Debt and Yields

Indian Gsec yields witnessing tightening since Sep’21, primarily due to global drivers like :

- Global spill overs from elevated crude prices,
- Hawkish signals from systemically important central banks
- Rise in US treasury yields.

Rising cut-offs and devolvements on primary dealers (PDs) also contributed to rising yields. While switch operations of ~1.2 lakh crore had provided a temporary respite, the announcement in the Union Budget 2022-23 of a borrowing programme of ~14.95 lakh crore impacted sentiment and the ensuing sell-off pushed the 10- year benchmark.

In the corporate bond market, financial conditions remained easy for AAA issuances with spreads narrowing through FY22 in response to the Reserve Bank’s monetary and liquidity operations. As on June 16, 2022, the yield on 3-year AAA-rated corporate bonds was 7.4% t, 141 bps up from end-March 2022.

High government borrowing led to crowding out of the private sector (especially non AAA rated firms) from the financial resources envelope. In FY22, the weighted average yield of G-Sec issuances increased by 49 basis points over the previous year. Going forward, yields may continue to reflect risk premia, with spill overs on to the private sector through higher financing costs.

Bank Credit

Within the banking sector, private sector banks (PVBs) continue to outpace their counterparts in the public sector in credit growth, both wholesale and retail. Most of the revival in credit offtake was in the second half of 2021-22, and it has continued during the current financial year so far. Key trends:

1. Credit demand from the industrial sector revived after collapsing in FY21 as well as in the FY22 H1. A significant portion of new industrial loans was extended as working capital loans.
2. Loan growth to private corporate sector turned positive after two successive years of decline and deleveraging.
3. Banks’ balance sheets remain robust, with non-performing assets (NPAs) on a decline for both wholesale and retail loans, and capital buffers remain adequate.
4. The micro, small and medium enterprise (MSME) sector, which was hit hard by the pandemic, is showing signs of revival. The Emergency Credit Line Guarantee Scheme (ECLGS22) has played a key role in reviving the MSME sector. Loans amounting to ~3.32 lakh crore were sanctioned under the ECLGS, till April 30, 2022, of which an amount of ~2.54 lakh crore was disbursed (~2.36 lakh crore by SCBs).
5. The aggregate GNPA Ratio (PSBs and PVBs) in the MSME sector has moderated from 11.3% in September 2021 to 9.3% in March 2022. They, however, remain relatively high. Moreover, restructuring of portfolios to the tune of `46,186 crore constituting 2.5% of total advances under the May 2021 scheme23 has the potential to create stress in the sector.
6. Stress test results reveal that SCBs are well capitalised and capable of absorbing macroeconomic shocks even in the absence of any further capital infusion by stakeholders.

NBFCs and HFCs

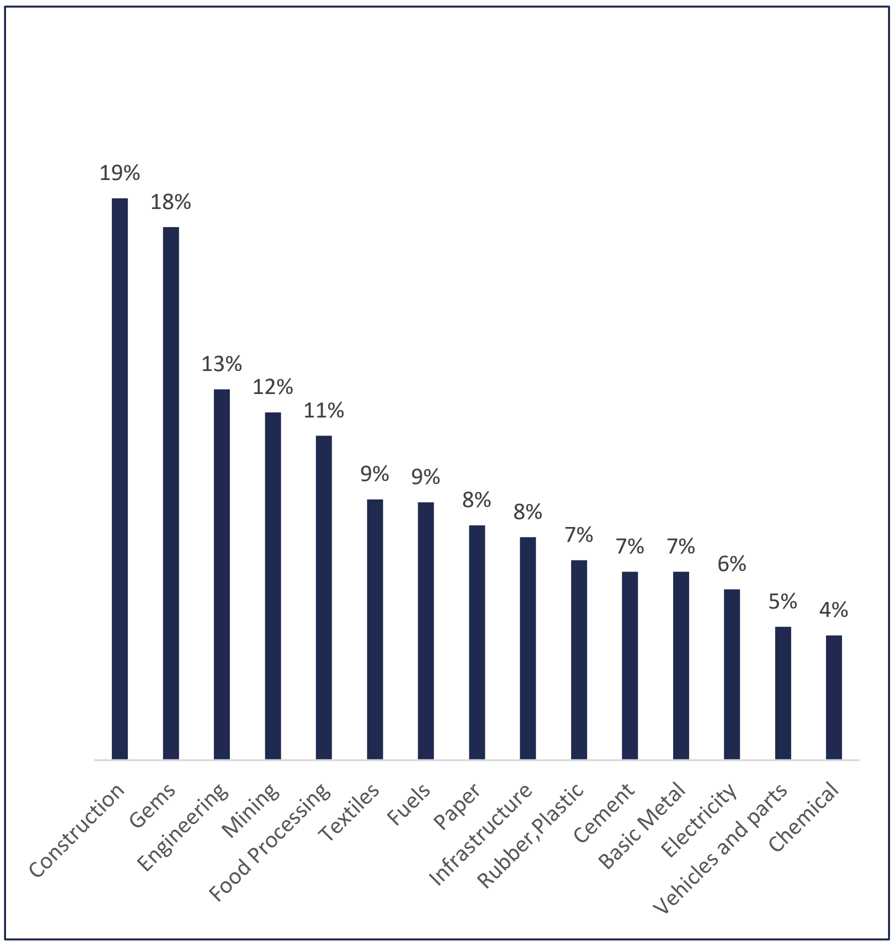
1. Aggregate credit extended by NBFCs stood at ~28.5 lakh crores in March 2022. Loans to industry constituted the largest segment (39%), followed by personal loans (27%) and those to services (15%). Government owned NBFCs accounted for 46% of aggregate credit extended by all NBFCs
2. NBFCs were the largest net borrowers of funds from the financial system, with gross payables of ~12.5 lakh crore and gross receivables of ~1.6 lakh crore as at end-March 2022. Over half of their borrowings were from SCBs and this share increased further during H2:FY22 as their reliance on funding by AMC-MFs and insurance companies reduced.
3. HFCs were the second largest net borrowers of funds from the financial system, with gross payables of ~7.40 lakh crore and gross receivables of 0.63 lakh crore as at end-March 2022. As in the case of NBFCs, the reliance of HFCs on funding from SCBs has been high and it rose further during the year. Their share of borrowings from AMC-MFs declined while the share of insurance companies has remained largely stable.
4. NBFC: The NBFC sector has a satisfactory capital position and asset quality at the aggregate level.
5. The GNPA ratio of the sector (excluding core investment companies) has improved from 6.1%t in March 2021 to 5.8% in March 2022. Moreover, Special Mention Accounts (SMAs)21 decreased from 13.3% of total advances in September 2021 to 9.2% in March 2022.

Conclusion

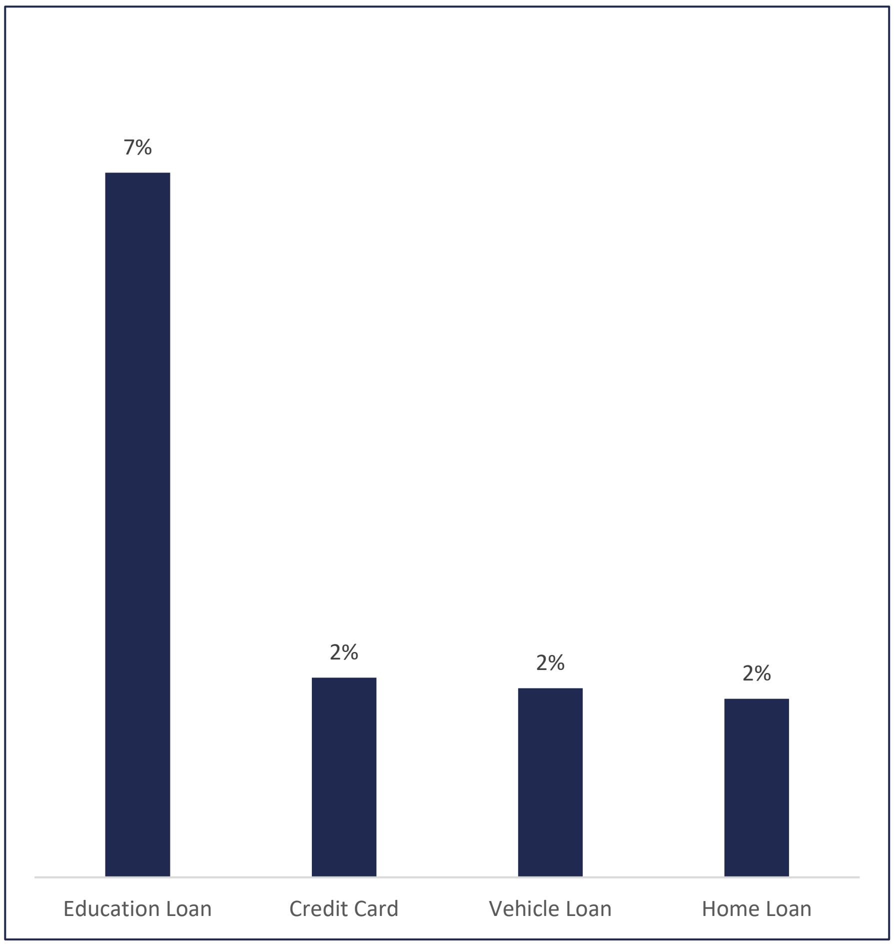
Financial entities have generally emerged resiliently from the pandemic and are expanding their business as the economic recovery takes hold. Their asset quality has improved and capital positions remained strong. Macro stress tests reveal that SCBs would be able to withstand adverse macroeconomic circumstances. Also, any negative shock to house prices is not likely to significantly impact banks' capital positions.

Industry wise Gross NPA Ratios in Commercial banks:

Wholesale loans:



Retail Loans:



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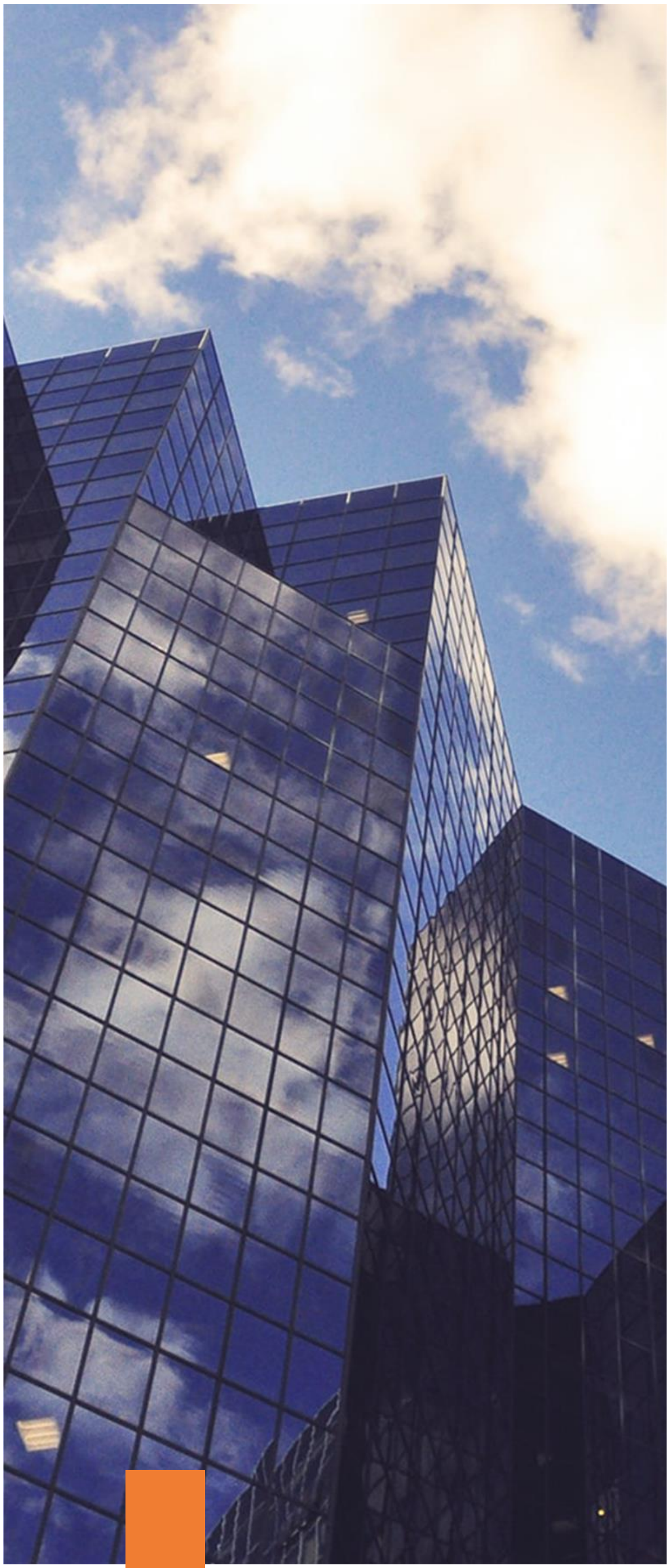

Website:

www.truboardpartners.com

Email Id:

research@truboardpartners.com