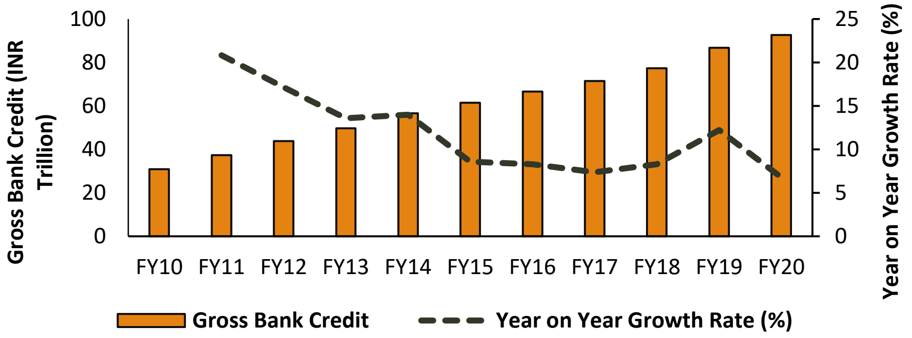
Sectoral Deployment of Bank Credit in India

- The term **“Bank credit”** refers to the amount of funds available to a business or individual from a banking institution in the form of loans.
- The availability of credit is important for an economy as industries and households always do not hold enough amount of resources.
- Banks and accredited financial institutions play significant roles for granting credit to the various sectors of the economy. The monetary needs of all the crucial sectors like agricultural, commercial and industrial sectors are met by the issuance of bank credit.
- Hence, the bank credit accelerates the economic development of the nations.

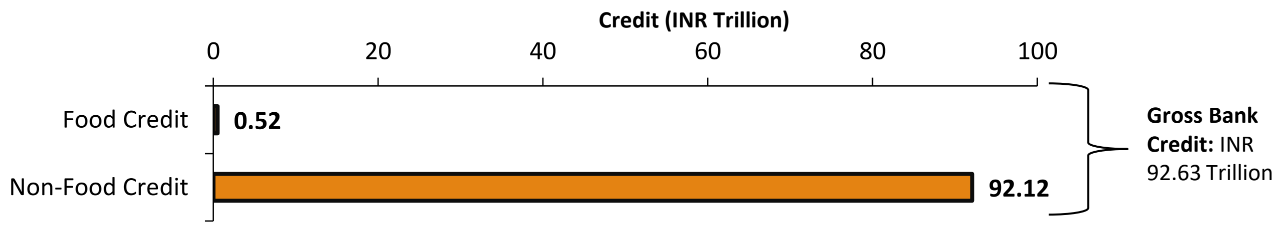
Gross Bank Credit, India, FY10 to FY20



- The Gross Bank Credit had increased at the CAGR of **11.61%** between FY10 to FY20.
- The yearly growth of this indicator which was **20.82%** in FY11 reduced to **6.78%** in FY20.

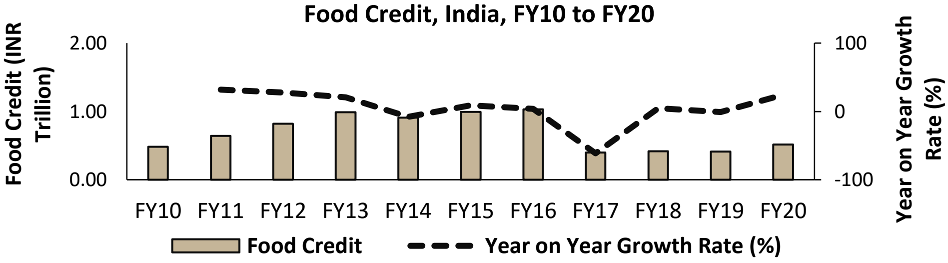
Breakdown of Gross Bank Credit

Share of Food and Non – Food Credit in Gross Bank Credit, India, FY20

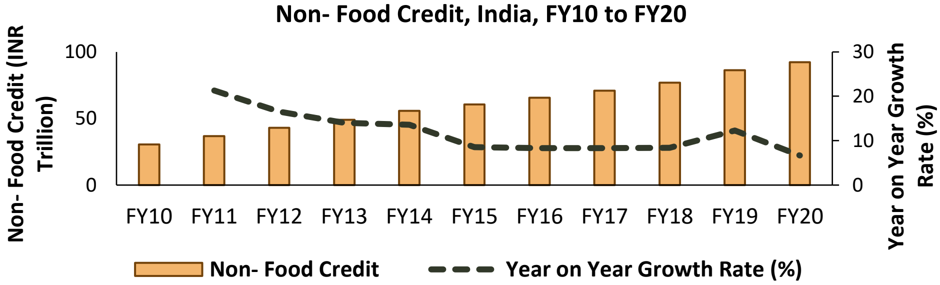


Performance of Food and Non-Food Credit Over the Years

Food Credit, India, FY10 to FY20

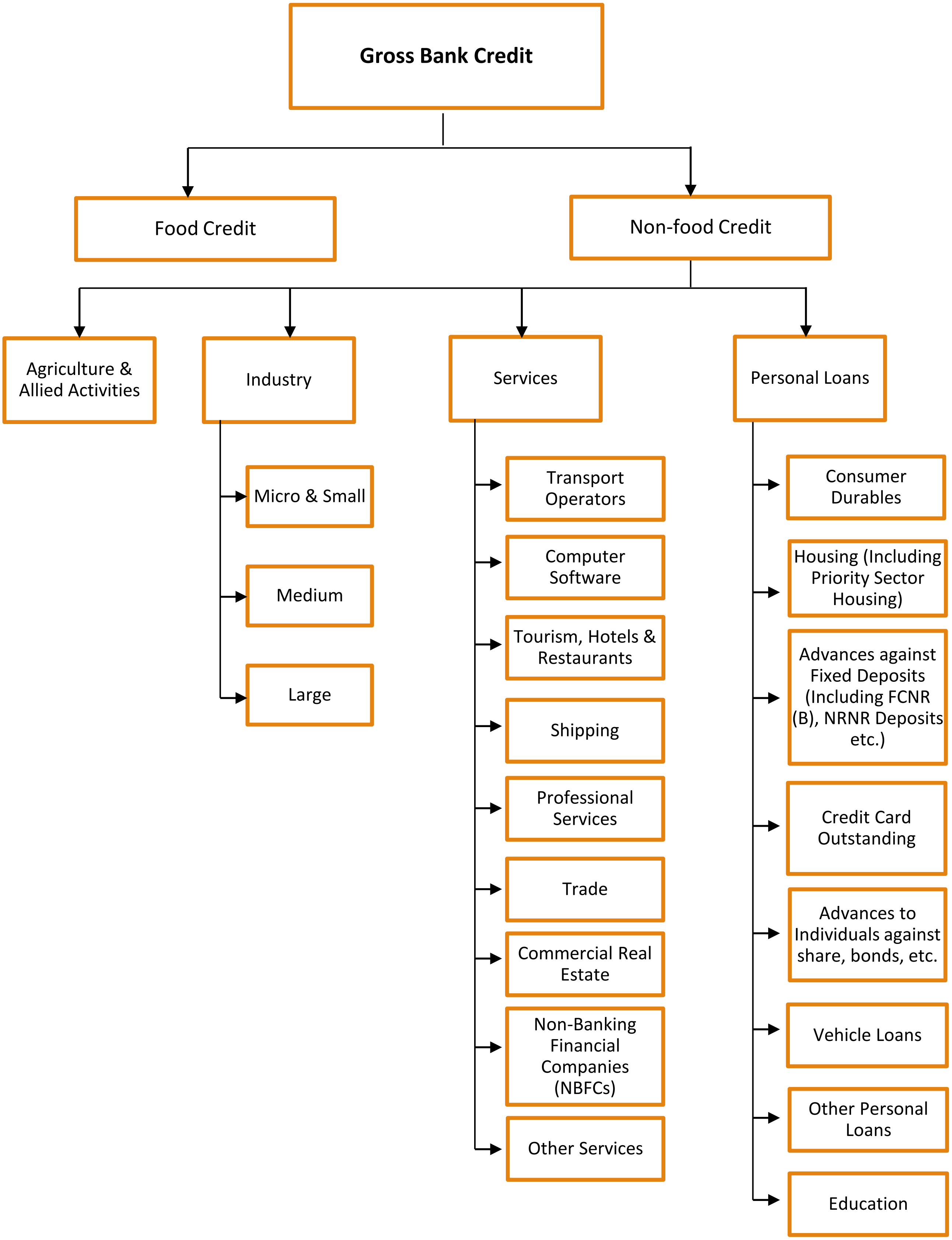


Non- Food Credit, India, FY10 to FY20



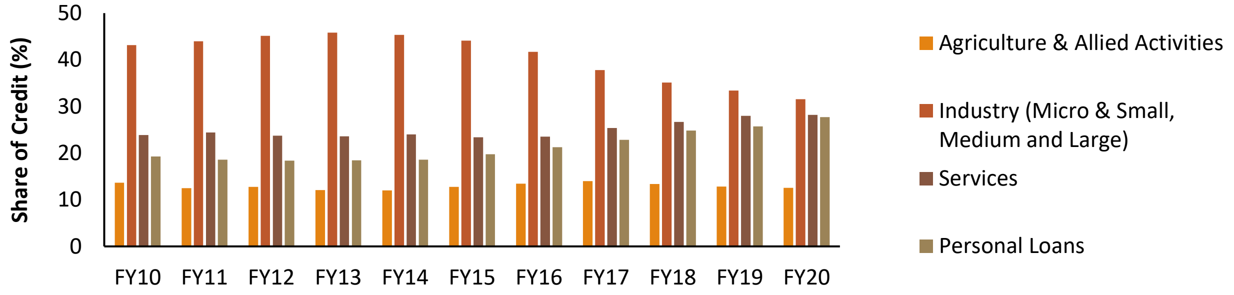
- Between FY10 to FY20, the Food Credit and the Non-Food had increased at the CAGR of **0.61%** and **11.72%** respectively.
- The share of food credit which used to be close to **2%** in the overall credit disbursement between FY10 to FY13 has now reduced to **0.56%** in FY20.

Deployment of Bank Credit across the Sectors in India



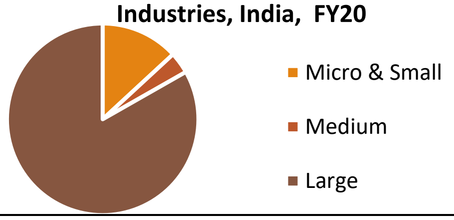
Break down of Non-Food Credit

Performance of the Components of Non-Food Credit, India, FY10 to FY20



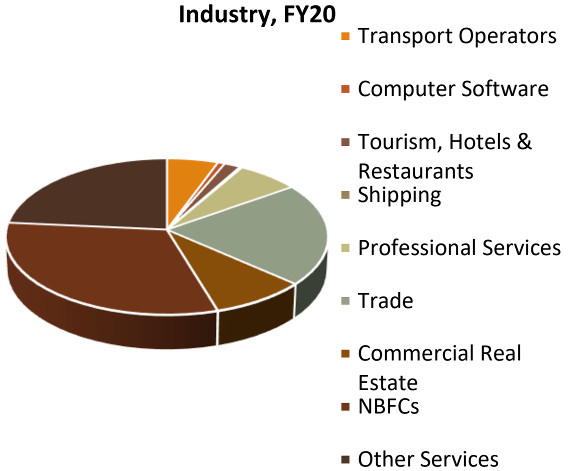
- In the overall deployment of credit, the shares of non-food sectors have always been huge.
- The share of non-food credit which was **98.43%** in FY10 increased to **99.44%** in FY20.
- Despite receiving the major amount, the share of Industry (Micro & Small, Medium and Large) reduced from **43.14%** to **31.54%** in the overall Non-Food credit between FY10 to FY20 .
- Moreover, the credit disbursement towards **"Personal Loans"** and **"Services"** segments also increased significantly with the CAGR of **15.87%** and **13.57%** respectively between FY10 and FY20.

Share of Credit Flow in Different Sizes of Industries, India, FY20

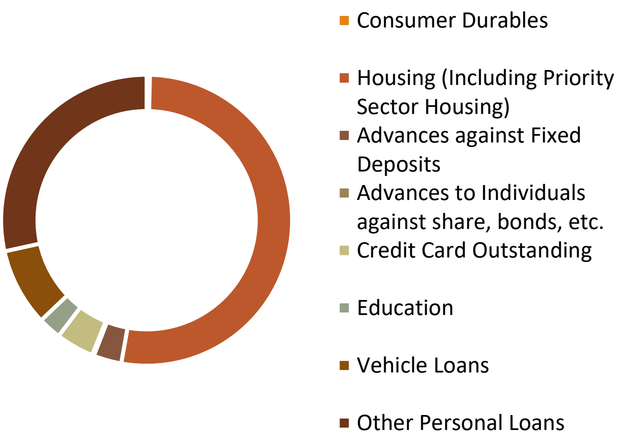


- Among the industry, credit flow towards the **Medium-sized** industries had reduced drastically from **10.11%** to **3.63%** between FY10 to FY20. Whereas, it had increased from **74.15%** to **83.22%** in the **Large** industries between the same time period.

Share of Credit Flow in the Service Industry, FY20



Share of Credit Flow in the Personal Loans, India, FY20

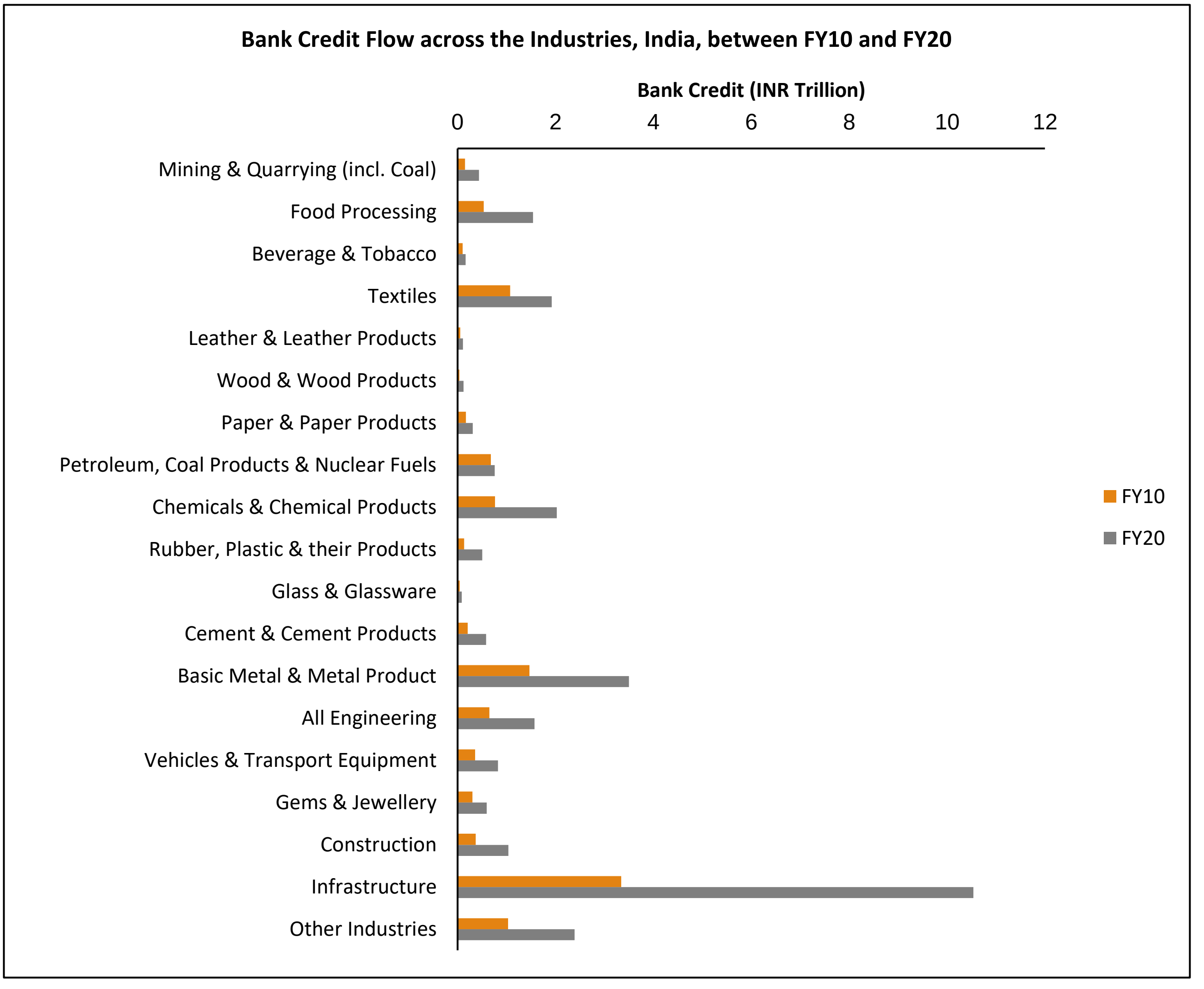


- In the services sector, credit disbursement had decreased in all the segments except the NBFC sector. The NBFC sector has witnessed the growth of credit flow at the CAGR of **21.7%** between FY10 to FY20.
- In the **"Personal Loans"** sector, the credit flow has always been maximum in the "Housing" sector and it had also risen at the CAGR of **16.1%** in that sector between FY10 to FY20.
- Moreover, the credit deployment had also grown at the CAGR of **18.3%** and **13.2%** respectively in "Credit card" and "Vehicle loans" segments between the same time period.

Breakdown of Industries

- **Industry**
  - Mining & Quarrying (incl. Coal)
  - Food Processing
    - Sugar
    - Edible Oils & Vanaspati
    - Tea
    - Others
  - Beverage & Tobacco
  - Textiles
    - Cotton Textiles
    - Jute Textiles
    - Man-Made Textiles
    - Other Textiles
  - Leather & Leather Products
  - Wood & Wood Products
  - Paper & Paper Products
  - Petroleum, Coal Products & Nuclear Fuels
  - Chemicals & Chemical Products
    - Fertiliser
    - Drugs & Pharmaceuticals
    - Petro Chemicals
    - Others
  - Rubber, Plastic & their Products
  - Glass & Glassware
  - Cement & Cement Products
  - Basic Metal & Metal Product
    - Iron & Steel
    - Other Metal & Metal Product
  - All Engineering
    - Electronics
    - Others
  - Vehicles & Transport Equipment
  - Gems & Jewellery
  - Construction
  - Infrastructure
    - Power
    - Telecommunications
    - Roads
    - Other Infrastructure
  - Other Industries

Deployment of Bank Credit across the Industries in India



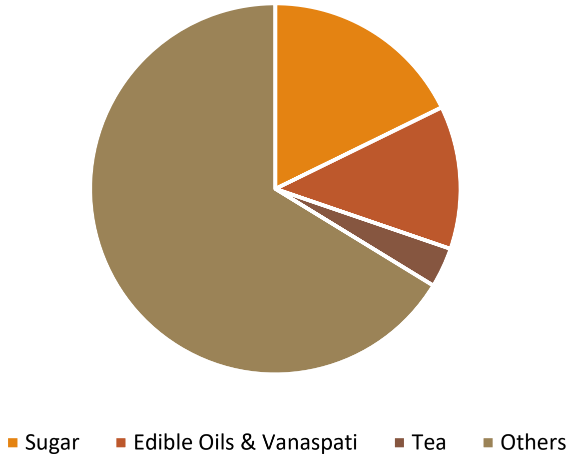
- Infrastructure has the maximum share of credit absorption among all the industries. In FY10, the share of this industry in the overall industrial credit disbursement was **28.98%** which increased to **36.28%** in FY20.
- After this, the Metal industry seems to be another major taker of credit with around **12%** of share in the overall bank credit disbursement for the industries.
- The significant fall in the share of the credit flow can be noticed in "Textiles" and "Petroleum" industries over the years. The falling shares of these industries can be understood as follows:

Industry	Share of Industrial Credit Deployment	
	FY10	FY20
Textiles	9.36%	6.62%
Petroleum, Coal Products & Nuclear Fuels	5.9%	2.61%

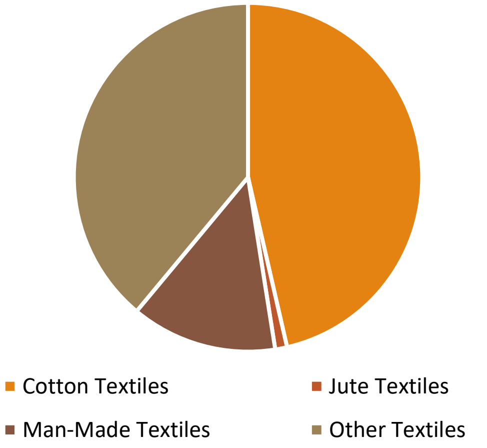
- Among all the industries, the credit flow has grown maximum in the "Rubber and Plastics" industry with the CAGR of **13.8%** followed by the infrastructure industry where it has increased at the CAGR of **12.17%** between FY10 to FY20.

Credit flow in various industries within core sectors

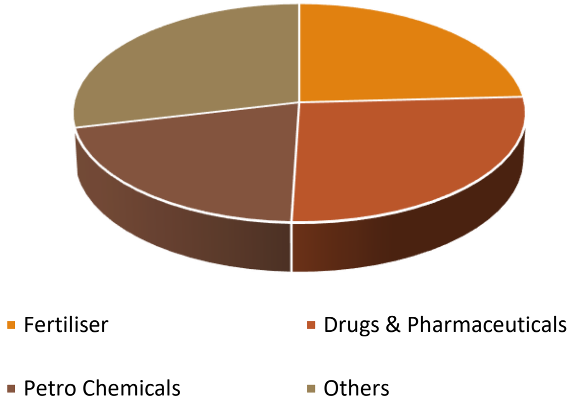
Share of Credit Flow in the Food Processing Industry, India, FY20



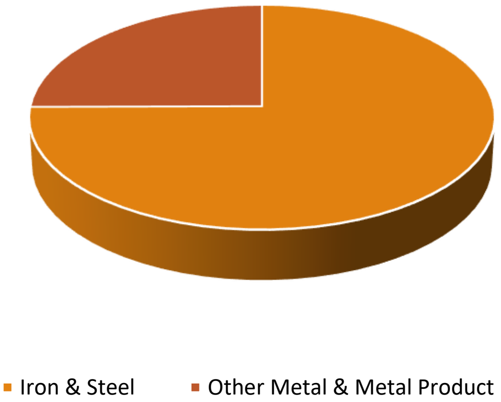
Share of Credit Flow in the Textile Industry, India, FY20



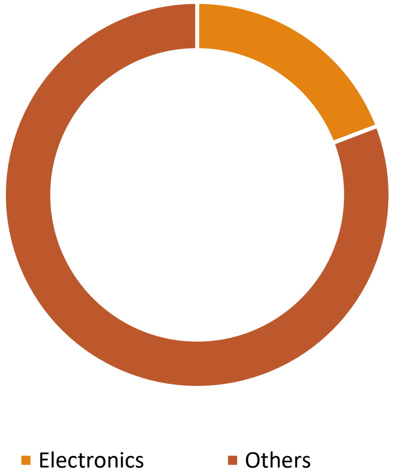
Share of Credit Flow in the Chemcial Industry, India, FY20



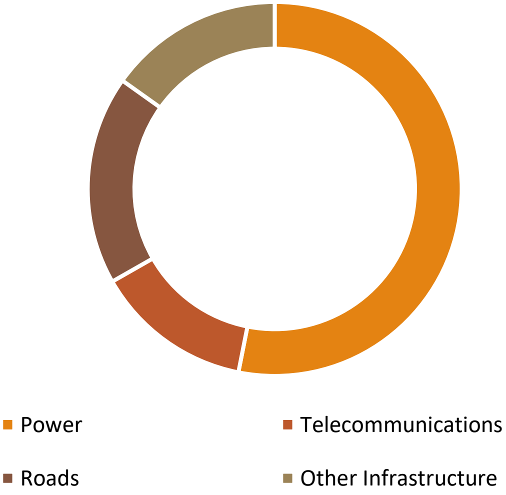
Share of Credit Flow in the Metal Industry, India, FY20



Share of Credit Flow in the Engineering Industry, India, FY20



Share of Credit Flow in the Infrastructure Industry, India, FY20



Reasons behind the Stress

Currently, the Indian economy seems to trapped in the lower growth zone with the GDP contraction of **23.9%** in Q1'FY21. Amid the ongoing economic uncertainties and the COVID-19 crisis, the nation is currently having a very little appetite for the loans.

Traditionally, the Indian banking industry divides the year into the "slack season" (between April and October) and "busy season" (November to March). In the post-harvest period, the demand among the rural consumers generally picks up in November. Hence, this gets reflected in bank credit growth.

The nationwide lockdown and economic slowdown have led to further worsening of asset quality. With demand collapsing across the Indian economy, lower interest rates will erode banks' margins.

Even after the removal of lockdowns in many parts of the country, large number of industries are still operating at less than half the capacity.

Credit flow which slowed down in the beginning of this financial year will be picked up when the lockdown will be completely lifted and the normal economic activities will resume with the arrival of any vaccine or potential treatment for the COVID-19 pandemic in the coming months.

In the **INR 20 Lakh Crore** economic relief package, the government proposed to offer collateral-free loans to MSMEs which will be fully guaranteed by the Centre. There will be a principal repayment moratorium for 12 months and the interest rate will be capped and there will be no guarantee fee. All MSMEs with a turnover of up to **INR 100 crore** and with outstanding credit of up to **INR 25 crore** will be eligible to borrow up to 20% of their total outstanding credit as on February 29, 2020. These loans will have a four-year tenure and the scheme will be open until October 31. A total of **INR 3 Lakh crore** has been allocated for this.

Hopefully, the impact of fresh slippages will only be reflected meaningfully after sometime.

Source: Sectoral Deployment of Bank Credit by Reserve Bank of India , LSI Research