



# SECTORAL VIEW

## BANKING MARCH 2021



## Prevailing Rates

### I. Policy Rates

Repo Rate	4.00%
Reverse Repo Rate	3.35%
Marginal Standing Facility Rate	4.25%
Bank Rate	4.25%

### II. Lending/Deposit Rates

Base Rate	7.40% -8.80%
MCLR Rate (Overnight)	6.55% -7.05%
Savings Deposit Rate	2.70% -3.00%
Term Deposit Rate > 1 Year	4.90% -5.50%

### III. Reserve Ratio

CRR	3.00%
SLR	18.00%

## Global Banking:

### **Biden signs USD1.9tn Covid relief bill, clearing way for stimulus checks, vaccine aid**

On 11th March 2021, US President Joe Biden signed the USD1.9tn Covid-19 relief package called American Rescue Plan Act of 2021. This package will include direct payments of USD1400 to those who earned less than USD75000 a year and phases out till USD80000 while it includes unemployment benefits of USD300 a week. New provision introduced by the Senate will also waive taxes on the first USD10,200 of unemployment benefits for individuals who made less than USD150,000 in adjusted gross income in 2020.

#### **Our Analysis:**

*The focus of the bill was on the working/middle class and the aim was to sign the relief package before the expiry of previous unemployment benefit which was scheduled on 14th March 2021. According to the President, this relief package will help US defeat the virus and help the economy. The relief package also contains USD20bn for vaccination, thus bolstering the effort of the country to fight the pandemic.*

### **IMF to Upgrade World Growth Outlook on US Stimulus, Vaccines**

The IMF is set to upgrade global economic growth outlook in its meet next week. The expected improvement is on account of improved outlook of US and China's economies and the roll out of vaccines. In January 2021, IMF expected global economy to grow by 5.5% in 2021, 0.3% increase from previous forecast. IMF will also look at upward revision of 2022E. IMF has however also warned that loose monetary policies may end up hurting recovery and that central banks need to reverse the same in a timely and phased manner.

#### **Our Analysis:**

*IMF's Managing Director Kristalina Georgieva stated that IMF expects a further acceleration, partly because of additional policy support including the new fiscal package in the United States; and partly because of the expected vaccine-powered recovery in many advanced economies later this year. However, the fund is cognizant of the high level of uncertainty surrounding the second wave of the pandemic and mutated strains. With respect to monetary policies, IMF warned that policymakers need to envisage risks stemming from high levels of leverage and be ready to tighten policies.*

### **India FY21-22 growth will be in the 7.5%-12.5% range, likely 10.1%: World Bank**

World Bank raised its target by 4.7% from prior target of 5.4% to 10.1% in FY22 in its recent South Asia Economic Focus Spring update report. However, considering the uncertainties around the pandemic and various policies, World Bank chose to provide a range i.e. 7.5-12.5% expected growth in FY22. For the South East region as a whole, World Bank forecasted growth at 7.2% in 2021 (calendar year) and 4.4% in 2022.

#### **Our Analysis:**

*World Bank is not known for such wide ranges in projection, however considering unprecedented time, the bank has resorted to wide ranges. The bank expects public contribution to help India achieve the said growth coupled with gradually increasing investments. Downside risks include financial sector distress coupled with fading away of pent up demand. However, uncertainties do prevail owing to newer variants of the virus and resurgence in cases.*



## Indian Banking Sector:

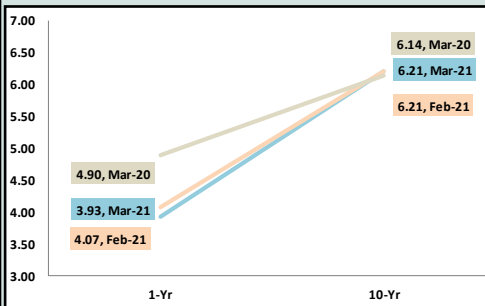
### **Supreme Court pronounces verdict on plea seeking extension of loan moratorium**

Supreme Court on 23rd March 2021 has rejected the plea on the matter of waiver of complete interest during the moratorium period while hinting that RBI and GOI have provided relief to citizens via various stimulus over last year. Furthermore, it has rejected the request for extension of moratorium period and lift the stay on classification of NPA by banks. However, Supreme Court ordered that compound interest during moratorium period be refunded.

#### **Our Analysis:**

*Supreme Court noted that complete waiver of interest during the moratorium period will not be possible as banks and financial institutions are liable to pay depositors. Thus, the apex court has rejected the plea on the matter while hinting that RBI and GOI have provided relief to citizens via various stimulus over last year. Furthermore, it has rejected the request for extension of moratorium period. The court was of the view that government's decision to refund compound interest for loans below Rs2cr lacked rationale (central government bore the cost of compound interest on these loans) and thus the Supreme Court widened the ambit to all loans irrespective of amount. The court was of the view that compound interest is on the line of penal interest/charge. This wider coverage is said to increase expenditure by Rs7000-7500cr.*

**Exhibit 01: 1 Year Yield vs 10 Year Yield**



Source: RBI, Progressive Research

### **Digital outage hits HDFC Bank customers again**

HDFC Bank customers again faced downtime as its internet and mobile services were not accessible. The bank said that it was an intermittent issue faced by section of customers. In January, HDFC Bank had submitted a 2 step plan wherein the short term plan ranges around 10-12 weeks and the intent was to fix the repeated outages/ service disruptions faced by customers on its digital platforms. While in the long run the plan was to use cloud computing, architectural efficiencies and disaster recovery processes to further strengthen its digital services.

#### **Our Analysis:**

*This glitch has come at a time when RBI has asked to bank to temporarily halt sourcing of new credit cards as well as halt launches of digital business activities till the bank strengthens its IT infrastructure. The short term plan is not going to work as customers still face outages and customers have taken to social media to express their disappointment. The recent outages raise fresh concerns about the digital infrastructure of the bank.*

### **IDFC First Bank fixes floor price for Rs3,000cr QIP at Rs60.34/share**

IDFC Bank on 30th March 2021, announced that its capital-raising committee approved raising of Rs3,000cr from QIP and fixed floor price of Rs60.34. The board is set to meet on 6<sup>th</sup> April 2021 to decide further details about the QIP.

#### **Our Analysis:**

*This is the second fund raising activity undertaken by the bank within one year wherein in June 2020, it raised Rs2,000cr through issue of preference shares to various entities. The fundraising will enable the bank achieve the ambitious 25% loan growth y-o-y plan by the management.*



## **Indian Banking Sector:**

### **SBI signs loan agreement of USD1bn with JBIC, taking total facility to USD2bn**

In addition to USD1bn loan facility signed in October 2020, SBI signed USD1bn loan facility with Japan Bank of International Cooperation. JBIC is a financial institution wholly owned by the Japanese Government with the objective to contribute to development of Japan and international economy.

#### **Our Analysis:**

*The loan is intended to promote smooth flow of funds for the whole range of business operations of Japanese automobile manufacturers in India. With renewed focus on personal transport due to the pandemic, this collaboration will help the bank in extending loan facility to the entire supply chain of Japanese automobile industry including suppliers, dealers and ultimately to the end users.*

### **Parliament passes bill to set up National Bank for Financing Infrastructure and Development**

FM Nirmala Sitharaman introduced the National Bank for Financing Infrastructure and Development Bill, 2021, in the parliament, which was passed by it and later the bill received consent by the President of India. The bill is supposed to help setting up of Development Finance Institution (DFI), which will provide tax incentives for easier raising of funds.

#### **Our Analysis:**

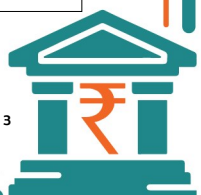
*The National Bank for Financing Infrastructure and Development will enable long term non-recourse infrastructure financing in India. Furthermore, it will help development of bonds and derivative market required for infrastructure financing. The Development Finance Institution (DFI) will be answerable to the parliament.*

### **RBI takes IDBI Bank out of PCA framework, subject to certain conditions**

RBI decided to take IDBI Bank out of the PCA framework which was imposed in 2017. The bank's performance was reviewed by the Board of Financial Supervision and the decision to remove the bank out of the framework was decided at the meeting held on 18<sup>th</sup> February 2021. *Under the PCA framework, lenders which slip below certain financial parameters such as capital ratios, asset quality and profitability will be under the close watch of RBI.*

#### **Our Analysis:**

*As per quarter ending December 2020 results, the bank was not breaching the PCA parameters on regulatory capital requirement, net NPA and leverage ratio. Furthermore, IDBI Bank has provided a written commitment stating that it would comply with minimum regulatory requirements of RBI. IDBI bank has also communicated the structural and systematic improvements undertaken by it.*



## Indian Banking Sector:

### **Non-Coverage:**

#### **RBI rejects Yes Bank's ARC plan, cites conflict of interest**

RBI rejected Yes Bank's application to set up an asset reconstruction company. The bank had sought approval in September and wanted to operationalize the ARC in 6 months of getting clearance. According to media reports, Yes Bank planned to infuse Rs10bn and was expecting Rs25bn from foreign investors who had expressed interest in the proposal.

#### **Our Analysis:**

*RBI has expressed that loans classified as frauds cannot be transferred to the AMC-ARC proposed in the budget. Yes Bank stressed accounts include the likes of Essel, Videocon, Housing Development and Infrastructure Ltd etc and these accounts cannot be transferred to the proposed ARC and thus considering the current situation, RBI rejected the banks request.*

#### **Government infuses Rs14,500cr into four PSBs**

The government has infused Rs14,500cr mainly into banks that are under the RBI's prompt corrective action framework to improve their financial health. Indian Overseas Bank, Central Bank of India, UCO bank are currently under this framework that puts several restrictions on them, including on lending, management compensation and directors' fees. Of the total infusion, Rs11,500cr has gone to these three banks while the remaining Rs3,000cr has been infused into Bank of India.

#### **Our Analysis:**

*The investment will improve the capital adequacy of these banks and enable them to exit the lending restrictions they face from RBI.*

### **Coverage News: ICICI Bank Limited:**

The bank entered into a MoU amongst members of the consortium seeking to set up a Pan-India (National) Umbrella Entity for retail payments, subject to requisite regulatory approvals. With respect to the same, ICICI Bank will acquire 20% stake in Mopay Services Private Limited for cash consideration of Rs1bn. Indicative time frame for completion of the acquisition is December, 2021

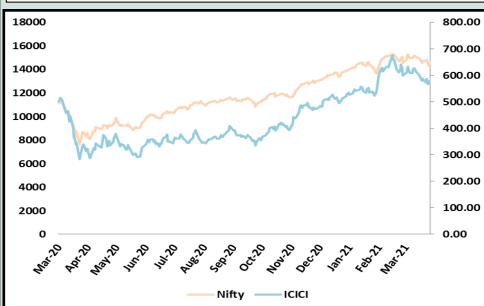
#### **ICICI Bank launches instant EMI facility on its internet banking platform**

ICICI Bank launched instant EMI facility called EMI@ Internet Banking which aims to enables pre-approved customers to convert high value transactions of upto Rs5lakh to small monthly instalments. All of this will be undertaken in a fully digital manner and the bank has tied up with BillDesk and Razorpay to offer the facility which has been enabled over 1000 merchants across various categories. Customers can make purchases for amounts between Rs50,000 to Rs5lakh and select the tenure of their choice 3 months, 6 months, 9 months and 12 months.

#### **Our Analysis:**

*The bank has been a frontrunner in terms of technology and adding newer products for customer convenience. With the recent EMI facility, ICICI Bank's customers can now purchase their favourite gadget or pay for their insurance premium or school fees in easy EMIs from their savings account using the internet banking platform.*

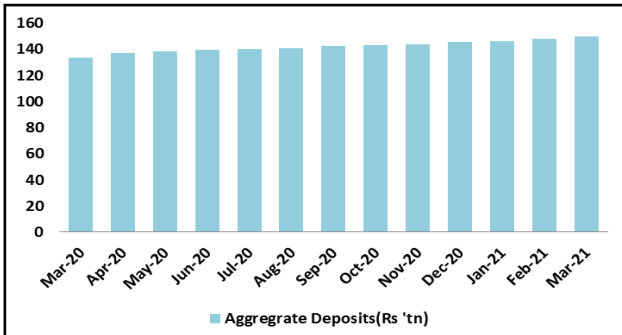
**Exhibit 02: ICICI Bank Ltd vs Nifty**



Source: Ace Equity, Progressive Research

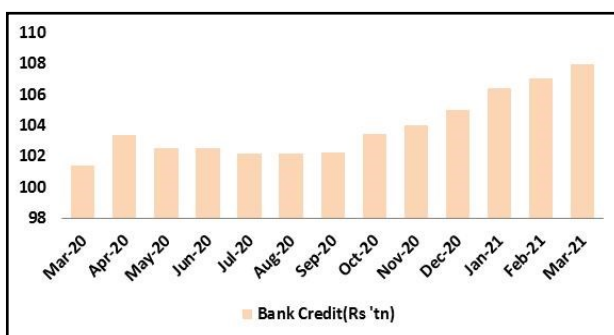


**Exhibit 03: Trend of Aggregate Deposits of SCBs**



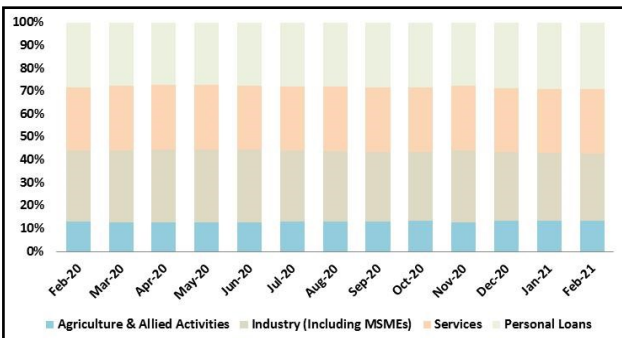
Source: RBI, Progressive Research

**Exhibit 04: Trend of Bank Credit of SCBs**



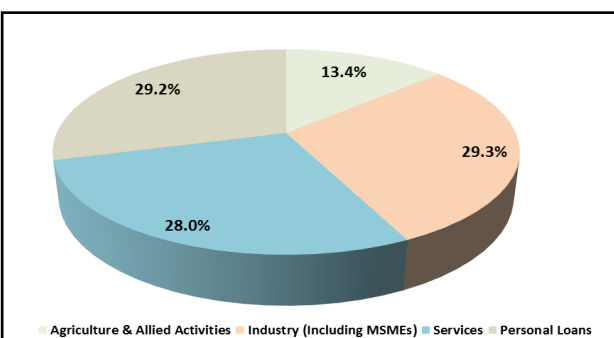
Source: RBI, Progressive Research

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



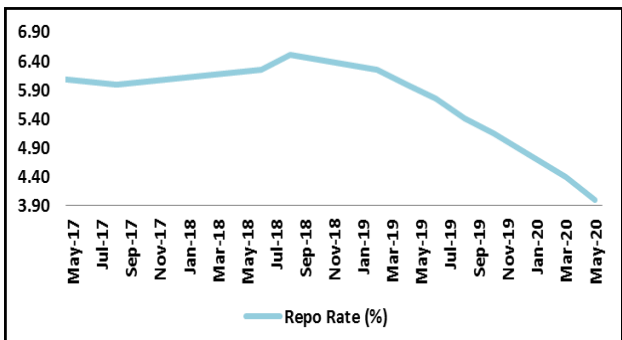
Source: RBI, Progressive Research

**Exhibit 06: Sectoral breakup of Gross Bank Credit of the major sectors in February**



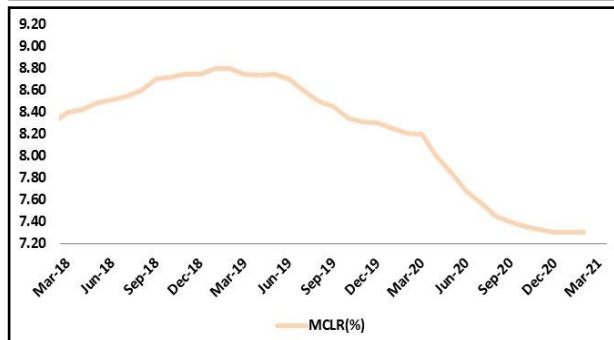
Source: RBI, Progressive Research

**Exhibit 07: Repo rate trend as changed by RBI in last 3 years**



Source: RBI, Progressive Research

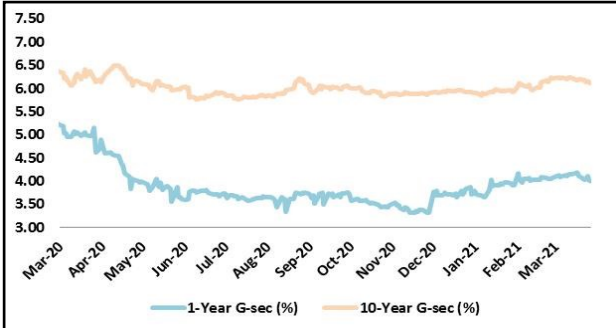
**Exhibit 08: MCLR trend in the last 3 years**



Source: RBI, Progressive Research

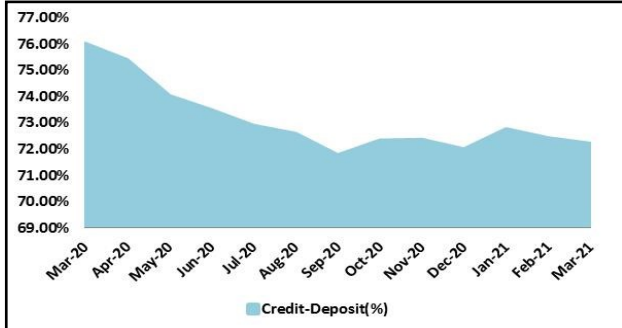


**Exhibit 9: RBI trying to keep the gap between short and long term bond in check**



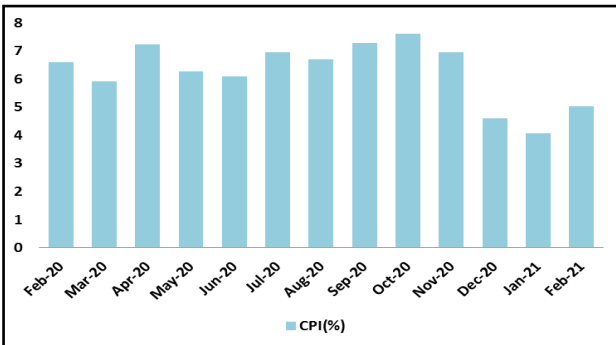
Source: Investing.com, Progressive Research

**Exhibit10: Improvement witnessed in Credit-Deposit ratio of the SCBs in March**



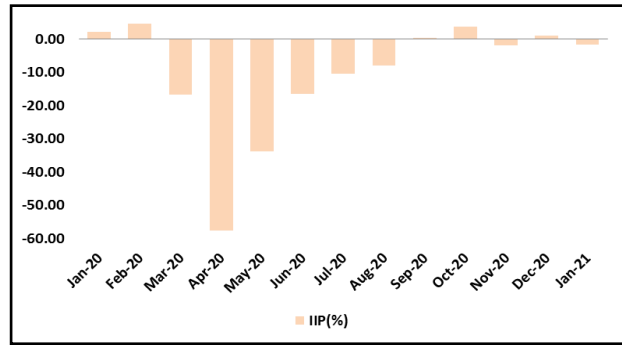
Source: RBI, Progressive Research

**Exhibit 11: Retail Inflation Eases Marginally**



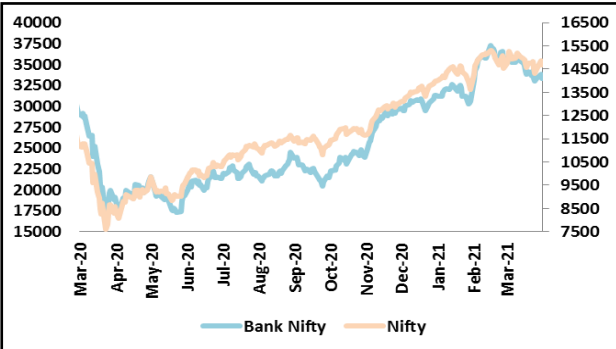
Source: RBI, Progressive Research

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



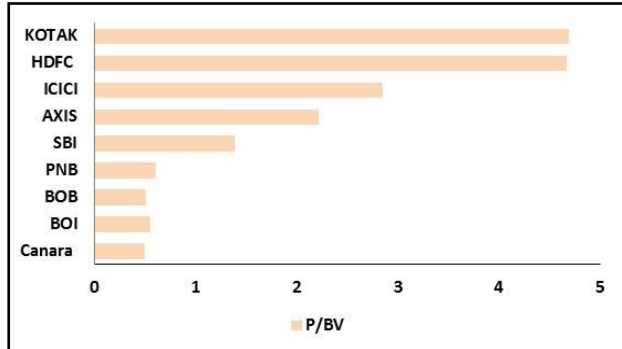
Source: RBI, Progressive Research

**Exhibit 13: Bank Index vs Nifty Index**

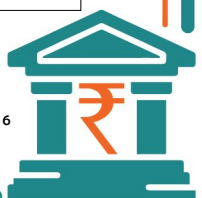


Source: NSE, Progressive Research

**Exhibit 14: Major Banks' Valuation as on 31st March, 2021**



Source: Ace Equity, Progressive Research



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