Banking Fortnightly Report **9-April-10**

Stable growth in Credit.

In the current fortnight, bank credit growth was rather subdued as compared to the previous fortnight when there was significant spike in the credit uptake. On a fortnightly comparison, bank credit grew by just Rs. 8 bn as compared to 1155 bn in the previous fortnight. Usually the last fortnight of the year accounts for high disbursements as banks lend more in the last fortnight of a financial year to meet credit growth targets. Bank credit has fallen after rising for six consecutive fortnights.

For the year 2010-11 RBI has projected non food credit growth at 20%, deposits growth at 18% and M3 growth at 17%. We believe private corporate capex will accelerate over the next six months. Moreover, infrastructure spending will also further accelerate with renewed effort from the government towards that. Thus with pick up economy and resumption of spending, projects that were delayed would be revived, resulting in the increase bank credit growth of more than 20% in the fiscal year 2010-11

Components of credit growth (Schedule Commercial Banks)

Particulars (Rs bn)	09-Apr-09	26-Mar-10	09-Apr-10	y-o-y (%)	Fornightly (%)
Bank Credit	27,714	32,404	32,412	17.0%	0.03%
Increamental credit growth for fortnight	-41	1,155	8		
Food Credit	468	485	481	3.0%	-0.7%
Non Food Credit	27,247	31,919	31,931	17.2%	0.0%
Deposits	39,010	44,866	45,301	16.1%	1.0%
Investments	12,478	13,827	14,545	16.6%	5.2%
Credit-to-deposit ratio	71.0%	72.2%	71.5%		
Investment-to-deposit ratio	32.0%	30.8%	32.1%		

Source: RBI and Nirmal Bang Research

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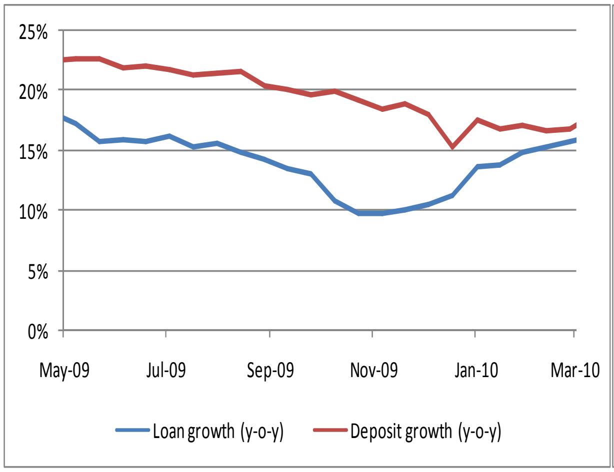
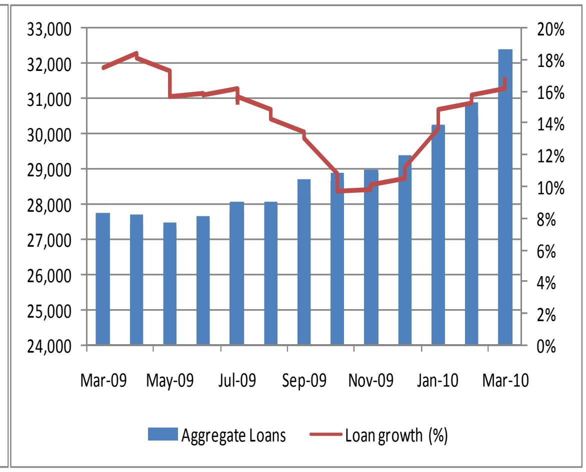
Aggregate Loan and Deposit Growth

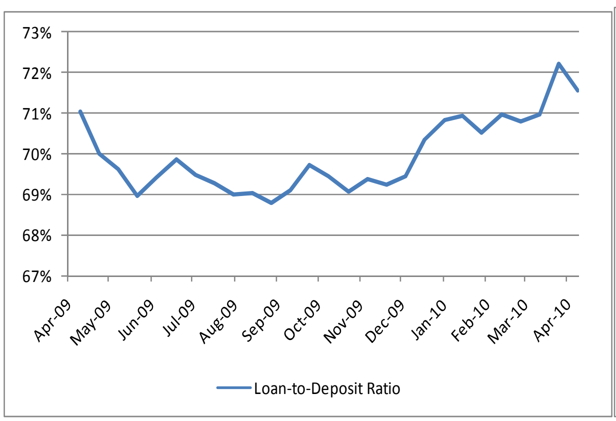


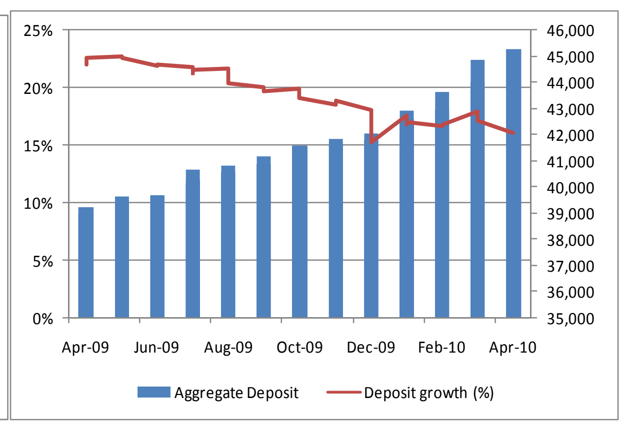


On a fortnightly comparison, bank deposit grew by Rs. 436 bn as compared to 836.3 bn in the previous fortnight. Bank deposits saw an addition of Rs.43501 crores or 1%.

Credit deposit ratio stood at 71.5% at the end of the current fortnight as compared to 72.2% in the previous fortnight due to decline in the credit offtake. Demand deposits decrease by Rs.36,462 during the current fortnight, whereas time deposits increased significantly to Rs.79,964 crores. However, incremental credit deposit ratio jumped up from 71% in previous fortnight to 75% for the fortnight under review mainly on account of sluggish growth in deposits as compared to the fortnight in corresponding period previous year.

Loan-Deposit performance





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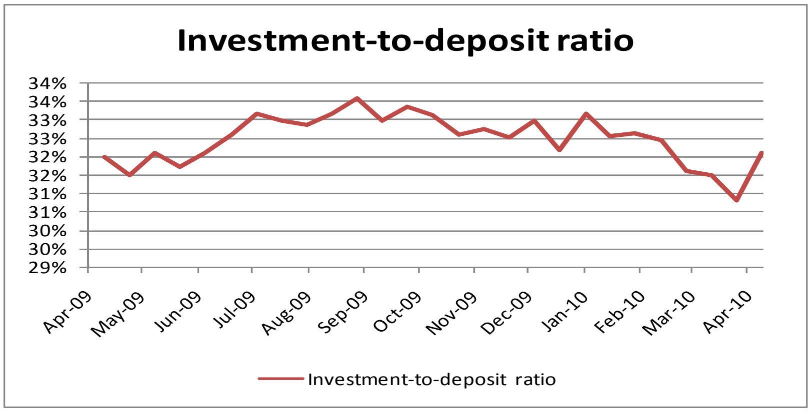
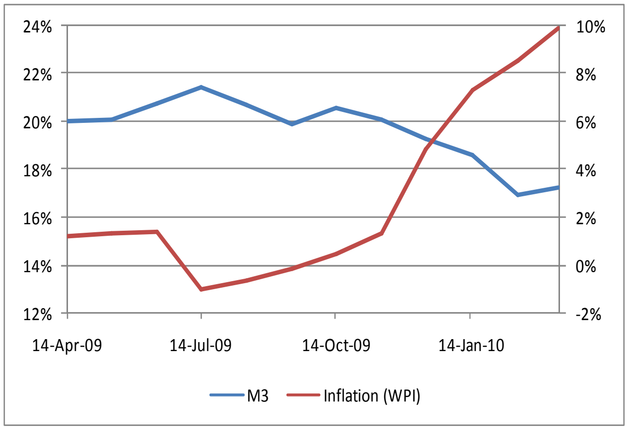
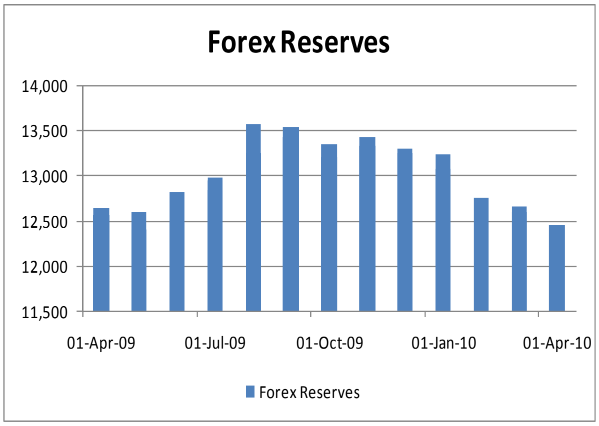
Investments for the fortnight ended 9th April 2010, increased by 18.5% on a YOY basis as compared to 20.0% in the corresponding period previous year. Also IDR (investment deposit ratio) stood 32.1% levels in the current fortnight as compared to 30.8% for previous fortnight due to muted growth in credit. investments by banks in government securities and other approved surged by Rs 71,847.84 crore in the current fortnight to Rs 14,54,531.42 crore.



Money Supply and Inflation

Growth in M3 increased by 15.5% on a YOY basis in the week ending on 9th April 2010. All the components of money supply posted a positive growth on YOY basis except for banking sectors net non-monetary liabilities which decelerated by 22.5 %. On a weekly basis money supply increased by 1.0% or Rs. 56,795 crores.





Inflation	Weight	Feb-10	Mar-10	M-o-M (%)	Mar-09	Y-O-Y(%)
General	100	250.1	250.8	0.28%	228.2	9.90%
Primary	22.0	284.7	283.2	-0.53%	248.2	14.10%
Fuel	14.2	356.9	361.8	1.37%	321.0	12.71%
Manufacturing	63.8	214.3	214.9	0.28%	200.6	7.13%

WPI inflation rose to 9.9% for the month of March 2010, from 9.89% in the month of February 2010. Inflation in primary articles was up 14.1 % on YOY basis, but remained unchanged on a monthly basis. Food inflation eased to a month low of 16.61%, as the pressure on pricing declined with arrival of rabi crops in the market. Inflation in fuel rose to 12.7% due to the recent hike in excise duty on various goods, increased prices of ATF (aviation turbine fuel), petrol and diesel. Increase in the domestic fuel prices resulted in uptrend in fuel index. Inflation in manufacturing group was up 7.13% in March led by higher price of machinery & machine tools, cement, rubber and tobacco products. Due to decrease in food prices, contribution of primary index to wholesale price index is being replaced by manufacturing index, due to increase in prices of manufacturing products.

Indices of Industrial Production

IIP	Weight	Jan-10	Feb-10	M-o-M (%)	Feb-09	Y-O-Y(%)
General	1,000	332.3	318.5	-4.15%	276.8	15.07%
Manufacturing	793.6	359.3	345.1	-3.95%	297.4	16.04%
Mining	104.7	216.8	205.5	-5.21%	183.2	12.17%
Electricity	101.7	240.6	227.0	-5.65%	212.7	6.72%
Used Based Industry						
Basic	355.7	259.7	245.1	-5.62%	226.2	8.36%
Capital	92.6	612.4	576.1	-5.93%	398.9	44.42%
Intermediates	265.1	301.6	290.8	-3.58%	251.6	15.58%
Consumer Goods	286.6	360.4	352.0	-2.33%	323.3	8.88%
- Durables	53.7	514.9	536.3	4.16%	412.9	29.89%
- Non Durables	233.0	324.8	309.6	-4.68%	302.7	2.28%

The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of February 2010 stand at 205.5, 345.1, and 227.0 respectively, with the corresponding growth rates of 12.2%, 16.0% and 6.7% as compared to January 2009. The cumulative growth during April-February, 2009-10 over the corresponding period of 2008-09 in the three sectors have been 9.7%, 10.5% and 5.8% respectively, which moved the overall growth in the General Index to 10.1%. As per User-based classification, the Sectoral growth rates in February 2010 over February 2009 are 8.4% in Basic goods, 44.4% in Capital goods and 15.6% in Intermediate goods. The Consumer durables and Consumer non-durables have recorded growth of 29.9% and 2.3% respectively, with the overall growth in Consumer goods being 8.9%. However on month on month basis there was decline in growth rates . This doubled digit growth can be attributed to low base affect which is expected to wear off by June onwards and there after we expect moderation in growth numbers .Overall, the economy has witnessed impressive industrial growth primarily on the back of manufacturing sector. Manufacturing sector, having 80% weight in the index, grew at 16 % partly due to low base effect and also subsectors such as metals, textile, machinery, transport equipments showing impressive YOY growth.

Monetary Rates

CRR and Interest Rates	09-Apr-10	26-Mar-10	09-Apr-09
Prime lending rate	11.00-12.00	11.00-12.00	11.50-12.25
Deposit Rate	6.00-7.5	6.00-7.50	7.00-8.50
Call Money Rate (low/high)			
- Borrowing and Lending	1.25/3.75	2.0/9.0	1.5/3.75
Cash reserve ratio	5.75	5.75	5.00
Bank Rate	6.00	6.00	6.00
3M Commerical Paper rate	8.72	6.20	6.30

On account of excess liquidity, call money rates have remained on the lower bound of the LAF corridor. In addition, deposit rates have also touched bottom in the range of 6.00% to 7.50%. Many banks have also increased deposit rates as a result of increasing interest rate environment. We don't expect lending rates to rise in the near term due to sufficient liquidity with banks.

Highlights Fourth Quarter Review of Monetary Policy 2009-10

- The Reserve Bank of India (RBI) increased cash reserve ratio, repo and reverse repo rates by 25 basis point. The rise in CRR would result in curbing liquidity to the extent of approximately Rs.12,500 crore. Meanwhile SLR and bank rate have been left unchanged.
- The central bank has given a growth estimate for 2010/11 at 8% with an upward bias. Forecast is under the assumption of normal monsoon and sustenance of good performance of the industrial and service sector. Baseline projection for WPI inflation at the end –March 2011 is placed at 5.5%.
- For the year 2010-11 RBI has projected non food credit growth at 20%, deposits growth at 18% and M3 growth at 17%.

Three major outcomes expected by RBI from the policy are, first Inflation will be contained and inflationary expectations will be anchored, second the recovery process will be sustained, Government borrowing requirements and the private credit demand will be met and third policy instruments will be further aligned in a manner consistent with the evolving state of the economy.

Economy is facing a risk of spill-over in inflation from supply side to demand side which can become a hurdle in smooth functioning of the country. Therefore, with increase in CRR, RBI has signaled constant effort to focus on the challenge of boosting economic growth along with maintaining price stability to keep inflation under control. Broad based recovery and sustained growth in key variables also provides comfort to RBI for further tightening its monetary stances.

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