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CREDIT GROWTH PICKS UP PACE; EVIDENCE OF ASSYMETRIC RISK AVERSION, EXPECT MODEST Q3 GROWTH REVIVAL, Q2GDP WILL REMAIN WEAK

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Credit growth has picked up rapid pace beginning Sep'19 jumping by Rs 1.08 lakh crore, courtesy, Housing, NBFC and lately MSME. The sectoral data for the month of September 2019, indicates that for the first time in current fiscal credit to industry turned positive and jumped by Rs 9700 crore, of which Rs 8200 crore is attributable to MSME sector. In September, the jump in retail credit at Rs 51900 crore was nearly double that of August, of which Housing loans jumped by 2.6 times in September vis-à-vis August. Bank lending to NBFC sector has remained robust and the YTD growth of such is highest across all segments at 11.3%. Interestingly, during Apr-Sep'19, though the incremental credit to infrastructure sector of ASCBs has declined by Rs 52100 crore, SBI credit to infrastructure has increased by Rs 10130 crore. **This shows that the level of risk aversion in the banking system continues to remain asymmetric across banks and this needs to be quickly reversed if the economy were to capture growth momentum**. Additionally, aggregate deposits of ASCBs has increased by 9.8% (YoY), compared to last year growth of 8.9%. On YTD basis, deposits grew by a nearly identical Rs 3.6 lakh crore in H1FY20 vis-à-vis H1FY19. **The increase in deposits perhaps reflects the flight of deposits from weak banks / cooperative banks to stronger banks in search of safety.**

Bank results in H1FY20 indicates bank provision coverage ratio at an aggregate level (results of 13 banks) is now at a healthy 70%. In fact, for PSBs, the ratio is at 75.3%. **With a system-wise Loss Given Default at 57%, this indicates PSBs have upfront covered for provisions and this should be taken as an indicator of balance sheet resilience that could withstand an adverse impact of any financial stability!**

We are less hopeful of a growth pick up in Q2FY20. Out of 26 indicators, only 5 indicators were showing acceleration in September. This indicates the extend of demand slowdown in the economy is still significant and would take longer time to recover. Our base case projection is a modest Q3 growth revival with an inventory drawdown beginning to happen more forcefully from October onwards and an accelerated Government spending (Rs 3.1 trillion in September which is 20% of overall spending) to clear outstanding dues. If we map the leading indicators showing acceleration, there is a distinct possibility that growth in GDP in Q2 will be lower than 5%. FY20 growth rate is likely to slip below 6%, as against RBI projection of 6.1%.

CREDIT GROWTH HAS JUMPED BY RS 1.08 LAKH CRORE BEGINNING SEPTEMBER

- Fortnightly data of ASCBs indicates YoY bank credit growth was at 8.8% in 11 Oct'19, lowest since Nov'17. However, till the end of Aug'19, ASCBs credit growth was declining, but the trend has changed since Sep'19 and credit growth has jumped by Rs 1.08 lakh crore.
- More importantly, the sectoral data for the month of September 2019, indicates that for the first time in current fiscal credit to industry turned positive and jumped by Rs 9700 crore, of which Rs 8200 crore is attributable to MSME sector.
- In September, the jump in retail credit at Rs 51900 crore was nearly double that of August, of which Housing loans jumped by 2.6 times in September vis-à-vis August. Bank lending to NBFC sector has remained robust and the YTD growth of such is highest at 11.3%.
- Interestingly, during Apr-Sep'19, though the incremental credit to infrastructure sector of ASCBs has declined by Rs 521 bn, SBI credit to Infrastructure has increased by Rs 101 bn. This shows that the level of risk aversion in the banking system continues to remain asymmetric across banks and this needs to be quickly reversed if the economy were to capture growth momentum.
- Additionally, aggregate deposits of ASCBs has increased by 9.8% (YoY), compared to last year growth of 8.9%. On YTD basis, deposits grew by a nearly identical Rs 3.6 lakh crore in H1FY20 vis-à-vis H1FY19. The increase in deposits perhaps reflects the flight of deposits from weak banks / cooperative banks to stronger banks in search of safety.
- Bank results in H1FY20 indicates bank provision coverage ratio is at an aggregate level (results of 13 banks) is now at a healthy 70%. In fact, for PSBs, the ratio is at 75.3%. With a system-wise LGD at 57%, this indicates PSBs have upfront covered for provisions and this should be taken as an indicator of balance sheet resilience that could withstand any adverse impact of financial stability!

GDP GROWTH COULD SLIP IN Q2 BEFORE MODESTLY REVIVING IN Q3

- In Sep'19, out of 26 indicators, only 5 indicators were showing acceleration (% of acceleration is 19% = 5/26) compared to Mar'19 when 17 indicators (out of 33 indicators) were showing acceleration rate of 52%. This indicates the extend of demand slowdown in the economy is still significant and would take longer time to recover.

Sector-Wise Credit Flow (Rs bn)

Sectors	YTD (Apr-Sep'18)		Monthly Growth (Rs bn)						YTD (Apr-Sep'19)		% YoY	
	Rs bn	%	Apr'19	May'19	Jun'19	Jul'19	Aug'19	Sep'19	Rs bn	%	Sep'18	Sep'19
Agri. & Allied	**242**	**2.4**	**-33**	**-1**	**179**	**-168**	**40**	**148**	**165**	**1.5**	**5.8**	**7.0**
Industry	**24**	**0.1**	**-506**	**-212**	**-20**	**-137**	**-331**	**97**	**-1109**	**-3.8**	**2.3**	**2.7**
MSE (Priority)	-19	-0.2	-12	-37	5	-153	9	82	-106	-1.0	9.5	6.2
Services	1509	7.4	**-1006**	**-272**	**-32**	**282**	**373**	**117**	**-537**	**-2.2**	**24.0**	**7.3**
NBFCs	503	10.1	-178	1	116	16	436	332	723	11.3	41.5	30.5
Personal Loans	1115	**5.8**	**21**	**186**	**124**	**217**	**284**	**519**	**1351**	**6.1**	15.1	16.6
Housing (Including Priority)	**757**	7.8	85	83	101	128	150	384	**931**	**8.0**	**13.8**	**19.3**
Other Personal Loans	351	6.9	82	85	21	112	104	96	500	8.2	21.6	20.9
Gross Bank Credit	**2947**	**3.8**	**-1508**	**-73**	**308**	**140**	**330**	**857**	**53**	**0.1**	**10.4**	**11.5**

Source: SBI Research

Sectoral Credit (Rs Billion)

Sectors	SBI		ASCB	
	Incremental (Apr-Sep'19)	Sep'19 (% YoY)	Incremental (Apr-Sep'19)	Sep'19 (% YoY)
Infrastructure	101	13.1	-521	7.2
of which, Power	-20	10.4	-118	4.8
Telecommunication	75	39.9	-6	25.1
Roads	31	29.3	-16	6.2
Other Infrastructure	16	-8.6	-382	5.6
Textiles	-88	-32.1	-168	-5.7
Engineering	-46	-8.7	-52	4.4
Other Industries	1,308	3.8	131	7.4
Housing	241	18.0	931	19.3

Source: SBI Research

Banks' Performance (Rs Billion)

Indicators	FY19		FY20		YoY% Q1FY20	YoY% Q2FY20
	Q1	Q2	Q1	Q2		
Deposits	56912	54245	64454	67030	13.3	23.6
Advances	45686	47866	52386	53747	14.7	12.3
Interest Income	1369	1111	1570	1609	14.7	44.8
Interest Expenses	824	850	947	956	15.0	12.5
Net Interest Income	545	261	623	653	14.3	149.8
Other Income	218	225	263	284	21.0	26.6
Operating Profit	384	390	464	494	20.7	26.8
Net Profit/loss	25	93	154	144	512.5	54.4
Gross NPAs	3753	3689	4202	3173	12.0	-14.0
Net NPAs	1780	15355	1235	1189	-30.6	-92.3
RoA (%)	-0.1	-0.1	0.3	0.2	-	
CRAR (Basel III) - %	13.7	10.1	14.4	15.0		
Gross NPA (%)	9.2	9.1	7.2	7.1		
Net NPA (%)	5.4	5.2	3.5	3.4		
PCR (%)	62.8	65.0	68.7	70.0		
Provisions	351	258	227	262	-35.3	1.7

Source: SBI Research; 4 Public sector and 9 private sector banks

- If we map the leading indicators showing acceleration, there is a distinct possibility that growth in GDP in Q2 will be lower than 5% (or closer). FY20 growth rate is likely to slip below 6%, as against a RBI projection of 6.1%.

CURRENCY IN CIRCULATION SHOWING AN UPTICK

- The week up to Diwali this year has shown an increase in Currency in circulation of Rs 30871 crore from the previous week, thereby showing that people have been demanding cash in the festive season. Although CIC increased much faster last year, this year's increase which is the second highest in 11 years makes us hopeful that the demand is slowly limping back.

SBI YEARLY COMPOSITE INDEX DECLINED IN OCTOBER

- The yearly SBI Composite Index for Oct'19 declined to 49.80 (Low Decline) compared to 52.20 (Low Growth) in Sep'19. While, the monthly SBI Composite index remained volatile and is at 50.83 (Low Growth) in Oct'19 compared to 51.00 (Low Growth) in Sep'19 .
- The SBI Composite Index, a leading indicator for manufacturing activities in the Indian Economy aims to foresee the periods of contraction and expansion. The Composite Index has mainly two indices i.e. SBI Monthly Composite Index and SBI Yearly Composite Index. We believe both IIP & IIP Manufacturing growth could be in degrowth mode in September and perhaps marginal expansion in October.

CORPORATE OUTLOOK

- As expected, as per the initial trend for the second quarter of FY20, top line remained flat with only 1.4% (YoY) growth, whereas bottom line grew by around 15% (YoY) as derived from the published results of 509 listed companies.
- Sans Bank, Finance, Insurance and Refineries, with around 400 companies, the top line de-grew by 2.5%. Further, though the EBIDTA grew by only around 1%, the bottom line grew by 16%, courtesy corporate tax cut. Sectors such as Pharma, Cable, Paint, Consumer Durable, Retail etc. reported all round growth in Q2FY20 as compared to the same period in previous year.

FISCAL DEFICIT

- The fiscal deficit for H1 FY20 was 92.6% of the BE. This was lower than the 95.3% of BE in H1FY19. The increase in non-tax revenue has helped in lowering of the fiscal deficit as a % of the Budget Estimates.
- Expenditure has remained on track with Government expediting the process to clear vendor, contractor dues pending with govt. departments. Total spending incurred by Government of India in H1 FY20 is Rs 14.8 trillion, (53.4% of FY20BE), out of which Rs 3.1 trillion was in September itself.

Mapping of Leading Indicators with GDP Growth

Year	Quarter	% of indicators showing acceleration	GDP Growth (%)
FY18	Q1	59	6.0
	Q2	66	6.8
	Q3	64	7.7
	Q4	73	8.1
FY19	Q1	65	8.0
	Q2	64	7.0
	Q3	63	6.6
	Q4	47	5.8
FY20	Q1	35	5.0
	Q2	27	Less than 5.0

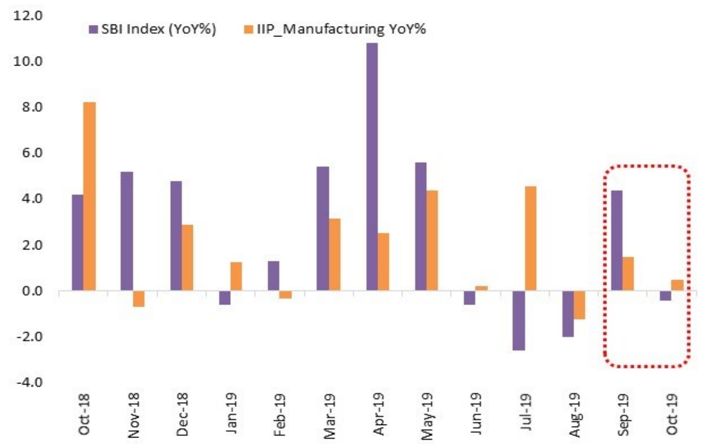
Source: SBI Research

Weekly Increase in Currency in Circulation on Diwali

Year	Amount(Rs Billion)
2009	153.04
2010	244.42
2011	99.19
2012	226.75
2013	190.03
2014	190.29
2015	402.95
2016	184.92
2017	281.67
2018	494.20
2019	308.71

Source: SBI Research

SBI Index and IIP Manufacturing Trend



Source: SBI Research

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