

asset
360
ONE



panorama

July 2024



India's financial sector remains resilient and records further improvement in asset quality

- The banking system's GNPA ratio hit a 12-year low in Mar'24, with broad-based improvement across sectors
- The share of low-rated borrowers in new consumer credit has declined in FY24
- Public sector banks have significantly improved the asset quality of their consumer credit book
- Delinquency has increased in personal loans, particularly among borrowers with loans below Rs 50,000
- The share of unsecured loans in the total NBFC loan book declined post RBI's November 2023 circular



Recovery in monsoon in July should boost kharif sowing and reservoir levels

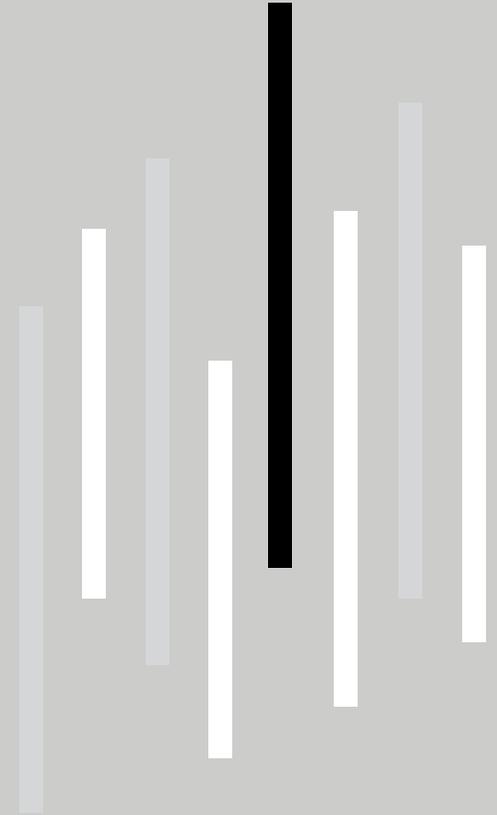
- Monsoon recovers to 1% above the long-period average (LPA), as of 24th July, from 20% below LPA in mid-June
- The reservoir storage levels, however, remain lower than the normal storage levels across most regions
- Kharif sowing has been off to a slow start but should improve as the monsoon progresses
- Minimum Support Prices (MSPs) ensure a minimum return of 50% over the cost of production for all kharif crops
- A good kharif crop production should help ease food inflation by the end of the calendar year



Rural sector showing signs of recovery, set to receive a further boost from normal monsoon

- Rural wage growth, in both nominal and real terms, has improved over the past two years
- The demand for work under the Employment Guarantee Act has reduced significantly in 2024
- Two-wheeler sales have recovered in 2024, while tractor sales have recovered in the June 2024 quarter
- A favourable monsoon is likely to further aid the recovery in the rural sector

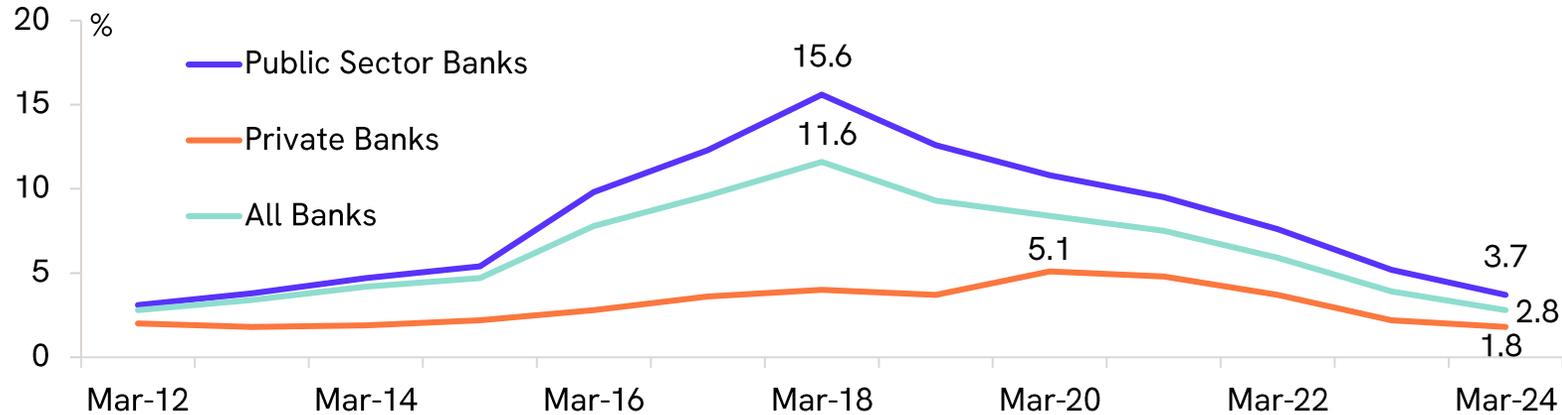
Financial Stability



Banking system's GNPA ratio fell to a 12-year low in March 2024

Sustained improvement in asset quality was witnessed across sectors; GNPA ratio in agriculture remained the highest

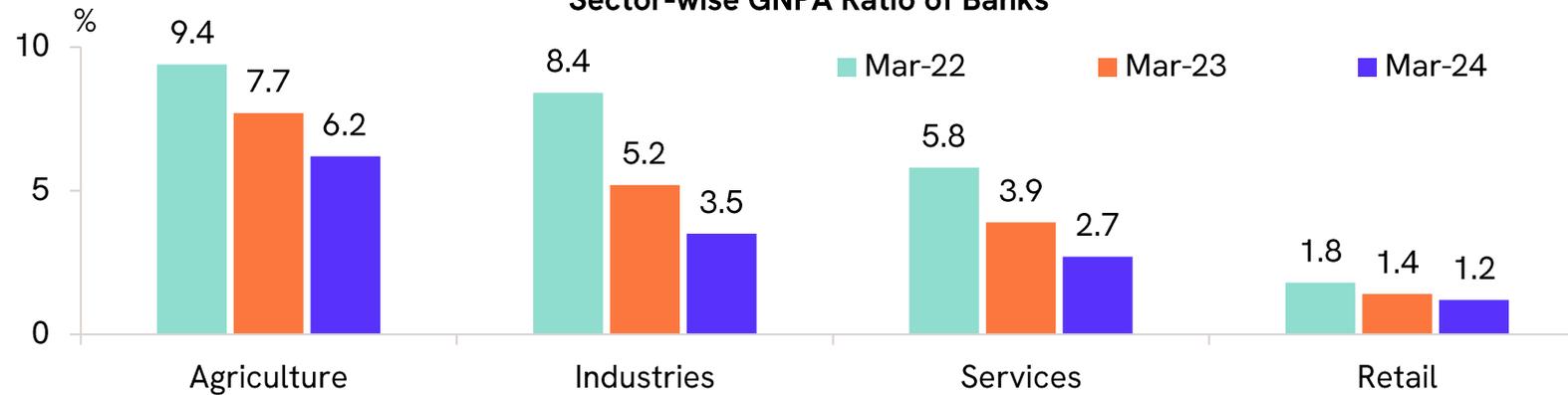
Banking Sector - Gross Non-Performing Assets (GNPA) Ratio



Scheduled Commercial Banks (SCBs) witnessed a sustained improvement in asset quality, with the system-wide GNPA ratio dropping to a 12-year low of 2.8%

Both public and private sector banks witnessed improvements in asset quality

Sector-wise GNPA Ratio of Banks



The improvement in SCBs' asset quality was broad-based across sectors

However, the GNPA ratio in agriculture remained the highest at 6.2% in March 2024

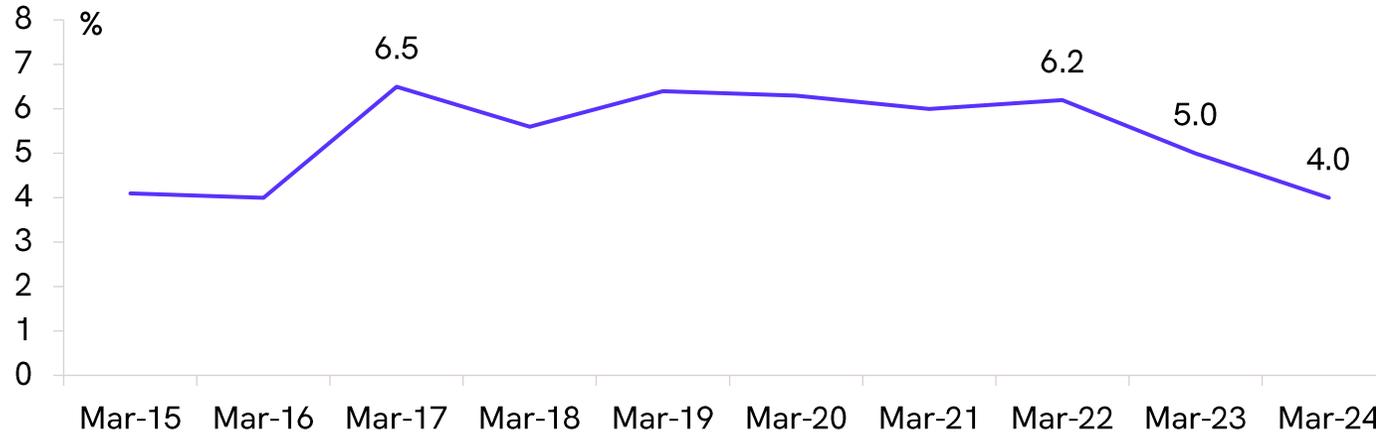
Source: RBI Financial Stability Reports, 360 ONE Asset Research

Note: Data are approximate, GNPA ratio = Total gross non-performing assets divided by total advances

NBFCs also witnessed improvement in the asset quality across sectors

Share of unsecured loans extended by the NBFCs dropped from 32% to 23% following the RBI Nov'23 circular

NBFC Sector - Gross Non-Performing Assets (GNPA) Ratio

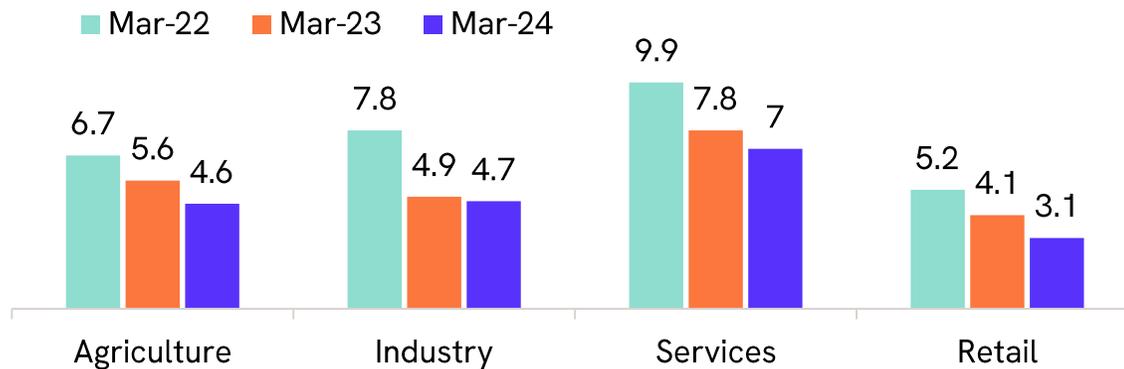


NBFCs' GNPA ratio declined to 4% in March 2024 from 5% in March 2023

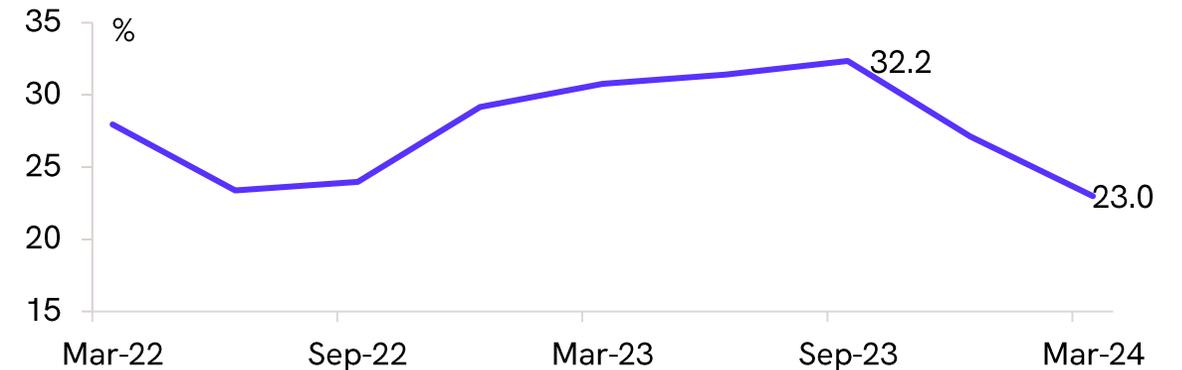
The improvement in GNPA was witnessed across all sectors

The share of unsecured loans extended by NBFCs fell from 32% of total loans to 23% following the RBI's November 2023 circular, in which the RBI increased the risk weights on consumer credit for banks and NBFCs

Sector-wise GNPA Ratio of NBFCs (%)



NBFCs - Share of Unsecured Loans in Total Loans



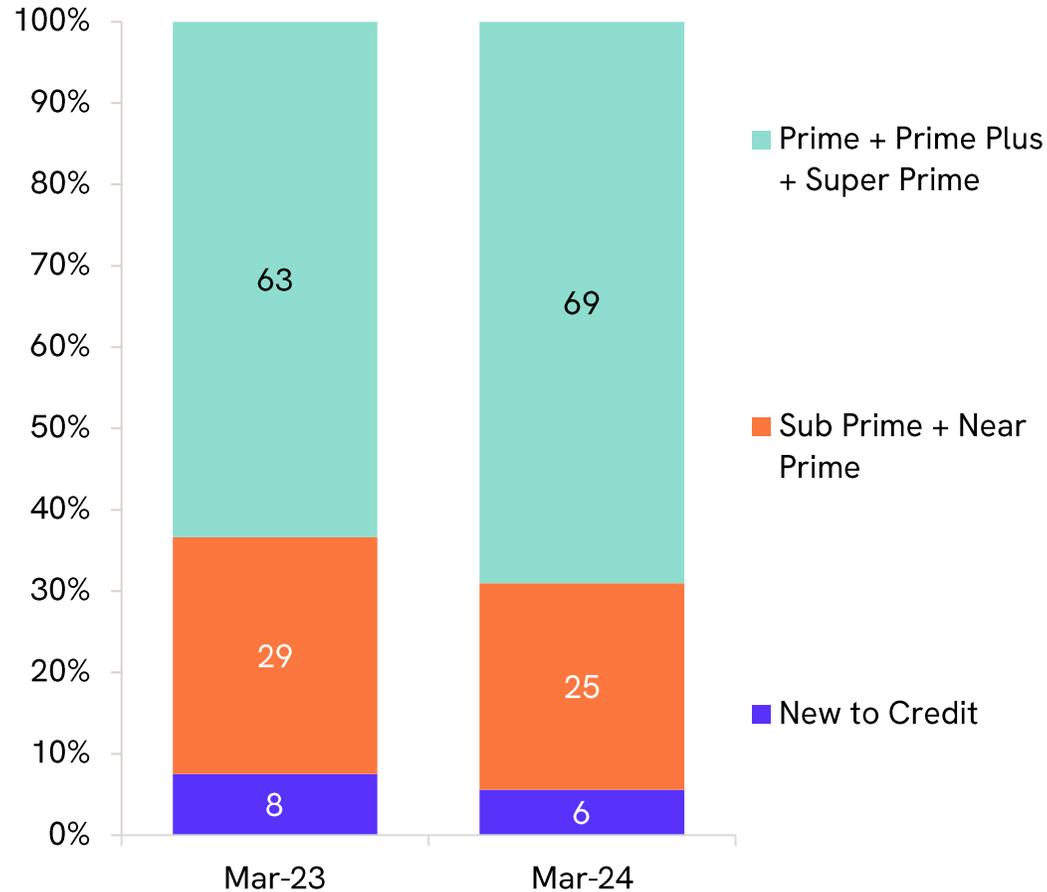
Source: RBI Financial Stability Reports, 360 ONE Asset Research

Note: Data are approximate

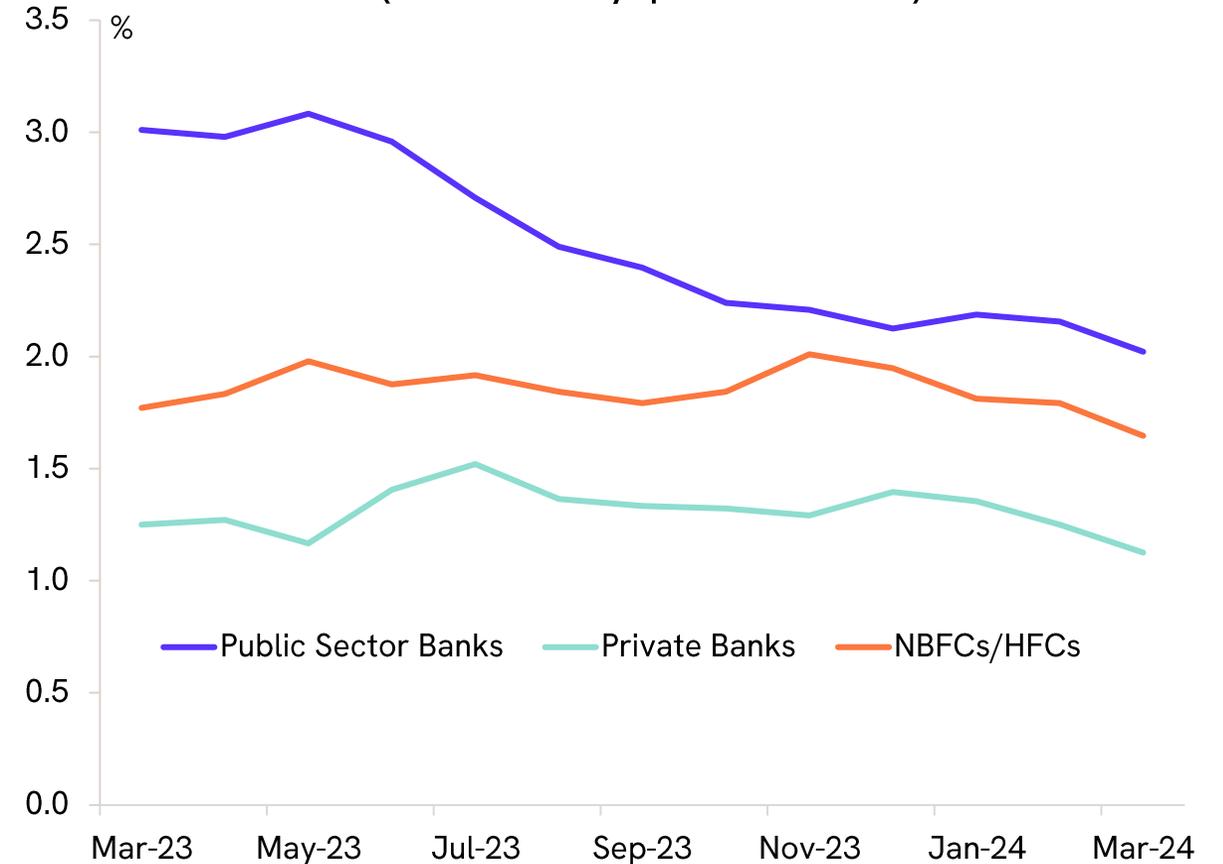
Share of low-rated borrowers in new consumer credit declined in FY24

Public sector banks have significantly reduced delinquency levels in consumer credit over the past year

Origination by Risk Tier (by Amount)



Consumer Credit – Delinquency Levels (based on 90 days past due balances)

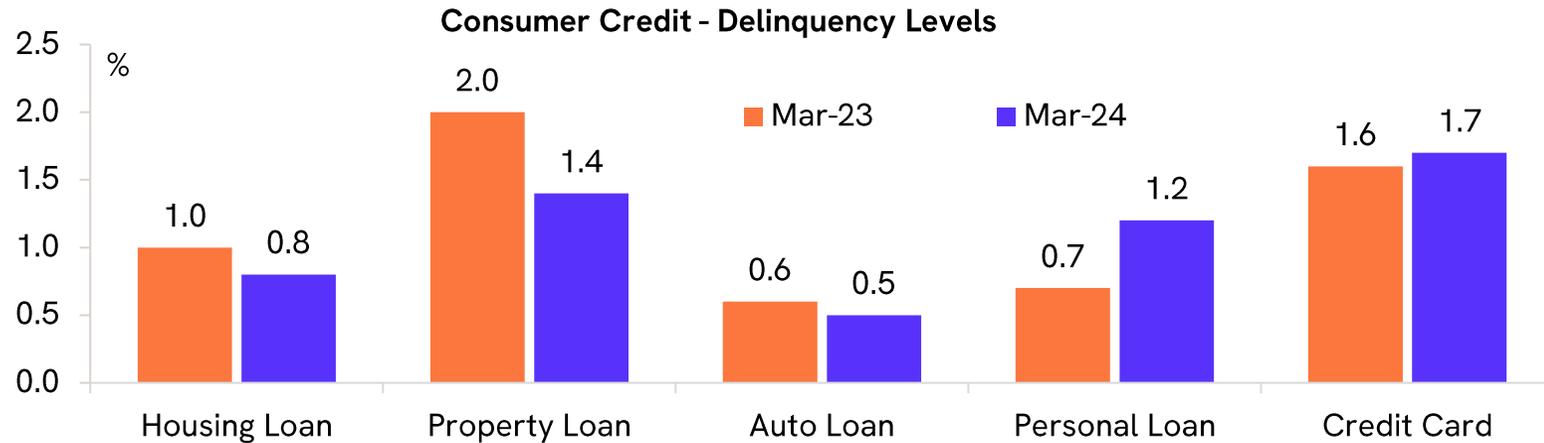


Note: Data are approximate, NBFCs- Non-Banking Financial Companies, HFCs – Housing Finance Companies
 Segregation of risk tiers based on CIBIL scores is as follows - Super Prime: 791-900; Prime Plus: 771-790, Prime: 731-770; Near Prime: 681-730 and Sub Prime: 300-680

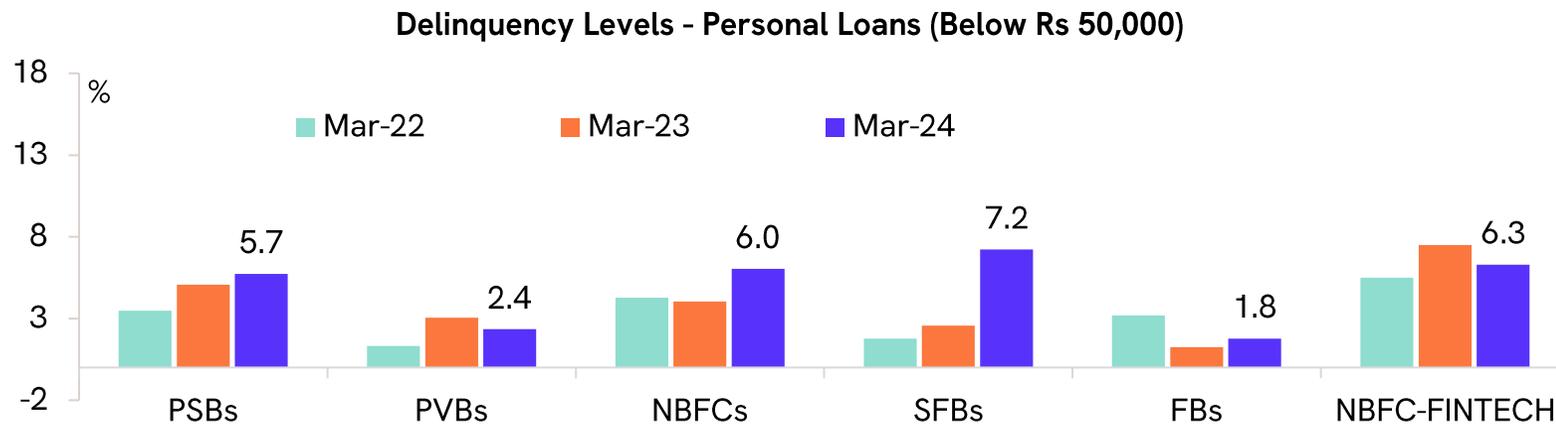
Source: RBI Financial Stability Reports, 360 ONE Asset Research

Delinquency has increased in the personal loans category

The delinquency levels among borrowers with personal loans below Rs 50,000 remain high



Delinquency levels have increased in the personal loans category, whereas they have dropped for housing, property, and auto loans

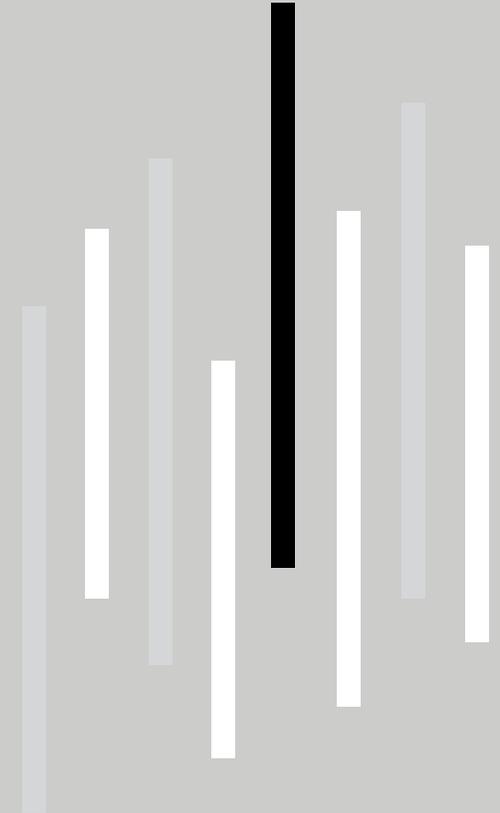


Delinquency levels among borrowers with personal loans below Rs 50,000 remain high, particularly for fintech lenders and small finance banks

Source: RBI Financial Stability Reports, 360 ONE Asset Research

Note: Delinquency based on 90 days past due balances, Data are approximate

Monsoon, Food Inflation, Rural sector

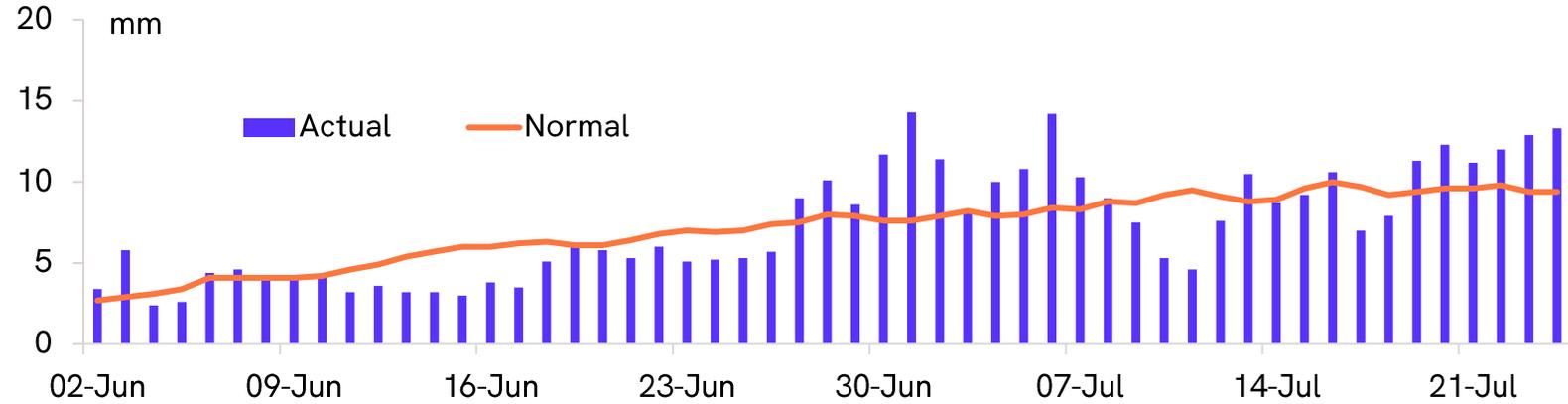


Above-normal rainfall in early July helps in the recovery of the monsoon 360

Monsoon recovers to 1% above the long-period average (LPA), as of 24th July, from a low of 20% below LPA in mid-June



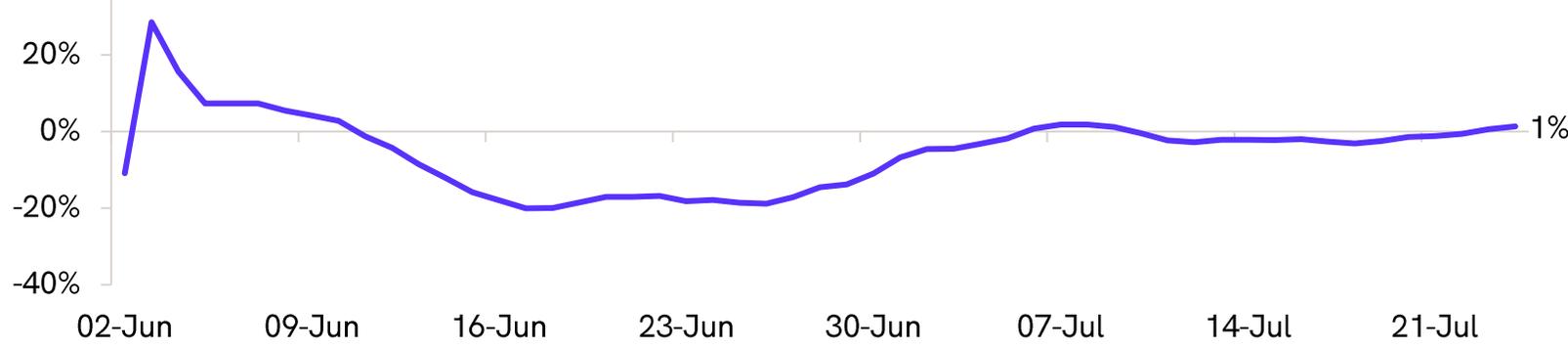
Daily Mean Rainfall



Below-normal rainfall in June 2024 kept the monsoon in a steep deficit

However, above-normal rainfall in early July led to a recovery in the monsoon

% Deviation from Normal - Cumulative



The monsoon recovered to +1% of the long-period average (LPA), as of 24th July, from a low of 20% below the LPA in mid-June

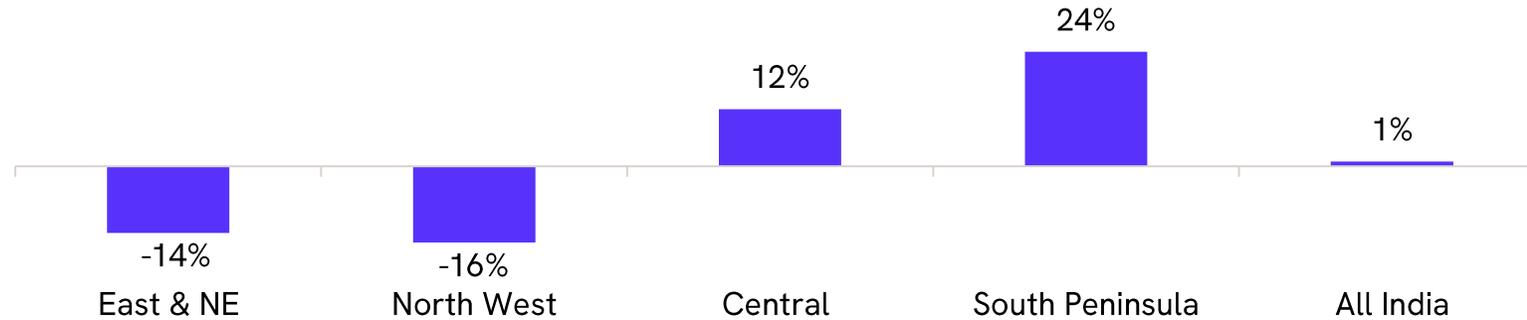
The India Meteorological Department (IMD) has forecasted an 'above normal' monsoon at 106% of the long-period average in 2024

Source: CMIE, 360 ONE Asset Research

Monsoon distribution is uneven, with a heavy surplus in the South

The reservoir storage levels remain lower than the normal storage levels across most regions

% Deviation from Long Period Average - Cumulative (as of 24th July)

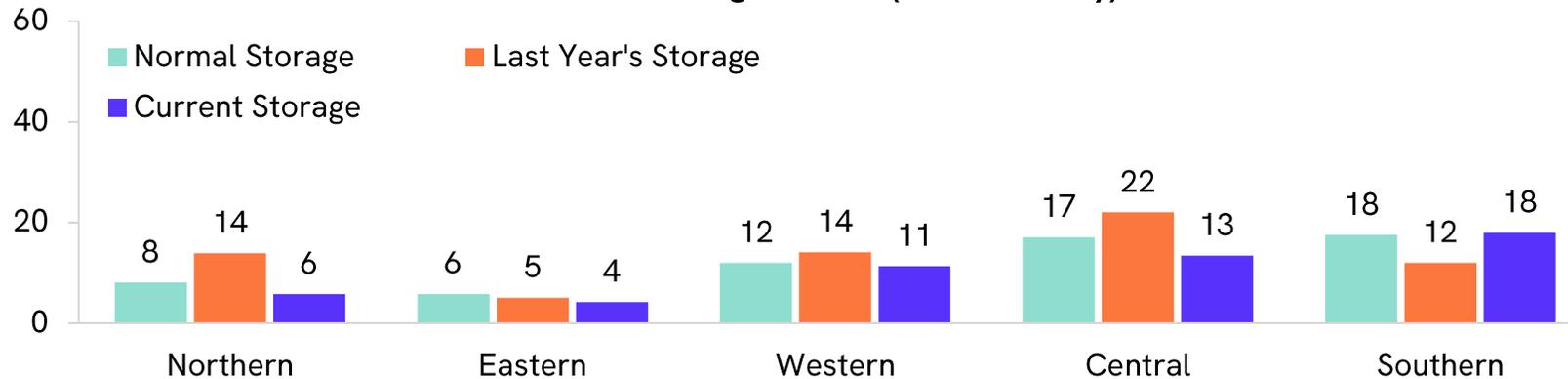


As of 24th July, rainfall in the North-west region and the 'East & North-east' region is 16% and 14% below the long-period average (LPA), respectively

Rainfall in the Central region is 12% above the LPA, while the South Peninsula has a heavy surplus at 24% above the LPA

BCM (bn cubic meter)

Reservoirs Storage Position (as of 18th July)



The reservoir storage levels are currently lower than last year and below normal in most regions, except in the South

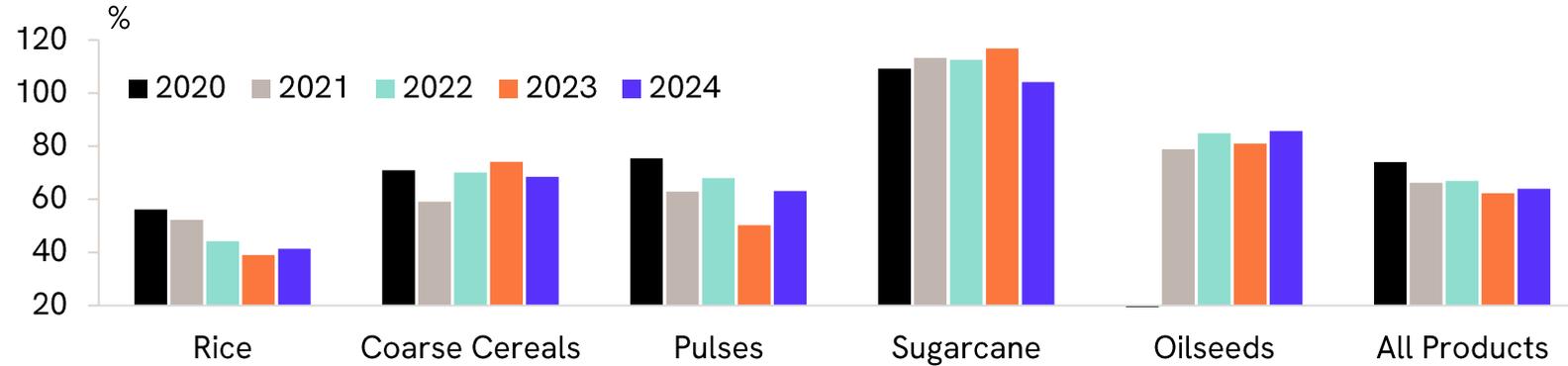
However, reservoir levels are expected to improve as the monsoon progresses

Source: IMD, CWC, 360 ONE Asset Research

Kharif sowing has been off to a slow start, remains below 2021/22 levels

Minimum Support Prices (MSPs) ensured a minimum return of 50% over the cost of production for all kharif crops

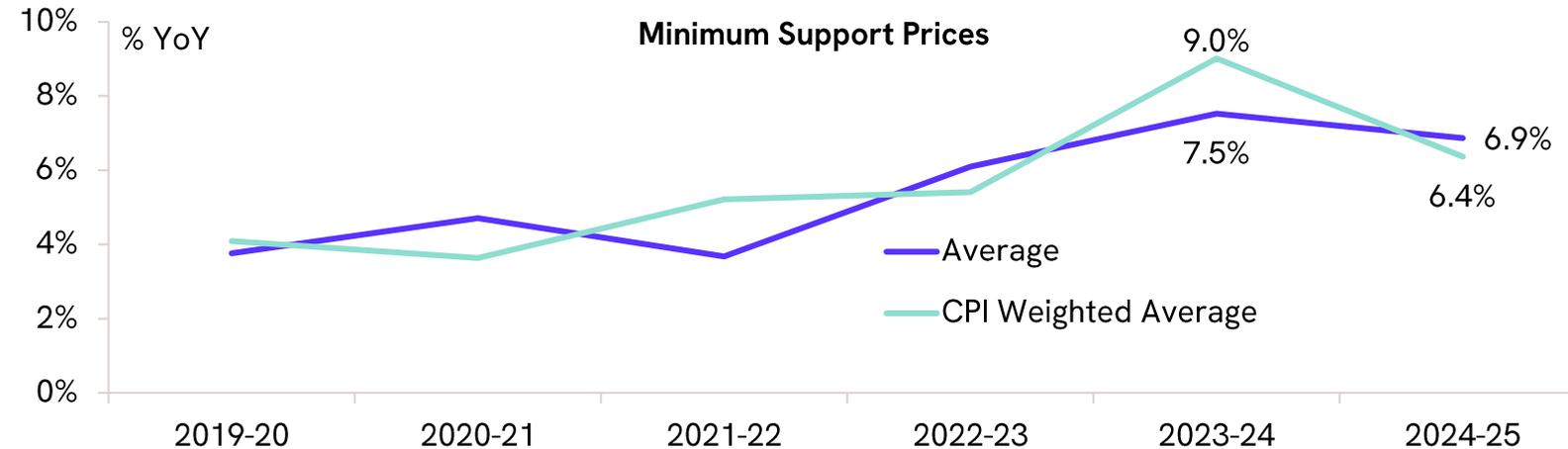
Kharif Actual Area Sown % of Normal Sown Area (as of 19th July)



As of July 19th, kharif sowing has surpassed last year's levels

However, it has progressed more slowly than in 2021 and 2022, and is significantly behind the pace seen in 2020

Kharif sowing should improve as the monsoon progresses



The government has offered a decent hike in minimum support prices for the marketing season 2024-2025, although it is slightly lower than last year

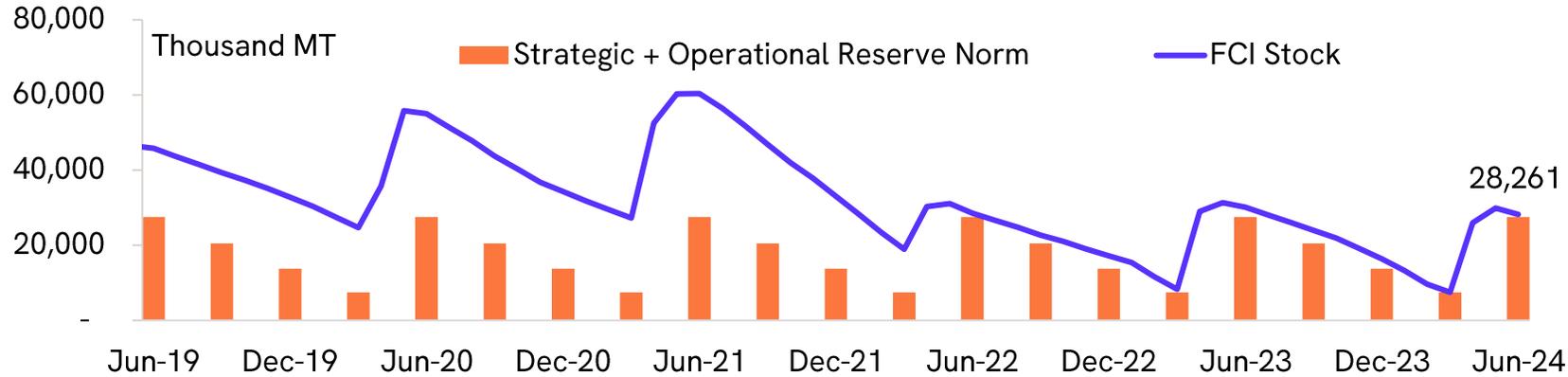
The government has maintained a minimum 50% return over the cost of production for all crops

Source: CMIE, MOSPI, 360 ONE Asset Research

FCI wheat stock is close to the norms, while the rice stock is in excess

Government has sufficient rice stock to intervene in the market and cap prices, while wheat stock is comparatively limited

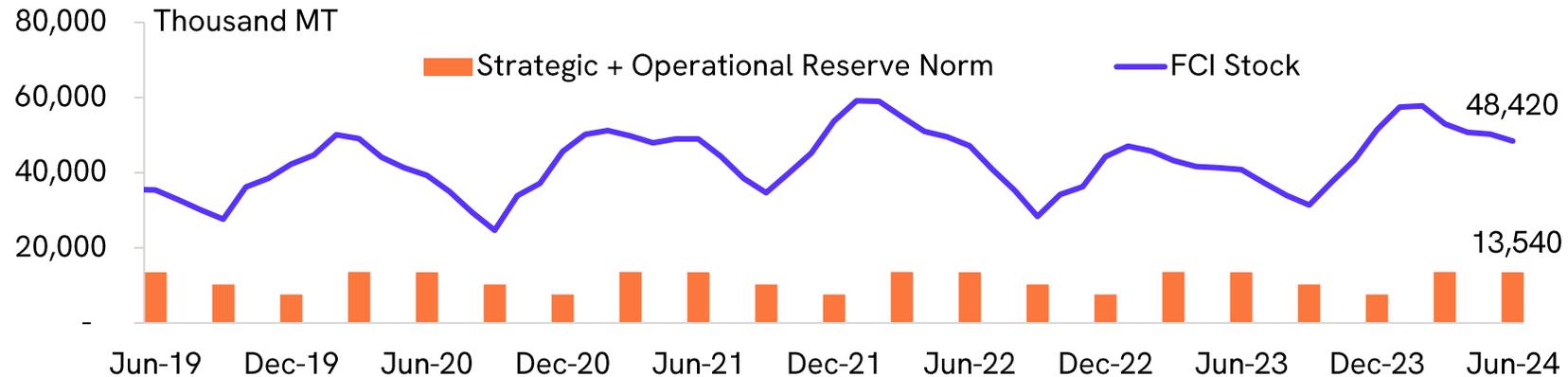
FCI Wheat Stock and Buffer Norm



Wheat stocks with FCI are closer to the required buffer norms

This constrains the government's ability to aggressively intervene in the market to control price increases

FCI Rice Stock and Buffer Norm

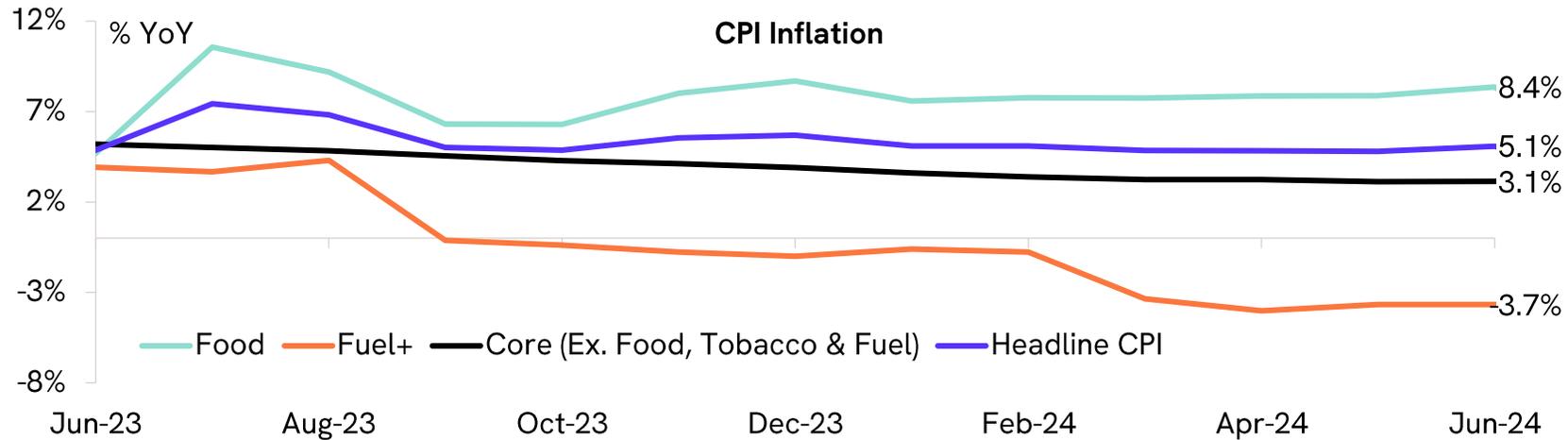


The FCI rice stock is ~3.5 times the required norms, sufficient to intervene in the market through open market sales to cap price increases

Source: CMIE, 360 ONE Asset Research

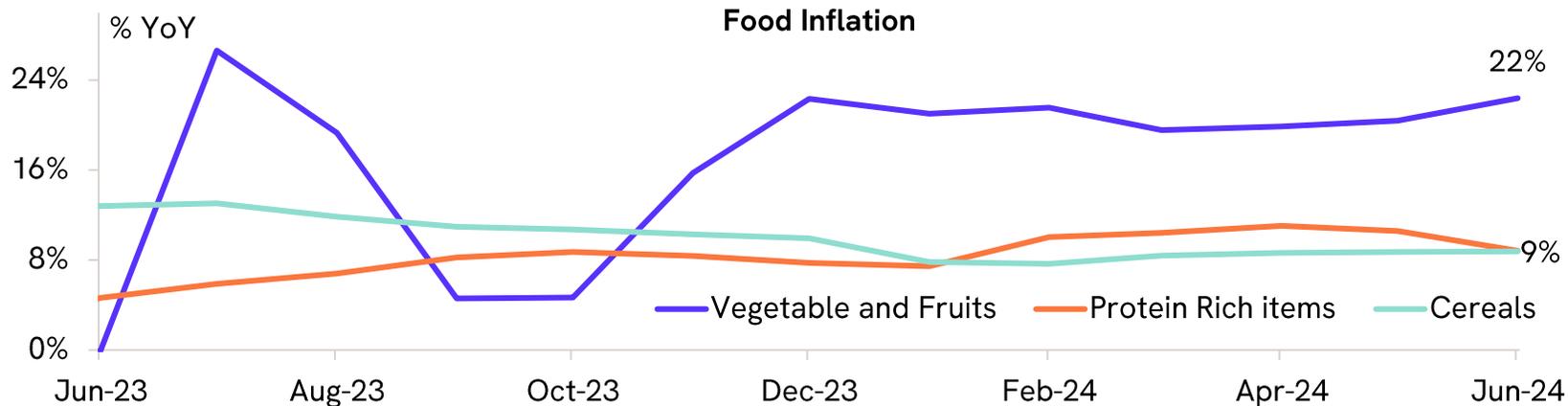
Headline inflation is driven by food, while core inflation remains muted

Food inflation is expected to ease towards the end of the year as Kharif produce arrives in the market



Headline inflation is being driven by elevated food inflation

Core inflation, which excludes food and fuel, remains benign and close to the series low



Vegetables are the primary drivers of food inflation

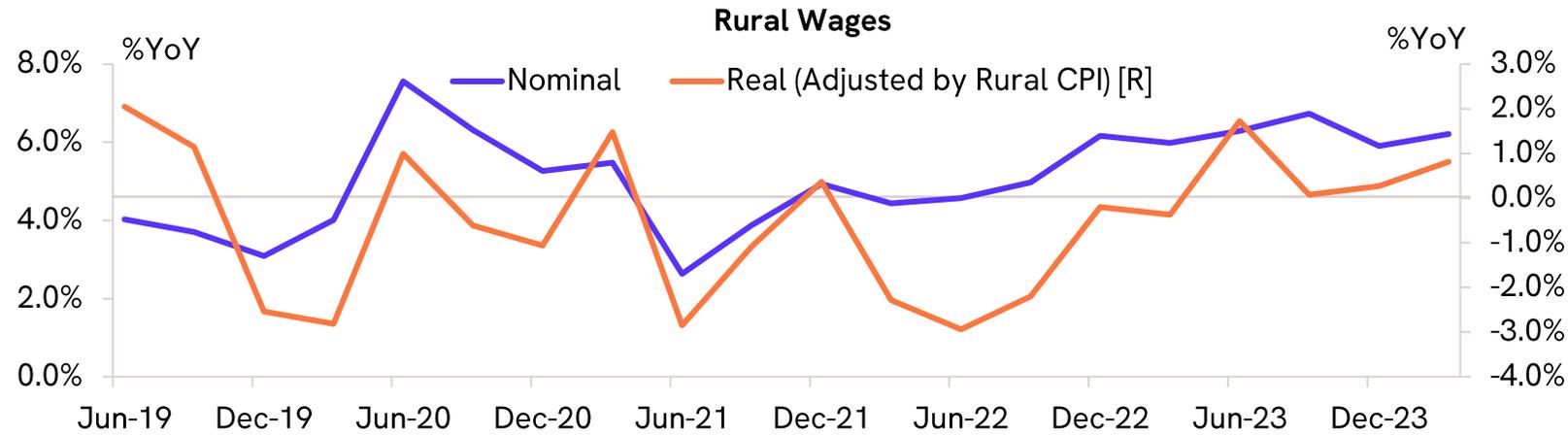
Protein (pulses, meat, fish, and eggs) and cereal inflation also remain high

A good Kharif crop production should help ease food inflation as fresh produce arrives in the market by the end of the year

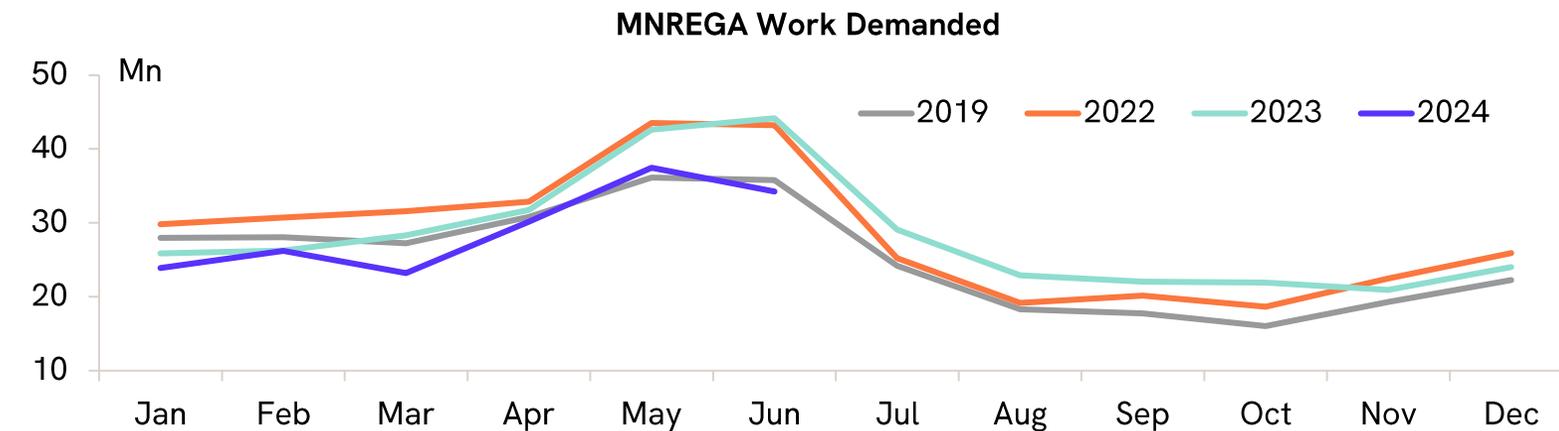
Source: MOSPI, 360 ONE Asset Research

Rural sector showing clear signs of economic recovery

Rural wages, both nominal and real, are improving, while the demand for work under MNREGA has reduced



Rural wage growth, in both nominal and real terms, has improved over the past two years



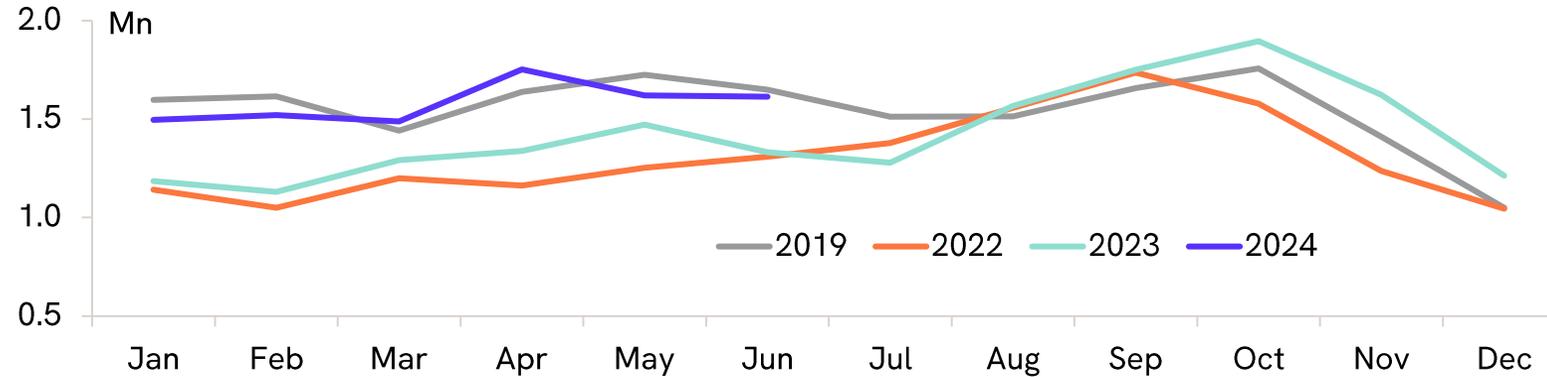
The demand for work under Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) has reduced to the levels last witnessed in 2019

Source: CMIE, 360 ONE Asset Research

Two-wheeler sales have significantly recovered from 2022/23 levels

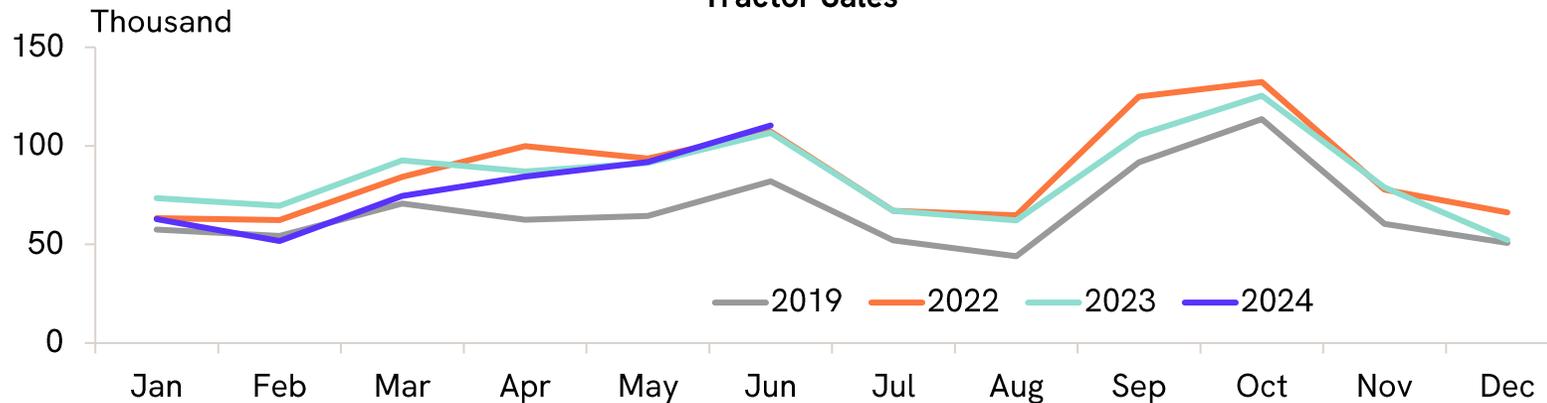
Tractor sales have also picked up in the June quarter after remaining subdued in the March 2024 quarter

Two Wheeler Domestic Sales



In 2024, two-wheeler sales have markedly rebounded to pre-COVID (2019) levels, following the downturns experienced in 2022 and 2023

Tractor Sales



Tractor sales have experienced a sharp recovery in the June quarter, following muted sales in the March 2024 quarter

Overall, a favorable monsoon is expected to further support the recovery in the rural sector and reduce food inflation, which, in turn, will create room for policy easing by the RBI

Source: CMIE, 360 ONE Asset Research

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