Indian Banks' Association

FICCI-IBA Survey of Bankers

Issue 3

January – June 2016

Survey Findings – Summary

The Third FICCI-IBA Bankers survey was conducted during July 2016 for the period January-June 2016. The survey saw a participation of 20 banks including public, private and foreign banks. Some of the key findings on the key operational areas of the banking sector are :

- Majority of participating banks have not reported any change in credit standards during the period January-June 2016 vis-à-vis the previous six months. However, about 44% of respondents have tightened their credit standards for large enterprises due to rising NPAs and higher sector-specific risk. In case of SMEs, about 16% of respondents have eased their credit standards vis-à-vis 24% reported in the earlier round due to higher provisioning and the asset quality review undertaken by the banks. A high majority of participating banks (91%) reported tightening lending standards due to higher provisioning of NPA, followed by higher sector specific risk prevailing in the economy.

- A majority 56% of the participating banks in the latest round of survey reported an increase in long-term loans especially in the infrastructure sectors namely, power, road, telecom. Other sectors witnessing higher credit growth include real estate sector and food processing industry .

- A majority 58% of the participating banks in the latest round of survey have reported a status quo on the base rates during January-June 2016 time period, indicating weak transmission of repo rate reduction into the lending rates. However, effective from 1st April, 2016, MCLR is operative and banks are reducing the MCLR along with deposit rates

- There has been a sharper reduction in term deposit rates by the participating banks. In case of short duration term deposits of less than one year, 60% of respondent banks have reduced rates by more than 50 bps, while in case of long duration term deposits of one year and above, 70% of respondent banks have reported reduction of more than 50 bps. Such reduction in rates may be attributed to reduction in repo rate by RBI, and nearly 60-130 bps reduction in interest rates offered by the Government on small savings schemes.

- In terms of Current and Savings Account (CASA) deposits, 75% of the respondent banks in the survey have reported a rise in CASA deposits during the period January-June 2016, backed by a healthy growth in the savings account deposits.

Survey Findings – Summary

- During the period January-June 2016, 56% of the participating bank's lending portfolio was directed towards corporate lending against 42% for retail lending. In the preceding round, the share of corporate loans and retail loans were 62% and 38% respectively. The increase in relative share of retail loans indicates the increased focus of banks towards the retail portfolio.

- In terms of the composition of banks' fund portfolio, loans and advances for the banks were 60%, followed by SLR requirements at 30%. The corresponding figure for share of loans and advances in the previous round was 68%.

- The profitability of the banks took a dip during January-June 2016 due to higher provisioning for NPAs. Majority of the participating banks i.e. 85% reported an increase in their NPA levels, amongst which all the Public Sectors Banks reported a rise in their NPAs. However, in terms of restructuring of advances, 32% of the respondents indicated a moderate decline in the number of cases requested for restructuring.

- Majority of participating banks believe that the Insolvency and Bankruptcy Code provides an effective mechanism for resolution of insolvency and will help Banks in their recovery efforts.

- Majority of participating banks expect that along with capital infusion, more steps are needed to beef up capital of banks'. Banks need to take measures such as improvement in internal processes, optimization of the capital allocation, rebalancing of loan portfolio in favour of retail loans, and raising resources through sale of non-core assets. Additionally, the Government can help in beefing up capital by diluting its equity in Public Sector Banks upto 51%, creating bad bank for one-time resolution of bad debts and through mergers and consolidation of banks.

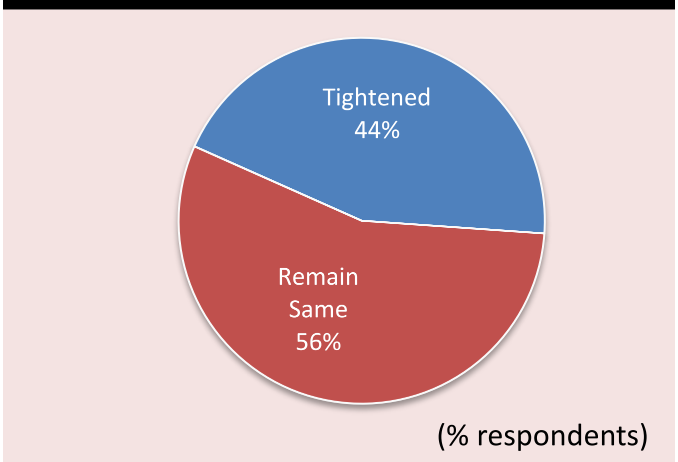
- Banks have welcomed guidelines for 'On Tap' Licensing of Universal Banks, which they believe will be effective in promoting competition in the banking sector and for achieving the objective of financial inclusion in India.

Change in Credit Standards

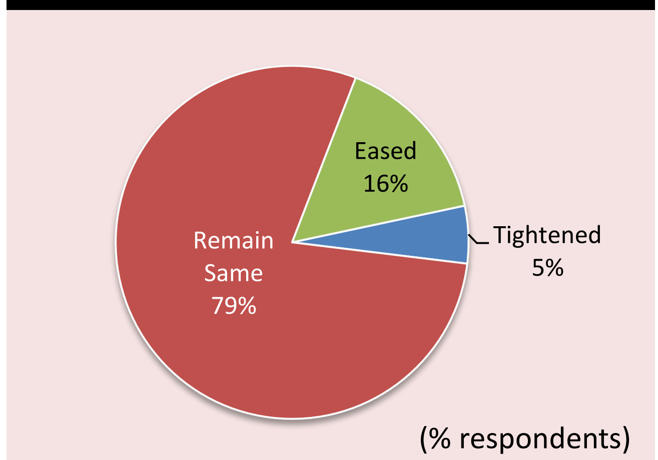
As per the survey findings, a majority 56% of the respondents reported no change in credit standards for large enterprises during January to June 2016 period. This is lower than the previous round of survey, when 59% of respondent indicated no change in credit standards for large enterprises. However, 44% of the respondents in the latest round of survey have reportedly tightened their credit standards for large enterprises vis-à-vis 35% in the previous round .

For SMEs too, majority 79% respondents continue to follow the same credit standards in the first half of 2016, however 16% of respondents have eased the credit standards for SMEs. In the previous round of survey (July-December 2015), 24% of the respondent banks had eased their credit standards for SMEs.

Credit standards for large enterprises

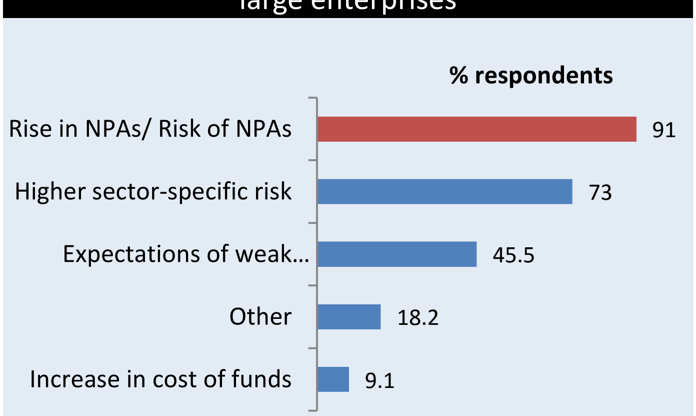


Credit standards for SMEs

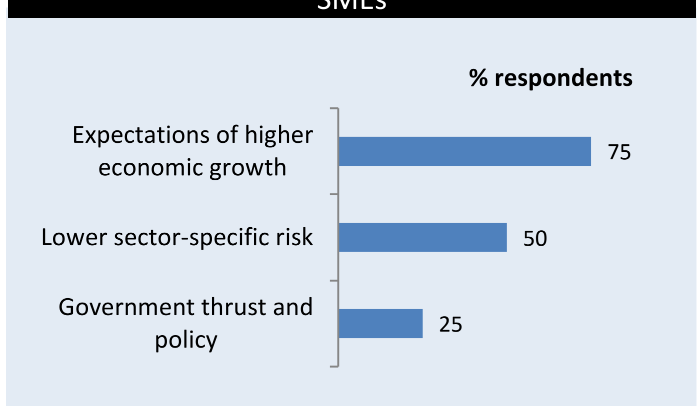


The key reasons for tightening of credit standards for the large enterprises include rise in the level of NPAs (reported by 91 % of respondent banks) along with higher sector-specific risk (reported by 73% of respondents). On the other hand, banks that have eased credit standards for SMEs reported higher expectations of economic growth in the economy.

Factors behind tightening of credit standards for large enterprises



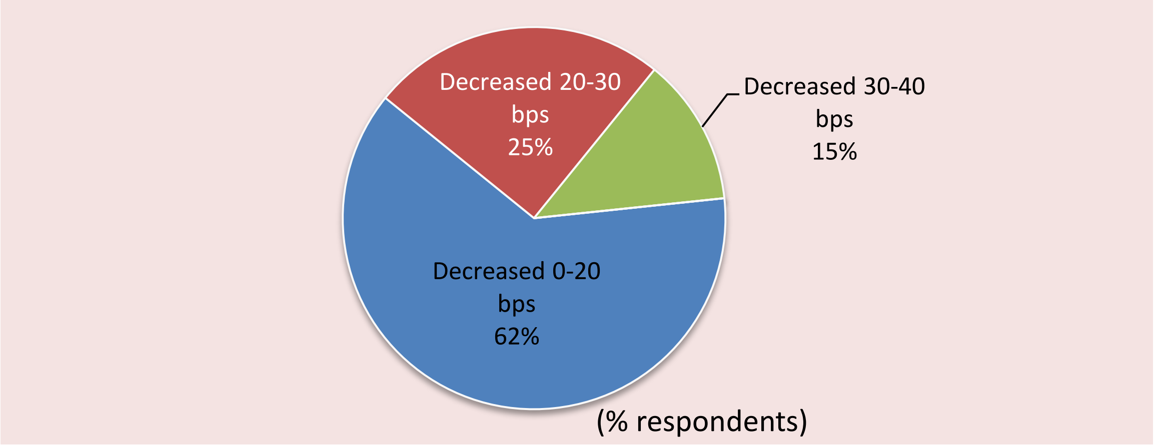
Factors behind easing of credit standards for SMEs



Movement in interest rates

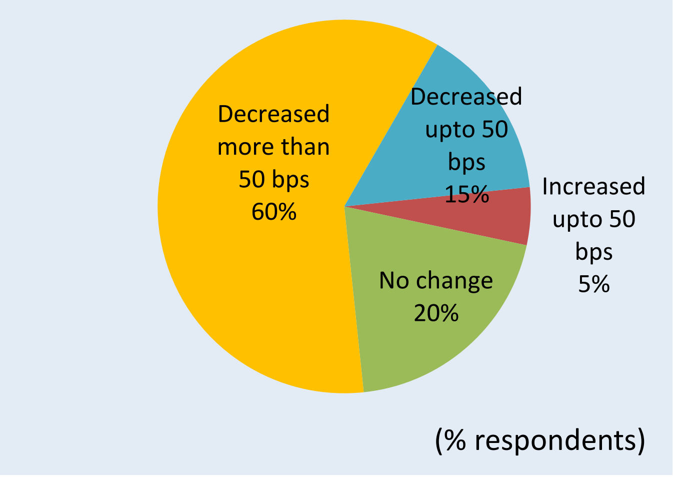
Majority of the participating banks i.e. 58% in the latest round of survey have reported a status quo on the base rates during January-June 2016 time period, whereas in the previous round of survey all the participating banks reported a fall in their base rates. Amongst the banks that have reduced their base rates in the January – June 2016 time period, 62% have reduced base rate by 0-20 bps, 25% by 20-30 bps and 15% by 30-40 bps.

Change in Base Rate by Banks

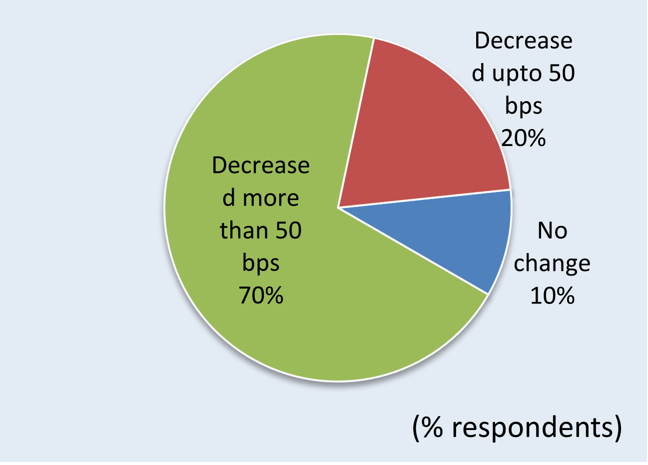


A majority of the respondent banks have reduced interest rates on term deposits. In case of short duration term deposits of less than one year, 60% of respondent banks have reduced rates by more than 50 bps, while in case of long duration term deposits of one year and above, 70% of respondent banks have reported reduction of more than 50 bps. Such reduction in term deposits rate could be attributed to the reduction in repo rate as well as the reduction in interest rates by almost 60-130 bps on small savings schemes by the Government.

Change in Term Deposit Rate - Below One year



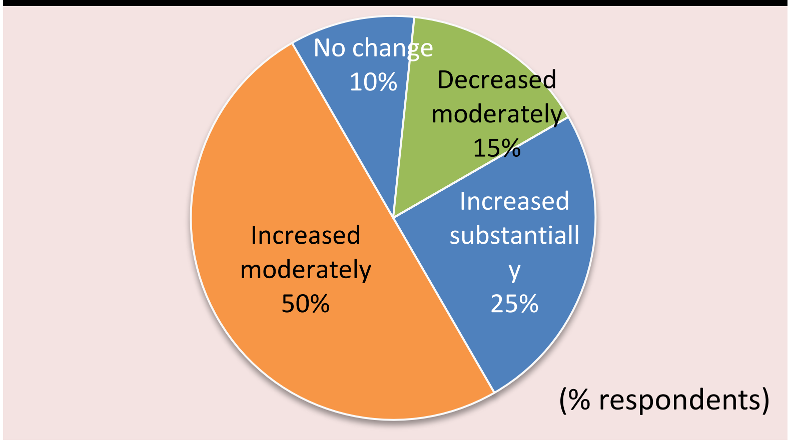
Change in Term Deposit Rate - One Year & above



Changes in Current Account and Savings Account Deposits

Similar to the previous round of survey, 75% of the respondent banks in the survey have reported a rise in their CASA deposits during the period January-June 2016. Moreover, 25% of the banks this time around have reported a significant increase in their CASA deposits indicating a healthy growth in the savings account on the back of focused efforts towards mobilization of savings account, including offering of higher rate of interest.

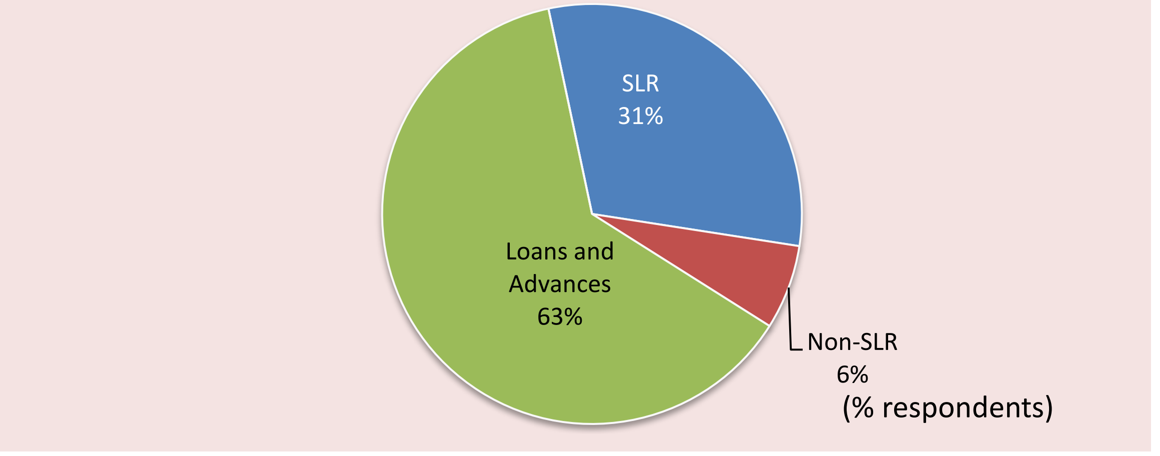
Change in share of CASA Deposits to total deposits



Composition of Funds Portfolio

During the period January – June 2016, participating banks have utilized on an average 63% of their funds towards loans and advances, and 36% towards investments, of which SLR investments are reported at 30% and non-SLR at 6%. In the previous round of the survey, the participating banks had reported an average 68% of funds being deployed towards loans and advances, 32% towards investments, of which SLR investments stood at 26% and non-SLR at 6%.

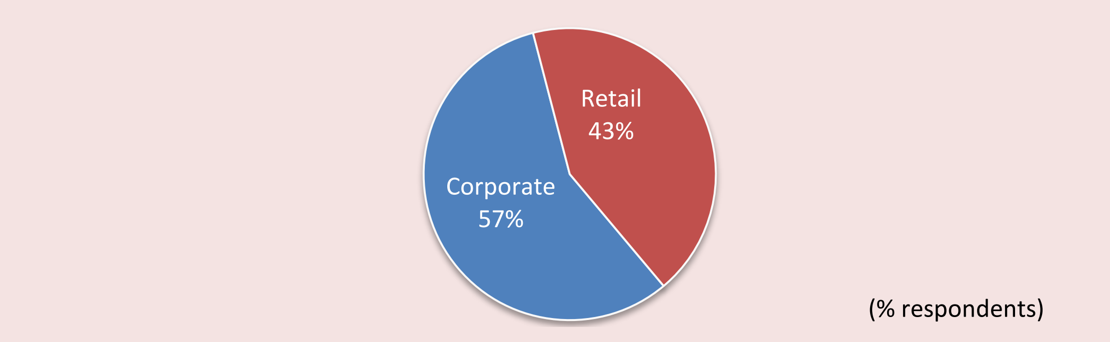
Banks Portfolio : Loans and Investments



Composition of loans and advances

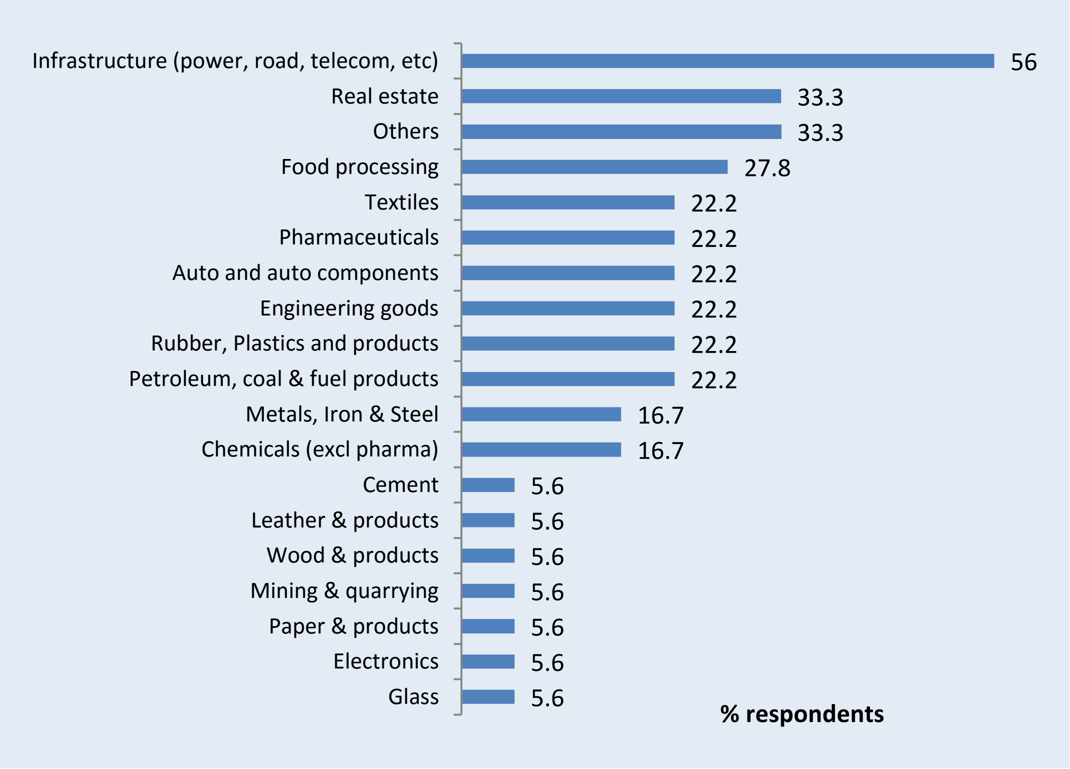
During the period January – June 2016, the corporate loans comprised 57% of total loans and advances of the participating banks vis-à-vis 43% of retail loans. In the preceding round, the share of corporate loans and retail loans were 62% and 38% respectively. The increase in relative share of retail loans indicates the increased focus of banks towards the retail portfolio.

Composition of loans and advances during Jan-July 2016



With respect to long term credit, 56% of the respondent banks have reported high demand from infrastructure sector during the period January – June 2016 vis-à-vis 65% of respondent banks that reported so in the previous round of the survey. The other key sectors which have seen a rise in long term credit of participating banks during January – June 2016 period include Real estate, Food processing, Textiles and Auto components.

Sectors witnessing increase in long term loans

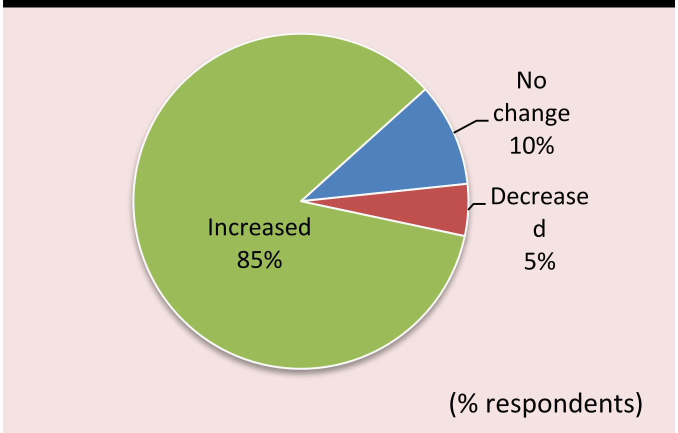


State of NPAs and Stressed Assets

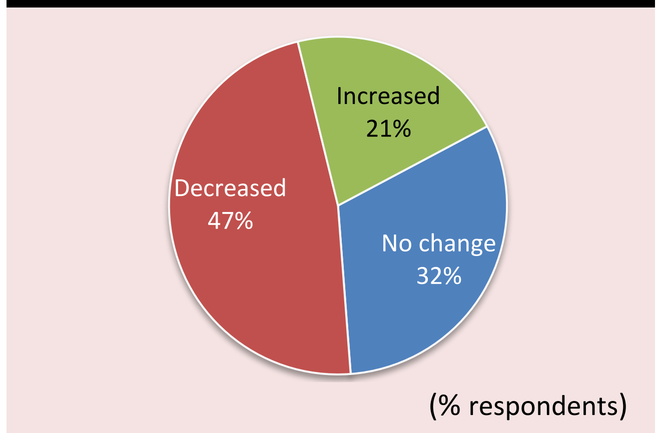
As per this round of survey, 85% of participating banks have reported a rise in the level of NPAs during the period January – June 2016. Amongst the participating public sector banks, all reported an increase in NPAs. In the previous round of survey, 76% of respondent banks had witnessed a rise in NPA levels.

In terms of request for restructuring of advances, 21% of the respondent banks in this survey reported a rise in the number of cases requesting for restructuring of advances vis-à-vis 53% in the previous round. Amongst the participating Public Sector Banks, 20% have reported an increase in the number of restructuring requests and significant 70% have reported a reduction in request for restructuring during January-June 2016.

Change in the level of NPAs

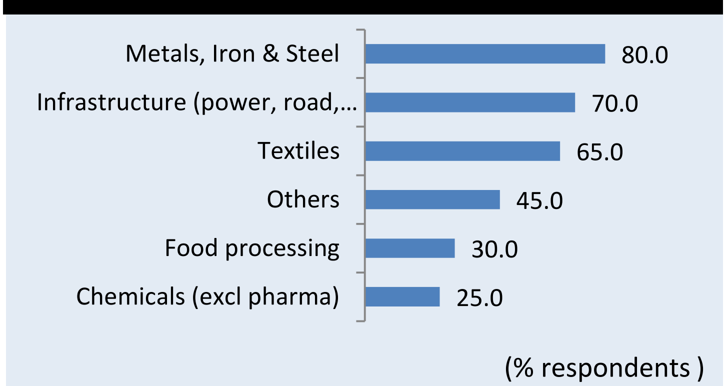


Requests for restructuring of advances



Similar to the previous round of survey, the latest survey shows that the major sectors that account for largest NPAs amongst the participating banks include infrastructure, metals, textiles, chemicals and food processing. 80% of the respondents indicated metals, Iron & steel as one of the sectors with largest levels of NPAs in their banks, followed by infrastructure (70% respondents), textiles (65% respondents), food processing (30% respondents).

Key sectors with high levels of NPAs



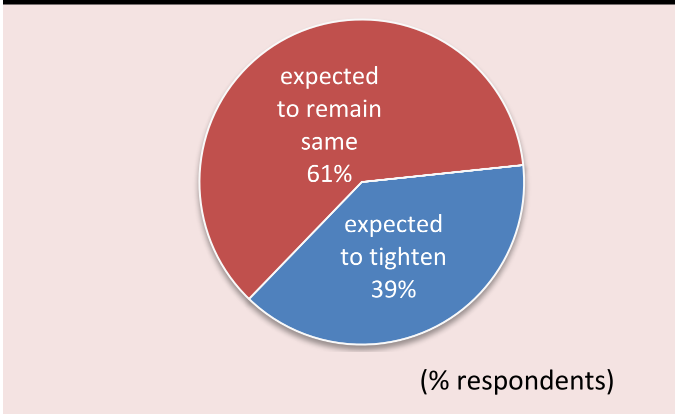
Sectors seeing rise in NPAs

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

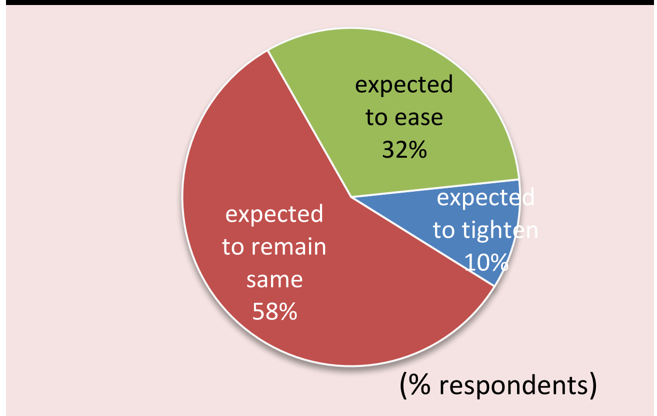
Expectations and Outlook

Majority of the respondent banks expect their credit standards to remain same for the period July-December 2016. However, 39% of the respondent banks have indicated tightening of credit standards for large enterprises going forward. With respect to the expected credit standards for SMEs, 32% of the respondent banks have indicated likelihood of easing of credit standards.

Credit standards for large enterprises

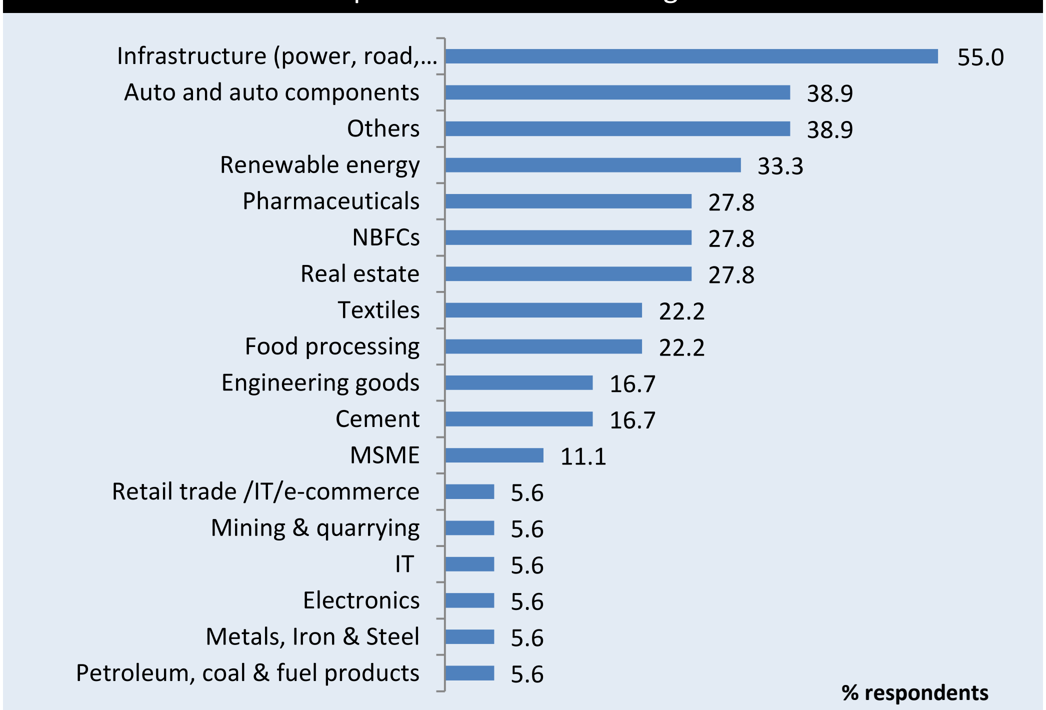


Credit standards for SMEs



The key sectors identified by the participating banks to see greater demand for long term credit in the second half of 2016 include infrastructure (cited by 55% respondents) auto components (cited by 39% respondents). Other sectors expected to see higher demand for long term credit as per survey findings include renewable energy, pharmaceuticals, textiles and real estate.

Sectors expected to see rise in long term credit



Views on the passage of the Insolvency and Bankruptcy Code, 2016

Majority of participating banks believe that the Insolvency and Bankruptcy Code provides an effective mechanism for resolution of insolvency and will help Banks in their recovery efforts	The new bankruptcy law consolidates multiple laws governing insolvency and liquidation proceedings in India into a single law, with tighter timeline for completing the resolution process.
	It will help in debt recovery and better enforcement of laws, thereby improving asset quality and resolving the problem of bad debts.
	It will aid early identification of financial failure and help to maximise asset value of insolvent firms.
	Implementation will remain the key, as the new code necessitates creation of a complementary eco-system including insolvency professionals, information utilities and a bankruptcy regulator.

Steps required to beef up capital of Indian banks, given the BASEL III obligations

Majority of participating banks expect that along with capital infusion more steps are needed such as improving their internal processes so as to enhance efficiency, optimize the capital allocation and deal with the asset quality issues which they are grappling at present.	**Internal measures by Banks**
	Focus on arresting the deterioration in asset quality through increased monitoring and rigorous appraisal, which will help in avoiding subsequent provisioning.
	Conservation of capital by rebalancing loan portfolio, particularly by increasing retail portfolio mix (as this portfolio carries lesser risk weightage in calculation of CRAR).
	Raising resources internally through monetising of non-core assets as well as selling stake in various subsidiaries
	Measures required from Government
	Dilution of Government's equity upto 51% in public sector banks to enable raising additional capital from the market
	Creation of Bad bank for one time resolution of bad debts
	Merger and consolidation of banks, and rationalisation of branches

Views on 'On Tap' Licensing of Universal Banks in the Private Sector

Banks have welcomed guidelines for 'On Tap' Licensing of Universal Banks, which they believe will be effective in promoting competition in the banking sector and for achieving the objective of financial inclusion in India.

Considered to be a step towards creating a more diversified and competitive banking sector.

Competition for Public Sector Banks expected to increase, particularly with respect to CASA and total advances.

Most participating banks have welcomed the exclusion of large corporates in the eligibility criteria, as it will help in keeping corporate and banking business separate.

One of the suggestions is to ensure that the licensing process is rule based and not discretion based.

Respondents Profile

Twenty Banks responded to the survey, representing a mix of public sector, private sector and foreign banks. Various indicators in the survey reflect information for the period January to June 2016. Expectations are for the period July to December 2016.

Profile of respondent banks (%)