

SECTOR WATCH

BANKING

‘Despite rate cuts & govt push, MSME credit growth slides’

GEORGE MATHEW
MUMBAI, OCTOBER 16

MIRRORING THE deepening slowdown in the economy, commercial lending exposure in the country has declined 2.6 per cent, or Rs 1,70,000 crore, to Rs 63.8 lakh crore in the June quarter of 2019-20 from Rs 65.5 lakh crore in March 2019, said a TransUnion CIBIL-SIDBI study.

Despite several rate cuts by the RBI, micro, small and medium enterprises (MSMEs) have recorded a slide in credit exposure. “Entities having less than Rs 25 crore credit exposure have reported a lower credit growth rate of 12 per cent in the year ended June 2019 as against a growth rate of 23.1 per cent last year. Very small segment (less than Rs 10 lakh exposure) have registered a credit growth of only 11.3 per cent in June as against a growth rate of 26.2 per cent last year,” says the study.

Of the Rs 63.8-lakh crore commercial lending exposure, micro and SME segments account for Rs 15.7 lakh crore exposure (24.5 per cent of commercial credit outstanding). While mid-industry segment (Rs 25 crore to Rs 100 crore) has grown just by 3.6 per cent, large industry (Rs 100 crore plus) segment has shown a reasonable growth of 10.8 per cent. According to the study, a marginal deterioration in asset quality was also observed with the non-performing asset (NPA) rate surging to 16.1 per cent in June 2019 from 15.5 per cent in March 2019.

“There is no gainsaying the fact that credit to the commercial sector and MSMEs, in particular, has been impacted over the past nine months,” the Cibil-Sidbi study said. Even though some of the slowdown is attributable to the ongoing economic slowdown, there is no denying the fact that the issues in the NBFC sector regarding funding and liquidity challenges have had a significant deleterious impact on the over flow of funding, it said.

“We would expect the situation to improve gradually on the back of the various policy announcements by the RBI and the government as well as the expected cyclical pickup in economic growth,” the Cibil-Sidbi study said. Last week, a

Of the ₹63.8-lakh crore commercial lending exposure, micro and SME segments account for ₹15.7-lakh crore exposure

Reserve Bank data showed the non-food credit growth in the fortnight ended September 27, 2019 slowed to as low as 8.7 per cent year-on-year to Rs 97.11 lakh crore. During the comparable fortnight a year ago, non-food credit—or loans to individuals and companies—was up 12.6 per cent to Rs 89.3 lakh crore.

Within the MSME segment, the NPA rates are higher for larger size exposures. The exception to this trend is the very small segment which has a higher NPA rate of 11.6 per cent in June 2019. The larger SME segment also showed a higher NPA rate of 14.4 per cent. With the financial sector reeling under liquidity crunch and defaults, credit outstandings of NBFCs which contribute over 10 per cent of the total commercial credit in India, have declined during the six-month period ended June 2019. NBFC NPAs have surged from 4.7 per cent to 5.9 per cent of advances for all commercial entities in the last 6 months, it said.

After an explosive growth in the last two years, NBFC credit outstanding has dropped one per cent in the six-month period ended June 2019, the study said, “In the earlier year, credit growth between December 2017 and June 2018 was 17.9 per cent for the 6-months period,” it said. NBFCs reported credit growth of 20.4 per cent in December 2018. NBFCs’ market share also declined from 13.7 per cent to 12.6 per cent in the six months ended June 2019.

“The last 6 months comparison of credit and gross NPA trends for NBFCs show that NBFC loan growth is in negative zone, while gross NPA continue to grow in similar ratio. This is leading to a surge in NPA rate in the last 6 months from 4.7 per cent to 5.9 per cent for all commercial entities,” the CIBIL-SIDBI study said.

DECLINE LED BY INDUSTRIAL AND SERVICES SEGMENTS

Bank credit outstanding shrinks in first five months of 2019-20

SANDEEP SINGH
NEW DELHI, OCTOBER 16

IN LINE with the slowdown in the economy on both the investment and the consumption fronts, the credit outstanding of scheduled commercial banks contracted by 0.9 per cent over the last five months, from Rs 86.74 lakh crore in March 2019 to Rs 85.94 lakh crore in August 2019.

According to the data released by the Reserve Bank of India, the decline has been led by contraction in credit outstanding for industrial segment (-4.2 per cent) and services segment (-2.7 per cent) in the five-month period. Even the personal loan segment has expanded by only 3.7 per cent since March 2019.

However, in the financial year ended March 2019, the credit outstanding for banks expanded by 12.2 per cent from Rs 77.3 lakh crore at the end of March 2018 to Rs 86.7 lakh crore in March 2019.

On the other hand, a look into the year-on-year credit growth data for banks show that the gross bank credit growth fell to 9.9 per cent in August 2019—the lowest in 17 months, since it rose 8.2 per cent in March 2018. This, too, has been impacted by a sharp decline in credit demand from the industrial sector and relatively lower demand by services and personal loan segment.

While bank credit growth had

EXPLAINED

Another sign of slowdown, weak credit demand

CONTRACTION IN credit outstanding of banks reflects weakness in credit demand from both the industry and individuals and it is reflective of the slowdown in the market.

While individuals are not borrowing for consumption purposes, companies are deferring their investment for lack of adequate demand in the economy.

SHRINKING BANK CREDIT OUTSTANDING

	March 2019	August 2019	Change %
Gross Bank Credit O/S	86,74,892	85,94,549	-0.9
Industry	28,85,778	27,65,215	-4.2
Services	24,15,609	23,50,198	-2.7
Personal Loan	22,20,732	23,03,930	3.7

Figures in Rs crore; Source : RBI

hit a low of 3 per cent in February 2017, following demonetisation in November 2016, it witnessed a slow but steady revival over the next two years to hit a 55-month high of 13.6 per cent in November 2018 (the highest since Narendra Modi-led NDA came to power in May 2014).

However, as the financial sector came under pressure following the IL&FS crisis in the last quarter of calendar 2018 and demand in the economy weakened

both from industry and consumers, the credit growth for banks started to soften and fell below 10 per cent in August 2019. It had grown by 11.5 per cent in July 2019.

In August, the year-on-year credit outstanding for the industrial sector rose by 3.9 per cent, a sharp fall over 6.1 per cent it witnessed in the previous month. Within the industrial sector the Micro and small enterprises saw their credit out-

India’s fuel demand dips to lowest in over 2 years

The country’s fuel demand slipped to its lowest in over two years in September, after a fall in diesel and industrial fuel consumption, according to the data from the Petroleum Planning and Analysis Cell

16.01 MILLION TONNES was the petroleum product consumption in September, which has dropped since July 2017, from 16.06 mt in the year-ago month

3.2% drop in the demand for diesel to 5.8 million tonnes

7.3% fall in consumption of bitumen, used in road construction

3.8% fall in fuel oil sales in September to 525,000 tonnes



THESE DOWNWARD trends negated the rise in LPG and petrol demand, noted the report

6.2% rise in the sale of petrol to 2.37 million tonnes

JET FUEL’S sale fell 1.6 per cent to 666,000 tonnes

LPG CONSUMPTION surged 6 per cent to 2.18 mt on the back of government’s push for the use of cleaner fuel in household kitchens in rural areas

38% decline in demand for kerosene, which is fast being replaced by LPG and natural gas as a cooking medium

THE FORECAST is that demand growth to average 3.8 per cent y-o-y over the three years to 2021, down from 4.6 per cent previously, the Cell said, adding softening of Indian fuel demand adds to an increasingly bearish outlook for fuel demand globally



CHETAK BACK IN E-AVATAR

Union Road Transport and Highway Minister Nitin Gadkari, MD of Bajaj Auto Rajiv Bajaj, and NITI Aayog CEO Amitabh Kant unveil the Bajaj Chetak Electric Vehicle, in New Delhi. **PTI**

■ While unveiling the Chetak e-scooter, the company did not disclose the price but said it would not be more than Rs 1.5 lakh.

■ The vehicle gives a driving range of 95 km on eco mode and 85 km on sports mode on a single charge of around five hours. **PTI**

Cannot sacrifice economic strength to comply with US sanctions, says FM

REUTERS
NEW YORK, OCTOBER 16

INDIA WANTS to comply with global sanctions, including US sanctions on Venezuela and Russia, but also needs to maintain its own strength and strategic interests, Finance Minister Nirmala Sitharaman said in an interview on Tuesday.

The United States in January imposed the toughest sanctions yet on Venezuela’s oil industry. The move has scared away some global customers, but with few alternative suppliers of heavy oil, Indian refiner Reliance Industries Ltd has been buying Venezuelan crude from Russian major Rosneft. The company is set to resume direct oil loadings in the South American nation after a four-month pause.

Sitharaman said the Indian government has expressed its view to the United States.

“In specific issues which are critical for India’s strategic interests, we have explained to the United States that India is a strategic partner for the United States of America and you want a strategic partner to be strong and not weakened,” she said.

“We value the strong partnership with the USA, but we should equally be allowed to be a strong economy.”

The International Monetary Fund earlier on Tuesday lowered its outlook for Indian growth in 2019, citing weaker-than-expected domestic demand. The US-

‘Trade talks with US to conclude soon’

New York: Trade negotiations between India and the US are going well and will conclude sooner than expected, Finance Minister Nirmala Sitharaman has said.

Last month, India and the US failed to announce a limited trade deal in New York during the meeting of Prime Minister Narendra Modi and President Donald Trump, due to still prevailing differences over the package. **PTI**

China trade war will cut 2019 global growth to its slowest pace since the 2008/09 financial crisis, the IMF said.

India’s gross domestic product grew at its weakest pace since 2013 between April and June, stoking expectations of further stimulus.

“Global headwinds ... are getting stronger by the day,” Sitharaman said. Asked about further fiscal stimulus, she said: “I have not closed the door” on that.

New Delhi has been trying to boost domestic growth through an infrastructure package and a new loan program organized with the banking sector that has doled out loans worth over 80,000 crore (\$11.1 billion), she said.

US FDA issues warning letters to Glenmark, Torrent

PRABHARAGHAVAN
NEW DELHI, OCTOBER 16

THE US Food and Drug Administration’s (US FDA), in a warning letter to Glenmark Pharmaceuticals earlier this month, said that the generic drug maker failed to thoroughly investigate issues related to the quality of some of its products.

In a separate warning letter, the US regulator also held Ahmedabad-headquartered Torrent’s executive management responsible for “repeated” quality-related failures. *The Indian Express* has reviewed copies of both the letters. Warning letters are issued when the US drug regulator finds a manufacturer has “significantly” violated FDA regulations.

According to the letter issued to Glenmark, the company “failed to adequately investigate more than 70 consumer complaints associated with punctures, cracks, and holes” in some of the topical creams and ointments manufactured at its Baddi facility.

Glenmark’s investigations did not adequately address the scope and cause of these “serious” defects and evaluate other products with similar “manufacturing quality signals” or the same supplier, the FDA found.

“In your response, you stated that the root cause for the complaints was improper handling by folding and refolding of the (redacted)’ by consumers. In addition, you stated that because the complaint rate is insignificant, there is no risk to marketed

batches,” it stated, adding over 50 complaints were closed “without” a plan to prevent these issues in the future. “Your quality system for investigations is inadequate and does not ensure consistent production of safe and effective products,” it told the firm.

Glenmark’s investigation of and response to “multiple” complaints of “grittiness” of one of its topical creams was also “inadequate”. In July, the firm recalled an undisclosed number of batches of its mometasone furoate cream (used to treat various skin conditions) from the US over their grittiness—an “ongoing formulation issue since 2010” also flagged in previous inspections.

“In your response to the most recent inspection, you stated that

the product grittiness issue was remediated during product reformulation in November 2018. Your response is inadequate. You did not provide sufficient data to demonstrate the robustness of the new formulation,” stated the warning letter.

In a separate warning letter on October 8, the US regulator told Torrent to “immediately and comprehensively” assess its global manufacturing operations to ensure it conformed to FDA requirements. “Repeated failures at multiple sites demonstrate that executive management oversight and control over the manufacture of drugs is inadequate,” it told Torrent. The firm had failed to “thoroughly” investigate unexplained discrepancies or failures of products made at its Indradra-

city, including its high blood pressure drug losartan potassium and hydrochlorothiazide tablets. It had closed “multiple” out-of-specification (OOS) investigations “without assignable root cause” or “adequate scientific justification” of these causes. “Despite the inadequate OOS investigations, your firm disregarded initial failing OOS results and released batches based on retested results,” the FDA told the company.

Issues were also raised for Torrent’s Dahej facility during an inspection in March, the regulator said. Glenmark and Torrent had notified the BSE earlier this month of the warning letters they had received. Both firms said that the letters would not have an impact on their operations, and they were working to resolve the issues.

#LOGOUT CAMPAIGN

Top hotel body joins NRAI in protest against deep discounts by aggregators

ENSE ECONOMIC BUREAU
NEW DELHI, OCTOBER 16

THE #LOGOUT campaign started by the National Restaurants Association of India (NRAI) has gained momentum, with the Federation of Hotel & Restaurant Association of India (FHRAI), the apex body of the hotel industry in India, joining the NRAI’s initiative against deep discounting offered by online food ordering and aggregator companies such as Gurgaon-based Zomato.

“NRAI and FHRAI are two national representative bodies of the Industry and their coming together as a group is a very significant development meant to send out a strong message to the FSAs (food service aggregators) about their highly-detrimental and predatory trade practices. Several city-based and affiliated bodies joining the campaign strongly indicate that the pain is being felt across the entire industry and everyone is aligned together in this movement,” said Anurag Katriar, president, NRAI.

Some of the core grievances identified by the associations are deep discounting, “oppressive contracts”, “unreasonable and arbitrary rules of engagement”, among others.

“This group also unanimously agreed that the Zomato Gold is

REUTERS

GENEVA, OCTOBER 16

CHINA ACCOUNTED for nearly half of global patent filings last year, with a record 1.54 million applications, led by telecom and computer technology, the UN’s World Intellectual Property Organization (WIPO) said on Wednesday.

China’s share in 2018, up 11.6 per cent from 2017, included requests received by China’s intellectual property office from foreign innovators and

companies seeking patent protection there, representing one in 10 filings, it said.

The United States ranked a distant second, with nearly 600,000 patent applications, down 1.6 per cent on the previous year and the first drop in a decade, WIPO said in a report.

In all, innovators worldwide filed 3.3 million patent applications, 14.3 million trademark applications, and 1.3 million industrial design applications, with Asia accounting for more than two-thirds.

US A DISTANT 2ND

■ While China’s share in 2018 was up 11.6% over 2017, US ranked a distant second, with nearly 600,000 applications, down 1.6% on the previous year and the first drop in a decade

China ranked first in all three categories and had as many

patent filings as the next 10 places combined, including Japan (3rd), South Korea (4th) and the European Patent Office (5th).

Asia is “increasingly the global hub for intellectual property applications”, WIPO director-general Francis Gurry said, noting “impressive increases” in India.

“China has been a major driving force and the volume of applications coming out of China or going into China, the volume of applications in the Chinese office is really quite extraordinary,” he told a news conference.

China and the US are locked in a trade war over US demands that Beijing improve protections of American intellectual property, end cyber theft and the forced transfer of technology to Chinese firms, curb industrial subsidies and increase US companies’ access to largely closed Chinese markets.

US-based applicants filed some 230,000 patent filings overseas last year, signaling a push to expand markets, against 66,400 applications from China filed abroad, he said.