

# FICCI-IBA Survey of Bankers

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Issue 6  
July – December 2017

## Survey Findings – Summary

**The sixth round of the FICCI-IBA survey was carried out for the period July to December 2017. A total of 19 public sector, private sector and foreign banks participated in the survey. These banks together represent 59% of the banking industry, as classified by asset size.**

Bank credit has been growing at a slow pace in the economy. The bankers have suggested specific measures that may be announced in the upcoming Union Budget to facilitate credit growth and investment pick-up in the economy. They recommend accelerated investments in infrastructure sector as well as interest subvention for investments in long gestation infrastructure projects. Most of the responding banks have suggested reduction in corporate tax rate from 30% to 25%, lowering of MAT rate to 15% and enhancing tax deductions and exemptions for individuals. This should boost credit demand at both corporate and retail level.

As regards the banking sector, the respondent banks have suggested that in the upcoming Union Budget, the government should allow full tax deduction on the NPA provisioning as against the cap of 5% of taxable income. They have also suggested greater incentives for promoting digital transactions for both merchants and users, as well as creation of dedicated fund for digital payments infrastructure in the upcoming Union Budget.

In-fact, respondent banks have seen significant progress in digital transactions over the last one year. The volumes as well as value of digital transactions have increased manifold for most of the respondent banks. The banks have reported significant rise in digital payments across all channels (cards, UPI, Aadhar Pay, etc). Banks have also reported that first time users of digital payments have gone up in the last one year. Several respondent banks have also partnered with Fintech firms in areas of wealth management, e-commerce, payments and others. To further enhance digital transactions, in addition to the incentives, banks have suggested improvement in data security infrastructure and widening the reach of digital platforms to all strata of the society.

Banks have welcomed the recapitalization plan of Rs. 2.11 trillion for public sector banks and believe that it will help in boosting credit growth and subsequently growth recovery of the economy. Banks have suggested that banking reforms should go hand in hand with recapitalisation plan and there should be improvement in processes and policies in the public sector banks to avoid further erosion of capital. Additionally, some of the respondents were of the view that the amount of recapitalisation will not be adequate and banks would need to consider raising additional capital through QIP route or through monetisation of non-core assets.

## Survey Findings – Summary

The survey findings reveal that banking sector performance during July–December 2017 period remains more or less similar to the previous six months on the parameters studied. Nearly 67% of the participating banks have maintained their credit standards for large as well as small enterprises. Out of the few who have tightened credit for large enterprises have cited rise in NPAs or a risk of the asset turning into NPA as the main reason for their action. The share of corporate to retail loans also remains the same at 56:44 as noted in the previous round of the survey. Likewise, the ratio of advances to investments (SLR and non-SLR) at 66:34 also remains nearly same as in the previous round (68:32).

Following repo rate reduction of 25 basis points by the RBI in Aug 2017, almost 84% of the respondents have reduced their MCLR. A large majority (58% respondents) reduced it by 20 basis points. 11% reduced the MCLR by 20-30 basis points. 5% decreased by 30-40 basis points and 5% reduced by 40-50 basis points. Another 5% reduced the MCLR by more than 50 bps. In case of term deposits, 56% respondents have reduced rate for term deposits below one year and 78% respondents for term deposits above one year.

The number of banks reporting increase in share of CASA deposits has been lower in the current round of survey. 48% of participating banks have indicated an increase in the share of CASA deposits as against 58% in the previous round. Around 35% of the respondents have also cited a moderate decline in CASA deposits. Withdrawal of deposits made earlier during demonetisation, slow growth in current account deposits and withdrawals for agricultural activity have been cited as key reasons for such decline.

58% of the respondent banks reported a rise in NPAs, significantly lower than 80% reporting so in the previous round of the survey indicating possible stability in credit environment. Infrastructure, metals and engineering goods were the key sectors reported with the highest NPAs. However, only 28% banks reported a rise in the number of requests for restructuring of loans as compared to 40% in the previous round.

Banks were also asked for their views and suggestions on improving the ease of doing business ranking with respect to credit. Banks have suggested various measures like setting up of single window regulatory/statutory approvals for a fresh venture/ exposure, strengthening up of online loan applications platform and speedy credit underwriting process, and introduction of Legal Entity Identifier (LEI) code to improve the quality and accuracy of financial data systems for better risk management.

A large number of banks have also welcomed RBI's move of setting up a high-level task force for setting up a public credit registry. The banks stated that such a credit registry will enhance efficiency of the credit market, increase financial inclusion, improve ease of doing business and help control delinquencies, thereby improving the quality of evaluation of credit proposals.

## Change in Credit Standards

Among the participating banks, 28% respondents have reported tightening of credit standards for large enterprises during the period Jul -Dec 2017, down from 35% for the immediately preceding six months and much below 41% who responded similarly in the survey done previous year (Jul - Dec 2016). A significant 67% of respondents maintain same credit standards for large enterprises.

As many as 75% of respondents who have tightened credit for large enterprises have cited rise in NPAs or a risk of the asset turning into an NPA as the main reason for their action. This is followed with high sector specific risk. Majority of the respondents have indicated high level of NPAs in sectors like Infrastructure, metals and engineering goods.

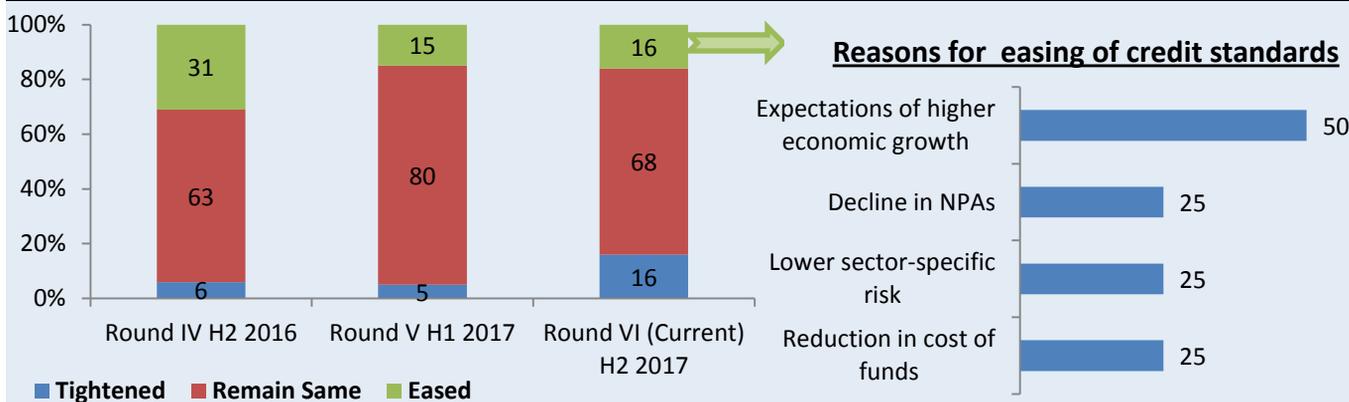
Credit standards for large enterprises (% respondents)



In case of SMEs, 68% of the respondent banks reported no change in their credit standards, whereas 16% have further eased them down, marginally up from 15% in the previous round of the survey.

With respect to SMEs, 50% of respondent banks which have eased credit standards for SMEs mentioned high expected economic growth as their main reason for doing so.

Credit standards for SMEs (% respondents)

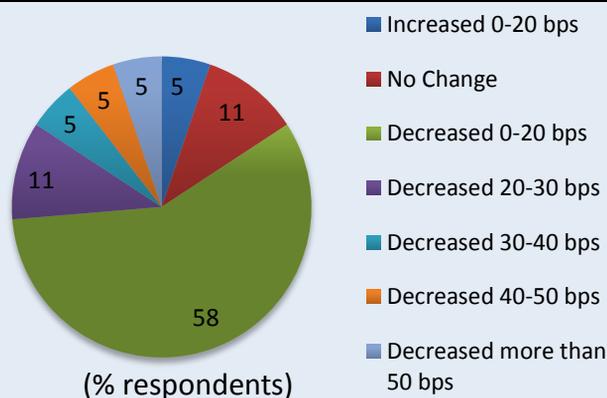


## Movement in Marginal Cost of Lending Rates (MCLR)

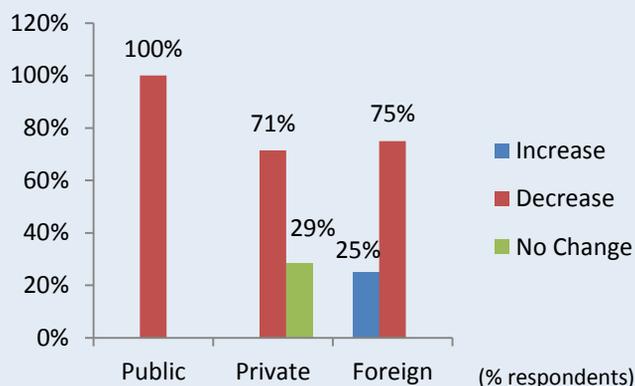
Over half of the respondents (58%) have brought down their MCLR by up to 20 bps during the period July-Dec 2017. Further, 26% respondents reduced their MCLR by more than 20 bps. 11% reduced the MCLR by 20-30 basis points. 5% decreased by 30-40 basis points and 5% reduced by 40-50 basis points. Another 5% decreased by more than 50 bps.

Among the respondents to the survey, all public sector banks have decreased their MCLR. 71% of the private sector bank respondents decreased their MCLR as well, while the remaining did not change the rate. Among the foreign banks, three of the four responding banks have shown a decrease in MCLR.

Overall Change in MCLR

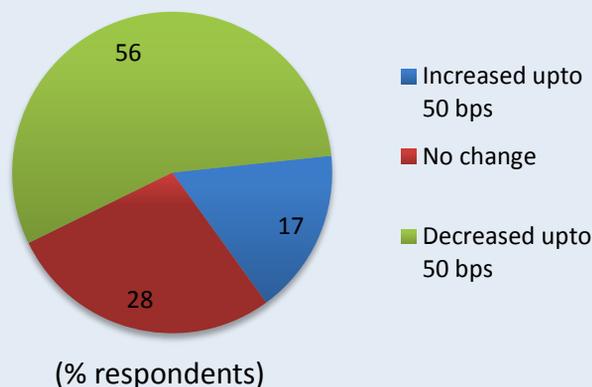


Bank Wise Change in MCLR

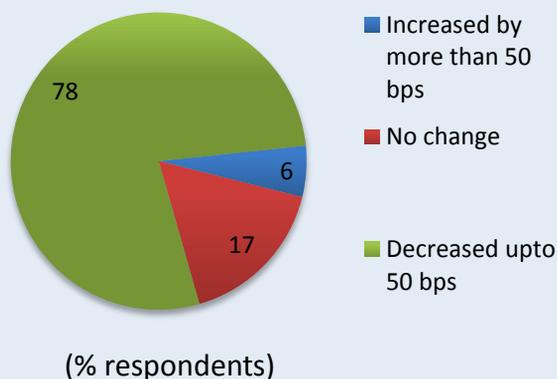


The responses gathered indicate that term deposit rates have fallen across the board. 56% respondents decreased their rates by up to 50 bps on term deposits of tenure below one year, while 78% did so for term deposits of one year or above. In the last round, 79% of the respondents had reported reduction in deposit rates for short duration term deposits and 74% respondents had reported reduction in deposit rates for long duration term deposits.

Change in Term Deposit Rate - Below One year



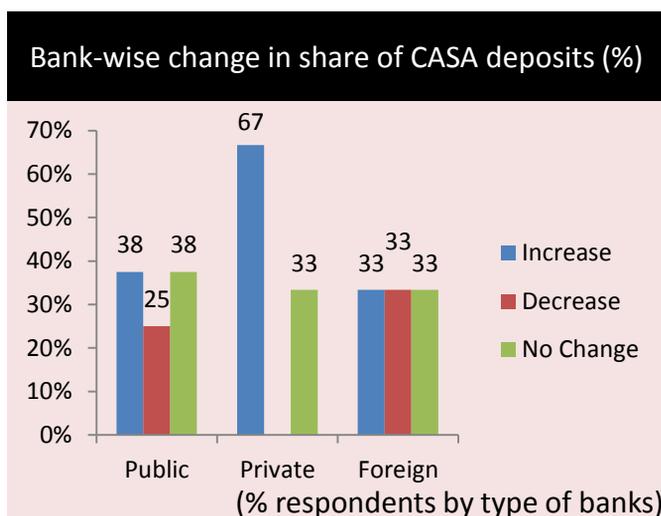
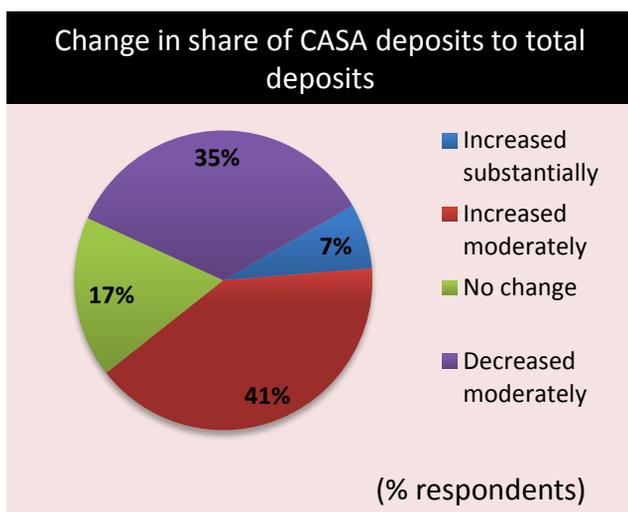
Change in Term Deposit Rate - One Year & above



## Changes in Current Account and Savings Account Deposits

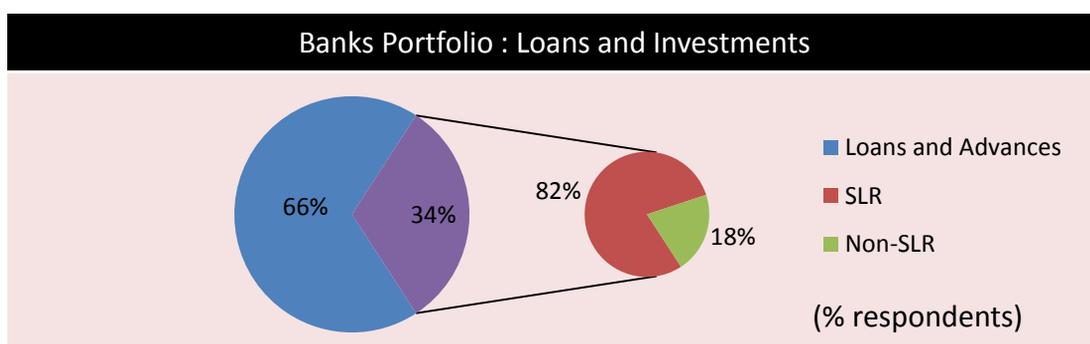
In this round of the survey, 48% of respondents recorded an increase in their CASA deposits, down from 58% in the last round, with only one bank indicating a substantial rise. In-fact, 35% of the respondents reported a moderate decline in the share of CASA deposits. Banks that saw a dip in the share of CASA deposits stated withdrawals of deposits made earlier during demonetisation, withdrawals for agricultural purposes and low growth in current deposits as the primary reasons.

When compared across bank types, private sector banks have been able to enhance their CASA deposits, with some of them offering competitive rates on savings deposits. 67% private bank respondents experienced a rise in share of CASA deposits, followed by 38% public sector bank respondents and 33% foreign bank respondents.



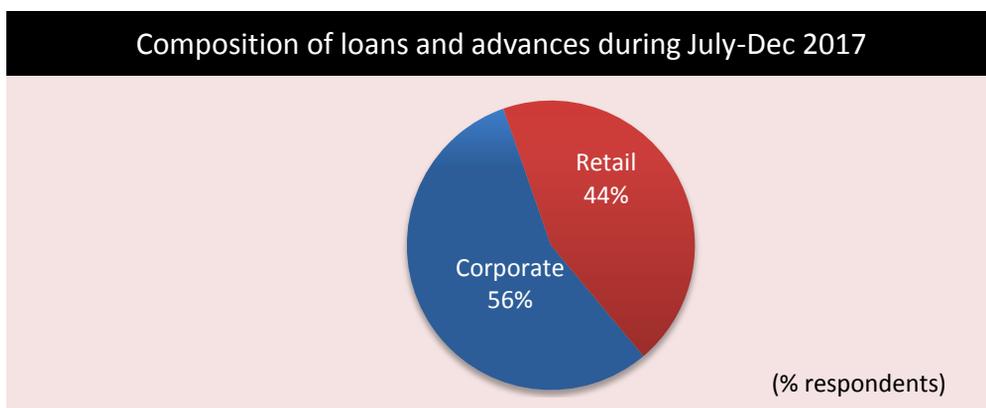
## Composition of Funds Portfolio

The composition of the respondent banks' portfolio has shown little change in this round of the survey as compared to the last round. Loans and advances comprised of 66% of the respondents assets as compared to 68% in the previous round. Even though RBI reduced the limit for SLR securities by 50 bps in Oct 2017, banks' investment portfolio remained unchanged due to lackluster credit growth. 82% of the respondents' investments were towards SLR instruments, while the remaining were Non-SLR investments. In the last round of the survey, SLR investments amounted to 79% of total investments made by respondent banks.

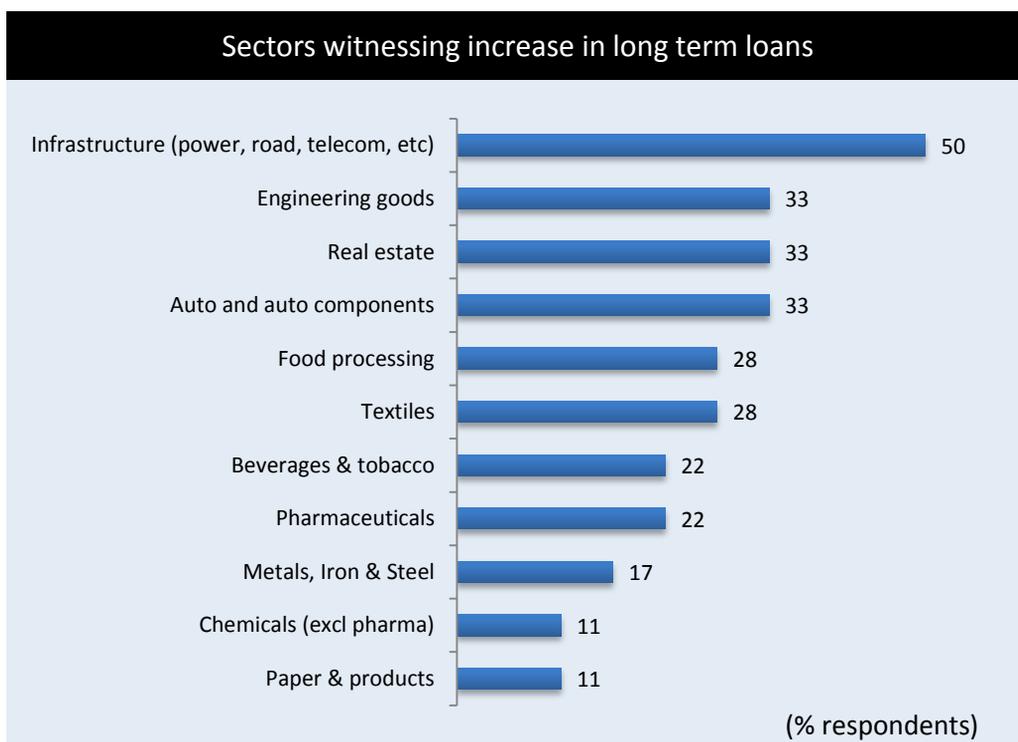


## Composition of loans and advances

The corporate loans comprised 56% of total loans and advances of respondent banks, with the other 44% going to retail loans. As compared to the immediately preceding survey period, there has not been any change in this ratio.



Infrastructure, Engineering Goods, Real Estate, Auto and Auto components are witnessing a rise in long term credit according to the survey respondents. As compared to the last round of the survey, the percentage of respondents citing textiles as a sector seeing an increase in long term credit has decreased from 35% to 28% in this round. Respondents citing long term credit off-take by Food Processing, Pharmaceuticals and Metals has also increased vis-à-vis last round of the survey.

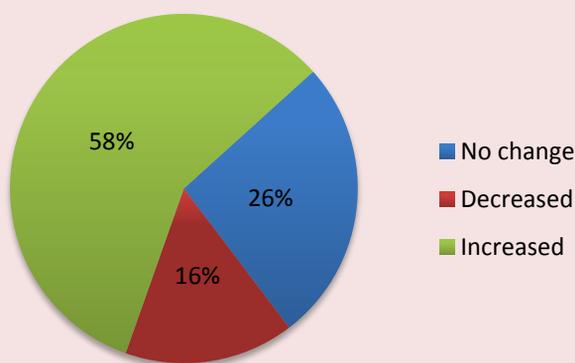


## State of NPAs and Stressed Assets

The number of banks reporting a rise in the NPA levels has decreased significantly from the previous survey's period. The share of respondents citing a rise in NPAs is 58% in the current round, steeply down from 80% in the previous round, indicating possible stability in credit environment. 26% of respondents indicated same level of NPAs as in the previous six months.

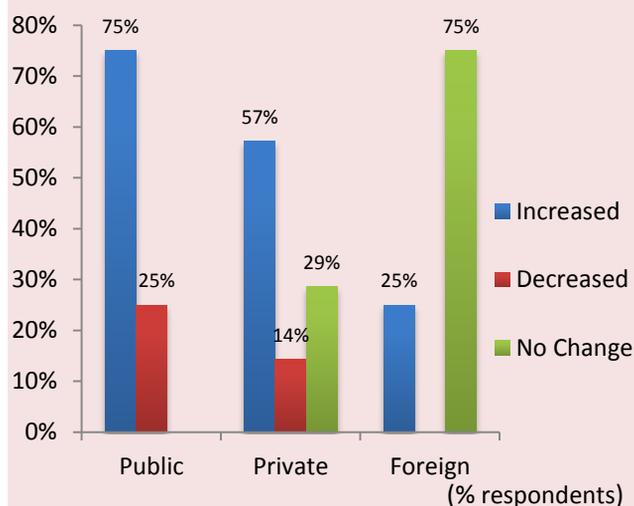
75% of all public sector bank respondents reported a rise in NPAs. In the previous round of survey, 91% of PSB respondents had seen a rise in NPAs. Amongst the private sector bank respondents in current round of survey, 57% reported a rise in NPAs. In case of foreign bank respondents, only 25% reported a rise in NPAs while the remaining reported no change.

Change in the level of NPAs



(% respondents)

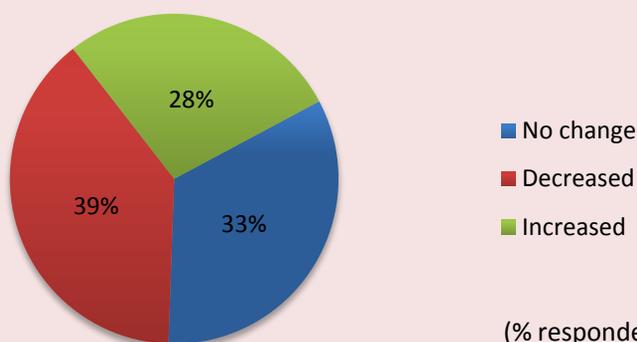
Bank Wise Increase/Decrease in NPAs



(% respondents)

In the current round of survey, only 28% of respondent banks stated an increase in the requests for restructuring of advances, as compared to 40% in the previous round. On the other hand, 39% respondents stated a fall in number of such requests, as compared to 35% in the last survey period.

Requests for restructuring of Advances

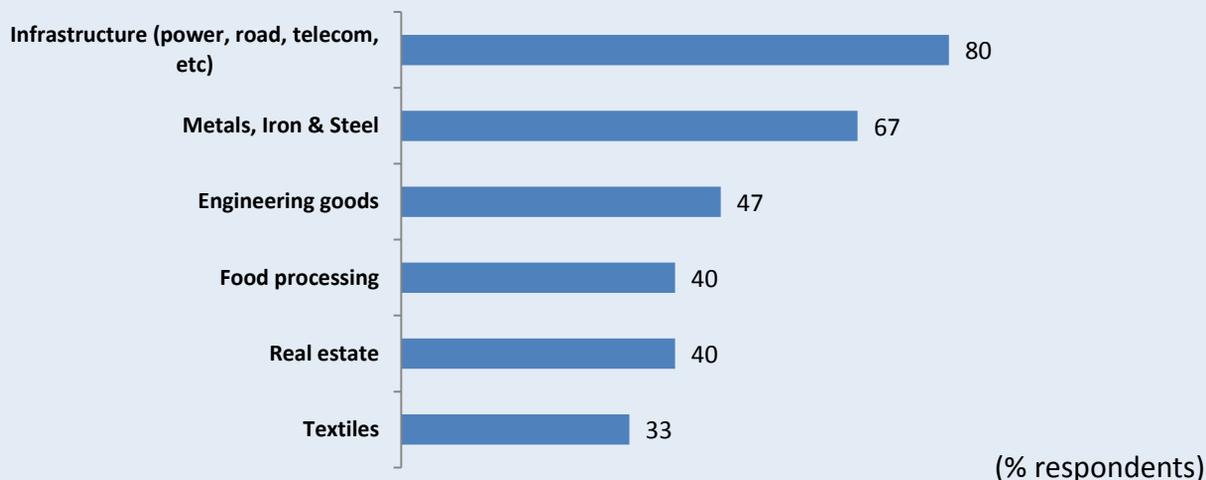


(% respondents)

## Key Sectors with High Level of NPAs

Major sectors with high levels of NPAs are Infrastructure, Metals, Iron and Steel and Engineering Goods. More than 45% of respondents have cited these as sectors with high NPAs. Other major sectors with high NPAs are Food Processing, Real Estate and Cement among others.

Key sectors with high levels of NPAs

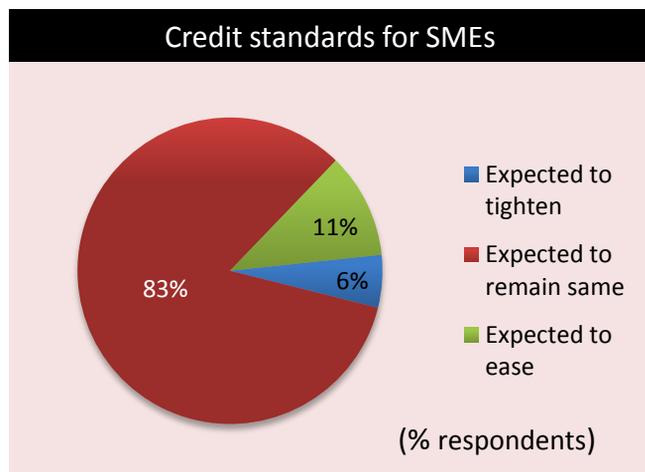
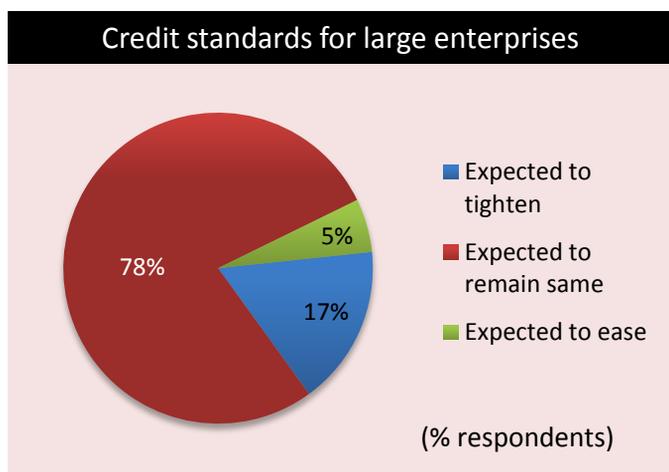


### Trend in NPAs in key sectors

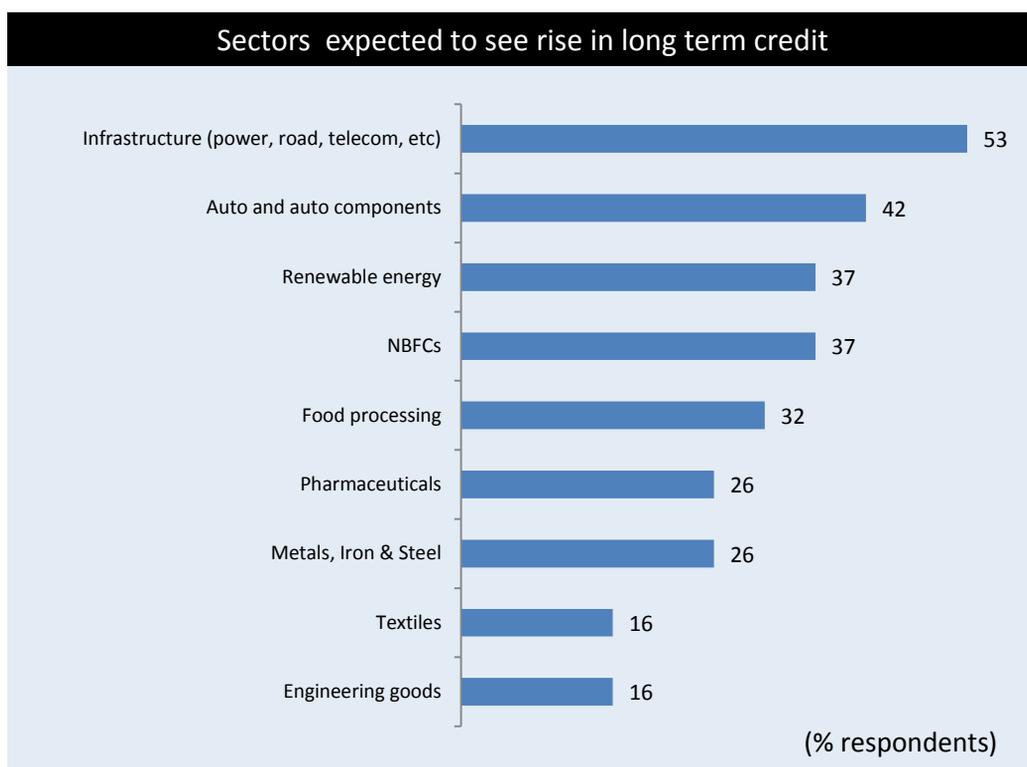
- From the banks citing infrastructure as the key sector with high levels of NPAs, 83% of respondents have reported an increase and 8% have cited a decrease. In the previous round, 77% respondents cited an increase and 9% cited a decrease.
- While the Metals, Iron and Steel sector is among the top sectors with high NPAs, 50% of respondents have in fact cited a fall in NPAs in this segment vis-à-vis the previous round, with 40% respondents stating a rise.
- In the Engineering Goods sector, 57% of respondents citing it as a sector with high NPAs have reported an increase in the NPAs, while the rest have reported a decrease.
- As compared to the last round, the textile sector has seen some improvement. 60% of respondents citing textiles as a key sector with high NPAs reported a decrease in the NPAs, whereas the remaining 40% cited an increase. In the previous round of survey, 90% of such respondents had reported a rise in textile NPAs.
- The Real Estate sector too saw a rise in NPAs as compared to the last round of the survey, as 67% of all respondents citing it as a key sector with high NPAs have reported an increase in NPA levels, while 17% reported a fall.

## Expectations and Outlook on Credit

The expected pattern of credit standards largely remains the same for next six months. For the period Jan-June 2018, 78% respondents expect credit standards for large enterprises to remain same. Likewise, 83% respondents expect credit standards for SMEs to remain the same. 17% respondents expect further tightening of credit standards for large enterprises and 11% respondents expect further easing of credit standards for SME units.

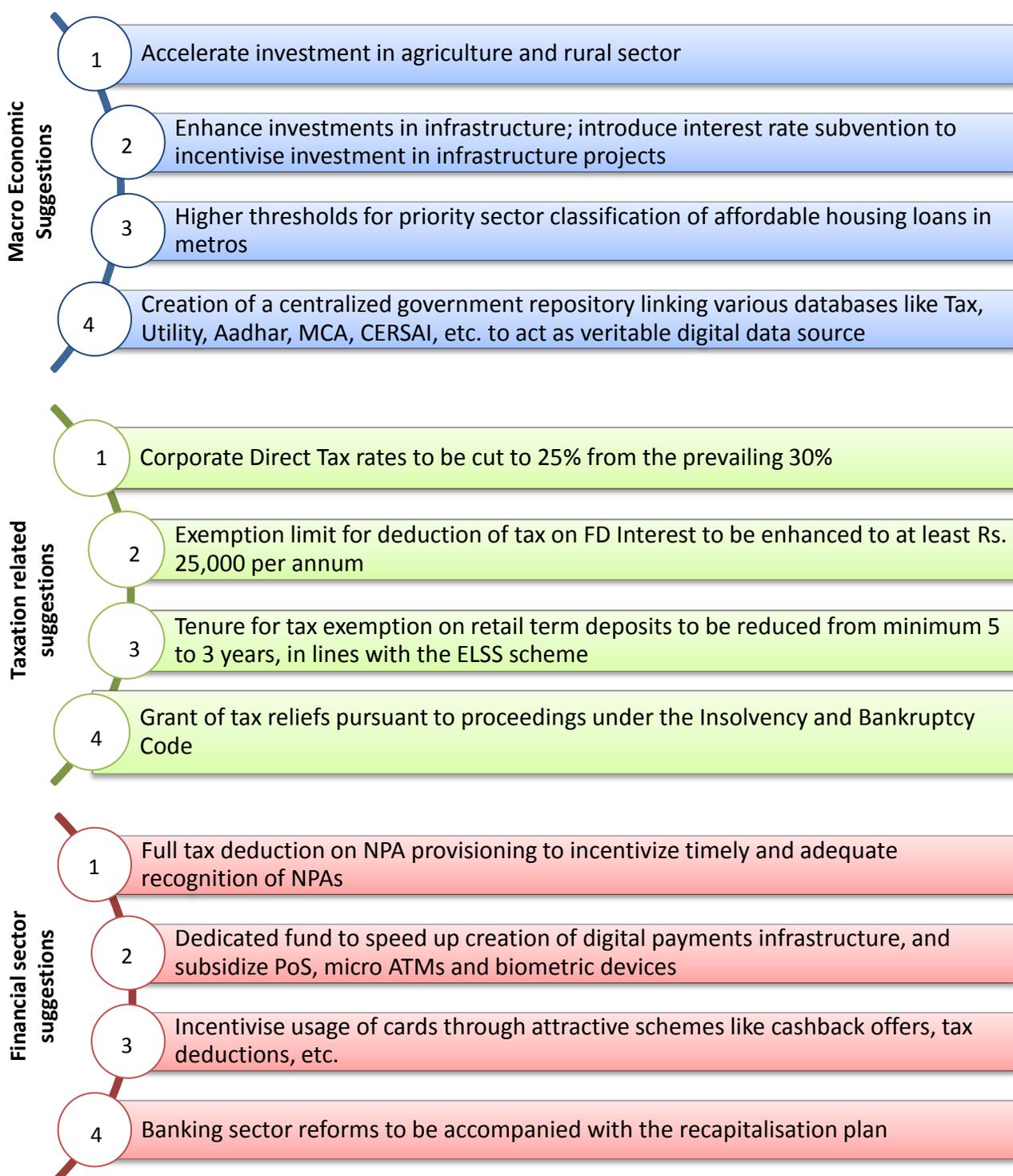


Like the last survey period, 53% respondents stated Infrastructure as an important sector for credit growth. Auto and Auto components was stated by 42% as the next best sector to see a rise in long term credit. This was followed by Renewable Energy and NBFCs (37% each) and Food Processing (32%).



## Expectations from the Union Budget 2018-19

Respondent banks presented their specific expectations from the upcoming Union Budget on various aspects like public spending, tax deductions, as well as highlighted specific demands for the banking sector.



## Views on the Recapitalization Plan for Public Sector Banks

Government's announcement of Rs. 2.11 trillion for the recapitalization of PSBs has received a positive response from the respondent bankers. There is a mixed response from the bankers as far as its adequacy is concerned. While some bankers believe that the amount of capital infusion is adequate, especially to comply with the Basel III requirements, other respondents consider it inadequate and believe that banks will have to raise additional funds via Qualified Institutional Placements (QIPs) and/ or by monetizing their non-core assets.

### Views on the PSB Recapitalization Plan

*Will shore up the capital of the banking sector and enable banks to lend to the real sector of the economy .*

*Will boost the capital position of the banks in line with the Basel III compliance requirements and IFRS*

*Will lower the drag on credit growth and will be supportive for the Rupee in the medium term*

*Credit growth likely to improve in the next 6 to 12 months following the recapitalization of banks*

### Suggestions

*Recapitalization should go hand in hand with banking sector reforms*

*Timely implementation and completion of the recap plan is critical; it will be more effective and boost credit growth if there are no delays*

*Bank recap needs to followed with a change in the processes/policies at the PSBs. The PSB management, corporate standards, risk management standards and risk appetite related policies should be improved substantially in order to avoid further erosion of capital.*

## Views on the Public Credit Registry (PCR)

The RBI has constituted a High-level task Force on a Public Credit Registry for India. All respondent banks are in agreement with the RBI's views that such a registry will enhance efficiency of the credit market, increase financial inclusion, improve ease of doing business and help control delinquencies, and they highlighted various benefits arising from the same.

### **Benefits of the Public Credit Registry**

*A PCR is the foundation stone for a transparent credit environment. It will provide well updated and authentic credit details of a borrower, helping to ensure credit security to all lending institutions*

*Will facilitate exchange of big data between all banks, FIs, NBFCs and other stakeholders*

*Will be effective for expanding credit coverage to customers who do not have a credit history*

*Will be useful for SMEs as borrowers with good credit history will be in a position to get loans at competitive rates*

*Will help in credit assessment and pricing by banks; it will encourage risk based, dynamic as well as countercyclical provisioning and supervision and early intervention by regulators*

## Improving the Doing Business Ranking

India's rank in getting bank credit in the Ease of Doing Business Survey is 29. The country significantly improved its ranking by 15 places from last year. Bankers were asked what new initiatives could be taken to improve this rank further in the future.

<b>Suggestions</b>	<i>Extensive re-engineering of government process, identification of user needs, streamlining of government approvals</i>
	<i>One window regulatory/statutory approvals for a fresh venture/ exposure</i>
	<i>Strengthening up of online loan applications platform and speedy credit underwriting process</i>
	<i>Channelization of credit to SMEs</i>
	<i>Introduction of Legal Entity Identifier (LEI) code to improve the quality and accuracy of financial data systems for better risk management</i>
	<i>Effective alternative dispute resolution mechanism</i>

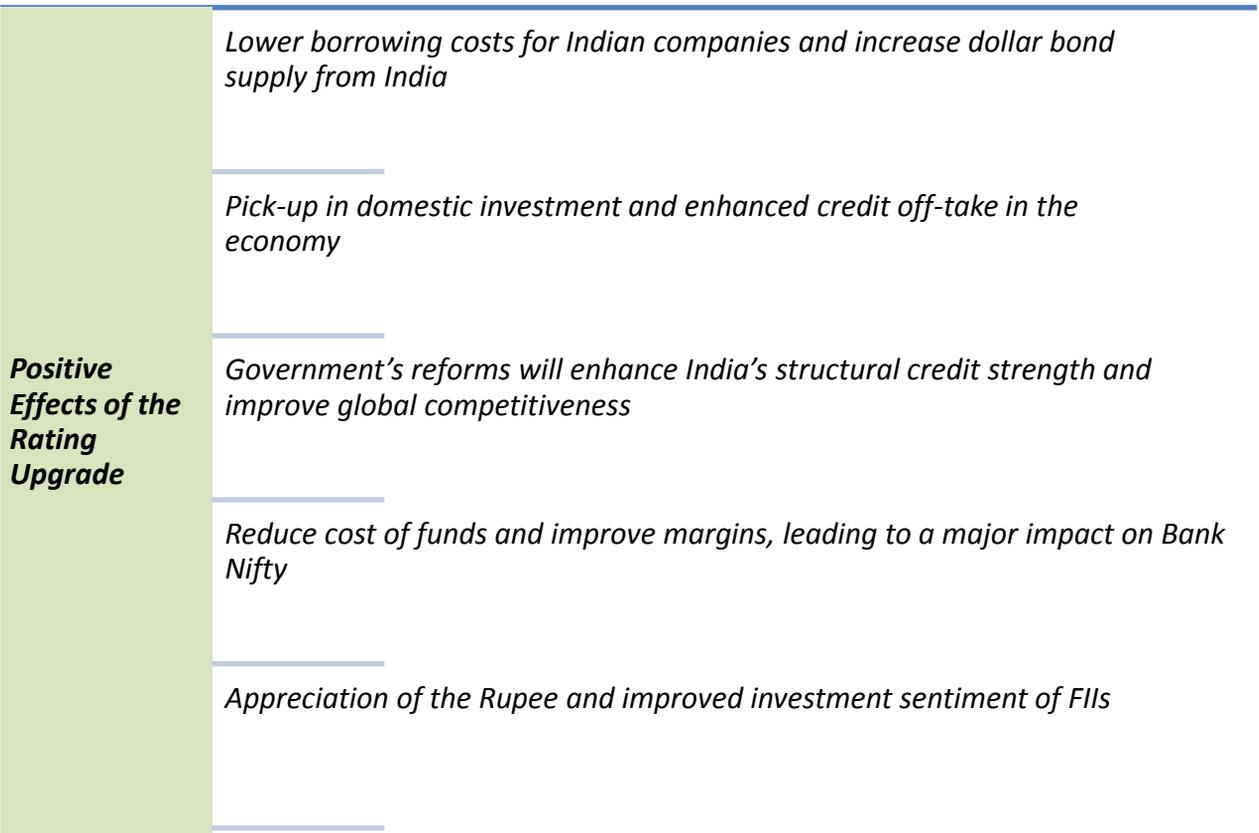
## Promotion of the Digitization Drive

Bankers were asked to share their experience on the progress made in digital transactions. They were also asked to suggest steps that could be taken both by the banks and government to further promote digital transactions in the country. Bankers have reported a rise in the electronic payments made via their platforms, and also shared various measures taken by them to smoothen the digital payments experience of the customers.

<b>Progress and Developments in Digital Transactions</b>	<i>Manifold increase in the volume of digital transactions across all modes, i.e. cards, UPI, and Aadhaar Pay; some of the banks have cited doubling and tripling of digital transactions over the last one year.</i>
	<i>Banks have partnered with fintech firms in areas of wealth management and e-commerce</i>
	<i>Government has provided incentives to both merchants and customers to encourage use of digital mode of payments</i>
	<i>Rise in the number of first time users of digital payment instruments</i>
<b>Suggestions to Promote Digital Transactions</b>	<i>Government must focus on data security infrastructure</i>
	<i>Widen digital payment platforms to all strata of the society</i>
	<i>Further incentivize merchants to accept digital payments via tax benefits or other such suitable mechanisms</i>
	<i>Greater interoperability between bank and non-bank Payment Service Providers</i>

## Views on Moody's Rating Upgrade

Bankers were asked their views on how the recent upgradation of India's sovereign rating by Moody's would affect the banking sector. The respondents emphasized that the rating upgrade will lower cost of funds both for banks as well as the industry and improve India's global competitiveness.



## Respondents Profile

Nineteen Banks responded to the survey, representing a mix of public sector, private sector and foreign banks. Various indicators in the survey reflect information for the period July to December 2017. Expectations are for the period January to June 2018.

