# BANKING MONTHLY

FEBRUARY 2023

## Prevailing Rates

### I. Policy Rates

| | |
|---|---|
| Repo Rate | 6.50% |
| Reverse Repo Rate | 3.35% |
| Standing Deposit Facility Rate | 6.25% |
| Marginal Standing Facility Rate | 6.75% |
| Bank Rate | 6.75% |

### II. Lending/Deposit Rates

| | |
|---|---|
| Base Rate | 8.65% -9.40% |
| MCLR Rate (Overnight) | 7.50% -8.40% |
| Savings Deposit Rate | 2.70% -3.00% |
| Term Deposit Rate > 1 Year | 6.00% -7.25% |

### III. Reserve Ratio

| | |
|---|---|
| CRR | 4.50% |
| SLR | 18.00% |

## Global Banking:

### Japan's economy averts recession, but rebounds much less than expected in fourth quarter

Japan's economy averted recession but rebounded much less than expected in the quarter from October to December as business investment slumped, a sign of the challenge that the central bank faces in phasing out its massive stimulus programme. The world's third-largest economy expanded an annualized 0.6% in the final quarter of 2022 after slumping a revised 1% in the July to September period.

**Our comments:**

While private consumption is holding up against headwinds from rising living costs, uncertainties over the global economic outlook will weigh on Japan's delayed recovery from the scars of the pandemic. One can expect consumption to pick up as service spending stabilises. But it is difficult to project a strong recovery partly due to pressure from rising inflation.

### China economy to rebound in 2023 under precise, forceful monetary policy: Central Bank

China's economy is expected to generally rebound in 2023 and monetary policy will be precise and forceful, the central bank said in its quarterly policy implementation report. The People's Bank of China (PBOC) said it will focus on supporting domestic demand expansion and stabilising economic growth and prices while avoiding flood-like stimulus, according to the report. China will closely watch the trend and changes in inflation and keep the prices of energy and food stable.

**Our comments:**

The world's second-largest economy is stabilising and improving but still faces many challenges. The PBOC will keep liquidity reasonably ample and maintain effective credit growth, according to the report.

### US recession still likely despite resilient economic data: PIMCO

US bond manager Pacific Investment Management Company (PIMCO) is sticking to its previous forecast that the US economy is headed towards a recession, despite recent data indicating economic resilience. Tiffany Wilding, PIMCO North American economist, said the strong economic data suggests a recession may come later than previously expected, but remains likely. Although market-based measures of financial conditions have eased somewhat recently, financial conditions are still tight by historical standards.

**Our comments:**

The recent data haven't caused any change in the outlook for a mild US recession, probably only pushing the timing back a little bit.

### Don't count on China to save the world economy

China's recovery after years of covid-19 lockdowns will likely look a lot different from previous ones. And for many parts of the world, economists warn, it could be less potent than what the governments and businesses hope. While an accelerating China is good news for fragile global growth, especially as the US and Europe are set to slow; the direct effects of its revival will likely be less pronounced elsewhere than in the stimulus-led expansions of the past.

**Our comments:**

China will deliver a powerful economic recovery, but the growth spillover to the rest of the world will be much more muted in this cycle because of the nature of the economic rebound.

## Indian Banking:

### Indian economic growth likely slowed further to 4.6% in Oct-Dec: Report

Amid weakening demand, India's economic growth likely slowed further in the October-December quarter and is set to lose more momentum as a series of interest rate hikes weigh on activity, according to a Reuters poll of economists. In the last quarter, the GDP growth slipped to an annual 4.6%. However, the Indian economy had expanded 13.5% in April to June quarter, boosted largely because of pandemic-related statistical distortions. The survey also showed growth in Asia's third-largest economy was expected to slow further to 4.4% in the current quarter, and across 2023/24 would average 6.0%, lower than the 6.5% official government estimate published on 31st January.

**Our comments:**

Growth for the domestic economy is expected to hold up, but a greater-than-anticipated spillover impact from weak global conditions may have more pronounced implications for domestic growth in the near term.

### CPI inflation for January rises to 3-month high at 6.52%

The Consumer Price Index or retail inflation for January rose to a three-month high at 6.52%. Earlier the retail inflation rate eased down to 5.72% in December. It was 5.88% in November, and 6.77% in October 2022. According to the details, the retail inflation returned to the 6% mark after the Reserve Bank of India raised the policy repo rate by 25bps to 6.5%.

**Our comments:**

The CPI inflation recorded a sharper-than expected spike to a three month high of 6.5% in January 2023, led by an unexpectedly acute jump in the food inflation. It exceeds the projection released by the MPC, suggesting that another rate hike may be in the offing in April 2023. The core inflation is expected to remain elevated in February-March 2023 given the ongoing pass-through of higher input costs by producers, amidst robust demand for services.

### PSBs write off Rs29,000cr in Q3FY23 as part of a clean-up exercise

Public-sector banks in Q3FY23 wrote off bad loans worth Rs29,000cr, up from Rs23,000cr in the same quarter a year ago, as part of a clean-up exercise. According to estimates by rating agency CARE Ratings, the write-offs by PSBs in April-December 2022, at Rs81,000cr, were lower than the Rs90,000cr in April-December 2021. A key point is that fresh slippages are happening at a much lower pace over the last 2/3 years and banks have been reducing bad loans on books through steps like write-offs. This trend is expected to continue.

**Our comments:**

GNPAs are around 5% for the banking sector as a whole and should come down to 2-2.5%, which was 10-12% years ago. So some work still remains to be taken up.

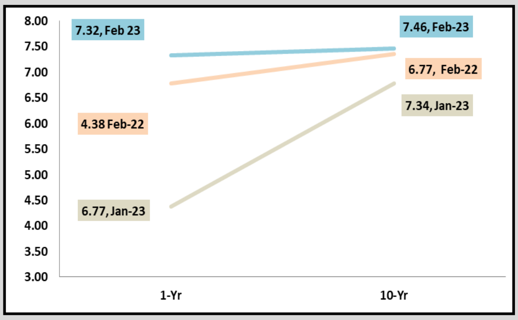
### Bank mergers in India have been beneficial to the sector, says RBI paper

Bank mergers have been beneficial to the banking sector as they have resulted in the wealth gains for shareholders of the acquired banks and also improved the efficiency of the bank that has acquired as per the RBI research paper. Mergers have provided avenues for increasing the scale of operations, geographical diversification and adoption of more efficient business strategies. During 1997-2022, there were 40 bank amalgamations, out of which 12 were between private sector banks and public sector banks, 16 were amongst PSBs and the remaining 12 were between PVBs and foreign banks. In one of the biggest consolidations of the sector; ten public sector banks (PSBs) were merged into four, effective April 1, 2020.

**Our comments:**

Mergers is taken as positive in the anticipation of the financials getting strengthened after the merger.

**Exhibit 1: 1 Year Yield v/s 10 Year Yield**




*Source: Investing.com, Progressive Research*

## Monetary Policy: February 2023

The Reserve Bank of India's six-member Monetary Policy Committee (MPC) met from February 06-08th, first meeting of 2023 to decide on the monetary policy; seeking to strike a fine balance between sustaining growth while battling against global spillovers. The RBI announced a 25bps increase in the repo rate to 6.5% and continues to focus on withdrawal of accommodative stance; reverse repo rate remains unchanged at 3.35%. In its December monetary policy review, the central bank had raised the key benchmark interest rate by 35bps. Since May 2022, RBI has increased the short-term lending rate by 250bps (including today) to contain inflation. The GDP forecast has been increased to 7%. The inflation target now stands at 6.5% for FY23. The policy rate remains accommodative and it is noted that the core inflation is indicating stickiness. The medium-term inflation has greater exposure to global geo-political developments.

### Some Highlights:

- On the domestic front, real gross domestic product (GDP) increased by 6.3% y-o-y in Q2FY23 after an increase of 13.5% in Q1. On the supply side, gross value added (GVA) rose by 5.6% in Q2
- CPI headline inflation moderated to 5.7% y-o-y in December 2022 after easing to 5.9% in November on the back of double digit deflation in vegetable prices. Core CPI (i.e., CPI excluding food and fuel) inflation rose to 6.1% in December due to sustained price pressures in health, education and personal care and effects
- The overall liquidity remains in surplus, with average daily absorption under the LAF increasing to Rs1.6lakh-cr during December-January from an average of Rs1.4lakhcr in October-November. India's foreign exchange reserves were placed at USD576.8billion as on January 27, 2023

### Highlights of Monetary Policy:

- **Repo Rate:** 6.50% (6.25% in December 2022)
- **Reverse Repo Rate:** 3.35% (3.35% in December 2022)
- **Standing Deposit Facility:** Stands adjusted at 6.25%
- **Marginal Standing Facility:** 6.75% (6.5% in December 2022)
- **Bank Rate:** 6.75% (6.5% in December 2022)
- **GDP Projection:** Real GDP growth for FY23 increased to 7.0% from the earlier 6.8%. FY24 is projected at 6.4%, Q1FY24: 7.8%, Q2FY24: 6.2%, Q3FY24: 6% and Q4FY24: 5.8%
- **CPI Inflation:** CPI forecast for FY23 lowered to 6.5%. Q4FY23 at 5.7%, FY24 projected at 5.3%, Q1FY24 at 5.0%, Q2FY24 at 5.4%, Q3FY24: 5.4% and Q4FY24: 5.6%

### Our Views:

The Indian economy has very well dealt with the external shocks and stood strong when compared with much larger economies of the world. This can be attributed to the fact that India has the inherent strength, an enabling policy environment with strong macroeconomic fundamentals and buffers to deal with the future challenges. The hike was in line with the expectations of the street given the need to anchor inflation expectations. Maintaining its stance indicates that the RBI is not yet done with its hikes and further monetary action is warranted for the country. It has actually kept the room open for any requirement in April according to the Fed behavior and inflationary moves exceeding the MPCs projections. The MPCs growth outlook has been higher for H2FY24. The inflation target although has been lowered, but none of the readings of FY24 are below 5%, one of the key factors to watch out for. The extent of global disruption and disinflation will also remain key indicators for RBI's reaction function ahead.

Please Turn Over

## Non Coverage News:

### Bombay HC order quashing the write-off of Yes Bank AT-1 bonds challenged before SC

Bombay High Court's order quashing a decision taken by Yes Bank Administrator on March 14, 2020 to write off Additional Tier 1 (AT-1) bonds has been challenged before the Supreme Court. Yes Bank had written off AT-1 bonds worth Rs8,415cr as part of the bailout in March 2020. Two petitions have been filed, one by Yes Bank and another by Reserve Bank of India. Bond holders have also moved a caveat in the case. The petitions are still under defects.

**Our comments:**

This court would only consider whether the decision making process has been adhered to and that it was within the competence of the administrator to write down the AT-1 bonds in the facts and circumstances of the present case.

### HDFC Bank gets orders of more than USD2.1bn for USD750mn bond

HDFC Bank acting through GIFT City IFSC banking unit has completed the issue of USD750mn senior unsecured bonds. Further data suggests that the bank has received bids exceeding USD2.1bn across 130 investor accounts for the three-year note. As per data available on Bloomberg, the Asian region has contributed 75% and Europe 25% to total bids with fund managers leading the list with 52% followed by banks at 35%. The three-year notes which are rated Baa3 by Moody's and BBB- by S&P, will be listed on the India International Exchange (IFSC) Limited.

**Our comments:**

The settlement date for the notes raised at the coupon rate of 5.686% is March 2, 2023 and maturity date is March 2, 2026. The bank in its disclosure to exchanges has said that it will be using proceeds from the fund raising for banking activities.

### Axis Bank to acquire Citibank India's business undertakings by March 1

Axis Bank informed the stock exchanges that the deal to acquire Citibank India's consumer business and NBFC (non-banking financial company) business of Citicorp is expected to be completed by March 1. Both parties have made progress on integration and have obtained other requisite customer consents and approvals, as applicable. Post completion of this deal, all customers, employees and assets of Citibank will be transferred to private sector lender Axis Bank, which will pay a consideration of Rs12,325cr for the acquisition.

**Our comments:**

Moreover, there would be a transition period of 18 months during which the Citi customers will migrate to Axis Bank, after the completion of the deal.

### ACRE offers State Bank of India Rs230cr for Visa Steel loans

Ares SSG capital-backed Asset Care and Reconstruction Company (ACRE) has given a binding offer of Rs230cr to the State Bank of India to acquire Rs697.2cr outstanding loans given to Visa Steel. The offer from ACRE, an asset reconstruction company, is at the reserve price set by the bank and equates to a recovery of 33 paise on outstanding loans for the country's largest state-run lender by assets. The sale of Visa Steel loan comes after repeatedly failed attempts by lenders to admit the company for corporate insolvency.

**Our comments:**

Lenders have classified loans of Visa as non-performing accounts since 2012. It has a principal outstanding loan of Rs2,331cr, according to the company's annual report. Punjab National Bank, Union Bank, Hudco and Exim Bank are among other lenders of Visa Steel.

Please Turn Over

## Non Coverage News:

### Adani Group firms pledge more shares for SBI

Three Adani Group companies have pledged additional shares for State Bank of India, days after a scathing report by a US short-seller led to over USD100bn loss in its market value, as per stock exchange filings. Adani Ports and Special Economic Zone (APSEZ), Adani Transmission Ltd, and Adani Green Energy pledged shares to SBICAP Trustee Company, a unit of India's biggest lender, SBI. As many as 75 lakh more shares of APSEZ have been pledged, taking the total to 1% of all shares with SBICAP. In the case of Adani Green; a pledge of 60 lakh more shares took the total to 1.06%. The pledge of 13 lakh more shares of Adani Transmission took the total to 0.55%

**Our comments:**

The additional pledges are part of a USD300mn letter of credit issued by a bank to another bank as a guarantee for payments made provided by SBI for Adani Group's Carmichael coal mining project in Australia.

### Promoter to put Rs2,196cr into IDFC First Bank via equity issue

IDFC, promoter of IDFC First Bank, will infuse Rs2,196cr in the lender through an equity share issue on a preferential basis. The bank will issue 378 million shares to IDFC financial holding company, a subsidiary of IDFC, at Rs58.18 apiece. Post the allocation, the shareholding of the IDFC financial holding company will increase to 39.99% as compared to 36.37%.

**Our comments:**

The public shareholding in the bank is at 63.62% as of December 31.

### HDFC Bank, Lulu Exchange ink deal to enhance cross-border payments between India-Gulf region

HDFC Bank and UAE-based Lulu Exchange have signed an MoU to strengthen cross-border payments between India and the Gulf Cooperation Council (GCC) region. In the first phase of the partnership, Lulu Exchange's expertise and regulatory framework would be utilised to launch a digital inward remittance service titled 'RemitNow2India'. That will allow resident individuals of UAE to send money to any bank account in India via IMPS and NEFT through HDFC's digital banking channels.

**Our comments:**

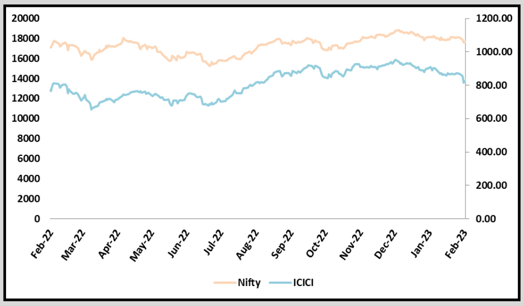
While HDFC Bank potentially gains access to remittances from Lulu Exchange's employees, customers and other stakeholders, Lulu Exchange can capitalise on a trusted name with a vast network.

## Coverage News:

### ICICI Bank board approves proposal to take over I-Process services as a subsidiary

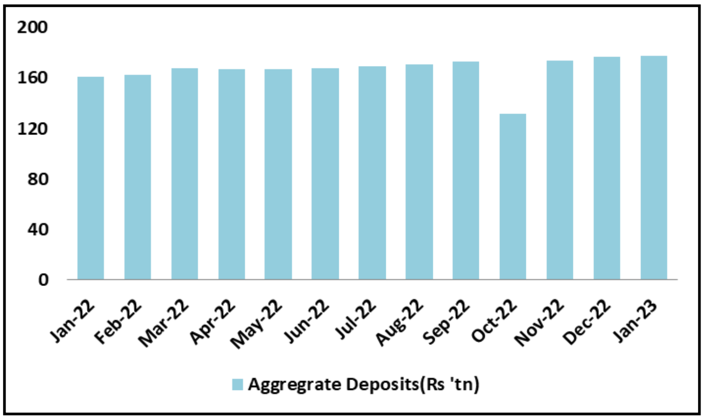
The board has approved a proposal for making I-Process Services (India) Private Limited, a wholly-owned subsidiary of the bank, subject to receipt of requisite regulatory and statutory approvals. The bank currently holds 19% stake in iProcess. Total cost of the proposed acquisition is estimated at approximately Rs15.40cr, which is subject to finalisation of pricing, in accordance with applicable law and other necessary approvals.

### Exhibit 2: ICICI v/s Nifty



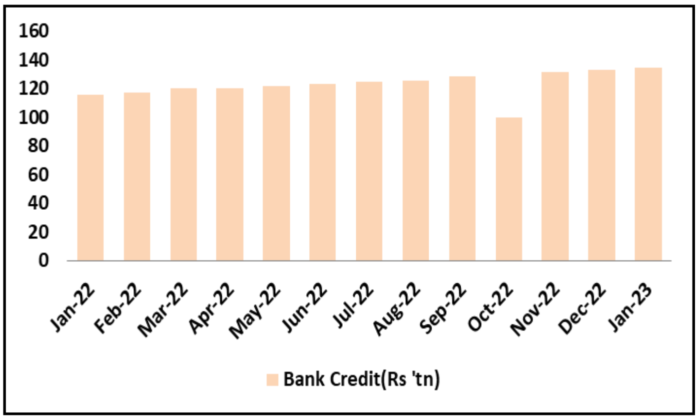

*Source: Ace Equity, Progressive Research*

## Exhibit 03: Trend of Aggregate Deposits of SCBs



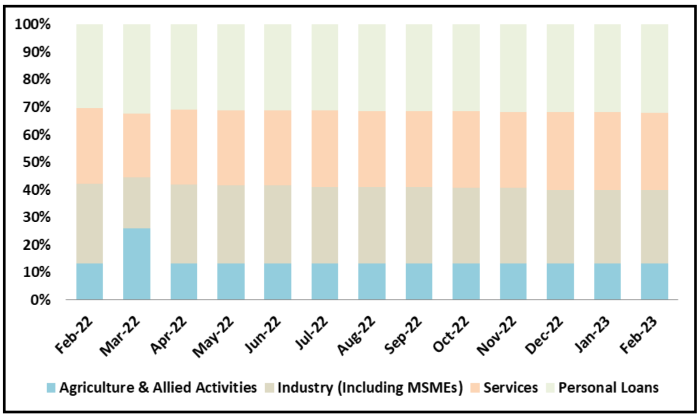

*Source: RBI, Progressive Research*

## Exhibit 04: Trend of Bank Credit of SCBs



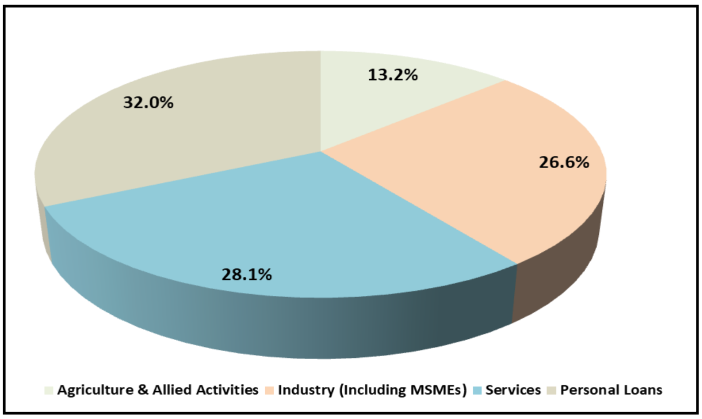

*Source: RBI, Progressive Research*

## Exhibit 05: Deployment of Gross Bank Credit by major sectors



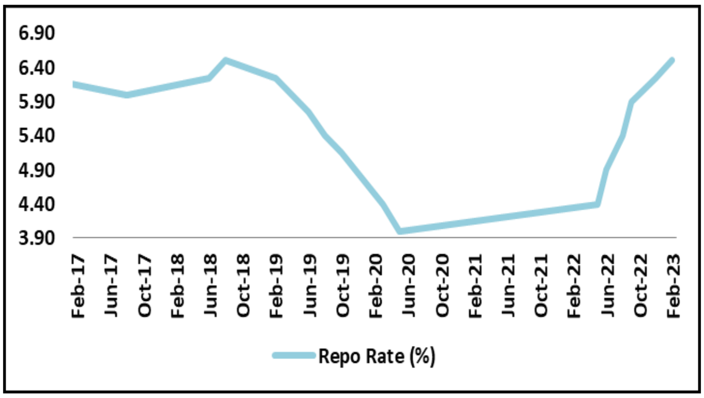

*Source: RBI, Progressive Research*

## Exhibit 06: Sectoral breakup of Gross Bank Credit of the major sectors in Jan



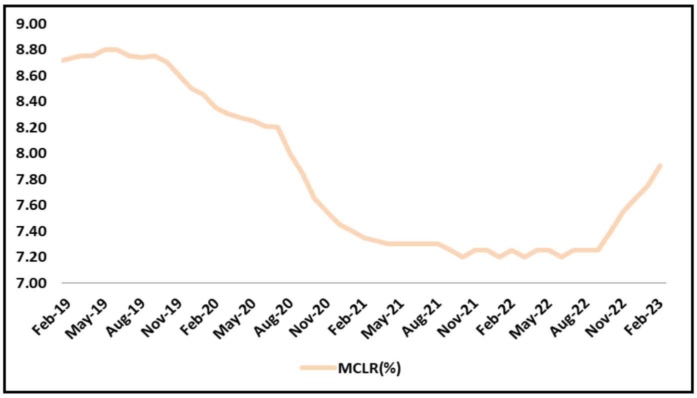

*Source: RBI, Progressive Research*

## Exhibit 07: Repo Rate Trend



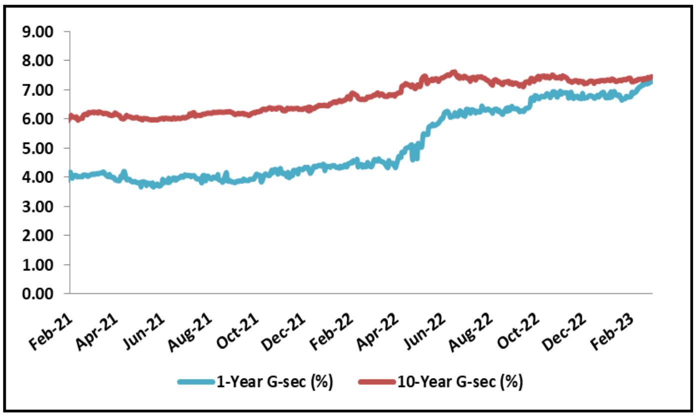

*Source: RBI, Progressive Research*

## Exhibit 08: MCLR trend in the last 3 years



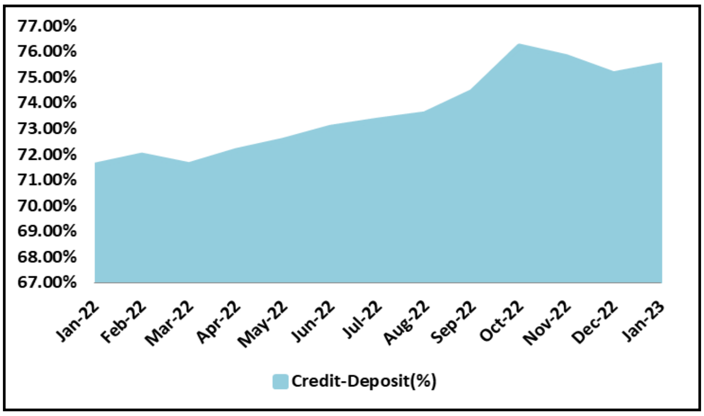

*Source: RBI, Progressive Research*

**Exhibit 09: RBI trying to keep the gap between short and long term bond in check**



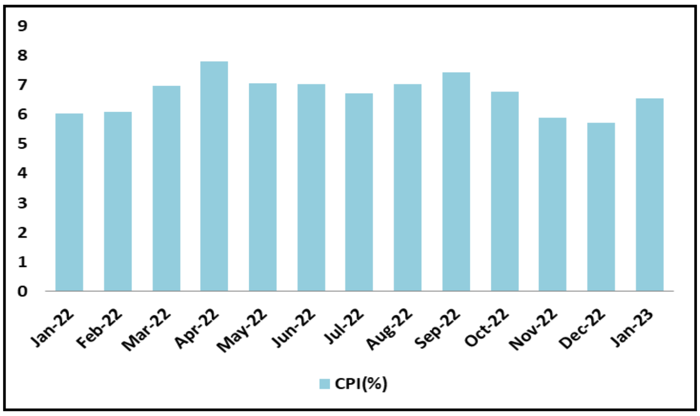

*Source: Investing.com, Progressive Research*

**Exhibit 10: Credit-Deposit ratio of the SCBs in Jan-23**



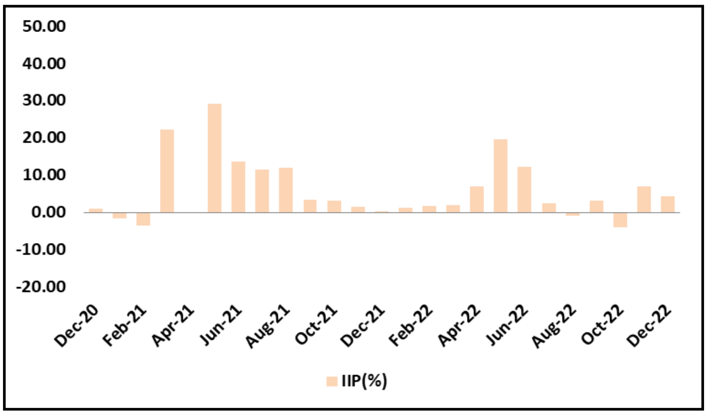

*Source: RBI, Progressive Research*

**Exhibit 11: Retail Inflation Range Bound**



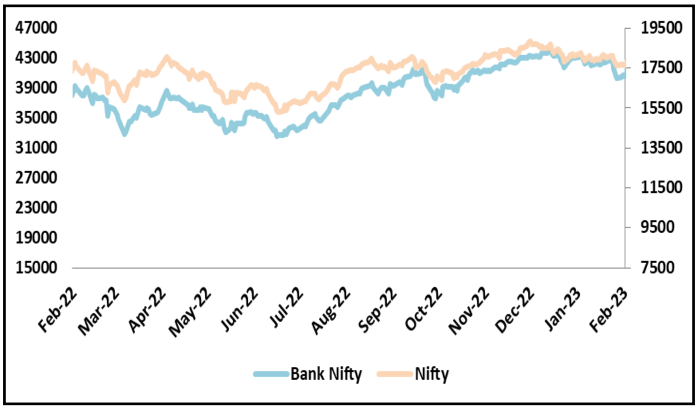

*Source: RBI, Progressive Research*

**Exhibit 12: Change in Y-o-Y IIP data**



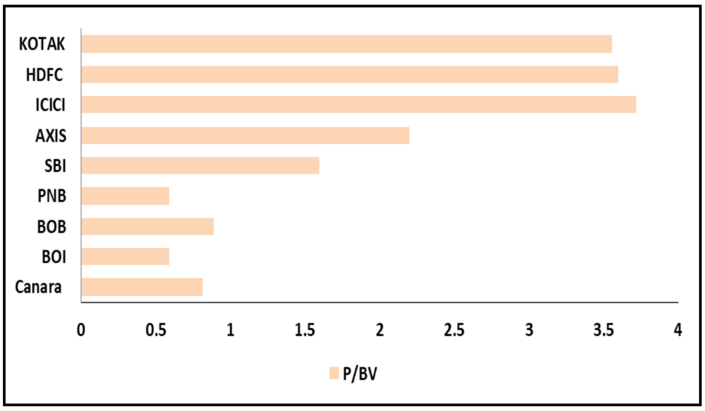

*Source: RBI, Progressive Research*

**Exhibit 13: Bank Index v/s Nifty Index**




*Source: NSE, Progressive Research*

**Exhibit 14: Major Banks' Valuation as on 28th February, 2023**




*Source: Ace Equity, Progressive Research*

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