

August non-food credit growth plummets to <10%

RBI data on sectoral credit deployment indicates that growth in non-food credit slowed to a 17-month low of 9.8% in Aug'19, hobbled by lower growth across segments. Ex-retail, non-food credit growth reduced to 7.8%. Retail growth decelerated to 15.6% YoY amid slower offtake of home and other personal loans. Lending to the industrial segment weakened further to 4% YoY as large industries posted tepid growth and banks remained cautious on SME lending. Growth in the services sector fell to 13.3% vs. 15.2% in July.

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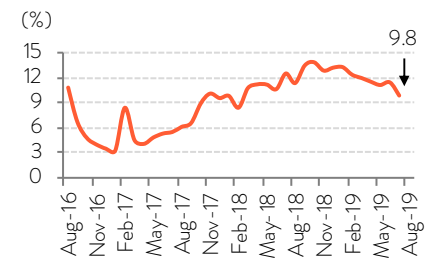
Retail credit slows: Retail credit growth had been hovering at ~17% over the past few months amid a strong uptick in home and other personal loans. But in Aug'19, growth slipped to an 11-month low of 15.6%, led by a slowdown across retail segments (barring consumer durables which had a lower base). Home loans that have been a vital driver of retail credit over the past few months increased 16.6% YoY in Aug'19 vs. 19.2% in Jul'19. Growth in other personal loans that form 7.5% of gross bank credit slowed by >200bps MoM to 21.9%. Credit card/vehicle loan growth decelerated to 24.4%/3.7% YoY from 37.4%/12.7% in Aug'18.

Industrial credit dips to 4%: The infrastructure sector that forms ~36% of industrial credit was hit hard in Aug'19, with growth ebbing to ~9% YoY (vs. 14% in July) as offtake from all infrastructure sectors, namely power, telecom, roads and others, moderated substantially. Credit to large industries grew only 5%, while that to medium/micro & small industries dipped -1%/-2% YoY. Metals sector loans, which form ~13% of industrial credit, declined for the 19th straight month to 9.3%.

Credit growth in services sector decelerates to 13%: Lending to the services sector that witnessed a mild uptick in Jul'19 declined again to 13.3%. Growth decelerated across sub-segments, barring commercial real estate and NBFCs which grew by 15.6% and 38.8% vs. 14.8% and 34.5% respectively in Jul'19.

Bleak outlook for FY20: We do not expect any material improvement in credit growth for FY20. In our view, as PSBs now grapple with the mega consolidation exercise, private banks will be able to step in and augment their market share.

NON-FOOD CREDIT GROWTH



Source: RBI, BOBCAPS Research

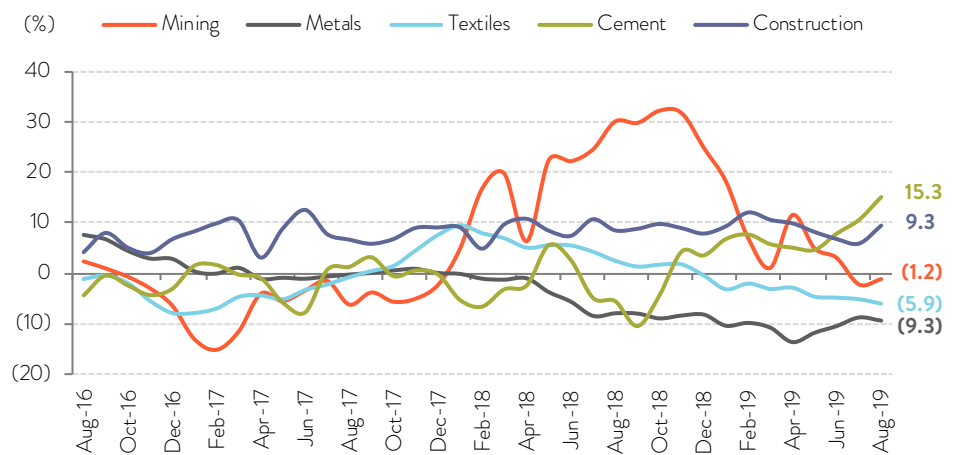


FIG 1 – NON-FOOD CREDIT DOWN TO 9.8% IN AUG'19

Sector/Industry (Rs bn)	Aug-18	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Share of credit (%)	Growth (YoY, %)
Non-food Credit	77,704	84,810	84,512	84,764	84,958	85,324	100.0	9.8
Agriculture	10,419	11,080	11,079	11,258	11,090	11,130	13.0	6.8
Industry	26,621	28,352	28,140	28,120	27,984	27,652	32.4	3.9
Micro & Small	3,664	3,666	3,653	3,662	3,616	3,589	4.2	(2.1)
Medium	1,053	1,063	1,054	1,052	1,052	1,044	1.2	(0.8)
Large	21,904	23,623	23,433	23,407	23,315	23,019	27.0	5.1
Services	20,740	23,150	22,879	22,847	23,129	23,502	27.5	13.3
Trade	4,751	5,074	5,075	5,116	5,135	5,043	5.9	6.1
Commercial Real Estate	1,872	2,003	2,007	2,055	2,086	2,164	2.5	15.6
NBFCs	4,902	6,234	6,235	6,351	6,367	6,804	8.0	38.8
Retail	19,924	22,228	22,414	22,538	22,755	23,039	27.0	15.6
Housing	10,419	11,686	11,769	11,870	11,998	12,148	14.2	16.6
Vehicle loans	1,955	1,998	2,019	2,004	2,013	2,027	2.4	3.7

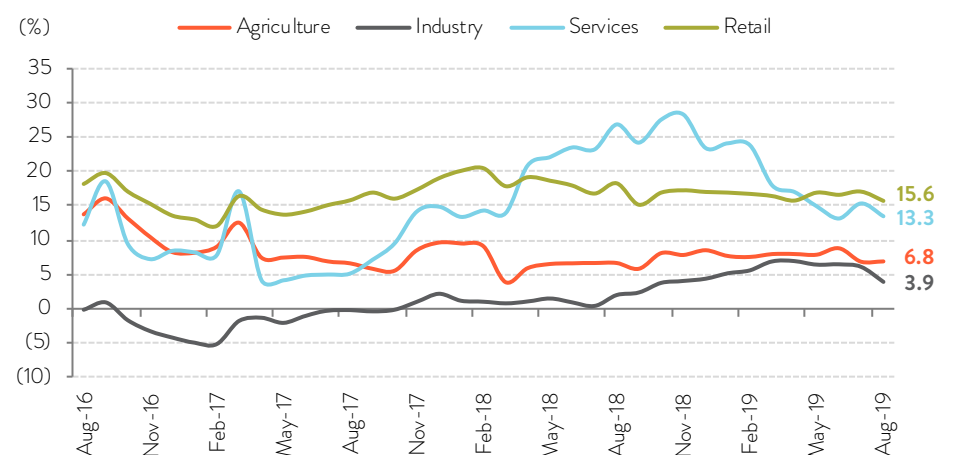
Source: RBI, BOBCAPS Research

FIG 2 – CREDIT GROWTH IN CYCLICAL SECTORS REMAINS WEAK



Source: RBI, BOBCAPS Research

FIG 3 – LOAN GROWTH IN RETAIL SEGMENT RELATIVELY STRONG



Source: RBI, BOBCAPS Research Disclaimer

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ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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