27th February 2024

Financial Landscape

The financial system is indicative of the pace of economic activity in the country. Data is more contemporaneous which helps form judgments on how fast the economy is moving. With 10 months of the financial year gone by there are varying signals emanating from different segments of the system. These are summarized here.

Banking system

Growth in deposits and credit (Rs lakh crore and % change)

	o/s Rs lkh cr	Change Rs lkh cr		Growth %	
	Jan 26 2024	Over Mar 22	Over Mar 23	Over Mar 22	Over Mar 23
Deposits	199.42	12.54	18.99	10.5	12.5
Credit	154.91	14.46	18.16	16.3	16.1

Source: RBI (data excludes the merger effect)

As can be seen in the table growth in credit has outpaced that in deposits which is responsible for the rather stubborn deficit levels of around Rs 2 lkh crore on a daily basis. Interestingly the growth in deposits is higher than that of last year partly reflecting the impact of higher interest rates. Growth in credit has just about slowed down marginally this year. Yet, the deficit has resulted after adjusting for banks investments in GSecs.

Growth in credit has shown some encouraging trends across sectors. For the 9-month period on an YTD basis growth was 12.5% (11.9%) for the system as a while. Growth was higher for agriculture at 15.4% (11.9%), services at 15.9% (16%) and personal loans at 13.3% (16.5%). Within personal loans home loans grew at a lower rate of 12.1% (12.8%). There was a slowdown for unsecured personal loans at 13.8% (19.8%).

Growth to industry was lower at 6.8% (4.3%). But credit to large industry recovered to grow by 6.2% (2.5%) which is a positive sign for the revival of investment cycle. Within manufacturing the industries that have higher than 6.8% growth in credit are: textiles, metals, chemicals, glass, auto and gems and jewellery.

Corporate bond market

Based on CMIE data corporate bond issuances during the first 10 months of the financial year are higher than those of last year. The data is different from SEBI presentation where the amount is Rs 6.55 lakh crore as against Rs 5.87 lakh crore. But the message is similar that there have been larger issuances in the market.

The significant point in the table is the distribution across industries. The financial services segment accounts for 75% of the total raised which means that a very limited amount is being raised by core manufacturing. Last year the share was around 70% which is also the average for this sector in the

past. Another 6% is by services and around 4% from construction. Within manufacturing chemicals has the highest share of 6% with the oil sector accounting for around 80%. The share of metals is less than 1%. There is hence some indication that these sectors would be seeking recourse more to bank finance than the market for funding.

Corporate Bonds private placements Rs crore and share in total %

Rs lkh cr (% share)	FY23-10M	FY24-10M	Share FY2310M	Share FY2410M
All industries	6,99,674	7,78,878	100.0	100.0
Non-financial	1,91,858	1,65,998	27.4	21.3
Manufacturing	37,950	62,765	5.4	8.1
Chemicals & products	19,607	47,768	2.8	6.1
Petroleum products	17,025	40,000	2.4	5.1
Metals & metal products	10,079	6,215	1.4	0.8
Transport equipment	2,934	1,900	0.4	0.2
Electricity	18,410	23,315	2.6	3.0
Services (other than financial)	1,11,944	49,623	16.0	6.4
Wholesale & retail trading	20,320	4,182	2.9	0.5
Transport services	5,352	2,787	0.8	0.4
Communication services	71,294	10,597	10.2	1.4
Construction & real estate	23,257	30,272	3.3	3.9
Financial services	4,90,798	5,86,011	70.1	75.2

Source: CMIE

Therefore, the corporate bond issuances do not convince that there is large scale investment taking place in manufacturing. NBFCs use such funds for on-ending purposes. Construction, power and services are more dominant here.

Mutual funds continue to pose competition for banks

Mutual funds have been a major alternative for savers. This year as it can be seen in the table below, the increase in AUM was Rs 13.32 lakh crore which can be contrasted with that in deposits which were up by around Rs 19 lakh crore. Clearly the higher returns in the equity market has been a driver of this change in pattern of savings. Of the Rs 13.32 lakh crore raised in incremental terms 54% was through these schemes while hybrid accounted for another 16%. Another 15% was through income schemes which is the pure debt component. Hence, the slower growth in deposits posed earlier can be partly explained by the migration of savings to mutual funds.

AUM in Mutual funds Rs lkh cr

	Jan-24	Change 10 mths
Total	***52.74***	***13.32***
Income	13.76	1.94
Growth	22.5	7.33
Hybrid	6.9	2.12
Others	9.58	1.93

Source: CMIE

FPI flows

The table below provides information on the net inflows of FPIs for the first 10 months of the year for the last 10 years. Until FY13 there were relatively high inflows of FPI primarily in the equity segment. Flows touched an all-time low of just $ 1.5 bn in FY14 and subsequently peaked at close to $ 40 bn which is the highest achieved so far. FY15 was a kind of turning point as FPIs have been fairly volatile since then with flows turning negative for 5 of the 9 years.

Interestingly the covid year of FY21 was a good year for FPIs flows which went closer to $ 30 bn. But they have come down subsequently and entered the negative territory for two years before turning positive and registered a new peak in FY24. Net inflows of close to $ 9 bn in debt is the highest in this segment after FY18. The run-up to the inclusion of Indian bonds in the JP Morgan bond index is one factor that has caused considerable inflows in the last few months. The positive impact will be seen next year when the inflows increase further thus lessening the pressure on bank investments in the borrowing programme of the government.

FPI flows in first 10 months of the year

10 MTHS	**Total**	**Debt**	**Equity**	**Others**
FY10	23.06	4.31	18.75	0.00
FY11	31.52	7.95	23.57	0.00
FY12	11.52	9.19	2.33	0.00
FY13	23.31	3.54	19.78	0.00
FY14	1.52	-8.30	9.82	0.00
FY15	39.65	24.21	15.43	0.00
FY16	-3.29	0.95	-4.24	0.00
FY17	-3.25	-5.61	2.36	0.00
FY18	22.91	19.78	3.13	0.00
FY19	-13.85	-7.04	-6.80	-0.02
FY20	11.60	1.39	9.37	0.84
FY21	29.87	-4.97	31.45	3.39
FY22	-4.71	1.38	-8.61	2.52
FY23	-5.60	-0.99	-5.46	0.85
FY24	27.50	8.98	18.72	-0.20

Source: CMIE

Foreign direct investment

FDI is a useful source of funding which adds to the overall supply, albeit in foreign currency. Data for the first 9 months of the year which is presented below shows that FDI had peaked in FY21 at $ 68.3 bn with fresh equity flows dominating with share of 77%.

FDI flows ($ bn)

Apr-Dec	Equity	Reinvestments	Other	Total
2019	37.8	10.4	6.9	55.1
2020	52.5	12.4	3.3	68.3
2021	43.8	14.1	3.6	61.6
2022	37.9	14.1	3.5	55.5
2023	33.1	14.4	4.0	51.5

Source: RBI

There has been a distinct slowdown since then with the gross inflows being $ 51.5 bn in the current financial year. The share of fresh equity has also come down to 64%. A reason for slowdown could be the lower availability of investible funds given that quantitative tightening is now in progress in the west. Also investment opportunities in the western world have opened up with countries working on growth through higher investment post-covid. These factors could have slowed down the overall flows to the rest of the world.

ECBs

External commercial borrowings registrations which can be taken for intentions have shown distinct buoyancy in the first 9 months of the current financial year. At $ 36.1 bn, it is the highest amount registered in the last 5 years. This is notwithstanding the fact that the interest rates in the west have peaked. One reason for the push towards this market could be the relative stability in the rupee which has been within a range all through the year with a tendency to appreciate rather than depreciate.

ECBs registrations

Apr-Dec	2019	2020	2021	2022	2023
$ mn	32,919	19,701	24,536	20,367	36,090

Source: RBI

ECB registrations, unlike corporate bond issuances, have been mainly in the manufacturing space with over 70% being from the manufacturing and infrastructure segments. The share of NBFCs is significant at 21% but not dominant as is the case with corporate bonds. As these loans are typically for a longer period of time, it can be conjectured that these funds would be used for investment purposes.

ECB registrations by sectors

Sectors	$ mn	Share
Total	36,089	100.0
Corporate Manufacturing	13,349	36.9
Corporate-Infrastructure	12,753	35.3
Corporate Service-Sector	978	2.7
Other Entities	750	2.1
NBFCs	7,610	21.1
Others	649	1.8

Source: RBI

In conclusion

The raising of funds through different channels has been buoyant this year in almost all segments. Banks have the challenge of increasing deposits at a time when mutual funds are doing very well in terms of attracting investors who are preferring equity/hybrid schemes. Bank credit growth across sectors has improved with time. Bond issuances have increased this year, though the bulk are by NBFCs. Interest from the non-services sectors is limited. ECBs on the other hand have been quite popular this year even though interest rates have been at their highest levels in the west.

On the foreign investment side, FDI has slowed down this year and is a continuation of a two year trend seen post covid. FPIs on the other hand have recovered quite well this year with the debt segment also witnessing a revival. It does look like that this momentum will speed up in the new financial year post June.

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