

Banking Cement Commercial Vehicle Cotton & Cotton Yarn
Component Business Process Management (BPM) Construction Education
Apparel Industry Chlor-Alkali CRAMS Industry Crude Oil Gems & Jewellery
Coal Natural Gas Pesticides Power Generation Steel Pipes
Manganese Ore Pharmaceutical Refining & Marketing Retail
Freight Transport Shipping Sugar Tractor Telecom Tower
Two Wheeler Tyre Banking Two Wheeler Gems & Jewellery
Renewable Energy Sources Pipe Telecom-Wireless Seed Industry
Handmade Fibre Paper Housing Finance Passenger Vehicle
Hotel Shipbuilding Aluminum Roads & Highways Zinc & Lead
Banking Express Service Steel Tractor
Trucks Freight Transport Gems & Jewellery Ice Cream
Food Industry Passenger Vehicle

The Indian Banking Industry

July
2013



Bank credit growth is expected to slow in FY14e due to decline in GDP growth and low real credit demand multiplier. Due to an overall sense of depleting expectations manifested through weak bank sanctions in the pipeline, low investment confidence, defensive lending to industry; CARE Research expects credit growth to fall below RBI's estimate of 15%, aided by banks' concentration towards retail lending and relatively higher credit disbursements to power players. However, there are prospects of elevated competition coming from NBFCs, HFCs, less scope of decline in interest rates, narrow interest spread, weak job/salary creation, and impact of regulatory changes.

Bank credit to grow at its slowest pace since FY03

Credit to agriculture and retail to stay flat

CARE Research is cautious on credit growth to agriculture staying flat due to lack of increase in productivity, limited scope of increase in Minimum Support Prices (MSP) and better supply chain management of food grains, which seems unlikely in near term. In recent years, credit off take through retail loans has witnessed strong growth, which has compensated the low lending to other sectors such as telecom, infrastructure and manufacturing. However, CARE Research foresees medium term challenges to retail lending with respect to loan growth and margin sustainability

Banks' gross NPAs have risen from 2.3% in FY11 to 2.8% in FY12, which further increases to 3.3% in FY13. CARE Research anticipates the trend to continue in FY14 due to macro-economic factors such as weak employment generation, and high inflation/interest rate. Further, standard restructured assets as % advances are forecast to decline due to moderation in pace of fresh account restructuring, up gradations of legacy accounts and high base effect.

Asset quality issues to persist

Savings at decadal low; deposit mobilization poor

Bank deposit growth has been hit by weak savings, low bulk/term deposit, and significant increase in alternative investments such as gold, tax-free bonds, etc. which act as a hedge against inflation.

Banking NIM has witnessed growing trend since FY10, from 2.54% in FY10, to 2.92% and 3.08% in subsequent years. However, CARE Research expects a contraction in NIM due to deterioration in asset quality, subsequent reversal of interest income and higher cost of funds coupled with low lending rates. Banks may also suffer lag impact of bulk deposits sourced during tight liquidity. Higher provisioning norms, shift in focus towards low interest earning portfolio and asset quality deterioration are also likely to impede chances of any recovery in NIMs.

Net Interest Margin (NIM) to decline

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