FICCI

Indian Banks' Association

FICCI-IBA SURVEY OF BANKERS

Issue 11

January – June 2020

Survey Findings – Summary

The eleventh round of the FICCI-IBA survey was carried out for the period January to June 2020. A total of 20 banks including public sector, private sector and foreign banks participated in the survey. These banks together represent about 45% of the banking industry, as classified by asset size.

The first quarter of FY21 has been adversely affected by the covid-19 pandemic as national and state-level lockdowns led to significant decline in economic activities. The disruption caused by covid-19 has also affected the financial health of the economy. The credit off-take during the first half of the year has slowed down as investments as well as consumption remained weak. 53% of the respondent banks in the current round of survey regarded lockdown and supply chain disruptions as the top-most reason for muted growth in bank credit. 47% of respondent bank attributed low credit growth to the uncertainty related to covid-19 containment. Other reasons that were identified as topmost factor for low credit growth in the survey were low economic growth and weak demand. Additionally, the ratio of corporate loans to retail/MSME loans in first half of 2020 has also come down to 49:51 from 58:42 in previous round (H22019). The national and state level lockdowns imposed for nearly three months have led to sharper decline in credit growth to industry vis-à-vis the retail sector, as also indicated by the RBI's data on non-food credit growth by sector.

A large number of bankers participating in the survey have also reported tightening of credit standards. 68% of respondent banks reported tightening of credit standards for large enterprises as against 41% in the last round, and around 44% of respondents reported tightening of credit standards for SMEs as against 11% in the previous round. There has been high level of economic uncertainty due to covid-19 crisis and this seems to have led to overall tightening of credit standards. However, Government's Emergency Credit Line Guarantee Scheme has helped banks to disburse loans to these segment.

Credit increase has been seen largely in sectors with essential items and in infrastructure led investments. Going forward too, long term credit is expected to increase in sectors like pharmaceuticals, FMCG and food processing. 61% respondents believe pharmaceuticals sector to see a significant rise in long term credit going forward.

The government has been responsive towards addressing the economic challenges related to covid-19 crisis. The government has introduced "Atmanirbhar Bharat economic package" as well as relaxed various regulatory restrictions, including permission to banks to offer moratorium on existing loans. The current round of survey shows that a large majority of banks have provided moratorium to a significant number of loans till May 2020. In the phase 1 of moratorium application from March to May 2020, the survey findings show that in case of retail loans, 88% of the respondents have provided moratorium to more than 30% of their outstanding loans under this category. For MSMEs, 65% of the respondents indicated that they have offered moratorium to more than 45% of total loans in this category. In case of Medium corporates, almost 65% of respondent banks have given moratorium to more than 25% of total loans in this category. For large corporates, about three-fourth of respondent banks have given moratorium to more than 10% of such loans.

To help revive investments and support growth, the RBI too has adopted an accommodative stance by reducing policy rates by 115 basis points in the first half of 2020. Consequently, there has been a significant reduction in MCLR of banks. Amongst the banks participating in the current round of the survey, more than 95% have reported a decrease in their MCLR, with more than 65% reporting a decline of more than 40% in their MCLR during this period. The bank-wise analysis too reveals that the decline in MCLR has been universal, with all Private and Public Sector Banks reporting a decline in their MCLR during the first half of this year.

Survey Findings – Summary

For term deposits too, a large majority of respondents have reported a decrease in interest rates. For short term deposits (below one year), 95% of the respondents indicated a decrease in rates, with three fourth reporting a reduction by more than 50 bps. For long term deposits, all responding banks have reported a decrease in interest rates, with almost three-fourth of them reporting a reduction of more than 50 bps. With steep reduction in cost of funds, banks were in a position to reduce the lending rates.

There has been an uptick in CASA deposits as reported by the respondent bankers. Almost three-fourth of respondents have reported an increase in CASA deposits in the first half of this year, though 65% have reported only a moderate rise. The reasons cited for such rise include a continued decline in interest rates on term deposits, as well as efforts of several banks to lure more customers to open savings account. Moreover, the covid-19 induced lockdown has led to greater need for liquidity and reduced level of investments, thereby leading to increased share of CASA deposits in total deposits.

On the NPA front, respondent bankers have reported a slight improvement in NPA trends over the last six months. About 80% of participating Public sector banks have cited a reduction in NPA levels and remaining 20% have cited an increase. In case of participating Private sector banks, 33% have cited a decrease, 44% have indicated a rise and 22% have reported no change in NPA levels over the last six months.

Amongst the sectors that continue to show high level of NPAs, a significant ratio of participating bankers have reported a decline in NPA levels for sectors like Infrastructure, Engineering goods, Iron & Steel, Textiles and Food Processing. However, the outlook towards NPAs in the remaining part of fiscal year remains gloomy. Almost half of total respondent banks believe that NPAs by the end of FY20-21 could rise to 12-13% (as against 9.6% as of September 2019). With tourism and travel sector being the worst hit sectors, almost all respondent banks believe that NPAs in tourism sector will increase substantially and 84% of respondents expect NPAs in Aviation to increase substantially. Other sectors where bankers have highlighted increase in NPA risk include Restaurants, MSMEs, Textiles, Gems & Jewellery, Automobile, Infrastructure, Retail Trade, Steel, Power and Cement. RBI in its latest Financial Stability report mentioned that macro stress tests for credit risk indicate that the GNPA ratio of all SCBs may increase from 8.5 per cent in March 2020 to 12.5 per cent by March 2021 under the baseline scenario; the ratio may escalate to 14.7 per cent under a very severely stressed scenario.

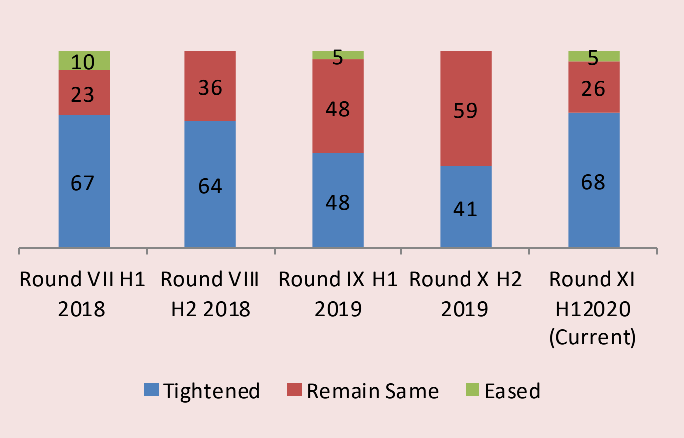
Participating bankers in the survey were asked to share their views on the idea of setting up of a Bad Bank. A large majority of the respondent bankers agree that creating a bad bank is the need of the hour. However, 89% of the respondents are of the opinion that existing recovery mechanism should be strengthened first. A large majority (59%) also believe that such Bad Bank will take time to operate. As regards the effectiveness of IBC as a resolution mechanism, nearly half of the respondent bankers considered it to be a good mechanism.

While welcoming the Atmanirbhar Bharat Economic package introduced by the government to help revive economy, the bankers participating in the survey suggested additional measures that are needed to aid faster recovery. A large number of banks have recommended demand boosting measures such as higher Direct Benefits Transfer, higher allocation to MGNREGA, targeted tax breaks and subsidy and other support measures to hard-hit sectors such as exports, tourism, restaurants, aviation, etc. Bankers also suggested stepping up expenditure on infrastructure and to bring down GST rates, especially for higher value goods. Amongst the banking related measures, the surveyed respondents had asked for recapitalisation of banks and to allow one-time restructuring scheme for loans to industry with necessary safeguards. Recently, RBI in its second bi-monthly monetary meeting, extended the provision of one-time restructuring for MSMEs.

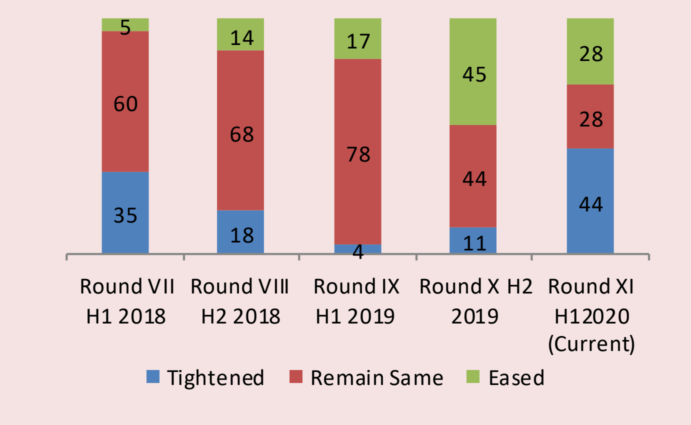
Change in Credit Standards

In the current round of survey, a large majority i.e. 68% of respondent banks reported tightening of credit standards for large enterprises as against 41% in the last round. Only 26% of the respondents reported the credit standards having remained same as against 59% of the banks reporting the same in the last round. For SMEs too, a significant number of participating bankers have reported tightening of credit standards. Around 44% of respondents reported tightening of credit standards for SMEs as against 11% in the previous round. The respondents reporting easing of credit standards for SMEs has also come down in the current round to 28% as against 45% in the previous round. Our previous round of survey had presented an optimistic outlook, when majority of respondents expected that credit standards would ease in the first half of 2020. However, there has been high level of economic uncertainty due to covid -19 crisis and this seems to have led to overall tightening of credit standards. Nevertheless, Government's Emergency Credit Line Guarantee Scheme has helped banks to disburse loans to these segment.

Credit standards for large enterprises (% respondents)

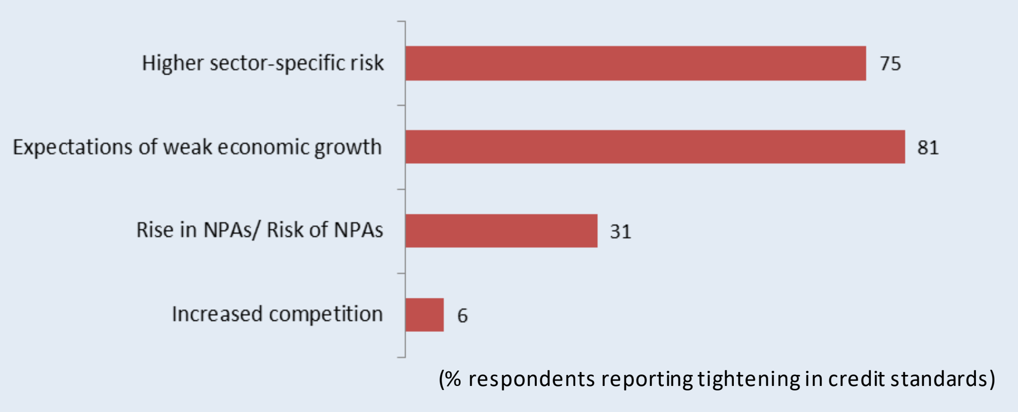


Credit standards for SMEs (% respondents)



Out of the respondents reporting a tightening in credit standards, 81% cited expectations of weak economic growth and 75% cited higher sector-specific risk, which is significantly higher than that reported as the key reasons in the previous round. On the other hand, 31% of such respondents have cited a risk of high NPAs as the key risk, which is lower than that reported in previous round (by 89% respondents).

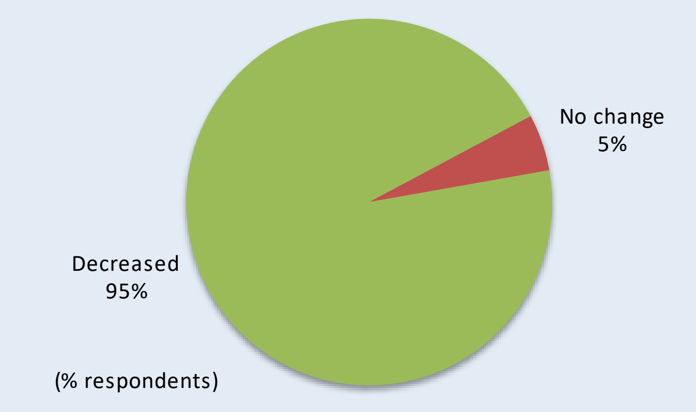
Factors behind tightening of credit standards



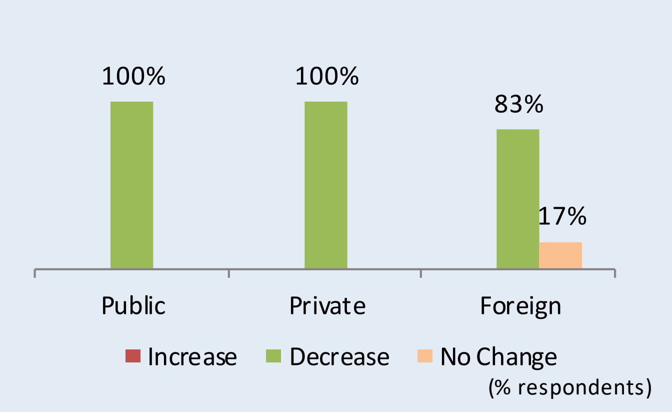
Movement in Marginal Cost of Lending Rates (MCLR)

The first half of 2020 has been devastating on the economic growth, resulting from an unprecedented halt in economic activities as a fallout of the covid-19 crisis. To help revive investments and support growth, the RBI has adopted an accommodative stance by reducing policy rates by 115 percentage points in the first half of 2020. Consequently, there has been a significant reduction in MCLR of banks. Amongst the banks participating in the current round of the survey, more than 95% have reported a decrease in their MCLR, with more than 65% reporting a decline of more than 40% in their MCLR during this period. The bank-wise analysis too reveals that the decline in MCLR has been universal, with all Private, Public sector and majority of foreign banks reporting a decline in their MCLR during the first half of this year.

Overall Change in MCLR

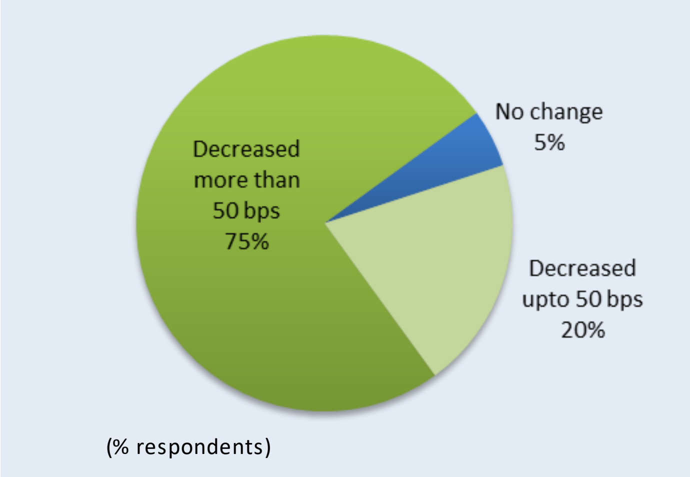


Bank Wise Change in MCLR

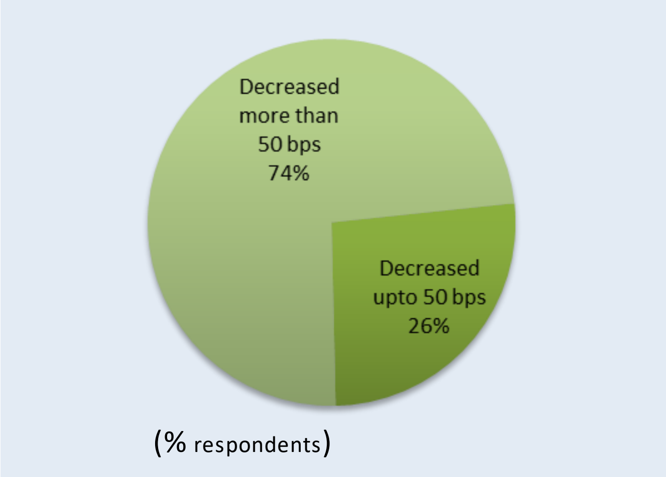


For term deposits too, a large majority of respondents have reported a decrease in interest rates. For short term deposits (below one year), 95% of the respondents indicated a decrease in rates, with three fourth reporting a reduction by more than 50 bps. For long term deposits, all responding banks have reported a decrease in interest rates, with almost three-fourth of them reporting a reduction of more than 50 bps.

Change in Term Deposit Rate - Below One year

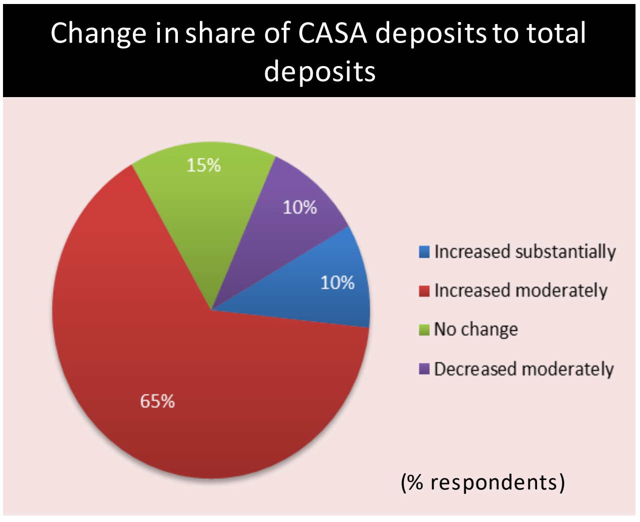


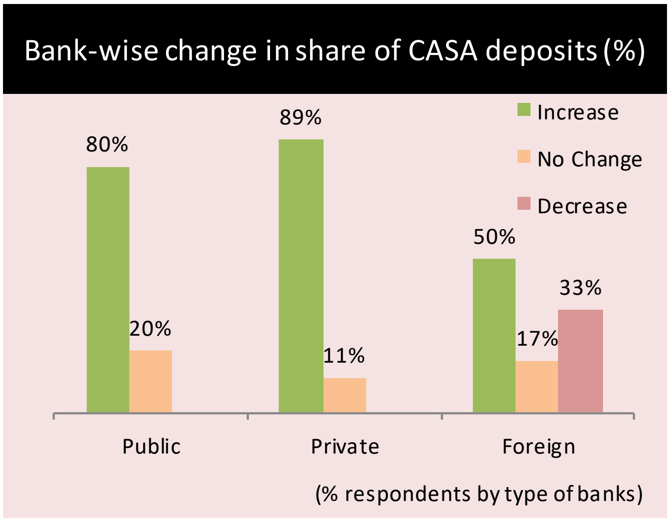
Change in Term Deposit Rate - One Year & above



Changes in Current Account and Savings Account Deposits

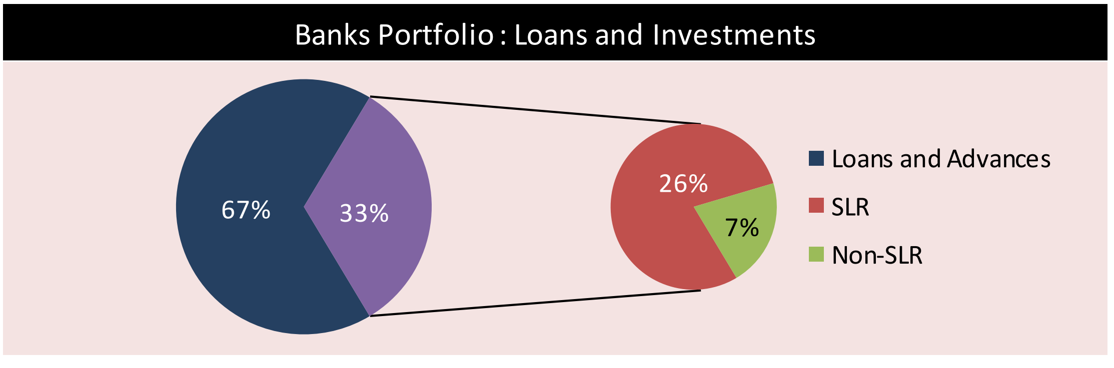
An uptick in CASA deposits has been reported by a majority of respondent banks in the current round of survey, similar to that reported in the previous round. Almost three-fourth of respondents have reported an increase in CASA deposits in the first half of this year, though 65% have reported only a moderate rise. The reasons cited for such rise include a continued decline in interest rates on term deposits, as well as efforts of several banks to lure more customers to open savings account. Moreover, the covid-19 induced lockdown has led to greater need for liquidity and reduced level of investments, thereby leading to increased share of CASA deposits in total deposits.
Bank wise analysis reveals that there has been a rise in CASA deposits across all types of banks, with 80% of PSB respondents, 89% of Private sector respondents and 50% of foreign bank respondents reporting so.





Composition of Funds Portfolio

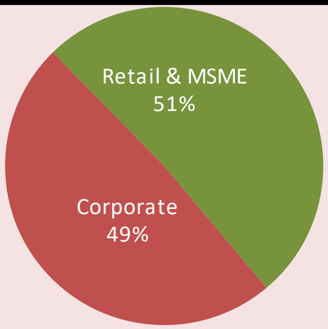
As regards the composition of the respondent banks' portfolio, an average of 67% of investments comprise Loans and advances and rest in the form of SLR/ Non-SLR securities. On an average 26% of investments have been made in SLR funds, while 7% in non-SLR funds during the first half of 2020.



Composition of loans and advances

In the current round of the survey, the ratio of corporate loans and retail/ MSME loans during first half of 2020 stood at 49:51 as against 58:42 in the immediately preceding survey period (H2 2019). The national and state level lockdowns imposed for nearly three months has led to sharper decline in credit growth to industry vis-à-vis the retail sector, as also indicated by the RBI's data on non-food credit growth by sector.

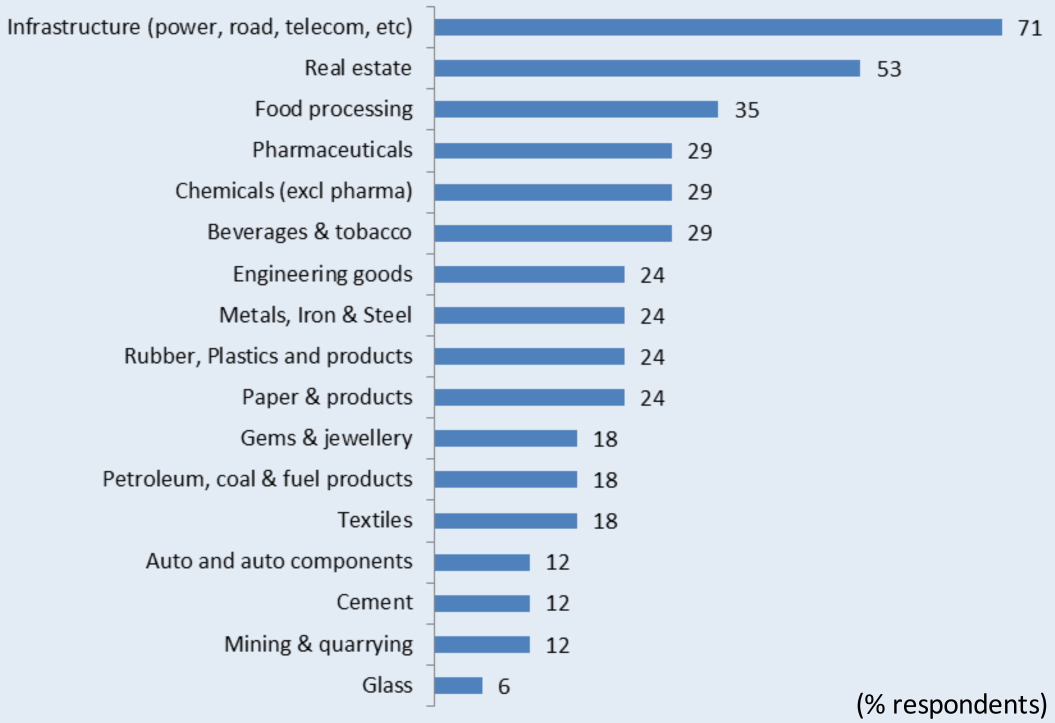
Composition of loans and advances



(% respondents)

The covid-19 crisis has led to decline in credit growth across many sectors since the introduction of lockdown. Nevertheless, the current round of survey reveals that there has been increase in long term credit demand for some sectors like Infrastructure, Real estate, Food processing, Pharmaceuticals, Chemicals, Beverages witnessed a rise in long term credit during the first half of 2020 according to the survey respondents. In general, there has been an increase in lending to the essential sectors since the on-set of covid-19 related national and state-level lockdowns.

Sectors witnessing increase in long term loans



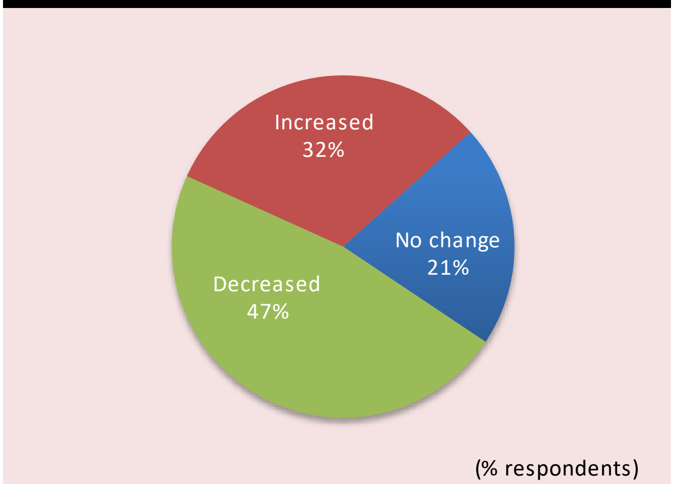
(% respondents)

State of NPAs and Stressed Assets

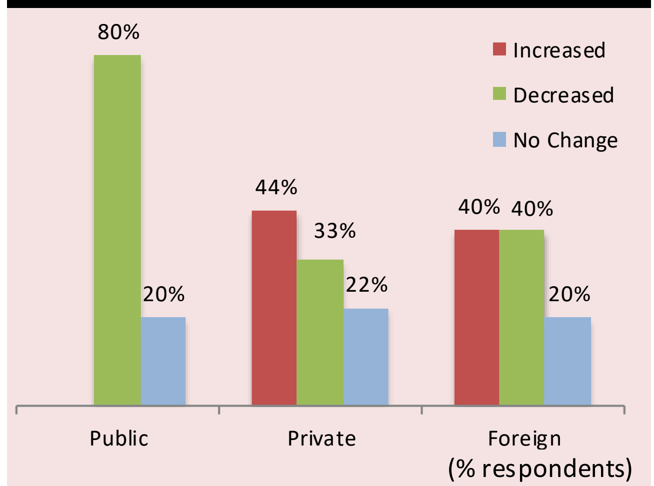
During the first half of 2020, there seems to have been an improvement in NPA levels, as majority (47%) of respondent banks have reported a decline in NPAs during this period, while 32% have reported an increase in NPA levels and 21% reported no change in NPA levels.

About 80% of participating Public sector banks have cited a reduction in NPA levels and remaining 20% have cited an increase. In case of participating Private sector banks, 33% have cited a decrease,44% have indicated a rise and 22% have reported no change in NPA levels over the last six months. 40% of foreign banks have reported an increase in NPA levels and another 40% have indicated a decline in NPA levels in the last six months. In the preceding survey, participating foreign banks had reported no change in NPA levels.

Change in the level of NPAs

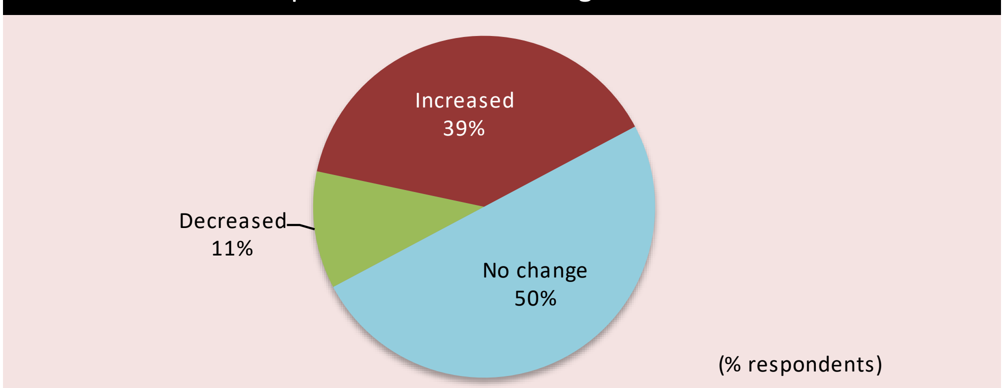


Bank Wise Increase/Decrease in NPAs



In the current round of survey done for the period January to June 2020, majority of the respondent banks (50%) have reported no change in requests for restructuring of advances. 39% of the respondent banks have cited an increase in such requests and 11% have cited a decline in such requests. RBI in its second bi-monthly policy meeting on Aug 6 extended the provision of one-time restructuring scheme for MSMEs. This is expected to increase the requests for restructuring of advances in coming months.

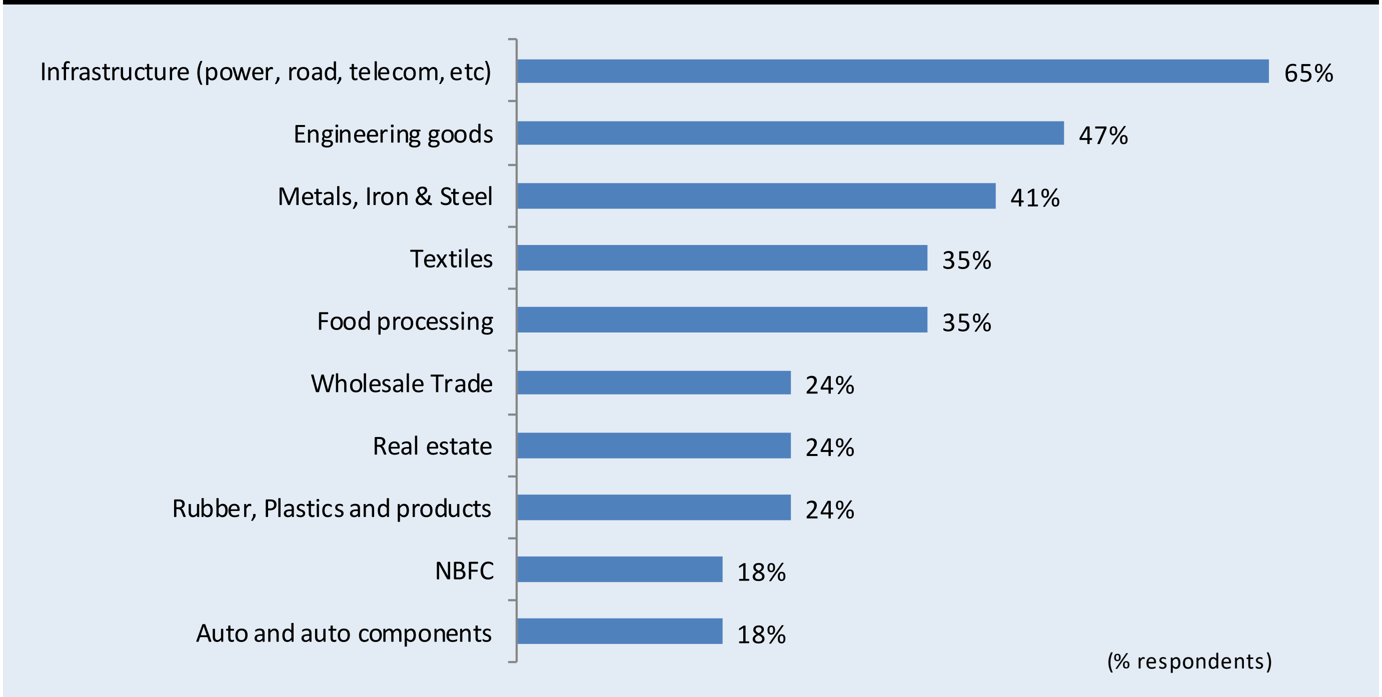
Requests for Restructuring of Advances



Key Sectors with High Level of NPAs

Amongst the sectors that continue to show high level of NPAs, most of the participating bankers identified sectors such as infrastructure, engineering goods, iron & steel, food processing and textiles. Other sectors identified as high NPA sectors include wholesale trade, real estate, rubber/ plastics, NBFCs, Auto, etc.

Key sectors with high levels of NPAs



Amongst the sectors that continue to show high level of NPAs, some of the participating bankers have reported a decline in NPA levels in the first half of 2020 for sectors like Infrastructure, Engineering goods, Iron & Steel, Textiles and Food Processing.

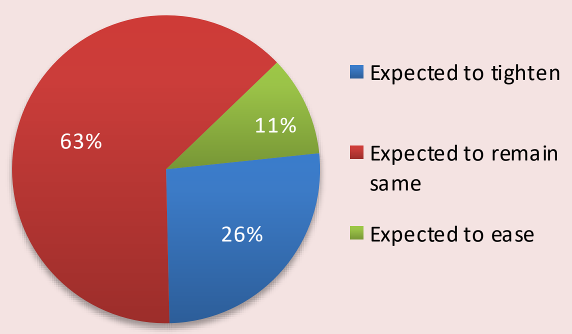
- For Infrastructure, which has been cited as high NPA sector by almost 65% of respondents, 27% of such bankers have reported a decline in NPA levels during the first half of 2020 while 64% reported no change.
- In case of Engineering goods, which has been cited as high NPA sector by 47% of total respondents, 38% of such respondents have reported a decline in NPAs and 25% have reported an increase.
- In case of Textiles, which has been identified as high NPA sector by 35% respondents, half of such respondents have reported a decline in NPA levels during first half of 2020 while 17% have reported a rise.

Expectations and Outlook on Credit

The outlook on credit standards has changed considerably in the current round of survey when compared with the immediately preceding round. In case of large enterprises, even though a large majority of respondent bankers continue to expect credit standards to remain same, 26% of respondents in the current round expect credit standards to tighten over next six months while only 6% expected so in the previous round.

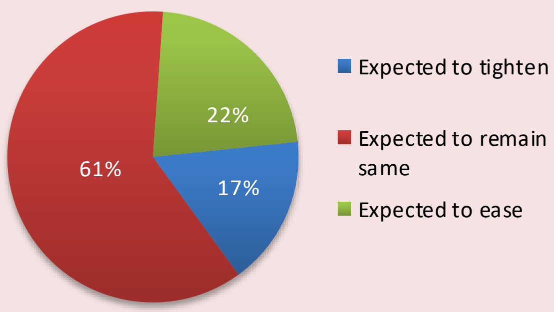
On the other hand for SMEs, a large majority (61%) of respondent bankers in the current round feel that credit standards would remain same going forward though 22% respondents feel that credit standards would ease. Government's Emergency credit line guarantee scheme has helped banks to disburse loans to these segment. This augurs well with the response of the banks.

Credit standards for large enterprises



(% respondents)

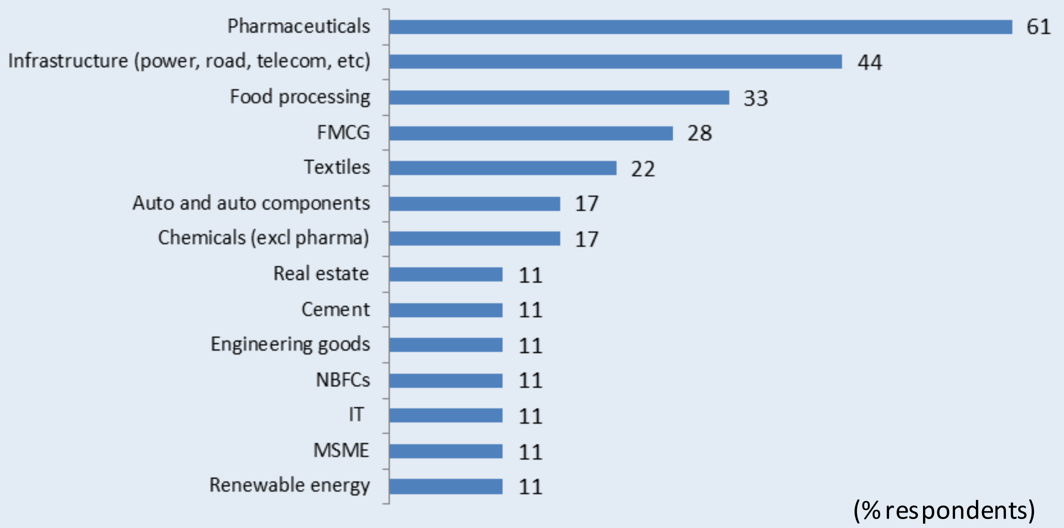
Credit standards for SMEs



(% respondents)

In the current environment, when the world is battling covid-19 virus, there has been a surge in demand for medicines and drugs. This is also reflected in the current round of survey, as 61% respondents believe pharmaceuticals to see a rise in long term credit going forward. Likewise, essential goods sector like FMCG and Food processing are also expected to see high growth in long term credit. Other sectors like Infrastructure and Auto are also likely to remain sectors with high long term credit demand in the next six months.

Sectors expected to see rise in long term credit



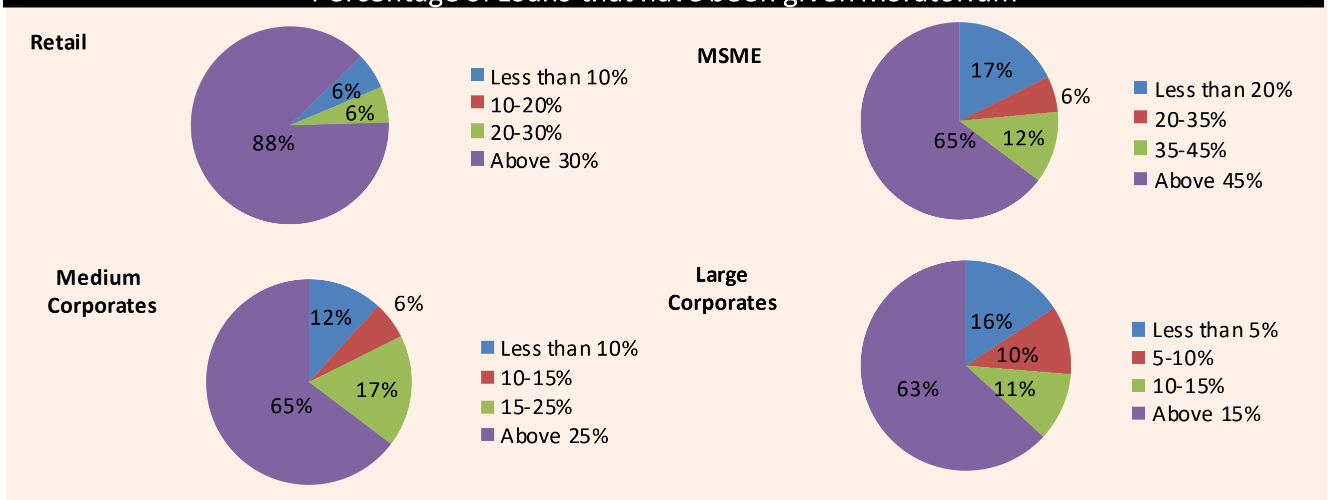
(% respondents)

Percentage of Loans Given Moratorium

In the wake of covid-19 crisis and the subsequent national lockdown, the RBI had allowed banks to offer moratorium on existing loans. Participating bankers in current round of survey were asked to indicate the percentage of loans that were given moratorium till the end of May 2020.

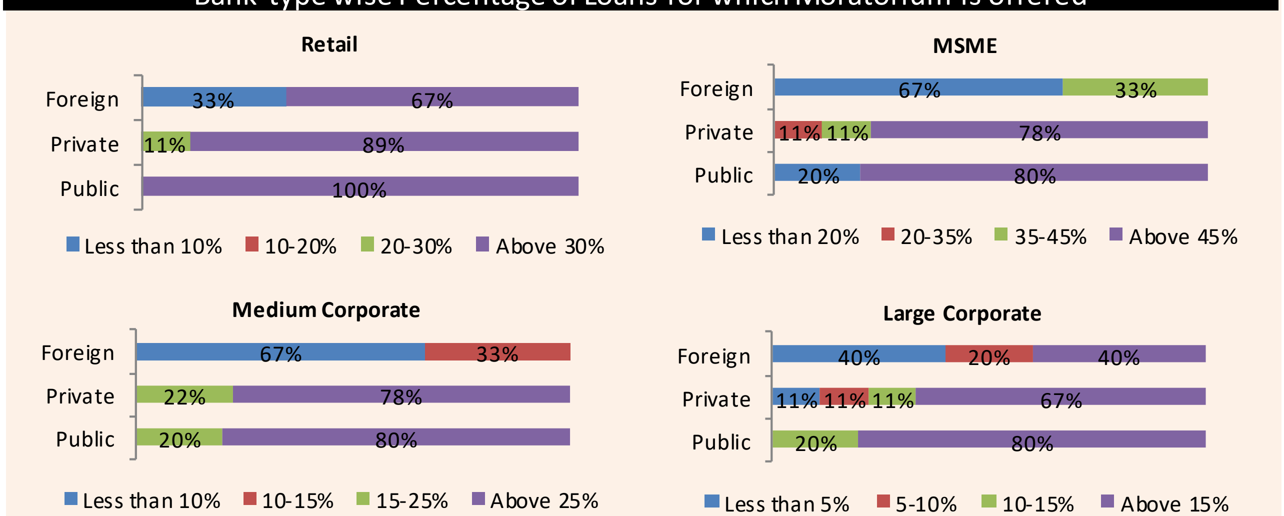
- In case of retail loans, a very large majority i.e. 88% of the respondents have provided moratorium to more than 30% of their outstanding loans under this category. All respondent PSBs have reported giving moratorium to more than 30% of outstanding retail loans.
- In case of MSMEs, 65% of the respondents indicated that they have offered moratorium to more than 45% of total loans in this category. More than three fourth of Public Sector as well as Private Bank respondents have given moratorium to more than 45% of such loans.
- In case of Medium corporates, almost 65% of respondent banks have given moratorium to more than 25% of total loans in this category. Nearly 80% of respondent PSB and Private Banks have offered moratorium to more than 25% of such loans.
- For large corporates, about three-fourth of respondent banks have given moratorium to more than 10% of such loans. PSB respondents have actively provided moratorium to all such loans.

Percentage of Loans that have been given Moratorium



(% respondents)

Bank-type wise Percentage of Loans for which Moratorium is offered



(% respondents)

Reasons for low growth of Credit

Despite sufficient liquidity and reduction in interest rate, the demand for bank credit during first quarter of FY21 has been muted. Participating bankers in the survey were asked to list the key reasons for same.

- Lockdown and supply chain disruptions has been cited amongst the top three reasons by all the survey respondents. In-fact, 53% of the respondent banks regarded Lockdown and supply chain disruptions as the top-most reason for muted growth in bank credit.

- Low economic growth was also highlighted amongst the top three reasons by all respondent banks. 37% of respondent banks regarded low economic growth as the topmost reason for muted credit growth.

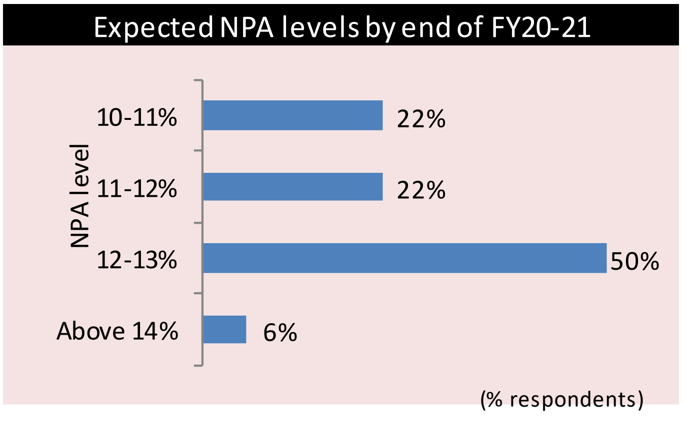
- 47% of respondent banks attributed low credit growth to the uncertainty related to covid-19 containment.

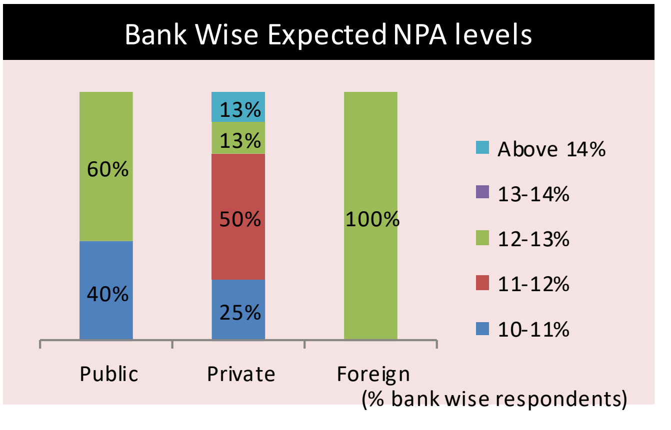
- Other reasons that were identified as topmost factor by a few banks for low credit growth were weak demand and high unemployment.

Outlook on NPAs

As of March, 2020, the Gross Non-performing assets ratio of SCBs was 8.5%. Due to disruption arising out of COVID-19, there is a fear that the ratio will go up further in the FY2020-21. Bankers were asked to share their assessment on the expected NPA levels in the current financial year. Almost half of total respondent banks believe that NPAs for FY20-21 could rise to 12-13%.

Amongst PSB respondents, 60% expect NPA ratio of 12-13% and 40% of such respondents expect ratio to be around 10-11%. While all responding foreign banks feel expect NPA levels to touch 12-13% by end of FY20-21, the expectations of private sector banks has been mixed. Nearly half of respondent Private sector banks expect NPA ratio to reach 11-12% while a few (13%) foresee NPA levels to rise upwards of even 14%.

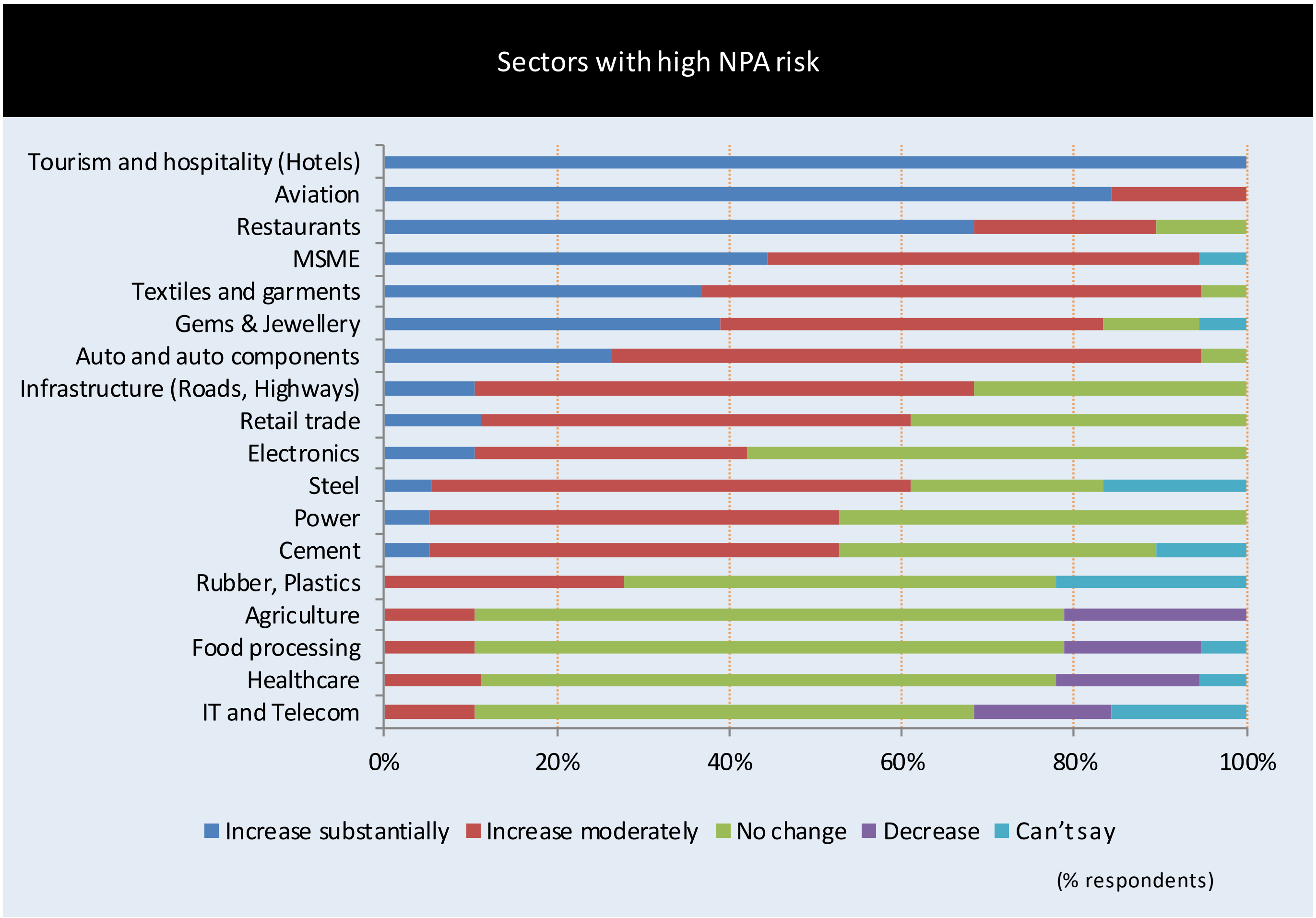




Key Sectors expected to have high level of NPAs

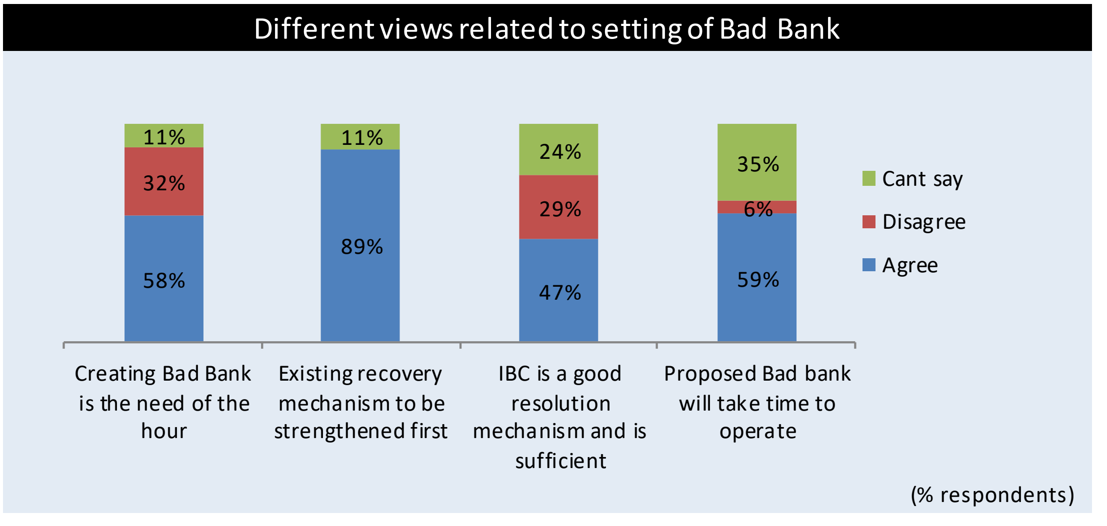
With the outbreak of covid-19, several sectors have been severely hit. As such, there is a widespread anticipation of rise in NPAs in current year for certain specific sectors .

Respondent bankers to the survey have identified some of the high NPA risk sectors, which include Aviation, MSME, Gems & Jewellery, etc. With tourism and travel sector being the worst hit sectors, almost all respondent banks believe that NPA s in tourism sector will increase substantially and 84% of respondents expect NPASs in Aviation to increase substantially. Other sectors where bankers have highlighted increase in NPA risk include Restaurants, MSMEs, Textiles, Gems & Jewellery, Automotive, Infrastructure, Retail Trade, Steel, Power and Cement.



Views on Bad Bank

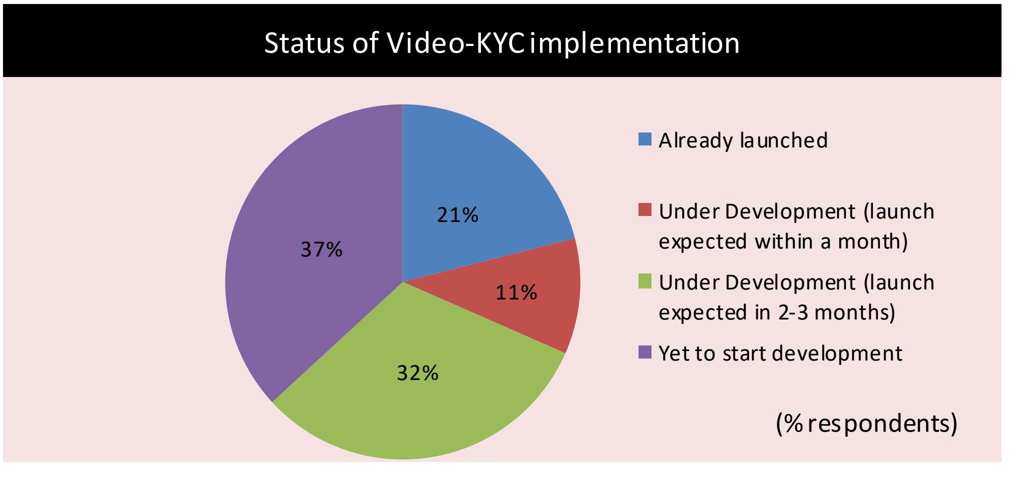
Participating bankers in the survey were asked to share their views on the idea of setting up of a Bad Bank. A large majority of the respondent bankers agree that creating a bad bank is the need of the hour. However, 89% of the respondents are of the opinion that existing recovery mechanism should be strengthened first. A large majority (59%) also believe that such Bad Bank will take time to operate. As regards the effectiveness of IBC as a resolution mechanism, nearly half of the respondent bankers considered it to be a good mechanism.



Video KYC Implementation

In the post-covid world, digital banking is expected to see significant rise. In January this year, RBI had allowed video-based identification process for KYC. Bankers were asked to share the status of Video-KYC implementation in their respective banks. Around 21% of the respondent banks have already launched video-based identification for KYC process, around 43% are currently in the process of development of such mechanism and remaining 37% are yet to start development of such process.

One of the banks that has already launched Video-KYC indicated that while the Bank has been able to provide a contact-less solution, the requirement of concurrent audit to be done on each account before operationalizing the account increases the TAT and impacts customer experience of real-time account opening. It was further suggested that Video KYC as a solution may also be extended for existing customers for the purpose of Periodic Updation of KYC and not be limited to customer on-boarding.



Suggestions for measures in addition to Atmanirbhar Bharat Economic Package

Bankers were asked their views on the Atmanirbhar Bharat Package and to suggest any additional measures, if required. Bankers welcomed the measures under Atmanirbhar Bharat package and suggested a slew of additional measures as below -

Demand boosting measures

- Direct monetary support such as higher DBT
- Higher allocation to MGNREGA
- Targeted tax breaks and subsidy or other adequate support to specific hard-hit sectors such as exports, tourism, restaurants, aviation, etc.
- Step up spending in infrastructure or invest in niche areas promoting growth
- Reductions in the GST rates, especially for higher value goods

Banking related measures

- The loan guarantees to small businesses must be made simple in process and done quickly.
- Recapitalisation of banks quickly with a large stream of bank recapitalization bonds
- RBI should permit a one-time restructuring scheme with necessary safeguards *

* The FICCI-IBA survey was conducted in July-Aug 2020. However, RBI in its second bi-monthly monetary meeting held on 6th August has extended the provision of one-time restructuring for MSMEs. The Guidelines for same are available here.

Respondents Profile

Twenty Banks responded to the survey, representing a mix of public sector, private sector and foreign banks. Together, these banks constitute about 45% of the total banking asset size. Expectations are for the period July to December 2020.