

BofA India Loan Growth Indicator

System growth to settle safely around 13% levels

Industry Overview

BofA India Loan Growth Indicator – updated till Oct’23

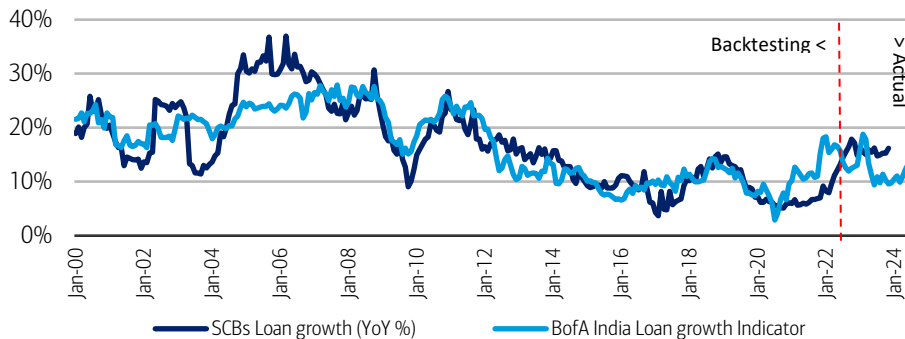
We update BofA India Loan Growth Indicator for input data available till Nov’23, which allows us to anticipate SCB loan growth till Jul’24 (our indicator has an eight-month lead). The BofA indicator suggests some normalization through Mar’24 and a gradual pick up around Jun-Jul’24. This means that new normal growth for FY25 would be slightly higher at ~13% level vs historical avg growth of ~11%. Core drivers for credit growth continues to be supportive – healthy PMI, elevated inflation, stable lending rates, robust auto sales etc but tightening system liquidity remains an ongoing concern.

CY24 – tailwinds from lower real rates in 2H

We expect system loan growth of 12-14% in CY24 with big private banks growing faster at 16-18% YoY. This is likely to be driven by healthy macro-economic conditions and strong B/S of banks allowing them to continue the lending streak with upside from pick up in private capex cycle. PSBs have started seeing improvement in loan utilization and pick up in capex execution by private sector. The key downside risk to credit growth could be from tightening liquidity – banks took another round of rate hike for wholesale FDs and certificate of deposits volume is at decade high in Dec’23. Higher rates have not deterred growth so far – lower real rates could become a tailwind soon.

Exhibit 1: BofA India Loan Growth Indicator –

Loan growth indicator suggests normalized growth to 10-11% in FY24 but pick up from Apr’24



Source: BofA Global Research Estimates, RBI, Bloomberg

The Scheduled Commercial Banks (SCBs) Loan growth is the reported monthly data obtained from the Reserve Bank of India.

The portion of chart left of red dotted line represents back tested data through May 2022. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein. The BofA India Loan Growth Indicator is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

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16 January 2024

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[India Banks Macro Watch: Credit growth continues to defy tight liquidity + mixed drivers 15 January 2024](#)

SCB – Schedules Commercial Banks

PSB – Public Sector Bank

IIP – Index of Industrial production

PMI – Purchasing Managers’ Index

WPI – Wholesale Price Index

MCLR – Marginal cost of funds-based production

PLR – Prime lending rate

HDFC – HDFC Bank

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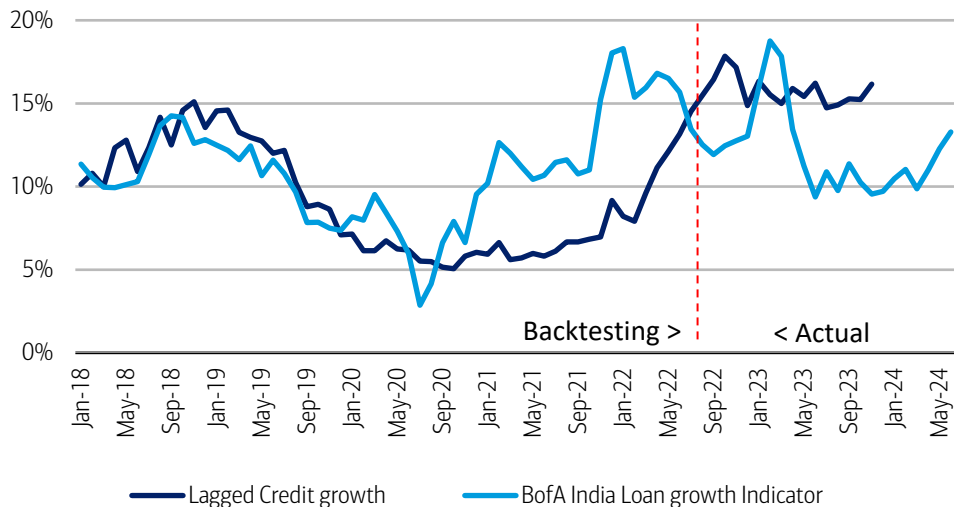
BofA India Loan Growth Indicator

Quick overview – how to read indicators?

BofA India Loan Growth Indicator seek to identify directional trends and key turning points for loan growth in India with a lead time of 8 months. The indicator helps gauge how loan growth would shape up in next few quarters. The indicator uses 6 equal-weighted inputs tracking overall performance of economy. These 6 variables can be classified under (1) Rates & prices – 10 yr Government bond yield (%), SBI MCLR (%), (2) Income – Real wage rate growth (%), (3) Inflation – WPI (%), (4) System Liquidity – M3 growth/WPI (%) and (5) Business activity – IIP (%).

Exhibit 2: BofA India Loan Growth Indicator – suggesting steady loan growth of 10-11% in FY24

Actual credit growth showing diversion from predicted loan growth as per BofA loan growth indicator



Source: BofA Global Research

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Exhibit 3: Heat map - Inputs

4 out of 6 inputs have turned positive; credit growth showing upward trend from Apr'24

S. No.	Factor	Direction	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23
1	10 year G-Sec Yield	+	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
2	SBI lending rate	-	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
3	WPI	+	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
4	Real wage growth	+	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
5	IIP	+	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
6	M3 adj growth	+	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	SCBs Loan growth		Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	Our Loan growth Indicator		Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green

Source: BofA Global Research, RBI, Bloomberg

Red indicates that the component is contributing to incremental weakness in the indicator. Green indicates the component is contributing to incremental strength in the indicator.

'Direction' column indicates how the movement of the factor will impact the predicted growth

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Input Variables

Exhibit 4: Summary of inputs used for India Loan growth indicator

We have selected 6 macro variables that could help anticipate credit growth trend

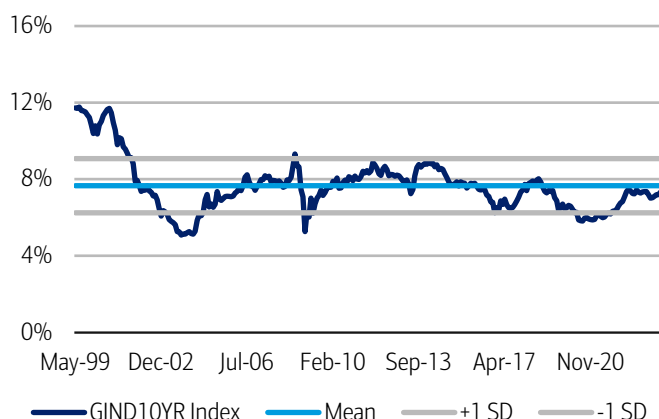
S.no.	Variable	Frequency	Source	Adjustment
1	India Govt. Bond Generic 10 Year Yield	Daily	Reserve Bank of India	None (used the month end value for monthly series)
2	State Bank of India Prime Lending Rate (PLR) and Marginal Cost of Funds based Lending Rate (MCLR)	Steady till revised	State Bank of India	From May 1999 to March 2016, used the SBI PLR. From April 2016, the adjusted MCLR (PLR + change in MCLR)
3	Wholesale Price Index (WPI) Combined	Monthly (14 th of next month)	MOSPI (NSO), CMIE	Used the WPI base 2004-05 from May-99 to Dec-11, base of 2012 from Jan'12 to Sep'20, base of 2020 from Sep'21 onwards.
4	Real wage growth	Monthly	Labour Bureau, Reserve Bank of India (DBIE)	The average of Agricultural wage growth and non-agri wage growth minus the CPI-IW series; CPI-IW data is not available for Sep'20-Sep'21, so, we are using Sep'20 data till Aug'21.
5	Index of Industrial Production (IIP)	Monthly (with a lag of 1 month on 12 th of next month)	MOSPI (NSO)	3-month rolling average used. From May-99 to Mar-12 is IIP base year 2004-05. From April-12 onwards, the new IIP (base year 2011-12)
6	Broad Money (M3) growth	Monthly (fortnight after month end)	Reserve Bank of India (DBIE)	Adjusted the M3 growth with Wholesale Price Index (WPI) to arrive at the inflation adjusted M3 growth

Source: BofA Global Research

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Exhibit 5: 10Y Government bond yield (%) – May'99- Oct'23

Government bond yield has moderated slightly from Jun-Jul level but stable

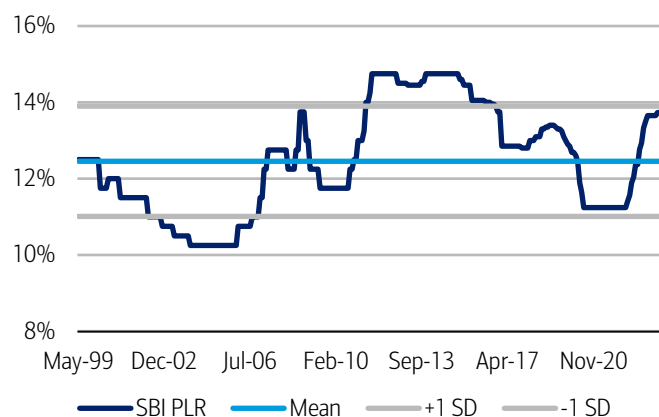


Source: BofA Global Research, Bloomberg

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Exhibit 6: SBI PLR (%) - May'99- Oct'23

SBI lending rate has stabilized at a higher level

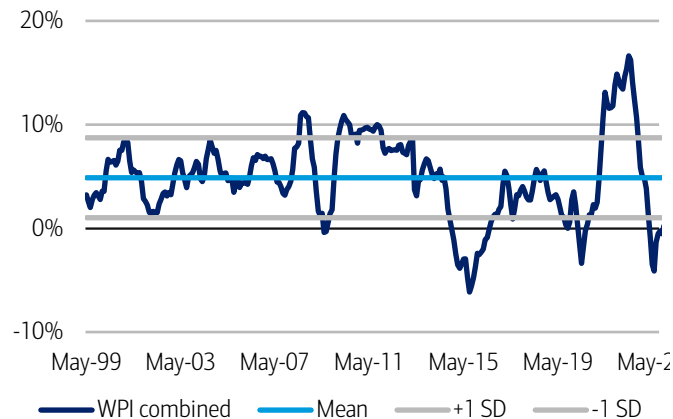


Source: BofA Global Research, RBI, SBI website

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Exhibit 7: WPI (%) - May'99- Oct'23

WPI at -5% in Aug'23



Source: BofA Global Research, RBI, Bloomberg

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Exhibit 8: Real wage rate growth (%) - May'99- Oct'23

Real wage growth rate turned marginally negative

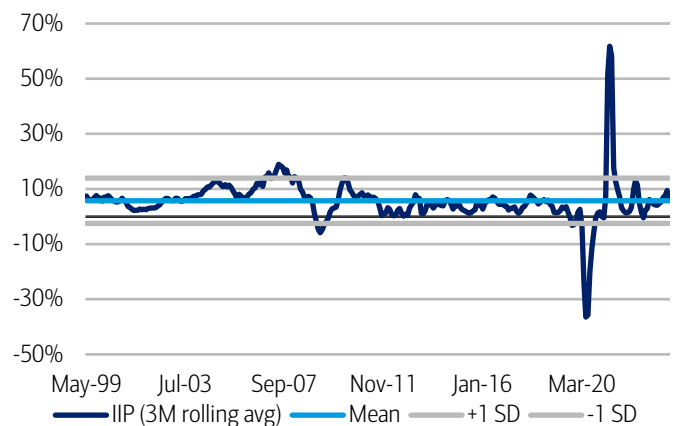


Source: BofA Global Research, RBI, Bloomberg

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Exhibit 9: IIP (3M rolling avg) (%) - May'99- Oct'23

IIP recovered in last 3 months and is now close to long term mean

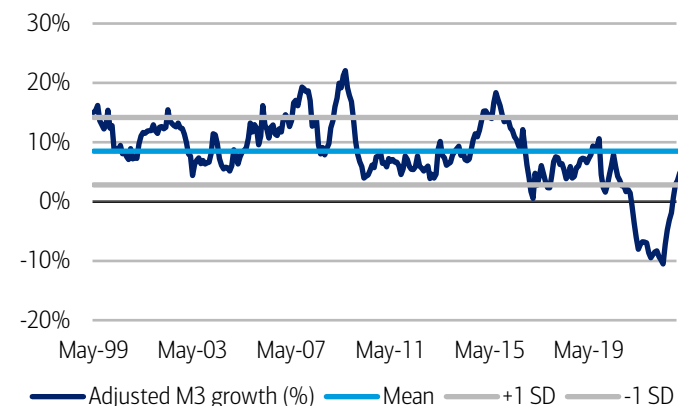


Source: BofA Global Research, RBI, Bloomberg

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Exhibit 10: Adjusted broad money (M3) growth (%) - May'99- Oct'23

Adj. M3 growth has been improving in last few months



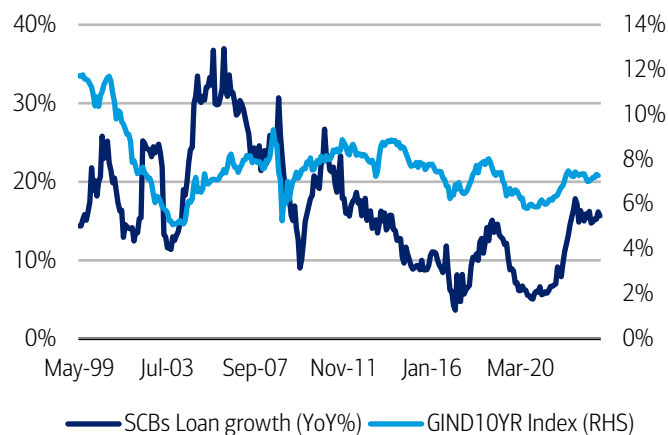
Source: BofA Global Research, RBI, Bloomberg

Note - Adjusted M3 growth is calculated as $((1 + \text{M3 growth YoY}) / (1 + \text{WPI})) - 1$

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Exhibit 11: SCB loan growth (%) vs 10 yr govt bond (%)

Positive but low correlation of 22%

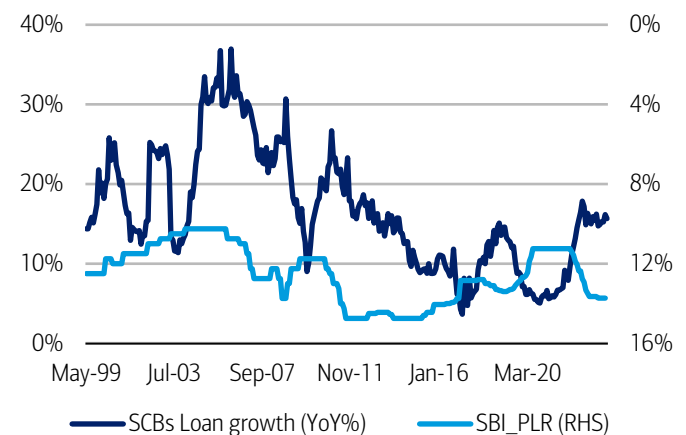


Source: BofA Global Research, RBI, Bloomberg

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Exhibit 12: SCB loan growth (%) vs SBI PLR (%)

Negative correlation of 34%

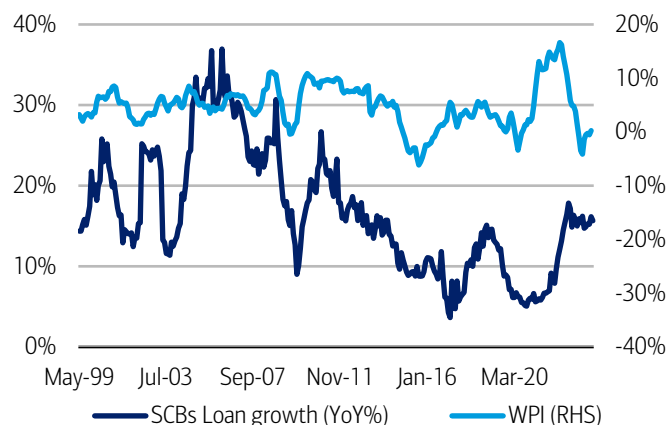


Source: BofA Global Research, RBI, Bloomberg

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Exhibit 13: SCB loan growth (%) vs WPI (%)

Positive correlation of 28%

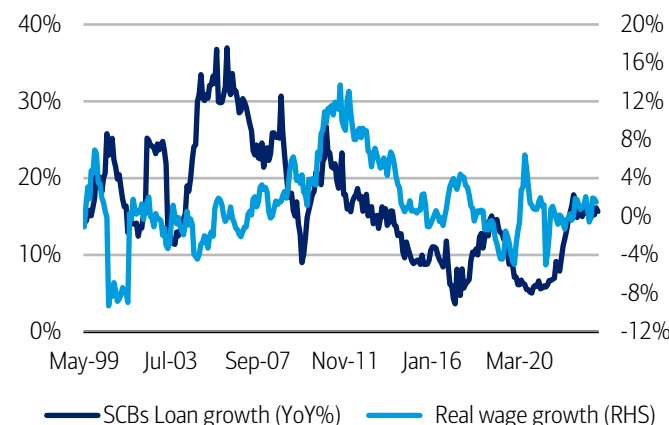


Source: BofA Global Research, RBI, Bloomberg

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Exhibit 14: SCB loan growth (%) vs Real wage growth (%)

Negative correlation of 5%

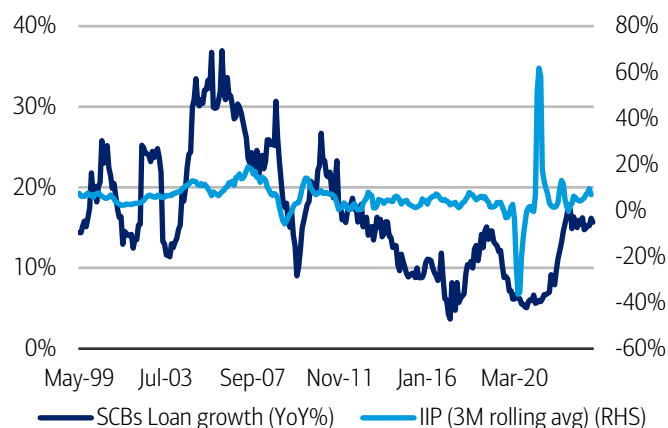


Source: BofA Global Research, RBI, Bloomberg

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Exhibit 15: SCB loan growth (%) vs IIP-3M rolling avg (%)

Positive correlation of 28%



Source: BofA Global Research, RBI, Bloomberg

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Exhibit 16: SCB loan growth (%) vs Adjusted M3 growth (%)

Positive correlation of 38%



Source: BofA Global Research, RBI, Bloomberg

Note – Adjusted M3 growth is calculated as $((1 + \text{M3 growth YoY}) / (1 + \text{WPI})) - 1$

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There could also be a risk of Scheduled Commercial Banks (SCBs) losing market share to Non-Banking Financial Companies (NBFCs) in the future. This would reduce the importance of loan growth in SCBs as indication for earnings growth for Indian banks, and of aggregate economic activity in itself.

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^{R1} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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