

RESEARCH

Banking | Credit Tracker

Credit growth remains lacklustre

SUMMARY

Banking: Credit Tracker

RBI data shows subdued 12% YoY credit growth for the fortnight ended 02 August and stable 10% deposit growth. Despite steep rate cuts and surplus liquidity in the system, transmission remains a challenge – banks have lowered interest rates on fresh rupee loans by only 29bps this year (Feb-Jun) despite a 75bps reduction in repo rate (excl. the latest 35bps cut in August). In our view, credit growth will remain anaemic in FY20 despite the shift in pricing power from NBFCs to banks.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	595
GAIL	Buy	175
ONGC	Buy	175
TCS	Add	2,360
HPCL	Sell	200

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	715
Greenply Industries	Buy	195
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.61	5bps	(45bps)	(121bps)
India 10Y yield (%)	6.59	4bps	23bps	(125bps)
USD/INR	71.44	(0.4)	(3.8)	(2.3)
Brent Crude (US\$/bbl)	59.74	1.9	(4.4)	(17.3)
Dow	26,136	1.0	(3.8)	1.5
Shanghai	2,883	2.1	(1.4)	6.8
Sensex	37,402	0.1	(2.4)	(2.3)
India FII (US\$ mn)	16 Aug	MTD	CYTD	FYTD
FII-D	79.4	253.9	2,907.8	2,363.2
FII-E	185.0	(1,094.7)	8,309.9	1,464.7

Source: Bank of Baroda Economics Research

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BANKING

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20 August 2019

Credit growth remains lacklustre

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Deposit growth stable at 10%: Deposit growth for the fortnight ended 02 August was stable at 10% YoY, in keeping with the trend seen over the past couple of quarters. In absolute terms, deposits increased by Rs 0.9tn FoF to Rs 127tn. Growth remains tepid as banks continue to bring down interest rates on deposits, while relying on excess SLR investments to fund credit.

Credit growth still subdued: As per RBI data, credit growth for the fortnight ended 02 August stood at 12% YoY. In absolute terms, credit offtake grew by Rs 0.7tn FoF to Rs 97tn. RBI data on sectoral deployment of credit for Jun'19 suggests that while corporate loan growth was low at 6.4% YoY, it is showing gradual signs of revival. Home loans have been a vital driver of retail credit over the past few months, growing 18.9% YoY in June and exhibiting steady improvement amid the slowdown in unsecured credit and sharp deceleration in auto loans.

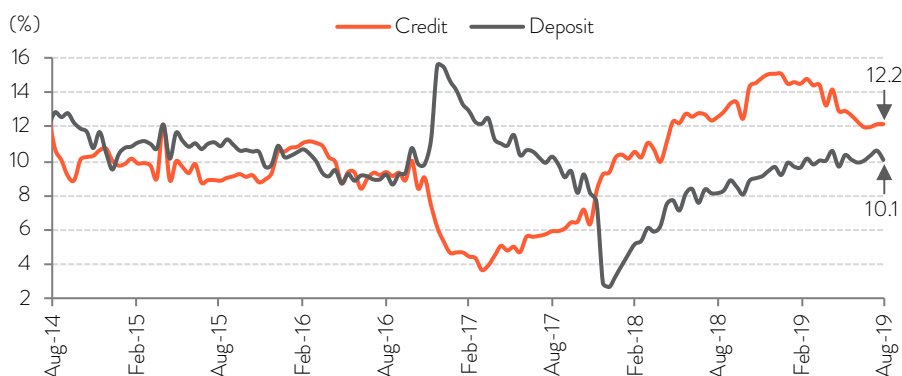
Expect sub-15% loan growth in FY20: We do not expect any material improvement in credit growth for FY20. However, market share gains by private banks are likely to continue.

KEY DATA

Particulars	02-Aug-19	03-Aug-18
Deposits (Rs tn)	127.4	115.8
YoY growth (%)	10.1	8.2
YTD growth (%)	1.4	1.3
Loans (Rs tn)	97.3	86.7
YoY growth (%)	12.2	12.6
YTD growth (%)	(0.4)	0.5
CD ratio (%)	76.3	74.9
SLR ratio (%)	26.1	28.1

Source: RBI, BOBCAPS Research

FIG 1 – CREDIT AND DEPOSIT GROWTH IN BANKING SYSTEM



Source: RBI, BOBCAPS Research



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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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