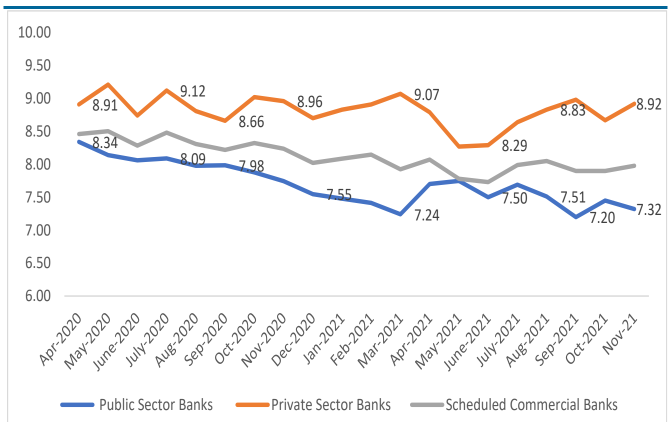
Year	Amount Rs lakh crore			Share (%)	
	Govt.	Private	Total	Govt.	Private
FY17	10.17	4.08	14.25	71.36	28.64
FY18	8.23	3.92	12.16	67.72	32.28
FY19	10.24	7.01	17.25	59.37	40.63
FY20	5.57	5.28	10.85	51.34	48.66
FY21	5.28	5.43	10.71	49.30	50.70
FY22	4.04	8.75	12.79	31.59	68.41

Source: Projects Today; SBI Research; FY22 for 9M (April-Dec)

State wise New Investment Announcements		
States	Projects	Rs. Crore
Gujarat	942	232,517
Maharashtra	1,138	151,213
Tamil Nadu	304	143,982
Karnataka	611	91,016
Uttar Pradesh	444	86,151
Telangana	388	81,126
Odisha	336	65,402
Rajasthan	355	41,070
Haryana	177	39,786
Jharkhand	326	34,086
Andhra Pradesh	224	33,861
Chhattisgarh	227	33,318
West Bengal	435	31,914
Multi States	25	31,523
Madhya Pradesh	298	31,075
All India	**7,774**	**1,278,106**

Source: Projects Today; SBI Research; FY22 for 9M (April-Dec)

Bank Group wise Weighted Average Lending Rates (WALR) - On Fresh Rupee Loans Sanctioned



Source: RBI; SBI Research

- Around 70% of respondent, major sectors including Textile, Food Processing, Chemicals, Power etc. shows optimism in business environment and favour going for capacity expansion in next two-three years.
- Corporates are resorting to different strategies to manage the elongated Working Capital (WC) cycle. Gems & Jewellery, Sugar, Textile, etc. are some of the sectors that has availed moratorium, while increase in Bank loans was indicated by sectors such as Textile, Power, Chemicals, Building Materials, Auto Ancillary etc. This is also reflected in credit growth numbers.
- Cost cutting has been the buzz word across Industry post covid (49%) with adoption to online/hybrid business model faster than planned suggested by some (21%) respondents. Many sectors such as Steel, Petrochemicals, etc. have chosen to reduce debt while sectors such as Food Processing, Textile, Gem & Jewellery etc. are expecting rise in selling prices in next one-two years.
- Industry leaders, across the spectrum, has lauded various Govt. initiatives including ECGLS, PLI and incentivising Export being the pivot in pushing credit growth.

MOVEMENT IN CREDIT RATIO, WHOLESALE CREDIT GROWTH IN AA AND ABOVE RATED ASSETS

- Credit ratio (upgrades/downgrades) is showing signs of improvement, albeit below one, in many sectors.
- During Sept-December'21, rating agencies reported 3531 downgrades as compared to 1216 upgrades, with a credit ratio of 0.34 against credit ratio of 0.27 during April-Aug'21 period.
- Sectors that reported improved credit ratio includes Metal, Steel, IT, Fertilizers & Agriculture Chemicals, Energy, Telecommunications Services etc.
- Further, as per latest RBI report, an analysis of the funded amount outstanding (Rs 5 crore and above) shows that credit absorption by public sector units (PSUs) remains robust with 12.4% (YoY) growth in Sep'21, while non-PSU credit languishes in both public sector banks (PSBs) and private sector banks. It is pertinent to mention here is that the growth in credit to non-PSU nonfinancial companies is reported mainly in investment grade ratings in AA and above.
- However, our recent understanding of market participants suggest that demand from non-PSU credit is set to outpace that of PSU credit in Q4 of FY22. Sectors such as Healthcare, Commercial Real Estate, Pharmaceuticals, Infrastructure, NBFCs, and Construction are the largesse of such credit.

Sectorwise rating upgrade downgrade ratio

Sector	April-Aug' 21	Sep-Dec'21	Imrovement
Metals and Mining	0.3	0.6	0.3
Steel	0.3	0.6	0.3
IT	0.3	0.5	0.2
Auto Components and Ancilliaries	0.2	0.5	0.3
Fertilizers & Agriculture chemicals	0.5	1.3	0.8
Energy	0.6	0.9	0.4
Gas Distribution Utilities	0.5	1.0	0.5
FMCG	0.4	0.7	0.3
Gems & Jewellery-Diamonds Polishing	0.2	0.5	0.3
Telecommunicatin Services	0.3	3.0	2.7
NBFC	0.5	0.8	0.3

Source: SBI Research; CRISIL; number are for all rating agencies

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