

JUNE 12, 2017

UPDATE

BSE-30: 31,262

Maharashtra announces farm loan waiver. After UP and Punjab, Maharashtra becomes the latest state to announce farm loan waiver. While exact criteria for availing waiver are being worked out, marginal and small farmer loans are being waived off with immediate effect, per news reports. As we have highlighted in earlier notes, frequent occurrence of such populist actions leads to risks of impaired credit discipline and weak risk-reward for banks and reduced credit availability for borrowers. Public banks face greater impact than private banks.

Maharashtra announces farm loan waiver; modalities awaited

According to news reports, the Maharashtra state government has announced a farm loan waiver scheme, with complete modalities such as criteria for debt relief to be worked out by a committee comprising the state government and farmers. Loans of small and marginal farmers have been waived off with immediate effect with these farmers being eligible for fresh loans despite being blacklisted earlier due to overdue status of their loans. Additionally, the government had also reportedly agreed to waive off penalty and interest on power dues.

Maharashtra: ₹1.2 tn farm loans; PSU and co-operative banks more vulnerable

Maharashtra has nearly ₹4.2 tn agriculture loans (23% of loans) and ₹1.2 tn farm loans (7% of loans) with PSU banks holding nearly 52% of total farm loans, followed by co-operative banks (32%) and private banks (12%). We are limited by the unavailability of bank-wise farm loan exposure data in the state (see Exhibit 1). Bank of Maharashtra, which has ~60-65% of loans in the state, has nearly 12% gross NPL ratio in the agriculture portfolio. If we were to consider just the farm loans, the GNPL ratio is likely to be much higher for this portfolio.

Madhya Pradesh: ₹0.7 tn of farm loans; ~25% of state loans are farm loans

We also look at MP as another state with risk of farm loan waivers given the recent farmer protests and same political party leading Maharashtra, MP and UP. While the quantum of loans in MP is lower than Maharashtra, a greater quantum of state loans falls under risk as agriculture loans are a major contributor to state loans (Exhibit 4). Select major banks such as Bank of India, Central Bank and Union Bank have ~20-40% of state loans toward crop loans. Notably, the agriculture gross NPL in the state is not alarmingly high at ~10%.

Negative externalities of such actions need attention

- ▶ **Impairment of credit discipline.** Frequent farm waivers create expectations of future waivers and can be serious disincentive to delay or stop loan repayments. NSSO study (Exhibit 7) suggests that ~60% of farm credit is originated by institutional sources. Greater share of PSU banks in farm credit, which are considered quasi-government, increases the risk of moral hazard.
- ▶ **Lower credit availability.** Lower product profitability due to higher delinquencies can lead to higher interest rates or reduction in credit availability. This has obvious risk of greater reliance on unorganized sources for incremental credit needs.
- ▶ **Second-order impact.** We note that loan waiver schemes generally cover crop loans and exclude other loans for investments or allied activities, where repayments still come from farming. High indebtedness may not immediately benefit farmers due to other forms of debt, which are not covered under waiver schemes.

M B Mahesh CFA
mb.mahesh@kotak.com
Mumbai: +91-22-4336-0886

Nischint Chawathe
nischint.chawathe@kotak.com
Mumbai: +91-22-4336-0887

Abhijeet Sakhare
abhijeet.sakhare@kotak.com
Mumbai: +91-22-4336-0889

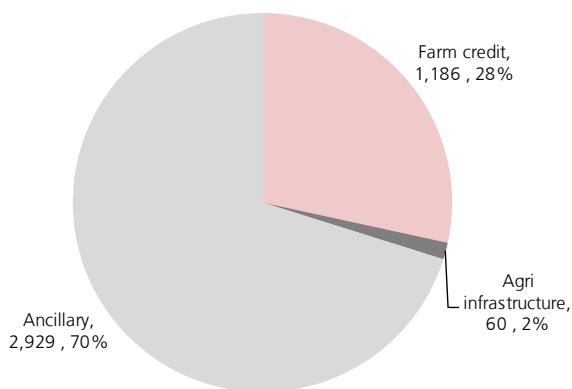
Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-4336-0000

Exhibit 1: Maharashtra has nearly ₹1.2 tn farm loan book

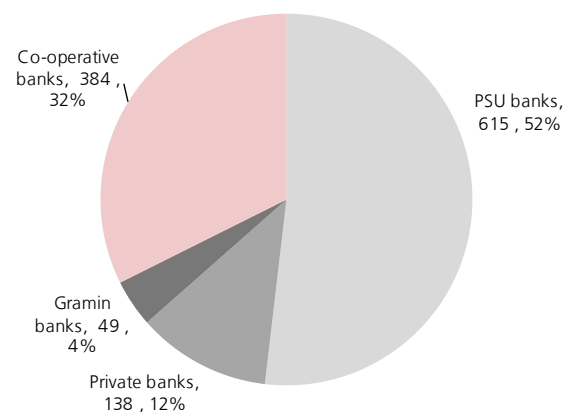
Brief snapshot of exposure in agriculture sector in Maharashtra, March fiscal year-end, 4QFY17

	Branches (#)	Deposits (Rs bn)	Loans (Rs bn)	Agriculture (Rs bn)	Farm loans (Rs bn)	Share in loans	
						Agriculture (%)	Crop loans (%)
Public banks	8,536	11,755	13,064	2,266	614	17	5
SBI	1,806	2,639	3,380				
PNB	241	349	802				
BoB	534	762	987				
BoMh	1,167	1,034	631				
BoI	876	1,230	1,050				
Canara	390	657	691				
CBoI	617	520	601				
Union Bank	510	890	1,038				
IDBI Bank	470	732	890				
Private banks	2,178	5,491	4,169	539	138	13	3
ICICI Bank	725	1,314	1,069				
HDFC Bank	524	1,985	1,392				
Axis Bank	372	1,266	965				
Total for all SCBs	11,454	17,355	17,311	2,855	802	16	5
Total for all banks	15,073	17,986	17,798	4,175	1,186	23	7

Source: Public documents, Kotak Institutional Equities

Exhibit 2: Maharashtra – ₹1.2 tn farm loan book
Agriculture loan break-up, March 2017 (Rs bn)

Source: Public documents, Kotak Institutional Equities

Exhibit 3: Maharashtra – PSU banks hold ~50% of farm loans
Break-up of farm loans, March 2017 (Rs bn)

Source: Public documents, Kotak Institutional Equities

Exhibit 4: Falling production led by two consecutive years of weak monsoon could have been a cause for concern

Production of various crops, yield in KG/hectare

	2011	2015	2016
Jowar	850	641	375
Cotton	322	145	158
Soyabean	1,581	500	485
Rice	1,307	1,067	911
Sugarcane	89	89	70

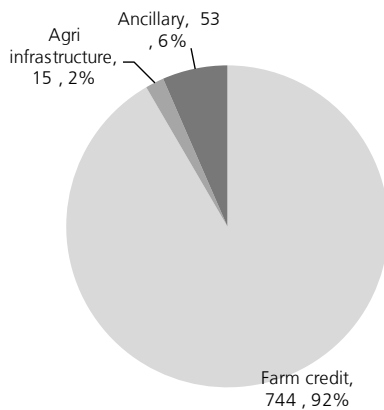
Source: Public documents, Kotak Institutional Equities

Exhibit 5: MP has nearly 9% gross NPL in the agricultural PSL book.

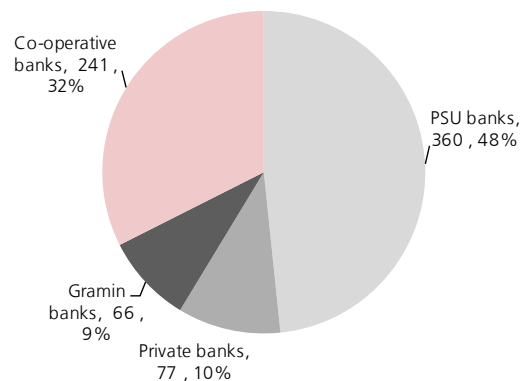
Brief snapshot of exposure and impaired loans in agriculture in MP, March fiscal year-end, 3QFY17

	Branches (#)	Deposits (Rs bn)	Loans (Rs bn)	Agriculture (Rs bn)	Farm loans (Rs bn)	Share in loans		Agri PSL	
						Agriculture (%)	Crop loans (%)	Gross NPL (Rs bn)	Gross NPL (%)
Public banks	4,251	2,682	1,504	412	360	27	24	27	7
SBI	1,183	1,069	588	118	112	20	19	7	6
PNB	288	218	135	32	27	24	20	1	3
BoB	188	96	69	15	10	22	14	3	18
BoI	439	235	174	91	80	52	46	3	3
Canara	215	81	42	12	11	28	27	1	5
CBol	469	250	119	50	44	42	37	3	7
Union Bank	278	222	92	32	24	34	26	2	8
IDBI Bank	101	76	36	6	5	16	13	0	6
Private banks	743	286	367	91	77	25	21	2	2
ICICI Bank	210	72	105	27	26	25	25	1	2
HDFC Bank	130	81	118	32	27	28	23	1	3
Axis Bank	125	71	59	8	7	14	12	0	1
Total for all SCBs	4,994	2,968	1,872	503	437	27	23	29	6
Co-operative banks	853	209	241	241	241	NA	NA	27	11
Total for all banks	7,143	3,380	2,219	812	744	37	34	63	8

Source: Public documents, Kotak Institutional Equities

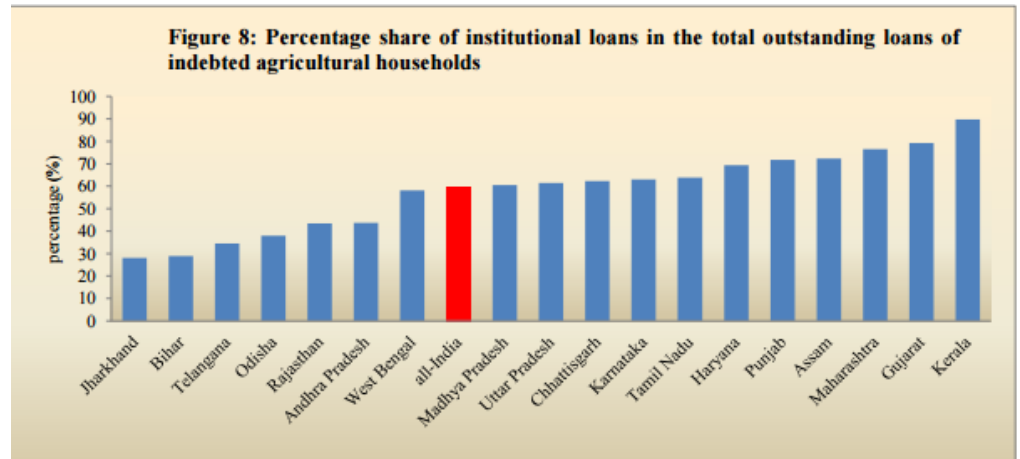
Exhibit 6: MP – ₹0.7 tn farm loan book
Agriculture loan break-up, March 2017 (Rs bn)

Source: Public documents, Kotak Institutional Equities

Exhibit 7: MP – PSU banks hold ~50% of farm loans
Breakup of farm loans, March 2017 (Rs bn)

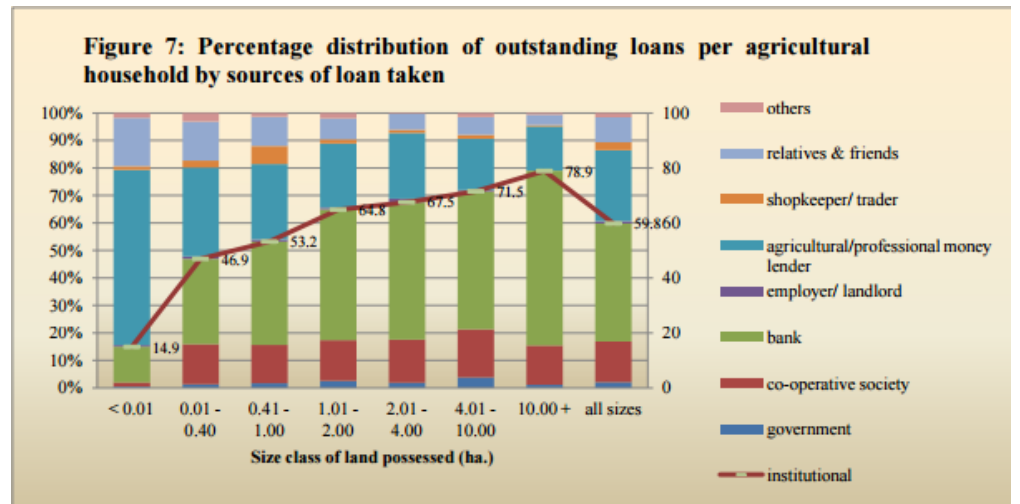
Source: Public documents, Kotak Institutional Equities

Exhibit 8: Nearly 60% of agricultural debt in India is institutional
 NSSO survey of share of institutional borrowing in agricultural debt, January – December 2013



Source: NSSO, Kotak Institutional Equities

Exhibit 9: Higher dependence on money lenders for marginal farmers
 NSSO survey of agricultural debt by source, January – December 2013

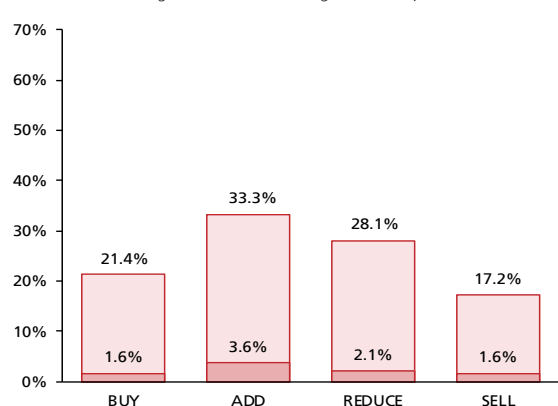


Source: Kotak Institutional Equities

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Source: Kotak Institutional Equities

As of March 31, 2017

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Corporate Office

Kotak Securities Ltd.
27 BKC, Plot No. C-27, "G Block"
Bandra Kurla Complex, Bandra (E)
Mumbai 400 051, India
Tel: +91-22-43360000

Overseas Affiliates

Kotak Mahindra (UK) Ltd
8th Floor, Portoken House
155-157 Minories
London EC3N 1LS
Tel: +44-20-7977-6900

Kotak Mahindra Inc
369 Lexington Avenue
28th Floor, New York
NY 10017, USA
Tel: +1 212 600 8856

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