Indian Banks' Association

FICCI-IBA Survey of Bankers

Issue 2

July – December 2015

Survey Findings – Summary

FICCI-IBA Bankers survey conducted during January-February 2016 reveals insights on some of the key operational areas of banks in India for the period July-December 2015. Below are the key findings of this Survey, which saw participation by 17 banks including public, private and foreign banks.

- Majority of participating banks have not reported any change in credit standards during the period July-December 2015 vis-à-vis the previous six months. However, about 35% of respondents have tightened their credit standards for large enterprises due to rising NPAs and higher sector-specific risk. In case of SMEs, about 23% of respondents have eased their credit standards citing thrust laid by the government as one of the key reasons.

- All participating banks have lowered their base rate following the policy rate reduction by RBI, but transmission has varied. While majority (41%) of the respondent banks have reduced base rate by 20-30 bps, only 24% have reduced base rate by more than 40 bps over the July-December 2015 period.

- All participating banks have also reduced interest rates on term deposits. In case of short duration term deposits of less than one year, 53% of respondent banks have reduced rates by more than 50 bps, while in case of long duration term deposits of one year and above, 35% of respondent banks have reported reduction of more than 50 bps.

- A large majority (76%) of the respondent banks in the survey have reported a moderate rise in Current and Savings Account (CASA) deposits during the period July-December 2015, on the back of greater emphasis laid on low-interest / retail deposits.

- During the period July-December 2015, the participating banks have on an average utilised 68% of their funds for loans and advances, while 32% have been used for investments.

- Continued thrust laid on infrastructure sector by the government is reflected in rising demand from the sector. A majority 65% of respondents reported high demand for long-term credit from infrastructure sector during July-December 2015. In the previous round of survey too, majority (76%) banks had reported high demand from this sector. Given the rising demand for infra-financing, one of the key suggestion of Banks for the Union Budget is to allow banks to issue off-shore rupee bonds to finance infrastructure.

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Survey Findings – Summary

- There has been a rise in NPAs and stressed assets during the period July to December 2015. The proportion of respondent banks reporting rise in the level of their NPAs is higher at 76% in this round of survey as against 63% in the previous round. A majority 53% of the respondent banks have also indicated that there has been a rise in the number of cases requesting for restructuring of advances. As per the survey, the key sectors that have seen a surge in NPA levels in the second half of 2015 include infrastructure, metals, textiles, and chemicals, amongst others.

- Given the severity of NPA problem, majority of the participating banks expect the Union Budget to introduce specific measures for its resolution. Some of the suggestions offered include:
    - Establishing a National Asset Management Company (NAMCO) or a Bad Bank which can take over stressed loans from the Banks and either sell them off or revive them
    - Additional budgetary allocation for capitalisation of Public Sector Banks over and above the original commitments
    - Revamping Debt Recovery Tribunals (DRTs)
    - Setting of a fund to aid the revival of stalled Infrastructure projects, Power Discom projects

- Other key budget expectations of Banking sector identified in this survey include:
    - Ceiling for TDS on interest on Deposits to be increased to Rs.50,000 from the current Rs 10,000
    - Tax rebate limit u/s 80C to be increased to Rs 2.5 lakhs
    - Reintroduction of Tax exemptions for Infra Bonds over and above rebate u/s 80C
    - Rationalise the interest rate of small savings schemes

- Surveyed banks were asked for their views on the new lending rates based on Marginal Cost of Funds that will be applicable from April 1, 2016. A large majority of participating banks indicated that the Marginal Cost of Lending Rate (MCLR) regime will lead to effective transmission of monetary policy into the lending rates.

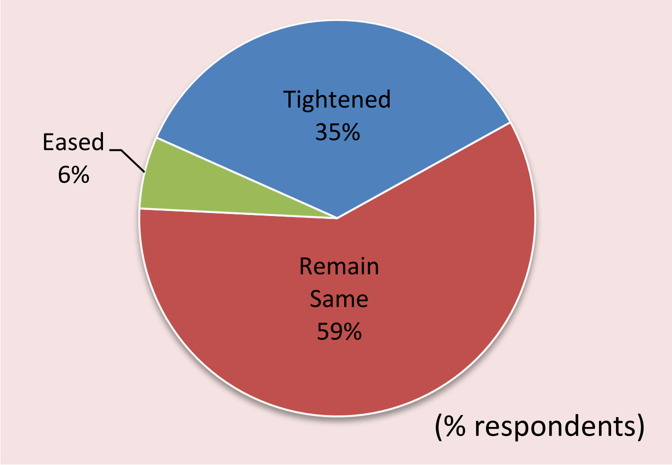
- Banks were also asked for their views on impact of competition with the entry of Payment and Small Banks. Majority of participating banks mentioned that it will intensify competition in the banking sector, especially for savings and current deposits.

Change in Credit Standards

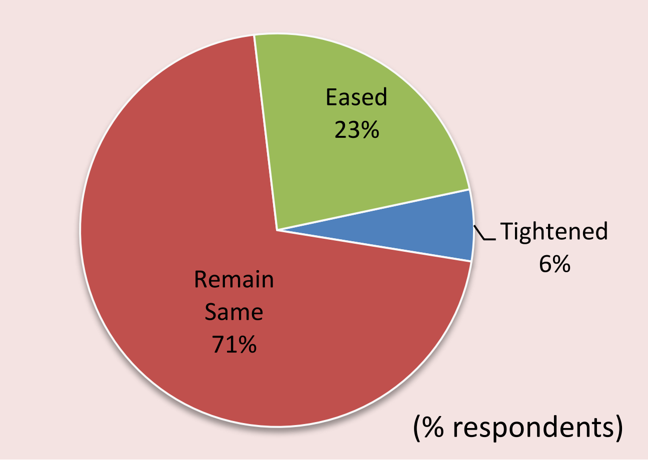
As per the survey findings, a majority 59% of the respondents reported no change in credit standards for large enterprises during July to December 2015 period. This is a tad lower than the previous round of survey, when 67% of respondent indicated no change in credit standards for large enterprises. However, 35% of the respondents in the latest round of survey have reportedly tightened their credit standards for large enterprises vis-à-vis 33% in the previous round .

For SMEs too, majority (71%) respondents continue to follow the same credit standards in second half of 2015 as before, however 23% of respondents have eased the credit standards for SMEs. In the previous round of survey (Jan-Jun 2015), 36% of the respondent banks had eased their credit standards for SMEs.

Credit standards for large enterprises



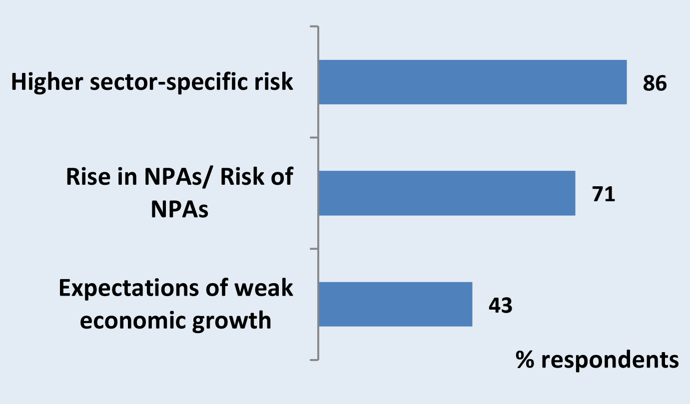
Credit standards for SMEs



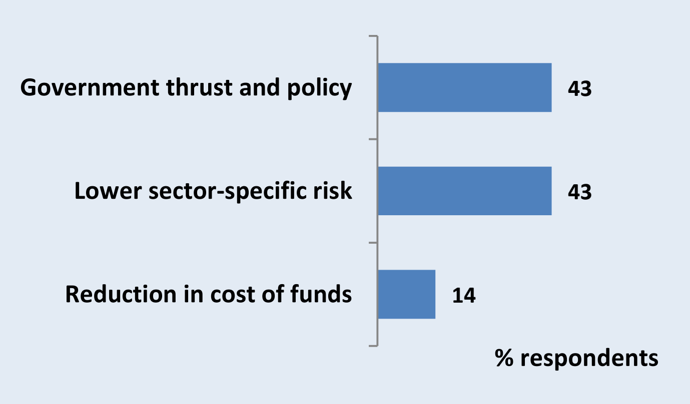
The key reasons for tightening of credit standards for the large enterprises include higher sector-specific risk (reported by 86% of respondents), and the rise in the level of NPAs (reported by 71 % of respondent banks).

On the other hand, banks that have eased credit standards for SMEs reported lower sector-specific risk and policy thrust laid by the government as the major reasons.

Factors behind tightening of credit standards for large enterprises

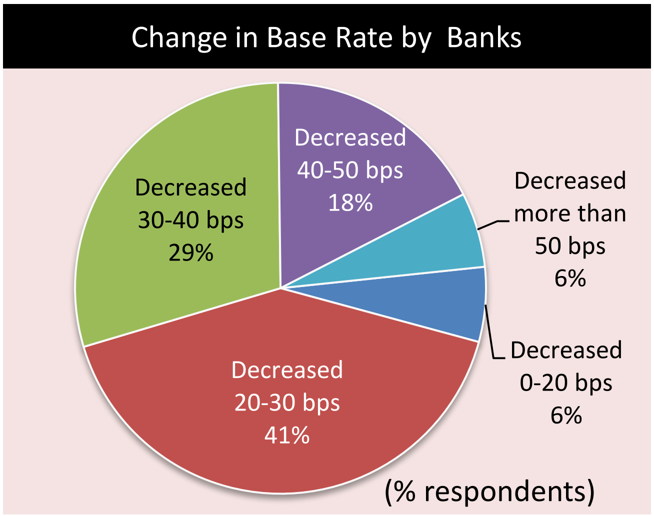


Factors behind easing of credit standards for SMEs



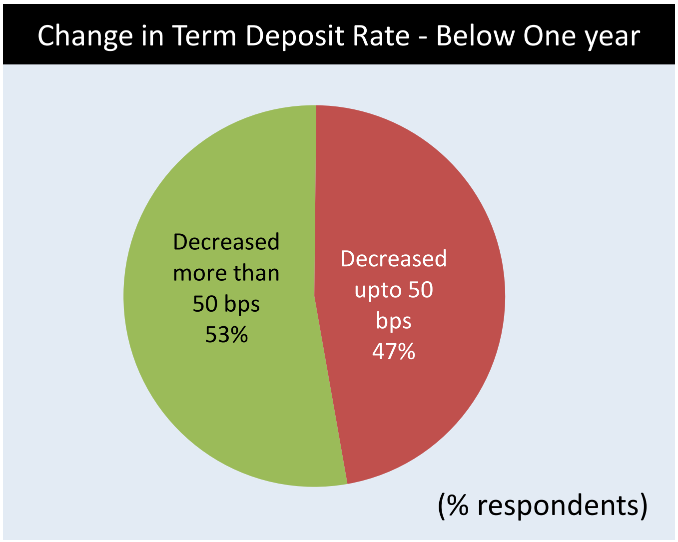
Movement in interest rates

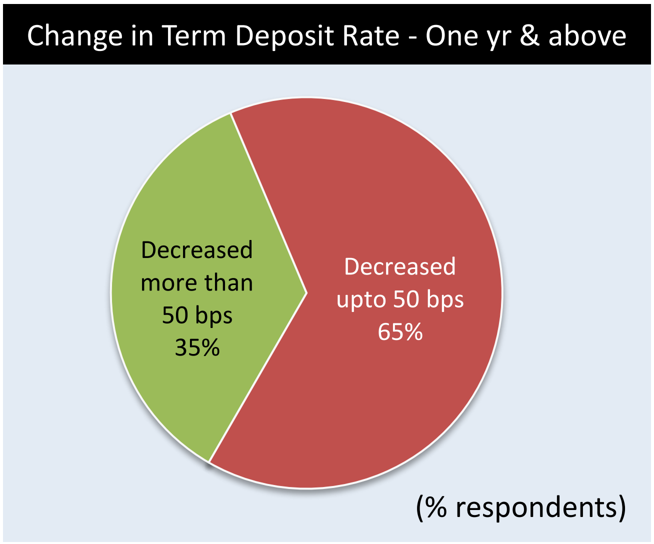
All participating banks in the latest round of survey have reported a decrease in base rate during July-December 2015 period as against 83% of participating banks that reported so in the previous round of survey. While a majority 41% of respondent banks reduced the base rate by 20-30 bps, another 29% reduced the base rate by 30-40 bps and about 24% of respondent banks have decreased their base rate by more than 40 bps.



All participating banks in the latest survey have also reported reduction in the rate of term deposits. A majority 53% of respondent banks have reduced rates by more than 50 bps on term deposits below one year, and remaining 47% have reduced rates upto 50 bps. In the previous round of survey, only 24% of the participating banks had reduced rates on such term deposits by more than 50 bps.

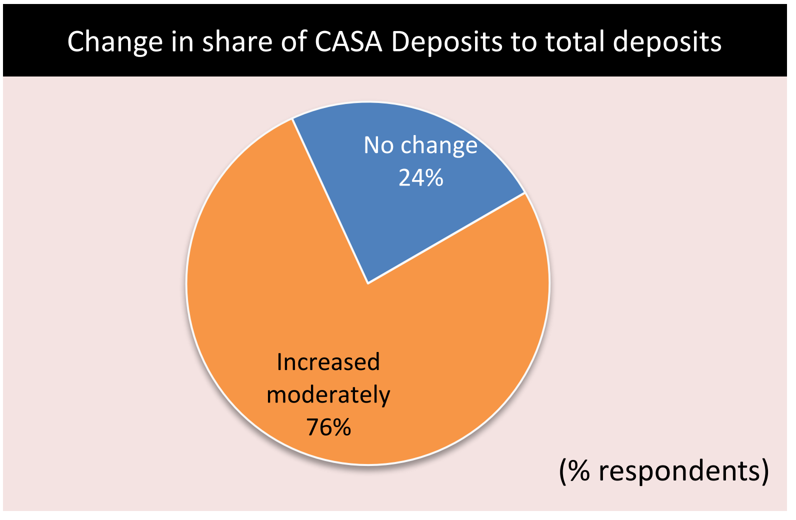
For long duration Term Deposits (one year and above), 65% of the respondent banks have reduced the rates by less than 50 bps, while 35% of respondent banks have lowered rates by more than 50 basis points.





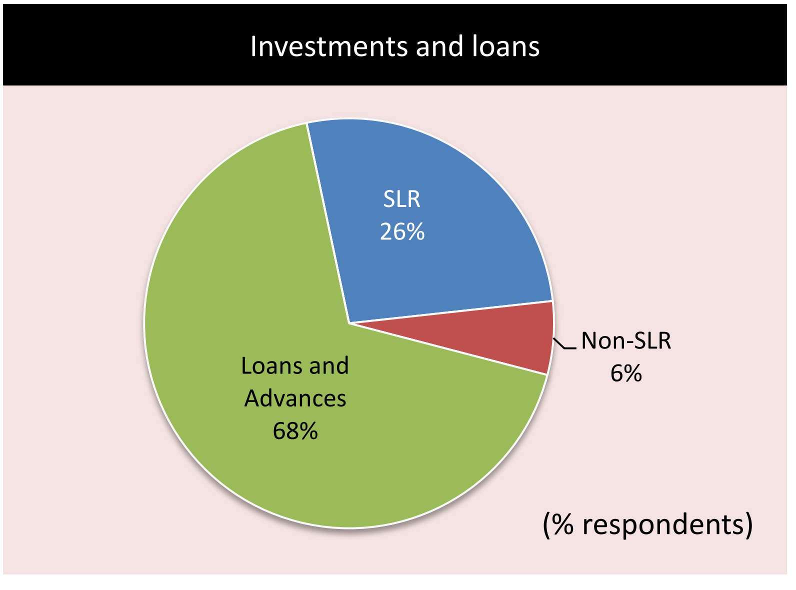
Changes in Current Account and Savings Account Deposits

Similar to the previous round of survey, the latest survey shows that 76% of the participating banks have witnessed a moderate increase in the share of current account and savings account (CASA) deposits to total deposits over the period July - December 2015. An increase in retail deposits and greater focus on low-interest deposits have been cited as reasons for the rise in share of CASA deposits to total deposits.



Composition of Investments and Loans

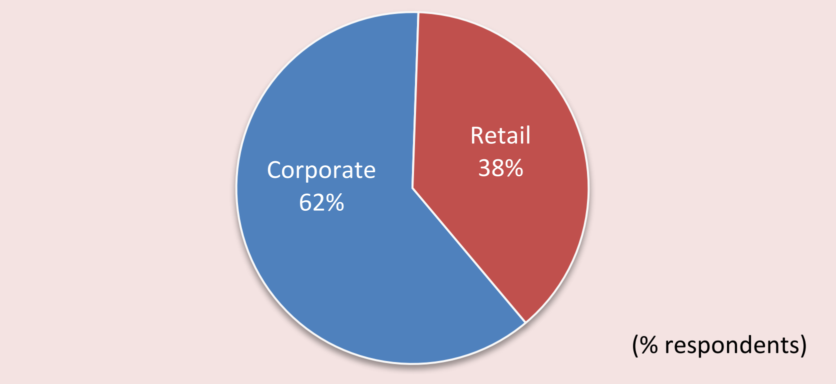
During the period July – December 2015, participating banks have utilised on an average 68% of their funds towards loans and advances, and 32% towards investments, of which SLR investments are reported at 26% and non-SLR at 6%. However, SLR investments for participating foreign banks averaged 43% while that of Indian banks (public + private) averaged around 25%.



Composition of loans and advances

During the period July-December 2015, the corporate loans comprised 62% of total loans and advances of the participating banks vis-à-vis 38% of retail loans.

Composition of loans and advances during Jul-Dec 2015



With respect to long term credit, 65% of the respondent banks have reported high demand from infrastructure sector during the period July-December 2015 vis-à-vis 76% of respondent banks that reported so in the previous round of the survey.

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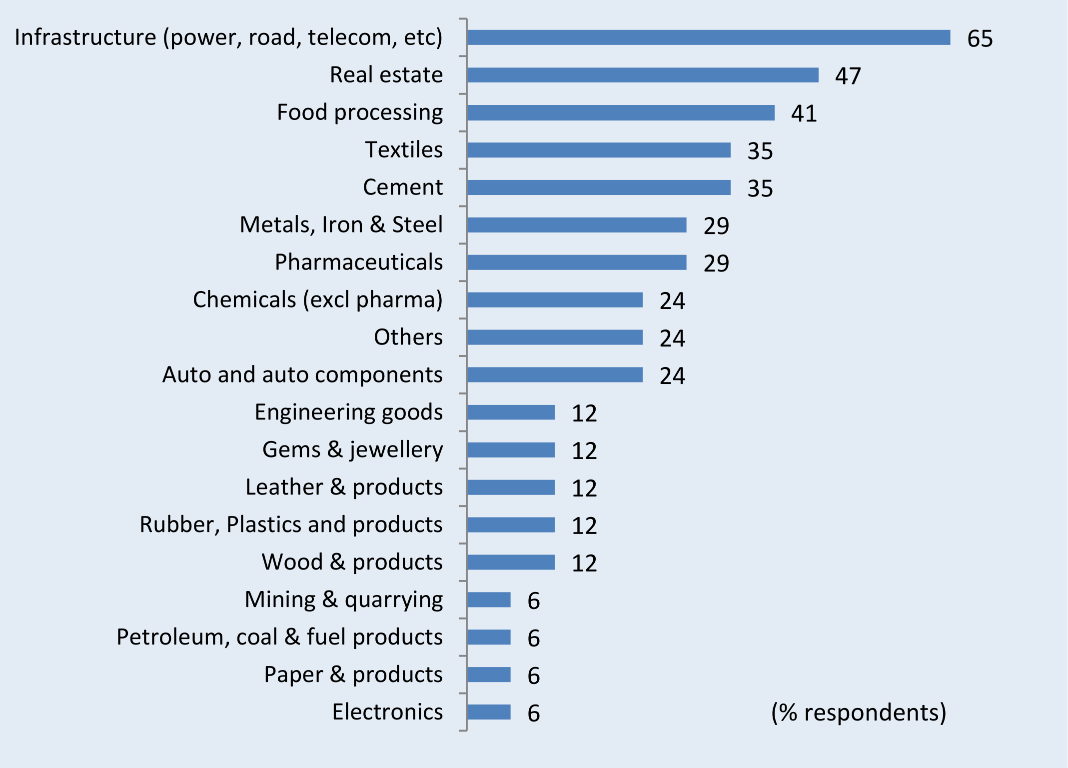
The other key sectors which have seen a rise in long term credit of participating banks during July-December 2015 period include Real estate, Food processing, Textiles and Cement Sectors.

Sectors witnessing increase in long term loans

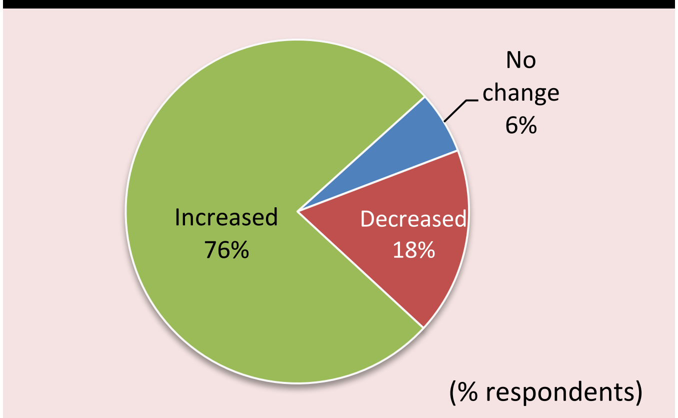


State of NPAs and Stressed Assets

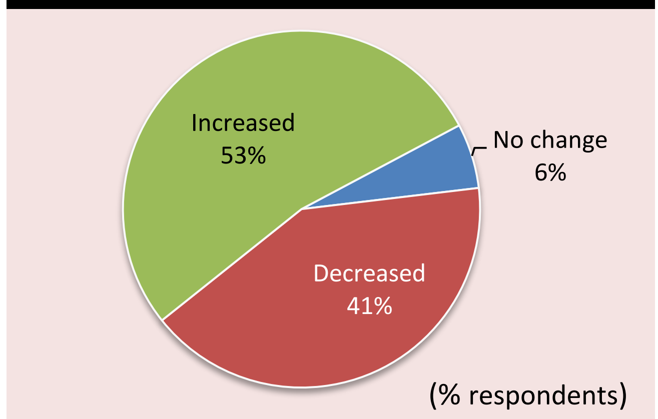
As per this round of survey, 76% of participating banks have reported a rise in the level of NPAs during the period July-December 2015. Amongst the participating public sector banks, almost 85% reported an increase in NPAs. In the previous round of survey, 61% of respondent banks had witnessed a rise in NPA levels.

A majority 53% of the respondent banks in this survey also reported a rise in the number of cases requesting for restructuring of advances vis-à-vis 45% reporting so in the previous round of the survey.

Change in the level of NPAs



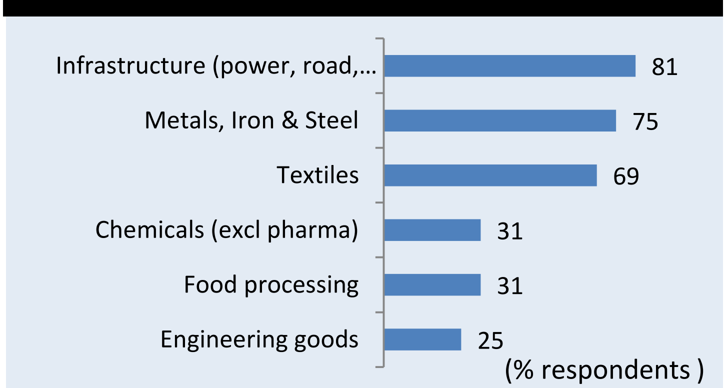
Requests for restructuring of advances



Similar to the previous round of survey, the latest survey shows that the major sectors that account for largest NPAs amongst the participating banks include infrastructure, metals, textiles, chemicals, food processing and engineering goods. 81% of the respondents indicated infrastructure as one of the sectors with largest levels of NPAs in their banks, followed by metals, Iron & steel sector reported by 75% of respondent banks and textiles sector, as identified by 69% of respondent banks.

Amongst the sectors with high NPAs, participating banks have witnessed an increase in NPAs in sectors like infrastructure, metals, textiles, chemicals, food processing, engineering goods, petroleum products, paper products and auto components.

Key sectors with high levels of NPAs

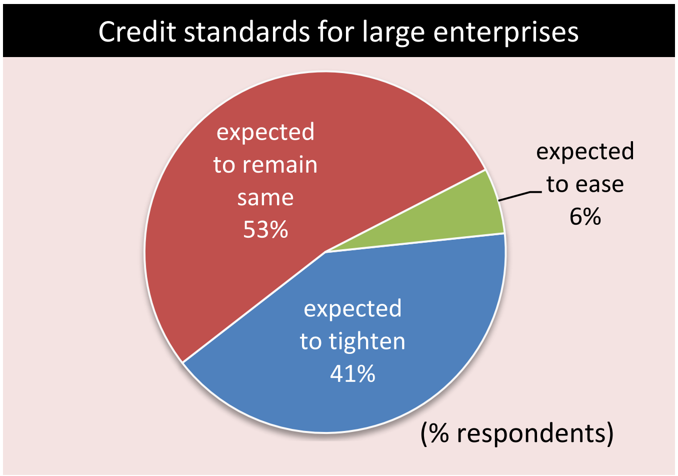


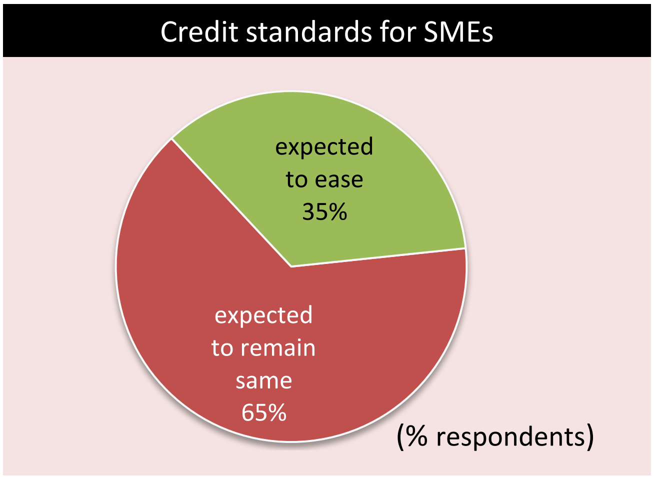
Sectors seeing rise in NPAs

Infrastructure (power, road, telecom, etc)	Engineering goods
Metals, Iron & Steel	Petroleum, coal & fuel products
Textiles	Paper & products
Chemicals (excl pharma)	Auto and auto components
Food processing	

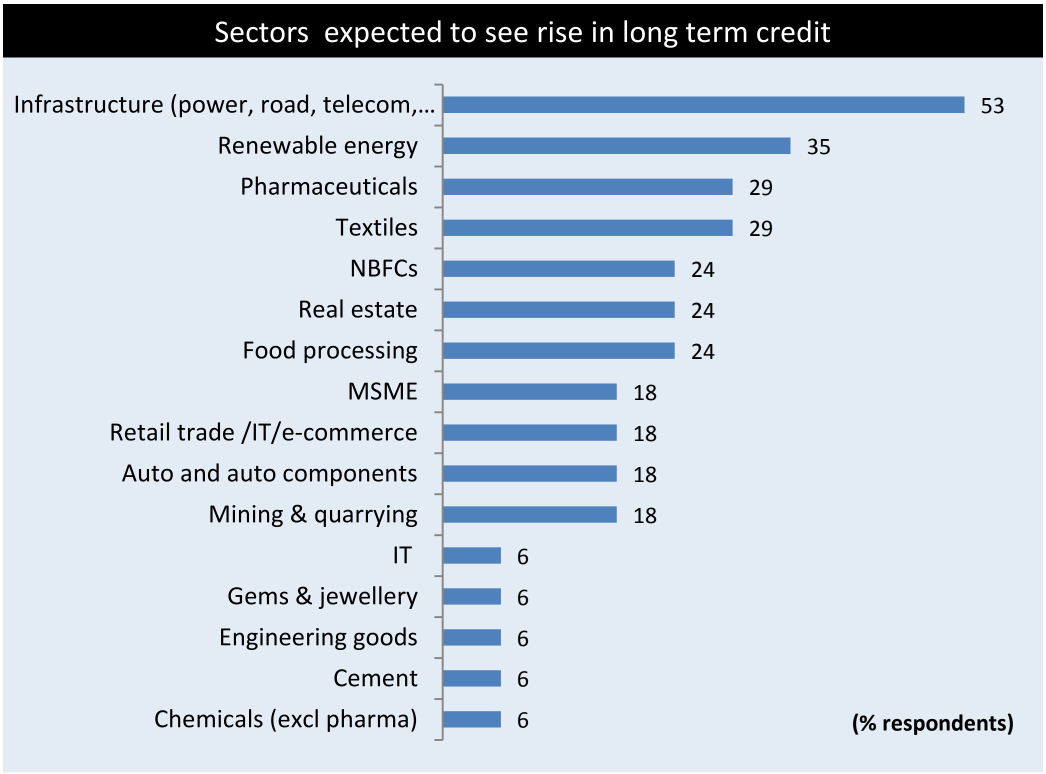
Expectations and Outlook

Majority of the respondent banks expect their credit standards to remain same for the period January to June 2016. However, 41% of the respondent banks have indicated tightening of credit standards for large enterprises going forward. With respect to expected credit standards for SMEs, 35% of the respondent banks have indicated likelihood of easing.





The key sectors identified by the participating banks to see greater demand for long term credit in the first half of 2016 include infrastructure (cited by 53% respondents) and renewable energy (cited by 35% respondents). Other sectors expected to see higher demand for long term credit as per survey findings include pharmaceuticals, textiles, real estate and food processing.



Key Budget Expectations

Majority of participating banks expect greater budgetary allocation for recapitalisation and specific measures to address issue of stressed assets	Additional budgetary allocation for capitalisation of Public Sector Banks over and above the original commitments
	Introduce measures to resolve issue of stressed assets; suggestions include establishing Bad Bank, revamping of DRTs, and a fund to revive stalled Infrastructure projects, Power Discom projects
	Increase in deduction limit u/s 80C from current Rs 1.5 lakhs to Rs 2.5 lakhs; re-introduce tax exemptions for infra bonds over and above rebate u/s 80C
	Enhance the ceiling for TDS on interest on deposits to Rs 50,000 from Rs 10,000 currently
	Allow banks to issue off-shore rupee bonds to finance infrastructure
	Rationalise the interest rate of small savings schemes

Views on New Lending Rate based on Marginal Cost of Funds

A large majority of participating banks believe that the Marginal Cost of Lending Rate (MCLR) regime will lead to effective monetary policy transmission to lending rates	The new guidelines issued on ascertaining interest rate on advances based on MCLR will lead to effective transmission of monetary policy changes to the lending rates
	MCLR regime will make the rates of Banks competitive, as there will be greater standardisation
	There were mixed views with respect to impact of MCLR regime on the Net Interest Margins (NIM). - Around 40% of respondent banks indicated marginal or no significant impact of MCLR on the NIM as banks are likely to price the new loans considering various aspects of costs. - Another 40% respondent banks indicated that NIM may come under stress in the near term. Banks' main concern in computing base rate using marginal cost of funds is that it does not reflect their actual cost of funds and may hit their margins, especially during downward interest rate scenario.

Views on likely Competition from Payment and Small Banks

Majority of participating banks believe that entry of Payments and Small Banks will intensify competition	The entry of differentiated banks will further the financial inclusion objective and also bring efficiency into the sector.
	About 70% of participating banks believe that the competition in banking sector will intensify with the entry of Payments and Small Banks, especially for savings and current deposits.
	Other participating banks indicated that they do not foresee any competition from Payment and Small Banks as they operate in different target market. Some respondent banks also mentioned that while Payment banks will complement the traditional banking sector during the initial period, but competition could intensify over the long term.

Respondents Profile

Seventeen 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 2015. Expectations are for the period January to June 2016.