FIRST LIGHT

13 July 2023

RESEARCH

BOB ECONOMICS RESEARCH | CPI AND IIP

Red-hot inflation, IIP growth improves

BANKING | Q1FY24 PREVIEW

Expect steady growth but margins could contract

Daily macro indicators

Ticker	10-Jul	11-Jul	Chg (%)
US 10Y yield (%)	3.99	3.97	(2bps)
India 10Y yield (%)	7.14	7.09	(4bps)
USD/INR	82.58	82.37	0.3
Brent Crude (US$/bbl)	77.7	79.4	2.2
Dow	33,944	34,261	0.9
Hang Seng	18,480	18,660	1.0
Sensex	65,344	65,618	0.4
India FII (US$ mn)	**07-Jul**	**10-Jul**	**Chg ($ mn)**
FII-D	64.0	(118.0)	(182.1)
FII-E	105.3	128.2	22.9

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CPI AND IIP

CPI print rose more than expected by 4.8%. This translates the Q1FY24 print to 4.6%, matching RBI's projection. Food inflation was the primary driver especially vegetables and pulses. Seasonality played a major role in the same (unadjusted MoM increase in vegetable inflation is 12.2%, whereas seasonally adjusted series have increased by only 4.9%). Even the Jul'23 high frequency data shows considerable risk both on wholesale and retail front for these items and also edible oils. BoB ECI is showing a MoM increase of 3.4%. Going forward, progress of monsoon is a key watchable. Already cereals and pulses are showing some degree of softening on production front.

Click here **for the full report.**

BANKING: Q1FY24 PREVIEW

- Expect steady system credit growth in Q1 and recovery in deposits due to rate realignment and discontinuation of 2,000-rupee notes
- NII for our coverage likely to contract 10-15bps on a higher cost of funds; asset quality to stay stable QoQ
- PPOP and PAT forecast to inch down QoQ given a high base and slight rise in credit cost. Our top picks remain HDFCB, AXSB, IIB and SBIN

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BOBCAPS Research
research@bobcaps.in

CPI AND IIP

12 July 2023

Monsoon and Sowing progress

Dipanwita | Jahnavi
Economist

CPI print rose more than expected by 4.8%. This translates the Q1FY24 print to 4.6%, matching RBI's projection. Food inflation was the primary driver especially vegetables and pulses. Seasonality played a major role in the same (unadjusted MoM increase in vegetable inflation is 12.2%, whereas seasonally adjusted series have increased by only 4.9%). Even the Jul'23 high frequency data shows considerable risk both on wholesale and retail front for these items and also edible oils. BoB ECI is showing a MoM increase of 3.4%. Going forward, progress of monsoon is a key watchable. Already cereals and pulses are showing some degree of softening on production front.

RBI is likely to be watchful of the evolving food price dynamics and would differentiate between transient and permanent shock before taking any call on rates. Vegetable price shock is more of a transient nature and fades out in the second half as seen historically (8 of the past 11 years have seen a drop in vegetable inflation in H2). So we expect some respite on this front. Even core and super core inflation is moderating, reflecting the impact of past transmission on real economy. As per our forecast, headline CPI would settle between 5-5.5% in FY24, with RBI remaining in 'hawkish pause' mode in CY23.

CPI inflation inched up

CPI inflation edged up: CPI inflation rose more than our expectation of 4.6% to 4.8% in Jun'23 from 4.3% in May'23, on YoY basis. Notably, this number comes at a base of 7%, which is quite a favourable one. The entire jump in CPI was driven by a 152bps increase in food inflation to 4.5% in Jun'23 from 3.0% in May'23.

Vegetables drove food inflation higher: Items such as vegetables (-0.9% from -7.9%, YoY), pulses (10.5% from 6.6%, YoY), spices (19.2% from 17.9%, YoY) and fruits (1.4% from 0.7%, YoY) have been major drivers of food inflation. Out of 12 broad categories of food inflation, 6 of them noticed inflation higher than 6%, with items such as cereals, pulses and spices remaining in double digits.

On sequential basis, cereals, protein based items such as meat and fish and eggs, vegetables, fruits and pulses have noted considerable increase in Jun'23 compared to May'23.

Going forward, with gradual progress of monsoon and arrival of fresh crops, some degree of respite might be seen. As seen historically (since FY13 onwards), H2 vegetable inflation has a tendency to come down (in 8 of the 11 episodes monitored, it has seen the same result). Thus going forward, the temporary price shock may see some respite.

BANKING | Q1FY24 Preview | 12 July 2023

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Ajit Agrawal
research@bobcaps.in

Credit growth to hold steady in Q1: Per RBI data, system credit grew 15.4% YoY over 1 Apr to 16 Jun 2023. Accordingly, we expect healthy loan growth in Q1FY24, aided by continued traction in the retail and SME segments. Corporate lending is likely to stay muted due to a slowdown in loans to midsize and large entities, offsetting strong momentum in the retail segment, particularly in the home, vehicle and unsecured (both personal and credit card) books. For FY24, we estimate systemic loan growth of 14%.

Deposit mobilisation to Improve: System deposits have grown 12.1% YoY from 1 Apr to 16 Jun 2023 vs. 9.6% YoY over 1 Jan to 24 Mar 2023, according to RBI data. We thus expect recovery in deposit mobilisation during Q1, partly aided by withdrawal of Rs 2,000 notes from circulation and a minor realignment in deposit rates. Hence, the sector's CD ratio is likely to moderate. However, term deposits are forecast to gain share in the deposit mix, resulting in a decline in CASA ratio.

Pressure on margins from a higher cost of deposits: The rise in cost of deposits coupled with a stagnant benchmark interest rate QoQ will likely push up the cost of funds and exert pressure on NIM. We project a 10-15bps decline in margin across banks barring IIB. An increase in unsecured lending should alleviate margin pressure for a few banks under our coverage.

Slippages and credit cost to remain in check: Stressed assets are likely to remain under control, but gradual utilisation of the buffer provisioning made in previous quarters is likely to add to the provisioning this quarter, leading to a minor increase in credit cost. We expect GNPA and NNPA to be stable across the board with no major asset quality shocks. A gradual shrinking of the restructured book along with a low SMA book is likely to add to a healthy asset base.

Top picks: In our view, healthy business growth will support an increase of 45%/ 53% YoY in PPOP/PAT (-2%/-6% QoQ) for our coverage universe in Q1FY24. We retain HDFCB (BUY, TP Rs 1,956), AXSB (BUY, TP Rs 1,111), IIB (BUY, TP Rs 1,550) and SBIN (BUY, TP Rs 729) as our preferred picks in the sector.

Recommendation snapshot

Ticker	Price	Target	Rating
AXSB IN	953	1,111	BUY
FB IN	135	165	BUY
HDFCB IN	1,648	1,956	BUY
ICICIBC IN	945	1,015	HOLD
IIB IN	1,381	1,550	BUY
KMB IN	1,867	2,122	HOLD
SBIN IN	589	729	BUY

Price & Target in Rupees | Price as of 11 Jul 2023

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Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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