



# **BANKING** **MONTHLY**

MAY 2022

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## Prevailing Rates

### I. Policy Rates

Repo Rate	4.40%
Reverse Repo Rate	3.35%
Marginal Standing Facility Rate	4.65%
Bank Rate	4.65%

### II. Lending/Deposit Rates

Base Rate	7.25% -8.80%
MCLR Rate (Overnight)	6.60% -7.00%
Savings Deposit Rate	2.70% -3.00%
Term Deposit Rate > 1 Year	5.00% -5.60%

### III. Reserve Ratio

CRR	4.50%
SLR	18.00%

## Global Banking:

### **US economy set to outpace China first time since 1976**

According to reports, the US economy is set to outpace China for the first time since 1976 amid the coronavirus pandemic. Bloomberg reported the US economy is set to grow at 2.8% with China's gross domestic product (GDP) projected to increase by just 2% this year. China has been consistently beating the United States in GDP growth for decades even as President Xi warned officials that China's growth must be sustained to beat the United State. The International Monetary Fund (IMF) had earlier forecast China to overtake the United States as the world's largest economy by the 2030s.

#### **Our Comments:**

Amid the pandemic, China's growth has been hampered with the Xi regime sticking to the Covid zero policy with authorities locking down cities with only a few virus cases.

### **Japan's Q1 GDP shrinks as Ukraine, cost of living cloud outlook**

Japan's economy shrank for the first time in two quarters in the initial three months of the year as Covid-19 curbs hit the service sector, and the Ukraine war and surging commodity prices created new headaches for consumers and businesses. The world's third-largest economy shrank at an annualised rate of 1% in January-March from the previous quarter, gross domestic product (GDP) figures showed, versus a 1.8% contraction seen by economists. It translated into a quarterly drop of 0.2%

#### **Our Comments:**

The decline presents a challenge to Prime Minister Fumio Kishida's drive to achieve growth and wealth distribution under his new capitalism agenda, stoking fears of stagflation – a mix of tepid growth and rising inflation.

### **China offers bonds, tax breaks as new medicine for ailing economy**

Tax breaks and a bond drive for Chinese aviation and railway firms are among a blizzard of fresh measures agreed by China's economic planners to gee up an economy stunted by a coronavirus surge. China is the last major economy bolted to a zero-Covid strategy of mass testing and tough lockdowns to stamp out infections. Beijing will expand the quota of value-added tax refunds by 140 billion yuan (USD21bn). This takes the overall target of tax refunds, cuts and fee reductions to 2.64 trillion yuan this year. Authorities will also double the lending quota for banks to help smaller enterprises, while allowing some borrowers to postpone their repayments. The government will also issue 200 billion yuan in bonds to support the aviation industry, cut the purchase tax on some cars, and support the issuance of 300 billion yuan in railway construction bonds

#### **Our Comments:**

Movement curbs have hit dozens of cities in recent months from the manufacturing hubs of Shenzhen and Shanghai to the breadbasket of Jilin seizing up supply chains and crushing retail sales and industrial output to their lowest levels in around two years.

### **Indian Banking:**

#### **Off-Cycle Policy Meet-May 2022:**

The MPC held an off-cycle meeting on May 2 & May 4 to reassess the evolving inflation-growth dynamics and the impact of the developments after the MPC meeting of April 6-8. The governor Shaktikanta Das announced a 40bps hike in the key lending rate, i.e. repo rate. This is the first such unscheduled statement from the RBI governor since the start of the pandemic in 2020. With this, the repo rate stands at 4.40%. The last time repo rate was cut was in May 2020 and has been kept unchanged since then. The surprise move came ahead of an expected rate hike from the US Federal Reserve and in the backdrop of retail inflation persistently staying above the central bank's comfort zone. The MPC has been on a prolonged accommodative stance to support growth and continues to be the same. The MPC also hiked CRR (Cash Reserve Ratio) by 50bps from May 21.

#### **Our View:**

In the last policy meeting, in April, the MPC had shifted its focus to tackle inflation while supporting growth after the Russian invasion of Ukraine led to a surge in commodity prices including crude oil. The Central Bank also revised its inflation projection sharply and cut growth estimates. As there is collateral risk that inflation remains elevated, the MPC voted unanimously to increase the repo rate by 40bps with immediate effect. One of the reasons for the repo rate hike is that headline inflation has remained high as retail inflation in India rose to a 17-month high in March led by a sharper than expected spike in prices of food and manufactured goods, that has now remained over the RBI's upper tolerance band of 6% for the third straight month. The CRR has been hiked by 50bps which will exert further upward pressure on interest rates. It can suck out liquidity to the tune of Rs83711.55cr. It appears that borrowers should prepare for an increasing EMI burden and FD investors can hope for better returns on new FDs. RBI's surprise move to increase repo rate will make banks increase interest rates on loans. So, the home loans, and auto loans are set to become costlier. Globally, most of the Central Banks are tightening on fears of inflation, which may have prompted the country's Central Bank to hike rates as well, as the MPC was slated to meet in June where the belief was that the Central Bank would hike interest rates. So probably, RBI did not want to stay behind the curve. The Governor said that the shortages, volatility in commodity and financial markets are becoming more acute. They have deployed both conventional and unconventional tools to support growth. As per the Governor, the interest rate hike has been aimed at strengthening, consolidating medium-term economic growth prospects. Policy decisions taken today have been aimed at containing inflation spikes & re-anchoring inflation expectations. The Governor further stated that the RBI will ensure that there will be adequate liquidity in the system to meet the productive requirements of the economy in support of credit offtake growth.

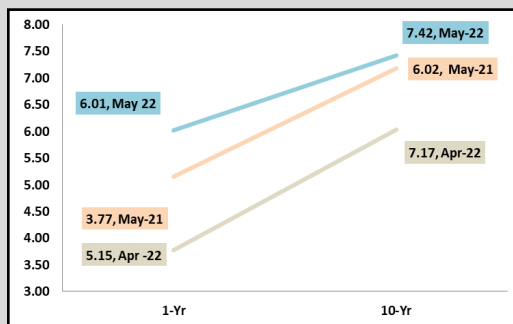
#### **India, US sign pact to facilitate USD4bn investment**

India and the US signed an investment incentive agreement, which will supersede an earlier agreement and enable the US International Development Finance Corporation (DFC) to continue with its investments in this country. The DFC, a development finance agency of the US government, is currently considering investment proposals worth USD4bn for India, according to a finance ministry statement. The DFC or their predecessor agencies are active in India since 1974 and have so far provided investment support worth USD5.8bn, of which USD2.9bn is still outstanding.

#### **Our Comments:**

The new agreement has been signed to keep pace with the additional investment support programmes, offered by the DFC, such as debt, equity investment, and investment guaranty, among others.

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



Source: Investing.com, Progressive Research

**Indian Banking:**

**Indian economy likely to grow 12-13% in Q1: ICRA**

Citing the second highest business activity index reading in 13 months in April, rating agency ICRA forecast the economy to grow 12-13% in the first quarter of the current fiscal. However, ICRA has maintained its annual GDP projection at 7.2% for this fiscal citing worry over inflation and the resultant RBI tightening. Business activity monitor for April at 115.7 indicates that activity was roughly 16% higher than the year ago (period) and pre-Covid levels in spite of the global headwind.

**Our Comments:**

This high growth may persist in May, especially on an annualised basis, which should translate into a double-digit GDP expansion in Q1 at 12-13%. However, this may not sustain and the annual growth in volume and activity may moderate.

**WPI inflation hits 15.08% in Apr, in double-digits for 13th straight month**

India’s wholesale price index (WPI)-based inflation rate rose to the highest level in the current 2011-12 series at 15.08% in April on the back of hardening commodity and vegetable prices. With this, the WPI-based inflation has been in double-digits for 13 consecutive months. What makes this particularly worrisome is the fact that the increase was reported despite a high base of 10.74% inflation rate last year.

**Our Comments:**

Though this trend started well before the Russia-Ukraine conflict, it has aggravated due to further spike in input cost, especially of crude oil and raw materials. As the conflict does not seem to be coming to an end soon, the headwinds arising out of the disruption in the global supply chain, coupled with uncertainty, will continue to put pressure on domestic wholesale inflation.

**Omicron hurts Q4, GDP grows 8.7% in FY22**

India’s economic growth slowed in the January-March period of 2021-22 to 4.1%, a four-quarter low, reflecting in part the impact of the Omicron wave of the Covid-19 pandemic on the manufacturing sector and contact-intensive services. For FY22, the National Statistical Office marginally pruned its year-on-year gross domestic product (GDP) growth forecast to 8.7% in the data released down from 8.9% estimated in February. The economy had witnessed a 6.6% contraction in 2020-21.

**Our Comments:**

The GDP print for FY22 is significant as it shows growth in the recovery year after the onset of the Covid-19 pandemic in 2020.

**Bank credit likely to grow at 4-year high of 11-12% in FY23: Report**

Bank credit is likely to grow at a four-year high of 11-12% in FY23, on the back of better economic growth and budgetary support from the government, according to a report. In the fiscal ended March 2022, bank advances have likely grown at 9-10%. Healthy economic growth and budgetary support from the government should lift bank credit growth by 200-300bps to 11-12% this fiscal, as per Crisil Ratings. The higher credit growth expectation is also supported by the improved resilience of the banking system.

**Our Comments:**

Fresh surge in Covid-19 cases, a prolonged Russia-Ukraine war and a higher-than-expected slowdown in private consumption are the three things to keep a close watch on.

**Non Coverage News:**

**HDFC Bank and Retailio launch co-branded credit cards for chemists, pharmacies**

HDFC Bank partnered with Retailio and announced the launch of a new range of co-branded credit cards primarily targeted at chemists and pharmacies in the merchant segment. Retailio is the country's largest B2B pharma marketplace. HDFC Bank said the partnership is likely to cover over 1.4 lakh merchants in the first phase of its roll-out. It will also be available to over 1 lakh customers of Retailio from their existing merchant base and as well as new customers.

**Our comments:**

Through the partnership with Retailio the bank will extend this collaboration further into the Pharma sector with customised product for retail pharmacies, distributors and hospitals within the Retailio merchant network.

**HDFC Bank to set up 2000 branches a year**

The country's largest private sector lender is planning to add 1,500-2,000 branches annually over the next three years as it looks to ramp up its deposit franchise and capture the vast potential of cross-selling opportunities. The bank expects the first set of approvals for the proposed merger of HDFC with itself by September-October this year. It is also hopeful of the RBI allowing a shareholding of above 50% in the two insurance arms namely HDFC Life Insurance Company and HDFC Ergo General Insurance Company.

**Our comments:**

The bank feels that the branch is a very important fulcrum to garner deposits and expand its business.

**Long-term succession planning: Jay Kotak is being readied for top role at Kotak Mahindra Bank**

Harvard alumnus and Uday Kotak's elder son Jay Kotak has lately had significant enhancements to his executive role at the Kotak Mahindra Bank, prompting analysts to view the assignments as a start to long-term succession planning at the financial empire bearing the family name of Asia's richest banker. To be sure, the central bank has put a 15-year tenure cap on chief executive roles at lenders, and Uday Kotak has already led the private bank he founded for more than 18 years. His latest three-year term as the bank's head is due to end in December 2023. Analysts believe Uday Kotak's immediate successor could be KVS Manian, an executive director and a veteran at the bank.

**Our comments:**

Jay Kotak is now in charge of 811's strategy and product as its co-head, and that "merit" will determine his career progression at the lender.

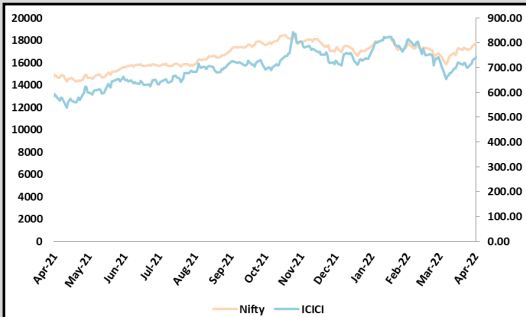
**Organic growth, tie-ups start delivering, aims 20pc share in credit cards in 3 years: Axis Bank official**

Axis Bank has started to reap the benefits of its strategy to grow organically alongside strong partnerships to fuel growth in the credit cards business, raking in the highest ever acquisition in the March quarter. Buoyed by the growth, the bank is eyeing capturing one-fifth of the credit card market in the medium term. The fourth-largest private sector bank clocked the highest ever quarterly growth with over 1.1 million credit card acquisitions in the March quarter of 2021-22.

**Our comments:**

With Citi's consumer business to be merged with itself going ahead, the bank will not lose sight of delivering quality services.

**Exhibit 2: ICICI v/s Nifty**



Source: Ace Equity, Progressive Research

**Coverage News:**

**ICICI Bank ties up with Santander for India-UK business ease**

ICICI Bank announced a tie-up with Santander bank in Britain in a pact aimed at facilitating the banking requirements of corporates operating across both countries. ICICI Bank said it will provide banking solutions across trade, cross-border payments, supply chain, treasury solutions and retail banking to the UK corporates operating in India and Santander UK will support Indian corporates and new age businesses for their banking requirements in the UK.

**Our comments:**

This MoU helps to provide seamless banking services for corporates in the UK-India corridor.

**Other Results:**

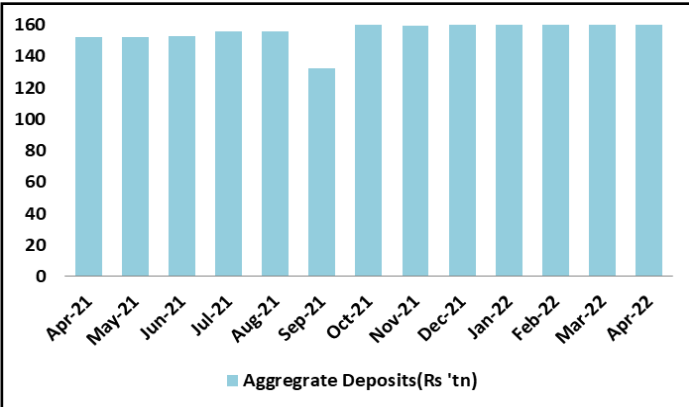
Banks	Results Synopsis (Q4FY22)
Kotak Mahindra Bank	NII grew by 18.2% to Rs59.35bn Net Profit stood at Rs38.92bn Gross NPA: 2.37%; Net NPA: 0.71%; CAR: 22.69%
Canara Bank	NII grew by 9.8% to Rs73.71bn Net Profit stood at Rs19.19bn Gross NPA: 7.51%; Net NPA: 2.65%; CAR: 14.97%
Federal Bank	NII grew by 9.5% to Rs16.56bn Net Profit stood at Rs5.88bn Gross NPA: 2.78%; Net NPA: 0.98%; CAR: 16.33%

**India's banking sector recorded highest profit in last 26 quarters**

Profit momentum for India's banking sector continued from FY21 to FY22 as the sector reported its highest profit in the last 26 quarters or six and a half years and private banks have been the better performers. The banking sector saw its profit after tax grow by 86.9% y-o-y on the back of the lowest stress on the balance sheet in the last four years in the banking sector. For the sector, strong recoveries and upgrades aided their asset quality while lower slippages q-o-q ensured that credit cost remained on the lower side.

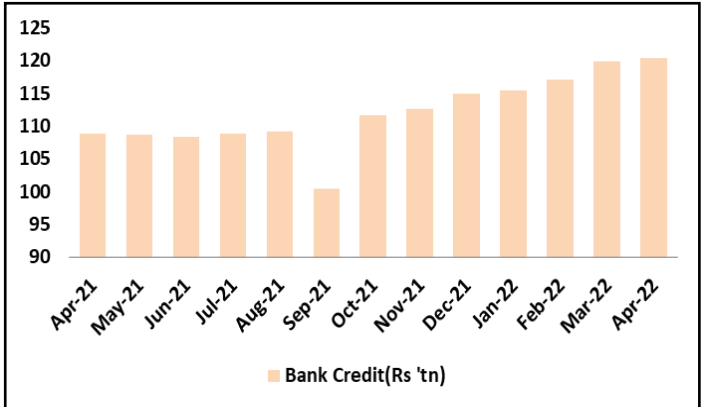
The decline in stress has been the most for public sector undertakings (PSU), which also meant that PSU banks reported the highest PAT in 26 quarters. Private banks have performed well on account of lower slippages and strong recovery. One of the key points in the results has been the operating profits which have been on the weaker side due to several reasons. While treasury losses have impacted some PSU Banks, for private banks, higher opex, w.r.t. branch expansion or loan book from direct selling agents (DSA) has impacted their operational performance.

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



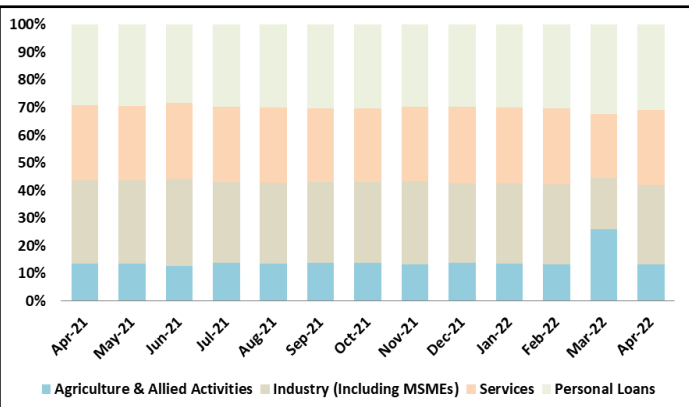
Source: RBI, Progressive Research

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



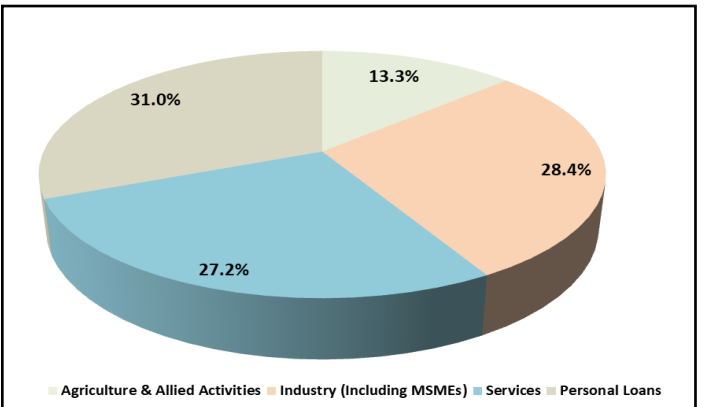
Source: RBI, Progressive Research

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



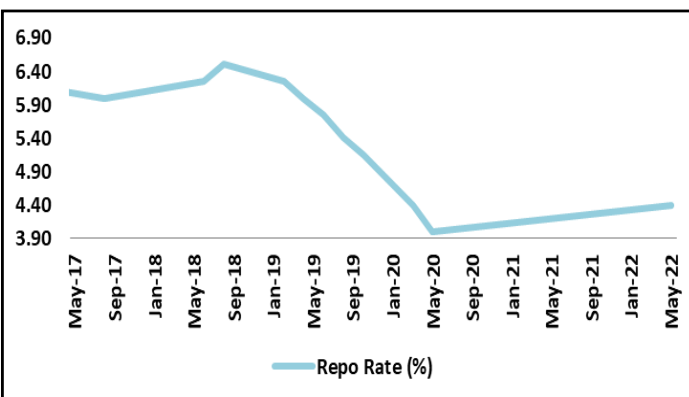
Source: RBI, Progressive Research

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



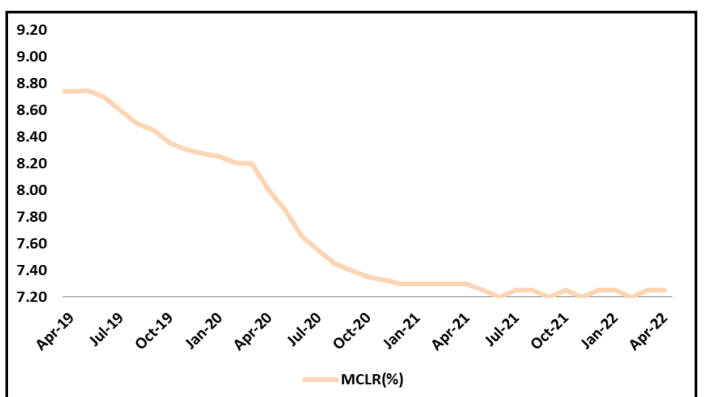
Source: RBI, Progressive Research

### Exhibit 07: Repo Rate Trend



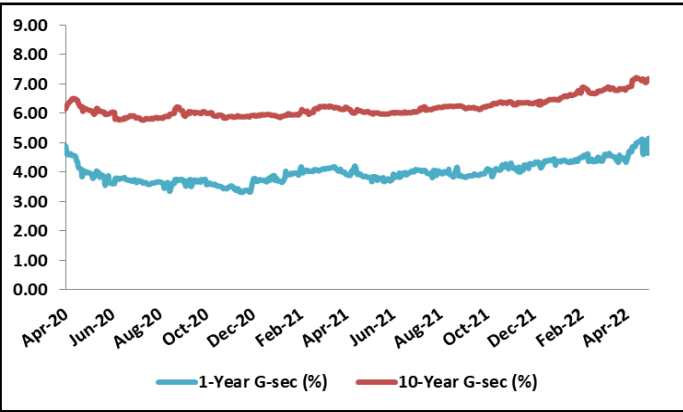
Source: RBI, Progressive Research

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



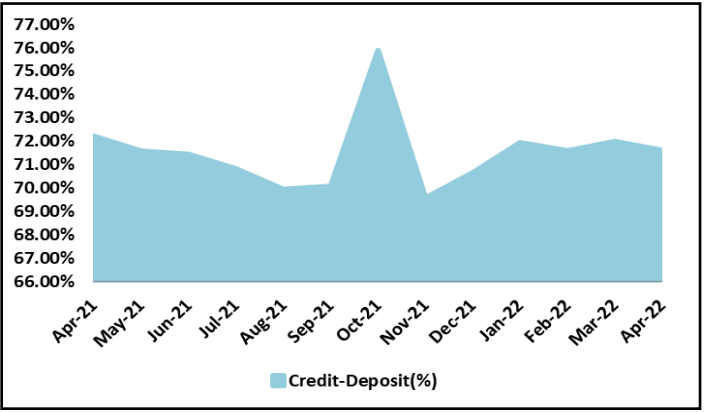
Source: RBI, Progressive Research

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



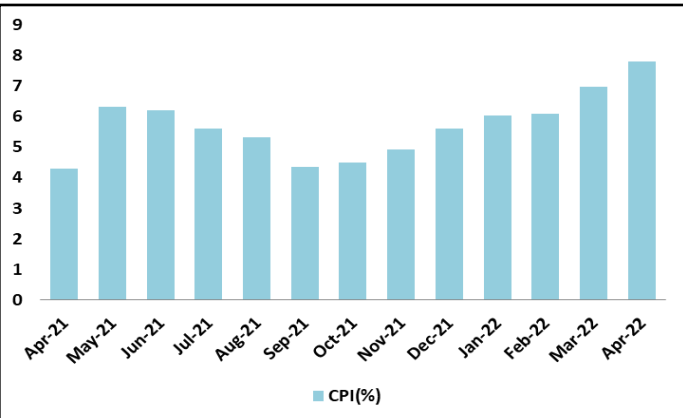
Source: Investing.com, Progressive Research

**Exhibit 10: Credit-Deposit ratio of the SCBs in Apr-22**



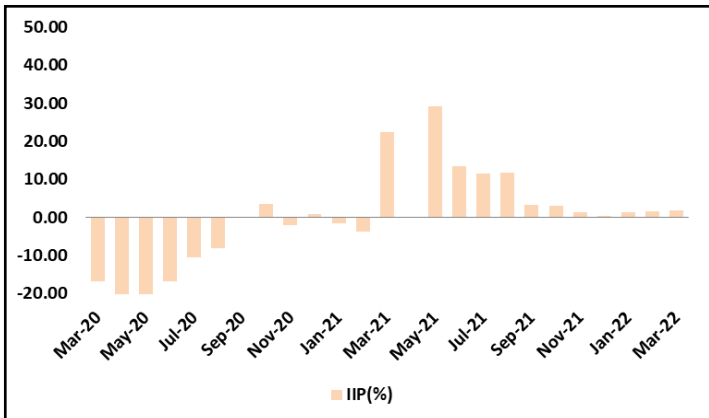
Source: RBI, Progressive Research

**Exhibit 11: Retail Inflation On Upward Trend**



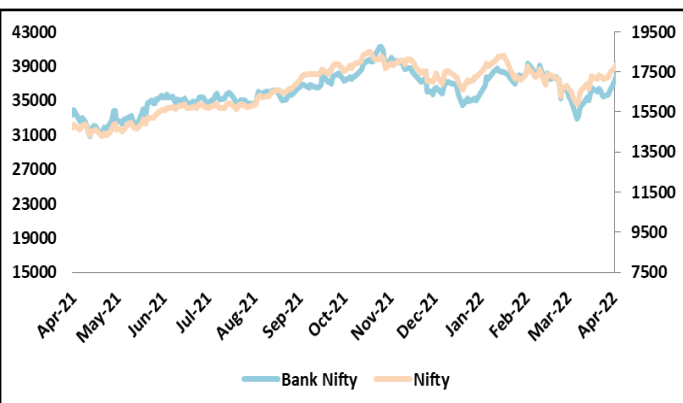
Source: RBI, Progressive Research

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



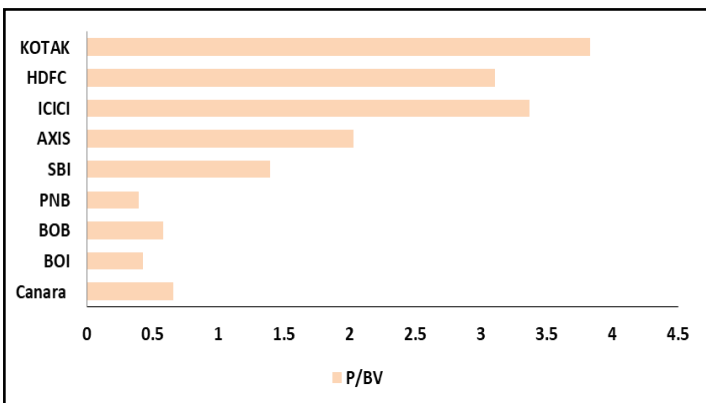
Source: RBI, Progressive Research

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



Source: NSE, Progressive Research

**Exhibit 14: Major Banks' Valuation as on 31st May, 2022**



Source: Ace Equity, Progressive Research



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