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ONE



panorama

July 2023



Monsoon distribution has been highly uneven

- North-West India witnesses heavy rainfall while South, East & North-East remains in deficit
- Skewed rainfall distribution can impact the food grain production even if the overall monsoon is normal



Progress of Kharif sowing hampered by delayed and erratic monsoon

- Rice and pulses sowing gradually picking up, but heavy rainfall in North India could impact crop yields
- Reservoir levels in Southern India are low due to insufficient rainfall
- Rural activity remains subdued, with our in-house index indicating a slowdown from the peak in Oct-Nov



Erratic weather conditions lead to rise in food prices

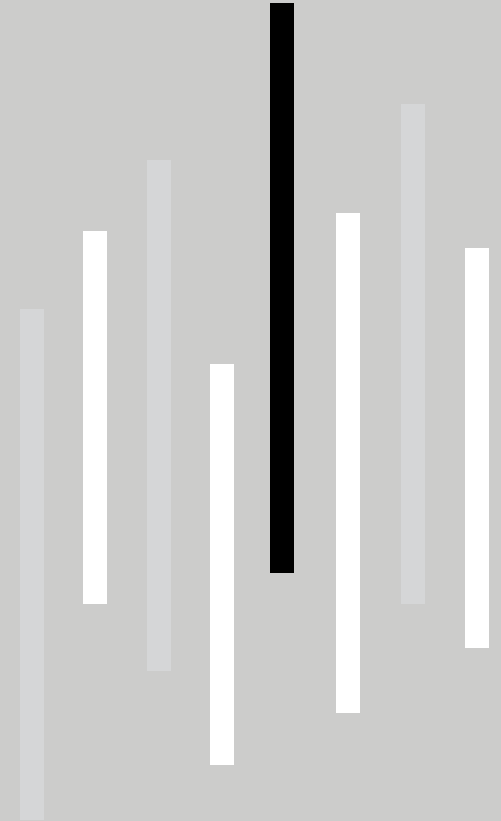
- Tomato crop suffered damage due to a combination of extreme heat and heavy rainfall
- Broad based rise in food prices with cereals and pulses also witnessing sharper increase in June 2023
- Higher food inflation has pushed the inflation trajectory upwards, RBI to remain in 'wait & watch' mode



India banking sector remains stable and resilient

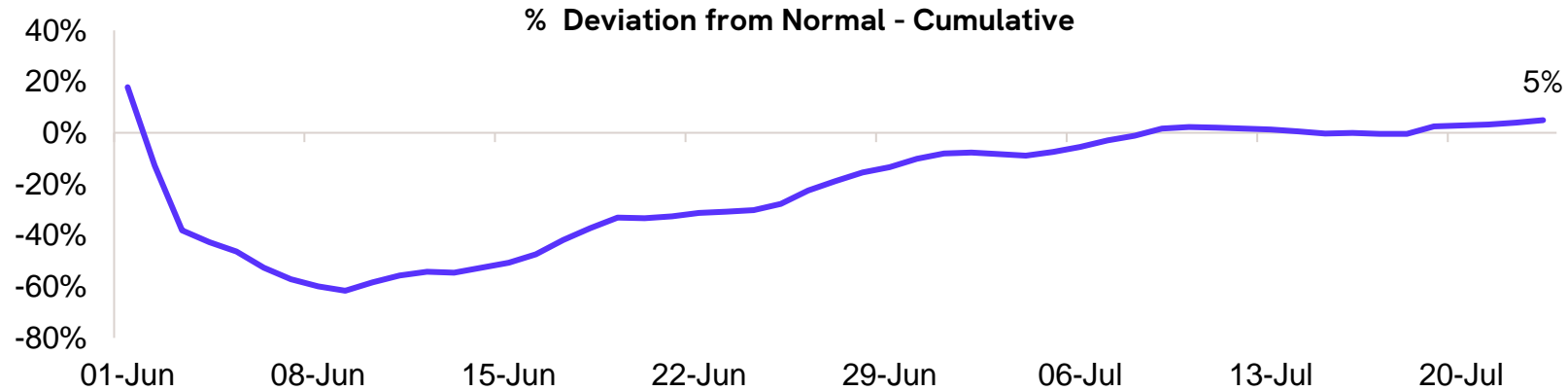
- Banking system GNPA ratio declined to a decadal low of 3.9% in March 2023
- GNPA ratios have corrected across all product categories and bank/non-bank cohorts
- Retail unsecured credit does not present any higher inherent risk compared to the secured segment

Macro & Monsoon



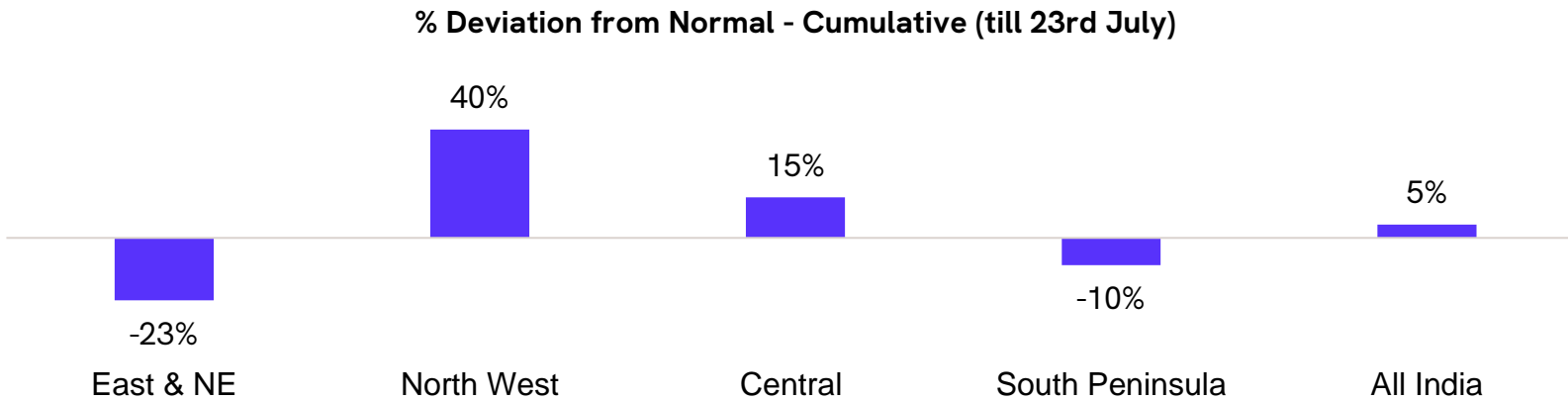
Monsoon distribution has been highly uneven

North-West India witnessing heavy rainfall, resulting in floods, while Southern Peninsula, East & North-East remains in deficit



Southwest monsoon normally sets in over Kerala around 1st June. But this year, monsoon was delayed by a week and arrived on 8th June

Monsoon was in a deep deficit for most of June 2023 and only started picking up during the last week of the month



All-India average hides large dispersion in rainfall across India

North-west India witnesses very heavy rainfall, leading to floods across parts of Himachal Pradesh, Uttarakhand, Uttar Pradesh, Punjab and Delhi

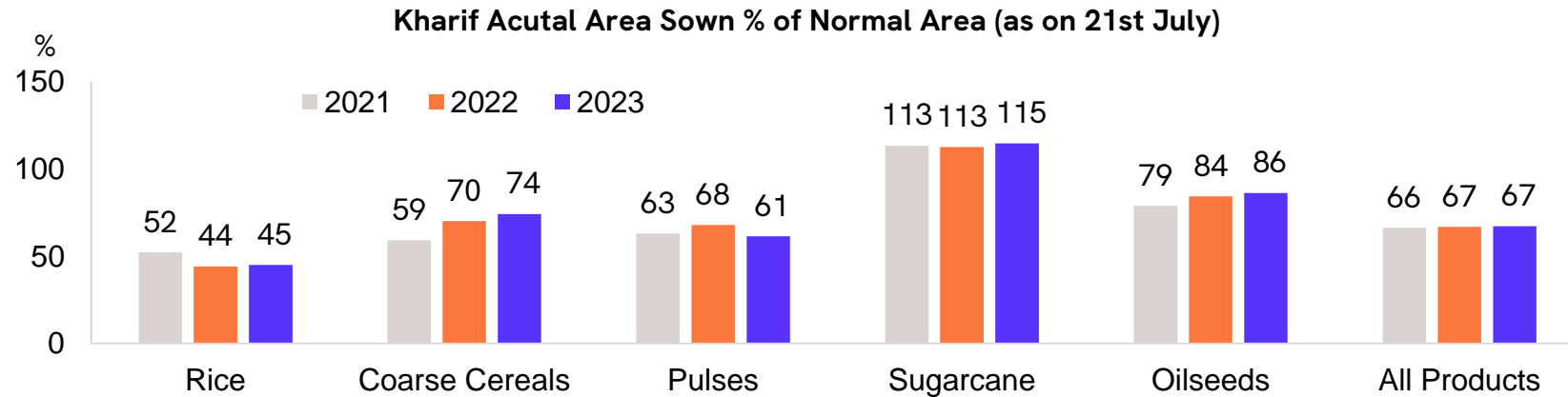
Southern Peninsula. East & North-East remains in deficit

Skewed rainfall distribution can impact agricultural production even if the overall monsoon is normal

Note- **East & NE:** Arunachal Pradesh, Assam, Meghalaya, Sikkim, Jharkhand, Bengal, Bihar, Nagaland, Manipur, Mizoram, Tripura
North-West: Uttar Pradesh, Uttarakhand, Haryana, Chandigarh, Delhi, Punjab, Himachal Pradesh, Jammu & Kashmir, Ladakh, Rajasthan
Central: Odisha, Madhya Pradesh, Gujarat, Goa, Maharashtra, Chhattisgarh
South Peninsula: Andaman & Nicobar, Andhra Pradesh, Telangana, Karnataka, Kerala, Lakshadweep

Sowing progress for rice and pulses gradually picking up

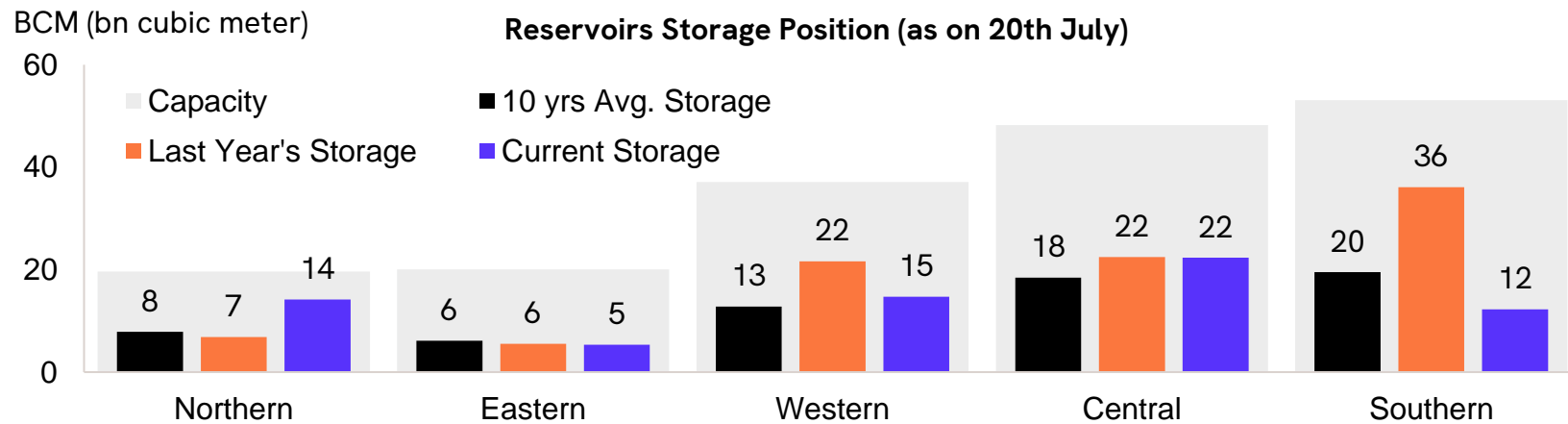
Due to inadequate rainfall, the reservoir levels in the southern region are below the 10-year average



The sowing progress of rice and pulses has been hampered by the delayed onset of the monsoon

Sowing pace expected to pick up in the coming weeks

Nevertheless, the uneven distribution of rainfall poses a potential challenge. Heavy rainfall in Northern India could impact crop yields

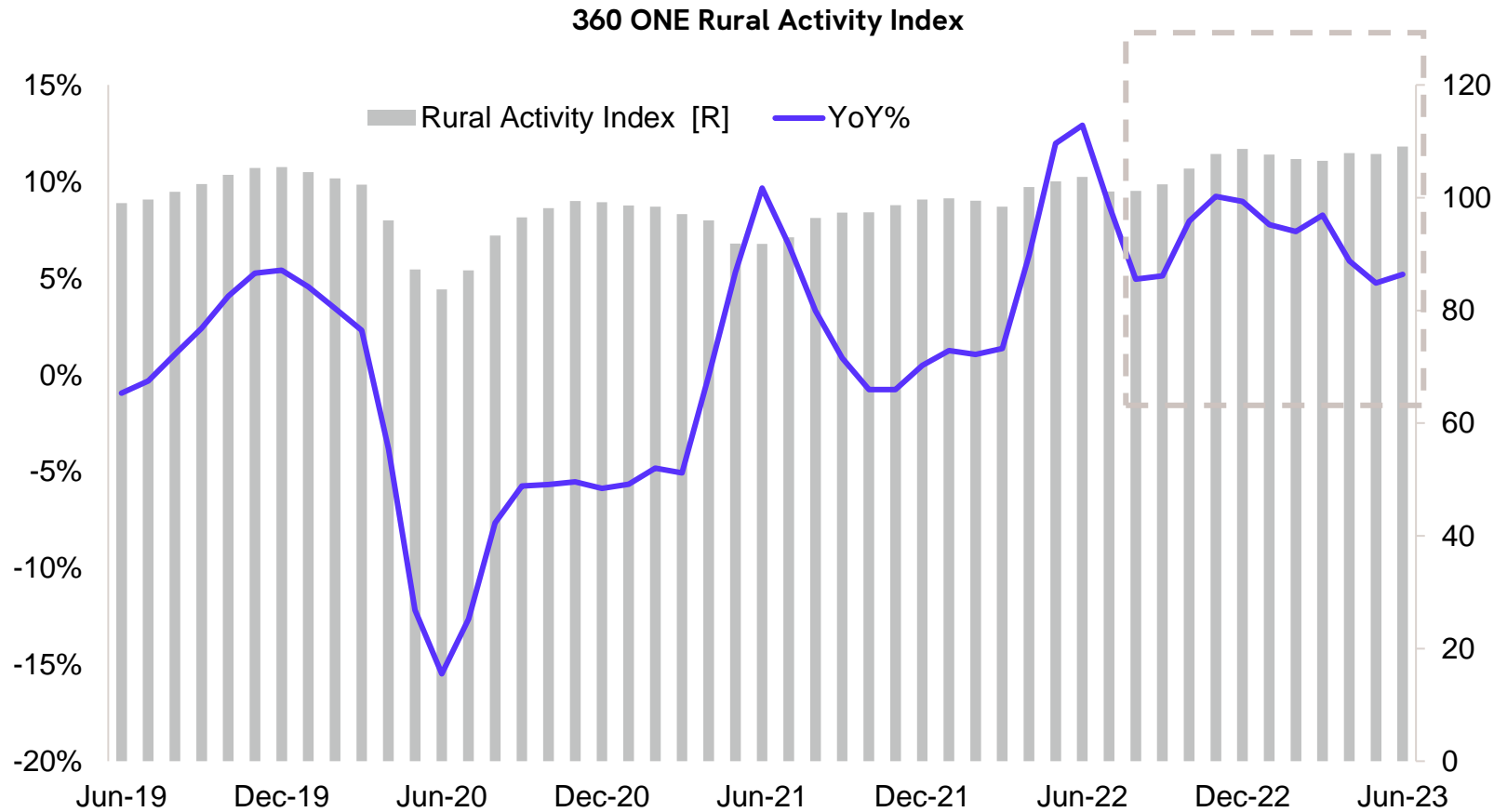


The reservoir levels in Northern, Western, and Central India are currently higher than the 10-year average. However, in Southern India, the reservoir levels are low due to insufficient rainfall

Source: CWC, CMIE, 360 ONE Asset Research

Rural activity in India remains subdued

In-house rural activity index suggests moderation in growth from peak in Oct-Nov festive season



CMIE Index of Consumer Sentiment: Rural continues to improve - reaching 97 in June 2023, up from 95 in the previous month

Tractor registrations rose at a robust 45% YoY in Jun-23. Tractor registration growth tends to be volatile

Rural wage growth remain steady at 6% YoY in second half of FY23

2-wheeler registrations growth moderated to 7% YoY in June 2023, from 14% YoY growth witnessed in Q4FY23. Fertilizers sales grew at a modest 2% YoY in June 2023

Unemployment rate shot up to 8.7% in June 2023 on seasonal factors, higher than 8.1% in June last year. Similarly, persons demanding work under MNREGA rose to 4.4 crores in June 2023, higher than 4.3 crores in June last year

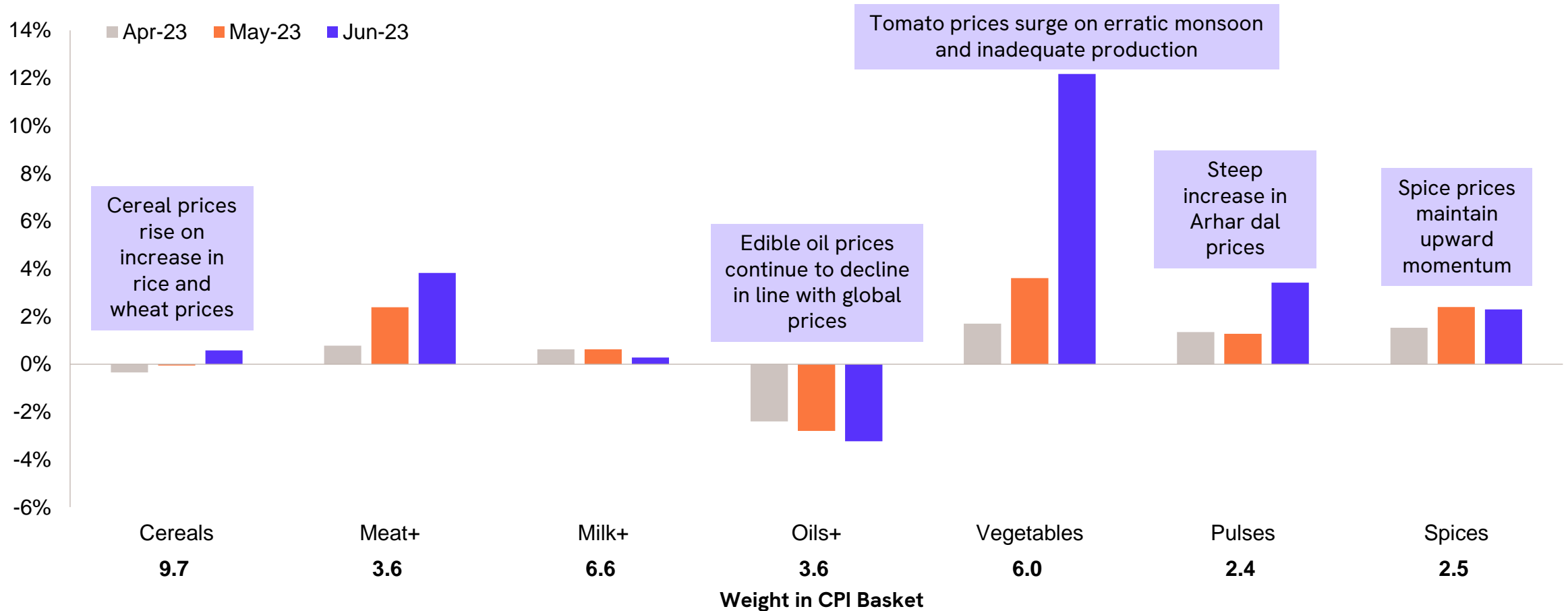
Food & Inflation



Steep increase in vegetable prices as tomato prices surge

Broad based rise in food prices with cereals and pulses also witnessing sharper increase in June 2023

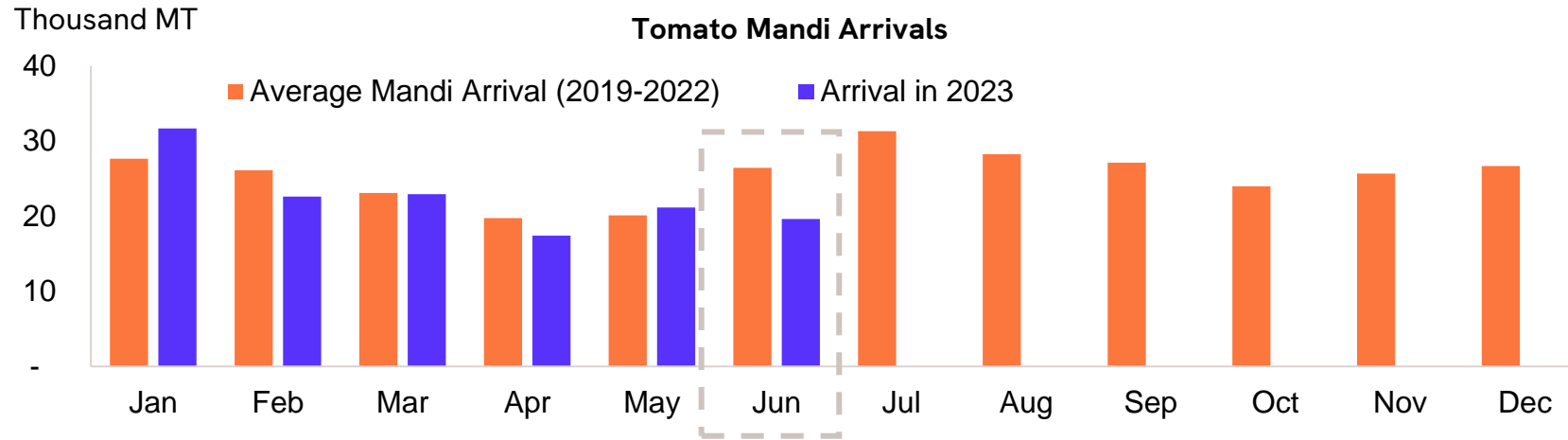
Consumer Price Index: Month-on-Month Increase in Food Prices



Source: MOSPI, 360 ONE Asset Research

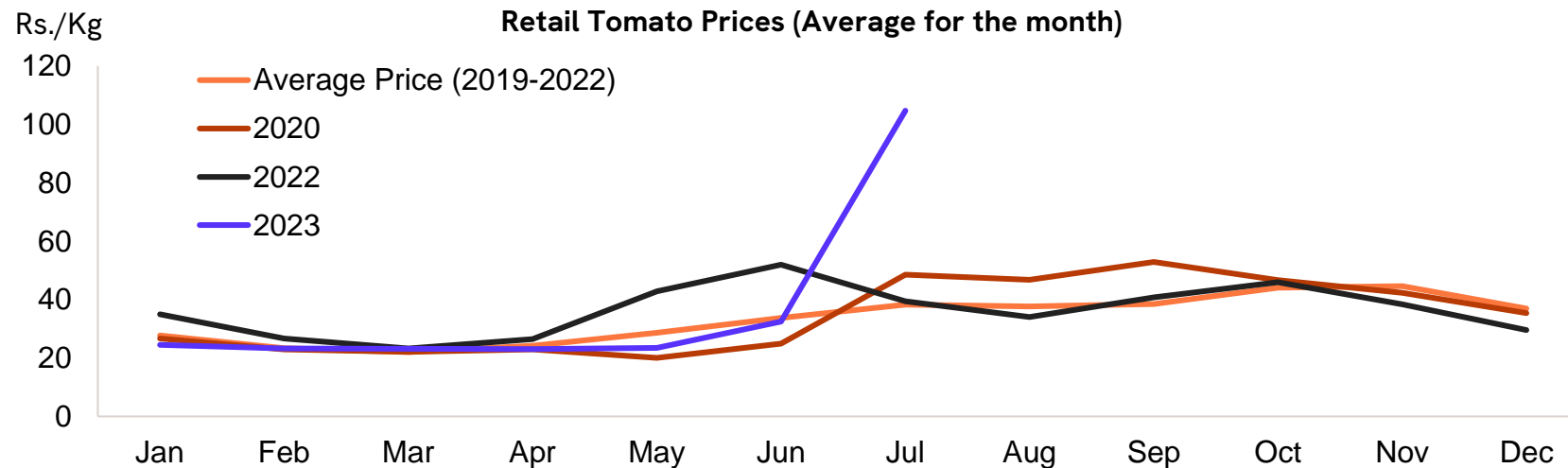
Erratic weather conditions damage tomato crop

Lower mandi arrivals of tomato leading to sharp spike in prices



The tomato crop suffered damage due to a combination of extreme heat and heavy rainfall. Consequently, the mandi arrivals for June this year have been below the usual levels

Mandi arrivals for July are also likely to be weak, keeping the prices elevated



Tomato prices surge on low mandi arrivals. Prices likely to remain elevated for the next couple of months

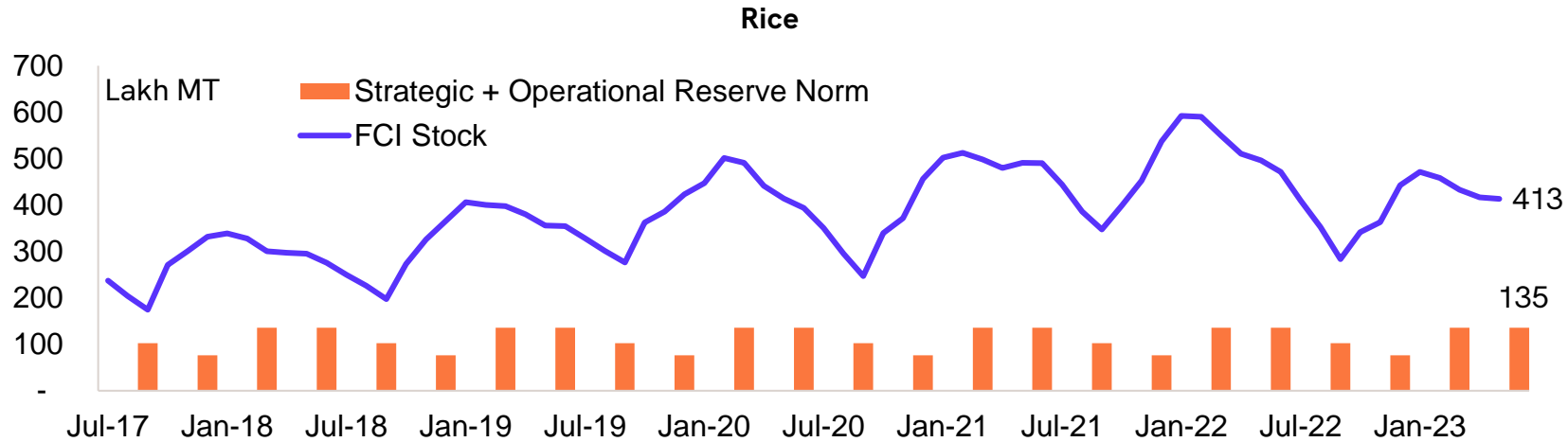
In 2020, there was a surge in prices starting from June and continued till September. Similarly, in 2022, prices increased in May-June, but was followed by an immediate correction in July. Price rise this year has been much steeper

Source: National Horticulture Board, CMIE, 360 ONE Asset Research

Note: Mandi Arrivals correspond to 5 cities – Hyderabad, Kolkata, Mumbai, Pune, Srinagar

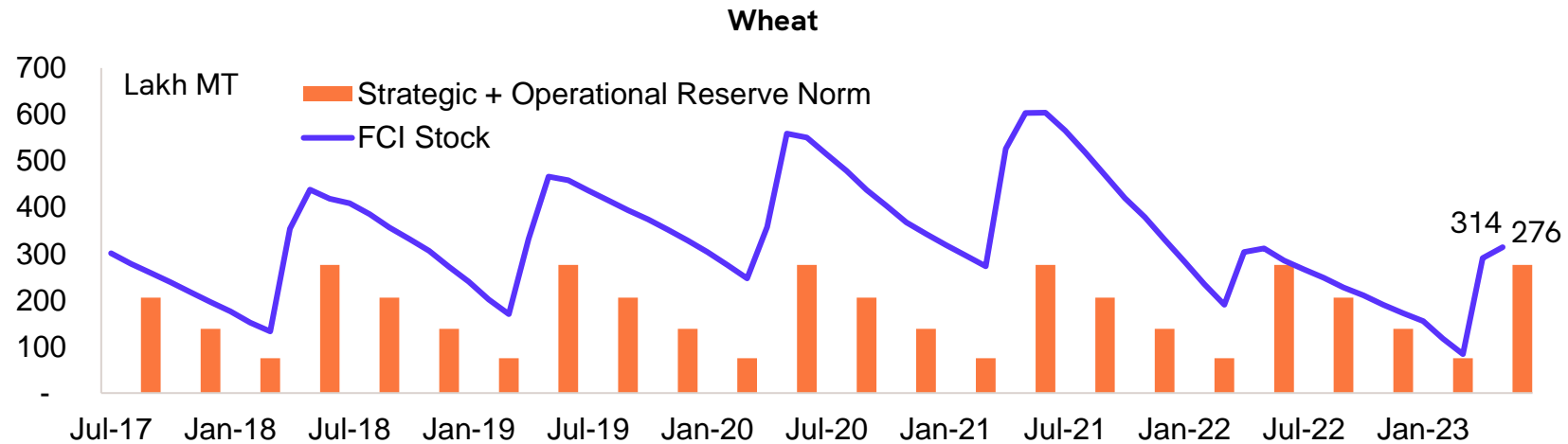
FCI rice stock more than sufficient, wheat stock closer to norms

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



Government has started conducting sale of rice under its open market sales scheme (OMSS) to moderate prices

FCI current rice stock is at 3.1 times the required buffer stock

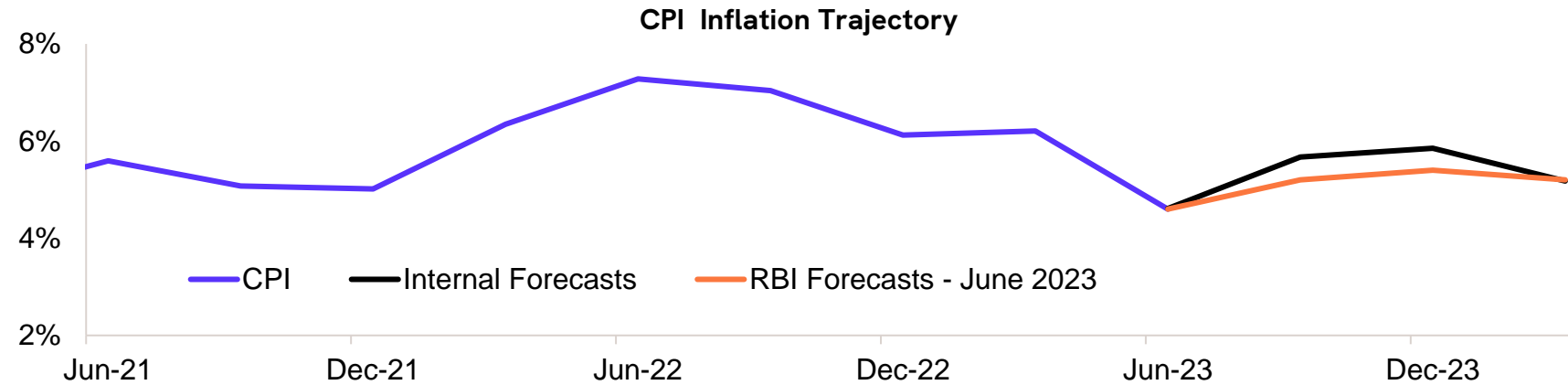


Wheat stocks with FCI are closer to the required buffer norms. This constrains government's ability to aggressively intervene in the market to control increase in prices

Nevertheless, the Central Government has announced that it will offload 15 lakh MT till March 2024 to check prices

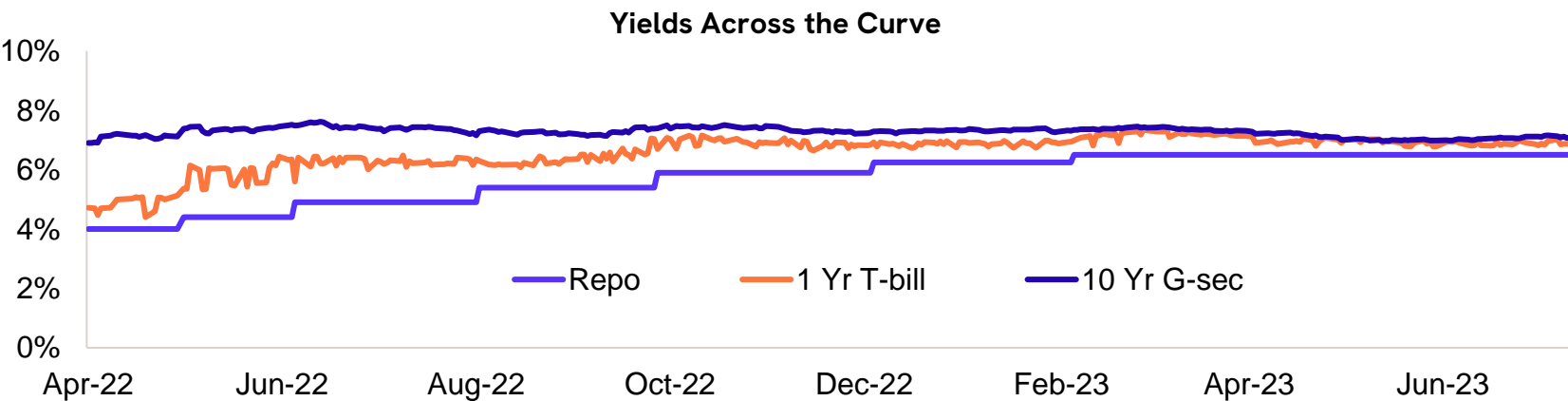
Higher food inflation has pushed the inflation trajectory upwards

RBI expected to maintain repo rate at current level until full impact of uneven monsoon on food inflation is assessed



We expect inflation to be higher than RBI's June 2023 projections in Q2 and Q3 FY24 on account of higher-than-expected food inflation

RBI MPC expected to adopt a 'wait and watch' approach to assess the complete impact of the monsoon season on food inflation



If expectations of rate cuts are pushed forward due to higher inflation, it is anticipated that the yield curve will stay flat for an extended duration

Gradual liquidity withdrawal may put upward pressure on short end of the rate curve, leading to further flattening

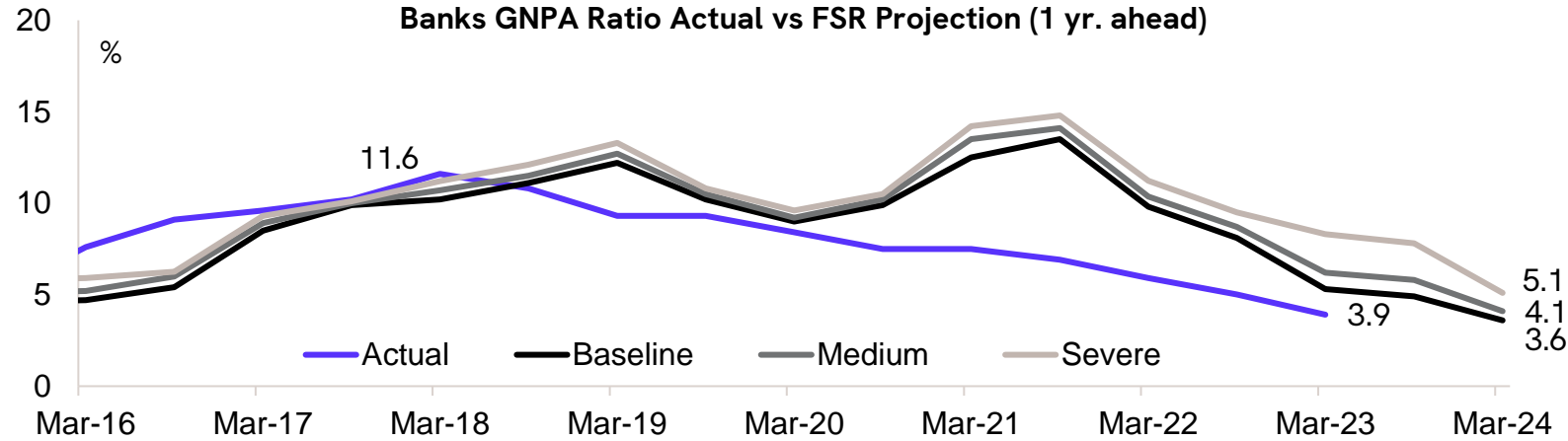
Source: CMIE, MOSPI, RBI, 360 ONE Asset Research

Financial Sector Stability



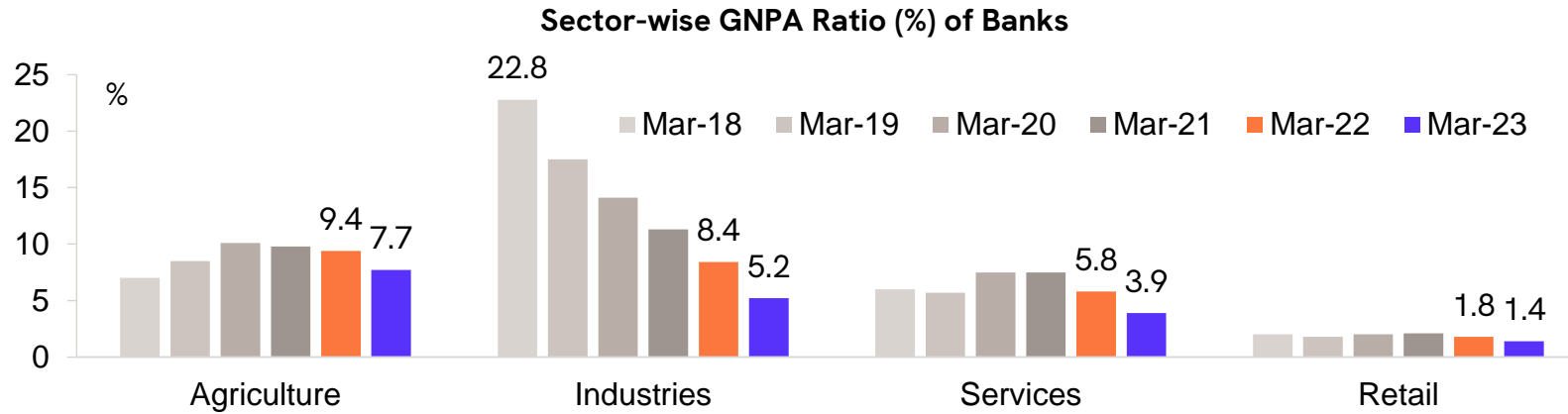
India banking sector remains stable and resilient

Gross non-performing assets to gross loans and advances (GNPA ratio) declined to a decadal low in March 2023



Actual Gross Non-Performing Assets (GNPA) ratio has consistently remained below the base case projection made by the Reserve Bank of India (RBI) during the semi-annual stress tests

GNPA ratio has consistently declined from a peak of 11.6% in March 2018 to 3.9% (decadal low) in March 2023



Correction in GNPA ratio has been broad based with decline seen across all sectors

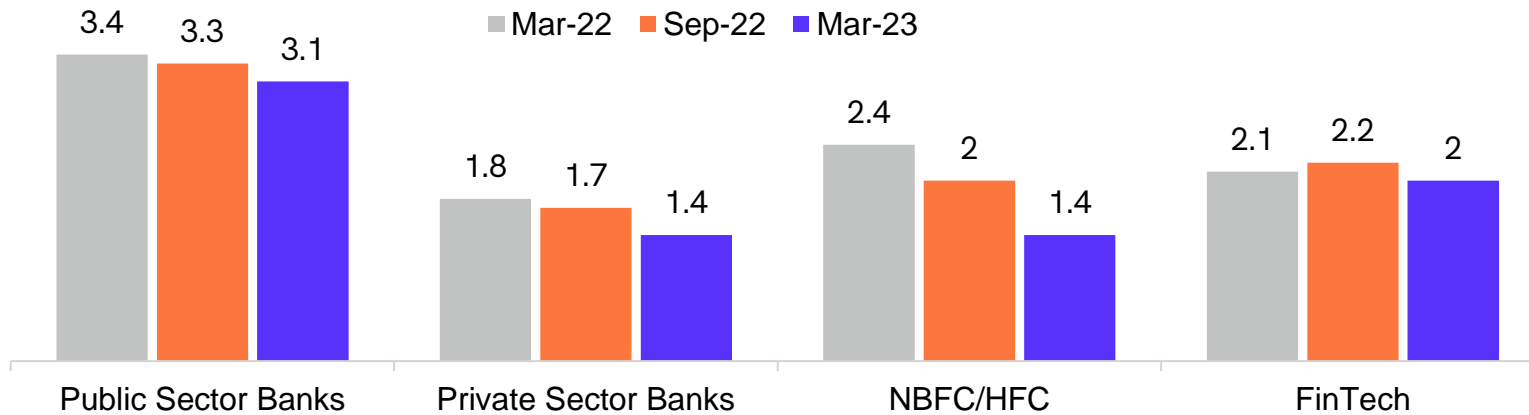
Steep correction seen in Agriculture, Industry and Services GNPA ratio in March 2023

Industry GNPA has declined from 22.3% in March 2018 to 5.2% in March 2023

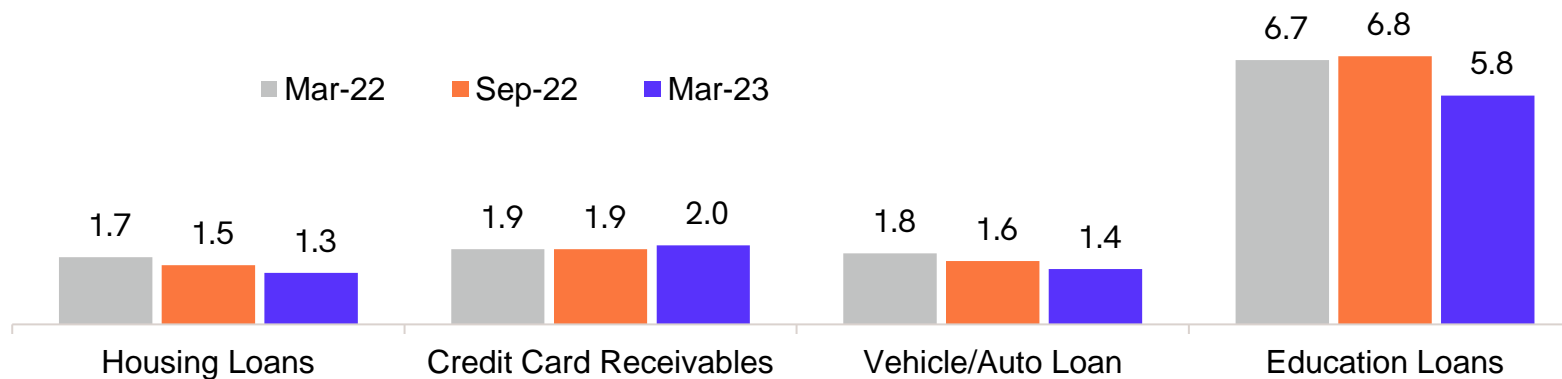
Consumer credit shows no signs of stress

GNPA ratios have corrected across all product categories and bank/non-bank cohorts

GNPA Ratio - Consumer Credit



GNPA Ratio of Personal Loans - Banks



In March 2023, both banks and non-banking financial institutions experienced a notable correction in GNPA ratios

Public sector banks (PSBs) have traditionally exhibited a higher GNPA ratio compared to other entities

FinTech's GNPA ratio contained so far despite aggressive lending. Note that high credit growth boosts gross advances (denominator) improving the overall GNPA ratio

Improvement in GNPA also witnessed across all product categories except credit card receivables

Banks have been adopting an aggressive approach towards credit cards (CC), resulting in a substantial growth of 30% YoY in the CC outstanding amount as of May 2023

Unsecured retail credit do not pose an imminent risk

Share of Special Mention Accounts (SMA) for unsecured credit is lower compared to that for secured credit

SMA Share of Retail Advances - Banks (as on 31st March 2023)

	Retail Advances	SMA-0	SMA-1	SMA-2	Total
Public Sector Banks	Unsecured	6.8	2.4	0.7	9.8
	Secured	5.4	2.8	1.0	9.2
	Total	5.7	2.7	0.9	9.4
Private Sector Banks	Unsecured	2.9	0.8	0.3	4.0
	Secured	3.9	1.1	0.4	5.4
	Total	3.6	1.0	0.4	5.0
Foreign Banks	Unsecured	1.9	1.5	0.6	4.0
	Secured	1.0	0.5	0.1	1.5
	Total	1.4	0.9	0.3	2.6
All Scheduled Commercial Banks	Unsecured	4.6	1.7	0.6	6.9
	Secured	4.7	2.0	0.7	7.4
	Total	4.7	1.9	0.7	7.3

Public sector banks (PSBs) have a comparatively higher share of SMA retail advances in both secured and unsecured category

SMA mostly concentrated in SMA-0 category which have a lower proximity to default

Although the GNPA ratio of retail loans at the system level was low at 1.4% in March 2023, the share of Special Mention Accounts was relatively high at 7.3%

Note that the share of Special Mention Accounts (SMA) for unsecured credit is lower than that of secured credit, indicating that unsecured credit does not present any higher inherent risk compared to the secured segment

GNPA ratio of unsecured retail credit has improved from 3.2% in March 2021 to 2.0% in March 2023

Note: Special Mention Accounts (SMA) is defined as –

If principal or interest payment or any other amount wholly or partly overdue remains outstanding up to

30 days - SMA-0

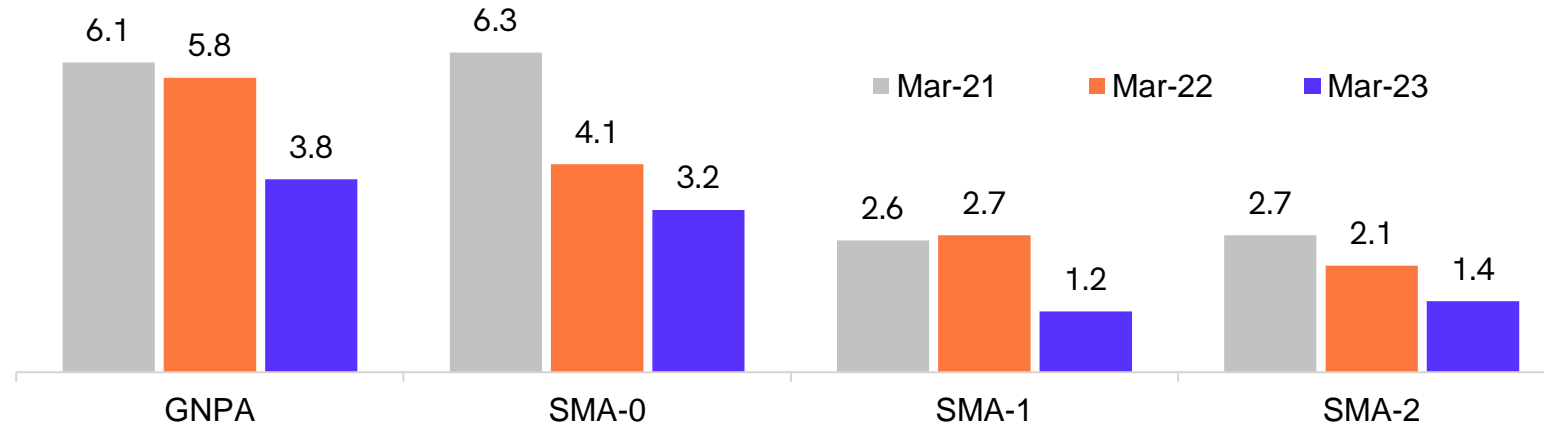
31-60 days - SMA-1

61-90 days - SMA-2

Asset quality of NBFCs has also exhibited a steady improvement

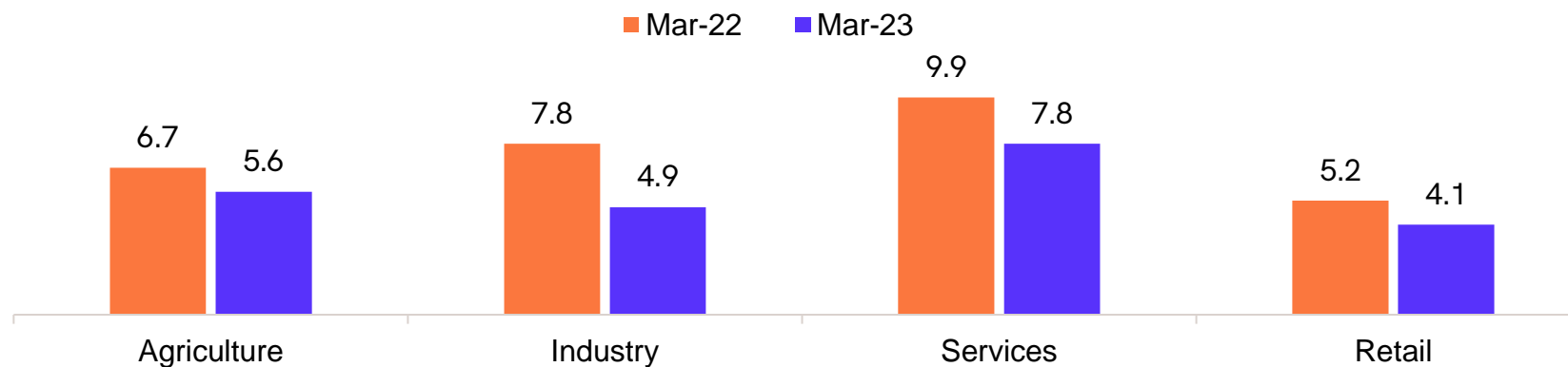
GNPA ratios have improved across sectors, with industry and services experiencing particularly sharp improvements

Asset Quality Ratios - NBFCs



Special Mention Accounts (SMA) have declined from 11.6% in March 2021 to 5.8% in March 2023
GNPA ratio during the same period has improved from 6.1% to 3.8%

Sector-wise GNPA Ratio of NBFCs

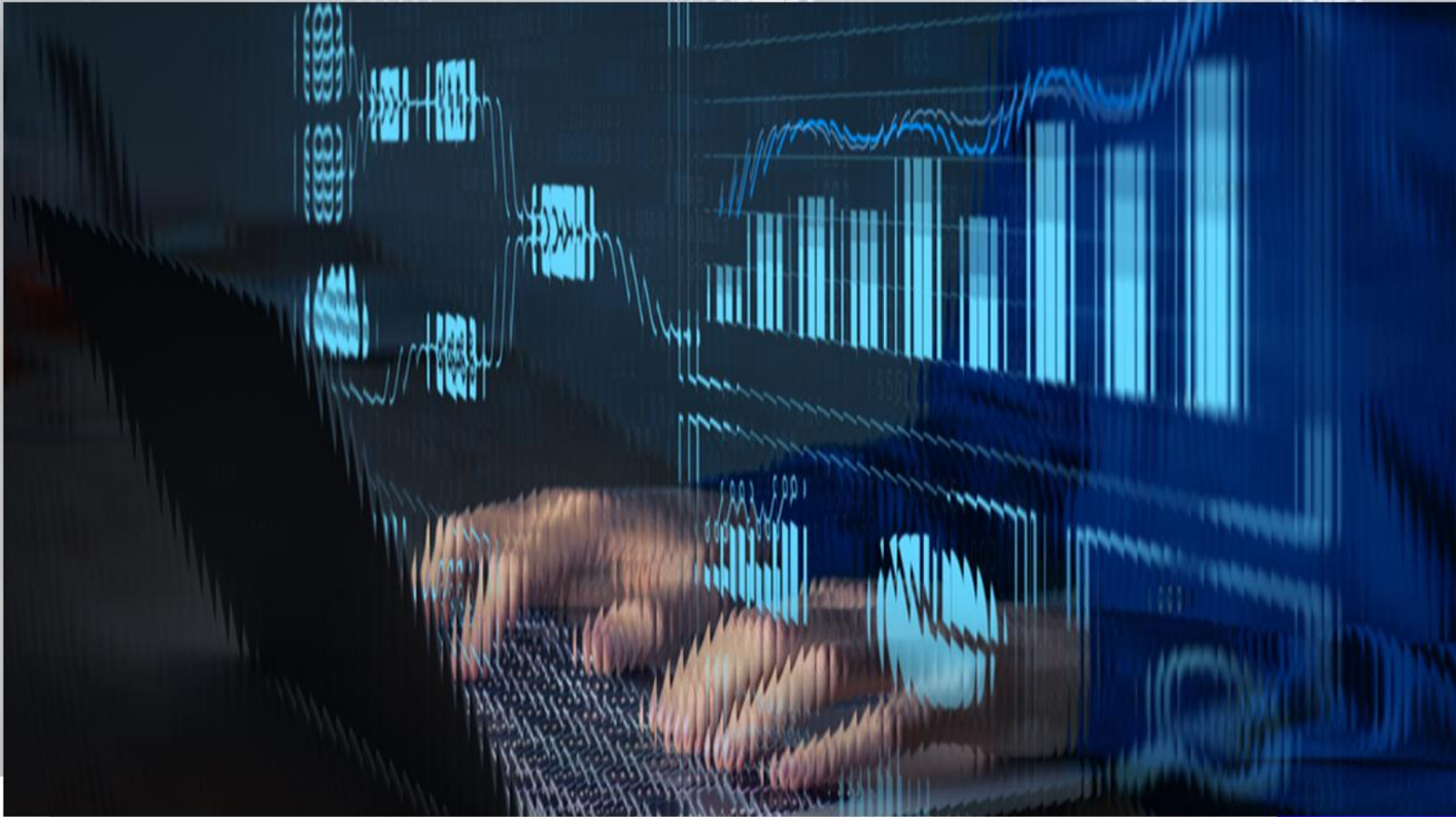


Industry and services registered more than two percentage points reduction in GNPA ratio in March 2023
Agriculture and Retail also witnessed decent improvement in asset quality

Source: RBI, 360 ONE Asset Research

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