

Banks

India

Sector View: **Attractive** NIFTY-50: **24,302**

July 05, 2024

Agriculture loans: Looking through the waivers

In this study, we look back at the impact of agriculture waivers by various states and the consequences on impairment ratios. While these data sets are not robust on quality, we can conclude that the negative impact of these waivers is high, both on waivers and the credit flow. The impact is the highest when large states make these waivers and if the program being covered encompasses all forms of agriculture loans.

Agriculture loans: Growth picks up in 2024 but so have the conversations

Exhibit 1 shows that agriculture loans accelerated in FY2024 after a period of slow growth post-demonetization. It probably reflects the period where loan growth for all banks slowed after the corporate NPL cycle. Historically, the relationship is a lot closer to overall loan growth. Exhibit 3 shows that growth in smaller ticket-size loans has been relatively slower. Exhibit 5 and 6 show that most of the loans are for direct agricultural activities and are short-term in nature. Exhibit 7-9 show the relative growth in this segment is higher for private banks than public banks.

The relationship to NPL is visible but the intensity has varied

Farm loan waivers have been a lot more prevalent since 2010. Exhibit 10 shows ~20 instances, and the combined cost of these waivers has been far higher than the agriculture debt waiver and debt reduction scheme announced by the central government in 2008. Exhibit 11-13 show the impact of these waivers on NPL trends reported in agriculture in that specific state, loan growth in that segment for public and private banks and overall NPL ratios for the banks in the agriculture segment. We definitely see higher NPL post-2015, but note that this was a period after demonetization and the regulator had been strengthening compliance on NPL recognition during this phase. We could conclude that there is an effect of higher NPLs when these waivers are announced, but the intensity subsides when the beneficiaries are announced and comes back to normalcy in the next few years. From the lenders' side, the decline in NPL ratios could be a function of higher write-offs, which implies that the headline stress at the borrower level is probably high even if it is showing an improvement in the financials that we are watching every quarter. Note that the borrowers need to pay off the earlier dues before getting a fresh exposure from the lender. In addition, while we are taking the stance that the impact is higher for public banks, private banks are ~25% of banks, and at their size, they would have this exposure through some means.

Several challenges on the ground; for lenders and borrowers

Studies on the effectiveness of farm loan waivers get debate from various stakeholders. While the need to alleviate the financial distress of farmers is accepted, it only addresses one of the various problems for the farmer. Note that an indebted farmer is probably facing challenges from volatile productivity, rising input costs leading to weaker margins and other factors. Addressing one of the challenges does not alleviate the other stress points.

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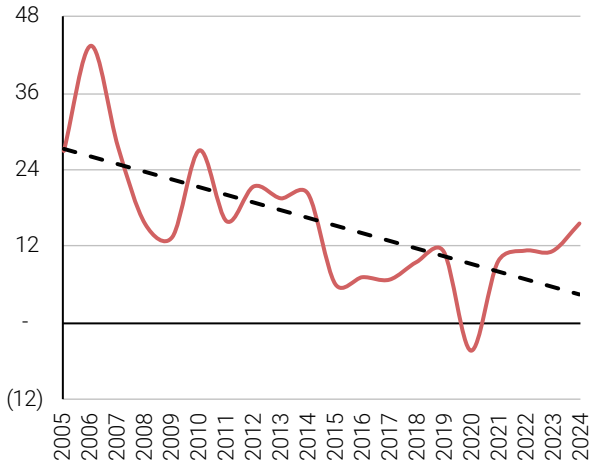
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Growth in agriculture loans has been modest at 12% CAGR and comparable to overall loan growth

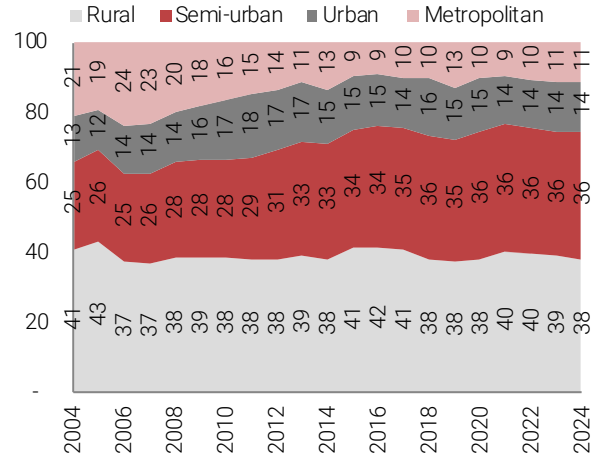
Exhibit 1: Break-up of agriculture loans, March fiscal year-ends, 2004-24 (%)



Source: RBI, Kotak Institutional Equities

Public banks have a 60% share in agriculture loans; private banks are seeing a steady increase as well

Exhibit 2: Break-up of agriculture loans, March fiscal year-ends, 2004-24 (%)



Source: RBI, Kotak Institutional Equities

Ticket size, as expected, has been rising; challenge has been mostly toward disbursement to small and marginal farmer segment

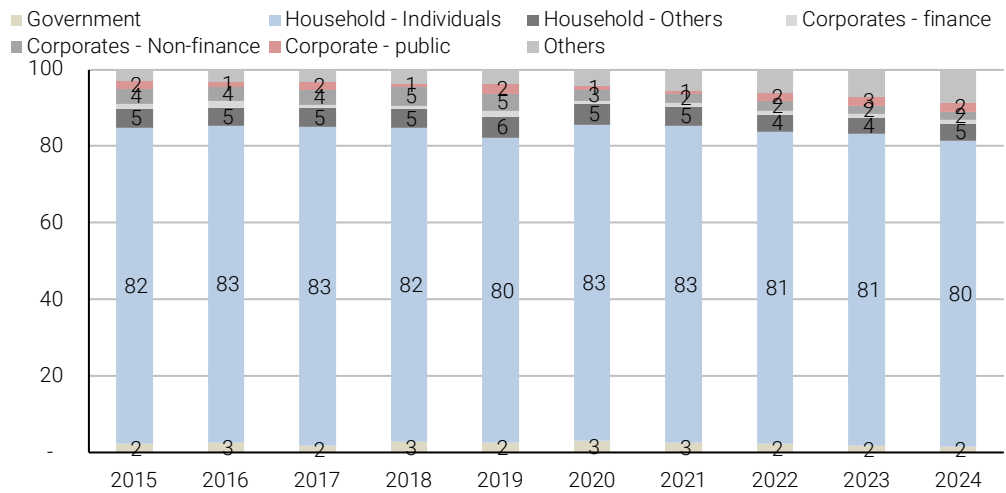
Exhibit 3: Break-up of outstanding agriculture loans across ticket sizes, March fiscal year-ends, 2004-24 (% , ticket size in Rs mn)

	<0.025	0.025-0.2	0.25-0.5	0.5-1	1-2.5	2.5-5	5-10	10-40	40-60	60-100	100-250	>250	>1000
2004	19	30	16	2	2	2	3	5	2	2	5	12	-
2005	18	35	16	2	2	2	0	5	2	2	3	13	-
2006	13	31	17	3	2	2	2	5	2	2	4	17	-
2007	11	32	17	3	2	2	2	4	1	2	4	19	-
2008	10	35	18	4	3	2	2	4	1	2	3	15	-
2009	8	36	18	4	3	2	2	4	1	2	3	18	-
2010	7	37	19	5	3	2	2	0	1	2	3	19	-
2011	6	36	20	5	4	2	2	4	1	2	3	17	-
2012	5	38	23	5	4	2	2	4	1	2	3	12	-
2013	4	40	26	6	4	2	2	3	1	1	2	4	6
2014	3	38	25	7	5	3	2	3	1	1	2	3	7
2015	3	40	26	8	5	3	2	3	1	1	1	3	5
2016	3	38	26	9	6	3	2	3	1	1	1	2	5
2017	2	38	26	10	6	3	2	3	1	1	2	2	4
2018	2	37	26	11	6	3	2	3	1	1	1	2	5
2019	2	38	25	11	6	3	2	3	1	1	1	2	7
2020	2	40	26	12	6	2	2	3	1	1	1	2	5
2021	1	39	27	13	6	2	2	2	1	1	1	1	4
2022	1	37	26	14	6	2	2	2	1	1	1	2	5
2023	1	37	26	14	7	2	2	2	1	1	1	1	6
2024	1	34	26	14	9	3	2	3	1	1	1	2	5

Source: RBI, Kotak Institutional Equities

There has been attempts to get out of the traditional form of financing in agriculture

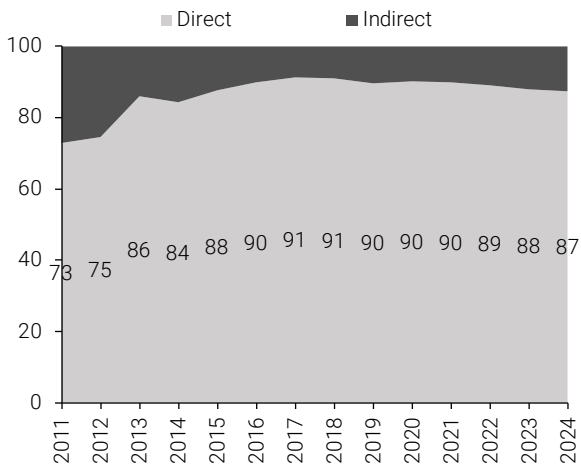
Exhibit 4: Break-up of agriculture loans by borrowers, March fiscal year-ends, 2015-24 (%)



Source: RBI, Kotak Institutional Equities

Majority of the loans are direct in nature

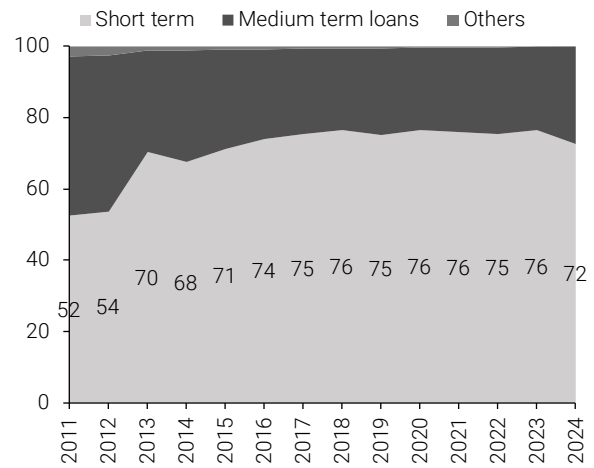
Exhibit 5: Break-up of loans by customer segment, March fiscal year-ends, 2011-24 (%)



Source: RBI, Kotak Institutional Equities

75% of agriculture loans are short-term in nature

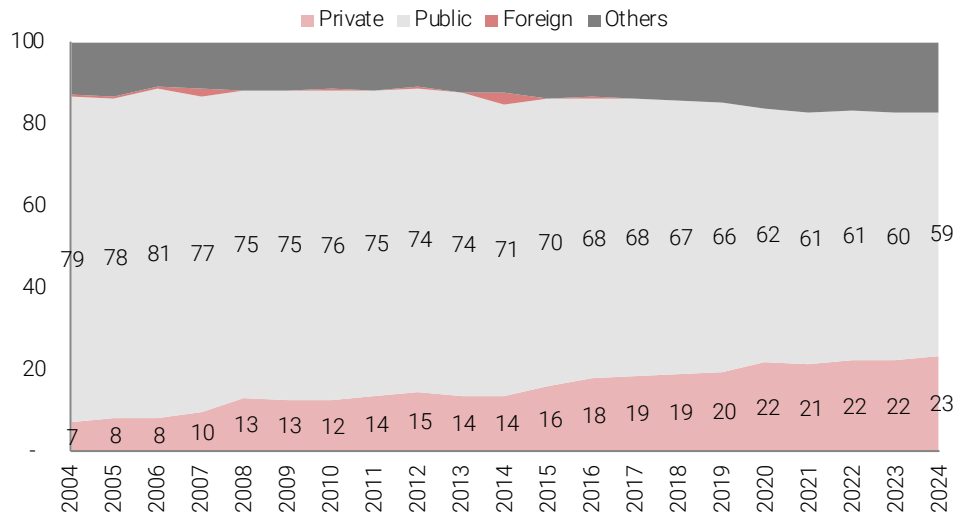
Exhibit 6: Break-up of loans by type, March fiscal year-ends, 2011-24 (%)



Source: RBI, Kotak Institutional Equities

Public banks have a 60% share in agriculture loans; private banks are seeing a steady increase as well

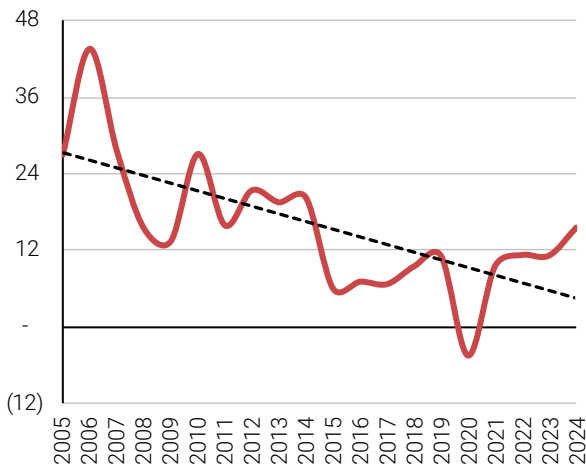
Exhibit 7: Market share in agriculture loans, March fiscal year-ends, 2004-24 (%)



Source: RBI, Kotak Institutional Equities

Private banks have been steadily growing their agriculture loan book by ~12-14% CAGR

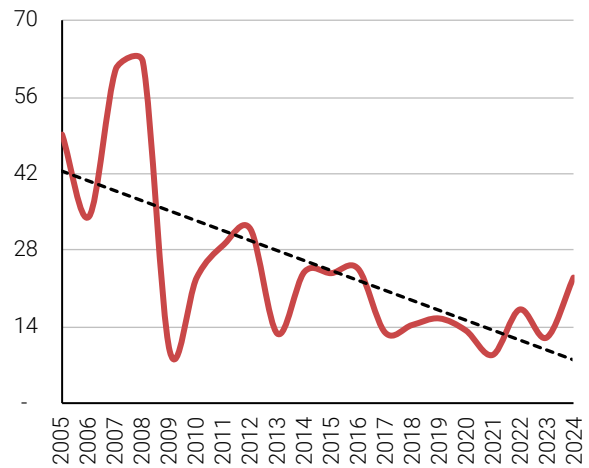
Exhibit 8: Loan growth for private banks in agriculture sector, March fiscal year-ends, 2005-24 (%)



Source: RBI, Kotak Institutional Equities

Last few years has seen a growth in agriculture loans by public banks

Exhibit 9: Loan growth for public banks in agriculture sector, March fiscal year-ends, 2005-24 (%)



Source: RBI, Kotak Institutional Equities

There have been several instances of farm loan waiver since the Central farm loan waiver of 2008

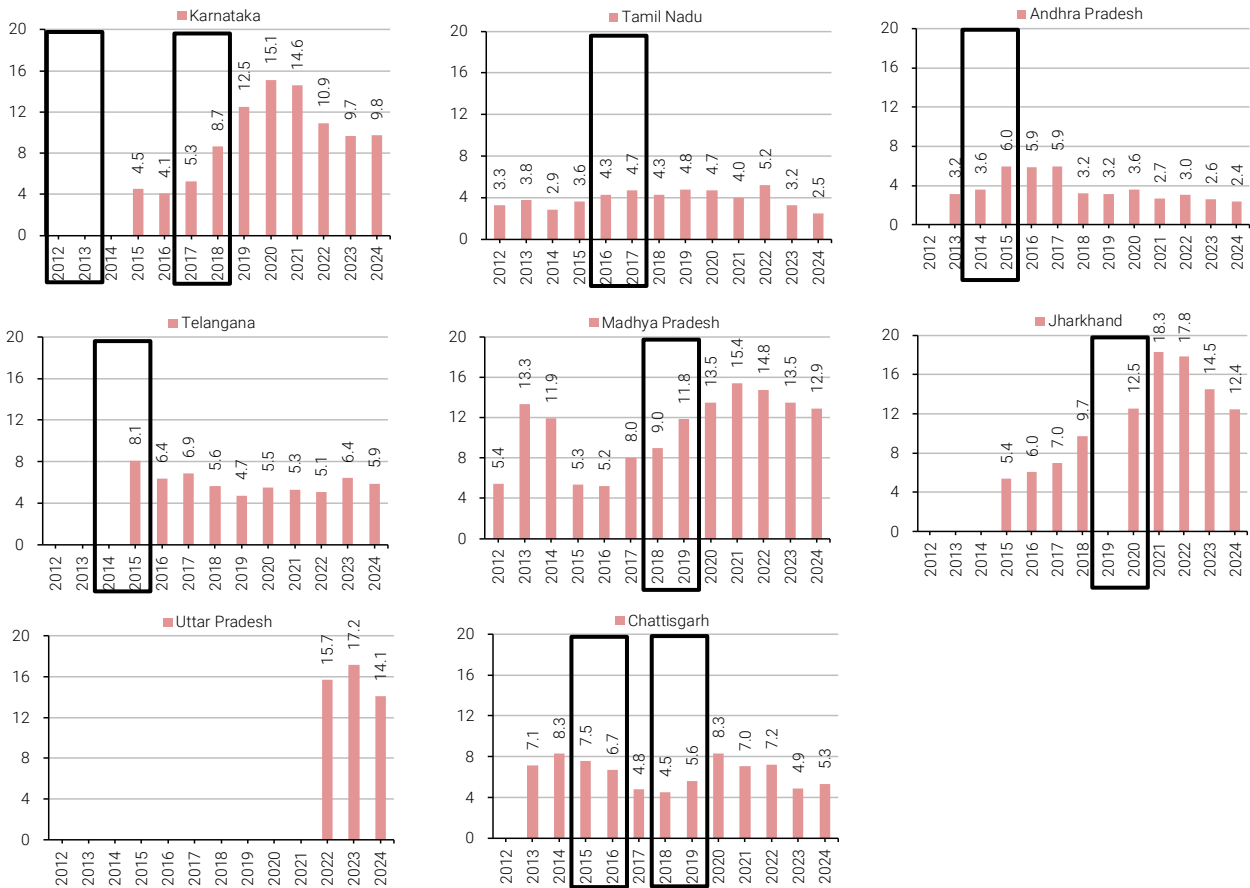
Exhibit 10: Farm loan waivers across states post 2010

State	Year	Amount budgeted (Rs bn)
1 Chhattisgarh	2012	NA
2 Uttar Pradesh	2012	17
3 Karnataka	2012	35
4 Andhra Pradesh	2014-15	430
5 Telangana	2014-15	170
6 Chhattisgarh	2015-16	61
7 Tamil Nadu	2016-17	60
8 Jammu & Kashmir	2016-17	2
9 Maharashtra	2017-18	340
10 Uttar Pradesh	2017-18	364
11 Punjab	2017-18	100
12 Karnataka	2017-18	82
13 Rajasthan	2018-19	180
14 Madhya Pradesh	2018-19	365
15 Chhattisgarh	2018-19	61
16 Assam	2019-20	6
17 Jharkhand	2019-20	20
18 Maharashtra	2019-20	220
19 Telangana	2024-25	NA

Source: NABARD, Kotak Institutional Equities

There has been a marked increase in NPLs ahead of a loan waiver

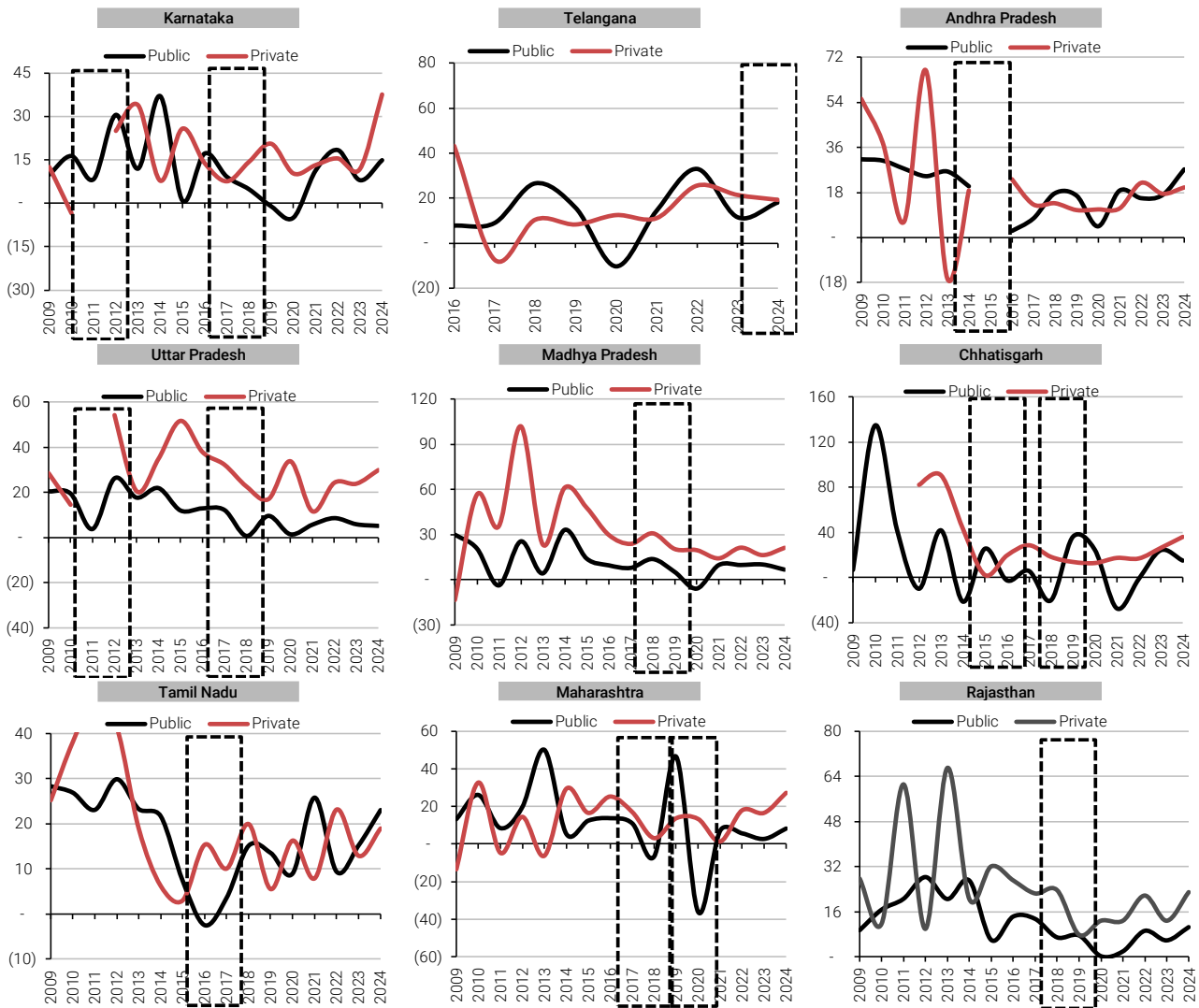
Exhibit 11: Agriculture NPA performance across states, March fiscal year-ends, 2012-24 (%)



Source: SLBC, Kotak Institutional Equities

There has been several instances of weak flow of credit during and immediately post an announcement of waiver

Exhibit 12: Loan growth in agriculture across key states, March fiscal year-ends, 2009-24 (%)



Source: RBI, Kotak Institutional Equities

Most banks saw significant stress in agriculture portfolio post demonetization till post Covid

Exhibit 13: NPL ratios in the agriculture portfolio (PSL) across banks, March fiscal year-ends, 2014-24 (%)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Allahabad	7.5	6.6	5.9	4.9	6.0	12.1					
Andhra	2.8	5.3	4.4	4.2	4.1	4.6					
BoB	5.1	5.1	10.7	11.3	12.7	10.1	10.1	8.4	8.2	7.0	5.1
BoI	2.0	5.1	6.7	10.8	14.0	20.8	21.7	15.3	13.9	13.2	11.4
BoMH	6.1	6.1	8.1	12.1	16.5	19.1	25.3	21.2	14.4	10.0	8.0
Canara	2.0	2.4	3.2	3.7	4.6	5.4	6.2	6.1	5.6	3.5	3.4
Central	4.6	4.6	5.6	7.7	7.4	9.7	14.7	14.8	15.5	12.0	7.2
Corporation	4.2	3.7	4.5	5.2	9.0	12.6					
Dena	4.3	7.1	8.7	12.9	16.2						
Indian	1.9	1.9	2.7	2.4	2.0	2.2	2.4	11.1	10.1	8.8	7.0
IOB	4.0	7.7	8.3	11.8	11.7	11.0	7.7	6.9	7.4	6.3	3.8
OBC	5.8	5.7	6.5	7.5	13.3	16.3					
PNB	4.7	5.4	6.0	8.5	11.0	11.9	15.6	19.4	20.2	18.4	13.9
SBI	8.1	8.8	7.8	5.6	11.1	10.7	15.9	15.2	13.3	11.5	9.6
Syndicate	3.7	4.8	5.1	7.0	11.0	14.3					
UCO	6.8	8.1	8.4	11.1	14.7	21.1	26.1	22.6	20.8	15.3	13.3
Union	6.1	4.5	6.4	7.0	6.1	8.2	11.9	12.1	11.6	9.8	8.5
United	13.2	15.4	11.9	11.3	9.4	8.4					
Vijaya	3.1	2.8	4.1	4.3	3.6						
Total - public banks	5.6	5.8	6.4	7.3	9.6	10.8	13.2	12.6	11.8	9.9	8.0
Private banks											
New private banks											
Axis Bank	2.8	2.3	2.4	3.2	3.9	5.5	4.9	4.1	3.6	2.4	2.0
Bandhan Bank	-	-	-	0.4	1.1	0.7	0.4	8.5	7.7	6.1	
DCB Bank	2.2	1.0	1.4	2.4	2.8	2.7	2.8	4.6	5.3	4.3	4.3
HDFC Bank	1.6	0.2	2.1	1.9	3.0	4.1	3.4	4.0	4.3	3.6	
ICICI Bank	3.6	3.0	3.1	3.1	3.1	3.7	4.2	4.3	5.3	4.6	
IDBI	11.2	9.2	7.5	8.7	7.5	11.6	9.9	10.0	9.7	9.8	8.0
IDFC First	-	-	-	0.1	0.1	0.3	0.2	1.3	2.3	0.7	
IndusInd Bank	1.1	0.7	0.7	0.8	1.3	1.4	2.3	2.0	2.3	3.8	
Kotak Mahindra	1.1	1.3	1.7	2.5	3.3	3.3	3.1	4.8	4.7	3.9	
RBL Bank	0.2	0.3	0.3	0.6	2.9	4.5	2.6	6.6	10.0	3.7	
Yes BAnk	0.1	0.1	1.9	3.6	1.0	2.2	5.2	11.4	11.8	1.0	
Total - new private	2.9	2.2	2.8	2.9	3.2	4.0	3.7	4.9	4.9	3.7	3.1
Regional and mid-tier private banks											
City Union	1.2	1.7	1.6	1.5	1.7	1.7	2.5	3.5	2.4	2.5	
CSB Bank	-	0.8	0.7	4.7	6.0	3.4	2.1	1.0	0.3	0.3	
Federal Bank	3.6	2.0	1.7	2.9	3.6	4.7	5.9	5.4	5.5	4.4	
JK Bank	1.0	9.8	9.9	4.4	4.6	7.2	9.8	9.2	7.2	6.8	
Karnataka	2.0	2.0	2.3	3.2	3.4	5.8	8.5	7.8	8.1	7.2	
KVB	0.1	6.9	3.0	2.4	2.8	4.0	4.2	3.2	2.8	0.7	
LVB	0.5	0.5	0.5	0.5	2.8	5.3	15.1				
South Indian	0.6	0.5	0.7	1.1	2.7	4.7	3.4	5.5	5.2	4.5	
TMB	0.4	0.8	0.4	1.5	1.1	0.8	1.7	1.4	0.5	0.6	
Dhanlaxmi BAnk	0.8	0.9	0.9	1.0	1.0	1.1	1.5	2.2	1.4	1.0	
Total - regional and mid-tier	1.2	3.6	2.7	2.4	3.0	4.3	5.5	4.9	4.2	3.3	
Total - private	2.4	2.5	2.8	2.8	3.2	4.1	4.0	4.9	4.7	3.6	3.1
Total - sector	4.9	5.1	5.5	6.1	7.9	9.0	10.1	10.3	9.7	7.9	7.5

Source: RBI, Kotak Institutional Equities

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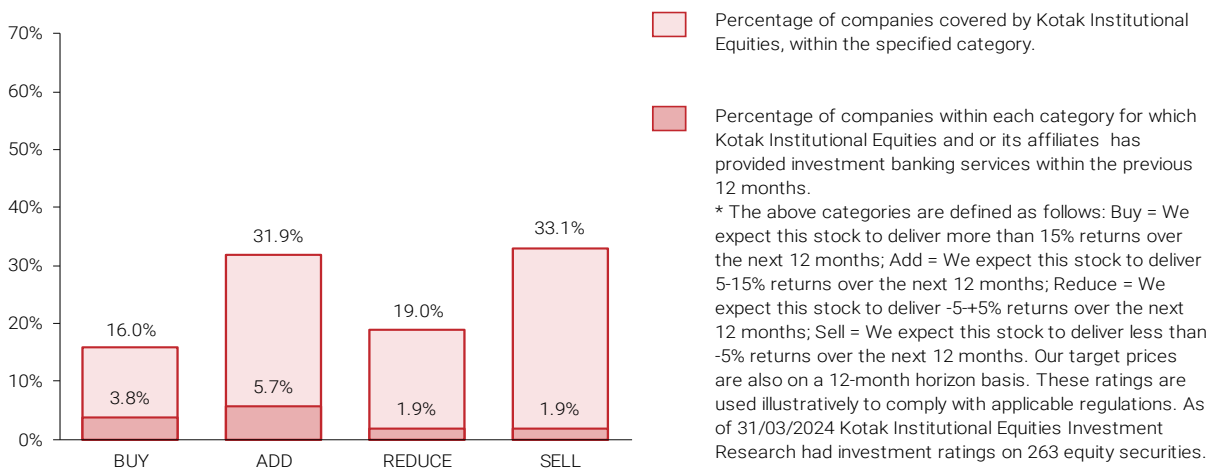
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As of March 31, 2024

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