



BANKING **MONTHLY**

AUGUST 2021

PROGRESSIVE[®]
Your Progress Our Priority...

Equities | Derivatives | Commodities | Currency | Depository | Mutual Funds | NBFC | e-Broking

www.progressiveshares.com | [f](#) [t](#) [i](#) @progressiveshar



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:

Japan's economy edges back into growth in the second quarter

Japan's economy crawled back to growth in the second quarter of 2021 but the rebound remained weak because of a sudden rise in Covid-19 cases. Economic output expanded 0.3% quarter on quarter following a 0.9% drop in the first quarter. The economy grew 1.3% at an annualised rate, beating analysts' expectations of 0.7%. The world's fourth-largest economy has been slower to bounce back from the coronavirus pandemic compared with advanced nations in the West, with its vaccination programme only recently picking up pace. Economists warned that there was a risk of contraction in the third quarter as the government considered stronger restrictions across the country's big cities to control the spread of Covid infections.

Our comments:

The gap with other advanced economies expanded in the second quarter but that's likely to remain the case in the July to September quarter as well. As the effect of vaccinations becomes even more apparent, pent-up demand is expected to emerge particularly in the fourth quarter.

India could contribute USD500bn to the global economy by 2030: as per WEF-Kearney

India has the potential to contribute USD500bn in annual economic impact to the global economy by 2030 as per Kearney as there has been a colossal shift within the manufacturing and supply chain across sectors paving the way for India to become a potential manufacturing hub. India has three key assets to capitalise on this unique opportunity namely the significant domestic demand potential, the Indian Government's drive to encourage manufacturing, and a distinct demographic edge with a large working age population as stated in the report. These will position India for a larger role in the global value chains.

Our comments:

For India to become a global manufacturing hub, business and government leaders need to work together to understand ongoing disruptions and opportunities, and develop new strategies and approaches aimed at generating greater economic and social value. A thriving manufacturing hub will also generate additional benefits and help India create economic opportunities for nearly 100 million people that are likely to enter the workforce in the coming decade. It will also ensure a more equitable wealth distribution, as well as contain its burgeoning trade deficit.

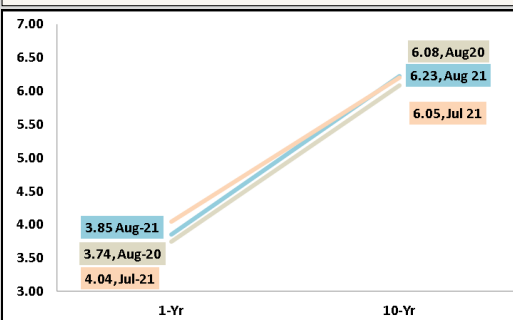
The US economy grew slightly more than we thought last quarter

America's economy expanded at a slightly faster pace than initially thought in the second quarter, the Bureau of Economic Analysis reported. Between April and June, US gross domestic product grew at an annualized and seasonally adjusted rate of 6.6%. The first look at the data last month put the growth rate at 6.5%, way underperforming the 8.5% rate economists' had expected. Still, it represented the best quarterly growth rate since last fall when the recovery boosted the economic expansion.

Our comments:

Although the recovery is on solid footing, it isn't currently as strong as economists had expected a few months ago. The economy will get a big boost from inventory restocking in the second half of the year, which will sustain very rapid economic growth. For a fact, Covid, inflation and the global supply chain problems will continue to dampen consumers' spirits and prevent a faster economic rebound.

Exhibit 01: 1 Year Yield vs. 10 Year Yield



Source: RBI, Progressive Research

Indian Banking:

Pandemic has India scrambling to boost its manufacturing sector

For decades, the services industry powered India’s growth and tempered unemployment in the world’s second-most populous nation. The coronavirus pandemic is now leading to calls for an urgent rebalancing of the economy towards manufacturing. The decline of the sector, which typically accounts for 55% of the economy, is forcing people to seek work on rural farms or in the undersized manufacturing industry.

Our comments:

Boosting labor force productivity is the key to faster economic growth for India, which is recovering from an unprecedented contraction brought on by the pandemic. There is a need to rebalance via targeted policy within the sectors.

NBFCs sector will see 50-100bps increase in 90+dpd in FY22: ICRA

The asset quality of non-banking finance companies will see elevated stress levels in the near term due to the second wave of the pandemic, but the stress will subside subsequently as collection efficiencies improve and restructuring picks up. The 90dpd bucket of the NBFCs segment will inch up by 50-100bps, net of recoveries, and write-offs, in the current fiscal. In FY21, the 90dpd increased by 30-40bps over March 2020 levels as collections had improved steadily and reached pre-Covid levels in Q4FY21. Further, there were loan write-offs during Q3 and Q4FY21 and extended restructuring to their borrowers, containing overdue.

Our comments:

ICRA has maintained its negative outlook on the sector, however, the capital position of the lenders, augmented by slower credit growth and an increase in liquidity. The sector would require Rs2tn of additional funding, apart from refinancing existing maturities in FY22 to meet their growth requirements.

PSU banks mobilise record fund of Rs58,700cr from markets in FY21

Notwithstanding economic disruptions caused by the pandemic, public sector banks have managed to raise a record Rs58,700cr from markets in FY21 through a mix of debt and equity to enhance capital base. This included Rs4,500cr raised by Bank of Baroda from Qualified Institutional Placement (QIP). PNB mobilised Rs3,788cr through share sale on private placement. At the same time, Canara Bank raised Rs2,000cr from QIP. In addition, 12 PSBs raised funds from Tier I and Tier II bonds taking the total fund mobilisation to Rs58,700cr, highest amount garnered in any financial year.

Our comments:

Various reforms undertaken by the government including recognition, resolution and recapitalisation resulted in progressive decline in non-performing assets (NPAs) and subsequent rise in profit.

National Monetisation Pipeline:

Finance Minister launched the National Monetisation Pipeline (NMP), through which the govt. aims to raise USD81bn by leasing out state-owned infrastructure assets over the next four years. This will help fund new capex without pressuring govt. finances. The proposal involves handing assets including roads, railways, airports, sports stadiums, power transmission lines and gas pipelines to private operators. For now, it has only included the assets of infrastructure line ministries and CPSEs working in the infrastructure sectors. Monetisation through disinvestment and monetisation of non-core assets have not been included in the NMP.

Our comments:

The plan is in line with Prime Minister’s strategic divestment policy, under which the government will retain presence in only a few identified areas with the rest tapping the private sector.

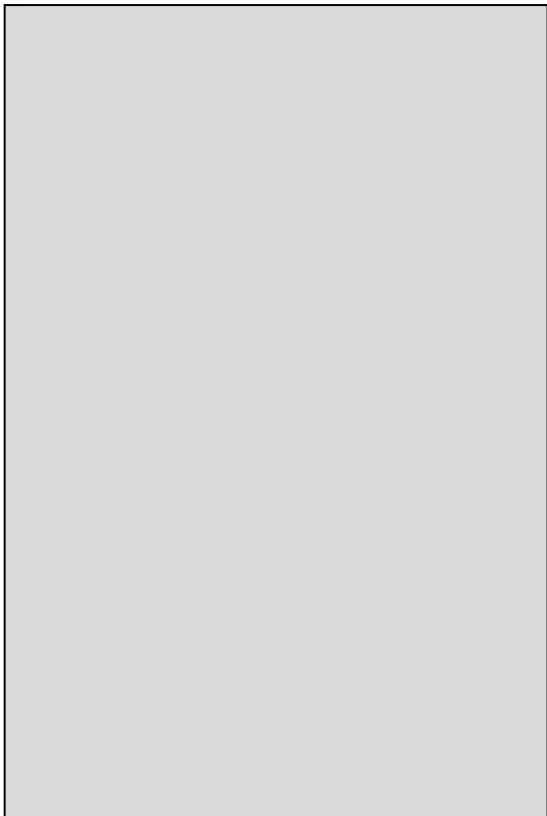
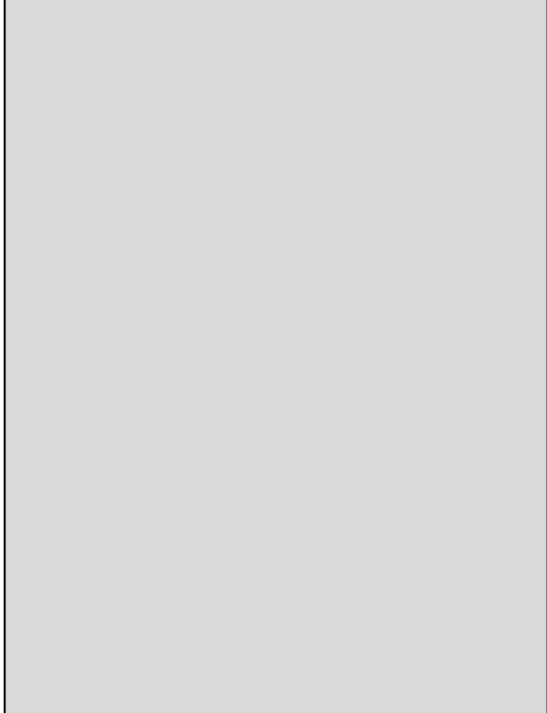


Exhibit 02: MPC Announcement

FINAL VERDICT			
MPC Meetings	REPO	REVERSE	CURRENT STANCE
June 2021	4.00%	3.35%	ACCOMMODATIVE
August	4.00%	3.35%	



Monetary Policy: August 2021

The Monetary Policy Committee held its bi-monthly deliberations from 4-6th August 2021, amid expectations of keeping repo and reverse repo rates unchanged on the back of fear of third wave of Covid. The announcements reiterated the expectations. **The MPC has decided to maintain status quo and keep interest rates unchanged.** The Central Bank has also maintained GDP growth forecast for FY22 unchanged at 9.5%. It sees CPI inflation at 5.7% for FY22 v/s 5.1% projected earlier. There were certain measures with regard to TLTRO and G-SAP auctions.

Highlights of Monetary Policy:

- Repo Rate: 4.00% (4.00% in June 2021)
- Reverse Repo Rate: 3.35% (3.35% in June 2021)
- Bank Rate: 4.25% (4.25% in June 2021)
- Marginal Standing Facility: 4.25% (4.25% in June 2021)
- GDP Projection: FY22 growth rate retained at 9.5%. FY23 GDP growth target at 17.2%
- CPI Inflation: FY22 estimate hiked to 5.7% v/s 5.1% earlier

Some Highlights:

- Projection of real GDP growth is retained at 9.5% in 2021-22 consisting of 21.4% in Q1; 7.3% in Q2; 6.3% in Q3; and 6.1% in Q4 of 2021-22. Real GDP growth for Q1:2022-23 is projected at 17.2%
- Consumer price inflation surprised on the upside in May, reflecting a combination of adverse supply shocks, elevated logistics costs, high global commodity prices and domestic fuel taxes

Other measures announced:

- Given the nascent and fragile economic recovery, it has now been decided to extend the on-tap TLTRO scheme further by a period of three months till 31st Dec, 2021.
- Marginal Standing Facility relaxation which is currently available till Sept. 30, 2021 is being extended for a further period of three months, upto Dec 31, 2021.
- It has now been decided to conduct fortnightly VRRR auctions of Rs2.5lk-cr on 13th Aug, 2021; Rs3.0lk-cr on 27th Aug, 2021; Rs3.5lk-cr on 09th Sept, 2021; and Rs4.0lk-cr on 24th Sept, 2021.
- It has been proposed to conduct two more auctions of Rs25k-cr each on 12th August and 26th August, 2021 under G-SAP 2.0.
- LIBOR Transition– Review of Guidelines: It has been decided to amend the guidelines related to (i) export credit in foreign currency (ii) restructuring of derivative contracts.

Our view:

The announcement is pretty much on the expected lines, but for the inflation that is revised beyond the expected number. It is indeed a year of fiscal measures rather than monetary. The economy is in a much better position compared to June, but vigilance needs to be maintained on a possible third wave. The CPI inflation surprised on the upside in May, which did lead to the higher expectation figure flashed. The recent inflationary pressures are concerning but currently look to be transitory. The outlook for aggregate demand is improving but underlying conditions are still weak and more is required to be done to restore the supply-demand balance across sectors. There have been extended measures announced to combat the impact of pandemic of which VRRR indicates the needle towards normalcy. The suggestion would be to deploy all policy levers- monetary, prudential or regulatory for the positive. Optimism is chosen over gloom as any pre-emptive monetary policy response at this stage will kill the nascent recovery. The rural demand will push private consumption and urban demand will drive services and pent-up demand. Overall, it was a mildly dovish policy indicating that normalization has begun and we have to anchor inflation expectations.

Indian Banking:

RBI may launch e-currency by December

RBI governor reiterated that the central bank may launch a pilot of its digital currency by December 2021. However, the RBI is yet to finalise whether to launch the currency using Distributed Ledger Technology (DLT) or a centralised ledger. DLT is the platform on which crypto-currencies are based, enabling them to be held and traded without any central authority. RBI is studying various aspects of digital currency, including its security, impact on India's financial sector as well as how it would affect monetary policy and currency in circulation.

Our comments:

The statement by Das indicates that the RBI is on track with its plans for a Central Bank Digital Currency (CBDC). The monetary policy could change course if there was a sign of durable recovery. RBI's launch of a digital currency comes when it has mounting concerns over the rising popularity of crypto-currencies. Although the Supreme Court has lifted a ban on banks providing services to companies dealing in crypto-currencies, banks are reluctant to support such businesses given their regulator's discomfort.

RBI empanels Karnataka Bank as 'agency bank' for govt. business

The RBI has empanelled Karnataka Bank to act as an 'agency bank' to facilitate transactions related to government businesses. As an empanelled 'agency bank', Karnataka Bank is now authorised to undertake the government businesses such as revenue receipts and payments on behalf of the central and state governments, pension payments of governments, collection of stamp duty charges and other items of work advised by the RBI.

Our comments:

With this arrangement, a level playing field is being ensured and it will augur well in developing a 'cost lite' liability portfolio for the Bank.

Axis Bank begins issuing securities under Rs35,000cr debt raise plan

In April, Axis bank had said that its board had approved capital raise proposal up to Rs35,000cr by issuing various debt instruments in Indian or foreign currency in domestic/overseas markets in one or more tranches. Axis Bank has started issuing the debt securities. The bank has initiated the process of issuing of the debt instruments, in the form of the additional tier 1 notes in foreign currency, subject to market conditions.

Our comments:

This will prove to be a sustainable bond under the sustainable financing framework of the bank.

AU Small Finance Bank shareholders have given a nod for the Rs14,500cr debt, equity raise plan

AU Small Finance Bank has received shareholders' nod for raising equity and debt capital totalling up to Rs14,500cr to fund its business growth. AU Small Finance Bank said that it will seek shareholders' approval for raising an amount not exceeding Rs12,000cr by issuing debt securities. It said the debt securities could be issued in domestic and/or overseas market in one or more tranches. It had also proposed to raise Rs2,500cr equity capital.

Our comments:

The lender said that it would need capital to support growth when the macro-economic conditions will improve.

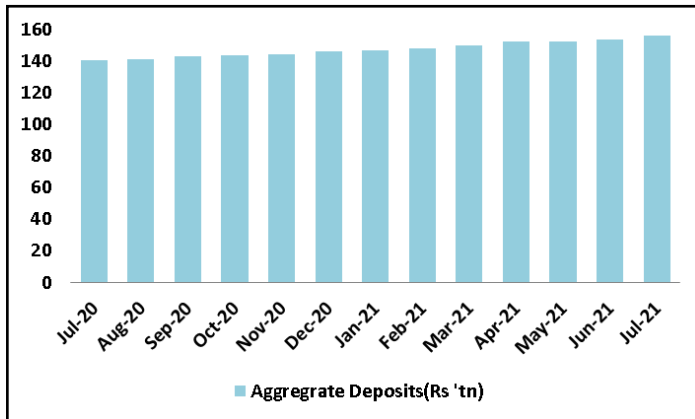
AU Small Finance Bank clarifies on recent executive exits, says asset quality improving

AU Small Finance Bank has clarified on the recent exits in the bank including on the resignation of internal audit head, Sumit Dhir. Earlier, Alok Gupta, Chief Risk Officer had resigned citing personal reasons. Subsequently, the bank had appointed Alok Jain as the new CRO. AU Small Finance Bank said it categorically wanted to confirm that there is not a single other resignation in the top-50 senior management team or the Board of Directors. The bank management repeated that the recent resignation of senior level executives was due to personal reasons.

Our comments:

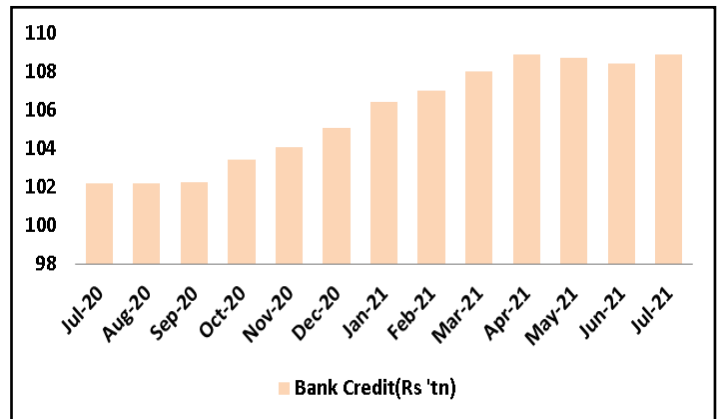
Business continues to perform well as per the commentary in Q1FY22 earnings call. Asset quality remains stable and the last two months' collections have given further confidence. AU remains an attractive franchise for talent

Exhibit 03: Trend of Aggregate Deposits of SCBs



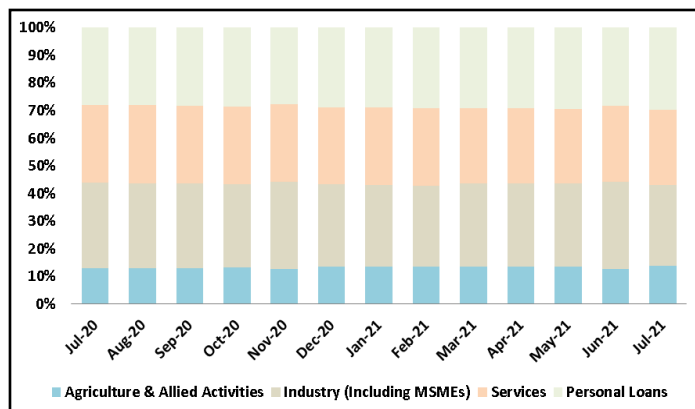
Source: RBI, Progressive Research

Exhibit 04: Trend of Bank Credit of SCBs



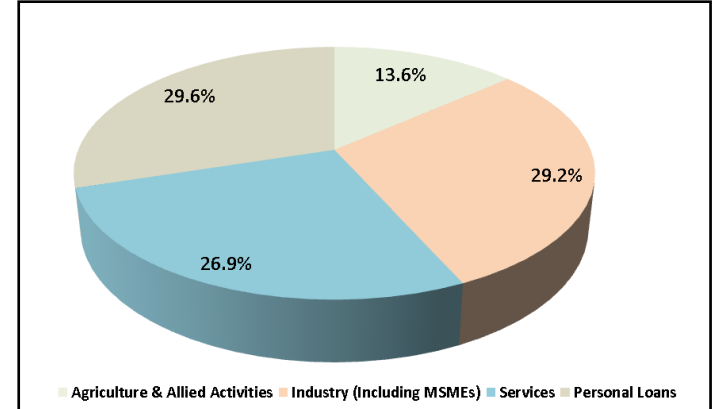
Source: RBI, Progressive Research

Exhibit 05: Deployment of Gross Bank Credit by major sectors



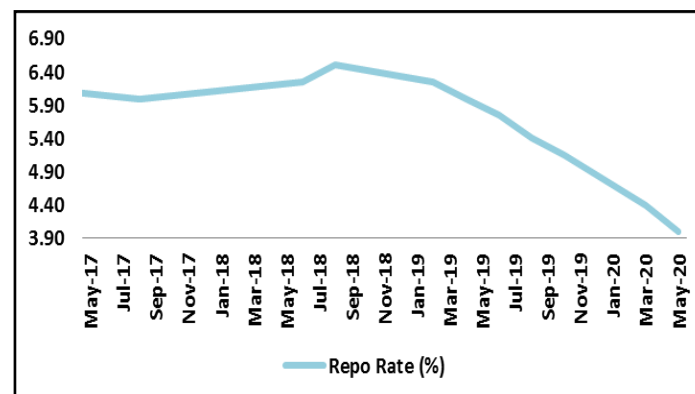
Source: RBI, Progressive Research

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



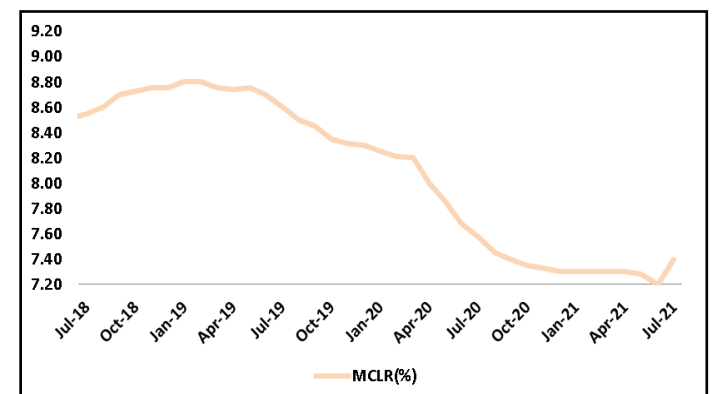
Source: RBI, Progressive Research

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



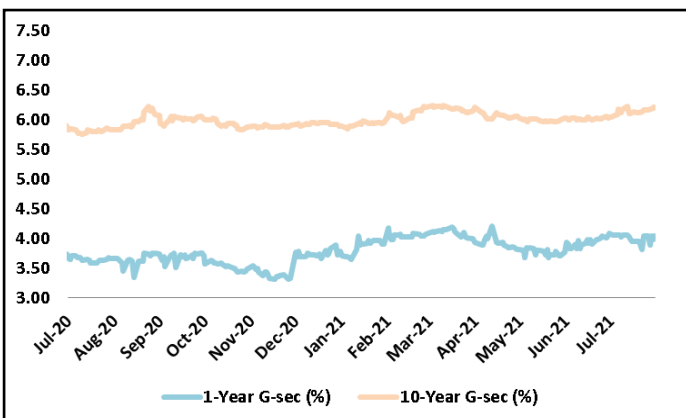
Source: RBI, Progressive Research

Exhibit 08: MCLR trend in the last 3 years



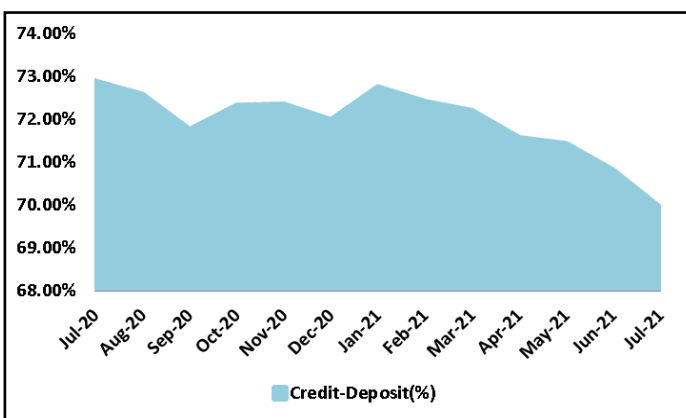
Source: RBI, Progressive Research

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



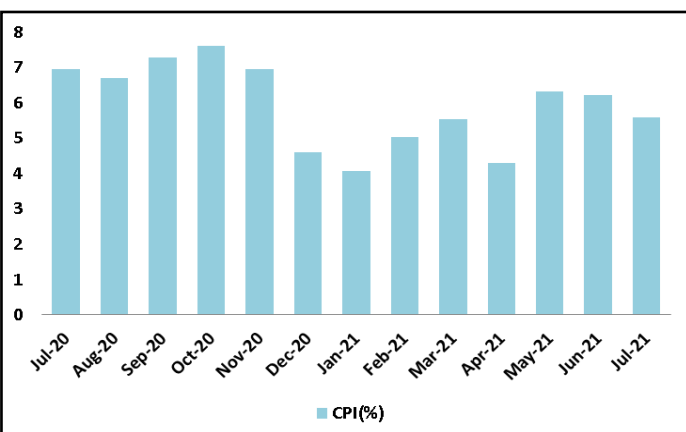
Source: Investing.com, Progressive Research

Exhibit 10: Credit-Deposit ratio of the SCBs in August



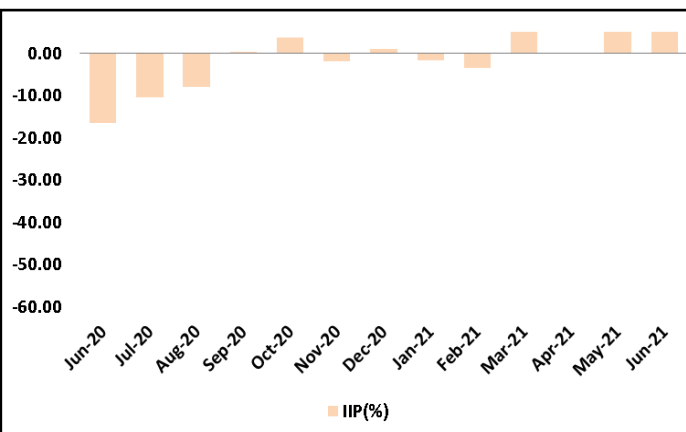
Source: RBI, Progressive Research

Exhibit 11: Retail Inflation Eases Marginally



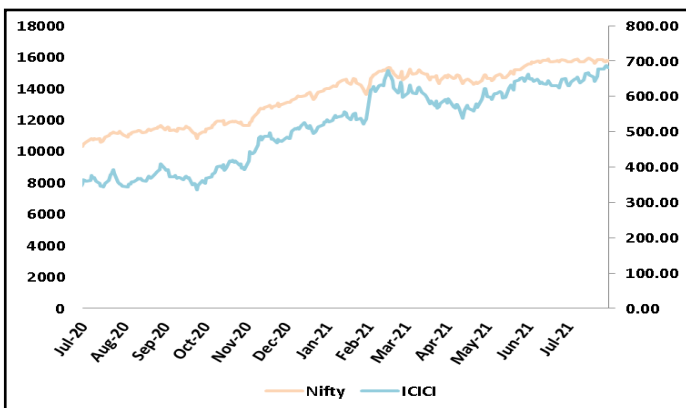
Source: RBI, Progressive Research

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



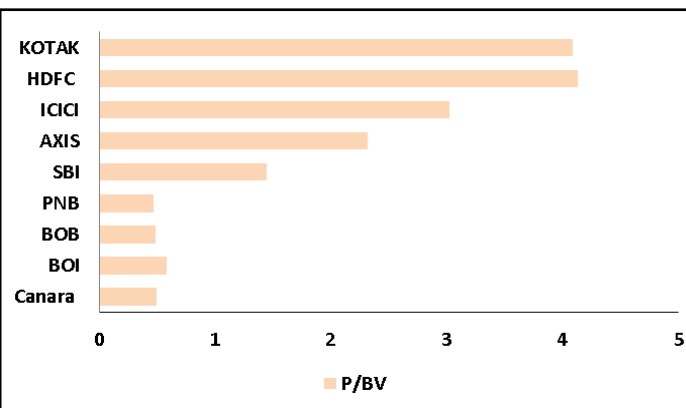
Source: RBI, Progressive Research

Exhibit 13: Bank Index vs Nifty Index



Source: NSE, Progressive Research

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



Source: Ace Equity, Progressive Research

DISCLAIMERS AND DISCLOSURES-

Progressive Share Brokers Pvt. Ltd. and its affiliates are a full-service, brokerage and financing group. Progressive Share Brokers Pvt. Ltd. (PSBPL) along with its affiliates are participants in virtually all securities trading markets in India. PSBPL started its operation on the National Stock Exchange (NSE) in 1996. PSBPL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE) for its stock broking services and is Depository Participant with Central Depository Services Limited (CDSL) and is a member of Association of Mutual Funds of India (AMFI) for distribution of financial products.

PSBPL is SEBI registered Research Analyst under SEBI (Research Analysts) Regulations, 2014 with SEBI Registration No. INH000000859. PSBPL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. PSBPL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

PSBPL offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by Progressive Share Brokers Pvt. Ltd. (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company (s) covered in this report:-

- PSBPL or its associates financial interest in the subject company: NO
- Research Analyst (s) or his/her relative's financial interest in the subject company: NO
- PSBPL or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (PSBPL) has not been engaged in market making activity for the subject company.
- PSBPL or its associates actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO
- Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO
- PSBPL or its associates may have received any compensation including for brokerage services from the subject company in the past 12 months. PSBPL or its associates may have received compensation for products or services other than brokerage services from the subject company in the past 12 months. PSBPL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of PSBPL or its associates during twelve months preceding the date of distribution of the research report and PSBPL may have co-managed public offering of securities for the subject company in the past twelve months.
- The research Analyst has served as officer, director or employee of the subject company: NO

PSBPL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses (if any) may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution publication, availability or use would be contrary to law or regulation or which would subject PSBPL or its group companies to any registration or licensing requirement within such jurisdiction. If this document is sent or has reached any individual in such country, especially, USA, the same may be ignored. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of PSBPL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of PSBPL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Terms & Conditions:

This report has been prepared by PSBPL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of PSBPL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. PSBPL will not treat recipients as customers by virtue of their receiving this report.

Registered Office Address:

Progressive Share Brokers Pvt. Ltd,
122-124, Laxmi Plaza, Laxmi Indl Estate,
New Link Rd, Andheri West,
Mumbai—400053, Maharashtra

www.progressiveshares.com | Contact No.:022-4077500.

Compliance Officer:

Mr. Shyam Agrawal,
Email: compliance@progressiveshares.com,
Contact No.:022-4077500.