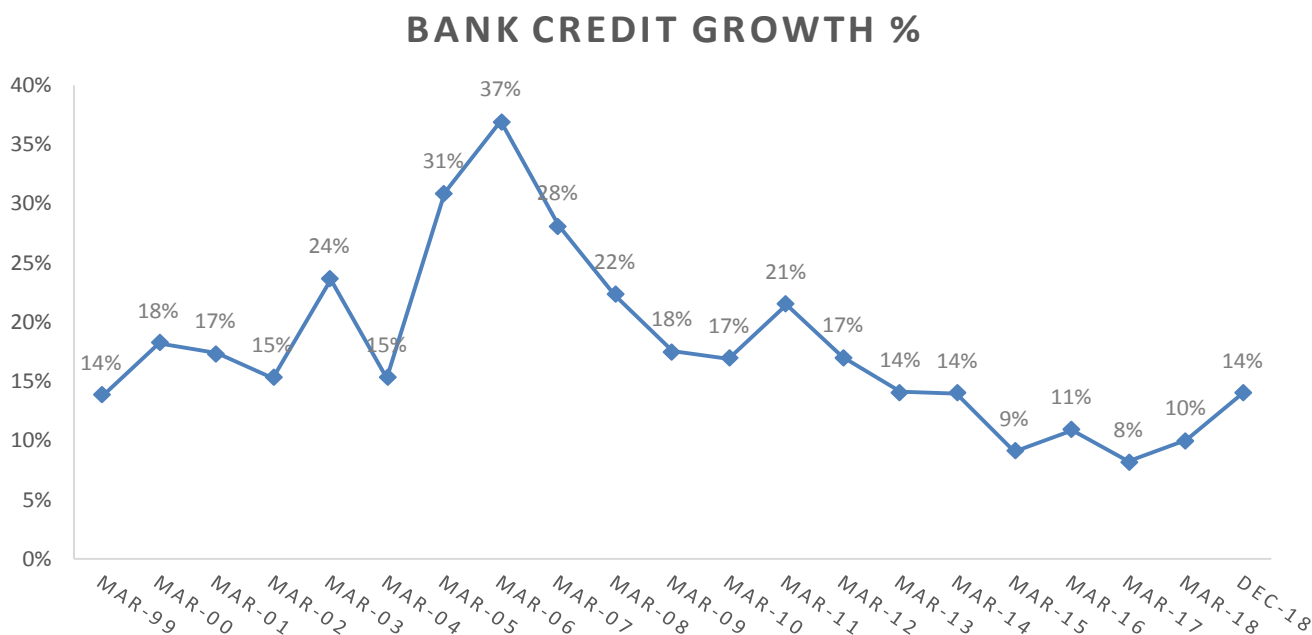


## Is Industry Credit Growth On The Cusp Of Reviving?

- ❑ Credit growth for the banking industry (SCBs) of last 20 years can be broadly categorised into 3 phases- 1st phase (1999-04), 2nd phase (2005-11), 3rd phase (2012-18).
- ❑ 1st phase can be defined as consolidation phase where the credit growth compounded at nearly 17%. Notable is that the whole industry was struggling with mounting NPA which was at 14.7% in FY99. The industry started to recover from NPAs towards the end of phase 1 period.
- ❑ 2nd phase can be classified as booming of bank credit which grew at a CAGR of 25% with improving assets quality.
- ❑ 3rd phase can be defined as declining period where the credit growth for the industry grew at slower pace of 12% CAGR. After the global crisis in 2009, the stress assets started stemming in the country which led the slow down in the growth and FY18 may be classified as the peak of NPA.
- ❑ Recent data by RBI shows some uptick in credit growth. In Dec 2018, the growth has been reported at 14%.

### Exhibit 1: Banks (SCBs) Credit Growth

*Lates data by RBI signals improving credit growth*



Source: RBI, NFAL

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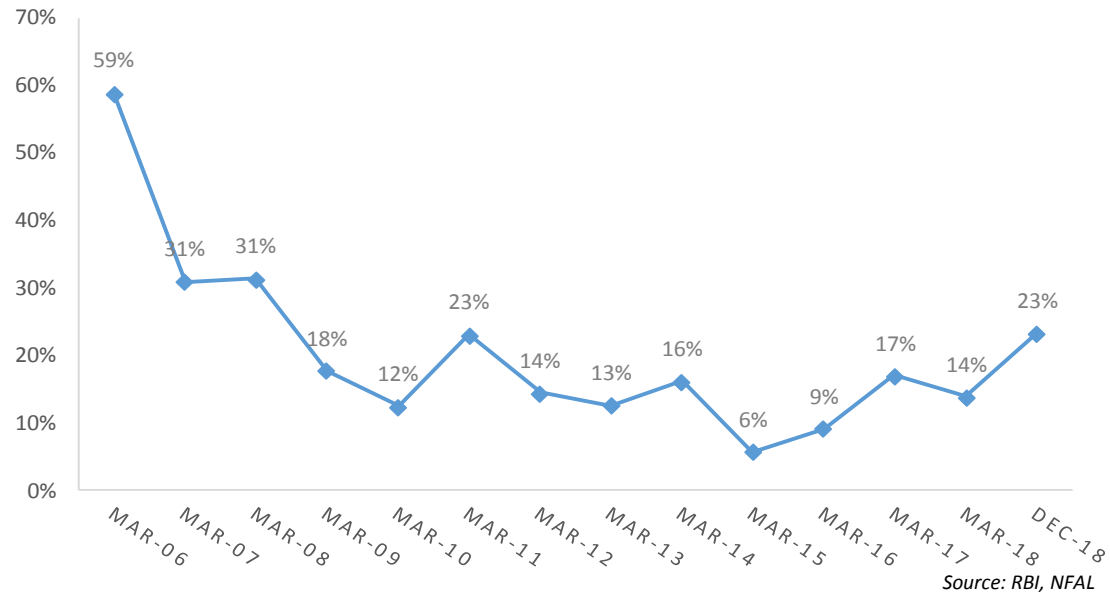
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## Exhibit 2: Credit Growth to Services Sector

Services Constitutes 27% of the overall credit and remains one of the key growth driver in recent years.

### SERVICES CREDIT GROWTH

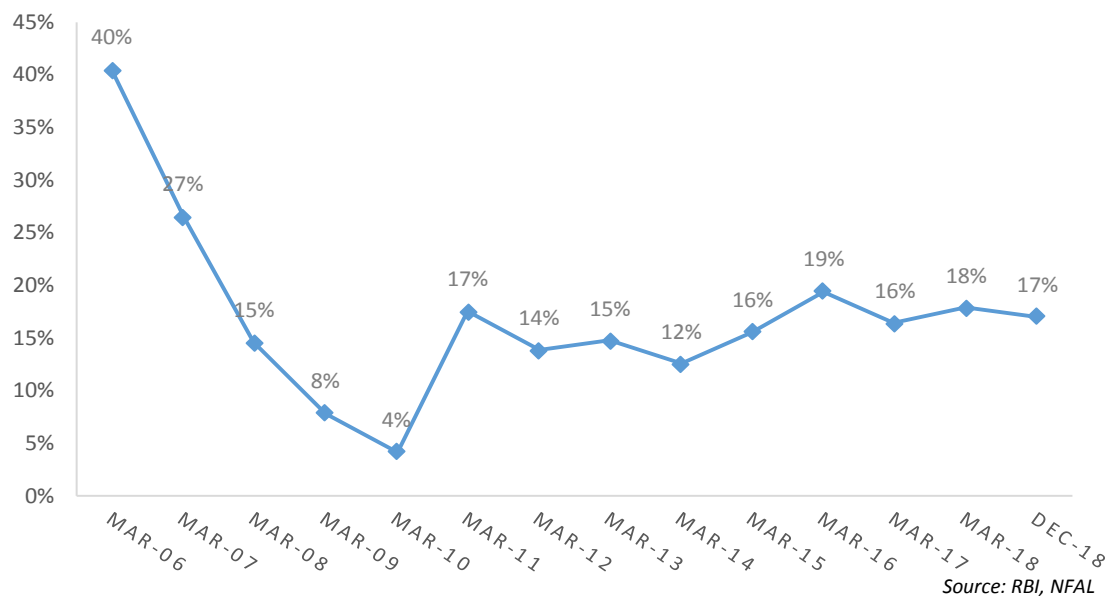


Data from RBI reveals that credit growth to services sector also contributed in the booming period of banking industry. The latest data shows 23% credit growth in 3Q FY19 led by surge in loans given to NBFC sector. Services sector constitute 27% of the overall credit in 3Q FY19 against 20% in FY05.

## Exhibit 3: Credit Growth to Personal (Retail) Sector

Retail growth has also been the key engine for overall credit growth and constitutes 26% of the overall credit to the system.

### PERSONAL CREDIT GROWTH

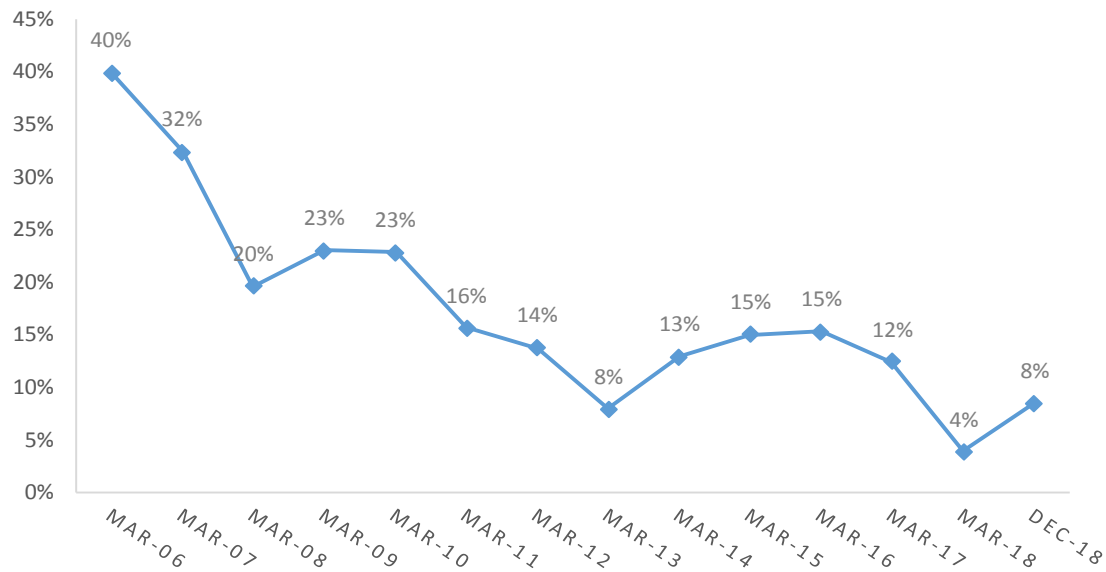


Personal (retail) credit growth has also been the key drive for the industry loan growth during the 3rd phase. The retail growth has been largely supported by housing loan and unsecured PL/credit card in recent times.

## Exhibit 4: Credit Growth to Agriculture Sector

*Agri credit has been continuously under performing*

### AGRICULTURE CREDIT GROWTH



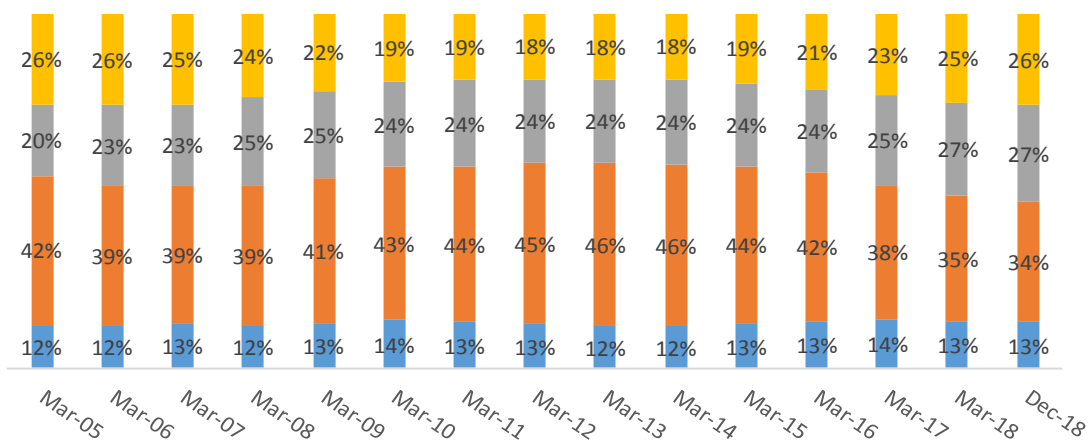
Source: RBI, NFAL

## Exhibit 5: Composition of Credit

*Credit to industry has shrunk from 42% in FY05 to 34% 3Q FY19 whereas the gain was led by services sector from 20% to 27% during the same period.*

### Credit Composition %

■ Agriculture ■ Industry ■ Services ■ Personal Loans



Source: RBI, NFAL

## Credit To Industry Growth Showed Sign Of Revival

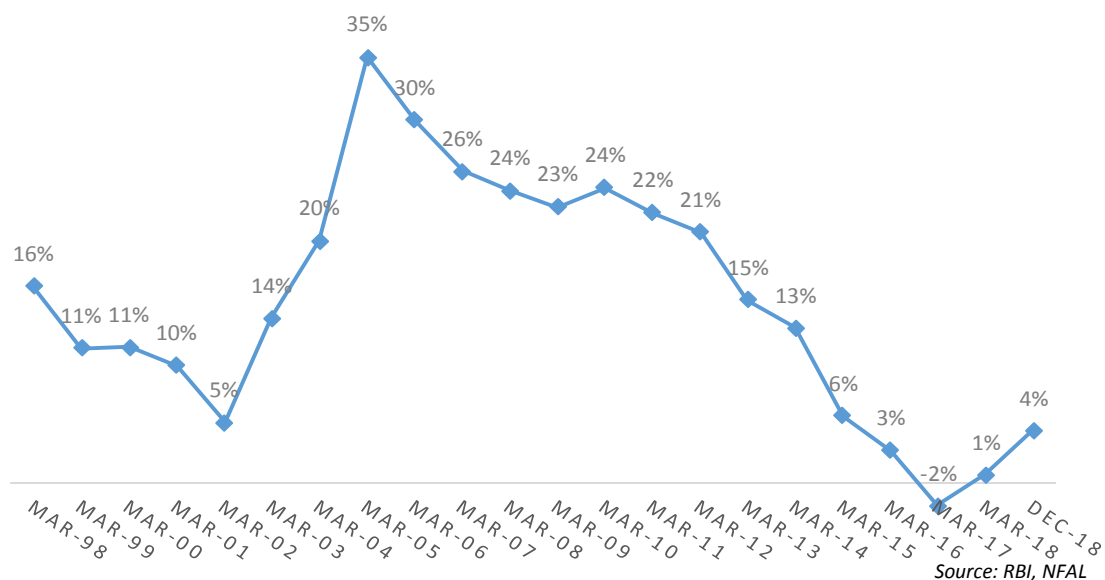
Credit to industry/corporates has declined continuously since FY12 and even reached to the negative growth of 2% FY17. Share of credit to industry is at 34% currently which declined from 46% in FY13. The data shows that the boom in the overall credit growth during the phase 3 was led by growth in industry credit which has the highest weight on the overall credit.

The manufacturing capacity utilization data shows the direct relationship with credit growth to industry. Capacity utilization (CU) above 75% level signals optimism for industry credit growth. When capacity utilization was hovering around 80%, credit growth of the industry started to increase and when CU started to decline, the growth of industry credit also declined. Now the latest data by RBI shows some optimism in CU which reached to 74.8% in 2Q FY19 whereas credit growth to industry also started to improve.

### Exhibit 6: Credit to Industry Sector

*Credit to industry growth seems to bottom out*

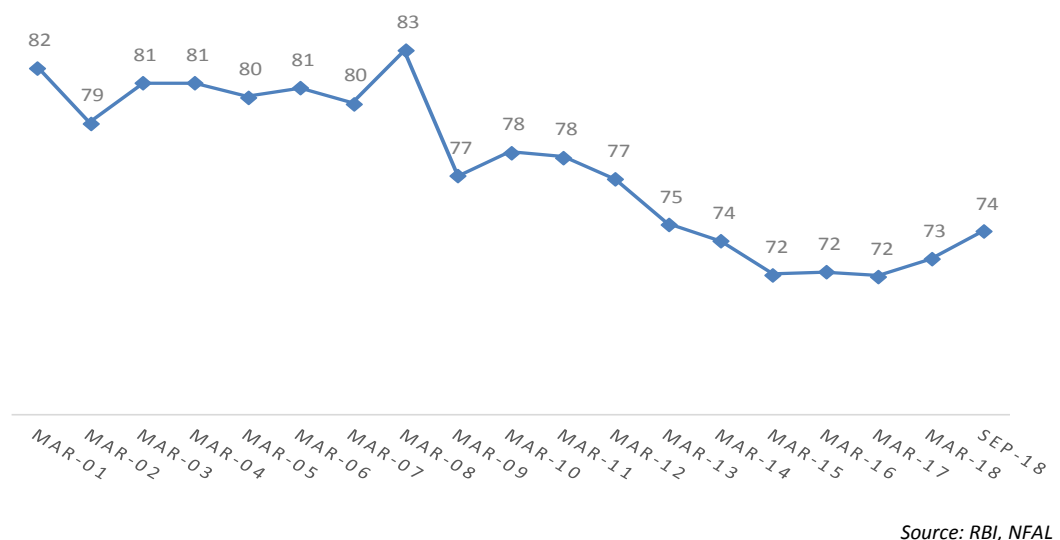
#### CREDIT TO INDUSTRY GROWTH



### Exhibit 7: Manufacturing Capacity Utilization

*Latest Data by RBI shows improvement in manufacturing capacity utilization*

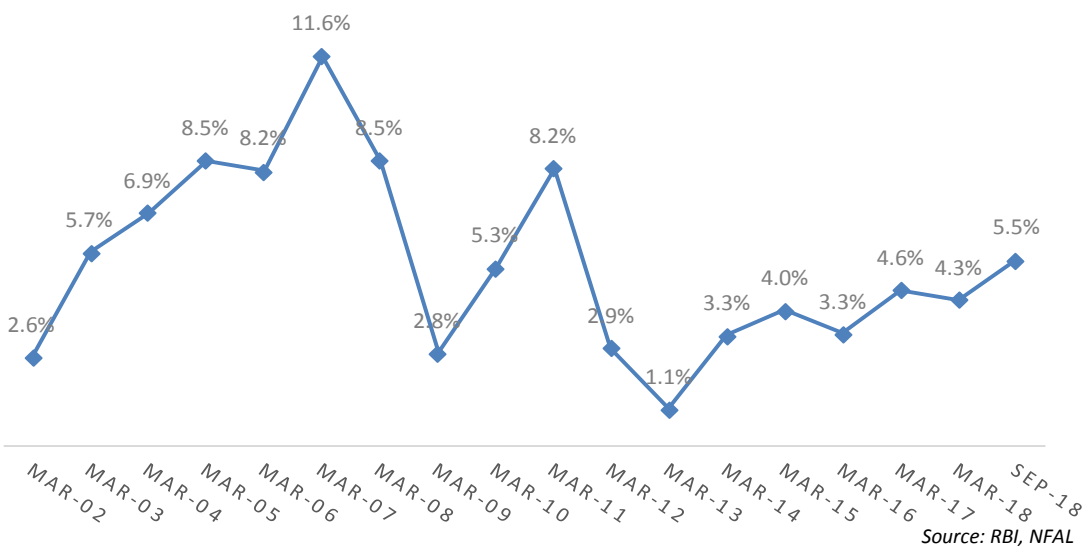
#### MANUFACTURING CAPACITY UTILIZATION



## Exhibit 8: Index Of Industrial Production (IIP)

IIP growth gradually improving

### IIP GROWTH %



## Exhibit 9: DEPLOYMENT OF BANK CREDIT BY MAJOR SECTORS

BANK CREDIT BY MAJOR SECTORS	Dec/17	Mar/18	Sep/18	Dec/18	YoY Gr%	YTD Gr%
<b>Non-food Credit</b>	<b>72393</b>	<b>76884</b>	<b>79774</b>	<b>81642</b>	<b>13%</b>	<b>6%</b>
<b>Agriculture &amp; Allied Activities</b>	<b>9981</b>	<b>10302</b>	<b>10544</b>	<b>10821</b>	<b>8%</b>	<b>5%</b>
<b>Industry</b>	<b>26341</b>	<b>26993</b>	<b>27016</b>	<b>27494</b>	<b>4%</b>	<b>2%</b>
>> Micro & Small	3683	3730	3638	3650	-1%	-2%
>> Medium	957	1037	1053	1046	9%	1%
>> Large	21701	22226	22326	22798	5%	3%
<b>Services</b>	<b>18119</b>	<b>20505</b>	<b>22014</b>	<b>22330</b>	<b>23%</b>	<b>9%</b>
>> Transport Operators	1152	1213	1267	1303	13%	7%
>> Professional Services	1422	1554	1618	1717	21%	10%
>> Trade	4406	4669	4815	4860	10%	4%
>> Commercial Real Estate	1825	1858	1847	1899	4%	2%
>> NBFCs	3682	4964	5467	5709	55%	15%
<b>Personal Loans</b>	<b>17952</b>	<b>19085</b>	<b>20200</b>	<b>20997</b>	<b>17%</b>	<b>10%</b>
>> Housing	9362	9746	10502	10966	17%	13%
>> Credit Card	642	686	789	845	32%	23%
>> Vehicle Loans	1831	1898	1954	1992	9%	5%
>> Other Personal Loans	4617	5080	5431	5714	24%	12%

Source: RBI, NFAL

**Exhibit 10: Advances and Advances Growth of Coverage Company**

(Rs in Crore)

NAME	FY12	FY13	FY14	FY15	FY16	FY17	FY18	CAGR FY12-18	FY19E	FY20E	CAGR FY18-20e.
AXISBANK	169760	196966	230067	281083	338774	373069	439650	17%	505598	606717	17%
BANKBARODA	287377	328186	397006	428065	383770	383259	427432	7%	482998	555448	14%
BANKINDIA	248833	289367	370734	402026	359189	366482	341380	5%	331139	364253	3%
CANBK	232490	242177	301067	330036	324715	342009	381703	9%	427507	470258	11%
CUB	12137	15246	16097	17966	21057	23833	27853	15%	32866	38782	18%
DCBBANK	5284	6586	8140	10465	12921	15818	20337	25%	25014	31268	24%
FEDERALBANK	37756	44097	43436	51285	58090	73336	91957	16%	113107	139122	23%
HDFCBANK	195420	239721	303000	365495	464594	554568	658333	22%	803166	963800	21%
ICICBANK	253728	290249	338703	387522	435264	464232	512395	12%	589255	677643	15%
INDUSINDBK	35064	44321	55102	68788	88419	113081	144954	27%	186991	231868	26%
KARURVYSYA	23949	29480	33992	36109	39084	40908	44800	11%	46816	53370	9%
RBLBANK	4132	6376	9835	14450	21229	29449	40268	46%	53959	70147	32%
SBIN	867579	1045617	1209829	1300026	1463700	1571078	1934880	14%	2147717	2405443	11%
SOUTHBANK	27281	31816	36230	37392	41086	46389	54563	12%	62202	70910	14%
UNIONBANK	177882	208102	229104	255655	267354	286467	288761	8%	297424	321218	5%
YESBANK	37989	47000	55633	75550	98210	132263	203534	32%	244241	293089	20%

**Exhibit 11: Valuation and Return Ratios of Our Coverage Companies**

NAME	RECO.	TARGET (Rs)	ROE			ROA			P/B		
			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
AXISBANK	Buy	740	0.46	8.57	16.46	0.04	0.77	1.44	2.06	2.64	2.26
BANKBARODA	Under Review		(5.81)	5.64	11.03	(0.34)	0.33	0.63	0.87	0.59	0.53
BANKINDIA	Buy	111	(17.77)	(14.42)	7.08	(0.98)	(0.89)	0.47	0.51	0.55	0.51
CANBK	Buy	307	(12.19)	3.77	10.29	(0.70)	0.21	0.55	0.54	0.43	0.39
CUB	Accumulat	214	15.31	15.31	16.27	1.57	1.59	1.66	2.74	2.71	2.33
DCBBANK	Neutral	171	9.79	11.00	13.19	0.90	0.97	1.06	1.77	1.82	1.61
FEDERALBANK	Buy	112	8.31	9.88	12.56	0.69	0.84	0.98	1.48	1.22	1.09
HDFCBANK	Buy	2464	17.87	16.76	17.13	1.81	1.85	2.00	4.62	3.90	3.43
ICICBANK	Buy	445	6.61	4.43	13.00	0.82	0.52	1.48	1.70	2.06	1.84
INDUSINDBK	Neutral	1611	16.21	15.46	18.87	1.80	1.60	1.85	4.52	3.26	2.75
KARURVYSYA	Buy	85	6.12	3.67	10.33	0.54	0.34	0.91	1.17	0.85	0.80
RBLBANK	Neutral	579	11.53	12.50	16.02	1.15	1.26	1.41	2.99	3.25	2.81
SBIN	Buy	348	(3.04)	2.67	13.29	(0.19)	0.17	0.82	1.02	1.06	0.93
SOUTHBANK	Buy	16	6.64	4.44	11.13	0.43	0.27	0.64	0.79	0.45	0.41
UNIONBANK	Neutral	85	(21.62)	3.70	8.79	(1.12)	0.19	0.48	0.44	0.31	0.29
YESBANK	Under Review		17.67	15.95	18.81	1.60	1.30	1.53	2.73	1.80	1.53

- ❑ We expect credit growth to improve going ahead and among our coverage universe our top picks are AXIS Bank, ICICI Bank, Federal Bank, SBIN and HDFC Bank.

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