FIRST LIGHT

19 August 2022

RESEARCH

BOB Economics Research | Banking Review Q1FY23

Financial highlights of banks

BOB Economics Research | Currency Outlook

Have tables turned?

Daily macro indicators

Indicator	16-Aug	17-Aug	Chg (%)
US 10Y yield (%)	2.80	2.9	9bps
India 10Y yield (%)	7.29	7.19	(10bps)
USD/INR	79.66	79.45	0.3
Brent Crude (US$/bbl)	92.3	93.7	1.4
Dow	34,152	33,980	(0.5)
Hang Seng	19,831	19,922	0.5
Sensex	59,842	60,260	0.7
India FII (US$ mn)	**11-Aug**	**12-Aug**	**Chg ($ mn)**
FII-D	19.9	(22.1)	(42.0)
FII-E	282.9	1,789.6	1,506.7

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: Banking Review Q1FY23

We have analysed the financial performance of 35 banks of which 12 are Public, 19 Private Sector Banks (PVBs) and 4 are Small Finance Banks. We have looked at the key indicators of profitability, margins and efficiency ratios for the consolidated groups. Growth in net interest income (NII) was higher in Q1FY23 relative to Q1FY22 due to rising interest rate regime and pick up in credit demand. Rising Gsec yields resulted in falling non-interest income due to MTM valuations. Operating profit growth remained muted for the industry as a whole. Cost to income ratio has picked up significantly across bank groups. What has been a respite is the improvement in asset quality, as seen in the GNPA ratio. This has been not only because of improved growth in advances but also GNPA amount falling significantly in Q1FY23 both for PSBs and PVBs. Salary cost to operating expenses picked up in response to Q4FY22, but still far lower in comparison to Q1FY22.

Click here **for the full report.**

India Economics: Currency Outlook

After a rather volatile period of 2 months, the global currency markets attained some semblance of stability in the first fortnight of August. The dollar had come close to the parity level and the question asked was whether this level would be broken. Intuitively the Fed hardening interest rates to slow down the economy automatically reduces the strength of the dollar and this has lent a hand to other currencies. The dollar effect which played a major role in guiding the rupee past the 80 mark, is now more moderate and we can keep watching our fundamentals for further direction.

Click here **for the full report.**

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BANKING REVIEW Q1FY23

18 August 2022

Financial highlights of banks

Dipanwita Mazumdar
Economist

We have analysed the financial performance of 35 banks of which 12 are Public, 19 Private Sector Banks (PVBs) and 4 are Small Finance Banks. We have looked at the key indicators of profitability, margins and efficiency ratios for the consolidated groups. Growth in net interest income (NII) was higher in Q1FY23 relative to Q1FY22 due to rising interest rate regime and pick up in credit demand. Rising Gsec yields resulted in falling non-interest income due to MTM valuations. Operating profit growth remained muted for the industry as a whole. Cost to income ratio has picked up significantly across bank groups. What has been a respite is the improvement in asset quality, as seen in the GNPA ratio. This has been not only because of improved growth in advances but also GNPA amount falling significantly in Q1FY23 both for PSBs and PVBs. Salary cost to operating expenses picked up in response to Q4FY22, but still far lower in comparison to Q1FY22.

Key Takeaways:

- **NII** of industry grew at a robust pace of 14.6% in Q1FY23 against 7.7% in Q1FY22. This is on account of increase in interest income to 10.2% in Q1FY23 from 3.3% decline in Q1FY22, partly because of an elevated interest rate regime and pick up in credit demand. In Q1FY23, WALR on fresh loans for SCBs rose by 31bps (7.94% from 7.63%). Interest expenditure also rose by 6.7% in Q1FY23. Notably, deposit rates of SCBs rose by 10bps in Q1FY23.

- For both PSBs and PVBs, NII rose sharply to 11.9% and 17.2% respectively, in Q1FY23 from 5.4% and 10.5% in Q1FY22.

- **Non-interest income** of PSBs fell sharply by 45.1% in Q1FY23 from 44% increase seen in Q1FY22, whereas for PVBs, it fell by 4.4% from 17.7% increase in Q1FY22. Notably, 10Y Gsec yield rose by 61bps in Q1FY23. Hence there is a risk of MTM loss and lower gains from treasury income in the rising interest rate cycle.

- **Operating Profit** of the industry declined by 8.6% in Q1FY23 from 13.7% increase seen in Q1FY22. Operating profit of PSBs fell sharply by 16.4% against 21.1% increase in Q1FY22, led by decline in operating income due to drag down in non-interest income.

- **Cost to income ratio** of the industry has increased to 51.2% in Q1FY23 from 45.9% in Q1FY22. For PSBs, the ratio rose to 54.1% from 48.7%. For PVBs, it rose to 47.8% from 42%. Higher inflation is further going to put pressure on cost to income ratio, on account of elevated operating expenses.

CURRENCY OUTLOOK

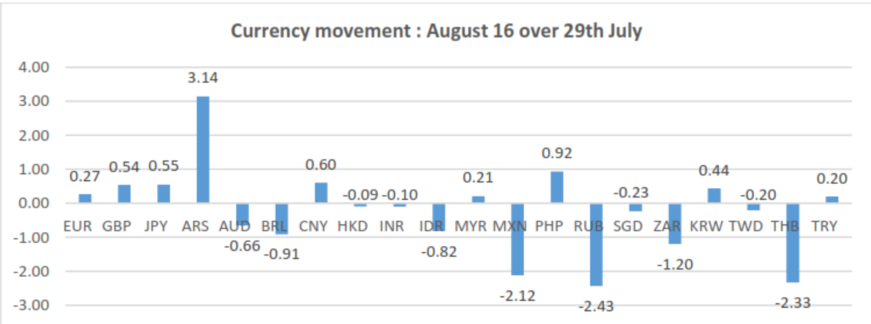
17 August 2022

Have tables turned?

Aditi Gupta
Economist

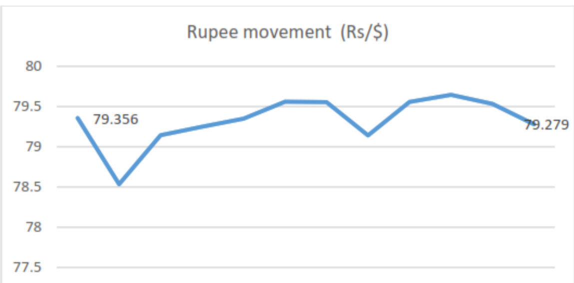
After a rather volatile period of 2 months, the global currency markets attained some semblance of stability in the first fortnight of August. The dollar had come close to the parity level and the question asked was whether this level would be broken. Intuitively the Fed hardening interest rates to slow down the economy automatically reduces the strength of the dollar and this has lent a hand to other currencies. The dollar effect which played a major role in guiding the rupee past the 80 mark, is now more moderate and we can keep watching our fundamentals for further direction.

How has this played out?



The rupee has been largely stable on a point to point basis which has been the case with other currencies too. Depreciation of above 0.5% was witnessed for the pound and yen while the euro went down by 27 bps. The Australian dollar, real, rupiah, Mexican peso, ruble, rand and baht appreciated with the ruble going up by 2.4%.

The Indian story was largely driven by the FPI movements which turned positive for equity on all days while aggregating positive for debt over this period. Hence the net inflows were positive which made up for the shortfall on trade which was impacted with imports rising faster than exports.



There was also a brief phase of the rupee appreciating as exporters rushed in to bring back their dollars which supported the currency.

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BUY – Expected return >+15%

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

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Note: Recommendation structure changed with effect from 21 June 2021

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