

RESEARCH
BOB ECONOMICS RESEARCH | GLOBAL BOND INDEX

Impact of India's inclusion in JP Morgan bond index

DIVERSIFIED FINANCIALS

Credit card spends buoyant

Daily macro indicators

Indicator	25-Sep	26-Sep	Chg (%)
US 10Y yield (%)	4.53	4.54	0bps
India 10Y yield (%)	7.15	7.14	(1bps)
USD/INR	83.15	83.24	(0.1)
Brent Crude (US\$/bbl)	93.3	94.0	0.7
Dow	34,007	33,619	(1.1)
Hang Seng	17,729	17,467	(1.5)
Sensex	66,024	65,945	(0.1)
India FII (US\$ mn)	22-Sep	25-Sep	Chg (\$ mn)
FII-D	44.3	7.6	(36.7)
FII-E	(140.5)	(166.9)	(26.4)

Source: Bank of Baroda Economics Research

SUMMARY
INDIA ECONOMICS: GLOBAL BOND INDEX

After a long wait, India was finally included in JP Morgan's global bond market index. This will be undertaken over a period of 10 months, starting from 28 Jun 2024. India's weight in the GBI-EM Global Diversified Index (GBI EM GD), is expected to reach 10% by Mar 2025. The AUM of GBI-EM-GD stands at US\$ 213bn. Additionally, India will also be included in other indices under the GBI-EM suite, with total AUM's of US\$ 236bn. We expect inflows of US\$ 20-30bn from India's inclusion in the index to begin with. In case India is also included in other indices such as Bloomberg and MSCI, inflows would be even higher. This can have a positive impact on domestic bond yields and INR in FY25, when the actual inflows materialize. However, as FPI flows tend to be volatile, it also leaves India vulnerable to greater financial sector volatility which will require regular monitoring and intervention by the RBI.

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DIVERSIFIED FINANCIALS

- Sectoral credit card spends grew at robust 27% YoY in 5MFY24; top 4 players constituted 75% share
- Cards outstanding crossed 90mn in August (17% CAGR, FY21-FY23); spends per card and per transaction also moved up
- HDFCB remains in first place (28% of sector spends), followed by SBICARD and ICICIBC

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GLOBAL BOND INDEX

27 September 2023

Impact of India's inclusion in JP Morgan bond index

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Dipanwita Mazumdar | Aditi Gupta
Economist

Introduction

India has been included in JP Morgan's global bond index-suite for emerging markets (GBI-EM). The AUMs benchmarked to the suite are worth US\$ 236bn. Of this, almost 90% is earmarked to the GBI-EM global diversified index (GBI-EM GD), in which India is expected to have a weight of 10%. Only two other countries i.e. China and Indonesia have a weight of 10% in this index, and their weights have been kept unchanged. While their weightage in the index will see some reduction, Mexico, Malaysia and Brazil still have a weight of ~9% in the index. To accommodate India, Thailand, South Africa and Poland will see the most sizeable decline in their weightage in the index.

It must be noted that India had made remarkable progress in promoting foreign participation in the domestic market due to which India was put on the index positive watch. Some of these measures included introduction of fully accessible route (FAR) for investment in G-sec markets. A total of 23 Indian government bonds (IGBs) under the FAR are eligible with a notional value of Rs 27 lakh crores or US\$ 330bn. Furthermore, the inclusion will take place over 10 months starting from Jun'24, at the rate of 1% per month over this period.

How much debt inflows are expected?

India is expected to receive about US\$ 20-30bn index related inflows. While a major part of these inflows will come directly from India's 10% weight in the GBI-EM index, there might be additional inflows due to higher interest in government securities by foreign investors.

Despite government reforms, ownership pattern of government securities shows that the share of FPIs still remains negligible. The debt utilization statistics also show that the utilization rate by foreign investors is considerably lower.



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Robust growth over Apr-Aug: India's credit card spending has risen 27% YoY to Rs 7tn in FY24 YTD (Apr-Aug'23), with the top 4 players holding over 75% of the market compared to 73.8% in the year-ago period. Axis Bank (AXSB: +325bps YoY) gained the most market share, HDFC Bank (HDFCB: -15bps) and SBI Card (SBICARD: +23bps) held firm, and ICICI Bank (ICICIBC: -190bps) ceded the most ground.

Expect a bumper festival season: Last year, the three big festive months surrounding Diwali, Christmas and Independence Day clocked 3-8% higher card spends than the FY23 monthly average, and we anticipate similar momentum this year as well.

Receivables post strong growth: Aggregate receivables (loans on balance sheet) grew 36% YoY to Rs 2.1tn in Q1FY24. Loans as a percentage of spends have fallen from 21% in FY21 to 13.5% in FY23 and 12.7% at the end of June. SBICARD, the only listed pure-play credit card business, has shown a similar trend in loans-to-spends ratio. Revolver accounts in the receivables mix were low compared to pre-Covid levels and the focus remains on tapping customers who avail of EMIs.

Momentum in cards outstanding continues...: Credit cards outstanding have logged a brisk 17% CAGR over FY21-FY23 to 85.3mn and climbed further to 91.2mn in August. We had pointed to the likelihood of **volatility due to the new RBI standards** effective July last year that mandated card closures in certain instances. Post implementation, the number of cards outstanding had decreased from 78.7mn at the end of Q1FY23 to 77.7mn at end-Q2. However, from Q3 onward, we have seen a net positive QoQ performance for the sector, including for the top 4 players.

...with monthly spends climbing steadily: Monthly purchases per card and spends per transaction have both shown a consistent increase since FY21. During FY24 YTD, two of the top four players – HDFCB and ICICIBC – have reported industry-beating average monthly spends per card, whereas HDFCB and SBICARD outpaced the sector average on spends per transaction.

Recommendation snapshot

Ticker	Price	Target	Rating
SBICARD IN	786	1,011	BUY

Price & Target in Rupees | Price as of 26 Sep 2023



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Note: Recommendation structure changed with effect from 21 June 2021

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