FICCI

Indian Banks' Association

FICCI-IBA Survey of Bankers

Issue 17

January – June 2023

Survey Findings – Summary

The seventeenth round of the FICCI-IBA survey was carried out for the period January to June 2023. A total of 24 banks including public sector, private sector and foreign banks participated in the survey. These banks together represent about 79% of the banking industry, as classified by asset size.

The Indian economy posted an impressive 7.2% growth in the financial year ended March 2023. Credit growth also continued to rise, signalling robust demand conditions in the Indian economy, as well as banks' improved appetite towards retail borrowers. The health of the banking sector has witnessed an encouraging turnaround, marked by healthier bank balance sheets and gross NPA ratio at a decade low.

The survey findings show that long term credit demand has seen continued growth for sectors such as Infrastructure, Textiles and Chemicals. Food Processing and Metals. Iron & Steel have also witnessed accelerated long-term loan disbursements in the past six months. Infrastructure is witnessing an increase in credit flow with 67% of the respondents indicating an increase in long term loans as against 57% 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 42% of the participating banks expecting non-food industry credit growth to be above 12% (as compared to 36% in the previous round).

Given the higher rates of interest, a shift towards term deposits has been observed. Over half of respondent banks (57%) reported a decrease in the share of CASA deposits in total deposits in the current round of survey. The term deposits have picked up pace as reported by the respondent banks.

According to the survey, 54% of respondent banks reported that the credit standards for large enterprises have remained same (83% of the banks reported so in the last round). In the current round of survey, 29% of participating banks reported easing of credit standards, indicating continuous improvement in funding. For SMEs too, 68% of the respondents have reported no change in credit standards in the current survey round.

Turning to asset quality, 75% of the respondent banks reported a decrease in the NPA levels in the last six months as compared to 90% banks that reported so in the previous round. An overwhelming 90% Public Sector Banks have cited a reduction in NPA levels while amongst participating Private sector banks, 80% 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 Infrastructure, Textiles and Food Processing. Other sectors identified as high NPA sectors include Metals and Iron & Steel and Engineering Goods.

Survey Findings – Summary

Respondent banks were more sanguine about the asset quality prospects in the current round of the survey, cushioned by policy and regulatory support and this was reflected in the survey results. 54% of the respondent banks in the current round believe that Gross NPAs would be in the range of 3% – 4% over the next six months.

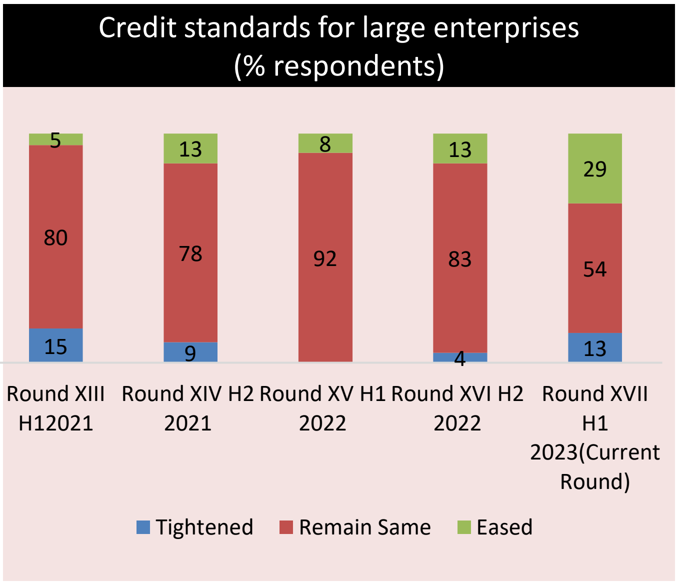
Resilient domestic economy, pick up in credit growth supported by Government capex, robust recovery mechanism, high provisioning and high write-offs were cited as the key factors by respondent bankers who expect asset quality to further improve over the next six months. As per respondents, some of the sectors that may continue to show NPAs over next six months include Textiles and garments, MSME, Aviation, Agriculture and Retail Trade.

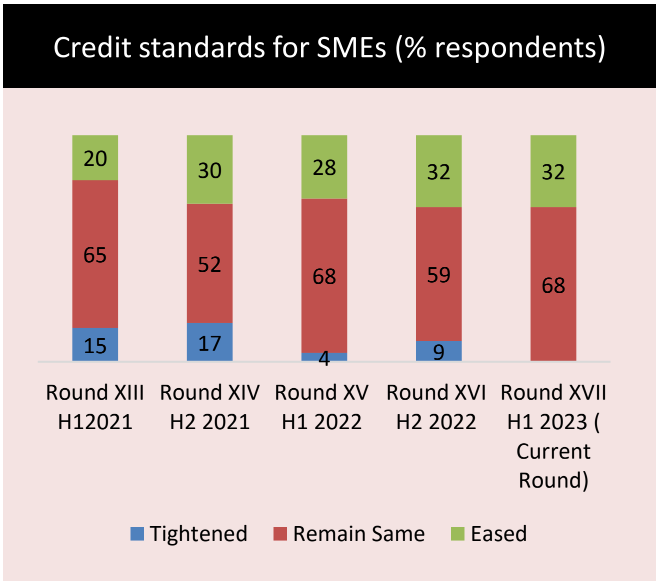
Banks were asked to share their experience with regard to Digital Banking Units (DBUs). Majority of banks stated that the customer response and visitor footfall in DBUs were encouraging. DBUs are successful in terms of expanding digital penetration among retail and corporate customers. They observed that Small and medium-sized shops, which are proprietorship and partnership firms, found DBUs useful.

Banks were also asked to share their level of preparedness regarding startup funding. Most banks reported that they are well-equipped in terms of capital and some of them have also set up start-up verticals catering to this requirement. Banks also suggested some additional measures that can be taken by banks to further improve the funding for start-up ecosystem. These included streamlining of loan application and approval process for start-ups which may be done in collaboration with fintech; establishing of specialised divisions catering to special financial needs of start-ups; exploring alternate forms of collateral such as IPR, equity stakes, etc; partnering with incubators, accelerators and VCs; organising financial education workshops specifically for start-ups. In addition, it was also suggested that RBI may consider a separate liquidity window, wherein banks can source funds for on-lending to start-ups.

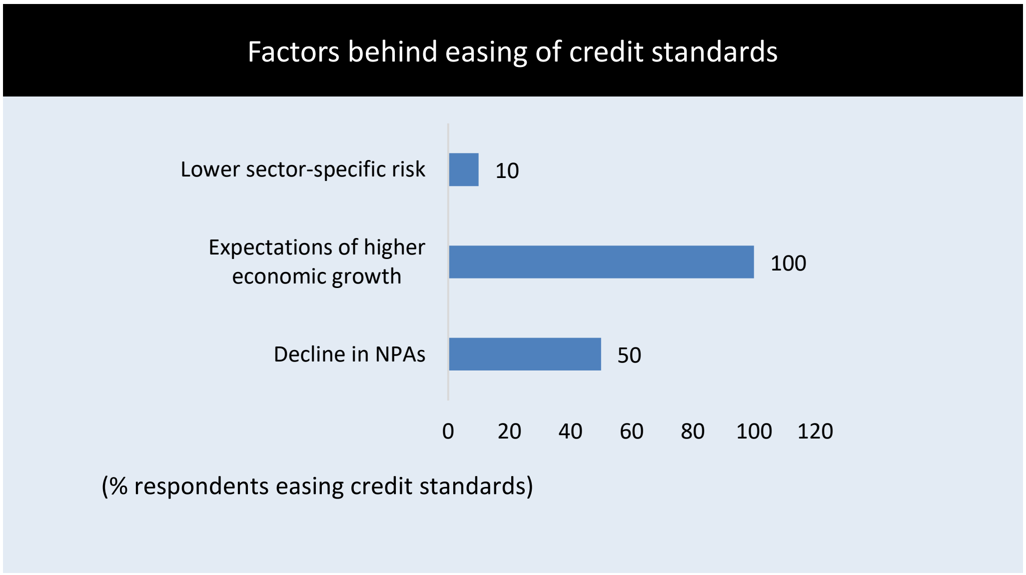
Change in Credit Standards

In the current round of survey, 54% of respondent banks reported that credit standards for large enterprises have remained unchanged as against 83% reporting so in the last round. Respondents reporting easing of credit standards has increased to 29% in the current round as against 13% reporting so in the previous round. With respect to SMEs too, as against 59% 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 32% have reported easing of credit standards.





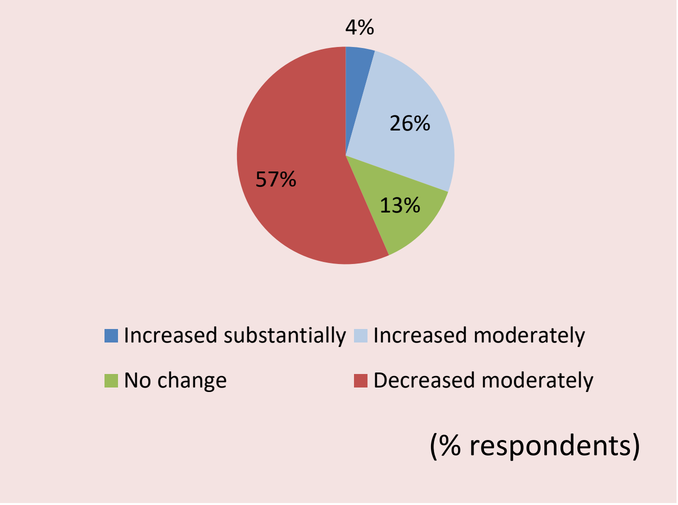
Out of the respondents reporting an easing in credit standards, all cited expectations of high economic growth as the main factor, while another half of them reported decline in NPAs as the key factor for eased standards.



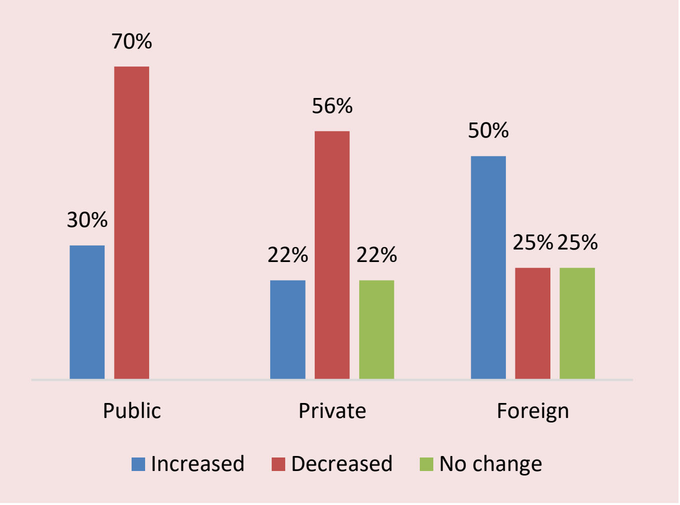
Changes in Current Account and Savings Account Deposits

Similar to the previous round of the survey, a shift has been observed towards term deposits in the current round of the survey, owing to higher rates of interest. Term deposits have picked up pace as reported by the respondent banks. Over half of respondent banks (57%) reported a decrease in the share of CASA deposits in total deposits in the current round of survey. The percentage of respondents reporting an increase in CASA deposits stood at 30% in the current round of survey, as against 27% reporting so in the previous round of the survey.

Change in share of CASA deposits (%) in current round vis-à-vis previous round



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



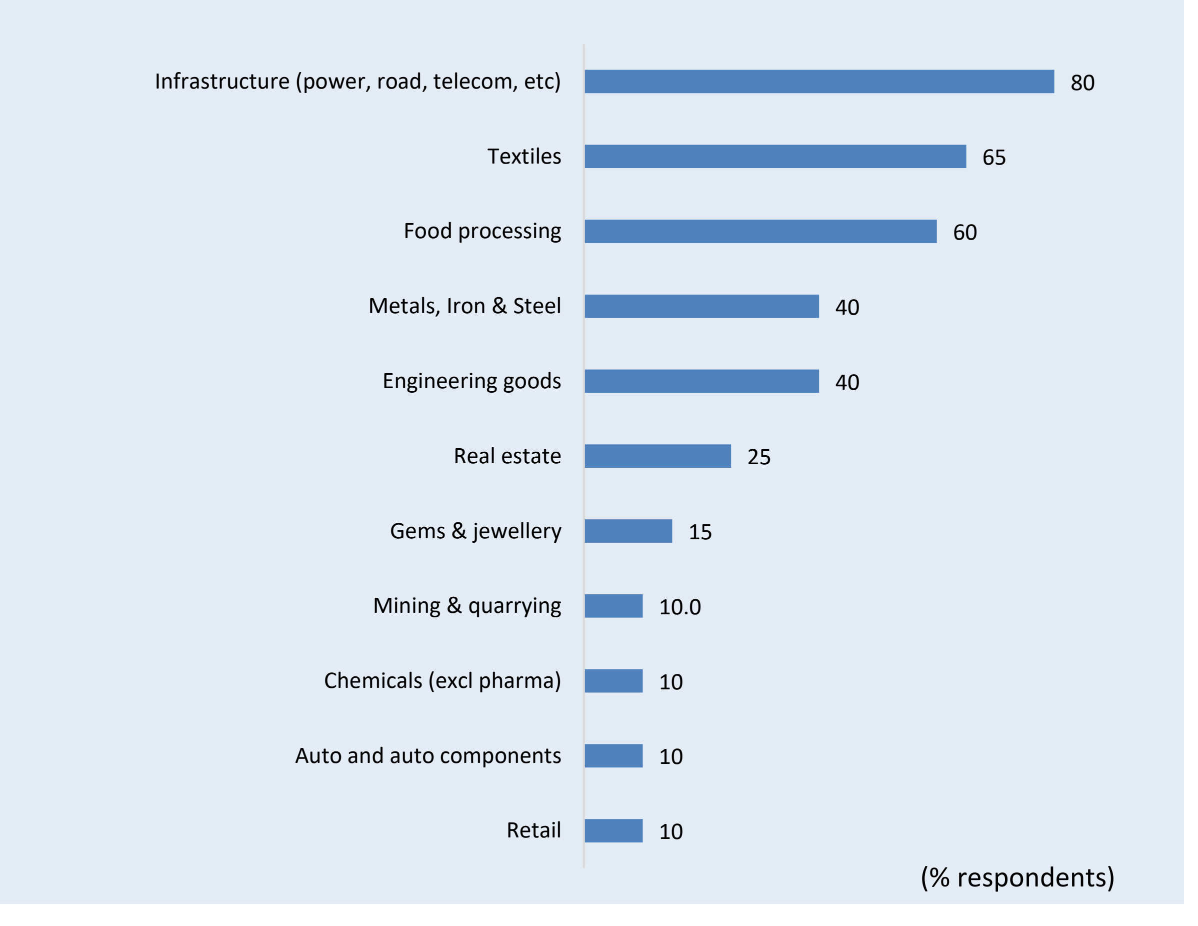
When compared across bank types, a large majority (70%) of participating Public Sector Banks reported a decrease in share of CASA deposits during the first half of 2023 while 30% respondents reported an increase. Amongst the private sector bank respondents, 56% reported a decrease in CASA deposits, while 22% reported an increase in share of CASA deposits. In contrast, half of foreign bank respondents reported increase in the share of CASA deposits in total deposits.

Demand for Long-Term Loans

The current round of survey reveals that there has been increase in long term credit demand for some sectors. Infrastructure, Textiles and Food Processing continued to witness a rise in long term credit in the past six months. In the current round of the survey, 80% of respondent banks have indicated infrastructure as the core sector seeing a rise in long-term loan disbursements, which is higher than the previous round, when 57% of respondents had reported so. In contrast, 57% of respondents in the previous survey had identified chemicals as a key sector seeing rise in long term loan disbursements, while only 10% have done so in the current round of the survey.

According to the survey respondents, sectors such as Metals, Iron & Steel and Engineering goods have also witnessed accelerated long-term loan disbursements in the past six months (January to June 2023).

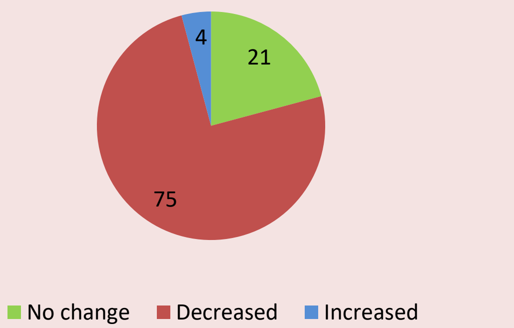
Sectors witnessing increase in long term loan disbursements in last six months



State of NPAs and Stressed Assets

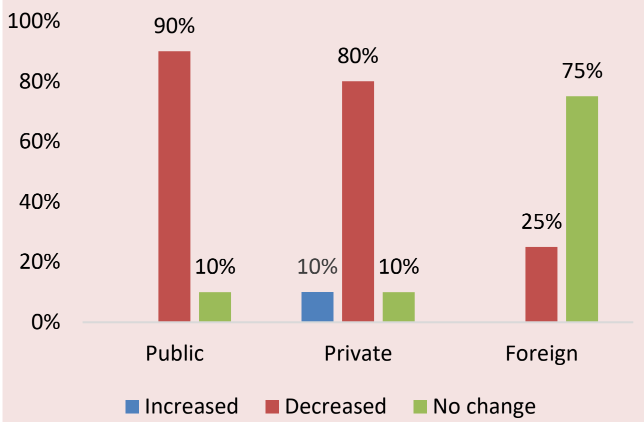
A large majority (75%) of the respondent banks reported a decrease in the NPA levels in the last six months as compared to 90% in the previous round. An overwhelming 90% Public Sector Banks have cited a reduction in NPA levels while amongst participating Private sector banks, 80% banks have cited a decrease. None of the respondent Public Sector Banks and Foreign banks have stated an increase in NPA levels over the last six months.

Change in the level of NPAs



(% respondents)

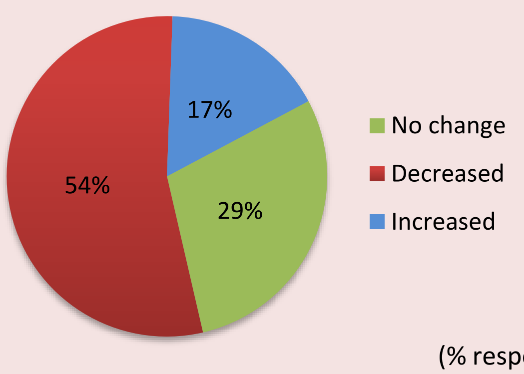
Bank Wise Increase/Decrease in level of NPAs

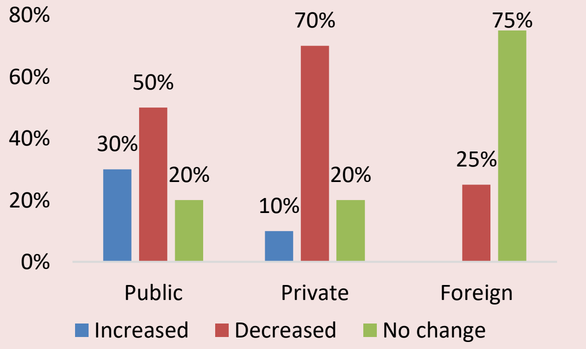


(% respondents)

More than half (54%) of respondents have reported decrease in requests for restructuring of advances in the current round of the survey as compared to 76% in the previous round. The proportion of respondent banks citing an increase in requests for restructuring of advances has increased to 17% from 5% in the previous round. Bank-wise analysis reveals that 50% of participating PSBs have cited a decrease in requests for restructuring of advances while 30% of such respondents have reported increase in such requests. In case of participating Private sector banks, a huge majority (70%) of respondent banks have cited a decrease while just 10% have stated that there was an increase in restructuring over the last six months. A large proportion of participating Foreign banks (75%) have cited no change in restructuring while 25% stated a decrease over the last six months.

Requests for Restructuring of Advances over last six months

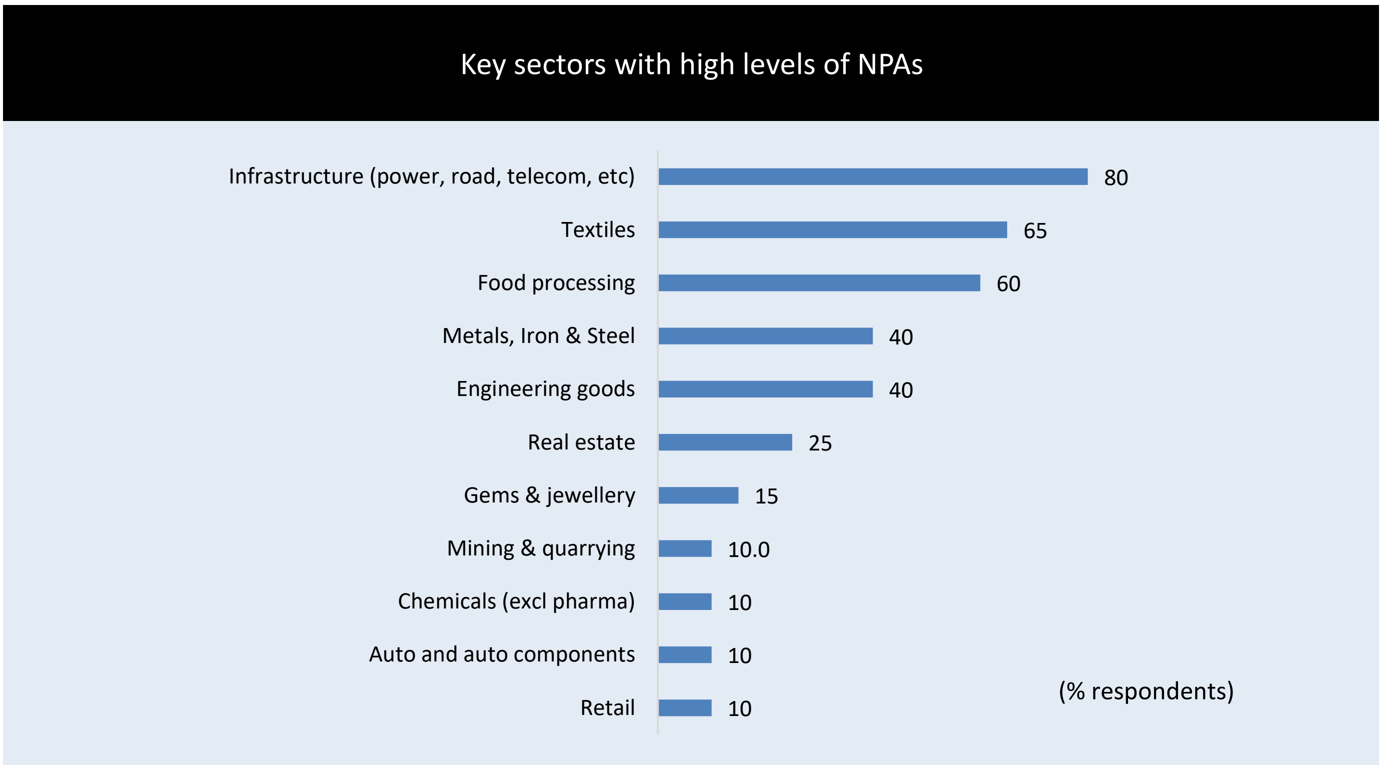




(% respondents)

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, Textiles and Food Processing. Other sectors identified as high NPA sectors include Metals and Iron & Steel and Engineering Goods.



Trend in NPAs in key sectors

Even amongst some of the sectors that continue to show high level of NPAs, there has been a decline in NPA levels in the first half of 2023 as against the previous six months.

- In case of Infrastructure, which has been cited as sector with high NPA levels by 80% respondents, 75% of such respondents have reported a decline in NPAs over the last six months and 19% have reported a rise.

- For Textiles, which has been reported to have high NPA level by 65% respondents, over half of such bankers have reported a decline in NPA levels during the first half of 2023 while 15% reported an increase.

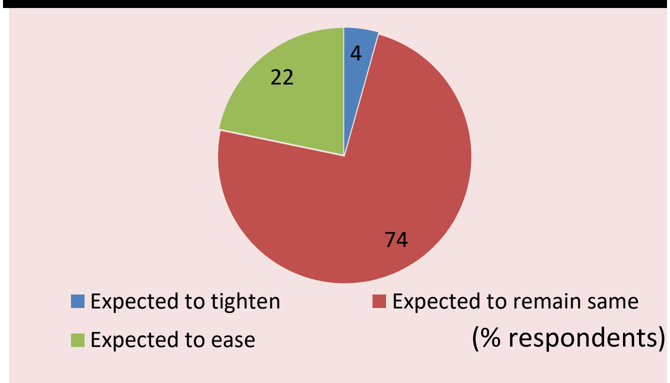
- In case of Food Processing, which has been identified as high NPA sector by 60% respondents, 58% of such respondents reported a decrease in NPA levels over last six months while 33% of such respondents reported no change.

Expectations and Outlook on Credit

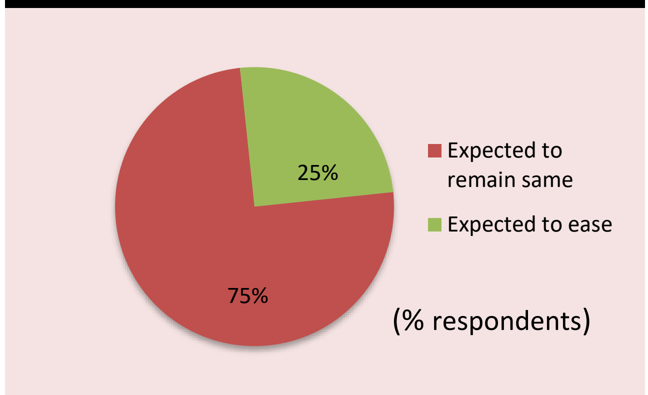
The survey suggests that the outlook on expectation on growth of non-food industry credit over next six months is optimistic with 42% of the participating banks expecting non-food industry credit growth to be above 12% as compared to 36% in the previous round. 21% respondents expected non-food industry credit growth in the range of 10-12%. Further, 33% of the respondents were of the view that non-food industry credit growth would be in the range of 6%–8%.

The outlook on credit standards for the next six months largely remains unchanged with respect to large enterprises. A large majority of respondent bankers (74%) continue to expect credit standards to remain same. Similarly for SMEs, three-fourth of respondent bankers in the current round feel that credit standards would remain same going forward.

Credit standards for large enterprises

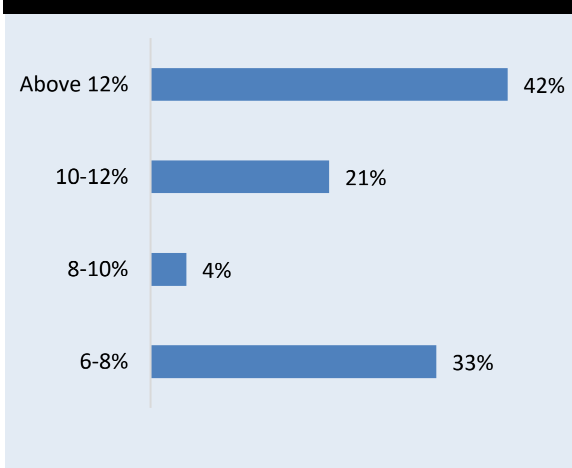


Credit standards for SMEs

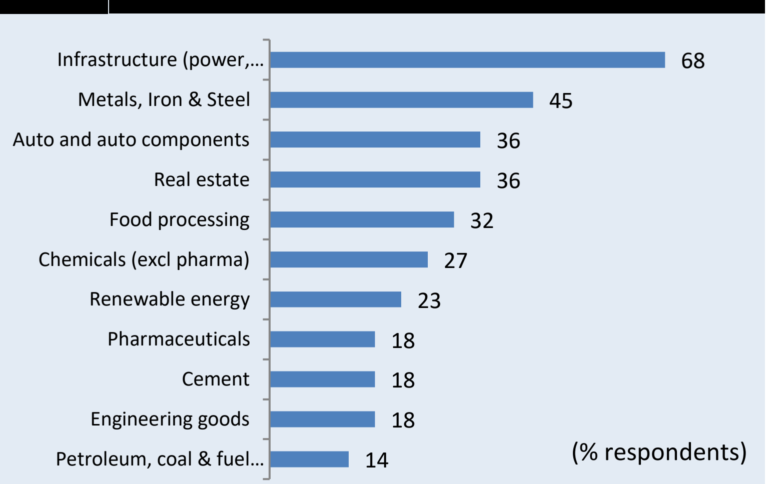


In the current round of survey, 68% of respondent banks expect Infrastructure sector to see a rise in long-term credit. 45% of the respondent banks expect the Metals, Iron & Steel sector to witness an increase in demand for long term credit going forward. Other key sectors expected to see a rise in long term credit include Auto and auto components, Real Estate and Food Processing.

Expectation on growth of non-food industry credit



Sectors expected to see rise in long term credit

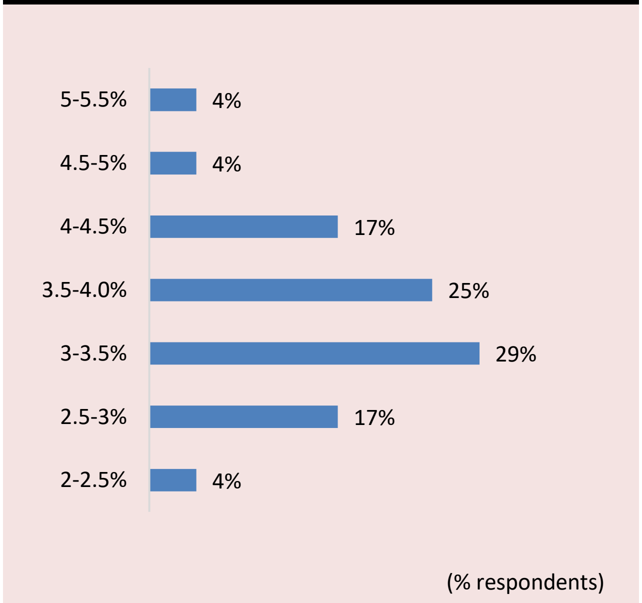


Outlook on NPAs

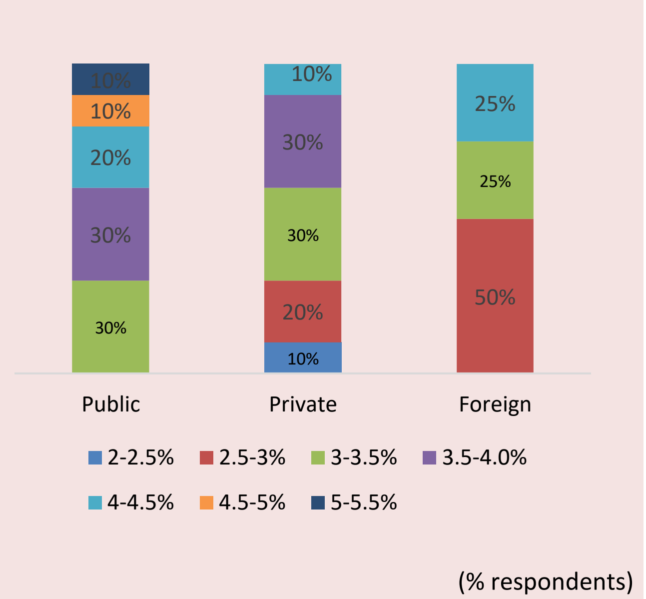
The gross NPA of Scheduled Commercial Banks of India was at a decade low of 3.9% at the end of March 2023, as per latest Financial Stability Report by the RBI. Respondent banks were more sanguine about the asset quality prospects in the current round of the survey, cushioned by policy and regulatory support and this was reflected in the survey results. 54% of the respondent banks in the current round believe that Gross NPAs would be in the range of 3% – 4% over the next six months. 17% respondents are of the view that NPA levels would be in the range of 2.5 – 3% and the same proportion of respondents (17%) also expect gross NPAs to be in the range of 4% – 4.5%.

A large majority (60% each) of Public Sector and Private sector Bank respondents expect gross NPAs to be in the range of 3% – 4% while 50% of the responding foreign banks largely expect NPA levels to be in the range of 2.5% – 3%.

Expected NPA levels over the next six months



Bank Wise Expected NPA levels



Resilient domestic economy, pick up in credit growth supported by the government capex, robust recovery mechanism, high provisioning and high write-offs were cited as the key factors by respondent bankers who expect asset quality to further improve over the next six months. As per respondents, some of the sectors that may continue to show NPAs over next six months include Textiles and garments, MSME, Aviation, Agriculture and Retail Trade.

Experience with DBUs

Banks were asked to share their experience with regard to Digital Banking Units (DBUs). A large majority of banks stated that the customer response and visitor footfall in DBUs was encouraging. Banks were of the view that DBUs would help in furthering the digital transformation due to its cost effective, convenient access and enhanced digital experience.

Benefits of DBUs as cited by respondent banks

- By eliminating long queues and filling out endless forms, DBUs offer customers the convenience of accessing banking services anytime.
- Account holders of DBUs have shown the tendency to adopt banking services digitally through various primary channels such as Debit/ Credit Card, UPI, QR Code, Self Service Passbook Printers (SSPBP), etc.
- Customers are interested in utilizing the services of DBUs for opening of accounts, activation of mobile banking, ATM cash withdrawal, chequebook issuance, statement generation, PAN card updation, FD/RD opening, submission of form 15G/15H, Net banking, QR code, UPI, etc.
- DBUs are successful in terms of expanding digital penetration among retail and corporate customers.
- Small and medium-sized shops, which are proprietorship and partnership firms, find DBUs useful. DBUs are providing QR codes to them, and they are using digital modes of payment.

Start-up Funding

Banks were asked to share their level of preparedness regarding startup up funding. Most respondent banks reported that they are well-equipped in terms of capital and have also built start-up verticals catering to this requirement. Respondent Banks, however pointed out that as the startup ecosystem is dynamic, there is always a room for improvement.

Measures suggested to encourage start-up funding

- **Simplified Loan Processes**: Streamlining loan application and approval processes specifically tailored for startups will make funding more accessible for new startups, will improve Turnaround Time (TAT) and will also enhance customer satisfaction.
- **Dedicated Startup Financing**: Banks could establish specialized divisions or departments that focus on catering to the unique financial needs of startups. This shall include offering customized loan products, mentoring services, and financial advice.
- **Risk Mitigation**: Banks should collaborate with government and private entities to establish risk-sharing mechanisms or credit guarantee schemes for startup loans. This will help reduce the risk perception associated with startup funding and will encourage the banks to provide more financial support, specially to the new startups.
- **Collateral Alternatives:** Startups often struggle to provide traditional collateral. Banks may explore alternative forms of collateral, such as intellectual property rights, equity stakes, or future cash flows, to enable the startups to access bank funding.
- **Fostering Innovation Ecosystems**: Banks may actively participate in fostering startup ecosystems by partnering with incubators, accelerators, and venture capital firms. This collaboration can provide banks with valuable insights into emerging sectors, potential investment opportunities, and allow for more informed decision-making.
- **Financial Literacy Programs**: Enhancing financial literacy among entrepreneurs and startups can also help them in understanding the banking processes, loan structures, and available funding options. Banks can organize workshops, webinars, or online resources to educate startups on financial management and investment opportunities.
- **Collaboration with Fintech Startups**: Leveraging the capabilities of fintech startups, banks can embrace digital innovations such as online lending platforms, AI-based credit assessment tools, and digital payment solutions. Collaborating with fintech startups can enable banks to streamline processes, improve efficiency, and reach a wider startup audience.
- **Separate liquidity window:** A separate liquidity window from RBI for sourcing the funds for on lending to start ups will help. This funding, if provided at a reasonable (concessional) rate by the regulator will provide some cushion on Net Interest Income for the banks against a moderately higher level of NPAs envisaged in this segment.

Respondents Profile

Twenty-four Banks responded to the survey, representing a mix of public sector, private sector and foreign banks. Together, these banks constitute about 79% of the total banking asset size.