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Economic Round-up: February 2024

Markit global manufacturing PMI data reveals divergence in global growth. Activity in Feb'24 improved in major economies like India, US, China and Brazil, while it continued to contract in UK, Eurozone and Japan. With slower than anticipated moderation in the US economy, uncertainty around the timing and quantum of Fed rate cuts has increased. As core PCE increased to 0.4% in Jan'24 (0.1% in Dec'23), price pressures in services sector still remain. However, as more indicators (retail sales, labour market, consumer confidence, home sales) have begun showing some softening at the start of Q1CY24, there exists ~62% chance of rate cut by Fed in Jun'24. In Eurozone, a rate cut is expected to come in earlier (Apr'24) in the wake of faltering growth. ECB had expected 0.6% growth in CY23, but it came in flat (0%). Contraction in German economy (-0.3% in CY23) was a major drag. In China as well, economic growth remains fragile, as official manufacturing PMI indicates that large industries continue to underperform (compared with smaller export oriented companies covered in Markit survey). Real estate remains under stress with sales declining steeply despite muted home prices. Surprise rate cut in 5Y LPR by PBOC is a step in providing stimulus to this sector and growth.

Global growth: After entering CY24 on a stronger footing, US economy is showing signs of moderation at the start of CY24 with dip in home sales, retail sales, consumer confidence and increase in jobless claims. On the other hand, Eurozone and China's economies are struggling to stabilize. Continued contraction in manufacturing activity remains a cause of concern. However, improvement in price scenario and hopes of dovish stance by respective Central Banks is expected to provide stimulus to growth in H2CY24. Domestically, Indian economy appears to be on a much stronger footing, supported by government consumption and investment.

Global Central Banks: In Jan/Feb'24, US Fed, ECB, BoE, and BoJ continued to keep their respective rates on hold. Softer than expected slowdown in US economy and build-up in price pressures (PCE) has led to Fed officials pushing back on rate cut expectations. As a result, now markets expect Fed's 1st rate cut in Jun'24 instead of May'24. ECB officials have also signalled that the rate cut cycle will only begin when inflation inches closer to their 2% target level. However, with slowdown in growth momentum investors are expecting a rate cut in Apr'24. In Feb'24, PBOC surprised the markets with 25bps reduction in 5Y LPR (1st since CY19), in order to support their ailing real estate sector. More support measures are expected in the coming months.

Key macro data releases: According to NSO, **India's GDP growth** for FY24 under the second advance estimates will be 7.6% (revised upwards from 1st Advance Estimates) against a growth of 7.3% in FY23. The nominal GDP growth is pegged at 8.9% in F Y24 lower than 10.5% in budget estimations. Industries is expected to drive growth in FY24 led by strong improvement in both mining and manufacturing sector. Agriculture sector remain a cause of concern as it is expected to register much slower growth of 0.7% (4.7% in FY23).

CPI inflation moderated to 5.1% in Jan'24 from 5.7% in Dec'23, on YoY basis. However, the print was slightly higher than market consensus of 5% and considerably higher compared to our estimate of 4.7%. Consumer food price index came in at 8.3% in Jan'24 from 9.5% in Dec'24, on YoY basis. Core CPI (excl. food and fuel) has moderated further to 3.6%. Except education, all broad sub components of core noticed a drop in inflation in Jan'24.

Global developments

Global growth: Beginning of slowdown?

US GDP growth in Q4CY23 has been revised slightly lower to 3.2% from 3.3% estimated earlier, on account of downward revision to private inventory investment. Change in headline print was only minor, as downward revisions were offset by upward revisions to government and private consumption expenditure. However, at the start of Q1CY24, the economy is showing some signs of moderation. For instance, retail sales had fallen by (-) 0.8% in Jan'24, following 0.4% increase in Dec'23. The drag was led by motor vehicles & parts, electronic & appliances, and health & personal care stores. Home sales in Jan'24 too declined, by (-) 1.5% to 661k units, from 651k units sold in Dec'23. Even existing home sales, which account for bulk of the sales, fell by (-) 4.9%. Elevated 30Y fixed mortgage rate which increased from 6.61% at the end of Dec'23 to 6.69% by the end of Jan'24, could be key reason for stress in real estate sector. Repeated statements by Fed officials signalling that rate cuts cannot be expected to begin in H1CY24 has led to increase in market rates (both fixed rate mortgage and treasury yields). Weakness in labour market and consumer confidence is leading to anticipation of Fed rate cut in Jun'24. Initial jobless claims for the week ending 24 Feb 2024 rose to 215k from 202k in the previous week. Continuing claims at 1.88mn are at the highest level since 11 Dec 2021 (1.89mn). Consumer confidence in Feb'24 moderated to 106.7 from 110.9 in Jan'24, dragged by both expectations and present situation index.

Eurozone's manufacturing PMI showed that while activity continues to remain weak, the pace of deterioration softened in Feb'24, as index settled at 46.5 compared with 46.6 in Jan'24. The drag mainly came from its largest economy—Germany where the index declined to 4-month low of 42.5 from 45.5 in Jan'24. In comparison, pace of contraction eased in France and Italy eased as the index moved up to 47.1 (43.1 in Jan'24) and 48.7 (48.5 in Jan'24), respectively. In Germany, the decline was led by sharp fall in new orders and employment. In Feb'24, Germany IFO survey data revealed that while the current situation index remained unchanged from the previous month at 86.9, expectation index moved up (84.1 versus 83.5) signalling optimism. This also helped the headline IFO index to inch up to 85.5 in Feb'24 from 85.2 in Jan'24. However, the expectation is that growth will settle at lower levels (instead of contraction in activity). German government has also lowered its growth forecast for CY24 to 0.2% from 1.3% predicted earlier. This is expected to have an impact of overall growth in Eurozone.

China's official manufacturing PMI inched down in Feb'24 to 49.1 from 49.2 in Jan'24, reflecting the impact of Lunar New Year holiday season. The dip was due to steeper decline in new export orders (index at 46.3 versus 47.2). On the other hand, supported by holiday season, non-manufacturing PMI performed better as the index improved to 51.4 from 50.7 in Jan'24. Other macro data presents a mixed picture of the economic conditions. For instance, while travel data was strong in Feb'24, real estate sector continues to languish. Home prices remain broadly unchanged (MoM basis) with 0.14% growth in Feb'24 versus 0.15% growth in Jan'24. Further, a survey shows that total sales by value for 100 real estate companies fell by (-) 51.6% in Jan-Feb'24 on YoY basis. To support the real estate sector PBOC has recently announced surprise cut to its 5Y Loan Prime Rate. To further gauge the trajectory of the economy, data on industrial production, retail sales, industrial profits, and FAI is awaited for the months of Jan-Feb'24.

RBI

MPC members for the 6th consecutive time kept policy rates on hold, by keeping repo rate unchanged at 6.5%, SDF at 6.25% and MSF and bank rate at 6.75%. RBI also left its stance of "withdrawal of accommodation" unchanged. However these decisions were not unanimous, and were passed with the vote of 5-1. Central bank highlighted that interest rate transmissions are still not complete and inflation is yet to be brought down to targeted level on a durable basis. Hence, RBI's stance should be viewed in this context, and "mix of instruments" will be used by the Central Bank to manage the liquidity situation. RBI expects GDP growth to remain at solid 7% in FY25, supported by government capex, domestic consumption and corporate profits. Inflation is projected to come down to 4.5% in FY25 from 5.4% in FY24, due to satisfactory Rabi sowing, dip in vegetable prices and expectation of a normal monsoon in FY25. We foresee no change in RBI's position before Aug'24. However, in case inflation surprises on the downside, then a tweak may be expected in Jun'24 policy.

Global central bank decisions

US Fed kept its policy rates unchanged at 5.25-5.5% for the 4th consecutive time in Jan'24 meeting. The policy statement dented hopes of a rate cut in Mar'24, but reiterated that the central bank has reached the peak of its rate tightening cycle, and will begin cutting rates at some point this year. Post this policy decision, analysts were expecting Fed to begin the rate cut cycle in May'24. However, seeing signs of resilience and less than expected slowdown in Jan'24 macro data, rate cut expectations have been further pushed back to Jun'24 with a ~62% probability attached to it. Policy meet in Mar'24 and associated release of economic projections by the Central Bank, will shed more light on future rate trajectory.

Bank of England (BoE) for the fourth consecutive time since Dec'21 left its policy rate unchanged at 5.25%—16 year high, in its Jan'24 meet. The decision was not unanimous. 6 out of 9 members opted for a pause, 2 members wanted 25bps hike, and 1 member voted for 25bps cut. This was the first time since CY20 when a member voted for a rate cut. Inflation forecasts were revised downward, with the central bank now expecting inflation to touch 2% mark only briefly in Q2CY24, before rising again in Q3. However, with slower than expected moderation in wage growth in Feb'24 (6.2% versus est.: 6% and 6.7% in Jan'24) has casted doubts on timing of BoE's rate cuts. Currently it is expected that first rate cut will be delivered in Aug'24. More guidance will be available after the Mar'24 policy meeting.

Following other major central banks, ECB also decided to pause in its Jan'24 meeting. However, unlike US Fed and BoE, ECB President Lagarde and other ECB officials have repeatedly reiterated that it is still "premature to discuss rate cuts". Most recently, ECB Vice President, Luis de Guindos again pushed back against rate cut expectations and said that the Central Bank will begin lowering rates, once both headline and core inflation near its 2% target mark. Eurozone's inflation in Feb'24 eased to 2.6% from 2.8% in Jan'24. Core is currently at 3.1%, down from 3.3% in Jan'24. Wage negotiations will also play an important role in deciding when to cut rates. Data on the same is expected in May'24, making Jun'24 meeting the earliest possible date for beginning of the rate cut cycle. Investors have tapered their expectations to 88-100bps cut in deposit rate CY24 from 150bps estimated few weeks ago.

PBOC in its Feb'24 meeting sprung a surprise by reducing its 5Y LPR (Loan Prime Rate) by 25bps to 3.95%, while keeping 1Y LPR unchanged at 3.45%. This is for the first time since CY19 (when LPR 1st came into use), that the Central Bank has announced a reduction in 5Y LPR, as this effects profit margins of banks. However, as

this rate is used to set mortgage rates, a cut signals the intent to provide support to severely under pressure real estate sector. Analysts expect PBOC to remain dovish in the coming months as well and expect reduction in 1Y LPR as well.

Special studies

India's crude import-story so far

Russia meets a large portion of India's ever growing demand for crude oil. Post the Russia-Ukraine conflict, Russia emerged as one of the top contributors to India's oil import and its share in total imports has risen remarkably on the back of the discounts on oil prices. However, in the last few months some moderation has been noticed in terms of Russia's supply of crude given the fall in international crude prices. Regardless of this dip, the demand for Russia's crude oil has remained intact even as government is trying to lower its oil import bill and reducing its dependence on Russia as it continues to look for other better suited alternatives.

Crude oil prices

India depends on other regions and countries to fulfil its growing demand for crude. Over 80% of India' crude oil demand is met though imports. In Dec'23, India's total oil import bill had fallen down by 25% on a YoY basis compared with an increase of 7.2% in Nov'23. This was on account of a steady fall in the crude oil prices, the average price was down by 4.9% in Dec'23 (US$ 77.3/bbl from 81.3/bbl in Dec'22).

Before the beginning of the Russia-Ukraine conflict, the average international crude price was hovering below US$ 100/bbl mark. Back in Dec'21, the average price was a low as US$ 75/bbl. With the beginning of the conflict in Feb'22, the conflict added to ongoing geopolitical uncertainty, raising concerns over global economic outlook and the oil prices escalated to as high as US$ 118/bbl during this period. However, since then the prices have gradually moderated and are trading near the US$ 77/bbl mark.

Import of Crude oil in the last 3-years

Across the globe, India remains one of the top importers of crude oil due to high demand. In Dec'21, India had imported over US$ 3.1bn worth of crude oil from Iraq, much higher compared to other countries. By Mar'22, imports from Iraq was as high as US$ 4.2bn and it was during this time the Russia-Ukraine conflict was on the rise and only US$ 0.3bn of crude oil was imported from Russia. However, by May'23 the imports from Russia had soared to an all-time high of US$ 4.5bn.

In terms of quantity, Iraq had commanding share in total crude oil imports (26.4%) in Dec'21. This was followed by Saudi Arabia (16.6%) and UAE (12.5%). On the other hand, the share of Russia in total imports was a meagre 1.9% during this period. After the Russia-Ukraine conflict, the situation changed with Russia gaining a significant advantage over Iraq as the top most contributor to India's oil imports and the most important source for import of crude oil. The share of Russia in total imports accelerated to as high as 21% followed by Iraq (16.9%) and Saudi Arabia (14.8%). One of the most significant reason for this jump was the cost advantage vis-à-vis other countries.

However, of late the share of Russia in total imports has seen some moderation. The share did reach an all-time high with more 44% of India' oil imports were met though Russia, but in the recent months this share has been

dwindling down at a steady pace. Having said that, compared with other countries, Russia continues to remain one of the top contributor to India's crude oil imports.

Amongst other countries, in Dec'23, India was importing crude oil at as high as US$ 81/bbl from Saudi Arabia and Iraq was proving the same unit at a much cheaper rate at US$ 74/bbl. In comparison to Dec'22 period, the crude oil was available at US$ 79/bbl from Russia at a much discounted rate than US$ 92/bbl from Saudi Arabia. Additionally, it was only in the month of Oct'23 that India paid the highest amount to Russian supplier with the average price of US$ 86.3/bbl and breaching the US$ 60/bbl mark as fixed by G-7 nations in Dec'22. Recently it has been noticed in Dec'23, Russia continues to remain a far better alternative than its global counterparts as it provide crude at much discounted rate at US$ 78/bbl. Notably, average crude oil price have also registered significant dip during this period. The average international crude oil prices during this period was US$ 77/bbl from US$ 82/bbl in Nov'23. However, given the ongoing Red sea crisis, it is expected the oil prices will be more expensive due to higher freight costs as Russia will use longer route in order to avoid any conflict. Such an increase in price will force the country to look for other alternatives

Russia hence remains as the prime source of oil for India with the lowest cost though the differential with other nations may have come down to an extent. This will have a soothing effect on overall imports as well as CAD.

Gross borrowings of central government in FY24

The borrowing programme of the central government is now complete and a sum of Rs 14.08 lakh crore has been raised through the year. This is lower than the gross borrowings of Rs 14.37 lakh crore in 2022-23. There have been some interesting patterns in the raising of these funds which are highlighted in this report.

Interestingly, there were fewer issuances this year at 136 relative to 177 securities that were issued in 2022-23. The year was quite volatile as far as market interest rates were concerned even though the repo rate remained unchanged through the year. The yields were affected largely by liquidity conditions which tended to be in deficit mode in the last few months. Besides liquidity, possible rate actions by the RBI dominated sentiment. In fact, just before the policy announcement yields tended to move down in case the preceding inflation number had shown a downward tendency. Alongside, the markets tracked what other central banks were doing and there was a tendency for Fed statements as well as signals sent by members in media interviews to have an effect on bond yields.

In general they have tended to move in the downward direction once the Fed stopped raising rates and the market was then left conjecturing when the rate cuts would begin. Inflation rates in the USA have hence had a sharp impact on the bond yields with the 10-year paper reacting positively. Simultaneously the inclusion of Indian bonds in global bond indices saw an influx of funds in the run-up to the JP Morgan index including them. This led to higher prices and fall in yields. The RBI hence had to enable the raising of these bonds keeping in mind all these sentiments. At the end of the year, based on market conditions as well as variation in the tenures of bonds, the average annualized cost for 2023-24 worked out lower to 7.24% as against 7.32% in 2022-23.

The volatile nature of the market yields can be gauged from the following. The cut-off yields of bonds in the range of less than 3 years were between 6.94%-7.28% during the year. In case of paper with maturity of 39-40 years, it was 7.14-7.54% while the spread was marginally higher at 43bps for the 29-30 years paper. For ten year issuances the range was 6.98%-7.31%. In general the cut-offs were highest in October.

Looking at the frequency distribution of the issuances of government paper in 2022-23 and 2023-34 based on maturity, we note a definite preference for longer dated securities. This has an advantage of payments being pushed ahead for a longer period of time so that the bunching up of repayments in the shorter term is eschewed.

In 2022-23 for example, of the 177 papers issued around 29% were for the 30 years and 40 years tenures. In 2023-24, this ratio increased to 34.1% with 2 issuances being for 50 years. Correspondingly, for securities with maturities up to 10 years had a share of 53.6% in 2022-23 which came down to 49.1% in 2023-24. Quite clearly this could be the path followed in future too.

Financial Landscape

The financial system is indicative of the pace of economic activity in the country. Data is more contemporaneous which helps form judgments on how fast the economy is moving. With 10 months of the financial year gone by there are varying signals emanating from different segments of the system. These are summarized here.

Credit has outpaced that in deposits which is responsible for the rather stubborn deficit levels of around Rs 2 lakh crore on a daily basis. Interestingly the growth in deposits is higher than that of last year partly reflecting the impact of higher interest rates. Growth in credit has just about slowed down marginally this year. Yet, the deficit has resulted after adjusting for banks investments in G-Secs.

Growth in credit has shown some encouraging trends across sectors. For the 9-month period on an YTD basis growth was 12.5% (11.9%) for the system as a while. Growth was higher for agriculture at 15.4% (11.9%), services at 15.9% (16%) and personal loans at 13.3% (16.5%). Within personal loans home loans grew at a lower rate of 12.1% (12.8%). There was a slowdown for unsecured personal loans at 13.8% (19.8%).

Growth to industry was lower at 6.8% (4.3%). But credit to large industry recovered to grow by 6.2% (2.5%) which is a positive sign for the revival of investment cycle. Within manufacturing the industries that have higher than 6.8% growth in credit are: textiles, metals, chemicals, glass, auto and gems and jewellery.

Corporate bond market

Based on CMIE data corporate bond issuances during the first 10 months of the financial year are higher than those of last year. The data is different from SEBI presentation where the amount is Rs 6.55 lakh crore as against Rs 5.87 lakh crore. But the message is similar that there have been larger issuances in the market.

The financial services segment accounts for 75% of the total raised which means that a very limited amount is being raised by core manufacturing. Last year the share was around 70% which is also the average for this sector in the past. Another 6% is by services and around 4% from construction. Within manufacturing chemicals has the highest share of 6% with the oil sector accounting for around 80%. The share of metals is less than 1%. There is hence some indication that these sectors would be seeking recourse more to bank finance than the market for funding.

Therefore, the corporate bond issuances do not convince that there is large scale investment taking place in manufacturing. NBFCs use such funds for on-ending purposes. Construction, power and services are more dominant here.

Mutual funds continue to pose competition for banks

Mutual funds have been a major alternative for savers. This year, the increase in AUM was Rs 13.32 lakh crore which can be contrasted with that in deposits which were up by around Rs 19 lakh crore. Clearly the higher returns in the equity market has been a driver of this change in pattern of savings. Of the Rs 13.32 lakh crore raised in incremental terms 54% was through these schemes while hybrid accounted for another 16%. Another 15% was through income schemes which is the pure debt component. Hence, the slower growth in deposits posed earlier can be partly explained by the migration of savings to mutual funds.

FPI flows

Until FY13 there were relatively high inflows of FPI primarily in the equity segment. Flows touched an all-time low of just $1.5bn in FY14 and subsequently peaked at close to $40bn which is the highest achieved so far. FY15 was a kind of turning point as FPIs have been fairly volatile since then with flows turning negative for 5 of the 9 years.

Interestingly the Covid-19 year of FY21 was a good year for FPIs flows which went closer to $30bn. But they have come down subsequently and entered the negative territory for two years before turning positive and registered a new peak in FY24. Net inflows of close to $9bn in debt is the highest in this segment after FY18. The run-up to the inclusion of Indian bonds in the JP Morgan bond index is one factor that has caused considerable inflows in the last few months. The positive impact will be seen next year when the inflows increase further thus lessening the pressure on bank investments in the borrowing programme of the government.

Foreign direct investment

FDI is a useful source of funding which adds to the overall supply, albeit in foreign currency. Data for the first 9 months of the year which is presented below shows that FDI had peaked in FY21 at $68.3bn with fresh equity flows dominating with share of 77%.

There has been a distinct slowdown since then with the gross inflows being $51.5bn in the current financial year. The share of fresh equity has also come down to 64%. A reason for slowdown could be the lower availability of investible funds given that quantitative tightening is now in progress in the west. Also investment opportunities in the western world have opened up with countries working on growth through higher investment post Covid-19. These factors could have slowed down the overall flows to the rest of the world.

ECBs

External commercial borrowings registrations which can be taken for intentions have shown distinct buoyancy in the first 9 months of the current financial year. At $36.1bn, it is the highest amount registered in the last 5 years. This is notwithstanding the fact that the interest rates in the west have peaked. One reason for the push towards this market could be the relative stability in the rupee which has been within a range all through the year with a tendency to appreciate rather than depreciate.

ECB registrations, unlike corporate bond issuances, have been mainly in the manufacturing space with over 70% being from the manufacturing and infrastructure segments. The share of NBFCs is significant at 21% but not dominant as is the case with corporate bonds. As these loans are typically for a longer period of time, it can be conjectured that these funds would be used for investment purposes.

In conclusion

The raising of funds through different channels has been buoyant this year in almost all segments. Banks have the challenge of increasing deposits at a time when mutual funds are doing very well in terms of attracting investors who are preferring equity/hybrid schemes. Bank credit growth across sectors has improved with time. Bond issuances have increased this year, though the bulk are by NBFCs. Interest from the non-services sectors is limited. ECBs on the other hand have been quite popular this year even though interest rates have been at their highest levels in the west.

On the foreign investment side, FDI has slowed down this year and is a continuation of a two year trend seen post Covid-19. FPIs on the other hand have recovered quite well this year with the debt segment also witnessing a revival. It does look like that this momentum will speed up in the new financial year post June.

Corporate performance: Q3-FY24

India Inc.'s financial performance in Q3-FY24 mirrored the trend seen in the last few quarters. Profit growth remains robust, compensating for the lower growth in revenues. Debt servicing too has improved despite higher interest costs. Our in-house corporate financial performance index (BoB-CFPI) is also showing a significant improvement in India Inc. performance. Nonetheless, the performance has not been equal across sectors. Pockets of stress remain with rural demand remaining a major pressure point. However, management commentary of various companies suggests that there are some signs of recovery amidst a moderation in inflation and adequate Rabi sowing. It will be interesting to see if the growth momentum can sustain. On the banking side, some pressure is visible amidst tight liquidity and a sustained increase in credit demand. We believe that India Inc. is likely to end FY24 on a similar note. However, risks remain from escalation in tensions in the Red-Sea region and resulting disruptions in supply chains.

BoB Corporate Financial Performance Index (BoB-CFPI):

To track corporate performance more closely and on a regular basis, we have constructed the BoB Corporate Financial Performance Index (BoB-CFPI). The quarterly index aims to capture corporate performance at a more comprehensive level by analyzing key parameters covering revenue, cost, profitability and debt servicing. The index aims to track the performance of corporates based on the published quarterly financial results. The data has been sourced from Ace Equity corporate database. A sample of 32 key sectors are tracked which range from automobiles, capital goods, chemicals, construction materials, consumer durables, hospitality, healthcare, iron and steel, IT, telecom, retailing, etc. We have excluded sectors such as banks, insurance etc. as they tend to add a substantial modicum of bias to the numbers and present a skewed picture. Equal weights have been assigned to all the sectors to maintain comparability. Hence, the size of the industry will not skew the picture as overall corporate performance should ideally be broad based.

The current dataset includes a sample of 2,268 companies. It must be noted that the index has been constructed for the post-pandemic period i.e Jun'21 onwards to address partly the problem of base effect inflating the numbers. The sample companies used for FY23 (4 quarters) will be different from that in Q3-FY24.

BoB-CFPI in Q3FY24:

BoB-CFPI shows a significant pickup in Q3FY24. The index improved to 128.8 in Q3-FY24 from 124.5 in Q3-FY23 118.8, registering a jump of 8.4%. Improved corporate profitability on the back of a correction in commodity prices has been a key driver behind this. With input prices abating, profit margins have seen a sharp uptick which

has been contributing to higher profits even as sales have been much more muted. On a QoQ basis, while the index increased by 10.6% in Q2-FY24, it has risen by only 3.6% in Q3-FY24, suggesting some slowdown in momentum.

Looking at the net responses for various parameters used in the index, we observe the following:

- For net sales, the net response has remained negative for all the periods studied indicating that growth in sales for majority of sectors in the sample has been lower on a YoY basis. However, some improvement is visible in Q3-FY24.
- For PBDIT there has been a sharp improvement in the last 2-quarters, which is coinciding with a correction in commodity prices.
- Cost pressure for companies has seen a sequential moderation due to easing commodity prices. This has also translated into improved profits margins. Both these parameters saw an improvement in net response.
- With a moderation in domestic inflation, the pricing power of companies has declined. As a result the net response for this indicator though positive, shows significant moderation in the last quarters.
- With a pause in RBI's rate hike cycle, interest coverage ratios of companies has improved, which again impacted BoB-CFPI positively.

Financial performance of corporates in Q3FY24:

Financial performance of India Inc. in Q3-FY24 was very much similar to the trend seen in the last quarter. While profit growth has been robust, sales growth continues to lag behind. We have analyzed a sample of 2,940 companies which have announced results so far. It can be seen that sales growth increased by 6.1% in Q3 on a YoY basis, decelerating from a growth of 15.3% in the same period last year. However, on a sequential basis there is some pickup in sales growth. Profit growth has been robust, with all broad indicators of profit growth exhibiting double-digit growth. This can be explained by the sharp moderation in expenditure growth from 17% in Q2-FY23 to 3% in Q3-FY24.

To get a much clearer picture of the financial performance, we exclude the BFSI sector comprising banks, finance and insurance companies. For the non-BFSI sector, growth in net sales has been much more muted at just 2.7%. On the other hand, profit growth has continued at a smart pace driven by lower costs. Growth in expenditure has moderated significantly to just 0.7% from 17.3% in the same period last year. Interest costs too have remained largely steady, growing by only 0.7%.

As a result, interest coverage ratio (ICR) of the companies has shown a marked improvement. The ICR is an indicator of the debt servicing capability of a firm and is calculated by dividing the profit before interest and tax (PBIT) to the interest cost. Thus this ratio shows whether the company is making enough profits to make interest payments. An increase in the ratio indicates improvement and vice-versa. For the given sample of companies, the ICR has increased to 5.54 in Q3-FY24 from 4.37 in Q2-FY23. This is quite positive as it indicates that muted sales and high interest costs have not dented the debt service capability of the companies on an aggregate basis. However, there is a lot of divergence between sectors which might indicate the presence of some pockets of concern.

Sector-wise movement in interest cover

As pointed earlier, the interest coverage ratio for ex. BFSI companies has seen a marked improvement in the Dec'23 quarter. This is notwithstanding the fact that banks have increased the weighted average lending rates (WALR) on both outstanding and fresh rupee loans in the said period, and hence the interest costs of companies has also gone up.

To put this in perspective, the WALR on fresh rupee and outstanding rupee loans has increased by 60bps and 40bps respectively in Q3-FY24 as compared with the same period last year, leading to a 1.5% increase in interest costs. However, WALR in Q3-FY23 had increased by much more (53bps for outstanding and 94bps for fresh rupee loans), which contributed to a 28.4% increase in interest costs. Hence, a part of the improvement in ICR can be attributed to a relatively lower increase in interest rates in Q3-FY24. However, a sharp increase in profits is perhaps the most distinguishing factor which explains the improvement in ICR, which has more than offset the higher interest costs. This is important because it helps to negate the belief that higher repo rate would put pressure on companies increasing the interest burden.

The interest cover ratio (PBIT/interest) for the sample companies excluding the BFSI sector shows the following points:

- Only telecom sector had an ICR of below 2. It must be mentioned here that the profitability in this sector continues to be marred by certain idiosyncratic factors such as AGR dues and payments pertaining to the spectrum auction. On top of this, due to the high capital expenditure required in the sector, it is also amongst the most heavily indebted sector and hence has a higher interest burden. Both of these factors can explain the low ICR in the sector. On the positive side, some green shoots are visible as the aggregate losses are narrowing which is also being reflected in an improvement in ICR in the latest quarter.
- Apart from telecom, the 10 largest indebted sectors (as of 2022) are power, crude oil, infrastructure, iron and steel, realty, automobiles, chemicals, logistics and textiles.
    - Out of these, 7 noted an improvement in ICR over Q3-FY23, with auto, textiles and iron and steel sector witnessing the maximum improvement.
    - On the other hand, there was sharp fall in ICR of chemicals sector, led entirely by a sharp decline in profit in the sector, even as interest payments were lower.
- Overall, a total of 20 sectors out of the 33 sectors witnessed an improvement in ICR in Q2-FY24 vis-à-vis Q2-FY23.

The RBI is widely expected to keep interest rates on hold at least to Jun'24, which means that interest costs for companies are likely to remain stable for at least the next 2-quarters. Hence, the ICR of companies will be determined to a large extent by the profitability. While WPI inflation is likely to remain benign even in Q4-FY24, concerns remain from elevated shipping costs due to escalation in tensions in the Red-Sea region which can lead to higher expenditure and hence have a detrimental impact on profitability.

Sector-wise performance

In terms of sector wise performance, net sales in 18 sectors has been higher than the sample average which is 6.1%. However, when compared with last year, only 12 sectors have seen higher growth in net sales relative to

the same quarter last year. Major sectors which have seen higher growth than last year are finance, textiles, capital goods, consumer durables and diamond and jewellery.

For net profits, a total of 16 sectors showed higher growth than the average of 27.2%. In comparison to last year, 19 sectors show higher growth than Q3-FY23.

The following points stand out from looking at overview of growth in sales and net profits of various sectors in Q3-FY24 on a YoY basis, divided into different ranges:

- Trading is the only sector which has done well both in terms of growth in profits and sales, registering over 20% growth in both PAT and sales.
- On the other hand, banks and finance companies have seen some moderation in profit growth. This is because banks' margins have been impacted by tight liquidity conditions amidst a continued increase in credit demand. Banks have been scouring for funds to finance the increasing demand as deposit growth has remained subdued. In FYTD24 (upto 26 Jan 2024) while credit growth has increased by 16.1%, deposit demand has only increased by 12.5%. As a result, while WALR on outstanding rupee loans has increased by 40bps, the weighted average domestic term deposit rate (WADTDR) has increased by 116bps, which is impacting the NIMs of banks, and hence putting pressure on profitability. NBFCs too reported an increase in cost of funds and higher risk weights as major headwinds.
- Infrastructure oriented industries and capital goods have done reasonably well in Q3-FY24, in terms of both profitability and net sales, registering double-digits growth. With the government's persistent focus on capital expenditure, these industries are likely to continue to do well.
- Hospitality sector has also done well, with most companies reporting robust demand, especially for luxury segment. With the World Cup event and marriage season, demand in the quarter noted a significant uptick.
- Retailing sector also posted good financial performance, despite a challenging macro-environment of sluggish demand and weaker than expected winter. The trend of increased Premiumization continued, with discretionary demand being dampened due to inflationary impact.
- Auto sector continued to post a remarkable performance even in Q3-FY24. While sales increased by 13.4%, PAT growth was much higher at 72.2%. This was underlined by a decline in commodity prices, easing of supply-chain issues and a stable currency helped. There was a steady pickup in demand for 2-wheelers, even as tractor sales continued to decline. Within, passenger vehicles, there was a strong demand for SUVs. However, disruptions in shipping lines due to the tensions in the Red-Sea region remained a key cause of concern for the industry leading to higher costs and delayed shipments.
- For sectors such as iron and steel, logistics, insurance, textiles, construction materials and telecom, while PAT growth was robust, sales growth was muted in single-digit.
- For iron and steel industry, the growth in PAT was effected by an increase in domestic prices. While external demand remained weak, especially from Europe, domestic demand remained robust aided by government capex. Apart from this, demand from auto and real estate sector also aided. Apart from this, lower steel production in China also provided a tailwind to the sector. As a result, companies also noted an improvement in capacity utilization to above 90%.
- For the textiles sector, festive demand momentum was short-lived as discretionary demand continues to remain week. Even during festive sales, premium segments performed better while discretionary

spending was weak. However, some companies reported a pickup in demand for woven fabrics and home textiles. Apart from this, decline in inventories and increased demand in exports markets such as US and Japan has also helped sales. Reduction in prices of raw materials, specifically cotton yarn, in India has contributed to an increase in profitability for the textiles sector. There has also been a steady improvement in capacity utilization of the sector as well. However, increased shipping costs and delay in shipments due to the Red-Sea crisis is a major headwind for the sector.

- In case of consumer durables, sales growth was in high single-digit at 8.3%, while PAT growth was 12.9%. Sales in both B2B as well as B2C segment showed improvement, and the trend is expected to continue. Companies reported an increase in demand during the festive season, particularly for small appliances. In an encouraging sign, demand from lower tier cities showed improvement. Profit growth showed improvement, led by price hikes. However, this was partly impacted by increased spending on advertising during the festive season.
- Performance of the IT sector remained muted with low single-digit growth in both sales and profit as macroeconomic conditions were largely unchanged. The quarter was marked by seasonal factors due to yearend holidays and increased furloughs. Companies reported a cautious approach from clients with respect to new orders, with discretionary spending continuing to remain weak. However, there was a sequential improvement and commentary from major companies indicated some green shoots. Major IT firms reported an uptick in new deals even as employee headcount has continued to decline.
- For the FMCG sector as well, the Q3-FY24 performance remained dismal, with both sales and net profit growth decelerating. Increased competition from regional peers remained a key concern for major players. The trend of softness in rural demand continued this quarter as well, with even festive demand failing to take-off materially. Delay in winter season, warmer than usual winters, lower reservoir levels and high food inflation kept a lid on rural demand. Urban markets continued to outperform, with demand for premium products continuing to outstrip the demand for mass products. To counter the increased competition some firms reported of undertaking prices cuts and higher A&P spending.
- For oil marketing companies, while net sales declined on a YoY basis, PAT growth was robust. Driving the higher profits were lower prices of oil in the international markets.
- Performance of chemicals sector was quite dismal with negative growth in both sales and net profits. Within chemicals, performance was mixes across industries:
    - Demand for agrochemicals and pharmaceuticals remains sluggish
    - Some firms also reported dumping from China as a reason for weak performance
    - Outlook is positive
    - For fertilizers, sales was impacted due to lower sowing in some key areas due to lower than expected rain and lower reservoir levels. Further, the Nutrient Based Subsidy (NBS) rate for rabi season was revised lower even as raw material prices increased. This also impacted performance.
    - On the other hand, paints segment performed relatively better witnessing strong demand from both rural and urban areas. Encouragingly, demand from non-Tier 1 cities noted an uptick. Due to this, economy segment is performing better than premium segment. Sales to both B2B and B2C showed traction.
- For diamonds and jewelry, sales growth was robust led by festive demand. A&P spends were higher during the quarter. With increase in gold prices in Dec’23, PAT growth was a little subdued and demand too saw a decline.

Concluding remarks

Corporate performance of India Inc. showed significant uptick in Q3-FY24. There was a sequential improvement in both sales and profitability indicators, which also translated into better debt serviceability of companies. However, some sectors have performed better than the others. On the rural-urban divide, the picture this time was mixed. FMCG sector continued to grapple with challenges, amidst muted rural demand and increased competition. On the other hand, certain industries such as paints, consumer durables and 2-wheeler sales painted a hopeful picture of the rural economy. Even so, tractor sales volumes remained muted. Infra linked sectors continued to do well, supported by government spending and lower input prices. Auto sector too repeated its impressive performance, led by strong demand for premium cars, predominantly from urban areas.

Overall, while profit growth has remained largely stable over the last few quarters, aided by lower input prices, sales volume have been muted. However, tensions in the Middle-East and elevated shipping costs can potentially stall this momentum. On the positive side, companies remain optimistic of the future growth outlook leading to improving capex guidance which should augur well for growth.

How Lifestyle Inflation rate has moved?

In the age of growing consumerism, rising aspirations of middle class and higher share of working age group population, lifestyle products (goods and services) have become progressively important. It is generally felt that inflation for these products may not really have a sharp impact on consumption as people who migrate to consuming more of these products could become less price sensitive. This is supported by the recent development of premium products selling well as a time when other basic products have uneven demand. The purpose here is to examine how inflation for lifestyle products has moved. For this purpose a carved out approach has been followed where certain items from disaggregated CPI data have been used and an index has been constructed for the same, connoted as the 'lifestyle inflation index' (LII).

The items chosen are based on what we see as lifestyle products within the entire basket of commodities. We are however unable to distinguish certain sub-category of items where differences in prices are high. For example under the 'mobile phones' category of CPI, all price range of products are included. Thus while interpreting the index, one needs to keep this limitation in mind.

Components and weights:

A total of 69 items has been chosen from a list of 300 disaggregated items of CPI for the construction of lifestyle inflation index. It has a weight of 18.8% in the overall CPI basket and ranges from lifestyle food products such as Millets, Jowar, and Bajra to Chocolates, Biscuits, Dry fruits, major packaged meals and canned beverages, foreign liquor etc. Within the clothing and footwear criteria, it includes, Cloth for Coat, Trousers, Suit, Headwear, Belts, Ties, and Leather Boots. Most of the items of LII fall in the miscellaneous category. It includes Cloth For Upholstery, Curtains, Tablecloth, Domestic Servant or Cook, Monthly Maintenance Charges, Motor Car, Jeep, Air Fare, electronic items such as PC or Laptop, Camera and Photographic Equipment and other miscellaneous items such as Hotel Lodging Charges, Club Fees etc. to name a few.

The lifestyle inflation index has been constructed since 2014-15 onwards. Notably, it has a break of two periods i.e. 2019-20 and 2020-21 as data were not available for disaggregated CPI due to the pandemic related disruption.

Lifestyle inflation rate seen moving up:

It is clearly seen that from FY18 onwards there has been an uptick in lifestyle inflation rate. From 4% in FY18, it has inched up to 6.4% in FY23. Importantly during the same period per capita Gross National disposable income had a CAGR of 8.5%. Even RBI's policy was also supportive and an easing cycle prevailed in most of the occasions to stimulate the demand conditions. In FY23, 34 out of total 69 items of lifestyle inflation have recorded inflation rate of above 6% with inflation in items such as biscuits, chocolates, Bajra, headwear, belts, ties, leather boots, monthly maintenance charges and new releases for cinema on a normal day remaining in double digits. For certain items, post pandemic impact of higher mobility also got reflected in the increased demand for these items, which resulted in higher inflation rate.

In the pre-pandemic era LII tended to witness higher inflation relative to headline CPI. From FY23 onwards however lifestyle inflation has tended to be lower than CPI inflation.

Consumer preferences have changed:

We can compare two time periods i.e. FY18 and FY23 and see for which lifestyle products inflation has noticed a considerable changes. For example, inflation of glassware within the utensils component have noticed quite a bit of change; from 2.8% in FY18, inflation has picked up to 6% in FY23. For candles as well, inflation inched up to 7.1% in FY23 from 3.1% in FY18. Same goes for monthly maintenance charges, where inflation picked up to 10.9% from 2.2% during the same period. The same holds for motor cars and jeeps (2.4% to 7.7%). For electronic items, mobile handsets have witnessed quite a bit of jump, from 0.3% in FY18, inflation in this category went up to 5.9%, for PC/ laptop it went up from 1.6% to 9.1%. In case of clock/Watches inflation went up to 7.9% from 4.9%. Inflation for travel goods picked up from 1.1% to 3.8%. Overall the trend reflects impact of rising affordability and desire of improved living conditions.

The Apr-Jan (10 month cumulative data) shows some softening of lifestyle inflation in line with softening of overall core inflation. More than 68% of the miscellaneous category of items have noted softening of inflation, with considerable softening visible for internet expenses, air fare and monthly maintenance charges.

Comparison of Lifestyle Index with Essential Index:

To get an idea about how inflation of lifestyle commodities has evolved in comparison to essential commodities, we have juxtaposed the two. The essential commodities index (ECI) incorporates the 22 commodities which is tracked by the Price Monitoring Division of Department of Consumer Affairs as essential commodities. The equivalent CPI index of the same is used for the construction of the essential commodities index. This has a weight of 22.5% in the overall CPI basket.

Here one thing which clearly gets reflected is that inflation of essential commodities has witnessed quite a bit of volatility and in the recent episodes from FY19 onwards the pick-up is considerable. No doubt that is reflected in the policy response of RBI which went for considerable tightening. LII has witnessed higher inflation compared with the ECI in 3 of the 6 years. The 10 month cumulative data reflects moderation in LII at a faster pace compared to ECI. Price increase of essential commodities is more of a supply driven phenomenon, thus more targeted government intervention is necessary to check the same.

Conclusion:

An attempt has been made to construct the lifestyle inflation index from disaggregated CPI data. This index is a reflection of different preferential choices of consumers within food, clothing and miscellaneous category,

particularly reflecting lifestyle choices as one moves up the consumption ladder. However, a lot of factors come such as the snob and Veblen effects come into play while speaking of lifestyle products. For now, we only limit our study to capture the demand side on the basis of inflation rates of these items. One thing which clearly gets reflected in the analysis is that, lifestyle inflation has picked pace partly due to demand factor reflecting rising aspirations. However, when the lifestyle basket is compared with essential commodities there happens to be bit of a disparity, as for the latter volatility in food prices has led to a higher inflationary burden compared to the latter.

Status of infrastructure projects

An overview of data by Infrastructure and Project Monitoring Division (IPMD) under the Ministry of Statistics and Programme Implementation reveals some interesting facts. The IPMD is tasked with monitoring the progress of high value infrastructure projects which have a cost of over Rs. 150 crores. As of 1 Jan 2024, a total of 1,820 such projects were under the surveillance of the IPMD. Out of this, 848 or 46.6% of the projects were delayed. This marks a significant improvement as at the end of Mar'23, the ratio of delayed projects to total projects was much higher at 56.7%. However, this is still much higher than the pre-pandemic period, i.e. Jan'20 when the ratio was just at 32.6%.

On the positive side, a total of 618 projects are on schedule and 56 projects are ahead of schedule so far. For the rest 298 projects, data on year of commissioning/gestation period is not available. However, there are 198 projects which are showing additional delays over the delay indicated last month.

A significant number of projects are also showing cost overruns. The cost of the 1,820 projects under monitoring stands at Rs. 30.7 lakh crores which is about 18.7% above the original cost which was Rs. 25.9 lakh crores. Interestingly, there has been a significant reduction in cost overruns of infrastructure projects since Mar'23, when the cost overrun stood at 22%. Even when compared with the pre-pandemic period (19.4% in Jan'20), the cost overrun is lower. Notably, the period just after the pandemic saw the highest cost overrun as the phase of reopening along with the Russia-Ukraine war led to a sharp increase in input prices in this period. However, with the correction seen in global commodity prices, the cost overrun is also trending lower.

Duration of delays:

In terms of the duration in delay, 32% or 323 projects are showing delay of between 25 to 60 months. On the other hand, around 48% projects have time overruns between 1 to 24 months. A total of 123 projects are experiencing a delay of more than 60 months. The overall delay in the 848 projects is 36.59 months (average).

Sector-wise picture of delayed projects:

In terms of major sectors, road transport and highways which has the highest number of projects under monitoring at 1,021 also recorded the highest number of delayed projects at 450. In fact, these accounted for over 50% of the total projects delayed. Even as a percentage of total projects in the sector, the share of delayed projects is quite high at over 40%. Apart from this, railways which also has 250 projects under monitoring, recorded delay in about 42% of these. For petroleum and coal, the share of delayed projects in total delayed projects stood at 10.7% and 5.7% respectively. In terms of range of time overruns which is defined as the difference between anticipated date of commissioning and original date of commissioning, railways and atomic energy seem to be lagging the most.

State wise picture:

Over 56% of total projects under monitoring are concentrated in 10 major states, with Maharashtra, UP and Andhra Pradesh accounting for over 100 projects each. Within this, Maharashtra has seen the highest percentage of project overruns at 49.5%, which is also higher compared with the overall time overrun of 46.6%. However, both UP and AP have performed better in this regard. Notably, at 25.7%, the share of delayed projects to total projects is the lowest in Andhra Pradesh amongst major states. Other states which are showing higher time overruns include Gujarat (55.4%), Tamil Nadu (52.7%), Odisha (51.8%) and Bihar (51.6%). On the other hand, Rajasthan has shown a significantly lower share of delayed projects. Interestingly, the performance of some smaller states such as Kerala, Himachal Pradesh and Telangana has been quite good, as these have been able to keep the share pf delayed projects in a range of 25.9%-31.3%.

Conclusion:

The above analysis shows that while time delays in infrastructure projects have declined relative to Mar'23, it still remains high when compared with the pre-pandemic period. This suggests that some of the effects of the pandemic still linger on. Apart from this, certain sector specific factors also contribute to a delay in project completion. On the other hand, cost overruns increased post the pandemic reopening but with a correction in global commodity prices, s have been on a downtrend this year.

With the government laying a strong focus on capital expenditure by successively increasing the outlay on capex, it is important that these projects are completed on time, so as to contribute meaningfully to growth. In this sense, the falling share of delayed projects in the last 3 months is an encouraging sign.

Study on Personal Loans

The study aimed at understanding the composition of the subsectors of personal loans and the changing trends. The two time periods chosen are December 2018 and September 2023 which were similar in terms of having similar repo rate regimes. The study also looks at composition of housing sector loans and the average ticket size across different credit limits. In the end, an analysis across population groups is presented.

Personal loans segments by Interest Rate

The subsectors of personal loans include housing, consumer durables, vehicles, personal credit card and other personal loans. Of this, sectoral share in total outstanding personal loans as of September 2023 was as follows: housing sector (53.5%), 'other personal loans' (28.9%), vehicles (9.8%), credit cards (4.8%) and consumer durables (0.7%).

We looked at shares of different interest ranges for loans outstanding under each of these headings. The 4 buckets were less than 6%, 6-9%, 9-11% and above 11%. Of the total credit, most of the loans were concentrated in the 6-9% and 9-11% ranges. Over 50% of the personal loans were found in the 9-11% range at the aggregate level.

- Overall, the personal loan were largely concentrated in the 9-11% bucket. The highest was for housing loans followed by education and 'other personal loans'.
- Consumer durable and credit card loans were highly concentrated in the above 11% bucket indicating that these are high yielding loans for banks. In case of 'other personal loans' 45% of them are at rates above 11% while 43.6% are at 9-11% interest range.
- Vehicle loans were largely in the 6-11% interest range.

Next we looked if sectoral shares have changed in two interest rate regimes. Currently, RBI's repo rate is at 6.5% and the repo rate was at similar level in Dec'18.

Comparing the loan concentration across varying interest rates in Dec'18 with Sep'23, picture remains the same for sectors such as consumer durables, credit cards and 'other personal loans'. All of them have majority share of the loans concentrated in the 'above 11%' bucket. However, other sectors have registered some changes in the last 5-years with:

- Large share of the housing loan was concentrated in the 6-9% range in Dec'18 instead of 9-11% range in Sep'23. The movement to higher ranges can be explained partly due to the concept of EBLR coming in which has led to automatic transmission of interest rate hikes in this segment.
- Majority of vehicle loans in Dec'18 were from 9-11% bucket instead of 6-9% bucket in Sep'23. Here clearly the force of competition has led to rates moving to lower levels.
- Notably, for Dec'18 education loans were concentrated above 11% bucket, rather than 9-11% bucket in Sep'23. Here too the force of competition has led to lowering of interest rates.

Distribution of personal loans by Size of Credit limit

In terms of size of credit limits we looked at amount outstanding in 6 buckets of credit limit ranging from less than Rs 25,000 to above Rs 1cr for the two points in time.

- For Sep'23, the aggregate credit with 52% share was above Rs 1cr bucket and this includes all sectors such as manufacturing, services, agriculture. In case of personal loans it is just 10.4%. Back in Dec'18, the share for aggregate credit was as high as 59.8% for the same bucket, with the share of personal loan at only 8.9%. Clearly there has been a shift to smaller ticket size loans in the retail segment.
    - Within this set, the highest share is registered by housing loans at 15.3% in Sep'23 and 11.2% in Dec'18.
- Overall, most of the personal loans are in the range of Rs 2-50 lakhs, with the concentration in Rs 10-50 lakh bucket. The trend is similar even for Dec'18.
    - The sub-sectors of housing (58.3% from 62.5% in Dec'18) were under the same bucket of Rs 10-50 lakh in Sep'23.
    - Education (51%) loans too were concentrated in the Rs 10-50 lakh bucket as of Sep'23 but back in Dec'18 most of the education loans were concentrated in the Rs 2-10 lakh bucket. This may be attributed to the higher cost of education with fees increasing for professional courses in the country. Also the tendency for several students to study overseas has meant higher ticket size of loans.
- Vehicle loans were largely in the Rs 2-10 lakh range in Dec'18 (65.7%) followed by Rs 10-50 lakhs with 22.4%. This has changed in September 2023 with the shares moderating to 52.7% for the Rs 2-10 lakhs range but rising to 36.1% for the Rs 10-50 lakhs range. This is a reflection of the tendency of high valued vehicles being preferred by customers which has led to higher demand for such loans.
- Majority share of credit cards loans were found in the Rs 25,000 -2 lakh bucket back in Dec'18. However, this share has come down to 46.9% in Sep'23. This is so because of the limits imposed by banks on use of cards. This signals banks have been careful in terms of upgrading users to higher limits.
- Notably, the share of consumer durable loans in Dec'18 had fallen from 40.1% in the Rs 2-10 lakh bucket to 38.5% for the same bucket in Sep'23.

Home loans

Next, we took a look at number of accounts in the housing sector based on the credit limit. In 2018, 47.1% of the number of borrowers were in the Rs 10-50 lakh range of loans. This has increased to around 58% in 2023. Higher cost of dwellings as well as individuals moving to higher value flats can be the factors causing this movement. The share of Rs 2-10 lakhs of credit limit correspondingly came down during this period. The share of borrowers taking loans of above Rs 50 lakhs increased from 4.2% to 9.1% reflecting the same factors driving purchase of higher value dwellings.

Ticket Size of housing loans

- The average ticket size for the housing sector varies based on different credit limit. For the bucket, Rs 10-50 lakh, the ticket size is more than Rs 18 lakh for Sep'23 and above Rs 17 lakh for Dec'18.
- For the Rs 50 lakh-1 cr bucket, the ticket size is at above Rs 52 lakh as of Sep'23 compared with the size of Rs 51 lakh in Dec'18.
- Average ticket size across all the credit limits stands at Rs 36,59,370 as of Sep'23 against the ticket size of Rs 39 lakh in Dec'18.

Distribution of personal loans by Population Group

The availability and accessibility of banking service across population groups can be analyzed next. The entire portfolio is segregated across rural, Urban, semi-urban and metropolitan regions.

- In terms of amount outstanding, majority share of the personal loans (52.3%) are in metro areas. This is followed by urban (23.4%) and semi urban (17%) regions for Sep'23. However, the share of personal loans was a tad higher at 53.7% in Dec'18 for the metros.
- Housing loans are largely concentrated in the metropolitan area, but the share has fallen marginally in Sep'23 (57.1%) against 58% in Dec'18.
- Share of consumer durable loans in the metropolitan area has jumped to as high as 65% in Sep'23 against a share of 58.4% in Dec'18. However, share of such loans in urban areas has fallen down (12.8% from 18.6% in Sep'23).
- Education loans remain concentrated in semi urban (30.2%) and metropolitan (30.5%) areas in Dec'18. However, the share of loans in semi urban (25.9%) has fallen while that for metropolitan area (39.4%) has risen in Sep'23. Interestingly it is the lowest in rural regions and has been coming down.
    - The same holds for vehicle loans. Here it may be conjectured that the NBFCs have a better reach.
- 'Other personal loans' have a higher reach in metro and urban regions, but has been increasing gradually in rural areas too during this time period.

Ticket size of 'personal loans'

- Interestingly the size of the loans has come down across the board. Average ticket size of personal loan in Sep'23 is higher than the average ticket size in Dec'18. Interestingly, the ticket size of personal loan in metropolitan area is far lower than the ticket size in rural area for Sep'23. A conclusion that can be drawn is that loans of smaller ticket sizes are being provided by banks on the back of the higher demand for such loans.

Concluding Remarks

- Across interest rates, housing loans have the highest concentration in the interest range of 6-9% in Dec'23 compared with the interest range of 9-11% for Sep'23. This is also on account of the adoption of the ELBR that has resulted in automatic transmission of interest rates hikes for this segment.
- On distribution of personal loans based on the size of credit limit, it has been noticed in the retail segment there has been a shift towards small ticket loans.
- There is also a preference of high value vehicle, which is why the vehicle loans are growing in the Rs 10-50 lakh bucket. Housing and education loans are concentrated in the Rs 10-50 lakh bucket led by rising cost of education and likelihood of students moving abroad for higher education
- Specifically on home loans, there are more borrowers in the Rs 10-50 lakh loan bucket in Sep'23 from Dec'18 mainly because of the rising cost and greater demand for high value flats. The average ticket size of home loan is above Rs 36 lakh for Sep'23.

On distribution of personal loans by population groups, it has been observed that most of personal loans are concentrated in the metropolitan areas. The majority share of education loans are concentrated in the metropolitan and semi-urban area. Notably, the share of other personal loans is gradually inching up in metro and urban regions. Furthermore, the average ticket size of personal loans across population group is higher for Sep'23 than for Dec'18.

Data Releases

Currency outlook

INR has remained on a strong footing in Feb'24, appreciating by 0.2%. With this, INR has now appreciated for 3 months straight, despite a resurgence in dollar strength. Resilient domestic growth along with manageable trade deficit has been underpinning the strength in INR. This is being supplemented by robust foreign inflows, particularly in the debt segment. We believe that this trend is likely to continue in Mar'24 as well. INR is expected to trade in a narrow range of 82.85-83.00/$ in Mar'24. Risks remain from a repricing of Fed's rate trajectory and increase in oil prices.

Bond Market Round-up

Sell off in global bond market persisted in Feb'24 as well since markets have already priced in a late start to the rate cut cycle of major central banks. For Fed, odds are in favour of a rate cut from Q2 onwards. For other central banks, it may be an even more delayed response based on the evolution of growth-inflation data. For domestic yields, the undertone is different. India's 10Y yield got support from buoyant demand from FPIs. In Feb'24, there were inflows of US$ 2.7bn in the debt segment. Going forward, resilient domestic macros, fiscal discipline and easing price pressure would put further downward bias on yields. We expect 10Y yield to remain in the range of 7-7.10% in the current month. Liquidity deficit is likely to persist and remain in the range of 1.0-1.2% of NDTL. Durable liquidity would come under further pressure due to expected increase in currency in circulation in the coming months.

GDP growth to ascend to 7.6% in FY24

Revision in Growth: According to NSO, India's GDP growth for FY24 under the second advance estimates will be 7.6% (revised upwards from 1st Advance Estimates) against a growth of 7.3% in FY23. The nominal GDP growth is pegged at 8.9% in FY24 lower than 10.5% in budget estimations. Industries is expected to drive growth in FY24 led by strong improvement in both mining (8.1% from 1.9% in FY23) and manufacturing sector (8.5% after declining by -2.2% in FY23). Agriculture sector remain a cause of concern as it is expected to register much slower growth of 0.7% (4.7% in FY23). Sub sector of services are also likely to drag down growth. Moderation in growth of trade, hotels (6.5% from 12%), financial services (8.2% versus 9.1%) and public admin (7.7% from 8.9%) is expected in FY24.

Q3FY24 GDP: GDP growth accelerated to 8.4% in Q3FY24 against an increase of 8.1% in Q2 on a YoY basis. This was higher than our expectation of 6.4%. The improvement is on account of jump in private consumption at 7% in Q3 compared with a growth of 2.4% in Q2FY24. There has been a broad based slowdown across other sectors. Moderation in both exports (3.4% versus 5.3% in Q2) and imports (8.3% versus 11.9% in Q2) growth added to the slowdown. Growth in investment demand also eased by 8% in Q3 after registering double digit growth of 11.6% in Q2FY23. Government consumption too registered deceleration at 5.8% (form 13.8% in Q2).

Centre's fiscal balance

The latest data on central government finances shows that in the 10-months period only around 3/4th of the total expenditure has been incurred which means that the scope for higher expenditure in the last two months is very high. This also gets reflected in the high cash balances of the government which has been observed this month.

The tax and non-tax receipts have been fairly buoyant with 80-90% of the target being achieved. On the expenditure side, there has been a lot of caution exercised with both revenue and capex showing only 75% of use. While the balance amount could be spent in the next two months, there need to be enough projects available for investment on the capex side. The slip in non-debt capital receipts is mainly on disinvestment where only 42% of the lower revised target of Rs 30,000 cr has been achieved.

Foreign Trade (April-January)

India's merchandise trade deficit narrowed to US$ 205.5 in FYTD24 (Apr-Jan) from US$ 229.4bn in the same period last year. On FYTD basis, exports have fallen by 4.9% and imports are down by 7%. Weaker oil prices have impacted both imports and exports of oil. Apart from this, export of gems & jewellery and chemicals has also dragged the overall export growth down. On the import side, apart from oil, non-oil-non-gold imports have been weak. Within this, capital goods, chemicals and coal imports have led the way. On the other hand, gold and electronic imports have picked up pace. Net services balance has improved in FYTD24, led by increase in export receipts and dip in import payments. We expect this trend to continue in the coming months as well. We expect CAD to come in at ~1% in FY24.

WPI inflation slows down

WPI inflation slowed to 0.3% in Jan'24 from 0.7% in Dec'23. Food and manufactured product inflation led the moderation. Food inflation softened to 3.8% from 5.4% in Dec'23. Within food, major relief came from vegetable prices, such as those of onions and tomatoes. Inflation of fruits, milk and spices also eased. Slowdown in food grain inflation was helped by paddy and wheat prices. Pulses inflation remained in double-digit, despite some softening. On the contrary, deceleration in fuel & power inflation slowed further, owing to only slight decline in mineral oil and electricity index. Coal prices eased. Going ahead, volatility in international crude oil prices will remain a concern, owing to tensions in the Red Sea region. Moderation in trend of food prices and continued decline in international commodity prices will however provide cushion to the headline number.

CPI inflation

CPI print came in at 5.1%, considerably higher than our estimate of 4.7% and market consensus (Bloomberg est.) of 5%. Food inflation has been still at an elevated level, with 6 out of 12 broad categories of food inflation remaining above 6%. The surprise bit of inflation came from an elevated meat and fish inflation, which noted a considerable sequential jump. Even much of the correction in vegetable prices have been behind us, as also visible in the high frequency price data of Feb'24. RBI's wait and watch move at this current juncture is thus justified. Core provided the desired comfort. However, for housing inflation, there has been a considerable sequential jump (mainly on account of increase in House Rent, Garage Rent and Residential Building and Land component) which needs to be closely monitored.

Consumer food price index came in at 8.3% in Jan'24 from 9.5% in Dec'24, on YoY basis. Despite some softening, inflation in categories such as cereals and products, vegetables, fruits, pulses, sugar and confectionery and spices remained above 6%. Notably, CPI excluding vegetables is running at 3.9% in Jan'24 from 4.5% in Dec'23.

Core CPI (excl. food and fuel) has moderated further to 3.6%. Except education, all broad sub components of core noticed a drop in inflation in Jan'24 compared to Dec'23, on YoY basis. Amongst them, components such

as personal care and effects (5.9% from 7.3%), household goods and services (3.1% from 3.4%), housing (3.2% from 3.6%) and clothing and footwear (3.9% from 4.3%), showed notable moderation. For personal goods and services, moderation was on account of fall in gold prices.

Growth in Industrial Production advances

IIP growth edged up to 3.8% in Dec'23 higher than our expectations (2%) and compared with a growth of 2.4% in Nov'23. The improvement was primarily attributable to acceleration in manufacturing sector growth (3.9% from 1.2% in Nov'23) which commands a weight of more than 77%. Growth in mining and electricity sector moderated down to 5.1% (7.0% in Nov'23) and 1.2% (5.8% in Nov'23) in Dec'23. Amongst manufacturing sectors, out of 23 subsectors, 18 have delivered improvement in Nov'23. These include manufacture of other transport equipment (29.4% versus 9.8%), electrical equipment (4.1% versus -16.8%), fabricated metal (8.9% versus -5.2%) and pharma (3% versus -3%).

Within use-based, apart from primary goods output all the other sectors have registered a much higher growth in Dec'23. Infrastructure goods output registered an improvement (4.1% from 1.7%) led by growing pace of construction activity. Support from capex has pushed capital goods higher at 3.2% after declining by (-) 1.1% in Nov'23. Output of consumer durable goods advanced by 4.8% after contracting by (-) 5.5% in Nov'23.

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