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FINANCIAL MARKET STABILITY & LOAN MORATORIUM: THE ANGEL IS IN THE DETAILS

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Even as the COVID Pandemic rages through the Indian hinterland, the good news is that financial stability has returned to the markets with a proactive RBI and a Government guarantee helping to ease the fund flow to a significant extent. In the first 4 months of the current fiscal, the CP issuances by the NBFC sector has been a sharp Rs 98,741 crore, with the cost of borrowing also declining by a sharp 140 basis points. Contrary to popular narratives, several small MFs with much lower rating (A3+ with an equivalent long term rating at BBB) are also now participating in CP market. The spread between NBFC and G-secs with equivalent tenure has also softened on an average by 30-35 points since the beginning of the current fiscal and most importantly mutual fund investment has incrementally increased by Rs 10,000 crore. Rate transmission by banks have been the fastest in history with banks cutting rates on an average by 72 basis points on fresh rupee loans in 4 months. **Clearly, the RBI policy of constrained discretion in monetary policy making has yielded rich dividends.**

Interestingly, consumer deleveraging has continued at a frantic pace in current fiscal with consumer debt declining by Rs 53,023 crore. However, consumer leverage in lieu of exposure to stock market has increased by Rs 469 crore that could be a potential source of financial instability. Such increased borrowings by individuals merit an attention and clearly suggests a blanket moratorium beyond August will now do more harm than good. Additionally, consumers are also vigorously using gold holdings on their household balance sheet by taking gold loans.

Meanwhile, the moratorium data as published by RBI are at variance with data published by banks and NBFCs. One of the reasons why the numbers in the table is on higher side could be, primarily in retail loans, as some of the banks have initially given blanket moratorium / opt in irrespective of their willingness and eligibility to all their customers and such data was initially reported as one size fits all. However, in reality, most of the customers continued to pay for their EMIs even though they were offered. Subsequently, all these customers are reported in moratorium, though they are continuing payments of their EMI dues.

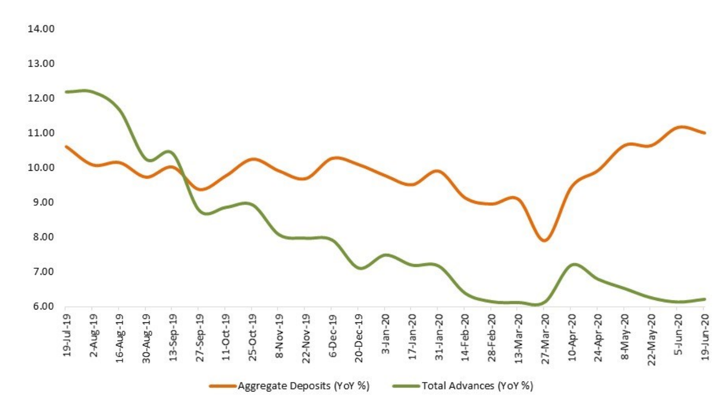
As far as the corporate portfolio is concerned, our analysis clearly reveals that companies with adequate balance sheet strength have also opted for a breather. We believe such companies are purely using the moratorium to conserve cash in current uncertain times. Sector wise analysis, from a sample of more than 300 companies with total rated debt of around Rs 4 lakh crore by ICRA reveals at least 40% of such amount are in sectors that have a comfortable debt equity ratio. These are companies in Pharma, FMCG, Chemicals, Healthcare, Consumer Durable, Auto etc. Further, rating wise analysis of the said sample shows that around 70% of the total moratorium, by total rated limit, has been availed by companies which are rated A and above. Clearly, as of now the moratorium data for both retail and corporate is not significantly perturbing.

However, this is based on our premise that cash flow of corporates would improve post lockdown, but with the spate of unplanned and unintelligent lockdown mania across the country, the situation is now quite different. The job market continues to be in significant state of flux with news of layoffs gaining traction across several sectors. Thus, it is imperative that restructuring of loan accounts in select sectors is used as a policy option after August 31, to mitigate such stress. Finally, we also should ensure that the banking sector is adequately capitalized and must avoid a repeat of what happened after the global financial crisis. This is possible if banks exercise utmost caution and adequate due diligence in their commercial decisions.

CREDIT IS PICKING SLOWLY

- Credit growth of ASCBs, which had considerably weakened in FY20 is now down to 5.8% till 17 July 2020. This moderation was broad-based across all bank groups. With the economy opening up, credit is picking up slowly. If we look the 'personal loans', it increased by Rs 115 billion in June 2020, after consecutive declines in April and May.
- The good news, barring services sector, credit has picked up in all sectors, such as Agri & Allied, Industry, MSME and Infrastructure, in June'20. Within industry, credit growth to 'food processing', 'beverage & tobacco', 'petroleum, coal products & nuclear fuels' and 'paper & paper products' accelerated in June 2020 as compared with the corresponding month of the previous year. Remarkably, credit deceleration in current and previous fiscal are at similar levels.
- The corporate sector's credit demand has been modest. Not surprisingly, therefore, SCBs' credit growth is characterised by a robust but slowing retail credit growth across bank groups, coupled with decelerating wholesale credit growth.

ASCB's Deposits & Credit Movement



Source: SBI Research

Sector-Wise Credit Flow (Rs bn): June 2020

Sectors	YTD (Apr-Jun, FY20)		Monthly Growth (Rs bn)				YTD % (Apr-Jun, FY21)		% YoY	
	Rs bn	%	Mar'20	Apr'20	May'20	Jun-20	Rs bn	%	Jun'19	Jun'20
Agri. & Allied	145	1.3	18	-65	-51	67	-49	-0.4	8.7	2.4
Industry	-737	-2.6	1123	-208	-228	136	-299	-1.0	6.4	2.2
MSE (Priority)	-44	-0.4	542	-486	-231	46	-670	-5.8	11.0	1.8
Infrastructure	-294	-2.8	352	13	0	139	152	1.4	15.2	4.2
Services	-1309	-5.4	1611	-208	-311	-146	-665	-2.6	13.0	10.7
NBFCs	-61	-1.0	1037	50	-81	-58	-89	-1.1	37.6	25.7
Personal Loans	331	1.5	216	-629	-119	115	-633	-2.5	16.6	10.5
Housing (Including Priority)	269	2.3	100	-83	-16	68	-31	-0.2	18.9	12.5
Other Personal Loans	188	3.1	88	-269	10	9	-249	-3.4	23.2	12.1
Gross Bank Credit	-1273	-1.5	2830	-1100	-442	271	-1271	-1.4	11.1	6.9

Source: SBI Research

CONSUMER DELEVERAGING CONTINUES

- Interestingly, consumer deleveraging has continued at a frantic pace in current fiscal with consumer debt declining by Rs 53,023 crore. However, consumer leverage in lieu of exposure to stock market has increased by Rs 469 crore, that could be a source of financial instability. Additionally, consumers are also vigorously using gold holdings on their household balance sheet by taking gold loans.

LARGER BANKS TRANSMITTED RATE CUT FULLY TO CUSTOMERS

- Beginning February, RBI has cut repo rate by 115 basis points. Banks have cut rates on fresh loans by 72 basis points, the fastest transmission ever recorded! SBI has cut by an equivalent 115 basis points on its Repo linked product.
- As per the latest available data, the WADTDR, WALR (Fresh Loans) and 1yr MCLR have reached the lowest level of 6.12%, 8.5% and 7.7% in June 2020.

COMMERCIAL PAPER ISSUANCES

- In the last four months, we have seen significant CP issuances to the tune of Rs 4.6 lakh crore majorly dominated by sectors such as Oil & Gas and NBFCs. The weighted average yield of CP has declined from 5.39% in April 2020 to 3.99% in July 2020. CP issuance by NBFC has been around Rs 1 lakh crore in last four months. Decline in yield of CP will also help NBFCs to protect their margins.
- It is pertinent to mention that even small MFs are also now participating in CP market with lower rating of A3+ in short term (long term BBB). Some of such institutions include Satya Microcapital Limited, Vaya Finserv Private Limited and Capfloat Financial Services Private Ltd among others.
- NBFC sector, in their June quarter results, has also reported lower moratorium than in April. For example, Bajaj Finance reported 15.7% AUM under moratorium in June'20 as against around 27% in April'20. Other NBFCs including HDFC, PNB Housing Finance etc have witnessed a similar trend.
- Clearly, the RBI policy of constrained discretion in monetary policy making has yielded rich dividends.

MORATORIUM ON LOAN – ANGEL IS IN THE DETAILS

- Following the Covid-19 led lockdown, businesses across the sectors was impacted severely. Companies are looking at broad range of interrelated issues that span from keeping their employees and customer safe, shoring-up cash and liquidity, reorienting operations and Government support programs.
- For the benefit of all, RBI has allowed banks to give moratorium on loan instalments and deferment of interest payments till end of August and banks have offered the same option to the customer. As per RBI, around half of the customers accounting for around half of outstanding bank loans opted to avail the benefit of the relief measures.

Short-term Consumer Leverage

Item	Incremental Credit (Rs Crore)					
	FY17	FY18	FY19	FY20	Jun'19 over Mar'19	Jun'20 over Mar'20
Credit Card Outstanding	14453	16496	19634	19832	6628	-10508
Other Personal Loans	79776	132479	98754	119332	18842	-24945
Advances against Fixed Deposits (Including FCNR (B), NRNR Deposits etc.)	-568	6378	10380	-3377	-15768	-18039
Advances to Individuals against share, bonds, etc.	-1669	806	709	-931	-897	469
Consumer Leverage	**91992**	**156159**	**129477**	**134856**	**8805**	**-53023**

Source: RBI; SBI Research

Transmission of Policy Rate

	February	Latest	Change (in bps)
Repo Rate	5.15	4.00	-115
Wt Avg. Lending Rate (WALR) on O/S Rupee Loans	10.11	9.88	-23
WALR on Fresh Rupee Loans	9.26	8.54	-72
Wt Avg. Domestic Term Deposits (WADTDR) on O/S Deposits	6.45	6.12	-33
ASCB-MCLR (1 Year)	8.25	7.70	-55
SBI EBLR	7.80	6.65	-115
SBI MCLR –6 Months	7.80	6.95	-85
SBI MCLR –1 Year	7.85	7.00	-85

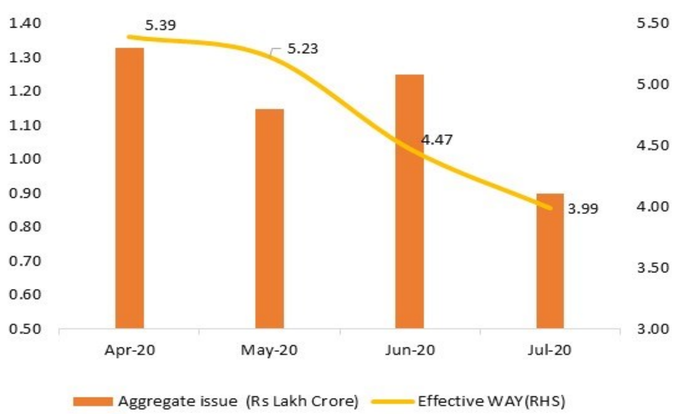
Source: RBI, SBI Research

CP raised by NBFC Sector in FY2021 (Rs in crore)

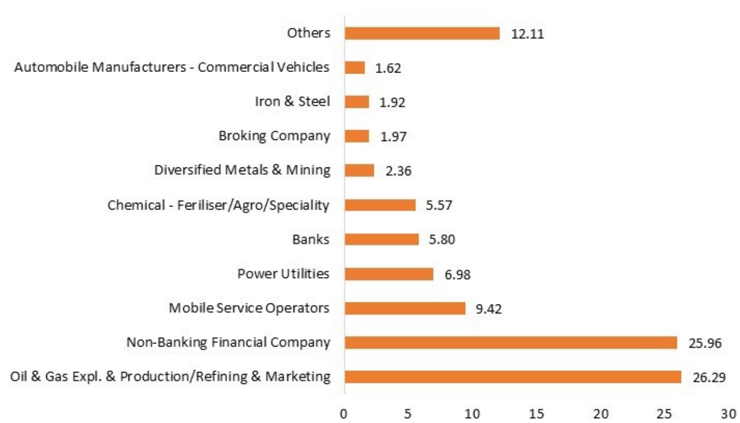
Month	Financial Institutions	HFC	NBFC	MFI	Total
April #	7275	4400	4275	-	15950
May	1000	6950	22033	-	29983
June	6000	5000	17963	5	28968
July *	2650	1775	19406	10	23841
Total	**16925**	**18125**	**63677**	**15**	**98742**

Source: SBI Research; CCIL; # April data may not be exhaustive; * for July up to 30th

CP issuances and Weighted Average Yield %



Sector wise CP issuances in FY21 (up to July)



Source: SBI Research

- As per the RBI Financial Stability report, PSBs loan moratorium stood at 67.9%, Pvt Banks at 31.1%, Foreign banks 11.5%, SFBs 62.6%, UCBs 64.5% and NBFCs at 49%. When looked sector-wise, individual customers had availed this facility to the maximum extent, 50.4% of total customers taking moratorium on 55.3% of their total loan outstanding.
- However, we believe the angel is in the details as per the moratorium data is concerned. For example, major private banks reported drop in share of moratorium loans to 10-15% as of Jun-2020 vs average of 30% in Apr'20. For example, ICICI bank, reported from about 30.0% of total loans being under moratorium at end-April, the loans to customers where moratorium was effected for June repayments was about 17.5% of total loans at June 30, 2020. SBI has reported, in a term loan portfolio of around Rs 16 lakh crore, 9.5% is the moratorium. Also it has been reported that out of total loan portfolio of around Rs 24 lakh crore, out of total interest applied, during Q1FY21 of Rs 44101 crore, Rs 39217 crore earned and only Rs 4884 core that is 11.1% interest was deferred.
- One of the reasons why the numbers in the table is on higher side could be, primarily in retail loans, as some of the banks have given blanket moratorium / opt in irrespective of their willingness and eligibility to all their customers and such data was initially reported. However, in reality, most of the customers continued to pay for their EMIs even though they were offered. Subsequently, all these customers are reported in moratorium, though they are continuing payments of their EMI dues.

CORPORATE MORATORIUM DATA REVEALS CASH CONSERVATION IN AT LEAST 40%

- ♦ Sector wise analysis, from a sample of more than 300 companies with total rated debt of around Rs 4 lakh crore by ICRA, reveals that Metal and Metal products, Petrochemicals, Power, NBFC and Real Estate, Textile etc. are the sectors that opted for loan moratorium in India. Interestingly, some of the companies in sector such as FMCG, Pharma also opted for moratorium though these sectors are among those which are not much affected or unaffected from the pandemic.
- ♦ We believe sector such as Pharma, FMCG, Chemicals, Healthcare, Consumer Durable, Auto etc. are having low debt to equity ratio as well as adequate cash and bank balance to loan fund and have balance sheet strength. Though they have opted for moratorium they have capacity to pay and only opted to conserve cash during some uncertainty. However, sectors such as Metal, Constructions, Textile, Infrastructure etc. are having low balance sheet strength and may need support to sustain. Real estate, though DE ratio is less than one, may need support as will face demand side issues and unsold inventory.
- ♦ Further, rating wise analysis of the said sample shows that around 70% of the total moratorium, by total rated limit, has been availed by companies which are rated A and above. This indicates, corporates which have paying capacity have also opted for moratorium during uncertainties and have chosen to conserve cash and wait and watch for some time.
- ♦ We believe the strength of individual company and group will matter in the current crisis. Within good performing sectors also there are week balance sheets and vice versa. We believe some sectors/companies may need support like one-time restructuring, sectoral support etc. to tide over the situation.

ASSESSMENT OF ASCB NPA : AS PER RBI FSR

- With the continuous support from Government and RBI, ASCBs GNPA and NNPA ratios of ASCBs declined to 8.5% and 3.0% in March 2020, from 9.3% and 3.7% in September 2019. PCR of ASCBs improved to 65.4% in March 2020 from 61.6% in September 2019. The Q1 results of the banks indicate a sequential decline in NPA numbers, which is because that the moratorium has prevented any loan-account to downgrade and helped banking industry in fresh slippages but the real picture will emerge after the September quarter.
- However, due to the ongoing COVID-19 crisis, RBI Macro-stress tests for credit risk indicate that under the baseline scenario, ASCBs GNPA ratio may increase from 12.5% (14.7% in a very severe stress scenario) by March 2021. CRAR may fall from 14.6% in March 2020 to 13.3% (11.8% in a very severe stress scenario) by March 2021.

Loan Moratorium Availed as on April 30, 2020

Sector	Corporate		MSME		Individual		Others		Total	
	% of total customers	% of total outstanding	% of total customers	% of total outstanding	% of total customers	% of total outstanding	% of total customers	% of total outstanding	% of total customers	% of total outstanding
PSBs	28.8	58	73.9	81.5	80.3	80	48.8	63.7	66.6	67.9
PVBs	21.6	19.6	20.9	42.5	41.8	33.6	39.1	40.9	49.2	31.1
FBs	32.6	7.7	73.3	50.4	8.4	21.1	75.8	4.8	21.4	11.5
SFBs	78.8	43.7	90.5	52.3	90.9	73.2	64.6	12.3	84.7	62.6
UCBs	63.4	69.3	66.5	65.5	56.8	62	35.6	59.2	56.5	64.5
NBFCs	39.7	56.2	60.7	61.1	32.5	45.9	37.3	41.4	29	49
SCBs	24.7	39.1	43.1	65.3	52.1	56.2	45.7	55.7	55.1	50
System	30.8	41.9	45.8	65	50.4	55.3	45.7	54.6	**48.6**	**50.1**

Source: RBI; SBI Research

Bank group wise moratorium

Bank Group	Moratorium % of loan outstanding	
	April'20	June'20
PSBs	67.9%	15%
Pvt Banks	31.1%	15%
SFBs	62.6%	-
UCBs	64.50%	-
FBs	11.50%	11.5%
ASCB	50%	15%
NBFC	49%	25%

Source; April-RBI; June company reports; SBI Research estimates

Rating wise distribution of entities opted for moratorium

Rating	Share
AAA	14%
AA	46%
A	9%
BBB	21%
Below BBB and unrated	10%
Total	100%
A and above	69%

Source: ICRA report; SBI Research

Major sectors opted for moratorium on loan servicing with D/E ratio<1

Sector	Rated Amount (Rs in cr)	Debt Equity Ratio (D/E)	Cash and Bank to Loan fund
Petrochemicals	62209	0.21	0.41
Real Estate	31525	0.55	0.26
Pharmaceuticals	28798	0.39	0.35
FMCG	3215	0.33	0.58
Auto & Auto Ancillary	2632	0.57	0.23
Consumer Durable	940	0.18	0.92
Gems & Jewellers	436	0.37	1.52
Healthcare	325	0.74	0.14
Chemicals	203	0.39	0.30

Source: SBI Research; ICRA moratorium list; Cline listed entities; March'20

Major sectors opted for moratorium on loan servicing with D/E ratio >1

Sector	Rated Amount (Rs in cr)	Debt Equity Ratio (D/E)	Cash and Bank to Loan fund
Metal & Metal Products	116412	1.32	0.08
Power	53019	1.76	0.04
NBFC	31584	-	-
Textile	6163	1.12	0.07
Hotel & Restaurants	4093	1.05	0.09
Constructions	2992	1.86	0.09
Infrastructure	1726	1.76	0.17
Hospital	1500	-	-

Source: SBI Research; ICRA moratorium list; Cline listed entities, March'20

Bank-Wise Gross NPA Movement (%)

Banks	Dec-19	Mar-20	Jun-20
ICICI Bank	6.0	5.5	5.5
HDFC Bank	1.4	1.3	1.4
Axis Bank	5.0	4.9	4.7
Yes Bank	18.9	16.8	17.3
IndusInd Bank	2.2	2.5	2.5
Kotak	2.5	2.3	2.7
SBI	6.9	6.2	5.4
Punjab National Bank	16.3	14.2	NA
Bank of India	16.3	14.8	
Bank of Baroda	10.4	9.4	
Canara Bank	8.4	8.2	

Source: SBI Research

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