

June non-food credit growth sluggish at 11%

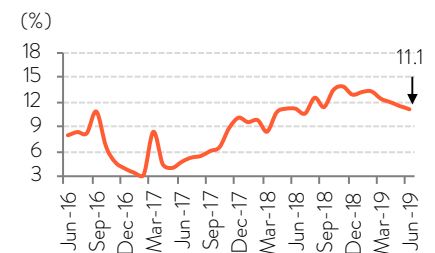
RBI data on sectoral credit deployment for Jun'19 indicates that non-food lending increased at a subdued 11.1% YoY for the month. This is primarily because growth in the services sector that forms ~27% of credit has been coming off considerably over the last few months. Lending to the industrial segment, albeit weak, held at 6.4% YoY while agricultural credit grew 8.7%. Retail growth at 16.6% YoY was stable following a 19% rise in home loans which offset ebbing unsecured loan momentum.

Vikesh Mehta

research@bobcaps.in

Retail credit growth stable at ~17%: Home loans have been a vital driver of retail credit over the past few months, growing 18.9% YoY in Jun'19 vs. 15.8% in Jun'18 and exhibiting steady improvement amid the slowdown in unsecured credit and sharp deceleration in auto loans. Credit card loans shrank ~400bps YoY to 27.5%, while loans against shares (-5.4% YoY) and fixed deposits (-1.2%), as well as education (-1.5%) and consumer durable finance (-71.5%) all moderated in June.

NON-FOOD CREDIT GROWTH



Source: RBI, BOBCAPS Research

Infrastructure aids industrial lending: Lending to the infrastructure sector, which forms ~37% of industrial credit, grew 15% YoY in June (vs. 17.9% in May). The chemicals and engineering sectors also grew at a 11% and 8% respectively. Within infrastructure, power/telecom/roads/other infra segments grew by 10%/21%/15%/34%. Over the past few months, we have seen a mild uptick in credit growth of large industries (+7.6% YoY), while that of medium/micro & small industries was lacklustre. Metals sector loans, which form ~13% of industrial credit, declined for the 17th straight month to 10.3%.

Services sector momentum continues to dwindle: Credit growth to the services sector declined to 13% YoY (vs. 23% YoY in Jun'18), marred by a slowdown in segments such as trade (+8.9% YoY), professional services (+9.9% YoY), other services (-1.4% YoY) and computer software. On the other hand, agriculture (~13% of credit) grew 8.7% YoY vs. 7.8% in May.

Expect sub-15% loan growth in FY20: We do not expect any material improvement in credit growth for FY20. That said, market share gains by private banks are likely to continue.

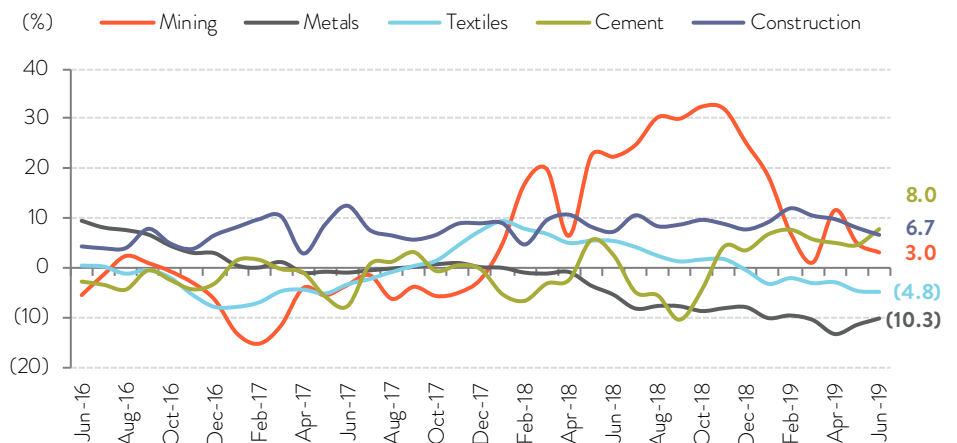


FIG 1 – NON-FOOD CREDIT MUTED AT 11.1% IN JUNE

Sector/Industry (Rs bn)	Jun-18	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Share of credit (%)	Growth (YoY, %)
Non-food Credit	76,325	83,065	86,334	84,810	84,512	84,764	100.0	11.1
Agriculture	10,355	10,928	11,113	11,080	11,079	11,258	13.3	8.7
Industry	26,417	27,743	28,858	28,352	28,140	28,120	33.2	6.4
Micro & Small	3,641	3,727	3,755	3,666	3,653	3,662	4.3	0.6
Medium	1,029	1,034	1,064	1,063	1,054	1,052	1.2	2.2
Large	21,747	22,982	24,039	23,623	23,433	23,407	27.6	7.6
Services	20,218	22,762	24,156	23,150	22,879	22,847	27.0	13.0
Trade	4,700	5,047	5,282	5,074	5,075	5,116	6.0	8.9
Commercial Real Estate	1,863	1,988	2,023	2,003	2,007	2,055	2.4	10.3
NBFCs	4,616	5,754	6,412	6,234	6,235	6,351	7.5	37.6
Retail	19,336	21,633	22,207	22,228	22,414	22,538	26.6	16.6
Housing	9,983	11,349	11,601	11,686	11,769	11,870	14.0	18.9
Vehicle loans	1,906	2,005	2,022	1,998	2,019	2,004	2.4	5.1

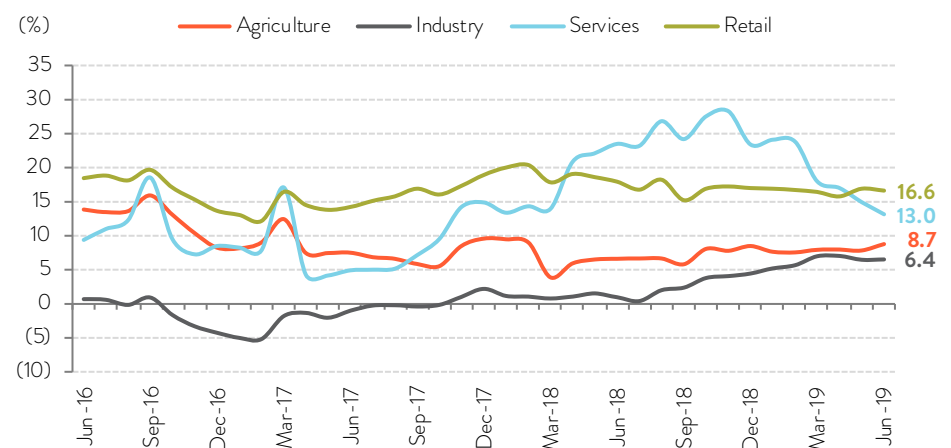
Source: RBI, BOBCAPS Research

FIG 2 – CREDIT GROWTH IN CYCLICAL SECTORS REMAINS WEAK



Source: RBI, BOBCAPS Research

FIG 3 – LOAN GROWTH IN RETAIL SEGMENT STABLE



Source: RBI, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Rating distribution

As of 31 July 2019, out of 77 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 44 have BUY ratings, 16 are rated ADD, 8 are rated REDUCE and 9 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance, wealth management and portfolio management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are 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. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.