FICCI

Indian Banks' Association

FICCI-IBA Survey of Bankers

Issue 15

January – June 2022

Survey Findings – Summary

The fifteenth round of the FICCI-IBA survey was carried out for the period January to June 2022. A total of 25 banks including public sector, private sector and foreign banks participated in the survey. These banks together represent about 76% of the banking industry, as classified by asset size.

Despite a muted start of the year with Omicron wave taking over, the economic activity in India remains in recovery mode. Growth is seen broad basing with most sectors operating at pre-pandemic levels. The contact-based services sector, which was most severely impacted by the pandemic waves, is also seen gaining traction.

The survey findings show that long term credit demand have been growing for sectors such as Infrastructure, Chemicals, Food Processing, Metals, Iron & Steel and Petroleum products. Infrastructure is witnessing an increase in credit flow with 76% of the respondents indicating an increase in long term loans as against 68% in the previous round. In case of Chemicals, 52% of the respondents indicated an increase in long term loans in the current round as against 32% in the previous round while the Petroleum products sector was indicated by 40% of the respondents, in the current round as against 27% in the previous round. The survey suggests that the outlook on expectation on growth of non-food industry credit over next six months is optimistic with 48% of the participating banks expecting non-food industry credit growth to be above 10% as compared to 13% who reported likewise in the previous round.

An uptick in CASA deposits has been reported by a majority (75%) of respondent banks in the current round of survey. The reasons cited by respondents for increase in the share of CASA deposits include reduction in interest rate spread between the fixed deposit rate and saving deposit rate, increased focus by Banks on low-cost deposits (CASA) in line with the credit growth and increased spending habits as economy has started picking up with a dip in Covid-19 cases.

A vast majority (92%) of respondent banks reported credit standards for large enterprises to have remained unchanged as against 78% in the last round. None of the banks reported tightening of credit standards during first half of 2022 as against 9% in the previous round. For SMEs too, as against 55% of the respondent banks reporting no change in credit standards in the last round, 68% of the respondents have reported the same in the current survey round, and 28% have reported easing in credit standards. The credit standards are likely to remain unchanged even in the second half of 2022, as reported by a large majority of respondent bankers.

The proportion of respondent banks citing an increase in requests for restructuring of advances has dropped to 12% in the current round of survey from 61% in the previous round. A large majority (56%) of respondents have reported decrease in such requests in the current round of the survey.

Survey Findings – Summary

Turning to asset quality, there seems to have been a further improvement in asset quality with 67% of the respondents reporting a decrease in the NPA levels in the last six months. The proportion of respondent banks citing a rise in NPAs was 17% in the current round, an improvement compared with the previous survey (27%). Bank wise analysis reveals that an overwhelming 89% of participating Public sector banks have cited a reduction in NPA levels while in case of participating Private sector banks, nearly two-thirds of respondent banks have cited a decrease. Amongst the sectors that continue to show high level of NPAs, most of the participating bankers identified sectors such as Textiles, Infrastructure, Retail, Food Processing, and Metals, Iron & Steel. Other sectors identified as high NPA sectors include Engineering Goods and Auto & auto components.

Going forward, more than half of the respondents expect the Gross NPA levels to be below 8% by the end of December 2022 while 33% of the respondents are of the view that Gross NPA levels would be in the range of 8-9%. Recovery of economy from Covid-19 shock, higher credit growth, substantial deleveraging of corporate balance sheets, better performance of industry, healthy capital position, Use of Recovery Agencies, Transfer of NPA Accounts to NARCL were cited as the key factors by respondent bankers who reported gross NPAs to be below 8% and in the range of 8-9% over the next six months.

Some of the high NPA risk sectors identified by respondent bankers in survey include MSME, Aviation, Tourism and hospitality, Power and Retail Trade. 65% of the respondent banks expect NPAs in the MSME sector to increase in the next 6 months.

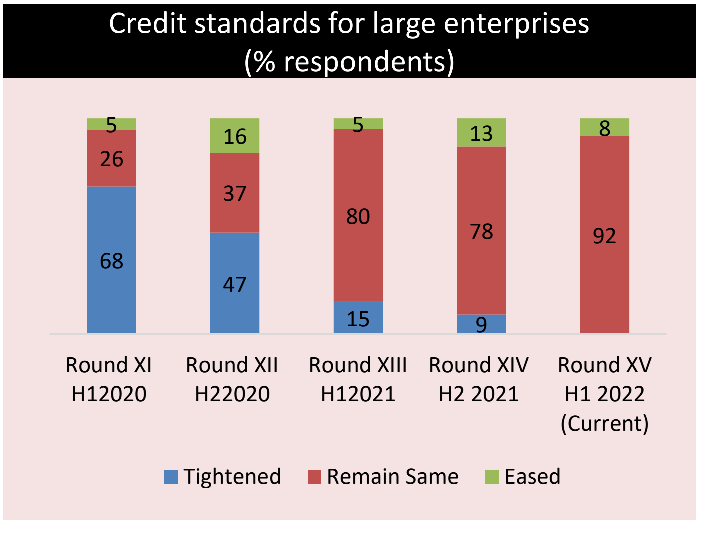
The shift towards digitization, disruptive innovation, and new technologies has led banks to invest substantial amounts to upgrade their information technology infrastructure, leading to higher operating expenses. 37% of the respondents stated that their average technology expenses as a percentage of the operating expenses for FY22 was above 8%, while another 36% of the respondents stated that it was in the range of 5 - 8%. Around 27% of the survey respondents reported it to be below 5%. Cyber Security emerged as the key area in which technology investments have witnessed an increase; as reported by 73% of the survey respondents. Cloud based solutions (68%) and Building new platforms (68%) were the other key investment areas pointed by the survey respondents.

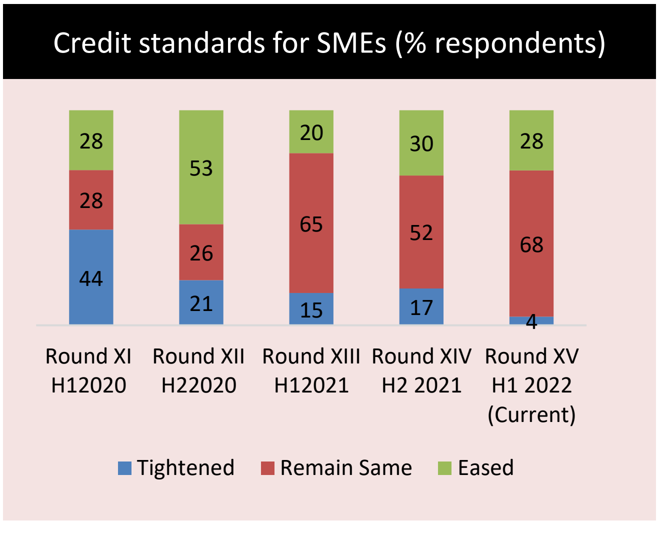
Most of the respondent banks believe that PSL guidelines need a relook and have offered several suggestions, including upward revision in qualifying limits for PSL for agriculture, renewable energy, NBFCs for on-lending, as well as for housing and education loans. Banks have also suggested adding more sectors and sub-sectors for PSL eligibility including the entire agri-value chain as well as areas related to climate sustainability.

Banks were asked if setting up of Digital Banking Units would facilitate speedy transition of India to a digital economy. All the respondents indicated in affirmative. Bankers believed that this step is beneficial for both customers and banks and will play a pivotal role in accelerating and widening the reach of digital banking services and enabling last-mile financial inclusion.

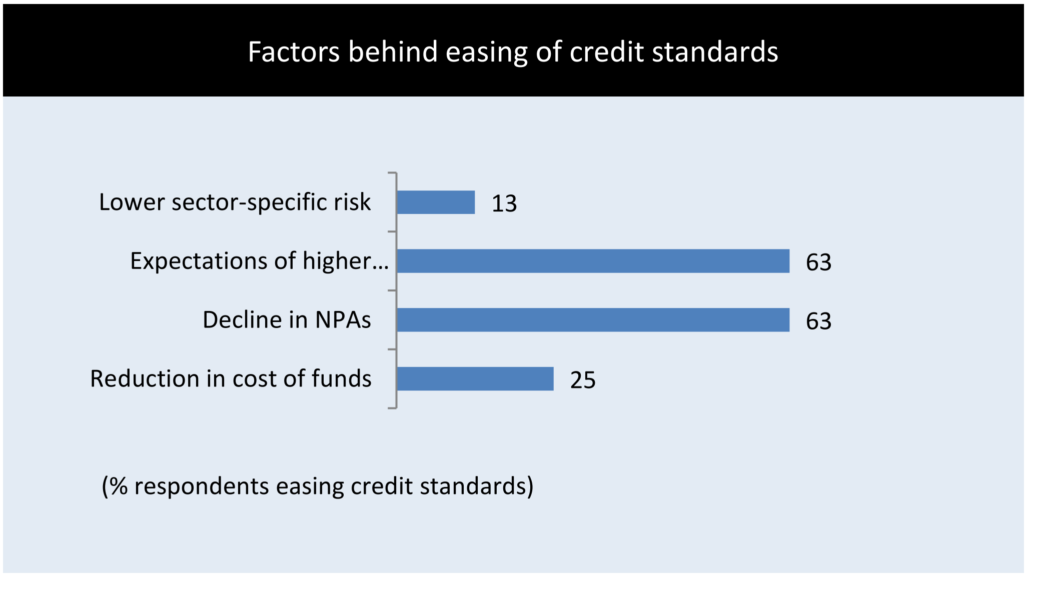
Change in Credit Standards

In the current round of survey, a vast majority (92%) of respondent banks reported credit standards for large enterprises remained unchanged as against 78% in the last round. None of the banks reported tightening of credit standards during first half of 2022 as against 9% in the previous round. The respondents reporting easing of credit standards has decreased in the current round to 8% as against 13% in the previous round. For SMEs too, as against 52% of the respondent banks reporting no change in credit standards in the last round, 68% of the respondents have reported the same in the current survey round, and 28% have reported easing in credit standards.





Out of the respondents reporting an easing in credit standards, 63% cited decline in NPAs as the main factor, while another 63% reported expectations of high economic growth as the key factor for eased standards.

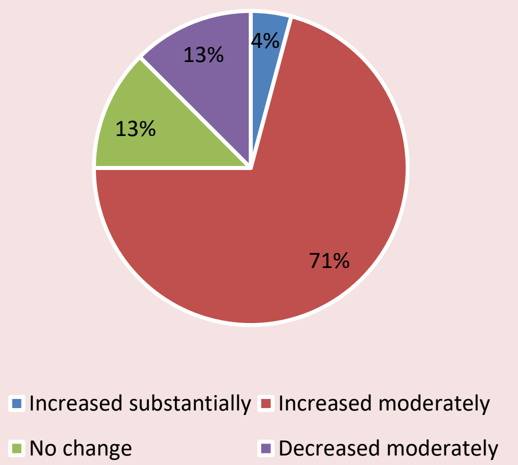


Changes in Current Account and Savings Account Deposits

For the fifth consecutive round, an uptick in CASA deposits has been reported by a majority of respondent banks in the current round of survey. 75% of respondents have reported an increase in CASA deposits in the first half of 2022, with 71% reporting a moderate rise.

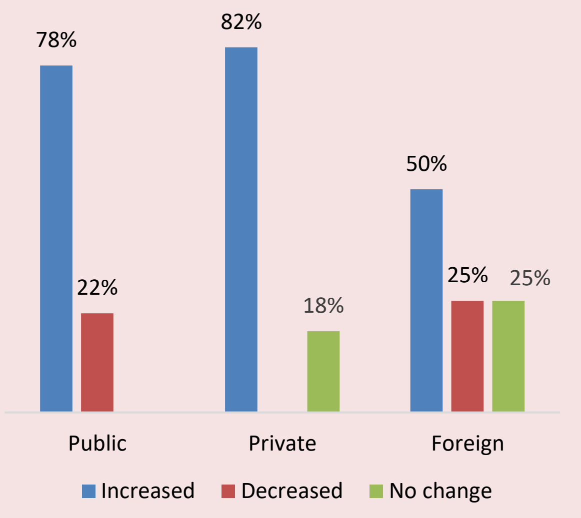
When compared across bank types, a large majority (82%) of private bank respondents reported an increase in share of CASA deposits as against 78% in the previous round. This was followed by 78% PSB bank respondents and 50% foreign bank respondents who cited an increase in the share of CASA deposits.

Bank-wise change in share of CASA deposits (%)



(% respondents)

Bank-wise change in share of CASA deposits (%)



(% respondents)

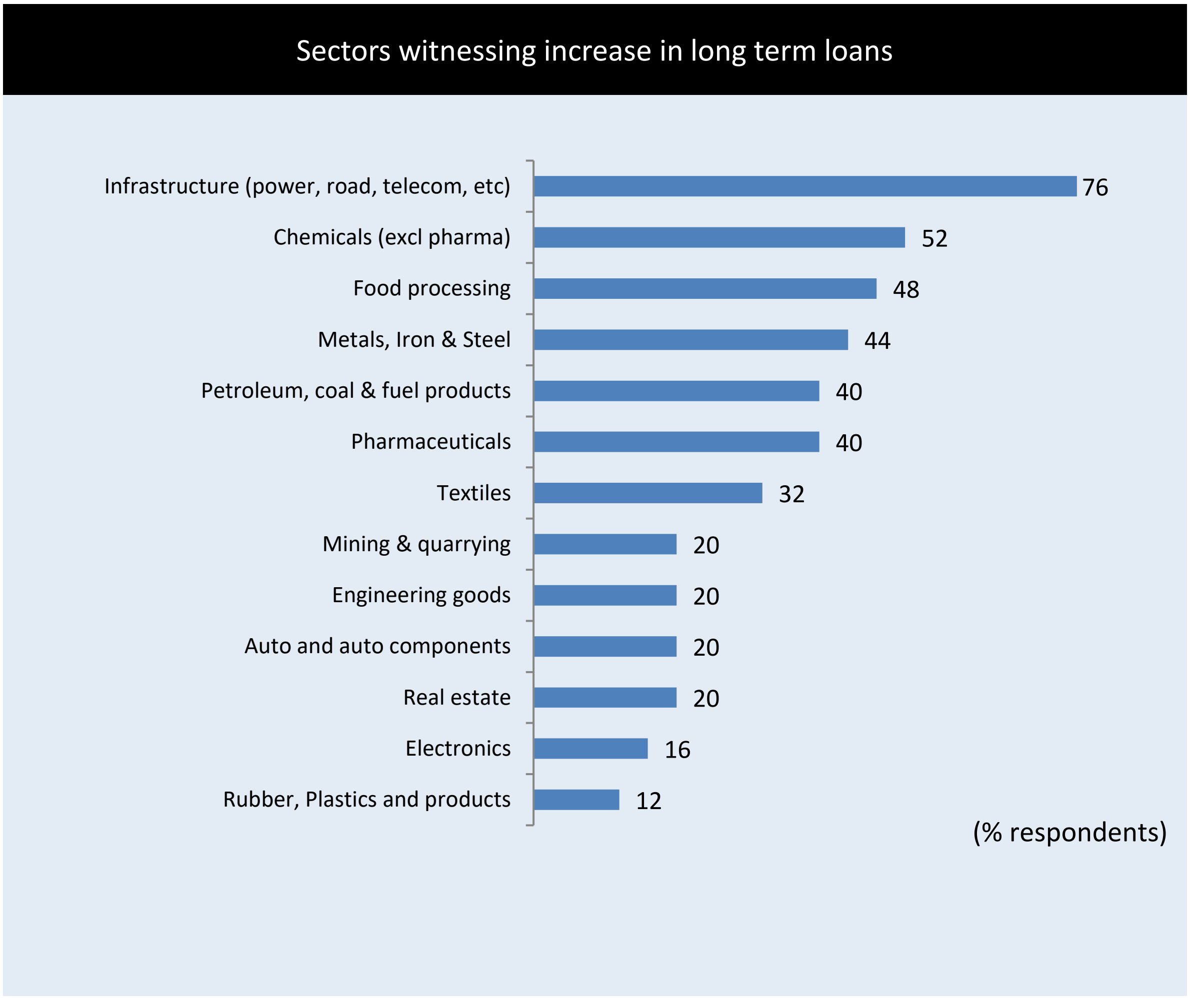
The reasons cited by respondents for the increase in the share of CASA deposits include:

- Reduction in interest rate spread between the fixed deposit rate and saving deposit rate. Also, due to the medical uncertainty, households are holding more funds in saving account in order to meet the emergency.
- Increased focus by Bank on low cost deposits (CASA) in line with the credit growth.
- Increased spending habits as economy has started picking up with a dip in Covid-19 cases.

Demand for Long-Term Loans

The current round of survey reveals that there has been an increase in long term credit demand for some sectors. While Infrastructure sector continues to witness a rise in long term credit according to the survey respondents, sectors such as Chemicals, Food Processing, Metals, Iron & Steel and Petroleum products have also witnessed accelerated long-term loan demand in the past six months.

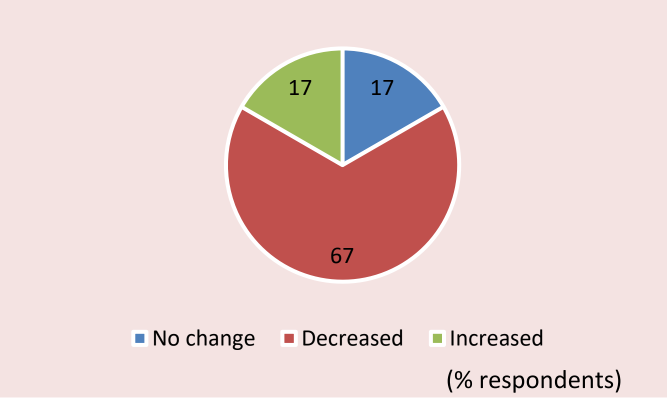
In case of Chemicals, 52% of the respondents indicated an increase in long term loans as against 32% in the previous round while the Petroleum products sector was indicated by 40% of the respondents in the current round as against 27% in the previous round.



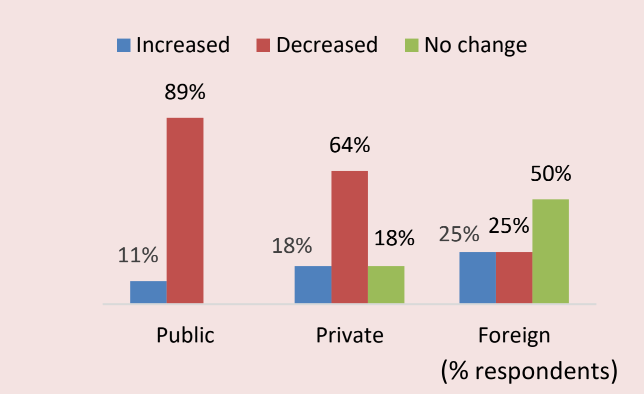
State of NPAs and Stressed Assets

A significant majority (67%) of the respondents reported a decrease in the NPA levels in the last six months while the proportion of respondent banks citing a rise in NPAs was 17% as compared to 27% in the previous round. An overwhelming 89% of participating PSBs have cited a reduction in NPA levels while 11% have cited an increase. In case of participating Private sector banks, nearly two-thirds of respondent banks have cited a decrease and another 18% have stated an increase in NPA levels over the last six months. An equal proportion of participating Foreign banks (i.e. 25% each) have cited increase and decrease in NPA levels over the last six months.

Change in the level of NPAs

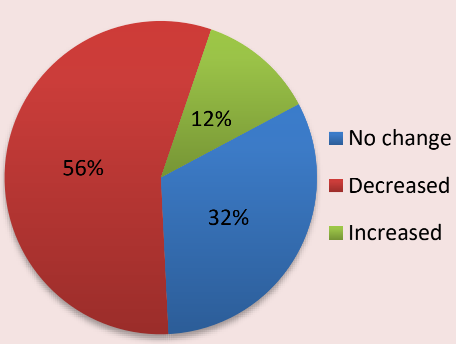


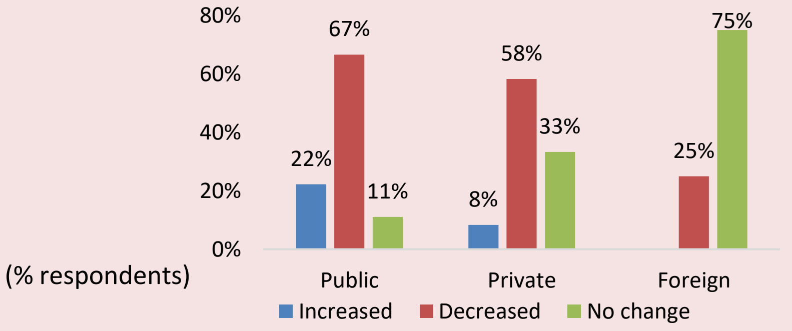
Bank Wise Increase/Decrease in NPAs



As compared to the previous round in which 61% of the respondents had reported an increase in requests for restructuring of advances, the proportion of respondent banks citing an increase in requests for restructuring of advances has dropped to 12% in the current round of survey. A large majority (56%) of respondents have reported decrease in such requests in the current round of the survey. Bank-wise analysis reveals that 67% of participating PSBs have cited a decrease in requests for restructuring of advances while 22% of such respondents have reported increase in such requests. In case of participating Private sector banks, 58% of respondent banks have cited a decrease while just 8% have stated that there was an increase in restructuring over the last six months. In case of participating Foreign banks only 25% cited a decrease in request for restructuring of advances over the last six months. Since the covid related setbacks are now abating, the businesses are looking good.

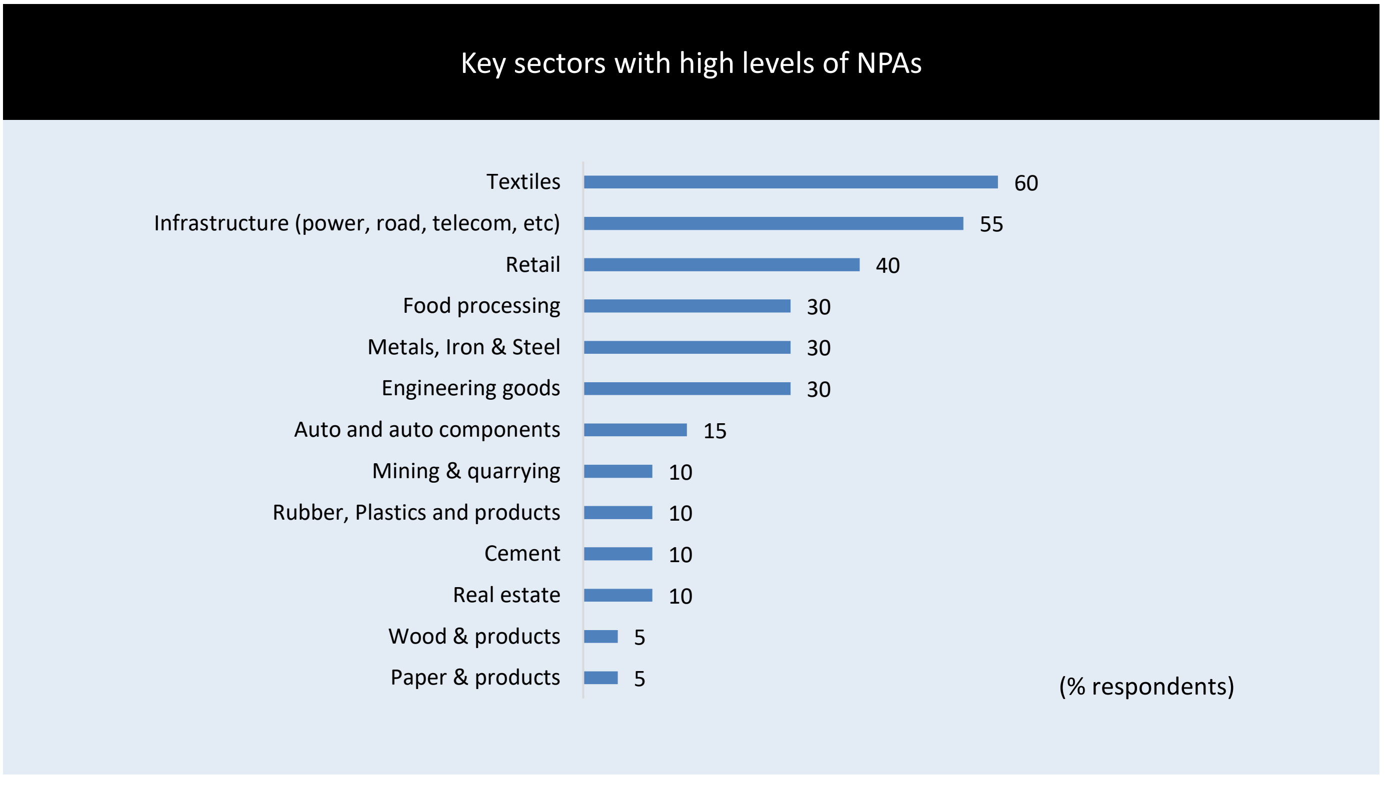
Requests for Restructuring of Advances





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 Textiles, Infrastructure, Retail, Food Processing, and Metals, Iron & Steel. Other sectors identified as high NPA sectors include Engineering Goods and Auto & auto components.



<u>Trend in NPAs in key sectors</u>

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 2022 for sectors like Textiles, Infrastructure and Retail.

- In case of Textiles, which has been cited as high NPA sector by 60% of total respondents, half of such respondents have reported a decline in NPAs and 33% have reported a rise.

- For Infrastructure, which has been cited as high NPA sector by 55% of respondents, 64% of such bankers have reported a decline in NPA levels during the first half of 2022 while 27% reported an increase.

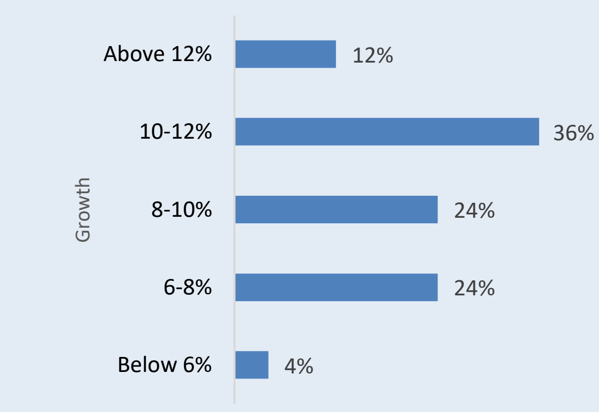
- In case of Retail, which has been identified as high NPA sector by 40% respondents, 25% reported a decline while 38% of such respondents have reported an increase during first half of 2022.

Expectations and Outlook on Credit

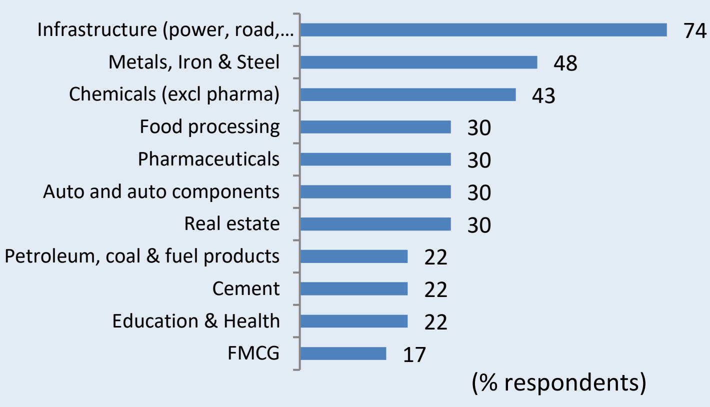
The outlook on expectation on growth of non-food industry credit over next six months is optimistic with 48% of the participating banks expecting non-food industry credit growth to be above 10%. Another 24% expect growth in non-food industry credit to be in the range of 8-10% and remaining 28% expect it to be below 8%.

Major infrastructure development plans has been in place by Government to facilitate quick capital spending with a strong multiplier effect. This is likely to spur demand for infrastructure financing. This is also reflected in the current round of survey, as 74% respondents believe Infrastructure to see a rise in loans. 48% of the respondent banks expect the Metals, Iron & Steel sector to witness an increase in demand for long term credit going forward. Other sectors expected to see rise in long term credit include Chemicals, Food Processing, Pharmaceuticals, Auto & auto components and real estate.

Expectation on growth of non-food industry credit

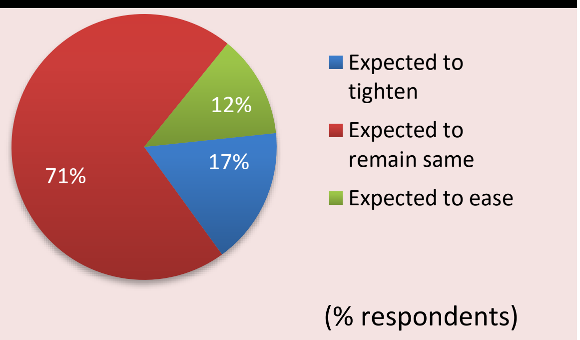


Sectors expected to see rise in long term credit

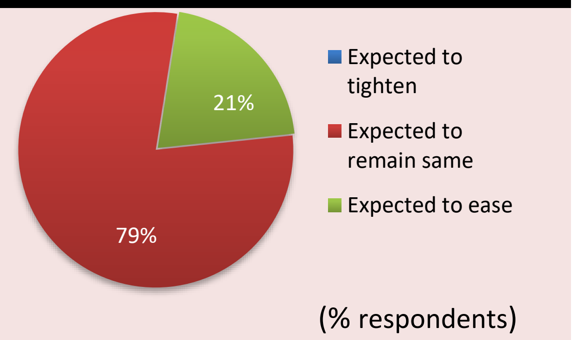


The outlook on credit standards for the second half of 2022 largely remains unchanged with respect to large enterprises. A large majority of respondent bankers (71%) continue to expect credit standards to remain same. Similarly for SMEs, 79% of respondent bankers in the current round feel that credit standards would remain same going forward though 21% respondents feel that credit standards would ease.

Credit standards for large enterprises



Credit standards for SMEs

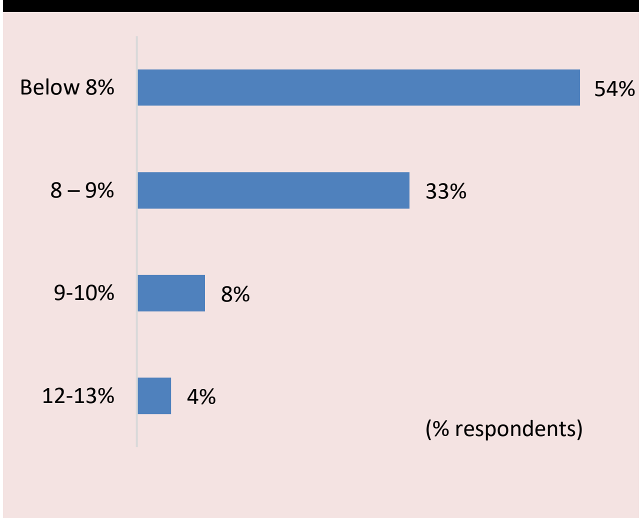


Outlook on NPAs

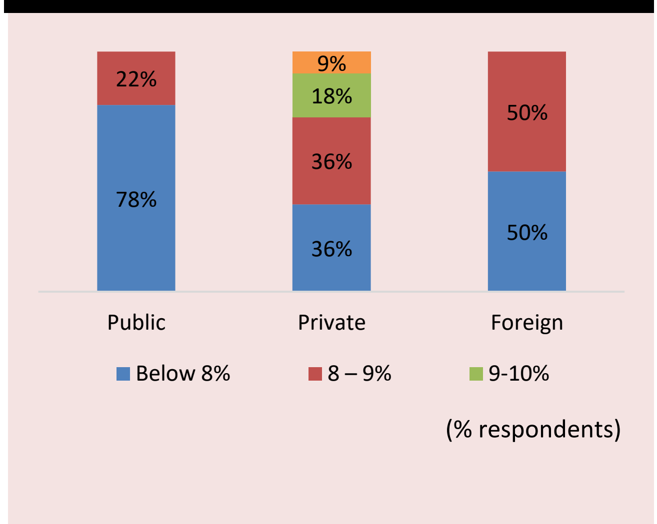
The asset quality of SCBs continued to improve through the year, with GNPA ratio declining from 7.4% in March 2021 to a six-year low of 5.9% in March 2022. The worries over bank bad loans have lessened further, cushioned by policy and regulatory support and this was reflected in the survey results. Bankers were asked to share their assessment on gross NPAs over the next six months that is by end December 2022. A majority (54%) of the respondent banks in the current round believe that gross NPAs would be below 8% by the end of December 2022 while 33% of the respondents are of the view that NPA levels would be in the range of 8-9%. RBI stress tests indicate that GNPA ratio of all SCBs may improve from 5.9 per cent in March 2022 to 5.3 per cent by March 2023 under the baseline scenario driven by higher expected bank credit growth and declining trend in the stock of GNPAs, among other factors as per RBI Financial Stability Report of June 2022. If the macroeconomic environment worsens to a medium or severe stress scenario, the GNPA ratio may rise to 6.2 per cent and 8.3 per cent, respectively. Views of the respondents are also exhibiting similarity with RBI projections.

Amongst PSB respondents, 78% expect NPA ratio to be below 8% and remaining 22% expect ratio to be around 8-9%. 36% of the responding private banks largely expect NPA levels to be below 8% while another 36% expect NPAs to hover in the range of 8-9%. 50% of responding Foreign banks foresee NPA levels to be below 8%. The same share of respondents expect NPAs to be in the range of 8-9%.

Expected NPA levels over the next six months



Bank Wise Expected NPA levels



Recovery of economy from Covid-19 shock, higher credit growth, substantial deleveraging of corporate balance sheets, better performance of industry, healthy capital position, Use of Recovery Agencies, Transfer of NPA Accounts to NARCL were cited as the key factors by respondent bankers who reported gross NPAs to be below 8% and in the range of 8-9% over the next six months.

The respondents who reported NPAs to be in the range of 9-10% going forward cited supply chain disruptions, rising inflation, higher commodity prices, asset quality deterioration, possible global recession and slowdown in global trade triggered by prediction of recession in USA, as key factors for high NPA risk.

Outlook on NPAs sector-wise

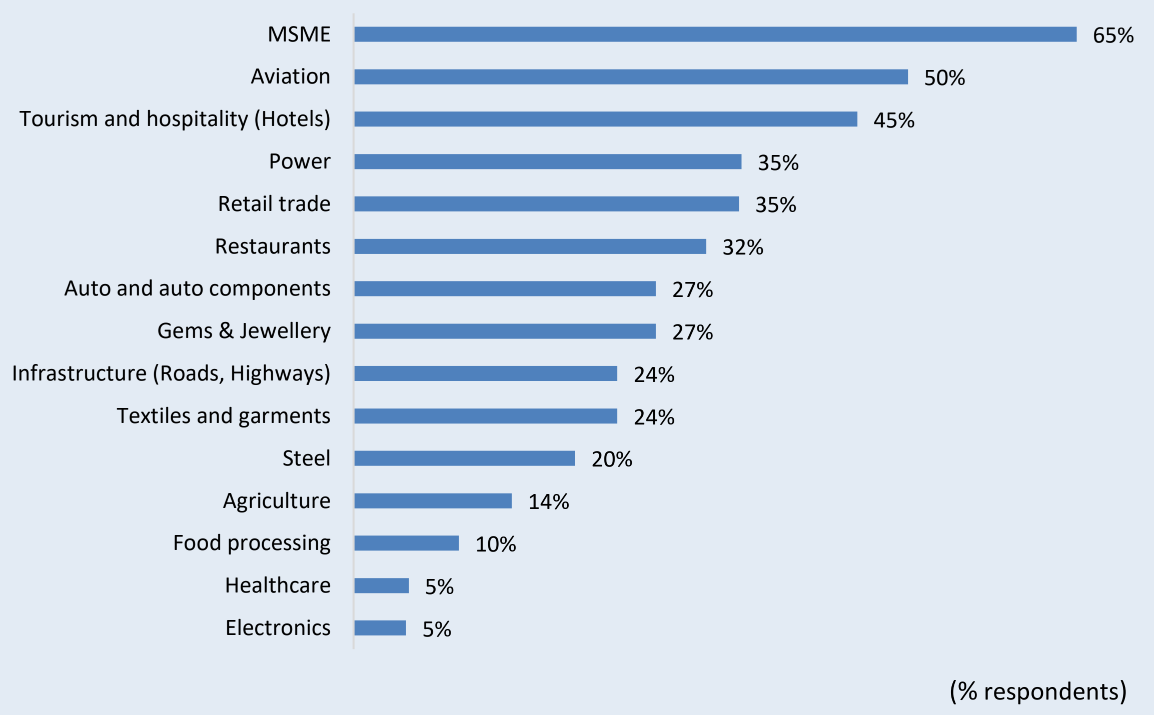
Some of the high NPA risk sectors identified by Respondent bankers in survey include MSME, Aviation, Tourism and hospitality, Power and Retail Trade.

65% of the respondent banks expect NPAs in the MSME sector to increase in the next 6 months. Aviation was reported as another high NPA risk sector by participating bankers. 50% respondents expect NPAs to increase in this sector in the next 6 months. In case of Tourism and hospitality, 45% respondents expected an increase in NPAs in this sector in the next six months. While in the previous round of survey, 95% had reported tourism as a high NPA risk sector and all of them had expected NPAs to rise in this sector.

In the current round, 35% respondents expect NPAs in the Power sector to increase in the next six months vis-à-vis the previous round where 22% cited Power to see increase in NPA.

Retail Trade continues to be amongst the high NPA risk sector. However, respondents reporting a further rise in NPAs in this sector has come down to 35% in current round of survey as against 70% in the previous round reporting so.

Sectors with expectations of increase in NPA levels in next six months

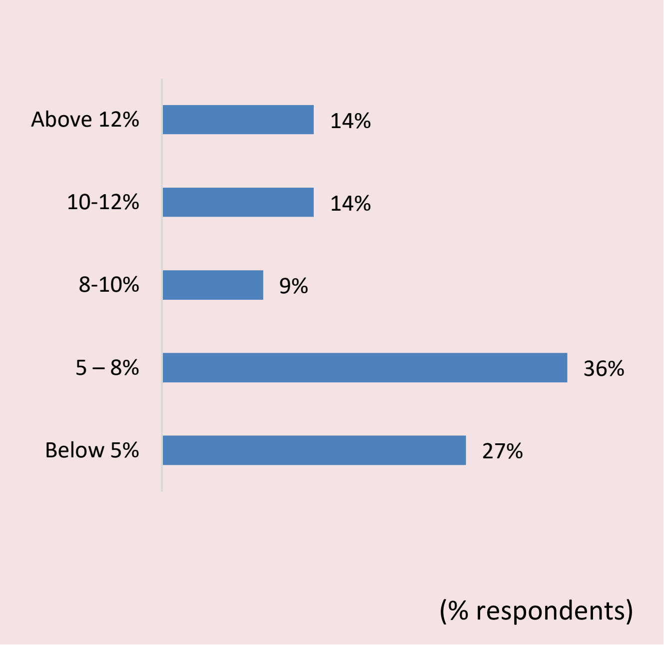


Banks' IT Investments

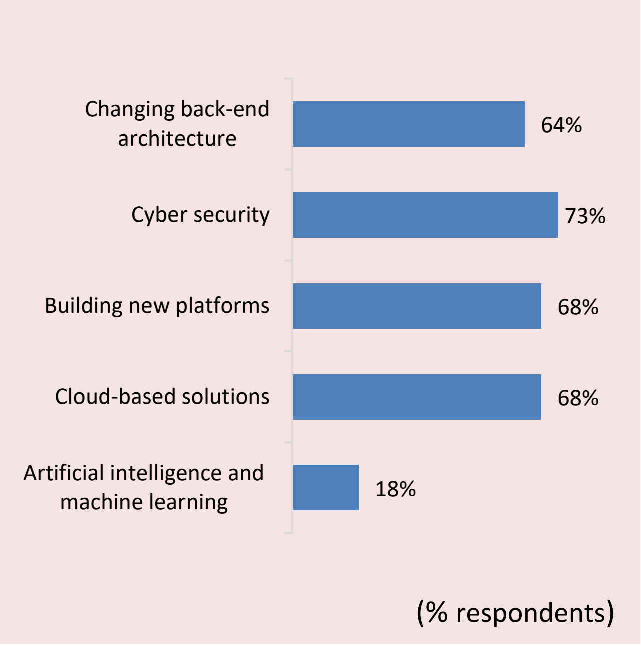
The shift towards digitization, disruptive innovation, and new technologies has led banks to invest substantial amounts to upgrade their information technology infrastructure, leading to higher operating expenses. 37% of respondent banks reported that their average technology expenses as a percentage of the operating expenses for FY22 was above 8% while another 36% of the respondents stated that it was in the range of 5 - 8%. Around 27% of the survey respondents reported it to be below 5%.

Cyber Security was cited as the key area in which technology investments have witnessed an increase; as reported by 73% of the survey respondents. Cloud based solutions (68%) and Building new platforms (68%) were the other key investment areas pointed by the survey respondents.

Average technology expenses as a percentage of the operating expenses for FY22



Areas in which the above technology investments have witnessed an increase



Priority Sector Lending – A Review of Guidelines

Bankers were asked if there is a need to review the Priority Sector Guidelines and specific suggestions in that regard. Most of the respondent banks believe that PSL guidelines need a relook and have offered following suggestions –

PSL guidelines for Agriculture	As per the priority sector guidelines issued by RBI, agricultural loans of upto Rs.2 Cr sanctioned to corporate farmers, partnership firms, Companies of individual farmers, and co-operatives of farmers directly engaged in Agriculture and Allied activities viz dairy, fishery, animal husbandry, poultry and bee-keeping are eligible to be classified as priority sector advances under farm credit. Given the current level of inflation, leading to higher input and machinery costs, combined with market uncertainties, it is suggested that the ceiling for PSL in case of corporate farmers be increased to Rs 10 cr. In case of farm credit to Farm Producers Organisation (FPO), the prescribed limit may be increased from Rs. 5 Crore to Rs.10 crore per borrower entity.
	Agriculture needs more investments which can be fulfilled by corporates/firms. Enhancing such limit under PSL will help in boosting value chain in Agriculture. Hence it is suggested that the cap for Agri Ancillary and Agri Infra facilities be increased (from INR 100 Cr to INR 200 Cr). Increased limits will boost agri processing and development of warehouses / cold chains which is a priority.
	It is also important to include all activities related to agriculture value chain under the list of PSL eligibility. Manufacturer of Farm Equipment / Agri Equipment may be included under Agri Ancillary. Likewise various Agri tech entities (supporting marketplaces, advisories, supply chain, productivity enhancement entities, etc.) may be classifiable under Agri Ancillary PSL.
	New segment "PSL Rural – Agri" may be considered where all kinds of loans, apart from Agriculture (such as Vehicle/Home/Consumer durable/personal/ Gold loans) to farming/rural community shall be classified under Rural PSL with a sub target to Agriculture separately. Overall growth in the rural economy also depends on overall farmer families' growth and it further reduces the risk to the families from crop loss or natural calamity. Similarly, finance to other stakeholders such as Commission agents, Arthiyas, Traders etc should be allowed to classify under PSL – Rural- Agri as they are integral part of Agri Value chain system.
Credit to NBFCs and HFCs for on-lending	Bankers have suggested an increase in the dispensation of on lending to NBFCs for specified categories as Agri, MSME (Micro/Small) and Housing. They have suggested increasing the on-lending cap for Banks to NBFC from current 5% to 10% of PSL target.

PSL for Climate Sustainability	A separate head 'Climate Sustainability Finance' may be created in PSL for activities which contribute to climate sustainability, in line with that of Renewable Energy. The indicative range of activities may include (a) Clean transportation including Electric / Hydrogen / Biofuels Vehicle segment for individual/public/commercial use (b) EV charging infrastructure (c)sustainable water management (d) sustainable waste management (e)energy efficiency measures / technology (f) pollution prevention / control (g) other low carbon initiatives.
	The PSL cap for Climate Sustainability should be enhanced significantly above the existing cap for Renewable Energy (RE) of Rs 30 Cr per borrower to give a boost to climate sustainability projects.
	To sustain and give impetus to renewable energy goals of the nation, the component manufacturers, service providers, OEMS of renewable energy systems may be given PSL status under Renewable Energy category
	Clean transportation is the emerging field that should be promoted for sustainable climate. PSL qualification of lending should be allowed for entities that are into EV vehicle/equipment, OEM manufacturing and/or EV battery, charging infrastructure development or any other manufacturing support to provide for faster EV adoption.
	Recyclers are key for optimum utilization of the existing resources which is a key focus point under ESG as well. Lending to entities involved in recycling of all nature including metals, plastics, waste management etc. to get qualified for PSL benefits.
	Pollution control is one of the key pillars for sustainable climate. Industrial unit are required to follow pollution norms, but there are no incentives. The capex towards effluent treatment and air pollution control equipment should also be made eligible under RE clause of PSL. Entities involved in scientific disposal of e-waste/medical waste/industrial waste should also qualify under PSL.
	Depleting ground water and depleting sources of fresh water is one of the major concerns of sustainable development. PSL qualification should also be allowed for lending to entities towards rainwater harvesting, ground water management by building check dams, drip irrigation systems etc.
Udyam Registration Challenges for Micro & Small Enterprises	There are challenges in getting Udyam Registration Certificate (URCs) for microfinance and micro borrowers wherein small ticket loans are provided for business purposes, while the said entities do not have even PAN cards. Therefore, all Mudra Loans should be classified as PSL without the need of URC.

Priority Sector Lending – A Review of Guidelines

Adjustment of Weights in PSL achievement	As per RBI master directions on priority sector lending, adjustments for weights in PSL achievement has been introduced. Accordingly, a lower weight (90%) has been assigned for incremental priority sector credit in the identified districts where the credit flow is comparatively higher. However, it is recommended that only incentivisation (125% weight) and not dis-incentivisation (90%) be applied. Hence, it is suggested that the adjustment of weights be revised as follows - Where the Priority sector credit flow is comparatively low, the weights be at 125% and for Others at 100%.
PSL for Housing Loans	Bankers participating in the survey highlighted that for Housing Loans, loan limit of Rs 25 lakh/35 lakh with a corresponding dwelling unit cost of Rs 30 lakh/45 lakh is too low given the increase in real estate prices in the country. The rise in cost of steel and other construction material has resulted in steep rise in construction cost. In view of same it is suggested that the total construction cost and amount of loan limit be revised for inclusion of housing loans under Priority Sector. Thus, Loans limits to Housing sector eligible for priority sector classification may be reasonably increased (say Rs. 1 Cr in urban Centre and Rs.50 Lakh for other Centre).
PSL for Education Loans	It has been suggested that the Loan limit of Rs 20 lakh to individuals for educational purposes eligible for priority sector classification may be reasonably increased to a higher level (say Rs.50 Lakh) given the surging cost of higher education.
Gold loans to farmers	Given the importance of gold loan as a product to deliver fast credit to most vulnerable section of the society, the gold loans given to farmers (both landowner and landless farmer) may be classified under PSL based on their declaration with details on the end use along with basic details related to agricultural activities, without linkage to scale of finance. PSL status to such loans will ensure proper transmission of lower financing cost to the end borrowers.

Digital Banking Units

The Finance Minister while presenting the Union Budget 2022-23, had announced setting up of 75 Digital Banking Units (DBUs) in 75 districts of the country. Banks were asked if this move would facilitate speedy transition of India to a digital economy and if they expect more DBUs to get established in the coming years. All the respondents were of the view that this move will facilitate speedy transition of nation to a digital economy.

Value to the Customers	DBUs will serve as a physical banking outlet by providing cost effective and efficient digital services like cash withdrawal, loans, insurance and investment products etc.
	The DBUs will be beneficial for current account customers as well for those who are more cash centric and rely on the Branch for cash transactions.
	DBUs can offer real-time assistance and redress customer grievances arising from digital products and services.
	The DBUs will play a pivotal role in educating the customers on digital initiatives and increase digital literacy, spread awareness on usage of digital channels, guide customers to invest in financial products digitally, attend to customers queries and provide resolution and thus will be transitional in migrating the population to digital channels.

Value to the Banks	DBUs have the potential in accelerating and widening the reach of digital banking services and enable last-mile financial inclusion as a lender can reach a wider customer base in a more cost-effective manner.
	The concept of DBUs will further push the Digital Banking into the rural and semi urban areas of the economy.
	Besides faster customer acquisition, there will be digitization of end-to-end customer onboarding journey.
	DBUs will accelerate the delivery of financial products, besides improving access to finance for small businesses.

Digital Banking Units

Additional Suggestions	Certain issues including low internet penetration in lower-tier cities, cyber security, data privacy and phishing need to be tackled to make DBUs successful.
	Steps should also be taken to educate and sensitize the target group on the use of these services to enable wider participation.
	Along with the DBUs, the focus should be on speeding up digital and financial literacy, so that the user community can effectively utilize digital banking at the earliest.
	Effective and frequent awareness campaigns about the DBU will lead to increase in DBU establishment in the coming years.
	Digital banking literacy programe (DBPL) may be run for six months at every corner of the country in local languages. More DBUs should be established only after success of this pilot. We should study the findings after six months or may be a year, in all aspects (business generation, transaction done by customer in self-service zone, transactions done at assisted zone, over all transaction done in these 75 areas after DBU v/s before DBU , etc.). If all purpose seems served , many more DBUs would come up.

Respondents' Profile

Twenty-five Banks responded to the survey, representing a mix of public sector, private sector and foreign banks. Together, these banks constitute about 76% of the total banking asset size.