

Acceleration in credit growth

In the current fortnight, bank credit increased as compared to decline in the previous fortnight. On a fortnightly comparison, bank credit increased by Rs. 60bn as compared to a decrease of Rs.389 bn in the previous fortnight. Last year same period bank credit grew by 295 bn.

Credit growth has moderated in the first few fortnights of the second fiscal, after registering a good growth in the last fortnight of the first quarter mainly due to large borrowings for 3G spectrum.

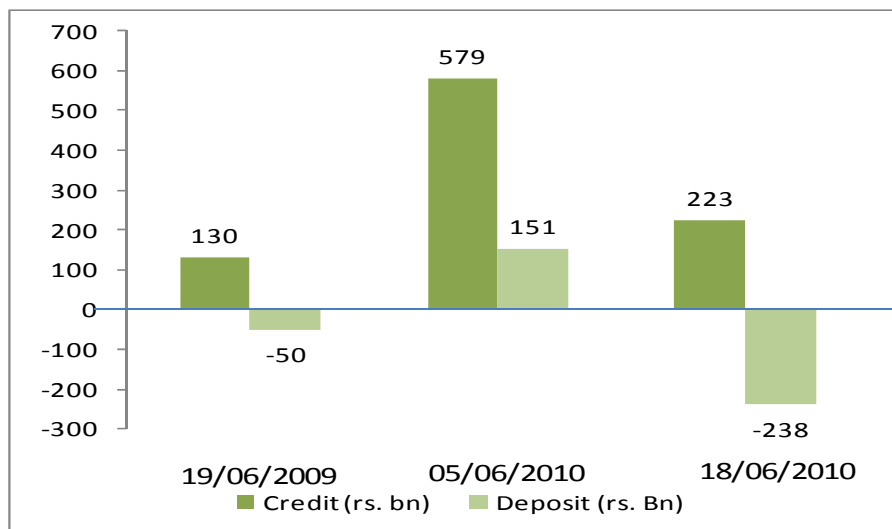
The RBI, in its annual monetary policy, estimated that credit would grow by 20 per cent this fiscal. Apart from industrial production growth, which has slowed down slightly due to the base effect, all other indicators are encouraging, indicating healthy credit demand in the coming quarters.

Components of credit growth (Schedule Commercial Banks)

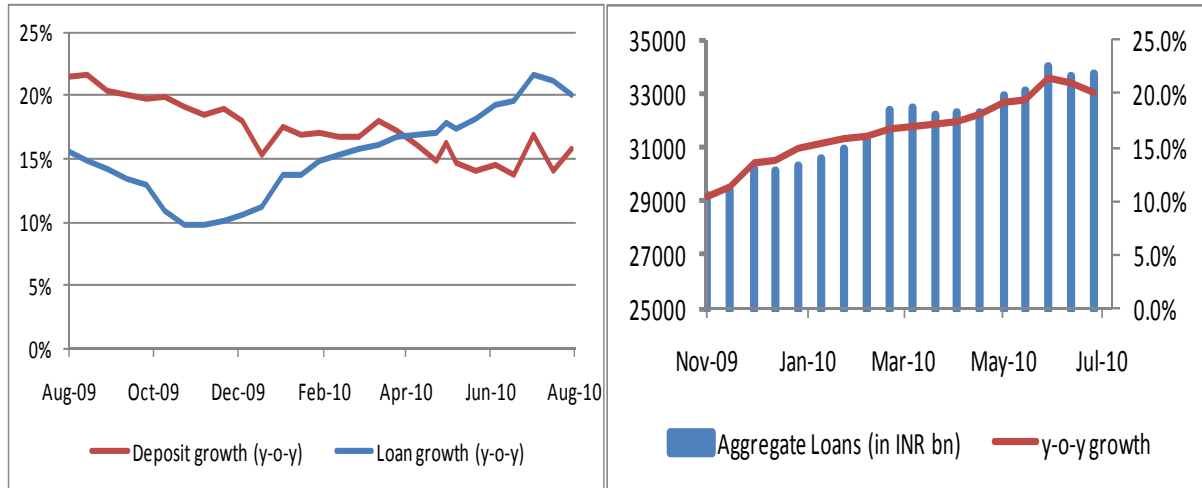
Particulars (Rs bn)	18-Jun-09	05-Jun-10	18-Jun-10	y-o-y (%)	Fornightly (%)
Bank Credit	28,070	33,635	33,695	20.0%	0.18%
Incremental credit growth for fortnight	295	-389	60		
Food Credit	489	454	514	5.2%	13.3%
Non Food Credit	27,581	33,181	33,181	20.3%	0.0%
Deposits	40,694	45,918	46,396	14.0%	1.0%
Investments	13,359	14,399	14,446	8.1%	0.3%
Credit-to-deposit ratio	69.0%	73.2%	72.6%		
Investment-to-deposit ratio	32.8%	31.4%	31.1%		

Source: RBI and Nirmal Bang Research

Fortnightly Credit Deposit Movement



Aggregate Loan and Deposit Growth

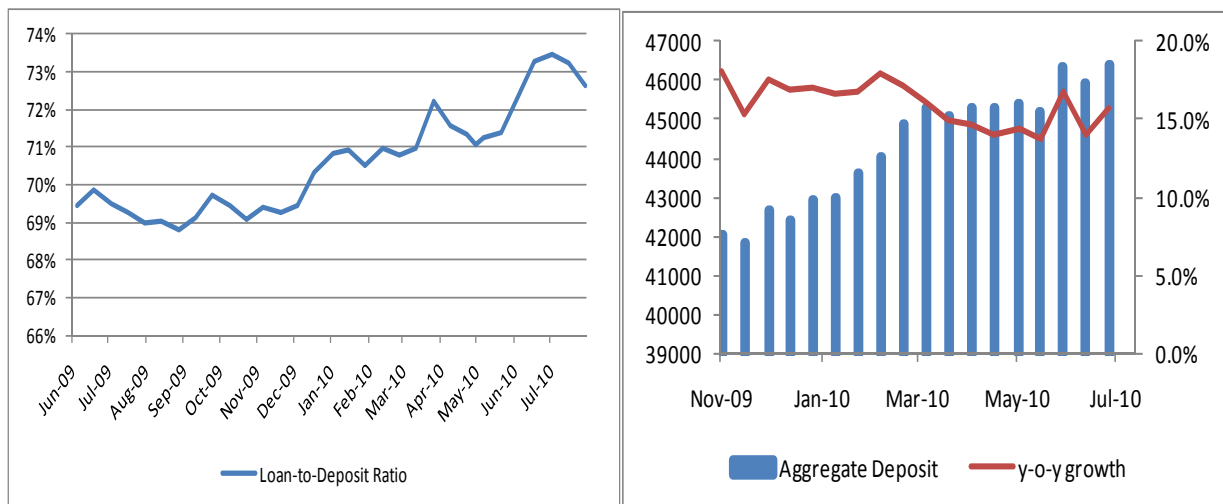


On a fortnightly comparison, bank deposit increased by Rs.478 bn in the current fortnight as compared to decline of Rs. 409 bn in the previous fortnight. On a YOY basis banks deposit grew at 15.7%.

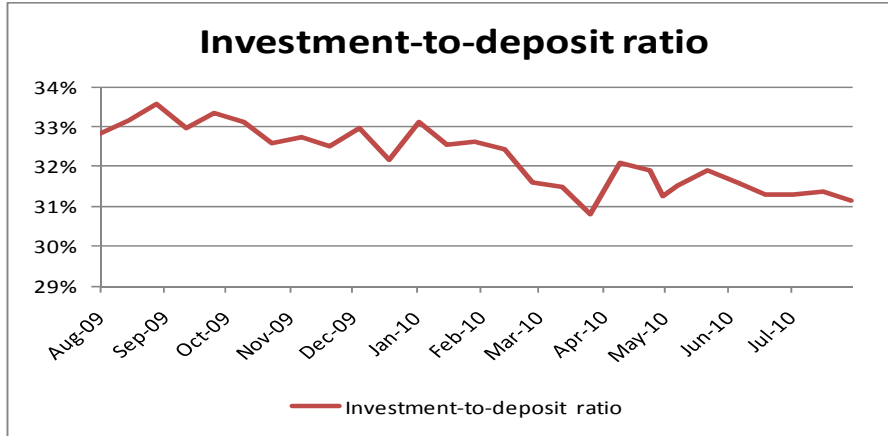
Credit deposit ratio stood at 72.4% at the end of the current fortnight as compared to 73.6% in the previous fortnight due to growth in the deposits. Incremental credit deposit ratio stood at 93%. Demand deposits increase by Rs.413 bn during the current fortnight, whereas time deposits increased by Rs.64 bn.

The Reserve Bank of India (RBI) had also asked banks to beef up deposit mobilization to avoid any asset-liability mismatch. Deposit growth has been slack on account of unattractive rates, which have been in the negative territory since the beginning of the year as inflation started rising. Banks have started raising deposit rates to mobilize resources in anticipation of increasing credit growth in the coming quarters.

Loan-Deposit performance

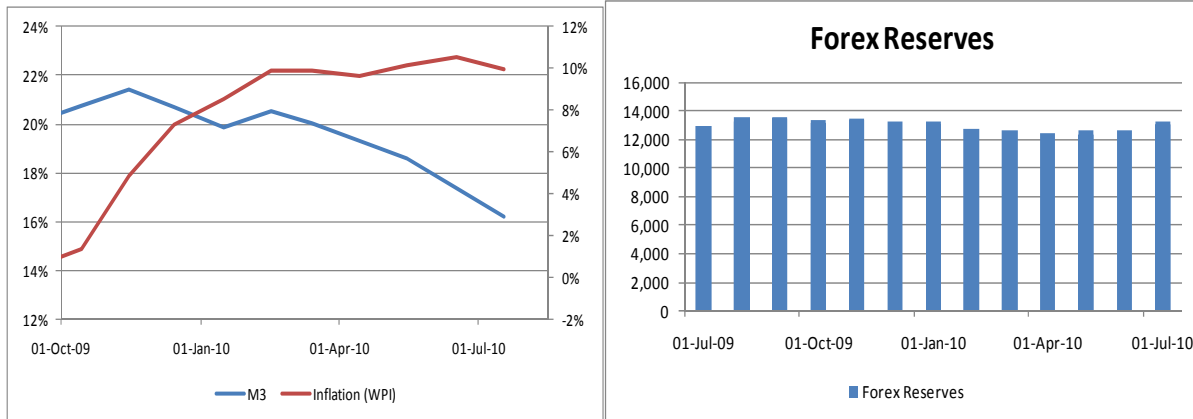


Investments for the fortnight ended 30th July 2010, increased by 8.1% on a YOY basis. Also IDR (investment deposit ratio) stood 31.14% levels in the current fortnight as compared to 31.4% for previous fortnight. Investments by banks in government securities and other approved securities increased by Rs 47 bn in the current fortnight due to moderation in the credit growth in the current fortnight.



Money Supply and Inflation

Growth in M3 increased by 14.7% on a YOY basis for the fortnight ending on 30^h July 2010. Most of the components of money supply posted a negative growth for the current fortnight except for net bank credit to government. On a fortnightly basis money supply increased by 0.7% or Rs. 40,442 crores.



Banking Fortnightly Report

30th -July-10

Inflation	Weight	Jun-10	Jul-10	M-o-M (%)	Jul-09	Y-O-Y(%)
General	100	262.5	259.8	-1.03%	238.7	8.84%
Primary	22.0	302.1	307.7	1.85%	267.7	14.94%
Fuel	14.2	374.4	386.4	3.21%	338.1	14.29%
Manufacturing	63.8	219.5	219.2	-0.14%	206.5	6.15%

WPI inflation moderated to 9.97% for the month of July 2010, as compared to 10.55% in the month of June 2010. Inflation in primary group moderated and increased by 14.9% during the current month vis-a-vis 16.3% in the month of June and 18.5% in the month of May, due to decline in food inflation. Fuel inflation in July 2010 mirrored the full impact of the fuel price rise announced in June 2010 and increased by 14.3 per cent. The downward pull came from the manufacturing index which decreased by 0.14% MoM – this helped in moderating the manufacturing inflation to 6.15% from a peak of 8.18% as observed for April 2010.

Indices of Industrial Production

IIP	Weight	Jun-10	May-10	M-o-M (%)	Jun-09	Y-O-Y(%)
General	1,000	312.4	312.1	0.10%	291.6	7.13%
Manufacturing	793.6	336.4	334.3	0.63%	313.5	7.30%
Mining	104.7	198.6	201.9	-1.63%	181.4	9.48%
Electricity	101.7	242.6	252.2	-3.81%	234.4	3.50%
Used Based Industry						
Basic	355.7	252.5	258.7	-2.40%	244.1	3.44%
Capital	92.6	480.3	451.7	6.33%	438.0	9.66%
Intermediates	265.1	313.7	316.0	-0.73%	288.5	8.73%
Consumer Goods	352.8	331.5	329.6	0.58%	306.2	8.26%
- Durables	53.7	554.2	547.2	1.28%	435.0	27.40%
- Non Durables	233.0	280.2	279.5	0.25%	276.5	1.34%

The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of June 2010 stand at 198.6, 336.4, and 242.6 respectively, with the corresponding growth rates of 9.5%, 7.3% and 3.5% as compared to June 2009. The cumulative growth during April-June'2010-11 over the corresponding period of 2009-10 in the three sectors have been 10.4%, 12.2% and 5.6% respectively, which moved the overall growth in the General Index to 11.6%. Overall IIP grew by 7.1 per cent in June 2010, compared to 8.3 per cent in June 2009. This is the first time in a year when IIP growth during a month is slower than that in the corresponding month of the previous year. Capital goods also witnessed a marked deceleration due to high base but still managed to clock 9.7 per cent growth in June 2010 vis-à-vis 34.2 per cent in May 2010 and a record 69.9 per cent in April 2010. Hereon, the high base

will remain operative till the end of the current fiscal year. Therefore, going forward the industrial growth is likely to remain in single digit.

Monetary Rates

CRR and Interest Rates	31-Jul-10	16-Jul-10	30-Jun-09
Base rate	7.50-8.00	7.50-8.00	11.00-12.00
Deposit Rate	6.00-7.5	6.00-7.50	6.50-7.75
Call Money Rate (low/high)			
- Borrowing and Lending	2.90/5.81	3.25/5.80	1.5/3.3
Cash reserve ratio	6.00	6.00	5.00
Bank Rate	6.00	6.00	6.00
3M Commercial Paper rate	7.30	7.15	6.70

The interest rates in the inter-bank overnight lending market are likely to remain steady, on persistent strain on liquidity in the system and the hike in short-term interest rates. The money which went out of the system to government coffers as payment of advance tax and telecom spectrum fees would come back in the form of spending.

The hike in repo and reverse repo rates signals an increase in the cost of funds in the economy, which in turn, will help contain inflationary pressures arising from the demand side. RBI, however, kept the cash reserve ratio (CRR), the cash which banks are required to keep with RBI, and bank rate unchanged as liquidity is tight in the system following over Rs 1,000 billion outgo due to payments by telecom companies for acquiring spectrum.

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