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Sector update

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INDIA

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RBI's FSR – Well placed to weather credit shocks; stress scenario better than earlier envisaged

We draw the following inferences from the RBI's Financial Stability Report (FSR) – December 2021:

Current asset quality position and stress test suggest SCBs have emerged more robust and are generally well placed to weather credit-related shocks. Stress test for UCBs and NBFCs present a more varied picture.

- GNPA ratio of all SCBs may increase from 6.9% in Sep'21 to 8.1% by Sep'22 under the baseline scenario (compared to 9.8% earlier envisaged for Mar'22) and further to 9.5% (11.22% earlier for Mar'22) under severe stress.
- PSBs' GNPA ratio of 8.8% in Sep'21 may deteriorate to 10.5% by Sep'22 under the baseline scenario (12.52% earlier envisaged for Mar'22).
- For PVBs, the share of bad loans may rise from 4.6% to 5.2% (6.04% earlier envisaged for Mar'22), and for FBs, it is estimated to increase from 3.2% to 3.9% over the same period (5.35% earlier envisaged for Mar'22).
- All 46 banks would be able to maintain CRAR above the prescribed minimum capital level even in the worst-case scenario.
- Parallel upward shift of 2.5 percentage points in the yield curve would lower the system level CRAR by 77 bps and system level capital would decline by 5.6%.
- For NBFCs, in case of a high risk shock of 2 SD increase in the GNPA ratio, the CRAR of the sector would decline by 30 bps to 26.3%, with no impact seen in case of 1 SD shock.

Credit quality position across sub-segments in Sep'21

- Annualised slippages run-rate for SCBs was 3.6% in H1FY22 with private banks running relatively higher at 4.4% compared to 3.3% for PSU banks. For private banks, GNPAs rose in H1FY22 for housing and vehicle loans and PSBs are running more than 10% GNPAs in credit card.
- Loans in SMA buckets also declined; however, SMA categories have witnessed adverse migration across categories.
- Retail credit confronting headwinds – 1) 90 + days past due (dpd) have risen from 2.4% in Q1 2020 to 3.01% in Q3 2021. 2) Origination volume from NTC consumers has fallen from 17% in Q1 2020 to 14% in Q3 2021. 3) Inquiry volumes by risk-tier show leapfrogging of credit demand from sub-prime consumers, particularly after the second wave; 4) growth in credit active consumers has, however, moderated consistently since September 2020.
- Adverse score migration was witnessed from super-prime and prime categories to below prime for retail loans during Jun and Sep'21.
- In MSME segment: Transition of low- and medium-risk MSME borrowers to high-risk category remains noteworthy between Mar-Sep'21 – one-third downgraded from CMR 1-3 and CMR 4-6 and only 11% upgraded from CRM 7-10.
- Higher offtake was recorded by private, corporate and household sectors in the form of working capital and term loans.
- Industrial sector credit turned positive, contributed by PVBs and FBs, after contracting over the previous two years.
- Credit absorption by PSU corporates remains robust (>10% YoY growth), while non-PSU corporate credit languishes for both PSBs as well as private banks.

Outcomes of resolution analysis

- Need for additional provisioning at early stages of impairment to internalise the costs imposed by delay in resolution of assets.
- Incentivising all channels of resolution to avoid delays.
- Reviewing provisioning norms in the light of actual recovery-related data.
- Risk of deferral of unviable units at the cost of imperilling ultimate recovery needs to be guarded against

ECLGS granular profile

- Nearly Rs2.82trn was sanctioned till November 12, 2021, of which Rs2.28trn was disbursed (Rs1.94trn by SCBs, forming 20.6% of incremental credit during the period).
- Guarantees of value up to Rs10mn formed 51% of aggregate guarantees.
- 66% of guarantees have been issued to micro, small and medium enterprises.
- PVBs showed greater proclivity than PSBs for utilising the ECLGS scheme, covering a larger number of beneficiaries.
- MSME portfolio of PSBs and PVBs indicates accumulation in NPA and SMA-2 categories in Sep’21 relative to Mar’21.

Other highlights

- A few NBFCs resorted to heavy CP borrowing in Jun-Aug’21 and for 3 NBFCs it was almost equivalent to 25-30% of its on-book assets. We believe it needs to do with capital market related financing activity for some of the NBFCs.

Table 1: Baseline stress scenario expectations – Sep’22 NPA significant improvement over earlier envisaged for Mar’22

	Sep-20 Actual Sep20	Sep-21 Baseline Sep21	Sep-21 Medium stress Sep21	Sep-21 Severe stress Sep21
PSBs	9.7	16.2	16.8	17.6
PVBs	4.6	7.9	8.2	8.8
FBs	2.5	5.4	6.0	6.5
All SCBs	7.5	13.5	14.1	14.8
	Mar-21 Actual Mar21	**Mar-22 Baseline Mar22**	**Mar-22 Medium stress Mar22**	**Mar-22 Severe stress Mar22**
PSBs	9.5	12.5	13.1	14.0
PVBs	4.8	5.8	6.0	6.5
FBs	2.4	4.9	5.4	6.0
All SCBs	7.5	9.8	10.4	11.2
	Sep-21 Actual Mar21	**Sep-22 Baseline Mar22**	**Sep-22 Medium stress Mar22**	**Sep-22 Severe stress Mar22**
PSBs	8.8	10.5	11.0	11.9
PVBs	4.6	5.2	5.4	5.9
FBs	3.2	3.9	4.4	5.1
All SCBs	6.9	8.1	8.7	9.5
Change (Sep'21 vs. Mar'21)	**Actual**	**Baseline**	**Medium stress**	**Severe stress**
PSBs	0.74	2.02	2.06	2.05
PVBs	0.18	0.62	0.64	0.56
FBs	-0.77	1.00	0.95	0.87
All SCBs	0.58	1.70	1.66	1.72

Source: RBI, I-Sec Research

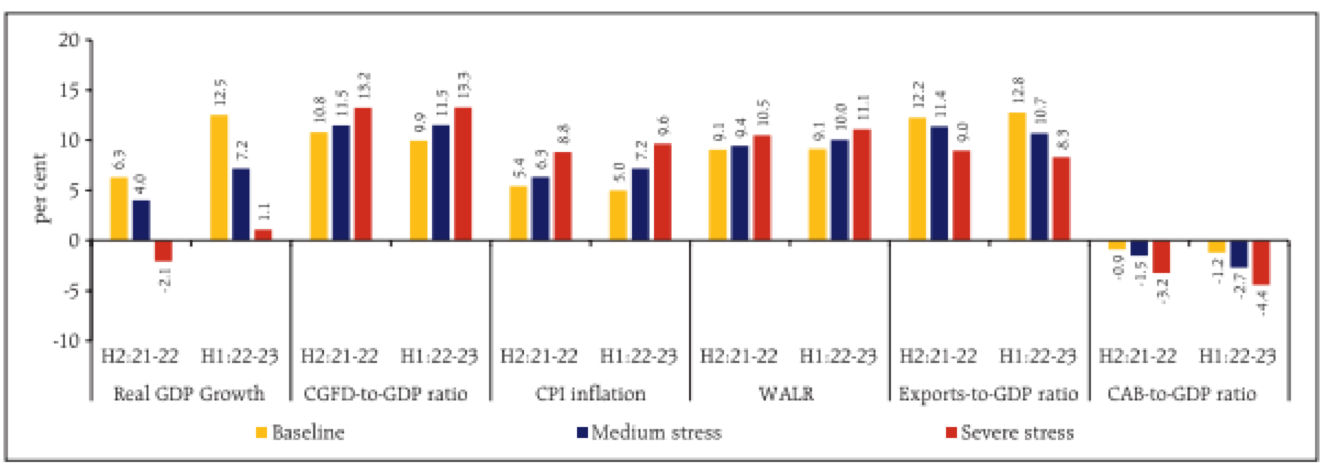
We have highlighted below details around each of these aspects and other relevant information from FSR Dec'21.

SCBs have emerged more robust after the two waves of covid, while UCBs and NBFCs' asset quality has been dented. Stress tests indicate banks are generally well placed to weather credit-related shocks, while UCBs and NBFCs present a more varied picture. SCBs have bolstered their CRAR to 16.6% and RoA/RoE remained in positive trajectory.

Baseline scenario for Sep'22 NPA expectations – significant improvement over earlier envisaged for Mar'22

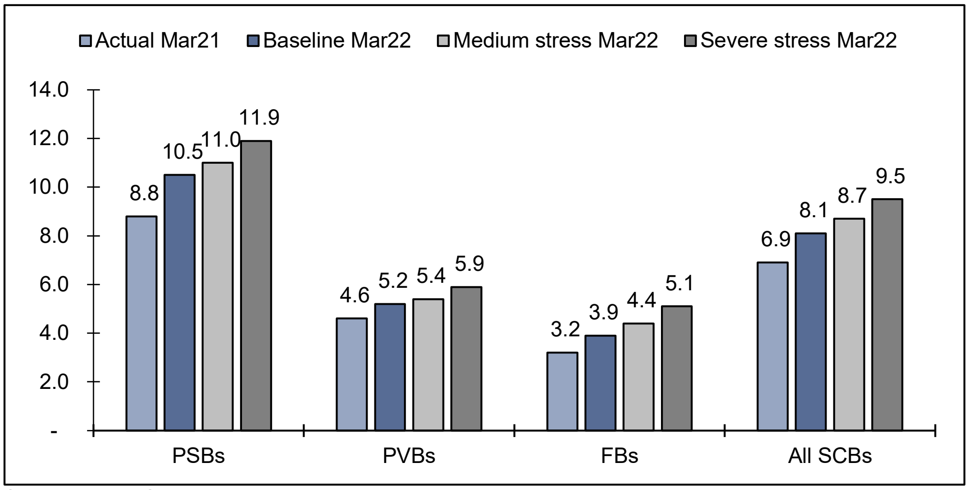
- GNPA ratio of all SCBs may increase from 6.9% in Sep'21 to ***8.1% by Sep'22 under the baseline scenario (compared to 9.8% earlier envisaged for Mar'22) and further to 9.5% (11.22% earlier for Mar'22) under severe stress.***
- PSBs' GNPA ratio of 8.8% in Sep'21 ***may deteriorate to 10.5% by Sep'22 under the baseline scenario (12.52% earlier envisaged for Mar'22).***
- For PVBs, the ***share of bad loans may rise from 4.6% to 5.2% (6.04% earlier envisaged for Mar'22)*** and for FBs, it is estimated to increase from 3.2% to 3.9% over the same period (5.35% earlier envisaged for Mar'22).
- Stress test results indicate that the system level CRAR may decline to 15.4% by Sep'22 under the baseline scenario and to 14.7% and 13.8% under the medium and severe stress scenarios, respectively.
- ***All 46 banks would be able to maintain CRAR above the prescribed minimum capital level even in worst-case scenario.***
- The ***common equity tier I (CET 1) capital ratio of SCBs may reach 12.5% by Sep'22 under the baseline scenario and decline to 11.9% and 11.2% under medium and severe stress scenarios, respectively.***
- Medium and severe adverse scenarios are arrived at by applying 0.25 to one standard deviation (SD) shocks and 1.25 to 2 SD shocks, to each macroeconomic variable, increasing the shocks by 25 basis points for each successive quarter.

Chart 1: Macroeconomic scenario assumptions for H2FY22 and H1FY23



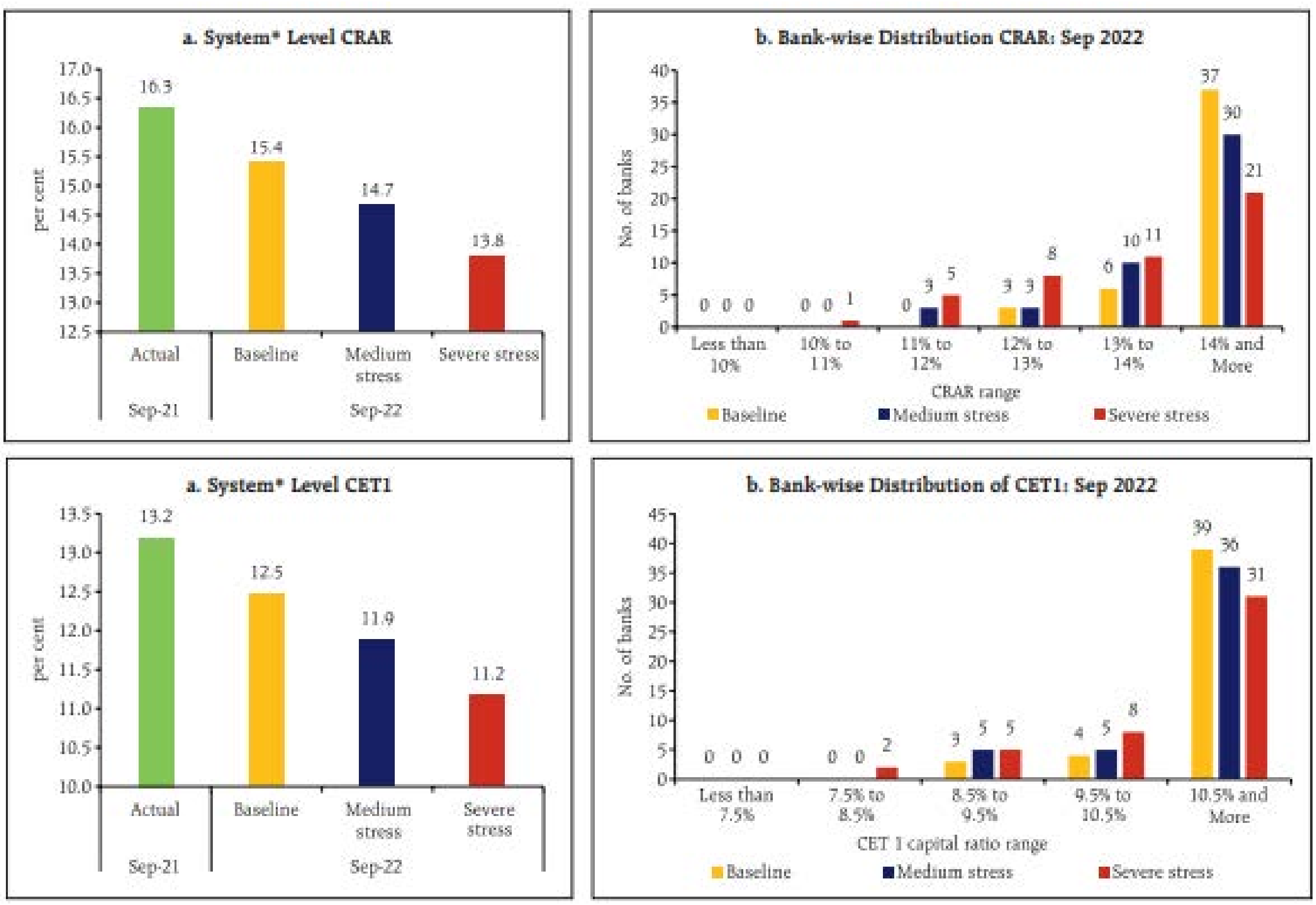
Source: RBI

Chart 2: GNPA ratio of all SCBs may increase from 6.9% in Sep'21 to 8.1% by Sep'22 under the baseline scenario



Source: RBI, I-Sec Research

Chart 3: SCBs well placed to weather credit shocks reflected in healthy CRAR



Source: RBI

Various shock sensitivity analysis

- In case of a ***severe shock (two SD), the GNPA ratio of 46 select SCBs moves up from 6.9% to 12.7%.***
- System-level CRAR declines from 16.3% to 12.8% and system-level capital impairment stands at 23.3%.
- Further, eight banks with a share of 20.2% in SCBs' total assets may fail to maintain the regulatory minimum level of CRAR. The CRAR would fall below 7% in case of five banks.
- ***In a scenario of the top three individual stressed borrowers of respective banks failing to repay, majority of banks would experience a reduction of 25 bps or less in their CRARs.***
- A 2 SD shock to energy and basic metals & metal product segments would reduce the system-level CRAR by 17 bps and 13 bps, respectively.
- It is assessed that a ***parallel upward shift of 2.5 percentage points in the yield curve would lower the system level CRAR by 77 bps and system level capital would decline by 5.6%.***
- Idiosyncratic failure of the NBFC or HFC with maximum capacity to cause solvency losses to the banking system would have impacted banks' total tier-1 capital by 2.28% and 6.43%, respectively, but would not lead to failure of any bank.

Table 2: Interest rate risk – bank groups – shocks and impacts

	Public Sector Banks		Private Sector Banks		Foreign Banks		All SCBs	
	AFS	HFT	AFS	HFT	AFS	HFT	AFS	HFT
Modified Duration	2.0	2.6	1.4	1.8	3.6	3.1	2.2	2.2
Reduction in CRAR (bps)	78		28		277		77	

Source: RBI

Table 3: Contagion losses due to NBFC failure - September 2021

Trigger Code	Solvency Losses as % of Tier -1 Capital of the Banking System	Number of Banks Defaulting due to solvency
NBFC 1	2.28	0
NBFC 2	1.80	0
NBFC 3	1.78	0
NBFC 4	1.25	0
NBFC 5	1.21	0

Source: RBI

Table 4: Contagion losses due to HFC failure - September 2021

Trigger Code	Solvency Losses as % of Tier -1 Capital of the Banking System	Number of Banks Defaulting due to solvency
HFC 1	6.43	0
HFC 2	4.42	0
HFC 3	1.60	0
HFC 4	1.42	0
HFC 5	1.33	0

Source: RBI

NBFC stress test

- In case of a high risk shock of 2 SD increase in GNPA ratio, ***CRAR of the sector would decline by 30 bps to 26.3%, with no impact seen in case of 1 SD shock.***
- On an individual basis, under the impact of the shocks, the ***CRAR of 17 NBFCs – comprising 7.9% of asset size of the sample – would fall below minimum regulatory requirements in the medium risk scenario,*** while 19 NBFCs – comprising 11.5% of asset size of the sample – would be impacted similarly in high risk scenario.

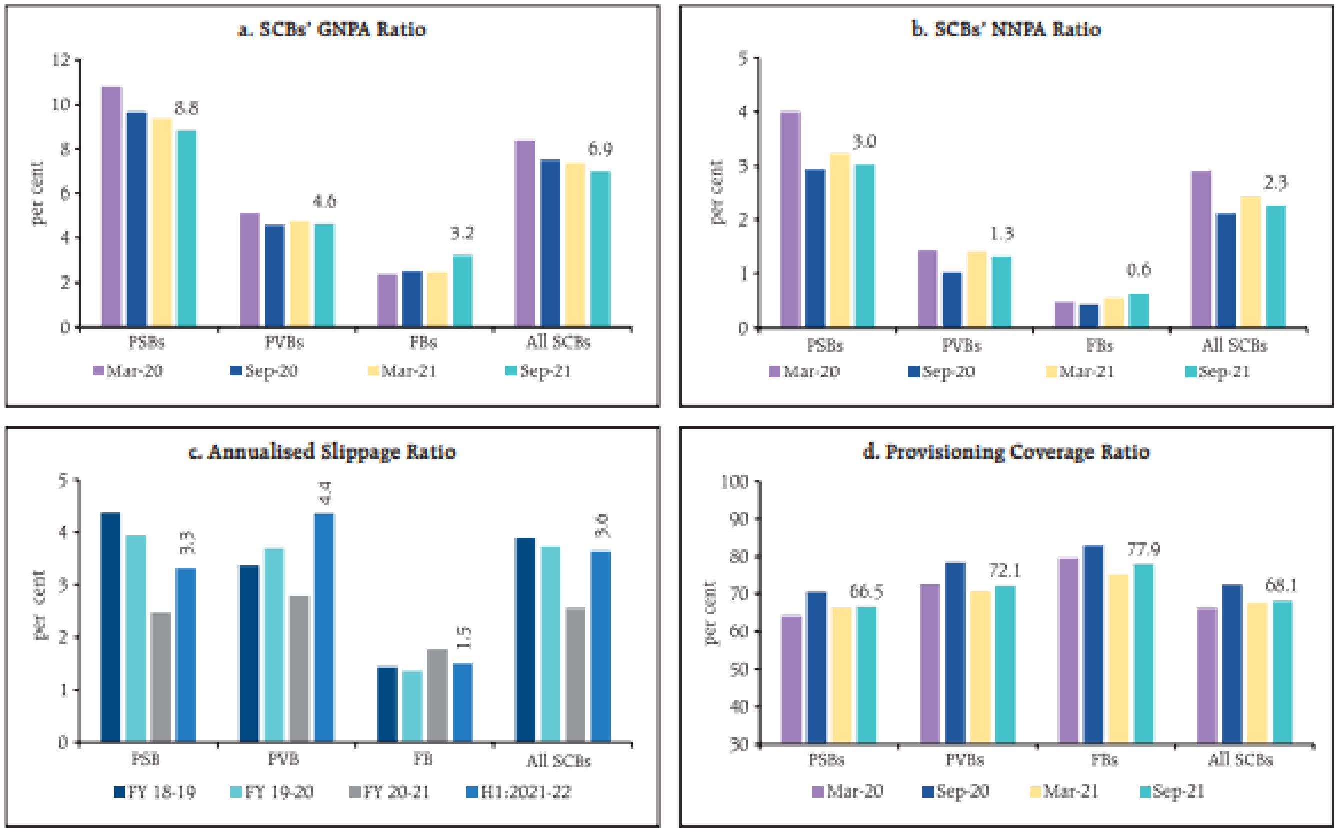
Assessment of Systemic Risk Survey

- All broad categories of risks to the financial system – global, macroeconomic, financial market, institutional, and general – were perceived as 'medium' in magnitude, but risks arising on account of global and financial markets were rated higher than the rest.
- Commodity prices, domestic inflation, equity price volatility, asset quality deterioration, credit growth and cyber disruptions were rated as the major risks.
- Over 50% of respondents envisage improvement in the prospects of the Indian banking sector in the next one year, with over 80% expecting pick up in credit demand in the next three months.
- Nearly 43% of respondents also expected asset quality of the banking system to improve marginally in the next three months.
- Majority of respondents felt that Indian economy will recover completely from the fallout of covid pandemic in a span of 1-2 years.
- Sectors such as tourism and hospitality, aviation, automobiles, MSMEs, real estate, retail trade and entertainment could, however, exhibit slower recovery over the next one year.

Bank's asset quality position as of Sep-21

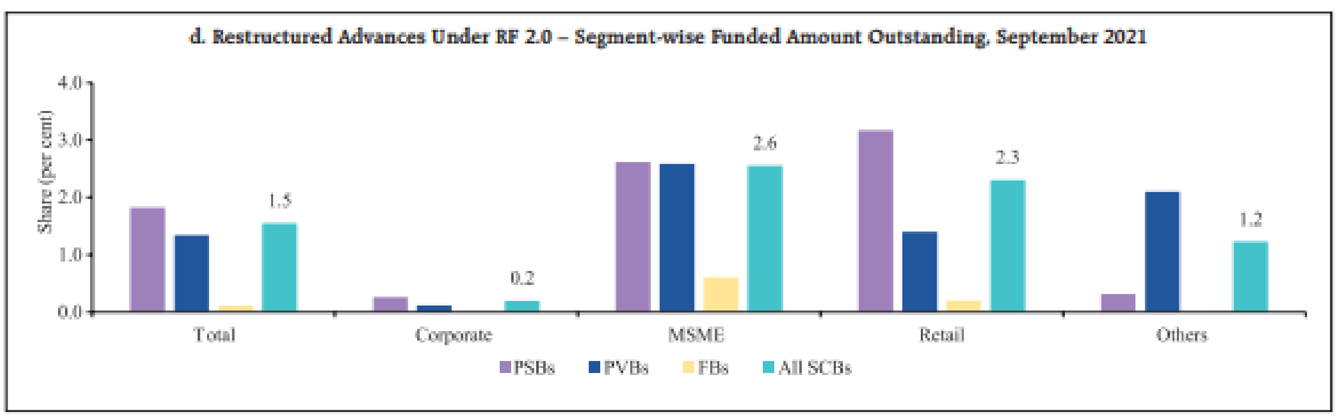
- GNPA ratio stood at 6.9% at end-Sep'21. The provisioning coverage ratio (PCR) increased from 67.6% in Mar'21 to 68.1% in Sep'21.
- The annualised slippage ratio of SCBs inched up, with PVBs exhibiting a higher rate of deterioration in asset quality.
- ***GNPA ratio for personal loans rose and deterioration was led by housing and auto loans.***
- GNPA ratio for the industrial sector continued to decline, though some sub-sectors, viz., food processing, chemical and infrastructure registered increases over their Mar'21 levels.
- Restructuring under Resolution Framework (RF) 2.0 stood at 1.5% of total advances as of end-Sep'21. In case of MSME and retail loans, restructuring was to the extent of 2.4% of total sectoral advances.

Chart 4: SCBs' asset quality overview; annualised slippage ratio inched up, with PVBs exhibiting a higher rate of deterioration in asset quality



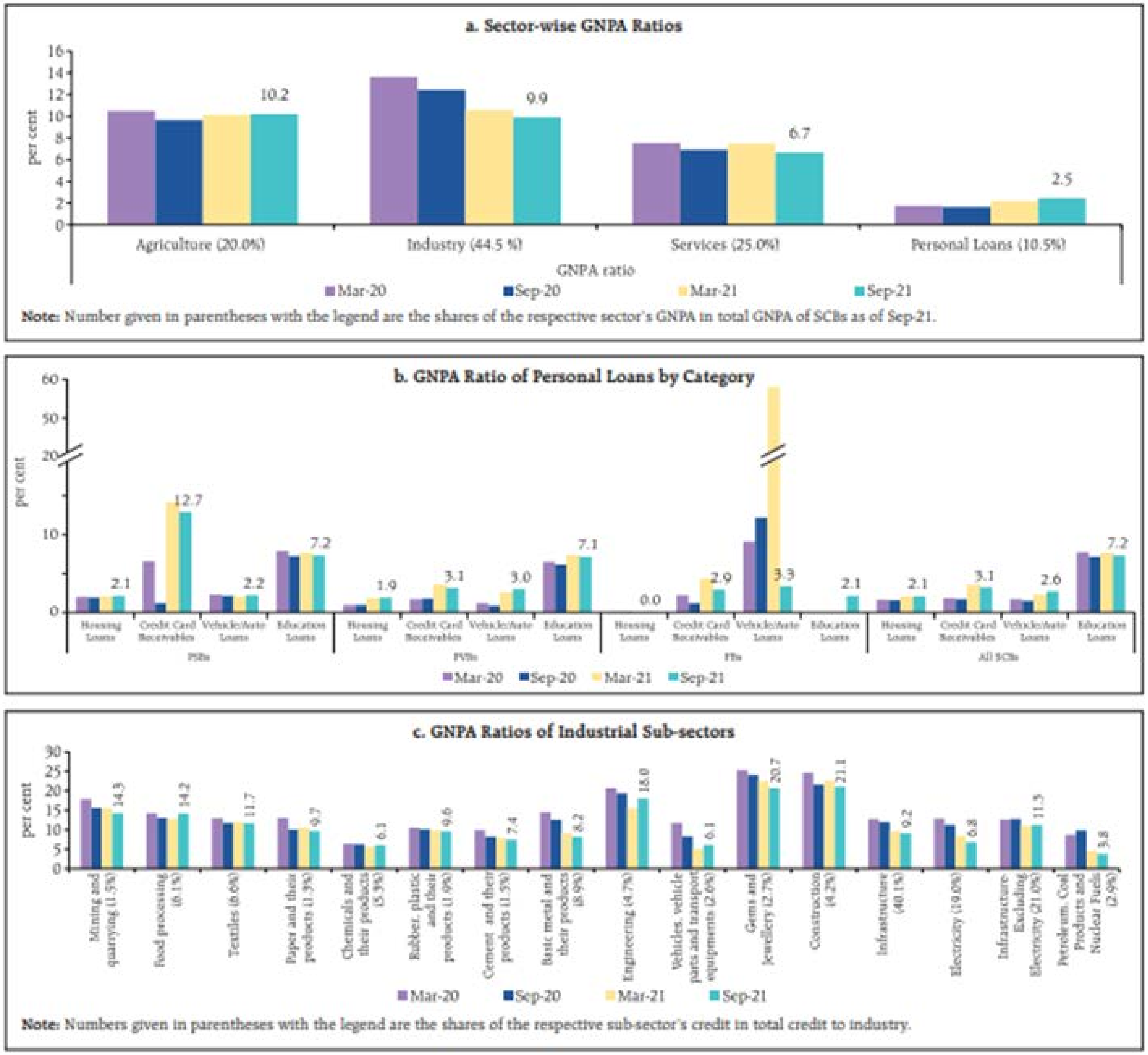
Source: RBI

Chart 5: Restructuring negligible in corporate, largely dominated by MSME and retail



Source: RBI

Chart 6: GNPA ratio rose for personal loans and declined for the industrial sector

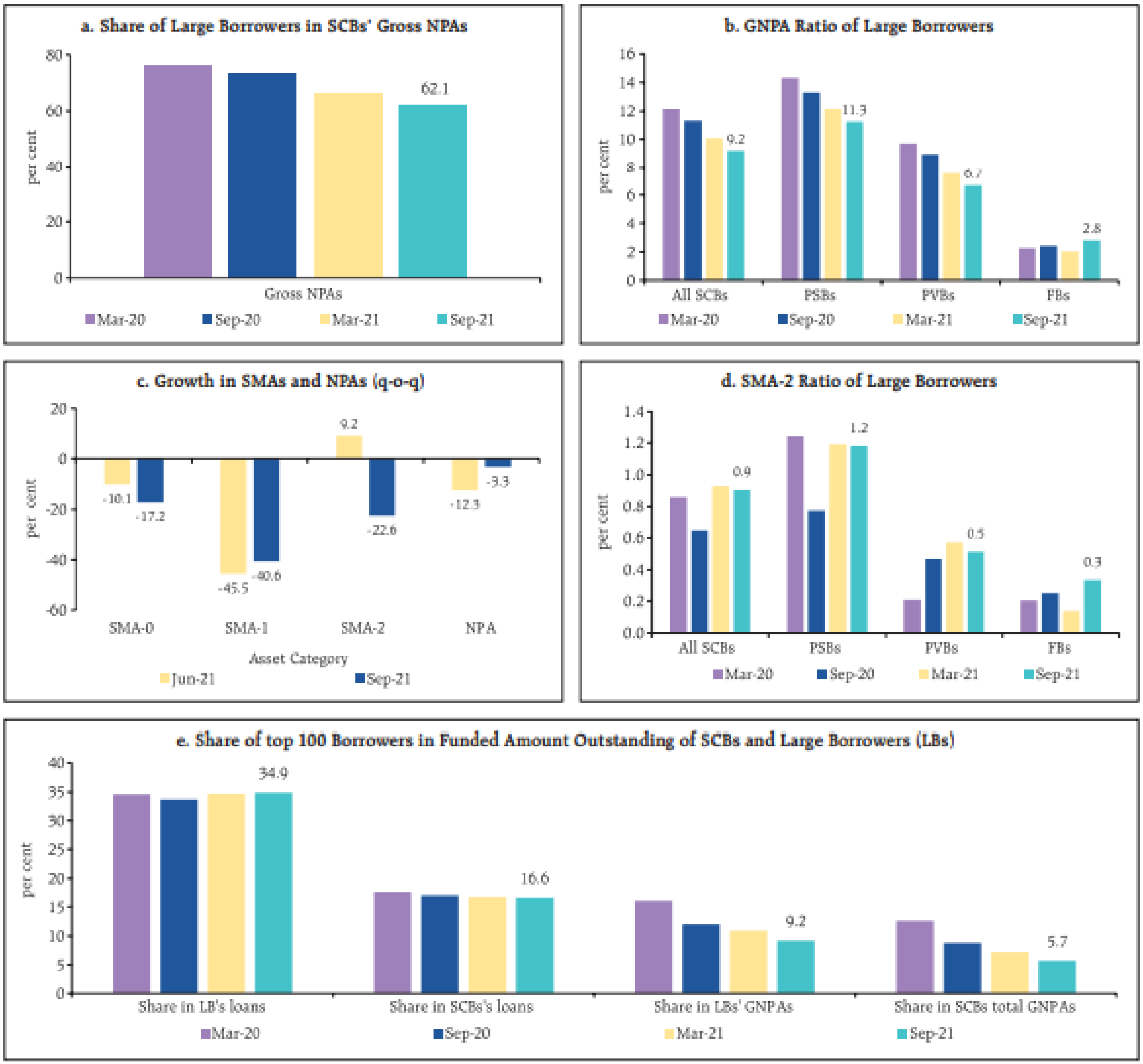


Source: RBI

Share of large borrowers in loan book as well as GNPA has declined

- Share of large borrowers in GNPAs fell from 75.9% in March 2020 to 62.1% in Sep'21.
- Loans in SMA buckets also declined. The share of the top 100 large borrowers in the total loan book shrunk marginally to 16.6%, while their share in SCBs' GNPA pool fell to 5.7%.

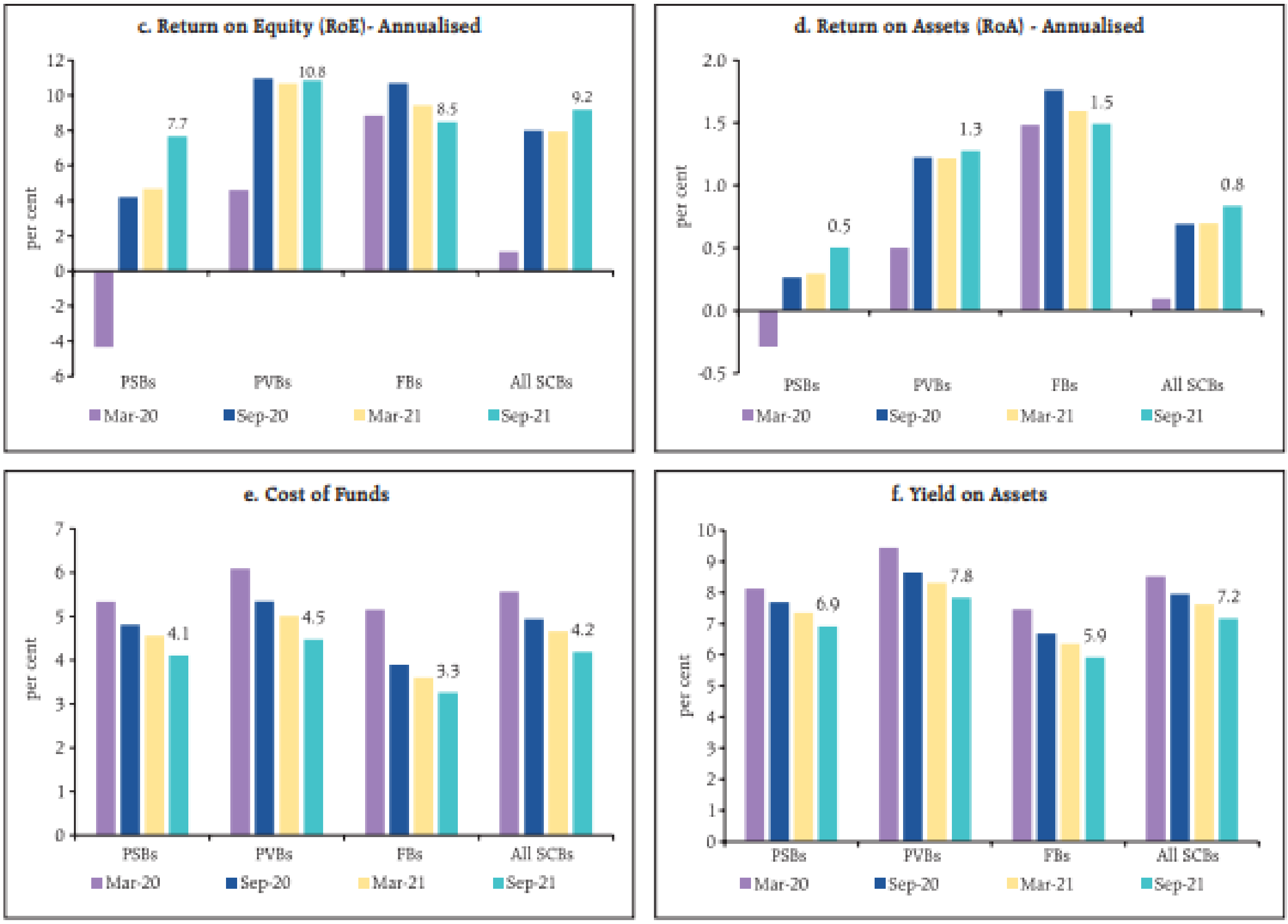
Chart 7: Share of large borrowers in loan book as well as GNPA has declined



Source: RBI

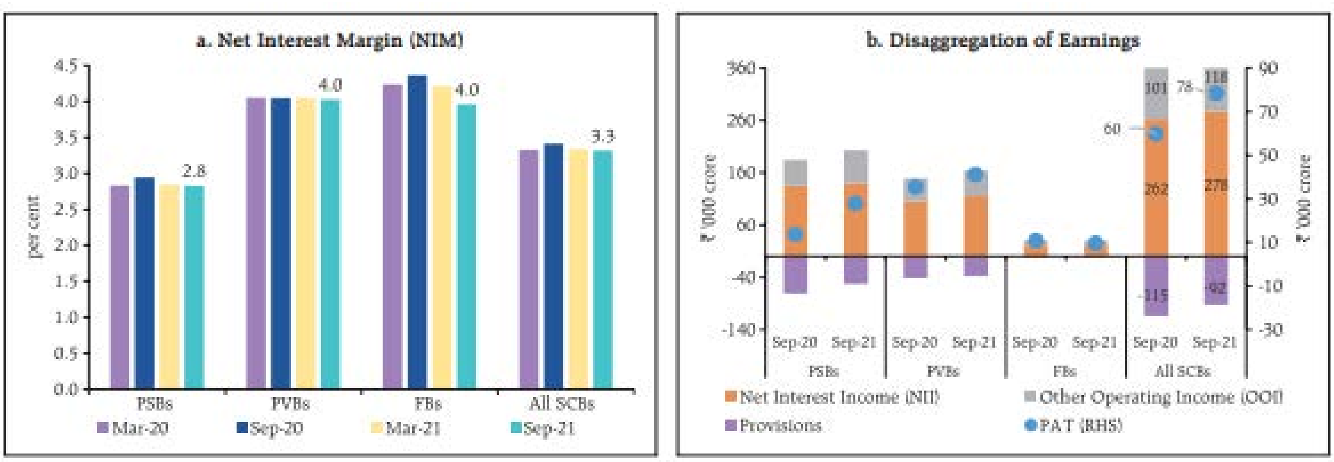
Capital adequacy and earnings indicators

Chart 8: Return ratios improve in H1FY22



Source: RBI

Chart 9: Margins have been stable for PSU as well as private banks

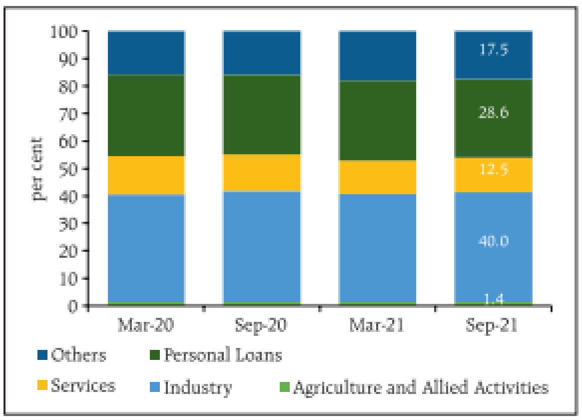


Source: RBI

NBFCs credit and asset quality position

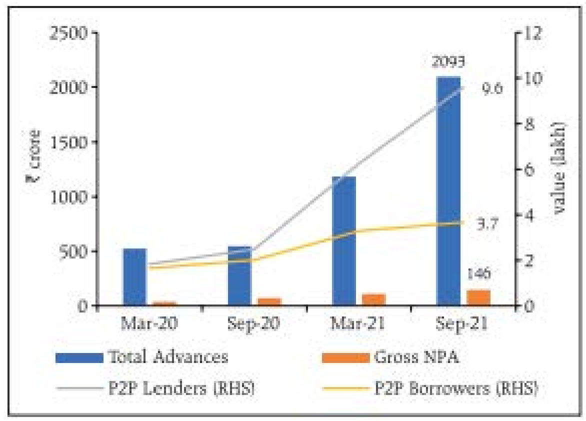
- Aggregate credit extended by NBFCs as of Sep'21-end stood at Rs27.4trn - loans to industry constituted the largest segment (40.0%) of the credit portfolio, followed by personal loans (28.6%), services (12.5%) and agriculture (1.4%). Large industry and auto loans comprised the largest two sub-sectors of NBFCs' credit portfolio with share of 32.4% and 13.1%, respectively.
- Lending through NBFC-P2P accounts for a minuscule share of aggregate NBFC lending (Rs21bn as on September 30, 2021); however, there was significant threefold growth during the pandemic.
- GNPA ratio of NBFCs, which had declined in September 2020 reflecting the standstill on asset classification prevalent then, rose to reach 6.5% as of Sep'21-end.

Chart 10: Loans to industry constituted the largest segment (40%) of the credit portfolio



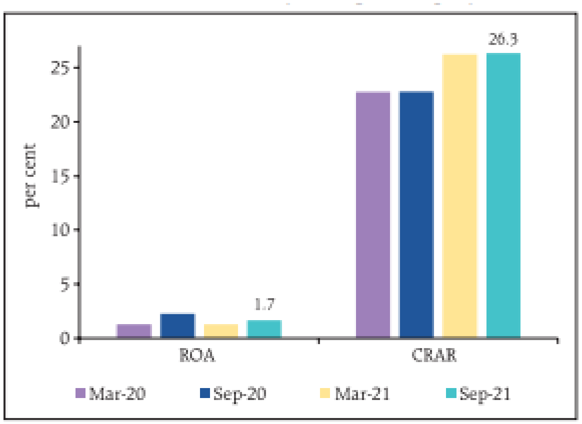
Source: RBI

Chart 11: Lending through NBFC-P2P accounts for a minuscule share of aggregate NBFC lending



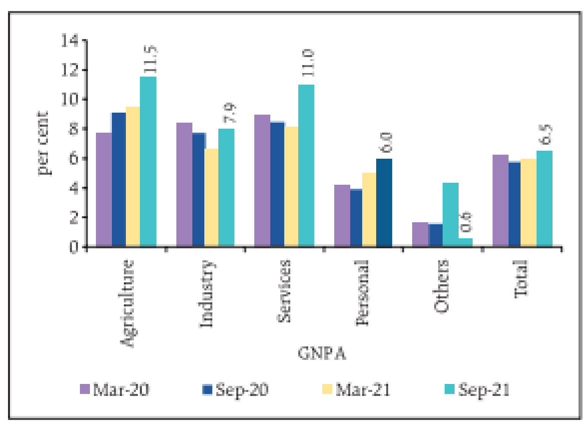
Source: RBI

Chart 12: Well capitalised with CRAR >25%



Source: RBI

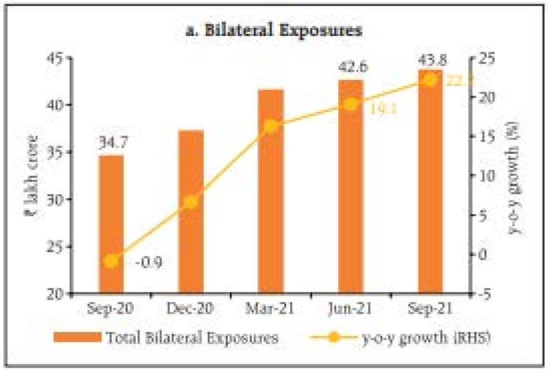
Chart 13: GNPA ratio of NBFCs, after declining in Sep'20, rose to reach 6.5% as of Sep'21-end



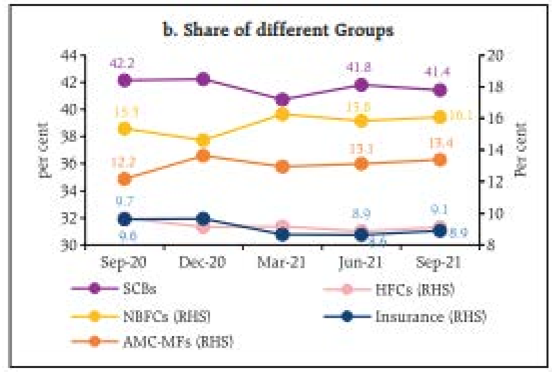
Source: RBI

Interconnectedness

Chart 14: Total outstanding bilateral exposures among the entities in the financial system have been on an upswing since H1FY21



Source: RBI

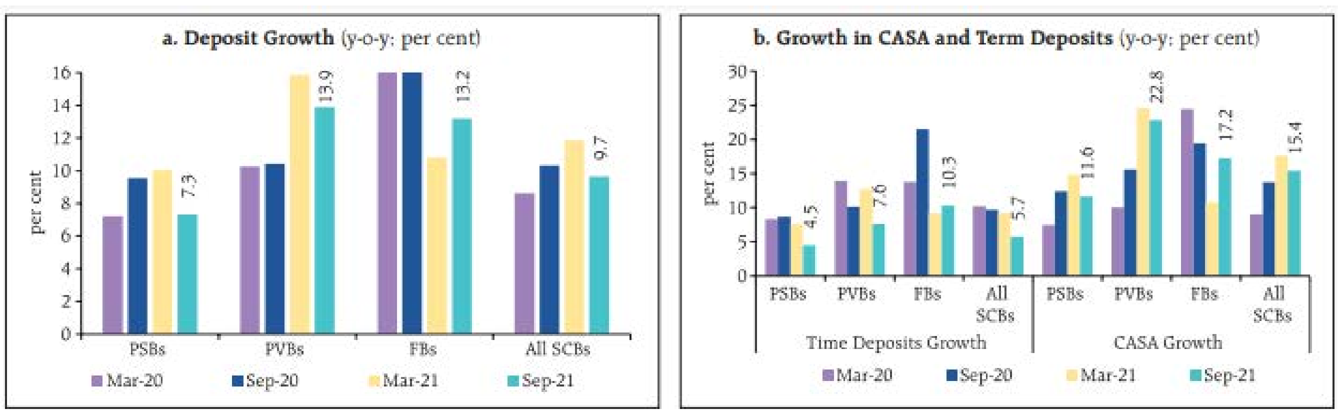


Source: RBI

Banks' credit and deposit growth

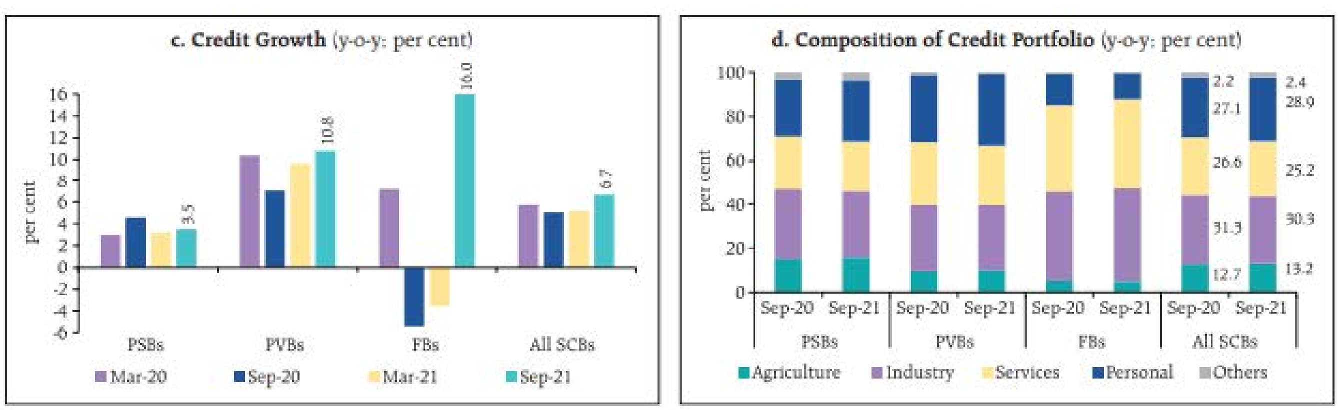
- Aggregate YoY deposits growth moderated from end-Mar'21 to touch 9.3% by December 3, 2021.
- CASA deposits continued to outpace term deposits, reflecting precautionary motives in the face of uncertainty.
- SCBs' YoY credit growth has been inching up during the current financial year. Industrial advances, personal loans and service sector advances - in that order - accounted for the major share of bank credit by the end of H1FY22
- ***Industrial sector credit turned positive, contributed by PVBs and FBs, after contracting over the previous two years.***
- ***In personal loans category, all segments except credit cards outstanding witnessed higher YoY growth.***
- Housing loans, the mainstay of personal loans, maintained double-digit growth.

Chart 15: Aggregate YoY deposits growth moderated from end-Mar'21 to touch 9.3% by December 3, 2021



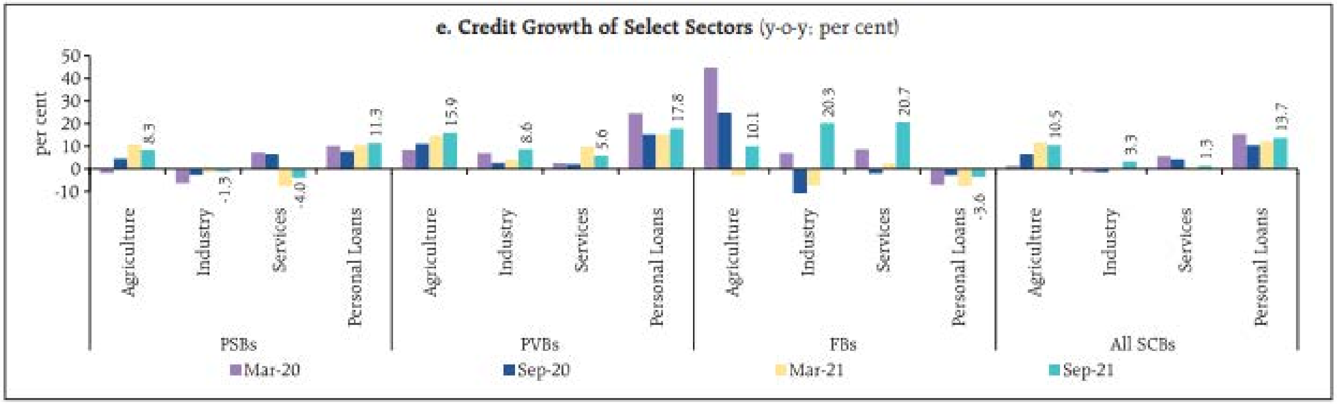
Source: RBI

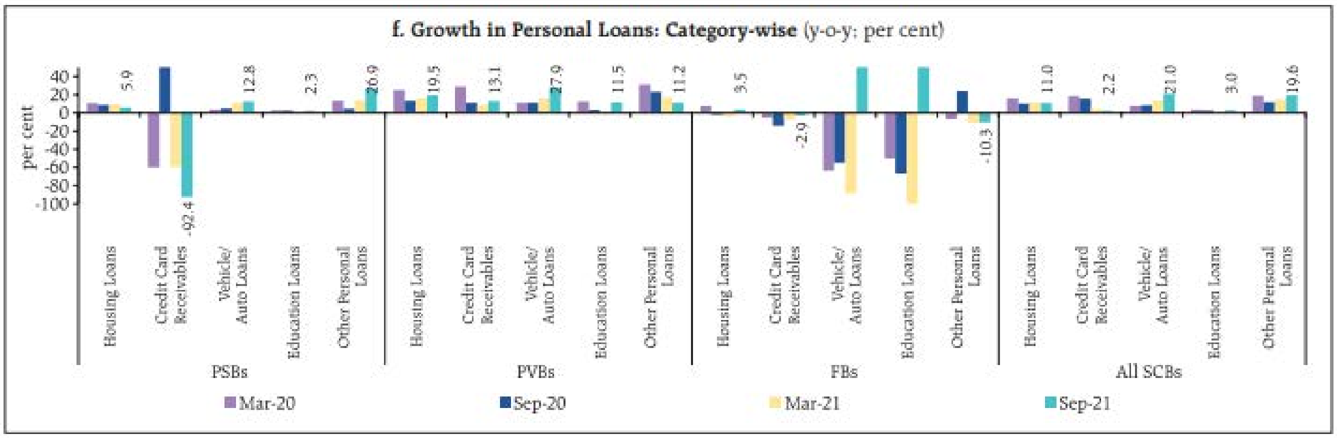
Chart 16: SCBs' YoY credit growth has been inching up during FY22



Source: RBI

Chart 17: In personal loans category, all segments except credit cards outstanding witnessed higher YoY growth

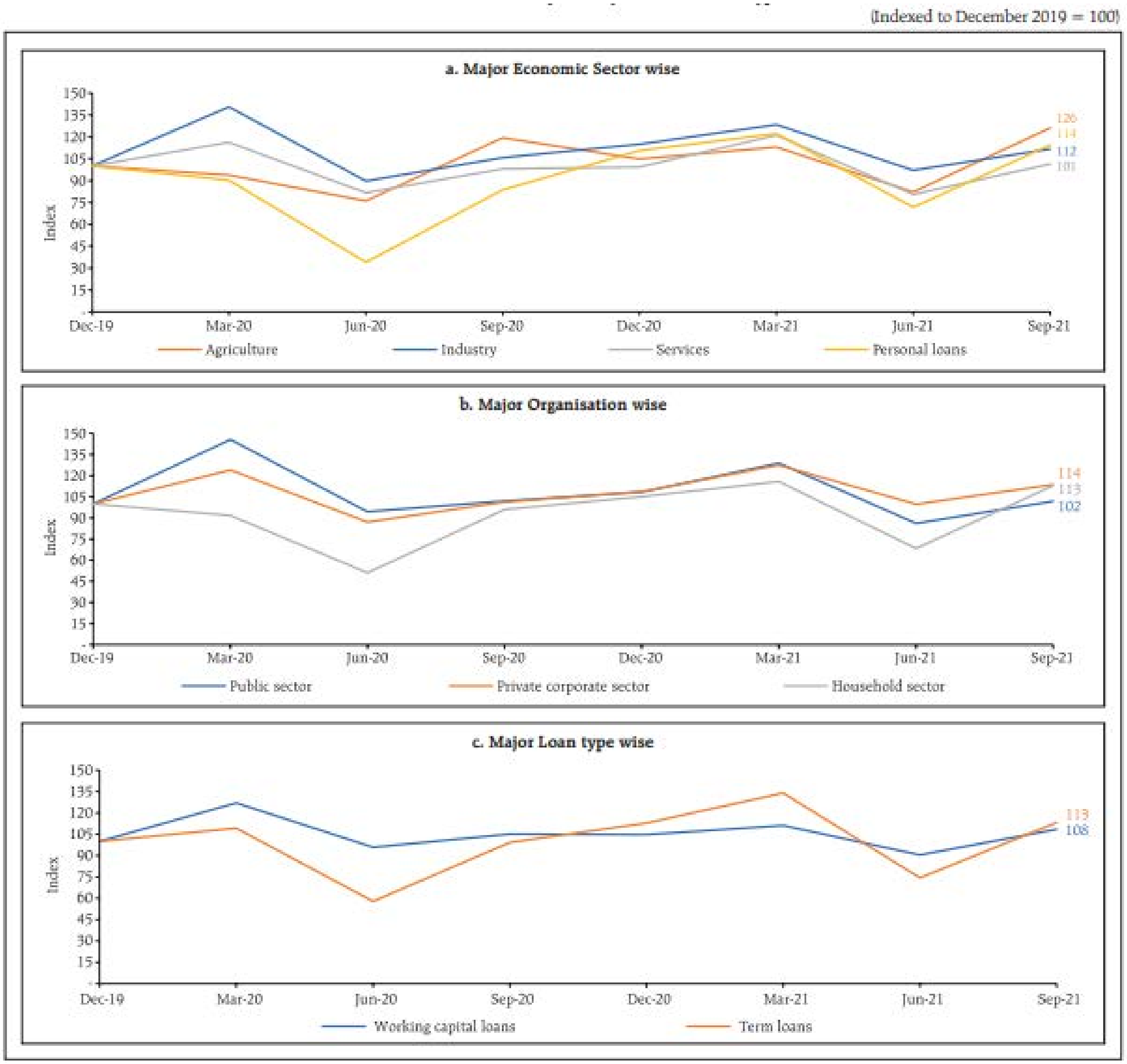




Source: RBI

- New loans extended by SCBs picked up momentum in Q2FY22 across sectors. Higher offtake was recorded by private, corporate and household sectors in the form of working capital and term loans.

Chart 18: New loans extended by SCBs picked up momentum in Q2FY22 across sectors



Source: RBI

Wholesale credit profile

- An analysis of the funded amount outstanding (>Rs50mn) shows credit absorption by PSUs remains robust while non-PSU credit languishes in both PSBs as well as private banks.

Table 5: Growth in wholesale credit to PSUs

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
	PSU							
PSB	12.9	19.4	21.8	15.9	17.5	3.6	5.9	11.6
PVB	21.7	44.3	86.7	96.0	89.1	56.6	32.9	16.7
PSBs + PVBs	13.8	21.8	27.8	23.8	25.3	9.7	9.6	12.4
	Non-PSU							
PSB	-9.9	-4.3	-4.1	-5.4	-4.0	-8.2	-10.1	-9.1
PVB	9.4	-0.9	-1.2	-6.1	-7.4	-6.0	-3.4	-0.8
PSBs + PVBs	-3.2	-3.0	-3.0	-5.7	-5.3	-7.4	-7.5	-5.8

Source: RBI

- Credit extended by PVBs to non-PSU non-financial companies across investment grade ratings is showing signs of recovery, but it is yet to recover in respect of lending by PSBs to other than top-rated corporates.

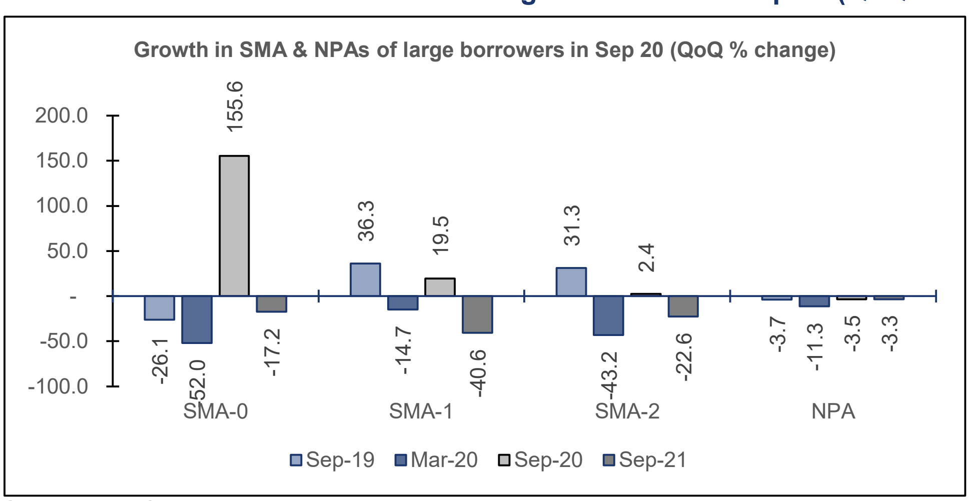
Table 6: Growth in wholesale credit to non-PSU non-financial companies

(y-o-y, per cent)

	PVBs				PSBs			
	Mar-20	Sep-20	Mar-21	Sep-21	Mar-20	Sep-20	Mar-21	Sep-21
AA and above	13.64	-2.01	-12.07	3.70	7.22	-6.04	-5.74	7.17
Other Investment Grade	-6.72	-6.69	-2.68	2.74	-2.73	4.46	3.11	-2.92
Below Investment Grade	5.93	0.47	-7.91	-11.01	-13.67	-9.59	-9.11	-17.41
Unrated/NA	-7.91	-9.94	-6.38	-3.14	-12.08	-12.08	-13.74	-12.72
Total	**-1.28**	**-5.68**	**-6.81**	**-1.33**	**-7.88**	**-6.60**	**-6.96**	**-8.78**

Source: RBI

Chart 19: Growth in SMA & NPAs of large borrowers in Sep'21 (QoQ % chg)



Source: RBI, I-Sec Research

Table 7: Growth in SMA & NPAs of large borrowers in Sep'21 (QoQ % change)

	Sep-19	Mar-20	Sep-20	Mar-21	Jun-21	Sep-21
SMA-0	-26.1	-52.0	155.6	-10.5	-10.1	-17.2
SMA-1	36.3	-14.7	19.5	11.2	-45.5	-40.6
SMA-2	31.3	-43.2	2.4	-58.5	9.2	-22.6
NPA	-3.7	-11.3	-3.5	6.0	-12.3	-3.3

Source: RBI, I-Sec Research

- Adverse migration across all special mention account (SMA) categories.

Table 8: SMA Transition Matrix of Wholesale book reflects adverse migration

Category	O/s in Dec'19 (Rs bn)	September 2021					
		Growth in exposure over Dec'19 (%)	% of assets in various cohorts				
			0 dpd	SMA-0	SMA-1	SMA-2	NPA
0 dpd	18,892	0.35	92.9	2.9	0.8	0.6	2.8
SMA-0	1,636	-7.51	71.9	13.2	3.8	3.7	7.5
SMA-1	608	-3.58	50.1	13.7	9.6	3.8	22.7
SMA-2	551	-13.37	32.0	4.9	6.8	21.8	34.5
Grand Total	**21,687**	**-0.71**	**88.9**	**3.9**	**1.4**	**1.4**	**4.4**

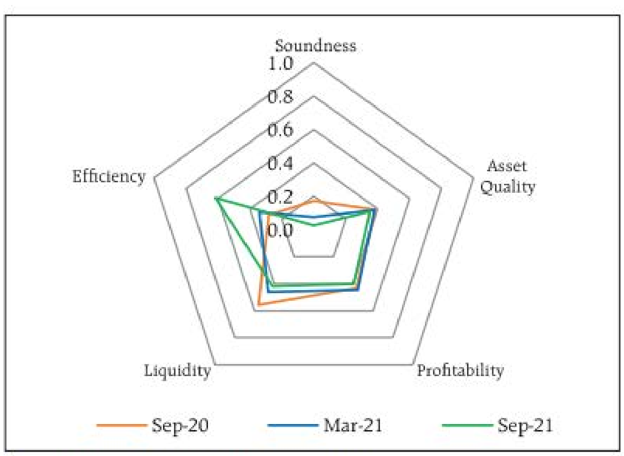
Category	O/s in Jun'21 (Rs bn)	September 2021					
		Growth in exposure over Jun'21 (%)	% of assets in various cohorts				
			0 dpd	SMA-0	SMA-1	SMA-2	NPA
0 dpd	20,159	-0.03	96.7	2.1	0.4	0.2	0.6
SMA-0	1,500	-1.47	69.7	22.2	6.1	1.4	0.6
SMA-1	504	-2.61	43.1	202.0	17.5	10.4	8.8
SMA-2	525	-3.03	39.0	4.3	10.4	35.6	10.7
Grand Total	**22,687**	**-0.25**	**92.5**	**3.9**	**1.3**	**1.3**	**1.0**

Category	O/s inSep'20 (Rs bn)	April 2021					
		Growth in exposure over Sep'20 (%)	% of assets in various cohorts				
			0 dpd	SMA-0	SMA-1	SMA-2	NPA
0 dpd	19,210	-3.66	90.8	5.8	1.3	1.2	0.9
SMA-0	2,748	-3.42	53.5	13.8	8.4	12.1	12.2
SMA-1	751	-4.51	51.2	11.8	16.9	8.1	12.0
SMA-2	388	-0.84	11.0	7.4	6.8	19.6	55.3
Grand Total	**23,097**	**-3.61**	**83.7**	**7.0**	**2.8**	**3.0**	**3.6**

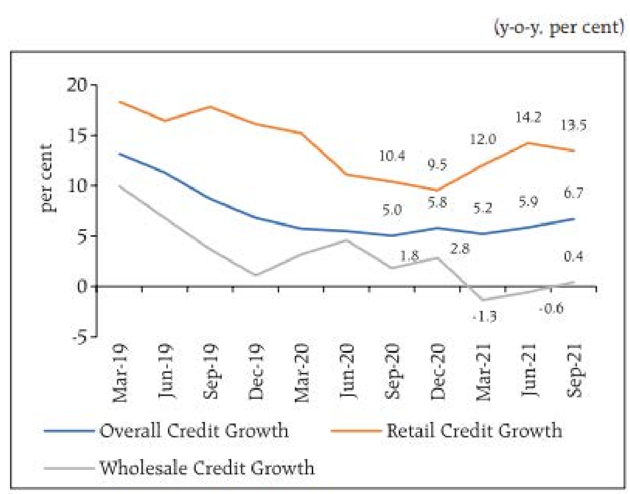
Source: RBI

- Banking stability indicator (BSI), showed improvement in soundness, asset quality, liquidity and profitability. Efficiency parameter worsened relative to Mar'21.

Chart 20: Banking stability indicator showed improvement in soundness, asset quality, liquidity and profitability; efficiency parameter worsened



Note: Away from the centre signifies increase in risk.
Source: RBI supervisory returns and staff calculations.



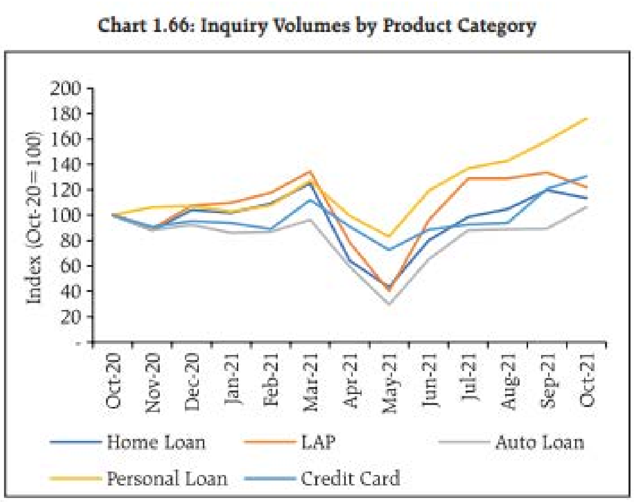
Note: SCBs include PSBs, PVBs and FBs only.

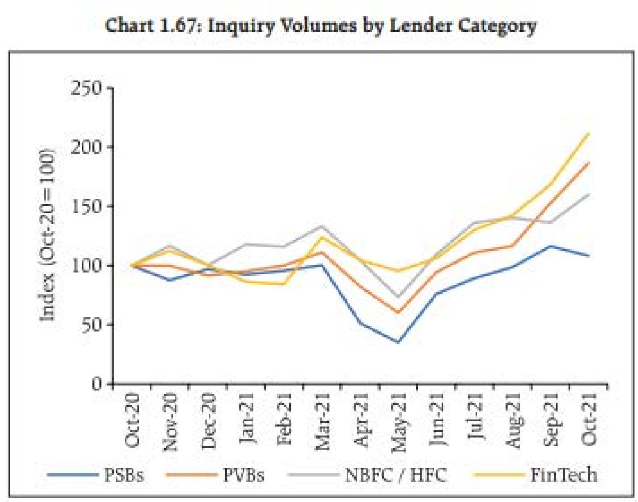
Source: RBI

Consumer credit profile

- Retail led credit growth model is confronting headwinds:
  - **Delinquencies in the consumer finance portfolio have risen** - TransUnion CIBIL analysis of consumer credit shows balance level of 90+ days past due (dpd) have risen from 2.4% in Q1CY20 to 3.01% in Q3CY21.
  - New-to-credit segment, a key driver of consumer credit growth in the pre-pandemic period, is showing a decline in originations. The origination volume from NTC consumers has fallen from 17% in Q12020 to 14% in Q32021.
  - Analysis of historical data shows that in EMEs, non-performing assets typically peak in six to eight quarters after the onset of a severe recession.
- Overall demand in consumer credit, as reflected in inquiry volumes, has recovered following the dip on account of the second wave.
- The upturn is led by demand for personal loan and credit card segments while demand from other product categories show signs of stabilisation.
- Lending activity across all lender categories, barring PSBs, shows signs of accelerated credit growth after the second wave.
- Inquiry volumes by risk-tier show leapfrogging of credit demand from sub-prime consumers, particularly after the second wave.
- Growth in credit-active consumers has, however, moderated consistently since September 2020.

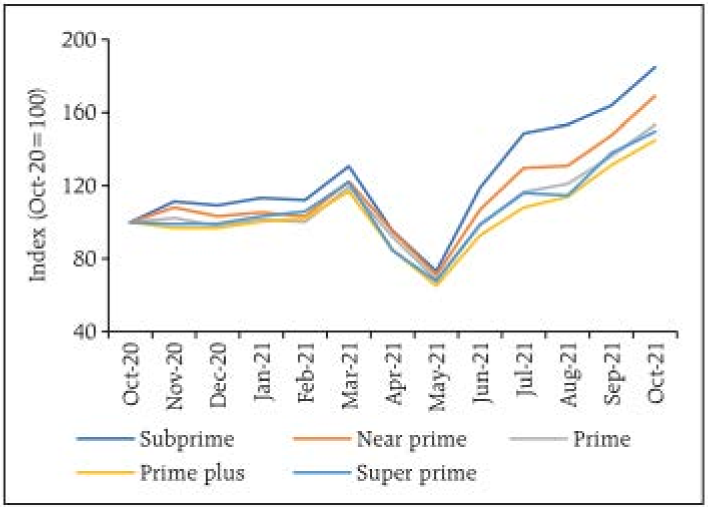
Chart 21: Inquiry volumes across all products and lender categories accelerating





Source: RBI

Chart 22: Inquiry volumes by risk-tier show leapfrogging of credit demand from sub-prime consumers



Source: RBI

Chart 23: Growth in credit active consumers (YoY) moderating

Source: RBI

Table 9: Consumer distribution by risk tier and lender category

(as a per cent of credit active consumers)

Score Band	Select NBFCs[40] (24)		All NBFCs		All PSBs		All PVBs		Industry	
	Sep-20	Sep-21	Sep-20	Sep-21	Sep-20	Sep-21	Sep-20	Sep-21	Sep-20	Sep-21
Subprime	28.2	29.7	31.0	33.8	29.7	32.7	16.3	19.3	27.2	29.9
Near prime	28.5	21.3	28.7	21.8	27.6	25.1	19.5	16.5	25.5	21.6
Prime	28.4	33.1	28.2	31.4	27.7	25.6	33.2	32.5	28.8	28.4
Prime plus	13.6	14.3	11.0	11.8	11.1	12.1	21.4	21.3	13.6	14.6
Super prime	1.4	1.6	1.1	1.3	3.9	4.6	9.7	10.4	5.0	5.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Below Prime	56.6	51.1	59.7	55.6	57.3	57.8	35.8	35.9	52.7	51.4

Source: RBI

- Impairment in consumer credit, measured in terms of the proportion of the portfolio at 90 days past due or beyond, shows signs of stabilisation after the pandemic, but at a fairly higher level for PSBs, relative to other lender categories.
- Delinquency levels in terms of product types point to a general deterioration across product category levels in Sep'21 relative to September 2020, with credit card segment being the only exception.

Table 10: Delinquency levels in terms of product types point to a general deterioration across product category levels

(per cent)

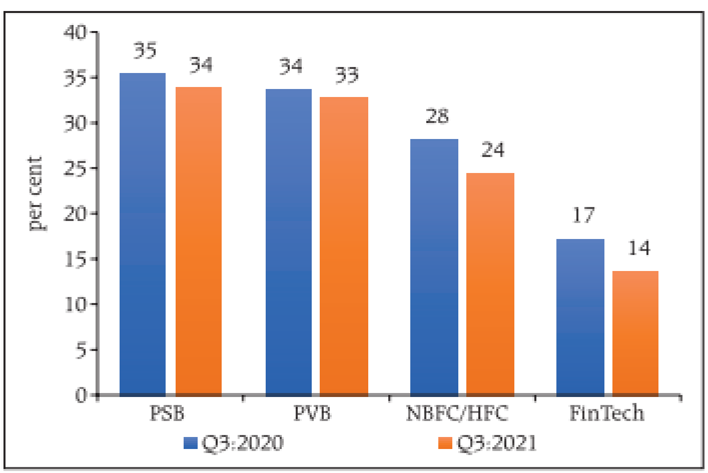
	PSB	PVB	NBFC / HFC	FinTech
Sep-20	5.48	1.56	2.53	1.82
Oct-20	5.38	1.55	2.45	1.94
Nov-20	5.10	1.93	2.90	2.87
Dec-20	4.94	2.49	3.39	5.88
Jan-21	4.87	2.66	3.76	6.60
Feb-21	4.54	2.61	3.43	6.22
Mar-21	4.89	2.01	3.04	3.14
Apr-21	4.92	2.03	3.95	3.56
May-21	5.69	2.48	5.09	4.69
Jun-21	5.88	2.67	4.59	3.70
Jul-21	5.60	2.80	4.58	4.74
Aug-21	5.54	2.66	4.21	4.93
Sep-21	5.03	2.23	3.77	4.56

Note: (1) based on 90 days past due balances.
(2) TransUnion CIBIL's FinTech category comprises of NBFCs registered with RBI and active in digital lending category as also peer to peer lending platforms.

Source: RBI

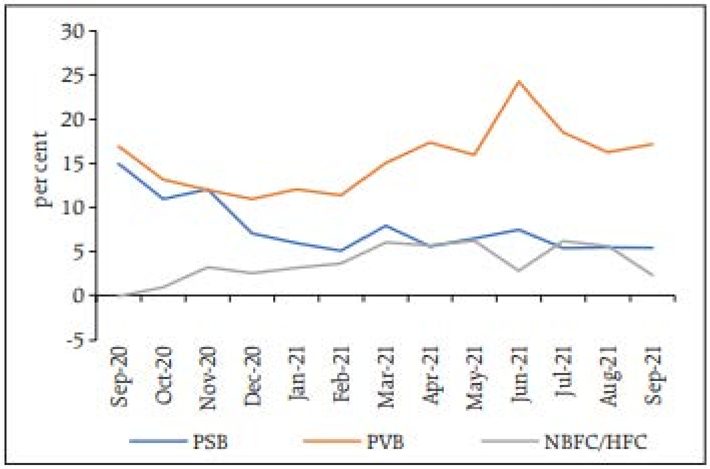
- General lending standards in the industry have been tightened across lender category levels, leading to a drop in approval rates as also moderation in growth of balances.

Chart 24: Approval rates by lender category (%)



Source: RBI

Chart 25: Growth in outstanding balances across lender category



Source: RBI

Adverse migration into riskier categories remains significant in Sep'21 relative to Sep'19/20. In respect of better-rated categories, such migrations have, however, stabilised or are better relative to the pre-pandemic period.

Table 11: Adverse migration into riskier categories remains significant relative to September 2019/20

		Subprime	Near prime	Prime	Prime plus	Super prime	Score tier downgrade	Score tier upgrade
Live Borrowers - Score Movement (Sep 2019 to Sep 2020)								
		Risk tier - Sep 2020						
Risk tier - Sep 2019	Subprime	61.1	25.9	10.9	1.7	0.4	0.0	38.9
	Near prime	19.3	33.9	36.2	8.9	1.7	19.3	46.8
	Prime	8.0	17.5	47.9	22.5	4.0	25.6	26.5
	Prime plus	3.8	9.9	29.5	46.4	10.4	43.2	10.4
	Super prime	2.3	7.3	17.7	21.2	51.5	48.5	0.0
Live Borrowers - Score Movement (Jun 2020 to Jun 2021)								
		Risk tier - June 2021						
Risk tier - June 2020	Subprime	71.3	17.2	8.9	2.0	0.6	0.0	28.7
	Near prime	28.3	29.1	31.0	9.5	2.1	28.3	42.6
	Prime	12.1	17.0	43.0	23.8	4.2	29.1	28.0
	Prime plus	6.4	10.7	25.5	46.4	11.0	42.6	11.0
	Super prime	3.1	7.6	16.6	21.4	51.4	48.6	0.0
Live Borrowers - Score Movement (Sep 2020 to Sep 2021)								
		Risk tier - Sep 2021						
Risk tier - Sep 2020	Subprime	68.0	18.7	10.3	2.4	0.7	0.0	32.0
	Near prime	25.0	30.0	32.7	10.0	2.3	25.0	45.0
	Prime	9.7	16.1	44.1	25.6	4.6	25.8	30.1
	Prime plus	4.3	9.3	24.8	49.6	11.9	38.4	11.9
	Super prime	2.5	6.6	16.8	21.4	52.6	47.4	0.0

Source: RBI

Housing market

- House sales witnessed green shoots of recovery during Q2FY22, following a prolonged period of negative growth.
- New launches, especially in affordable low-ticket segments, rose sharply and higher priced segments grew in terms of sales.
- Unsold inventory rose with new launches, but robust sales helped to bring down the inventory overhang during Q2FY22.

Credit flows to MSME sector and ECLGS granular details

- Credit to the MSME segment slowed down YoY by the end of Sep'21 vis-a-vis Mar'21. The decline was particularly noticeable in the sub-Rs250mn ticket size across major bank groups.
- Under the Emergency Credit Line Guarantee Scheme (ECLGS), loans amounting to Rs2.82trn were sanctioned till November 12, 2021, of which Rs2.28trn were disbursed (Rs1.94trn by SCBs, forming 20.6% of the incremental credit during the period).
- The draw down under ECLGS 1.0 and 2.0 comprised over 96% of the total guarantees issued.
- An analysis of detailed disbursal data reveals guarantees of value up to Rs10mn formed 51% of aggregate guarantees. Nearly 66% of guarantees have been issued to micro, small and medium enterprises.

Table 12: Bank credit to MSME sector muted post traction visible in FY21

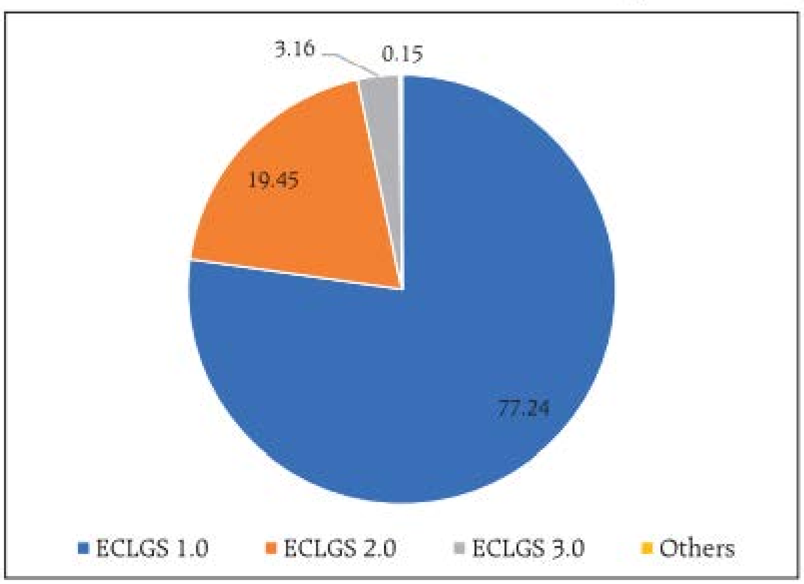
(y-o-y, per cent)

	PSB		PVB		PSB+PVB	
	Mar-21	Sep-21	Mar-21	Sep-21	Mar-21	Sep-21
Exposure < 25 crore	8.08	0.20	8.04	0.38	8.06	0.28
Aggregate MSME Exposure	0.89	1.01	9.23	2.98	4.50	1.90

Source: RBI

Table 13: Draw down under ECLGS 1.0 and 2.0 comprised over 96% of total guarantees issued

(per cent share)



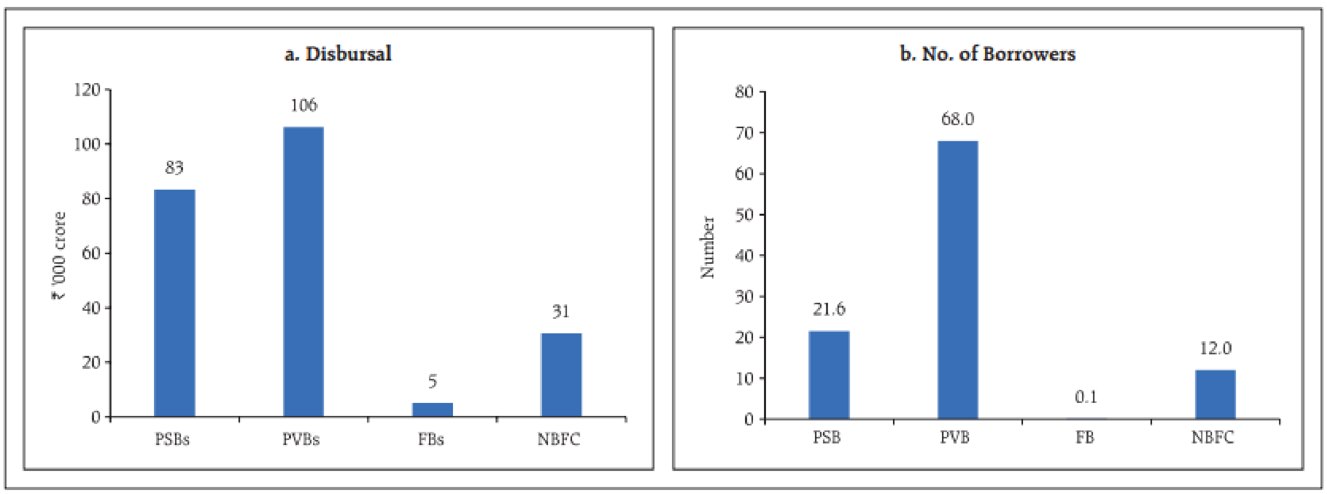
Source: RBI

Table 14: Guarantees up to Rs10mn formed 51% of aggregate guarantees; nearly 66% of guarantees issued to micro, small and medium enterprises.

	Number of beneficiaries	Guarantee Amount (₹ crore)	% Guarantee Amount
Slab wise			
Below 1 crore	1,15,57,518	133,955	50.9
1 - 5 crore	32,222	66,598	25.3
5 - 50 crore	4,915	55,781	21.2
50 - 500 crore	86	6,299	2.4
Type of Beneficiaries			
Micro	1,02,96,333	65,771	25.0
Small	4,98,509	66,3450	25.2
Medium	2,60,757	42,041	16.0
Other Business Enterprises	5,37,069	88,829	33.8

Note: Data as on November 12, 2021.
Source: RBI

Chart 26: PVBs showed greater proclivity than PSBs for utilising the ECLGS scheme, covering a larger number of beneficiaries



Note: Data as on November 12, 2021.
Source: RBI

- Overall restructuring of MSME loans allowed under the Reserve Bank's May 2021 scheme showed significant offtake.

Table 15: Bank group-wise restructuring of MSME portfolio

(₹ crore)

	Aggregate restructured portfolio	
	PSB	PVB
Restructuring - January 2019 scheme	26,190	2,174
Restructuring - February 2020 scheme	5,860	1,364
Restructuring - August 2020 scheme	24,816	11,027
Restructuring - May 2021 scheme	23,861	18,887

Source: RBI

- MSME portfolio of PSBs and PVBs indicates accumulation in NPA and SMA-2 categories in Sep'21 relative to Mar'21.

Table 16: Bank group-wise SMA distribution of MSME portfolio

(%)	PSBs					PVBs				
	0 dpd	SMA-0	SMA-1	SMA-2	NPA	0 dpd	SMA-0	SMA-1	SMA-2	NPA
Mar-20	65.0	6.9	5.7	4.2	18.2	88.6	4.4	1.9	0.7	4.3
Jun-20	63.3	18.2	2.2	2.6	13.7	88.6	7.0	0.9	0.6	2.9
Sep-20	65.9	13.4	3.2	2.6	14.9	87.9	8.1	0.9	0.6	2.6
Dec-20	65.7	7.8	5.6	7.8	13.1	88.1	4.8	2.6	2.4	2.0
Mar-21	61.2	10.2	8.4	3.4	16.8	89.4	3.8	2.4	0.8	3.6
Jun-21	60.9	10.9	4.6	4.8	18.8	86.0	5.9	2.8	1.7	3.6
Sep-21	66.6	7.6	3.4	3.9	18.5	87.9	5.5	1.7	2.1	2.8

Source: RBI

- Transition of low- and medium-risk MSME borrowers to high-risk category remains noteworthy (one-third downgraded from CMR 1-3 and CMR 4-6 and only 11% upgraded from CRM 7-10).

Table 17: Borrower transition matrix (Sep'20 to Sep'21) reflects transition to high-risk category

CMR[33] as of Sep-20	CMR as of Sep-21		
	CMR 1-3	CMR 4-6	CMR 7-10
CMR 1-3	67	23	10
CMR 4-6	11	57	32
CMR 7-10	1	10	89

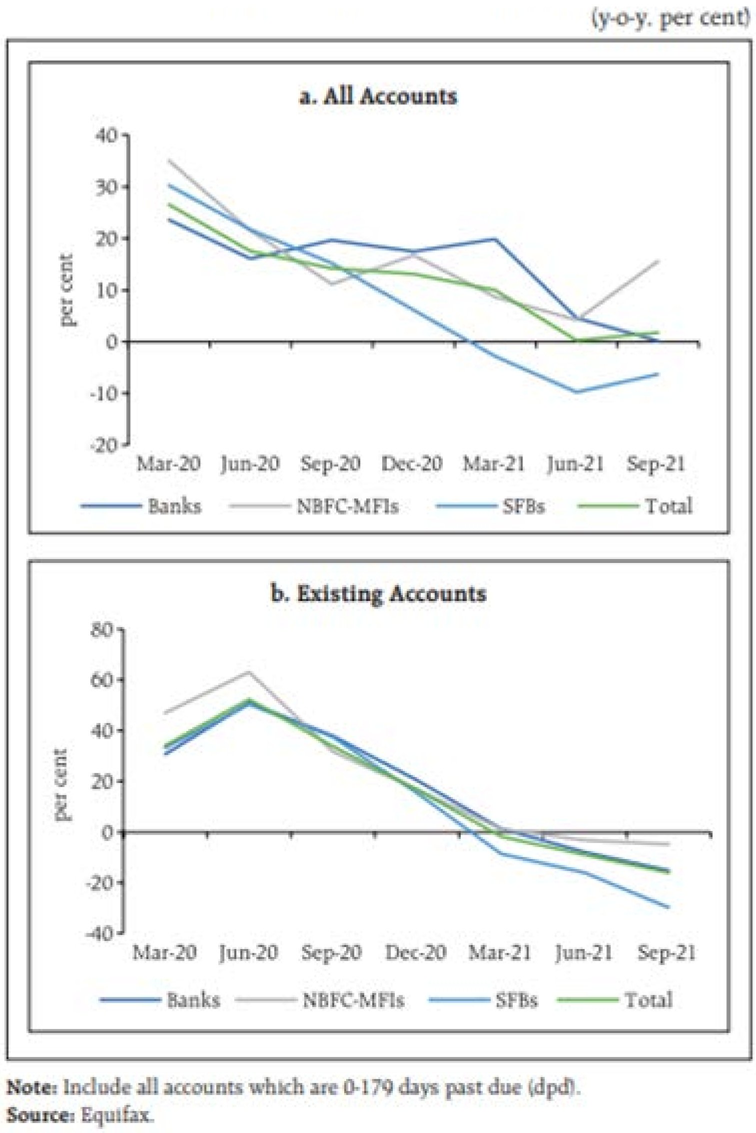
Note: Low Risk (CMR 1-3), Medium Risk (4-6), High Risk (CMR 7-10)

Source: RBI

Microfinance segment

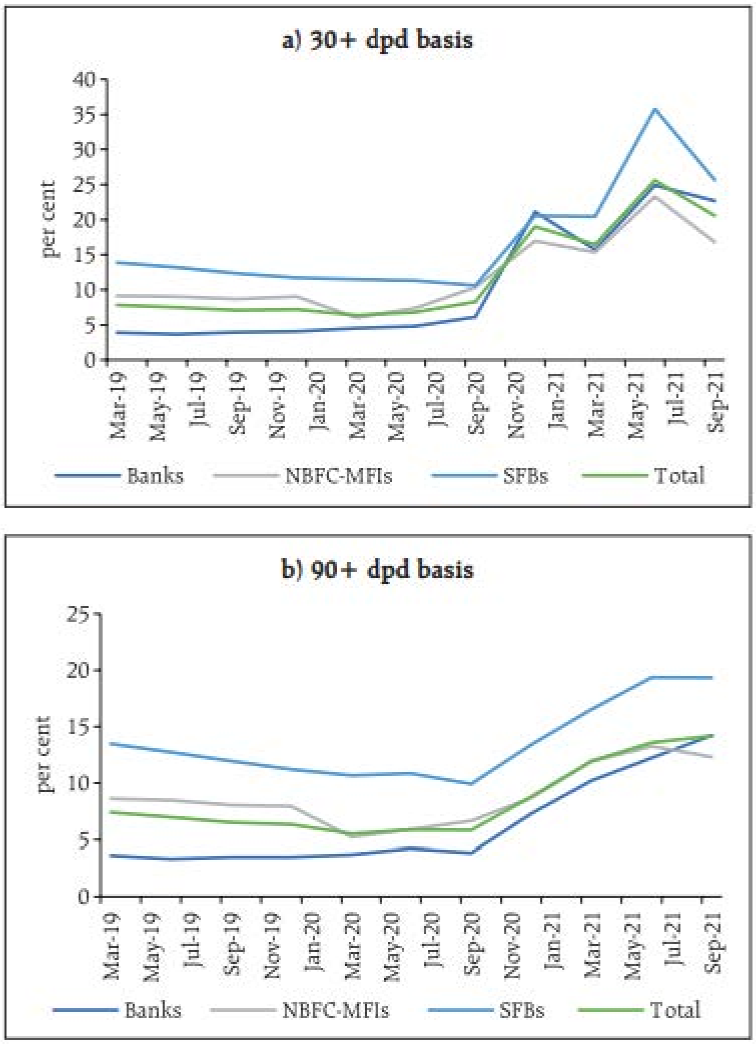
- Aggregate credit growth in microfinance sector is showing some signs of stabilisation - although outstanding credit to the sector in Sep'21 fell below March 2020 levels.
- The spurt in lending to existing borrowers seen at the onset of covid did not sustain and credit growth to this segment has started tracking aggregate portfolio growth.
- Impairments measured in terms of 30+ dpd (days past due) and 90+ dpd rose following the first wave of the pandemic and escalated further during the second wave.
- While the recent 30+ dpd based impairment of the portfolio appears to have peaked, the 90+ dpd based impairment shows signs of moderation.

Chart 27: Aggregate credit growth in microfinance sector is showing some signs of stabilisation



Source: RBI

Chart 28: The recent 30+ dpd based impairment of the portfolio appears to have peaked and 90+ dpd based impairment shows signs of moderation



Source: RBI

Bank credit to NBFCs

- Banking sector exposure to private NBFC/ HFCs showed contrasting movements during FY21.
- Bank lending to private NBFCs recovered in Q2FY22 after a steep decline in the preceding quarter.
- In case of private HFCs, however, banks' exposure continued to fall sharply after a surge in H2FY21.
- Bank lending to PSU NBFCs and HFCs also reflected more active usage of credit limits by NBFCs.

Chart 29: Banking sector exposure to private NBFC/ HFCs showed contrasting movements during FY21.

Source: RBI

Banks' investment profile

- During H1FY22, SCBs' acquisition of government securities (G-Secs) and state development loans (SDLs) increased sharply, with their incremental holding accounting for 39% and 68% of the net issuance of G-Secs and SDLs, respectively.
- G-Sec holding of the Reserve Bank also went up during the period, accounting for 27% of the net issuance.

Table 18: Bank group-wise incremental HTM holdings – H1FY22

(₹ crore)

	G-Secs	SDLs	Others	Total
Public Sector Banks (PSBs)	17,403	64,885	-24,101	58,187
Private Sector Banks (PVBs)	50,436	6,394	10,334	67,163
Foreign Banks (FBs)	5,478	580	-	6,058
All SCBs	73,317	71,858	-13,768	1,31,407

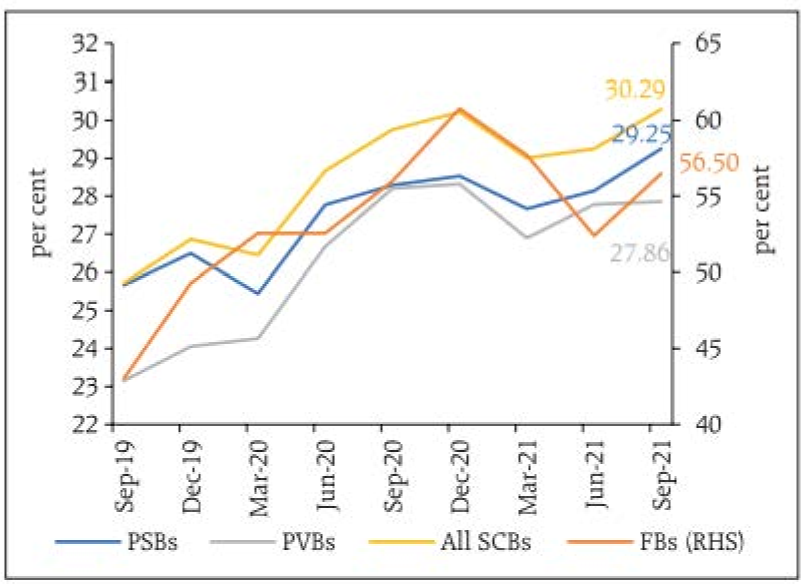
Note: Based on 46 SCBs which account for about 98 per cent of the total assets of the banking system.

Source: RBI

- Significant accumulation of G-Secs and other high quality liquid assets (HQLAs) across the banking spectrum.

Chart 30: SLR maintenance by bank groups (as a % of NDTL)

(as per cent of NDTL)

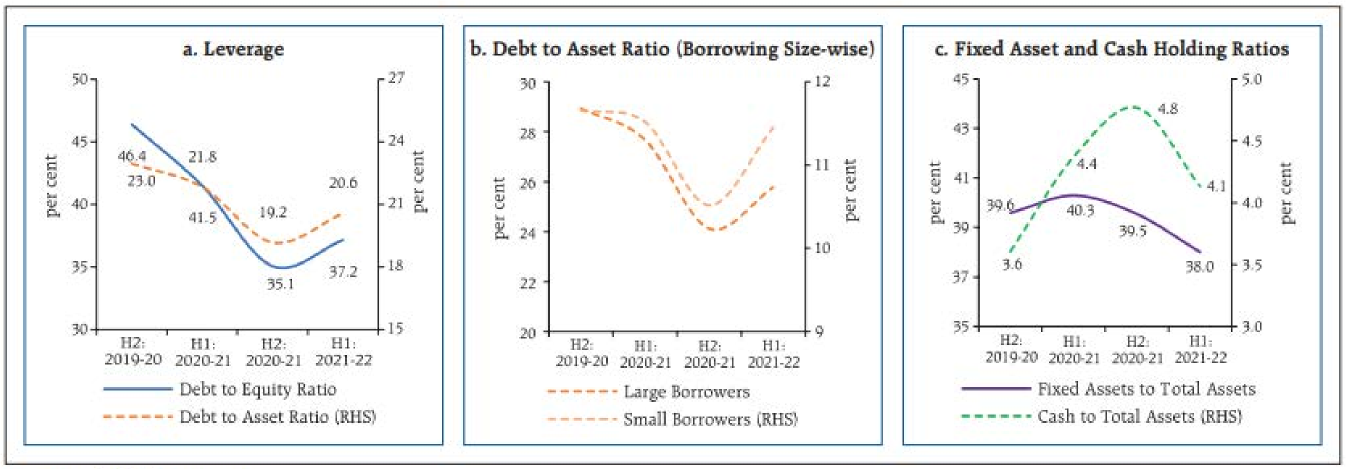


Source: RBI

Indian corporate sector

- Indian corporate sector gained strength and resilience in a steady and broad-based expansion through the pandemic. Sales of manufacturing companies increased by 34.0% YoY in Q2FY22. Sales growth for information technology (IT) companies, which had been positive throughout the pandemic, accelerated to 19.5%.
- Deleveraging by listed manufacturing companies during FY21 was suspended in H1FY22, and their cash holdings also moderated from the high levels witnessed during the pandemic.
- Capital expenditure remained muted, as reflected in a decline in the share of fixed assets in total assets.

Chart 31: Deleveraging was suspended in H1FY22; capex expenditure remained muted



Note: Sample of 1639 companies.
Source: RBI

- The pace of fund mobilisation by the corporate sector (including non-banking financial borrowers) through market instruments has slowed down considerably in H1FY22 vis-à-vis a year ago.
- Relatively high demand for borrowings through non-convertible debentures (NCDs) reflects efforts to lock in low-cost funding by highly-rated corporates in anticipation of normalisation of liquidity conditions.

Table 19: Aggregate mobilisation of funds

(₹ '000 crore)

Quarter-end Outstanding Amount under	Mar-20	Sep-20	Mar-21	Sep-21
Commercial Paper (CP)	346	362	365	371
Non-Convertible Debentures (NCDs)[29]	2,712	2,825	3,014	3,085
Wholesale Credit[30]	5,582	5,410	5,507	5,497
Total	**8,640**	**8,597**	**8,886**	**8,953**

Source: RBI

Resolution analysis

Analysis of 60 corporate debtors resolved under the Insolvency and Bankruptcy Code, 2016 between September 2019 and Sep'21

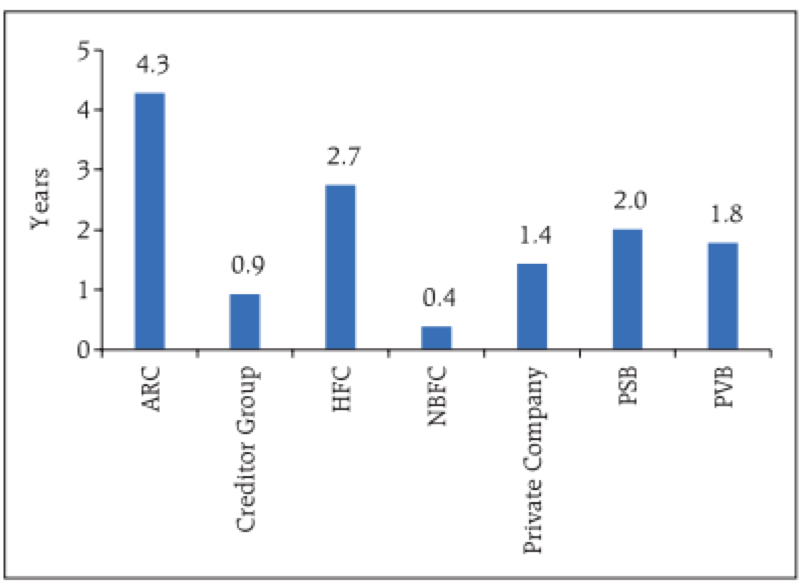
- Median recovery rate was 24.7%.
- The longer the bad loans remain on banks' balance sheets, the lower is the amount banks succeed in recovering, independent of the type of exposure or borrower.
- Significant delays in respect of asset classes held by asset reconstruction companies (ARCs) vis-a-vis other classes of creditors.

Table 20: Recovery rates and delay in various stages in a select sample of cases resolved between Sep'19 and Sep'21

Recovery rate (per cent)	Number in the sample	Median gap between NPA identification and commencement of CIRP (years)	Median Gap between commencement of CIRP and approval of resolution plan (years)
<10	13	5.3	1.6
Between 10 and 25	17	3.3	1.7
Between 25 and 50	22	2.9	1.6
Greater than 50	8	0.9	1.6
Overall	60	3.3	1.7

Source: RBI

Chart 32: Delay in initiation of insolvency for specific creditor cohorts (ARC)



Source: RBI

Table 21: NPA composition of PSBs and PVBs combined

(per cent share in total NPAs)

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Substandard	12.7	11.8	8.4	4.6	12.8	10.6	11.0
Substandard Restructured	0.6	0.4	0.3	0.1	0.3	0.7	1.2
Doubtful (up to 1 year)	12.7	13.7	14.4	15.4	14.2	12.3	9.0
Doubtful (1-3 years)	25.1	22.9	20.0	21.0	21.2	21.5	20.5
Doubtful (over 3 years)	14.3	14.5	17.3	16.0	16.7	18.2	19.1
Doubtful Restructured	10.2	9.6	10.5	9.9	8.9	9.5	9.4
Loss	24.3	27.2	29.2	33.0	25.9	27.2	29.7

Note*: For Private Non-Financial Wholesale Obligors.

Source: RBI

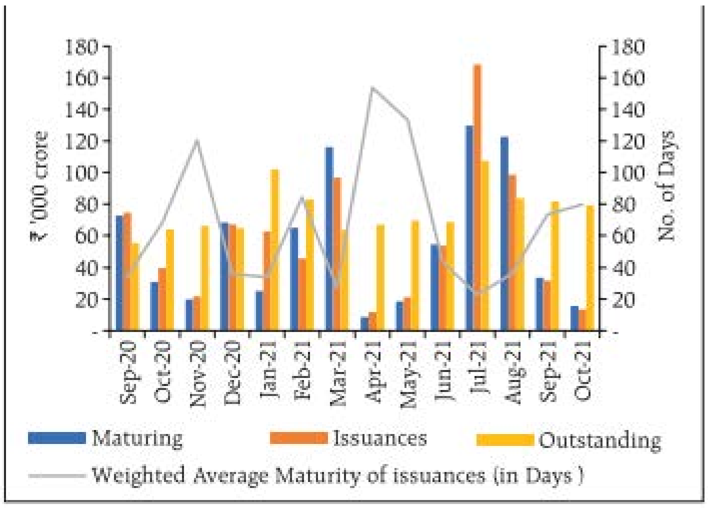
Outcomes of resolution analysis

- need for additional provisioning at early stages of impairment to internalise the costs imposed by delay in resolution of assets;
- need for incentivising all channels of resolution to avoid delays and hence, prevent erosion in value of assets;
- need for reviewing provisioning norms in the light of actual recovery-related data, including the impact of collateralisation on final recovery; and
- while a pre-packaged resolution process under Chapter III A of the IBC is an important watershed for speeding up resolution of small assets, the risk of deferral of unviable units at the cost of imperilling ultimate recovery needs to be guarded against.

NBFCs debt market borrowing profile

- Private NBFCs' activities in money markets were characterised by a significant shortening of maturities and sizeable gross issuances, particularly during June-August 2021.
- A significant portion of the issuance was by six NBFCs in particular. A few of these NBFCs also accounted for short-term issuances during the period.

Chart 33: CP issuances of private NBFCs rose in Jun-Aug'21



Source: RBI

- In July 2021, aggregate issuance by NBFCs 1, 2 and 3 comprised 52% of the aggregate issuance, signifying high dependence of these NBFCs on CP markets.
- For NBFCs 1, 2 and 3, intra-month CP exposures in July 2021 constituted a significant proportion of on-balance sheet liabilities.

Table 22: Gross CP issuances - significant portion of the issuance was by six NBFCs in particular

(₹ crore)

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
NBFC-1	8,200	950	12,500	300	650	**4,930**	**18,890**	**8,150**	1,130	350
NBFC-2	16,390	7,605	20,410			**7,525**	**54,435**	**33,515**		
NBFC-3	8,340	3,648	16,361	100	105	**5,030**	**19,545**	**9,668**	500	185
NBFC-4	600	1,000	2,500			**1,025**	**2,965**	**1,835**	600	
NBFC-5	3,100	2,925	1,600	1,000	5,800	**5,510**	**5,620**	**6,410**	3,215	4,170
NBFC-6	1,825	1,200	10,200	550	78	**5,925**	**14,700**	**3,960**		1,700

Source: RBI

Table 23: Weighted average maturity of issuances - significant shortening of maturities

(in days)

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
NBFC-1	16	122	11	90	87	**18**	**11**	**12**	85	245
NBFC-2	13	122	7			**7**	**10**	**15**		
NBFC-3	7	10	9	100	365	**24**	**9**	**12**	89	91
NBFC-4	7	7	9			**7**	**7**	**8**	7	
NBFC-5	35	43	23	7	44	**52**	**41**	**71**	95	42
NBFC-6	54	67	10	201	364	**27**	**21**	**89**		127

Source: RBI

Table 24: Share of CP outstanding in aggregate liability of select NBFCs

	Maximum Intra month CP outstanding (July-21), ₹ crore	Outstanding CP as a proportion of total on balance sheet liability (June-21), per cent
NBFC-1	9,810	25.9
NBFC-2	24,980	30.8
NBFC-3	9,763	24.3

Source: RBI supervisory returns and staff calculations.

Table-1.32: Intra-month CP Related Outflows

	Actual intra month 0 - 7 days outflow as % of projected 1-month outflow in Structural Liquidity Statement on June-2021
NBFC-1	178.6
NBFC-2	197.7
NBFC-3	167.5

Source: RBI

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