FICCI-IBA Survey of Bankers

Issue 14

July – December 2021

Survey Findings – Summary

The fourteenth round of the FICCI-IBA survey was carried out for the period July to December 2021. A total of 23 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.

The Indian economy is gradually emerging out of the COVID-19 pandemic induced negative shock. Even as the pandemic resurgence risk has come to the fore again with a new more transmissible variant, its overall impact is expected to be less disruptive than previous waves due to higher vaccination coverage and booster shots. Moreover, the Government has been nurturing private investments through higher public capex spending on roads and other infrastructure and through a host of policy measures including the production linked incentive schemes (PLI) now extended to 14 sectors, PM GATI SHAKTI scheme and the National Infrastructure Pipeline. Over the short term, these measures should support demand and job creation, and in the medium-term lead to crowding-in of private investment.

The survey findings show that long term credit demand has been growing for sectors such as Infrastructure, Metals, Iron & Steel and Food Processing. In case of Metals, Iron & Steel, 59% of the respondents indicated an increase in long term loans as against 35% in the previous round while the Food Processing and Textile sector was indicated by 50% and 41% of respondents, respectively in the current round as against 20% each in the previous round.

The outlook on growth of non-food credit over the next six months remains modest with 74% of the participating banks expecting non-food industry credit growth to be in the range of 6-8%. Sectors such as Pharmaceuticals, Infrastructure and Metals, Iron & Steel are expected to see rise in long term credit in the first half of 2022 as reported by 57%, 52% and 38% of respondents, respectively.

An uptick in CASA deposits has been reported by a majority (86%) of respondent banks in the current round of the survey though 10% have reported only a substantial rise. The reasons cited by respondents for increase in the share of CASA deposits include increased focus by banks on low cost deposits, reduction in interest rate spread between the fixed deposit rate and saving deposit rate and enhanced desire for greater liquidity by households in the wake of the pandemic.

A large majority of the respondent banks (78%) reported no change in credit standards for large enterprises during the second half of 2021. However, on the positive side, the number of banks reporting tightening of credit standards during the second half of 2021 has further come down to 9% as against 15% in the previous round. Likewise for SMEs, as against 65% of the respondent banks reporting no change in credit standards in the last round, 52% of the respondents have reported the same in the current survey round. The credit standards are likely to remain unchanged even in the first half of 2022, as reported by a large majority of respondent bankers.

Survey Findings – Summary

A large majority (61%) of the respondent banks have cited an increase in requests for restructuring of advances while 22% of such respondents have reported a decrease in such requests. However, in terms of share of accounts being restructured, an overwhelming majority of the survey respondents have cited that the loans restructured are below 5%, both in terms of value and volumes.

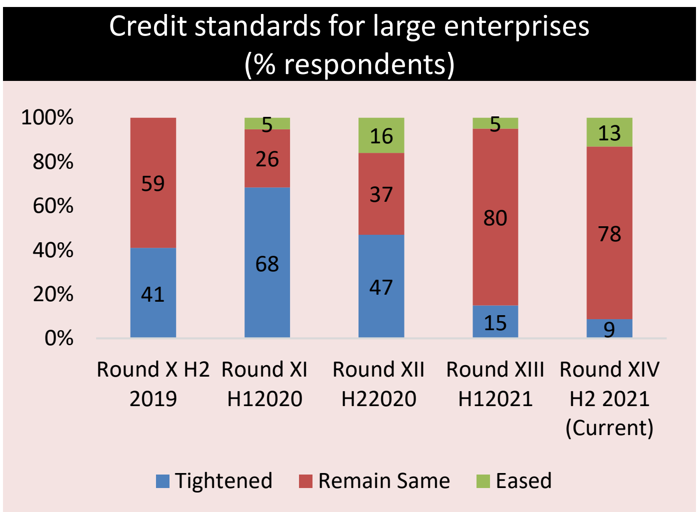
The findings signal an improvement in asset quality; as against 50% of the respondents who had reported an increase in the NPA levels in the last round of survey, only 27% respondents cited a rise in NPAs in the current round of survey. Importantly, 59% of respondents reported a decrease in the NPA levels in the last six months as against 35% in the preceding survey. Bank wise analysis reveals that an overwhelming 73% of participating Public sector banks have cited a reduction in NPA levels, and in case of participating Private sector banks, majority (50%) 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 Infrastructure, Textiles, Food Processing, Metals, and Iron & Steel.

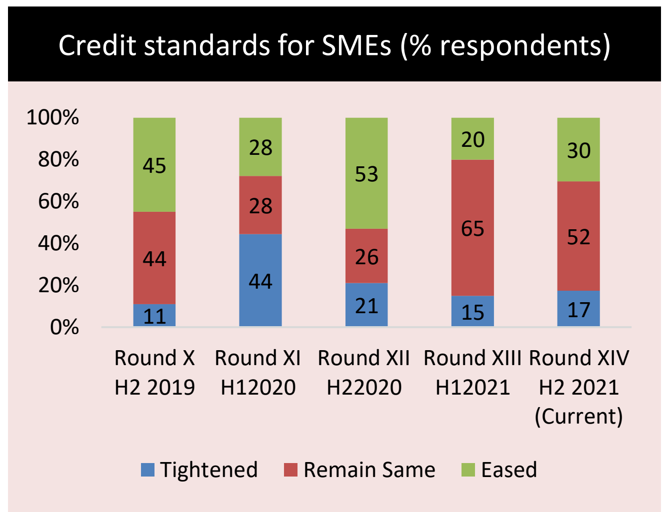
Going forward, majority (33%) of the respondents expect the NPA levels to be in the range of 8-9% as compared to 21% reporting so in the previous round. 29% of the respondents are of the view that NPA levels would be below 8%, which is higher as compared to 16% reporting so in the previous round. Lower slippages is on account of the pickup in economic activity and pick-up in capacity utilization, traction in resolution of the large value NPAs by way Restructuring (with/without Change in Management), assignment of debt at consortium level, One-time restructuring scheme, substantial increase in sale of the securities of NPA borrowers, visible improvement in demand & momentum in real estate were cited amongst 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.

Almost all respondent banks expect NPAs in tourism and hospitality sector to increase in the next 6 months, which is similar to that reported in the previous round. Other sectors in which majority respondents expect to see a rise in NPA levels include Aviation, MSMEs and Retail trade.

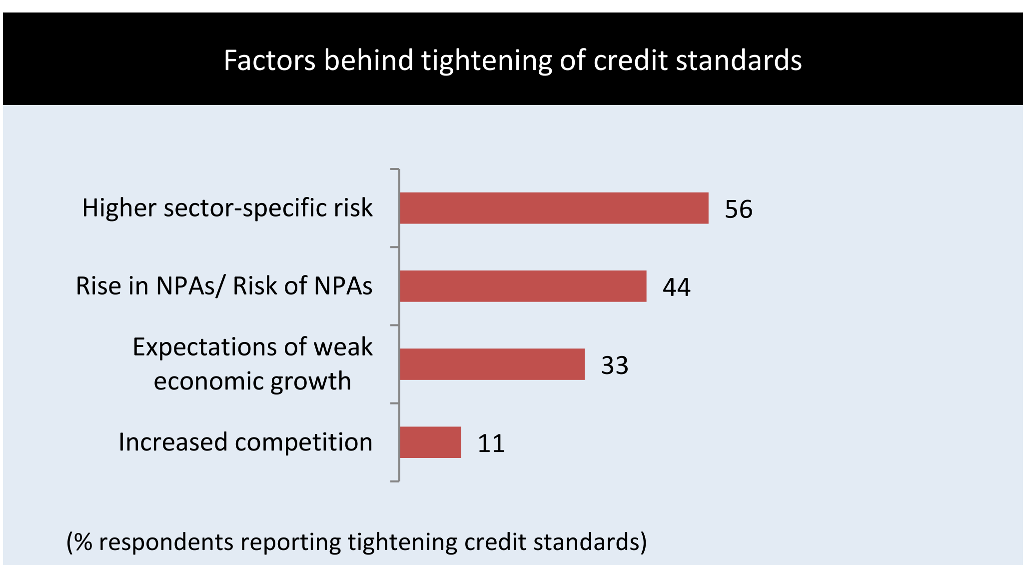
Change in Credit Standards

In the current round of survey, 78% of respondent banks reported credit standards for large enterprises remained unchanged as against 80% in the last round. The proportion of banks reporting tightening of credit standards during second half of 2021 has further come down to 9% as against 15% in the previous round. The respondents reporting easing of credit standards has increased in the current round to 13% as against 5% in the previous round. For SMEs, 52% of the respondent banks reported no change in credit standards, 17% have reported tightening and 30% have reported easing of credit standards.





Out of the respondents reporting a tightening in credit standards, 56% cited sector specific risks as the main factor, followed by rise in NPAs.

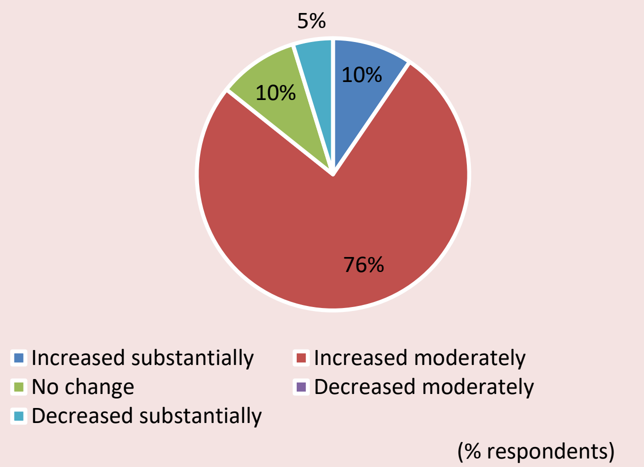


Changes in Current Account and Savings Account Deposits

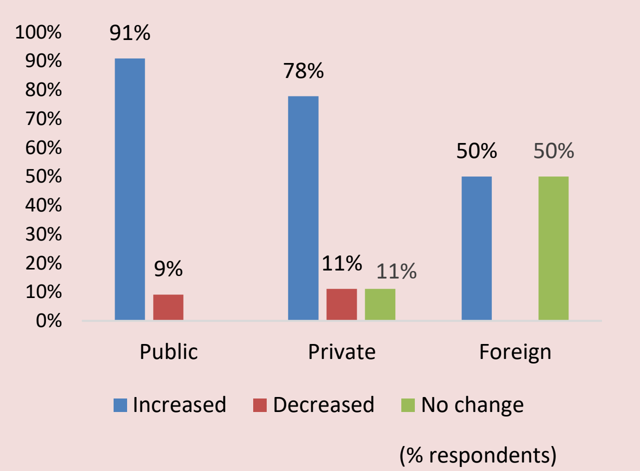
For the fourth consecutive round, an uptick in CASA deposits has been reported by a majority of respondent banks in the current round of survey. 86% of respondents have reported an increase in CASA deposits in the second half of 2021, of which, only 10% have reported a substantial rise.

When compared across bank types, a large majority (91%) of PSB respondents reported an increase in share of CASA deposits as against 75% in the previous round. 78% of private bank respondents and 50% of foreign bank respondents have cited an increase in the share of CASA deposits.

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



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



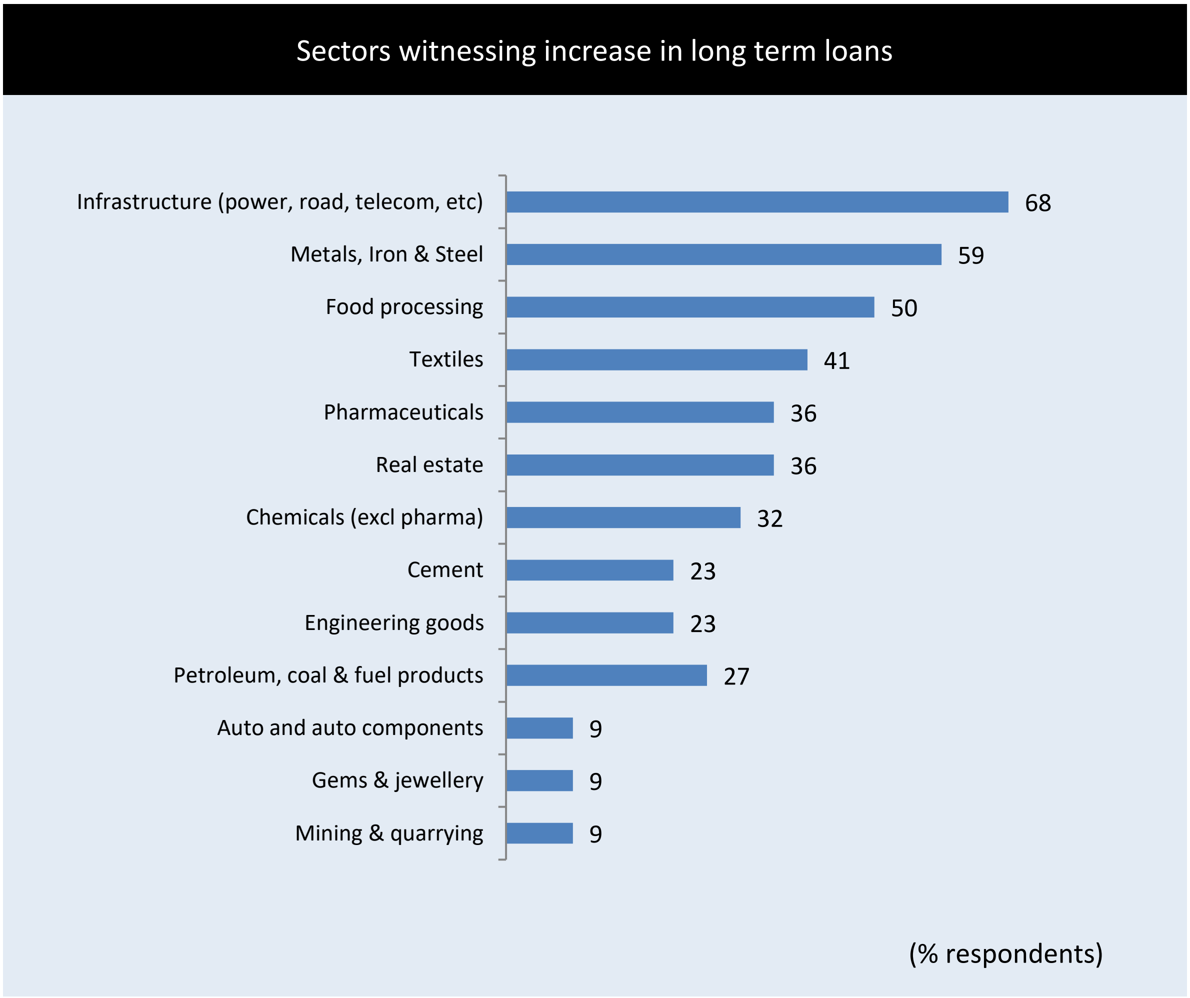
The reasons cited by respondents for the moderate increase in the share of CASA deposits include:

- 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 savings account in order to meet the emergency.
- Increased focus by Bank on low-cost deposits (CASA)
- Festive /seasonal buildup
- Strong Acquisition Focus, continued throughputs and flows from Fintech Partners

Demand for Long-Term Loans

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

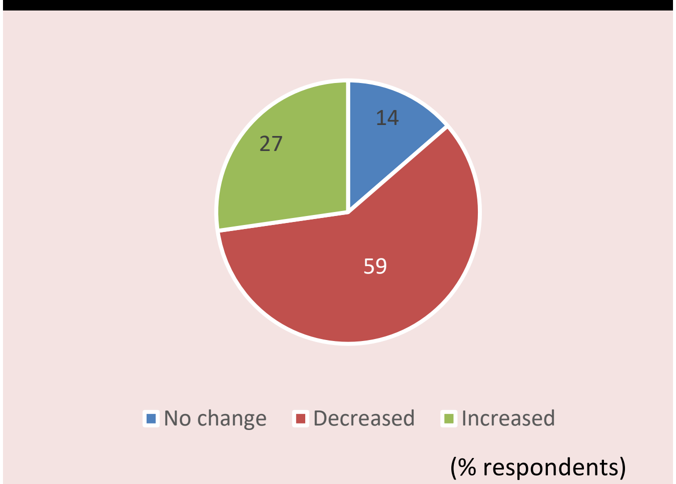
In case of Metals, Iron & Steel, 59% of the respondents indicated an increase in long term loans as against 35% in the previous round while the Food Processing and Textile sector was indicated by 50% and 41% of respondents, respectively in the current round as against 20% each in the previous round.



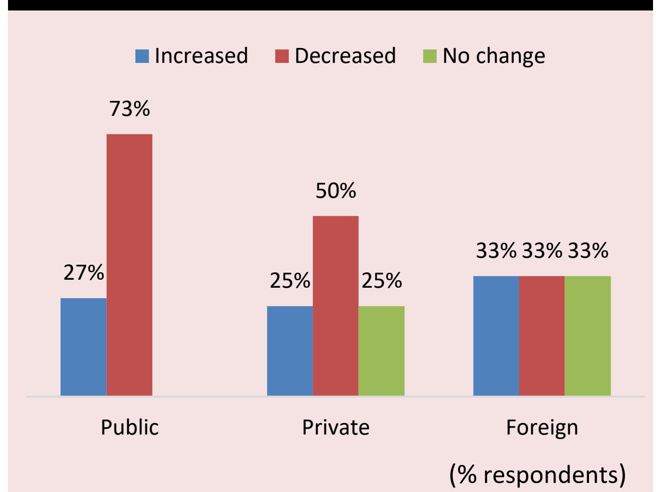
State of NPAs and Stressed Assets

As compared to the first half of 2021 in which 50% of the respondents had reported an increase in the NPA levels, the proportion of respondent banks citing a rise in NPAs in the current round of survey has nearly halved to 27%. Importantly, 59% of respondents reported a decrease in the NPA levels in the last six months as against 35% in the preceding survey. An overwhelming 73% of participating PSBs have cited a reduction in NPA levels while 27% have cited an increase. In case of participating Private sector banks, majority (50%) of respondent banks have cited a decrease and another 25% have stated an increase in NPA levels over the last six months. An equal proportion of participating Foreign banks (i.e. 33% each) have cited increase and decrease in NPA levels over the last six months.

Change in the level of NPAs

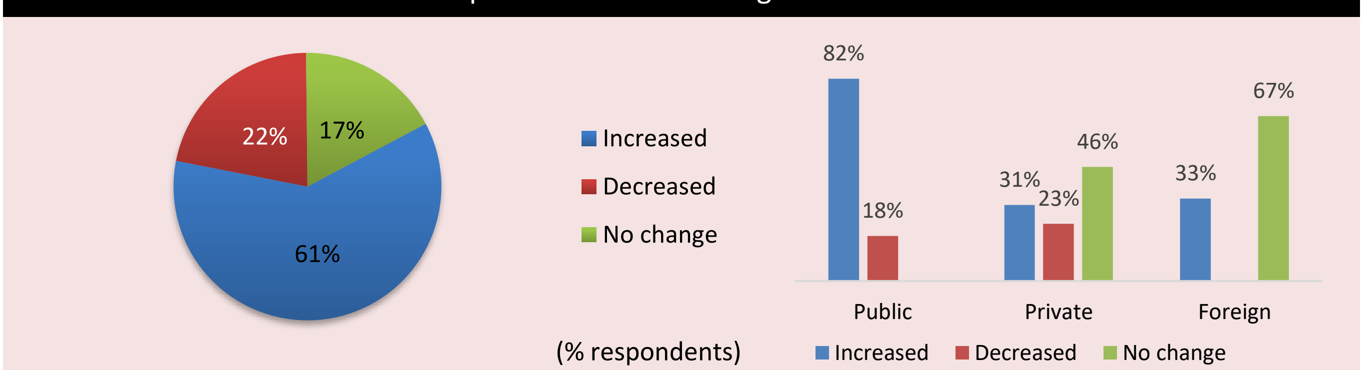


Bank Wise Increase/Decrease in NPAs



A large majority (61%) of the respondent banks have cited an increase in requests for restructuring of advances which is lower than 80% of response received in the previous round while 22% of such respondents have reported decrease in such requests. Bank-wise analysis reveals that 82% of participating PSBs have cited an increase in requests for restructuring of advances. In case of participating Private sector banks, 31% of respondent banks have cited an increase while 46% have stated that there was no change in request for restructuring over the last six months. A large proportion of participating Foreign banks (67%) have cited no change in restructuring while 33% stated an increase over the last six months.

Requests for Restructuring of Advances



Restructuring of Advances

Due to stress arising out of Covid-19, RBI had announced a Resolution Framework 2.0 for Covid Related Stressed Assets of Individuals, Small Businesses and MSMEs. Restructuring under the proposed framework was to be invoked by 30th September, 2021 and was to be implemented within 90 days after invocation. An overwhelming majority of survey respondents have cited that the loans restructured - both in terms of accounts and amounts - are below 5%.

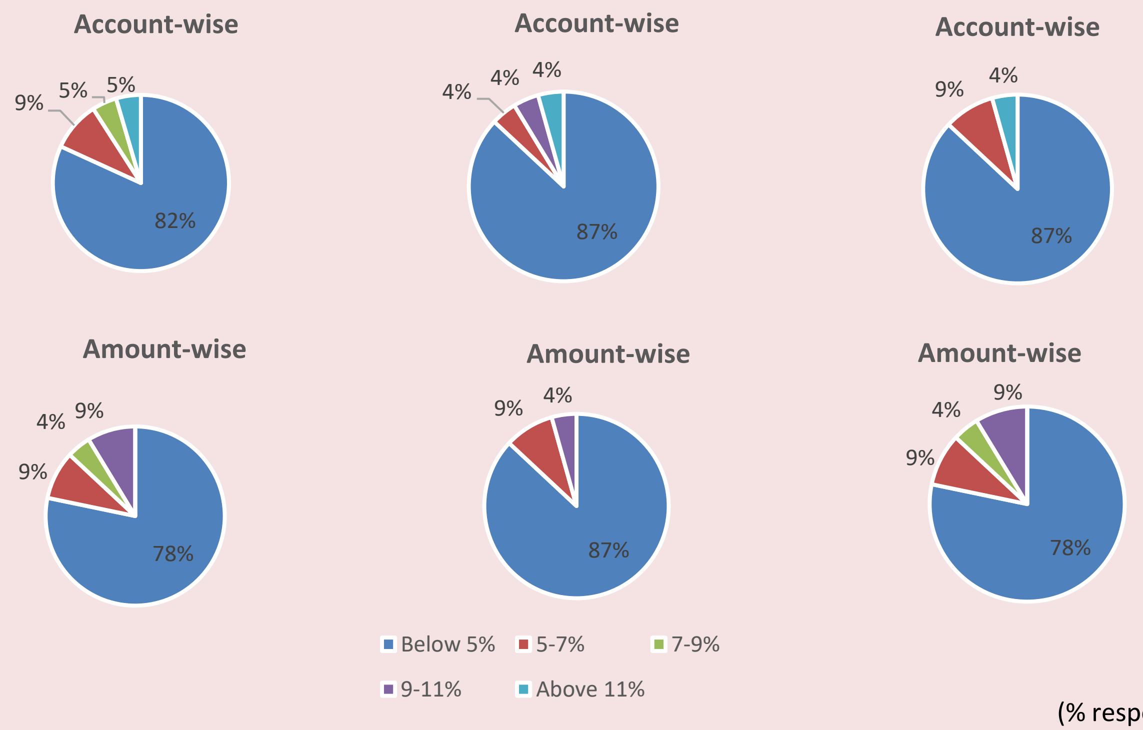
82% of the respondent banks were of the view that Retail loans restructured for individuals as percentage to total retail loan portfolio was below 5% in terms of accounts while just 9% cited that it was in the range of 5-7%. In terms of amount, 78% of the participating banks cited Retail loans restructured for individuals as percentage to total retail loan portfolio to be below 5%.

In case of Small Business Loans, 87% of the respondent banks were of the view that small business loans restructured as percentage of total small business portfolio was below 5% both in terms of volume and value.

87% of the respondent banks were of the view that MSME loans restructured as percentage of total MSME portfolio was below 5% in terms of accounts and 78% of the participating banks cited MSME loans restructured to be below 5% in terms of amount.

Restructuring of Advances

Retail loans restructured for individuals as % to total retail loan portfolio	Small Business Loans restructured as % of total small business portfolio	MSME loans restructured as % of total MSME portfolio

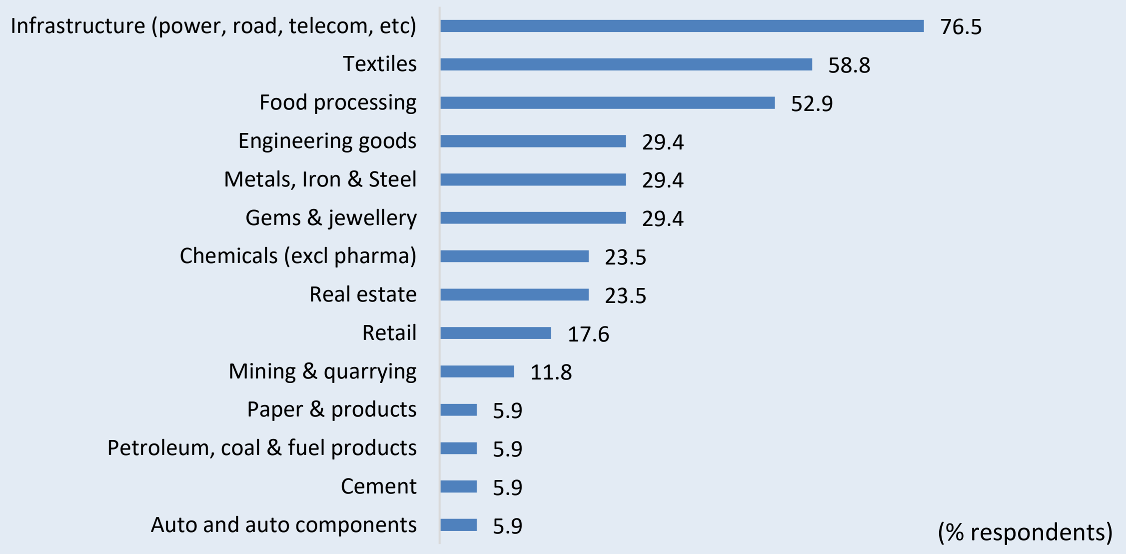


(% respondents)

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, Food Processing, and Metals, Iron & Steel. Other sectors identified as high NPA sectors include Chemicals and Gems & Jewellery.

Key sectors with high levels of NPAs



<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 second half of 2021 for sectors like Infrastructure, Engineering goods, Iron & Steel.

For Infrastructure, which has been cited as high NPA sector by over 76% of respondents, 62% such bankers have reported a decline in NPA levels during the second half of 2021 while 23% reported an increase.

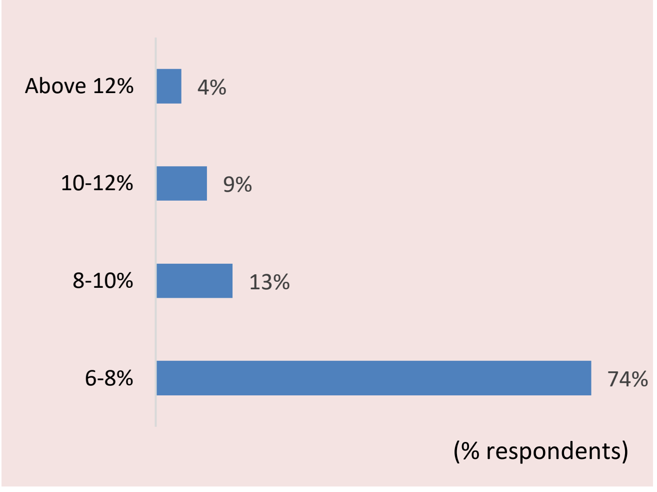
In case of Textiles, which has been cited as high NPA sector by almost 59% of total respondents, a large majority (60%) of such respondents have reported a decline in NPAs and 30% have reported a rise during the second half of 2021.

In case of Food Processing, which has been identified as high NPA sector by 53% respondents, 33% reported an increase while 44% of such respondents have reported a decline during second half of 2021.

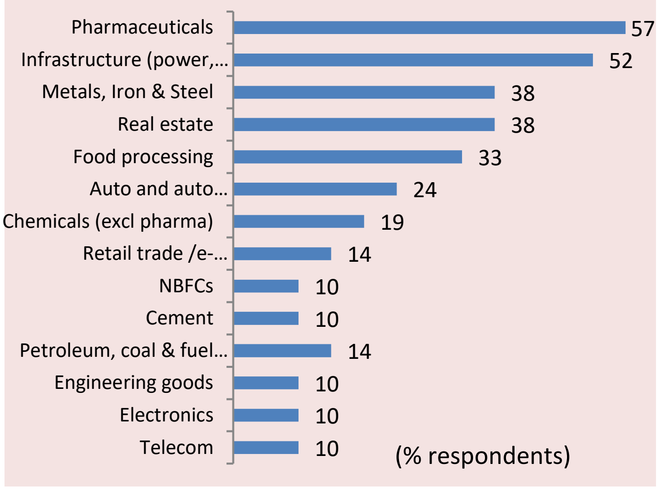
Expectations and Outlook on Credit

The outlook on growth of non-food industry credit over next six months remains modest with 74% of the participating banks expecting non-food industry credit growth to be in the range of 6-8%. Another 13% of the respondents are of the view that non-food industry credit growth would be in the range of 8-10%. In terms of sectors, 57% of the respondent banks expect the Pharmaceutical sector to witness an increase in demand for long term credit going forward. Major infrastructure development plans has been in place by Government to facilitate quick capital spending with a strong multiplier effect. This is likely is spur demand for infrastructure financing. This is also reflected in the current round of survey, as 52% respondents believe Infrastructure to see a rise in demand for loans. Other sectors expected to see rise in long term credit include Metals, Iron & Steel, Real Estate and Food Processing, among others.

Expectation on growth of non-food industry credit

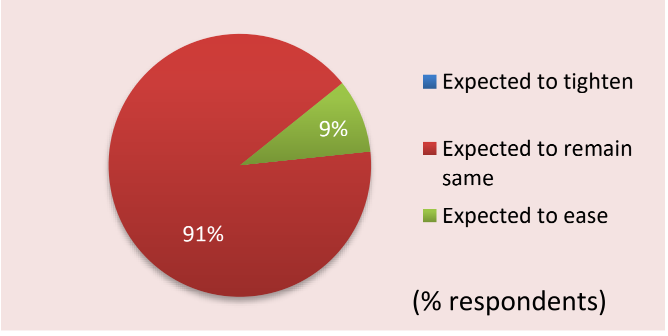


Sectors expected to see rise in long term credit

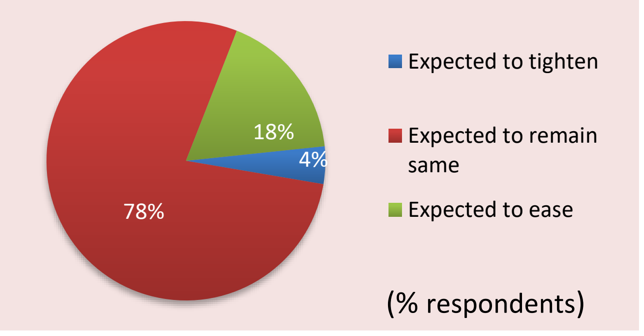


The outlook on credit standards for the first half of 2022 largely remains unchanged with respect to large enterprises. A large majority of respondent bankers (91%) continue to expect credit standards to remain same. Similarly for SMEs, more than three-fourth (78%) of respondent bankers in the current round feel that credit standards would remain same going forward though 18% respondents feel that credit standards would further ease.

Credit standards for large enterprises

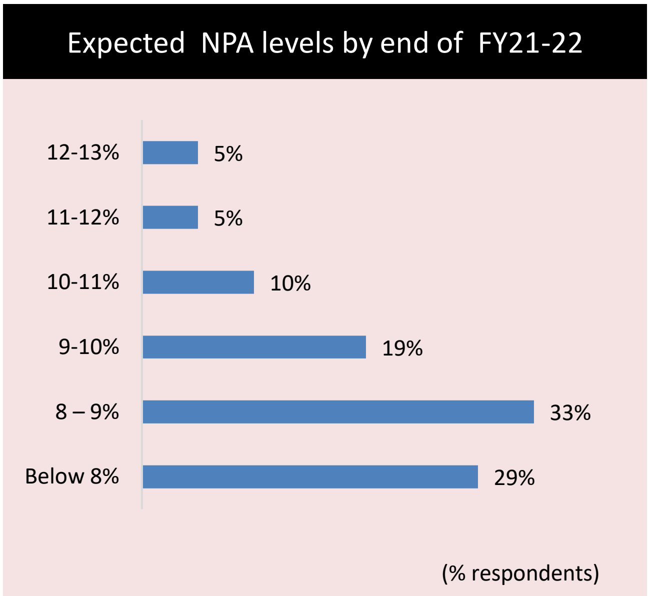


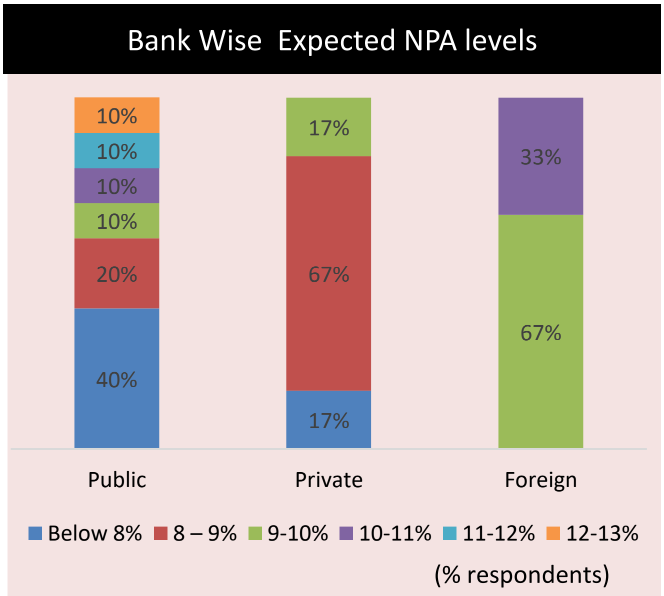
Credit standards for SMEs



Outlook on NPAs

Scheduled commercial banks' (SCB) gross non-performing assets (NPAs) declined from 8.2% at end-March 2020 to 7.3% at end-March 2021 and further to 6.9% at end-September 2021. The worries over bank bad loans have lessened, cushioned by policy and regulatory support and this was reflected in the survey results. Bankers were asked to share their assessment on gross NPAs going forward. One-third (33%) of total respondent banks in the current round believe that NPAs would be in the range of 8-9% over the next six months as compared to 21% of the respondents in the previous round. 29% of the respondents are also of the view that NPA levels would be below 8%, higher compared to 16% in the previous round. As compared to the previous round where 37% of respondent banks expected NPAs to be in the range of 9-10%, only 19% respondents expect NPA levels to be in that range in the current round. Amongst PSB respondents, 40% expect NPA ratio to be below 8% and 20% of such respondents expect ratio to be around 8-9%. Responding private banks largely expect NPA levels to hover in the range of 8-9% while a majority of the Foreign banks (67%) foresee NPA levels to be around 9-10%.





Lower slippages on account of the pickup in economic activity and pick-up in capacity utilization, traction in resolution of the large value NPAs by way Restructuring (with/without Change in Management), assignment of debt at consortium level, One Time Restructuring scheme, OTS settlement of payment by the various authorities, substantial increase in sale of the securities of NPA borrowers, visible improvement in demand & momentum in Real estate 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 9-11% going forward cited slowdown in economic activities which may be caused by third wave of Covid, stress in retail and MSME sectors due to localized lockdowns, possible slippages from existing stock of restructured assets, as key factors for high NPA risk.

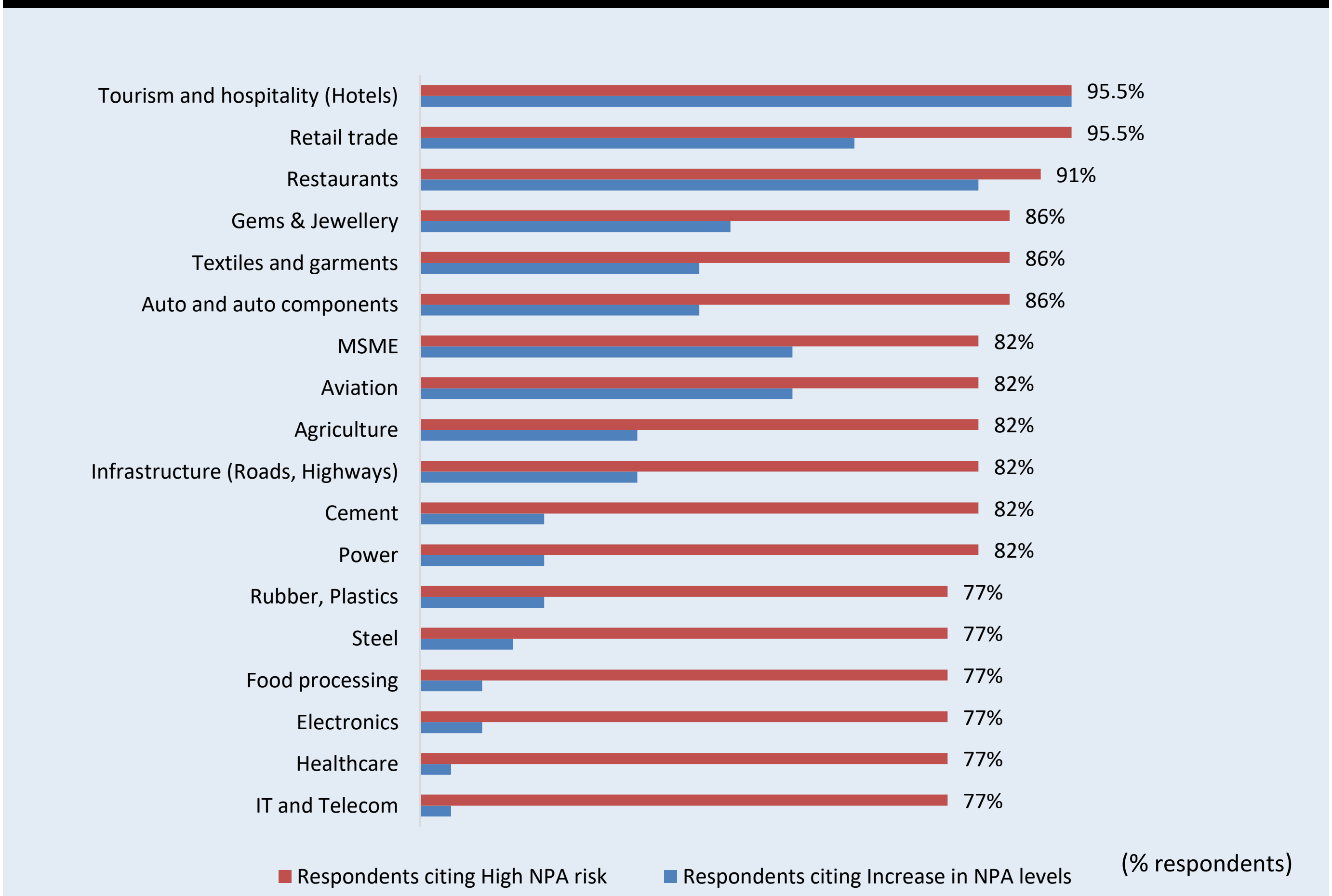
Outlook on NPAs sector-wise

Some of the high NPA risk sectors identified by Respondent bankers in survey include Tourism and hospitality, Restaurants, Aviation and MSME. 95% of respondents cited Tourism and hospitality as high risk segment with respect to NPA and all of them expect NPAs in the sector to increase in the next 6 months, largely similar to that reported in the previous round. These contact sensitive sectors are having a rough time over the last two years.

Almost 91% respondents identify Restaurants as high NPA risk sector and 90% of them expect NPAs in the sector to rise, though only 10% expect it to increase substantially. Retail Trade continued to be to a high NPA risk sector, with 95% of respondents citing it as a high risk segment. However, only two-third expect the NPAs in the sector to rise in next six months while 24% expect no change in NPAs.

Aviation was reported as another high NPA risk sector by 82% of participating bankers. Two-thirds of these expect NPAs to increase in this sector in the next 6 months while the remaining expect no change in NPA levels. MSME was also reported to pose a high NPA risk by 82% of respondents, with two-thirds expecting NPA to rise and 17% of them expecting a substantial increase in NPA levels. Other sectors where half of the respondents reported a likely increase in NPAs include Gems & jewellery, Auto and auto components and Textile & garments.

Sectors with expectations of increase in NPA levels



Respondents Profile

Twenty three 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.