FICCI

Indian Banks' Association

FICCI-IBA Survey of Bankers

Issue 9

January – June 2019

Survey Findings – Summary

The ninth round of the FICCI-IBA survey was carried out for the period January to June 2019. A total of 23 banks including public sector, private sector, foreign and small finance banks participated in the survey. These banks together represent over 67% of the banking industry, as classified by asset size.

With the formation of new government at the Centre, Bankers were asked to identify some of the key priorities that government should focus on to address the major challenges being faced by the economy today. A large number of participating bankers have mentioned that addressing agriculture distress should be the top priority for the government. This would require undertaking reforms in the sector and strengthening the agricultural value chain.

For the financial sectors, participating bankers were of the opinion that there should be capital infusion in public sector banks and measures should be taken to address the stress in the NBFC sector. These responses were received just before the release of the Union Budget 2019-20 and in-fact, the Union Budget did lay a special emphasis on the banking and financial sector, including capital infusion of Rs. 70,000 crore into public sector banks and the proposal to provide one time six months' partial credit guarantee to Public Sector Banks for first loss of up to 10% for purchase of high-rated pooled assets of financially sound NBFCs. These measures should help in addressing the liquidity constraint and ensure greater lending to support growth.

The current round of the Bankers' survey too presented an improved picture of the changing trend in NPAs. As per the current round of survey, the proportion of respondent banks citing a reduction in NPAs stood at 52% as against 43% in the previous round. Amongst the public sector banks, about 55% of reporting Public sector banks have cited a reduction in NPA levels. Amongst the key sectors with high level of NPAs, many respondent bankers have indicated a reduction in NPAs in those sectors. Amongst the respondents stating infrastructure as high NPA sector, about 63% have reported a decline in NPA in this sector during the last six months. Likewise, 57% of respondents citing Engineering goods as high NPA sector have mentioned a reduction in NPA levels in this sector, and about 92% of those indicating metals/ iron & steel as high NPA sector have indicated a decline in NPAs in that sector over the last six months.

From February to June 2019, RBI has done three consecutive repo rate cuts of 25 bps each. As per the survey, 48% of the responding banks reduced the MCLR by upto 20 bps during the last six months. In case of term deposits above one year, 39% of the responding banks have decreased interest rates by upto 50 bps while 30% have not changed the rates. For term deposits below one year, majority respondents (57%) have not changed the interest rates, while 22% have reduced it by upto 50 bps.

Survey Findings – Summary

While a large majority of respondent banks (70%) reported a rise in share of CASA deposits in the first half of 2019, this is lower as compared to 78% of respondents received in the last round of the survey.

In terms of the composition of loans and advances, there has not been any change observed in the current round as compared to the previous round of the survey. The share of retail loans has been 45% while that of corporate loans has been 55% as was the case in the preceding round.

Some of the key sectors that are expected to see higher credit in the next six months as identified by participating bankers are Infrastructure, Metals, Real estate, Auto & auto components, Pharmaceuticals and Food processing.

The bankers were asked their views on the setting up of a Development Finance Institution (DFI) for lending to large scale and long-gestation projects such as infrastructure. The Union Budget 2019-20 has also indicated that government will be examining such proposal. Majority of the banks were of the view that establishment of DFI will help in boosting the flow of credit to infrastructure sector and will help in addressing the asset-liability problem faced by banks. Bankers were also of the view that source of funds will be an important factor in success of such DFIs. Respondent banks also suggested raising long-term finance from infra-bonds, equity, budgetary allocation from government. They also mentioned that tax exemptions can be given for investment in infra-bonds.

Bankers also shared their views on the effectiveness of Cash-In-cash-Out (CICO) network as suggested by the high level panel led by Nandan Nilekani on deepening of digital payments. Respondent banks agreed that such network will help in deepening digitization in areas where bank outreach is less or negligible. However, they have also sounded caution on such moves. Banks further gave suggestions to make CICO network more effective by including mechanisms built-in regulations to prevent fraud.

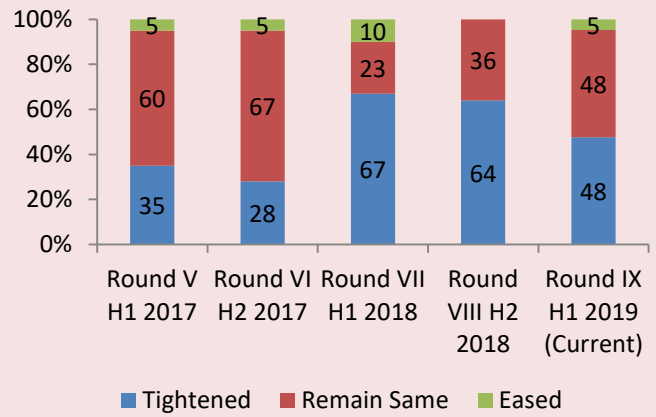
Bankers were also asked about their views on opportunities for India in wake of the ongoing trade war between US and China. While responding bankers indicated some of the potential sectors where Indian exporters could benefit in the US and Chinese markets, they also suggested improving economy's competitiveness by enhancing ease of doing business as well as through greater focus on developing infrastructure. They also suggested resolving trade disputes with the US and attracting greater investments from the country.

Change in Credit Standards

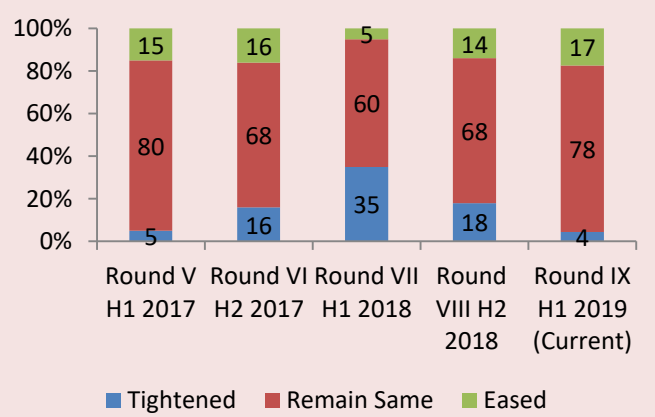
In the current round of survey, 48% of respondent banks reported tightening of credit standards for large enterprises as against 64% in the last round indicating improvement in funding. Further, credit standards have remained the same for 48% of the respondents as against 36% in the last round.

Only 4% of the respondents reported tightening of credit standards for SMEs as against 18% in the last round. Majority of respondent banks (78%) have reported no change in credit standards for SMEs and 17% of the respondents reported an easing of credit standards for SMEs.

Credit standards for large enterprises (% respondents)

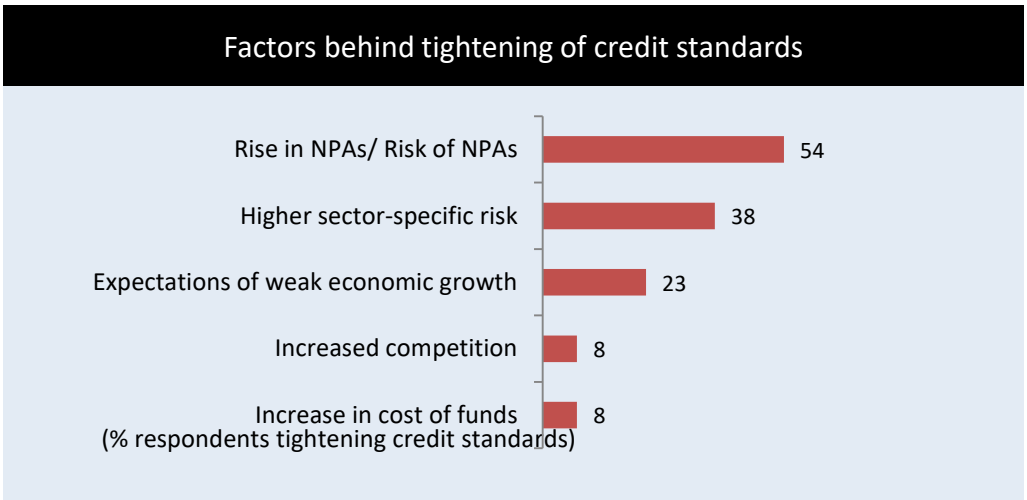


Credit standards for SMEs (% respondents)



Out of the respondents reporting a tightening in credit standards, 54% have cited a rise in NPAs, 38% cited higher sector-specific risk and 23% cited expectation of weak economic growth as factors for doing so. Other reasons cited include increased competition and increase in cost of funds. While the first two reasons showed decline in the percentage responses, the remaining three showed increase in percentage of responses than in the previous round with weak growth showing spike in responses.

Factors behind tightening of credit standards

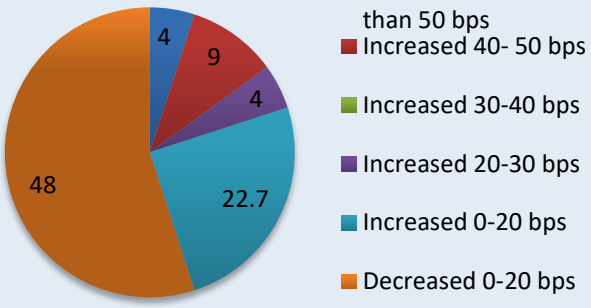


Movement in Marginal Cost of Lending Rates (MCLR)

In the first half of the year 2019, RBI has cut the repo rate thrice, lowering it by overall 75 bps. As per our latest round of survey, about 48% of the responding banks have reported a decrease in the MCLR during this period. However, the decrease in MCLR has been of 20 bps. Further, about 39% of the banks have also reported an increase in MCLR, with almost 23% reporting an increase of upto 20 bps.

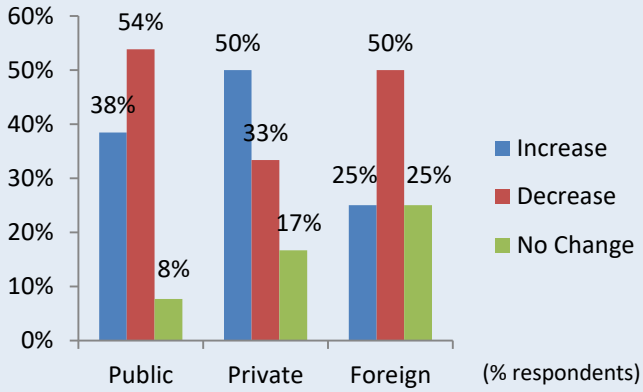
Among the respondents to the survey, 54% of the public sector banks have decreased their MCLR. However, 50% of the responding private banks have increased their MCLR. In case of reporting foreign banks, 50% cited a decrease in their MCLR, 25% cited no change while 25% reported a decrease.

Overall Change in MCLR



(% respondents)

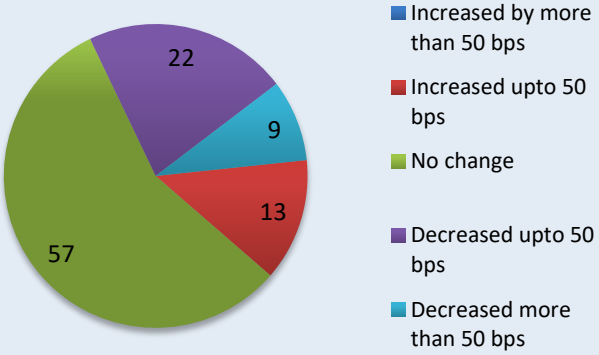
Bank Wise Change in MCLR



(% respondents)

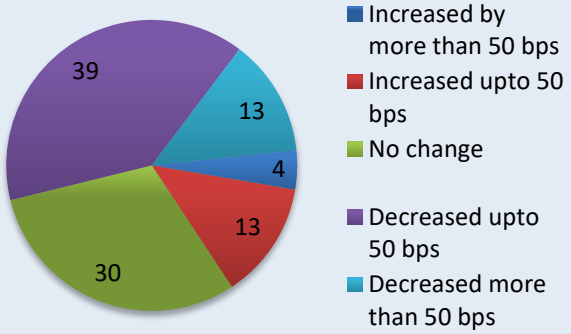
For term deposits below one year, 57% respondents did not change their term deposit rates, while 22% decreased it by upto 50 bps. In case of term deposits above one year, 39% of the responding banks decreased the rates upto 50 bps, 4% increased it by more than 50 bps and 13% increased by upto 50 bps. Further, 30% of respondents maintained the status quo and did not change the rates of their term deposits above one year.

Change in Term Deposit Rate - Below One year



(% respondents)

Change in Term Deposit Rate - One Year & above



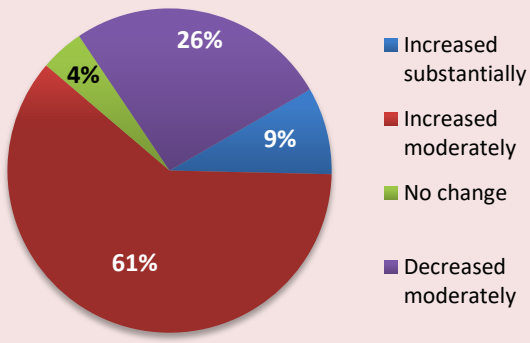
(% respondents)

Changes in Current Account and Savings Account Deposits

A large majority of respondents i.e. 70% reported an increase in share of CASA deposits during the period Jan-Jun 2019, with 61% reporting a moderate rise and 9% reporting substantial rise. However, this is slightly lower than the previous round of survey, wherein 78% had reported a rise in share of CASA deposits.

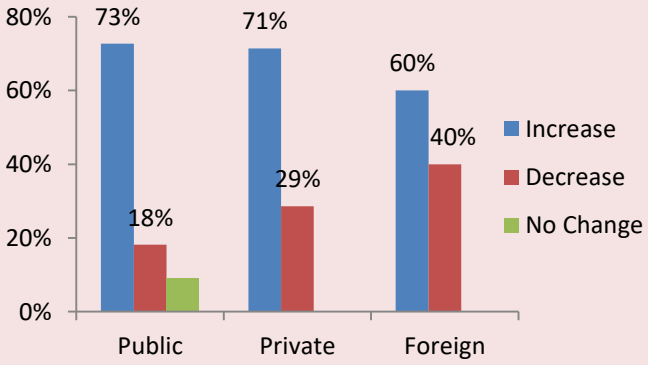
When compared across bank types, 73% public sector bank respondents experienced a rise in share of CASA deposits, followed by 71% private sector bank respondents and 60% foreign bank respondents reporting so. A few public sector banks reporting an increase in share of CASA deposits indicated that it has been due to conscious effort by banks to increase such deposits with a view to bring down the cost of deposits as CASA is considered as low cost deposits.

Change in share of CASA deposits to total deposits



(% respondents)

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

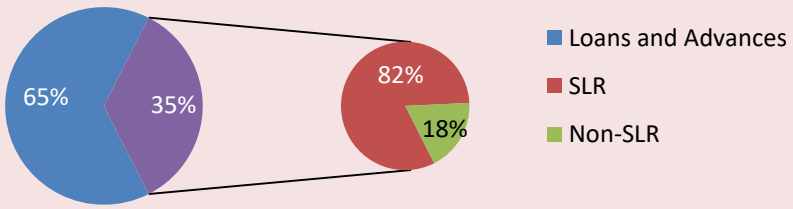


(% respondents by type of banks)

Composition of Funds Portfolio

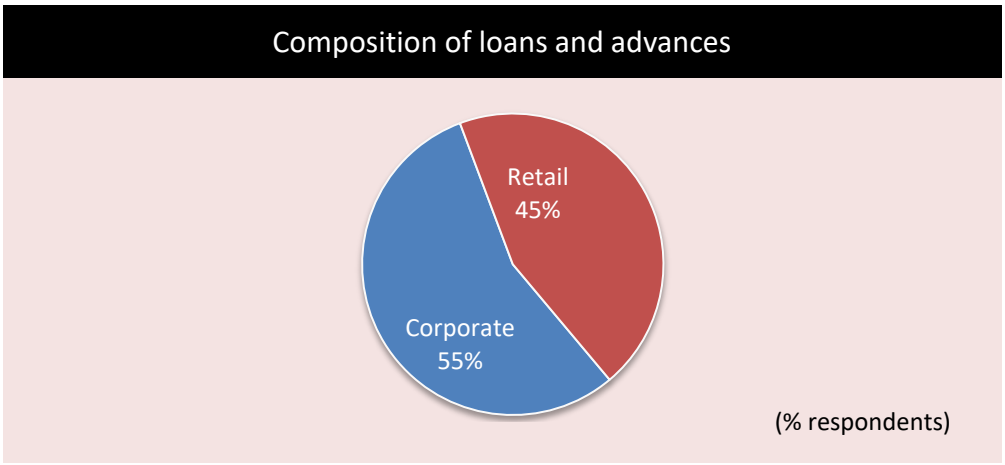
The composition of the respondent banks' portfolio in this round of the survey is quite similar to that of the last round. Loans and advances comprised of about 65% of the respondents assets as compared to 67% in the previous round. The ratio of investment between SLR and non-SLR too remains nearly the same as previous round, i.e. 82% SLR investments and 18% non-SLR investments.

Banks Portfolio : Loans and Investments

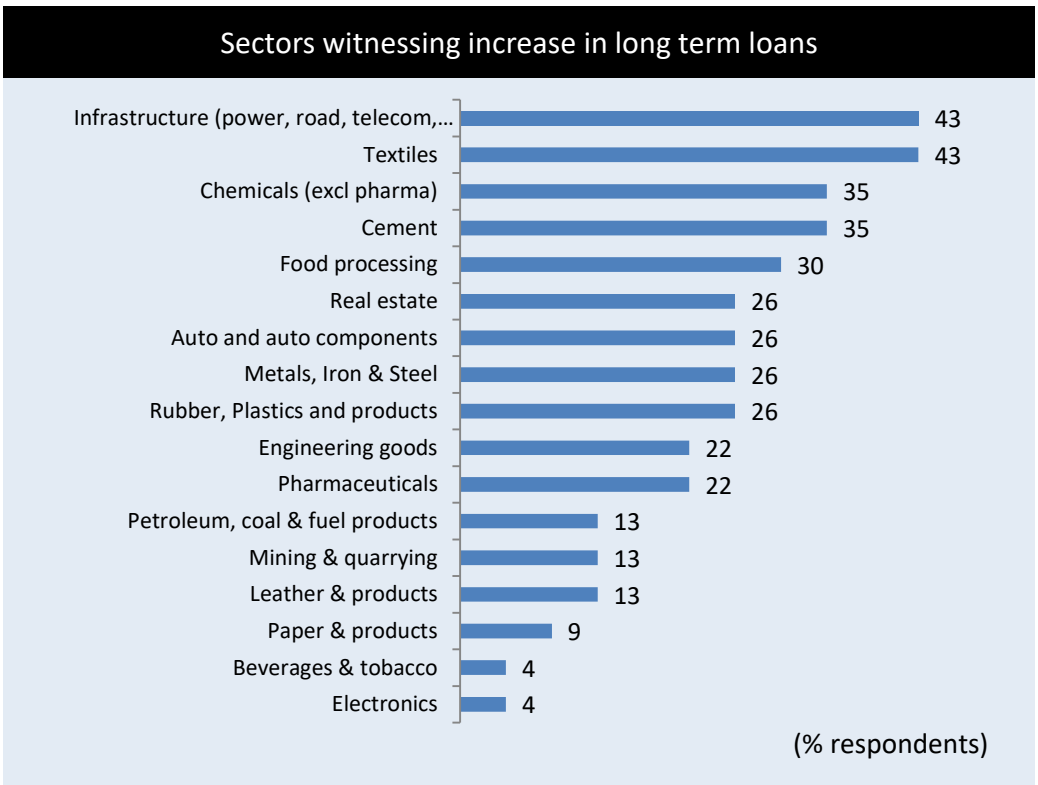


Composition of loans and advances

In the current round of the survey, the ratio of corporate loans and retail loans in the total loans and advances has remained at 55:45 as it was in the immediately preceding survey period.



Infrastructure, Textiles, Chemicals Cement, Food processing, Real Estate, Auto and Auto components, Metals, Rubber/ Plastics products and pharmaceuticals are witnessing a rise in long term credit according to the survey respondents.

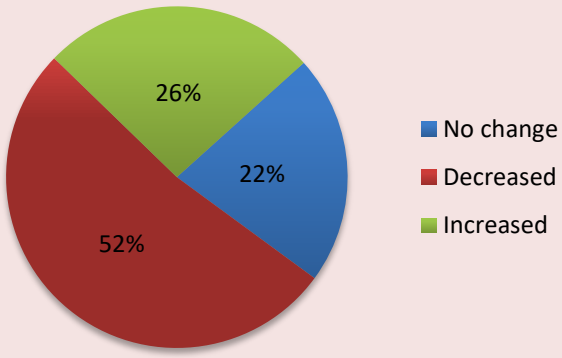


State of NPAs and Stressed Assets

During the first half of 2019, there has been an improvement in banking sector's health with majority respondents indicating a decline in the NPA levels. The proportion of respondent banks citing a reduction in NPAs in the current round of survey has increased to 52% as against 43% in the previous round. Also, the proportion of respondent banks reporting a rise in the NPA levels has reduced to 26% as against 35% in the preceding survey.

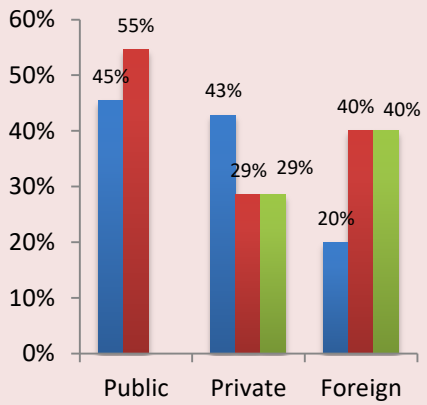
About 55% of participating Public sector banks have cited a reduction in NPA levels and about 45% have cited an increase. In case of participating Private sector banks, 29% have cited decrease and 43% have stated an increase in NPA levels over the last six months. 40% of the participating foreign banks have cited a decrease in NPA levels. For the industry, NPA level is decreasing .

Change in the level of NPAs



(% respondents)

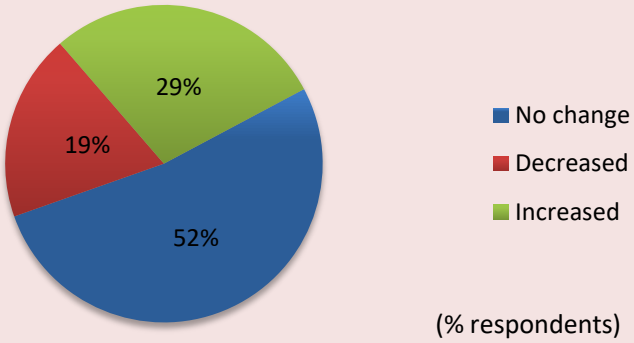
Bank Wise Increase/Decrease in NPAs



(% respondents)

In the current round of survey, 29% of the respondent banks have cited an increase in the requests for restructuring of advances. While 19% have stated a fall in number of such requests, 52% have reported no change in the number of such requests.

Requests for Restructuring of Advances

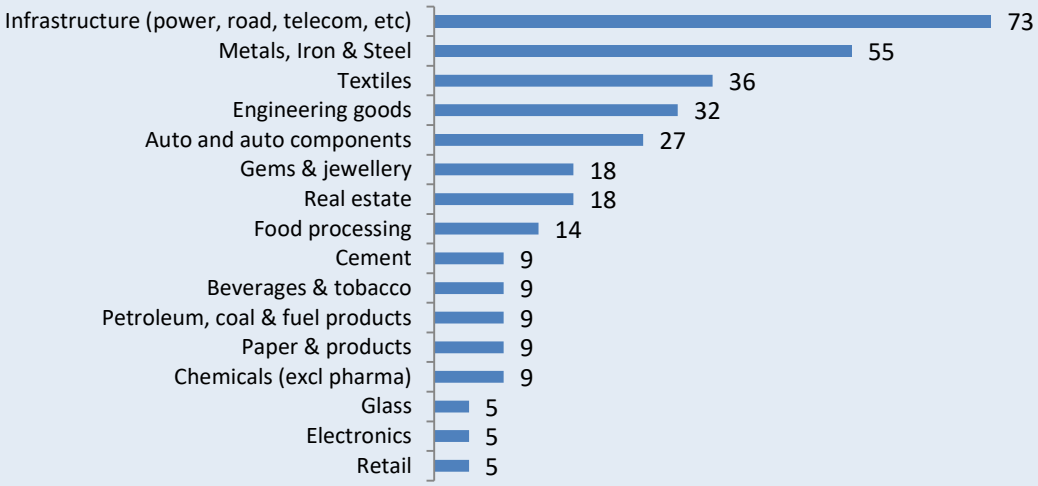


(% respondents)

Key Sectors with High Level of NPAs

According to survey respondents, major sectors with high levels of NPAs are Infrastructure, Metals and Iron & Steel, Textiles and Engineering Goods. Other sectors with high NPAs include Auto & Auto components, Gems & jewellery, and Food processing.

Key sectors with high levels of NPAs



(% respondents)

Trend in NPAs in key sectors

- While about 73% of respondents have cited infrastructure as the key sector with NPAs, about 25% of these respondents have reported an increase in NPAs from the sector during the last six months and 63% of them have reported a reduction in NPAs of the sector in the last six months. This is an improvement from preceding round of survey, when 42% of respondents had reported an increase.

- Amongst the respondents citing Metals, Iron and Steel sector with high NPAs, 92% of them have indicated a reduction in NPA levels in the last six months.

- A large proportion of respondents (57%) citing Engineering goods sector as a key sector with NPAs have reported a decrease in the level of NPAs in the sector.

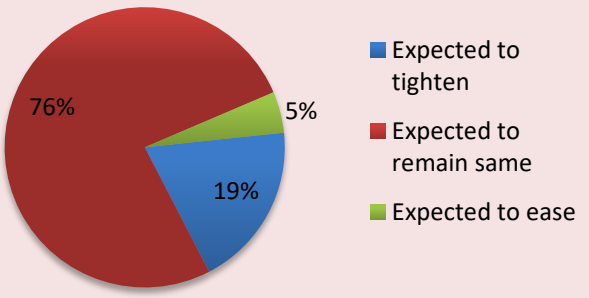
- In case of respondents citing high NPAs in textiles sector half have reported an increase in NPA levels and other half have reported a decline in NPA levels.

- In contrast, amongst the respondents citing auto and auto components as the key sector with NPAs, 50% of them have reported a decrease in NPA levels and 33% have reported a rise.

Expectations and Outlook on Credit

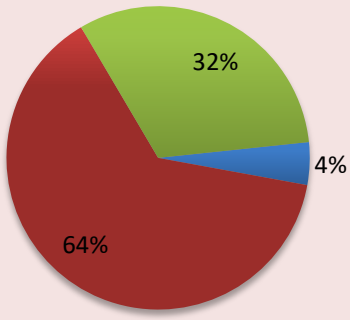
The expected pattern of credit standards largely remains the same for next six months. For the period July - December 2019, 76% respondents expect credit standards for large enterprises to remain same. Similarly, 64% respondents expect credit standards for SMEs to remain the same. 19% respondents expect further tightening of credit standards for large enterprises and only 4% respondents expect tightening of credit standards for SME units. Rather 32% of respondents expect credit standards for SMES to ease in the next six months.

Credit standards for large enterprises



(% respondents)

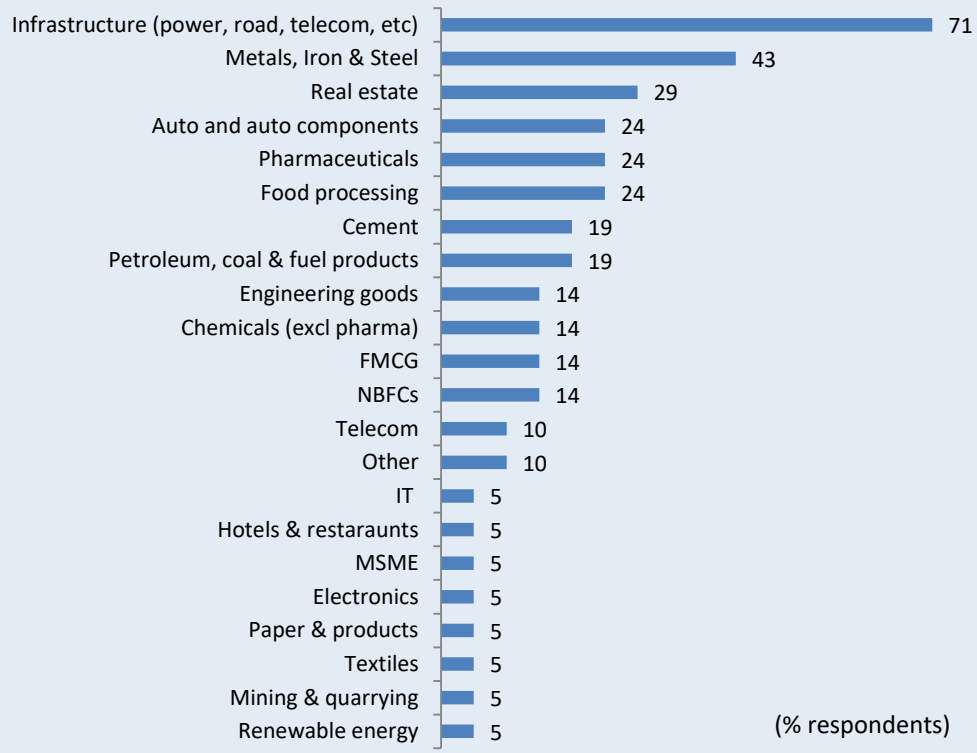
Credit standards for SMEs



(% respondents)

71% respondents stated Infrastructure as an important sector for credit growth. Other key sectors indicated to see rise in credit were Metals, Iron & Steel (43%). Respondents also mentioned other key sectors like Real estate, Auto and auto components, Food processing, Pharmaceuticals, etc.

Sectors expected to see rise in long term credit



(% respondents)

Priorities for the Government

Bankers were asked their views on the top three priorities of the new government for the economy

Views on key priorities for the newly elected government	*Majority of respondent banks believed that addressing agricultural distress should be one of the top priorities for the Government. They empahsised on undertaking reforms in the agriculture sector that aim at enhancing long-term productivity gains. Strengthening value chain in all segments – starting from production all the way to marketing and distribution is essential.*
	Concerted efforts are needed to address the financial sector challenges. Alongside the capital infusion in the public sector banks, government should also take measures to address the stress in NBFC sector.
	Ensure expeditious resolution of bad loans under IBC and speedy disposal of cases pending at DRT, SARFAESI to curb NPAs. This will free up resources for banks to lend further and support growth.
	Public investment in infrastructure and affordable housing should be increased to kick-start private investment.
	Reforms labour laws as part of ease of doing business.
	Government should take measures to increase tax revenues, which are critical for enhancing developmental expenditure. The government can consider bringing agricultural income above a certain threshold into tax net. Government should also simplify GST framework and lower GST rates to enhance tax compliance.

Views on Cash-In-Cash-Out (CICO) network

Bankers were asked about their views on the effectiveness of Cash-In-Cash-Out (CICO) network in promoting greater digitization and financial inclusion, suggested by high-level panel led by Nandan Nilekani Committee on Deepening of Digital Payments

Views on Cash-In-Cash-Out network	*The CICO network will result in greater digitization in areas where bank penetration is less.*
	It will help achieving financial inclusion objective in a more economical way as against setting up of ATMs/ Bank Branches. However, biggest challenge will be restricting fraud and providing financial literacy in rural and semi urban area.
	It will better understand the local nuances regarding last mile connectivity and preferences regarding digital payments.
	The model is yet to be picked up primarily because of absence of intermediaries who can act as Service Providers and due to cost and overheads for the banks.
	Beneficial for merchants as it improves cash management, saves efforts, time and resource for depositing cash in bank and avoids cash transit risk. Appetitie for cash by SMEs could also be a challenge.

Suggestion on CICO network	*Respondent banks suggested that mechanism should be put in place to prevent fraud*
	Subsequent investment in hardware/software infrastructure can well be channelled to incentivise cash less economy in rural India.
	Built in regulations to ensure that merchants also do purchase transactions on the terminals and not just make it a quasi ATM
	Bank mitras and banking correspondents can be used for cash withdrawal and deposit transactions.
	Making digital payments customer-friendly by spreading awareness, increasing customer confidence through standardization, support operability, safety concerns & continuous innovation

Views on establishing Development Finance Institution

Bankers were asked their views on establishing a Development Finance Institution (DFI) that can specifically focus on large scale and long-gestation projects

Views on Development Finance Institution	*Majority of banks were of the view that establishment of DFI will help in boosting the flow of credit to infrastructure sector*
	DFI will better understand the structure and funding requirements for complex projects and will also help in ensuring high underwriting standards
	Setting up of DFI will help in resolving the Asset-liability mismatch issues faced by banks
	On the other hand, some banks expressed apprehension on the DFI model given that there is not adequate fiscal space needed for supporting DFIs to access low cost funds. Additionally, it would lead to concentration of high-risk assets, which could result in higher NPAs in future.

Enablers for Development Finance Institution	*Respondent banks suggested that talent with required expertise in infrastructure lending, project appraisal and credit monitoring should be attracted*
	Long-term finance can be raised from infra bonds, equity, budgetary allocation from government, etc. Tax exemptions can be given for investment in infra bonds.
	Important to develop robust bond markets (which are currently shallow and illiquid) so that they have capacity to take up long term projects
	Establishment of standardized guidelines/ benchmark lending practices and termination payment mechanism for key sectors like roads, power, ports, etc.
	Easing approval mechanisms, reducing enforceability period and encouraging single window clearances thereby reducing time and risk in project execution
	Learnings from the past with respect to project finance by DFIs and PSBs should be incorporated while considering establishment of DFIs.

Views on opportunities for India amidst US-China trade war

Bankers were asked about their views on some perceived opportunities for India in wake of ongoing US-China trade war. Respondent bankers also gave specific suggestions on how India can expand its exports under such scenario.

- *Ease of doing business and focus in infrastructure can help increase economy's competitiveness and attract investment*
- *Redrawing the contours of bilateral trade treaties*
- *Resolving trade disputes with US thereby attracting US companies that are forced to shift their production base from China*
- *Higher domestic investments can help ease domestic bottlenecks which can help in increasing capacity of export-oriented units thereby boosting exports in the medium term*
- *Sector-specific focus needed in areas where India has potential to boost exports to US and China – need to increase competitiveness in these sectors by way of technology upgradation and capacity building*

Some products where Indian exporters have opportunity to expand exports in US and China Markets

Potential exports to US market	Potential exports to China Market
Textiles and Clothing	Copper ores
Handicrafts	Rubber
Leather	Paper/paperboard
Industrial valves	Equipment for transmission of voice/data in a wired network tunes and pipes
Vulcanized rubber	
Carbon or graphite electrodes	
Natural honey	

Respondents Profile

Twenty-Three Banks responded to the survey, representing a mix of public sector, private sector, foreign and small finance banks. Together, these banks constitute over 67% of the total banking asset size. Expectations are for the period July to December 2019.

