

The recently released RBI data reveal that bank credit growth for the fortnight ended October 23, 2009 decelerated further to low single digits. The system credit grew at 9.7% yoy growth as against 29.1% yoy in the corresponding period of the previous year. The high base effect of previous is likely to wear-off in coming period, and we expect strong revival in credit demand in H2 FY10. While the central bank in its second quarter monetary review policy refrained from exiting the accommodative monetary policy stance, it toned down the credit and deposit growth target to 18% yoy from earlier 20% yoy. It further raised the inflation outlook to 6.5% with upside bias, implying that the apex bank is in no hurry to raise its interest rates. On a fortnightly basis, loans declined by Rs218bn or 0.8% of total loans, deposits declined by Rs84bn or 0.2% of system deposit and investment declined by sharp Rs247bn or 1.8% of total investments.

#### Credit growth decelerates further; disbursements decline 0.8% on a fortnightly basis

The system credit growth for the fortnight ended October 23, 2009 declined further to 9.7% yoy as against 29.1% in the corresponding period of the previous year. The high base effect of the previous year is likely to wear-off in coming period. However, on a fortnightly basis, the credit disbursement declined 0.8% or by Rs218bn. Cumulatively banks have disbursed Rs986bn or 3.6% of loans since March 2009. In its second quarter monetary review policy, RBI has toned down its credit growth target to 18% yoy from earlier 20% yoy. During Q2 FY10, 9 banks under our universe reported healthy 3.7% sequential growth in loans as against system loan growth of 2.7% for the relevant period. Excluding ICICI Bank, the loan book grew 5% qoq. While the credit demand has remained sluggish during H1 FY10, we expect strong revival in credit demand in H2 FY10 with demand led from both consumer segments (home and auto loans) and commercial segment.

#### Deposit growth moderates to 19.0% yoy, LDR remains at 69% levels.

After running at high 20+% yoy rates for last several months, the system deposit growth moderated to 19% yoy. On a fortnightly basis, deposits declined by Rs84bn or 0.2% of total deposits. We expect further moderation in deposit growth, as the deposits which get re-priced are not getting flushed back into the system due to availability of alternative sources of investment. Banks have mobilized Rs3,226bn or 8.4% of deposits since March 2009. The central bank in the recent monetary review policy has projected a deposit growth of 18% (from earlier 20% yoy growth) in line with system credit growth. During the quarter under review, banks reported significant improvement in CASA and NIM. CASA deposits increased as banks placed impetus on raising CASA deposits. Loan-to-deposit ratio has remained below 70% level for last 5 months. Any improvement in LDR ratio would lead to improvement in margins. In a recent report, RBI has urged banks to stop relying on bulk deposits and concentrate on garnering core retail deposits.

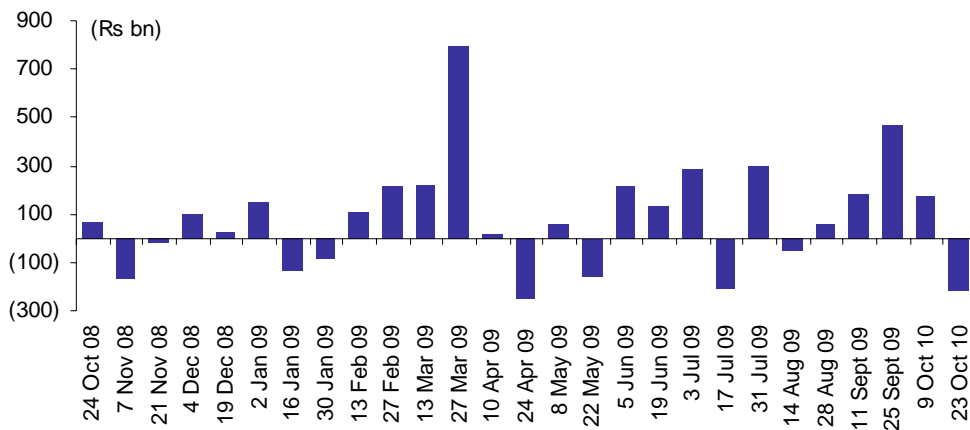
#### Investments growth moderates to 28.2% yoy

Investments growth for the fortnight ended October 23 has slowed down to 28.2% yoy as against 40.9% in the previous fortnight. On a fortnightly basis, investments declined by Rs247bn or 1.8%, the largest decline in last several months. The investment growth is likely to moderate further, as banks divert funds towards credit, in the busy season. Investments have increased 16.1% since March 2009 as against 8.6% in the corresponding period of the previous year. The investment-deposit ratio (IDR) however continues to remain at high 30%+ rate, while the incremental IDR has slipped below 50% mark.

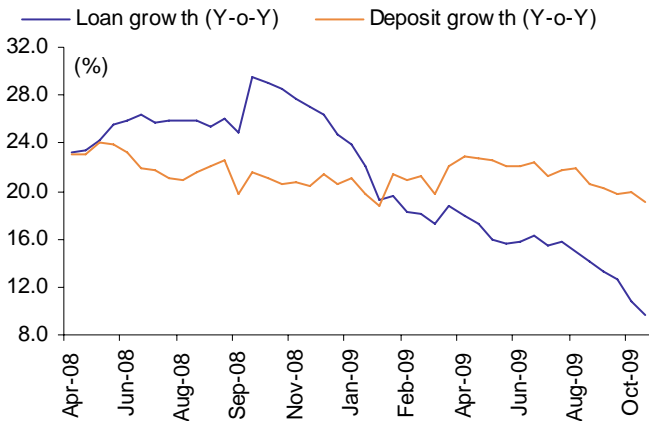
(Rs bn)	23-Oct-09	YoY (%)	Fortnightly (%)
<b>Bank credit</b>	<b>28,686</b>	<b>9.7</b>	<b>(0.8)</b>
- Food credit	360	(25.4)	(15.7)
- Non-food credit	28,326	10.3	(0.5)
<b>Deposits</b>	<b>41,529</b>	<b>19.0</b>	<b>(0.2)</b>
- Demand deposits	5,351	15.3	0.5
- Time deposits	36,178	19.6	(0.3)
<b>Investments</b>	<b>13,532</b>	<b>28.2</b>	<b>(1.8)</b>
Credit-deposit ratio (%)	69.1	(590.2)bps	(38.3)bps
Investment-deposit ratio (%)	32.6	233.0 bps	(52.8)bps

Source: RBI, India Infoline research

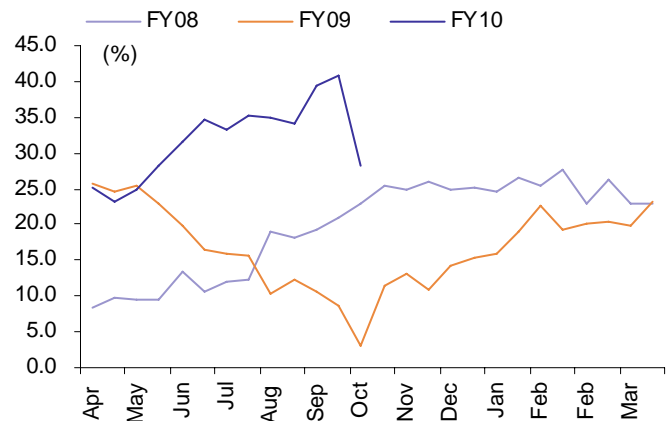
**Trend in system credit disbursements on a fortnightly basis**



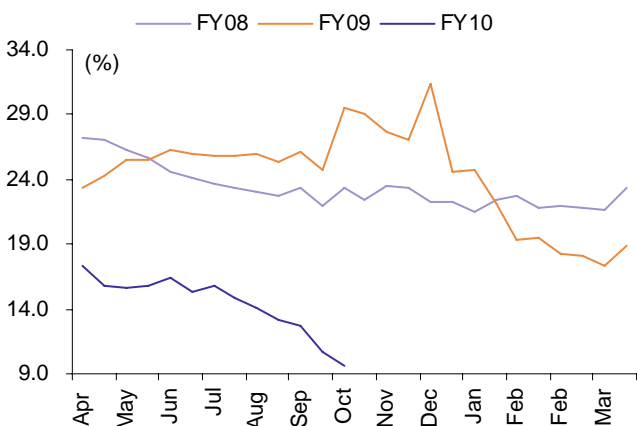
**Trend in loan and deposit growth**



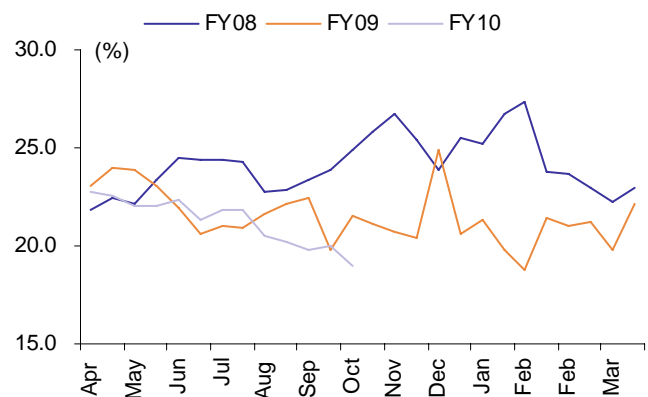
**Investment growth moderates**



**Trend in loan growth yoy**



**Trend in deposit growth yoy**



Source: RBI, Bloomberg

**Recommendation parameters for fundamental reports:**

**Buy** – Absolute return of over +10%

**Market Performer** – Absolute return between -10% to +10%

**Sell** – Absolute return below -10%

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