

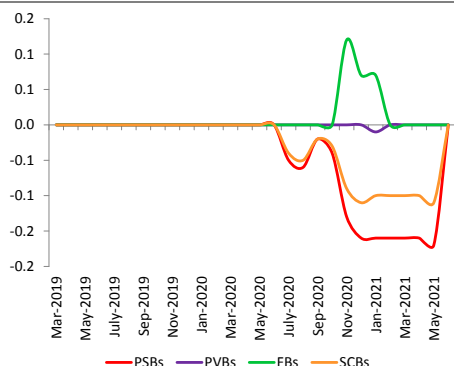
10 August 2021

No signs of change in spread trajectories in June'21

SECTOR UPDATE

Industry	Banking
----------	---------

Difference between revised data & past data on fresh loans WALR



Source: Systematix Institutional Research

In its end-July'21 data release, the Reserve Bank of India (RBI) revised the data series pertaining to lending & deposit rates for prior months. There were significant alterations in the weighted average term deposit rates (WATDR) and minor changes in the weighted average lending rates (WALR, fresh loans and outstanding loans). The WATDR of public sector banks (PSBs) were overstated by 2bps-17bps for July'20-May'21. Foreign banks' fresh loans WALR and outstanding loans WALR were under-stated by 2bps for Nov'20-Jan'21 and 2bps-13bps for Nov'20-Feb'21. As the data submitted by banks is provisional, the past data points have undergone a revision. As a result of the revision in the data series, PSBs' spreads improved during July'20-May'21.

Given private banks' (PVBs) risk-averse stance on high-yielding unsecured retail credit, a larger portion of credit on the external benchmark interest rate regime continues to reflect in spread contraction over various yardsticks. On the other hand, PSBs did not take an aggressive stance on the unsecured side of the retail business in pre-pandemic times and their loans under the external benchmark regime have been much lower, leading to a better margin trajectory. Any slight change in the spread trajectory would be a key monitorable.

PVBs' fresh loans lending rate remains priced below median MCLR

During 1QFY22, PVBs/PSBs witnessed a 79bps drop/21bps rise in their fresh loans WALRs respectively on a sequential basis. PVBs' cautious stance on unsecured retail loans and a switch to external benchmark rates have led to a faster decline in fresh loan lending rates, as evident from the spreads movements – the spread trendline that depicts the difference between PVBs' fresh loan WALR & 5-year GSec yield has been falling faster as compared to the spread trendline that represents the difference between PVBs' outstanding loan WALR & 5-year GSec yield. This indicates that PVBs' rate of transmission over the last 6-8 months has been faster. The private sector banking group's fresh loan WALRs were again priced below their median MCLR in May'21 & June'21, leading to lower spreads. PSBs' spreads over their median MCLR also contracted from the April'21 levels.

PVBs' lending spreads over AAA-rated papers and risk-free papers continue to moderate

The banking sector continued to witness contraction in outstanding loan WALR during 1QFY22; PVBs and PSBs O/s loan WALR contracted by 22bps and 2bps on a QoQ basis, respectively. PVBs' spreads over 1-year AAA PSU paper yields and 1-year government bond bid yields moderated further. The moderation in spreads had begun in Nov'20 itself, but the gradient of the downward slope increased post Jan'21-Feb'21. There has been no trend reversal since then, in fact, the downtrend continued in June'21. Any large private bank consistently deviating from the banking industry's trend may have to undergo scrutiny.

PVBs and PSBs continue to witness divergent trends on proxy spread trajectories

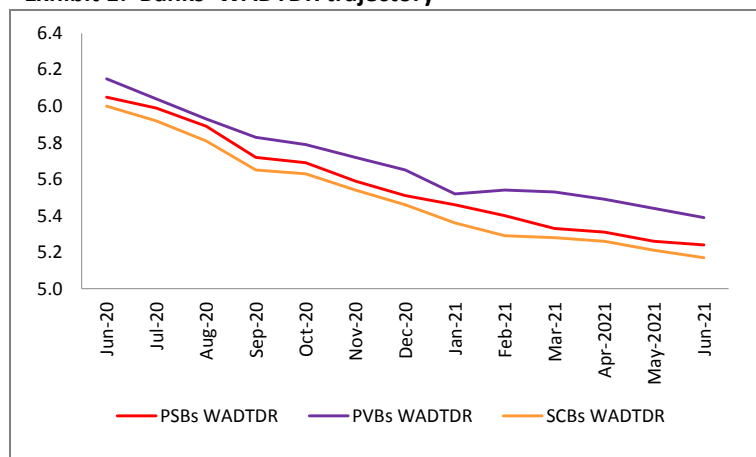
The banking sector's WATDR continued to decline in 1QFY22 on a sequential basis; PVBs and PSBs WATDR fell by 14bps and 9bps on a QoQ basis to 539bps and 524bps, respectively. PVBs & PSBs proxy spreads (difference between O/s loans WALR and WATDR) continued to witness divergent trends – PVBs proxy spreads contracted further, while PSBs proxy spread remained steady above its 12-months moving average trend. The two important tools 'proxy spread' and 'difference between O/s loan WALR & median MCLR', which factor in O/s loan WALR indicate stagnation in PSBs' spreads in June'21. The sustenance of the trend or moderation in the spread would require reconsideration of opinion on PSBs.

Interest rate transmission improves

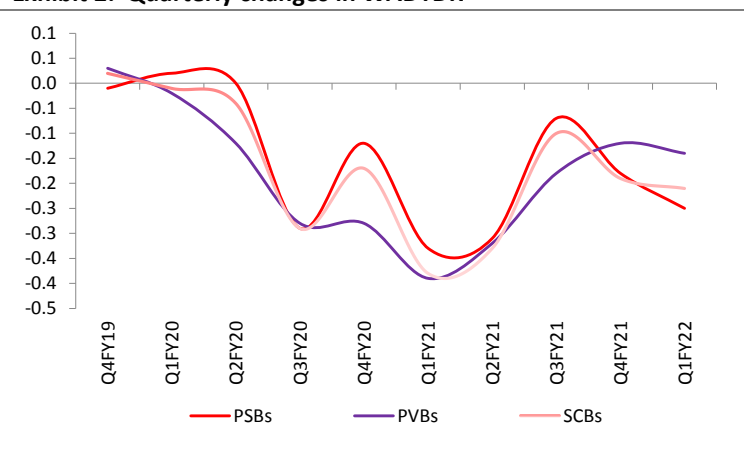
The banking system's interest rate transmission has improved as close to one-fourth of PVBs' loans and one-sixth of PSBs' loans are indexed to the external benchmark interest rate regime.

Rakesh Kumar
rakeshkumar@systematixgroup.in
+91 22 6704 8041

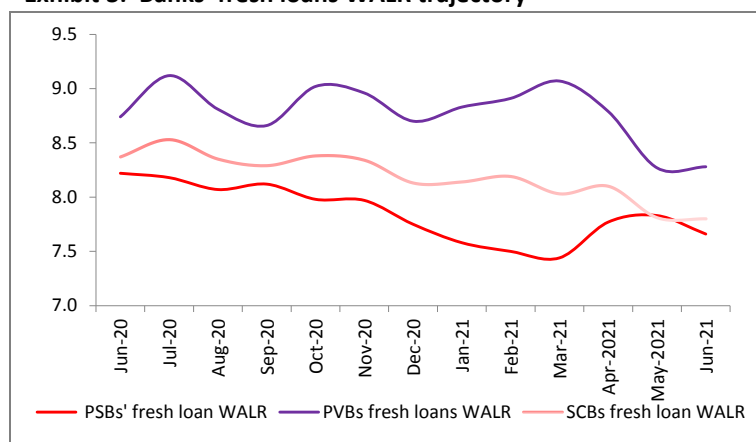
Nikhil Shah
nikhilshah@systematixgroup.in
+91 22 6704 8091

Exhibit 1: Banks' WADTDR trajectory

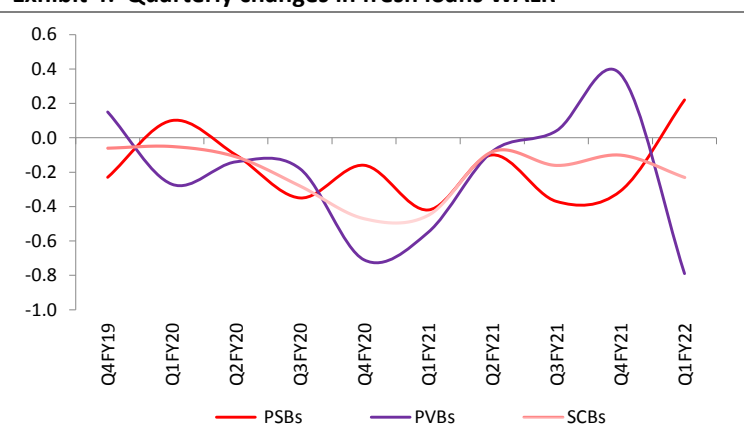
Source: Systematix Institutional Research

Exhibit 2: Quarterly changes in WADTDR

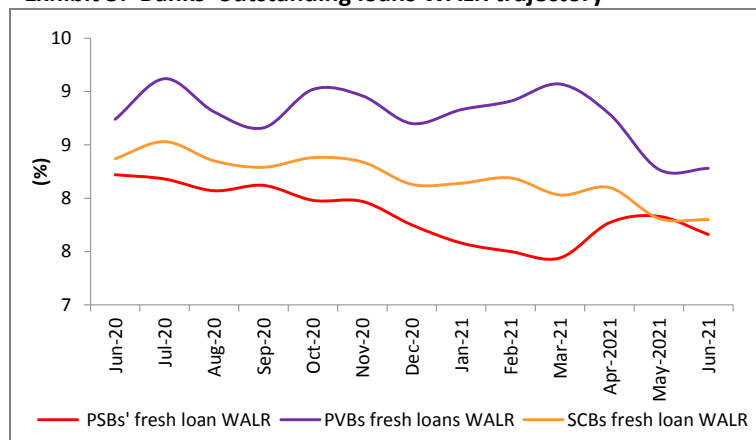
Source: Systematix Institutional Research

Exhibit 3: Banks' fresh loans WALR trajectory

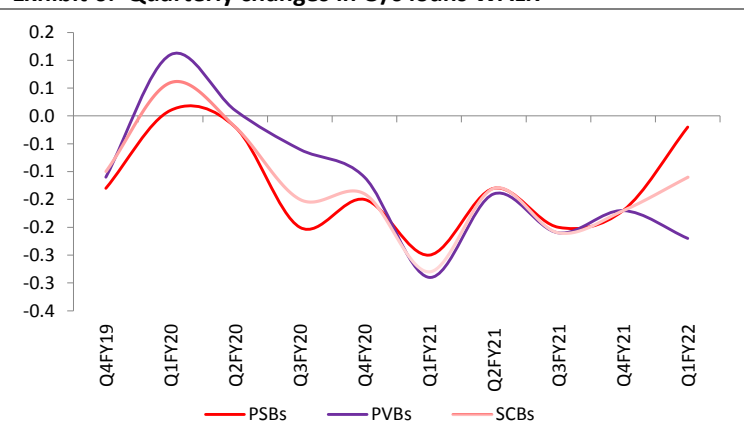
Source: Systematix Institutional Research

Exhibit 4: Quarterly changes in fresh loans WALR

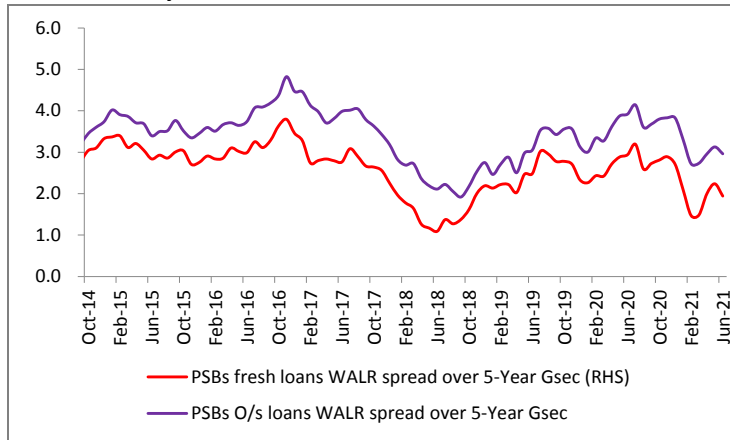
Source: Systematix Institutional Research

Exhibit 5: Banks' outstanding loans WALR trajectory

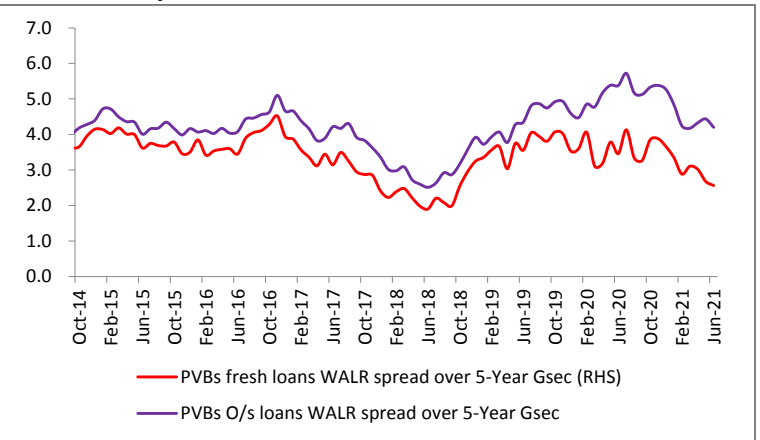
Source: Systematix Institutional Research

Exhibit 6: Quarterly changes in O/s loans WALR

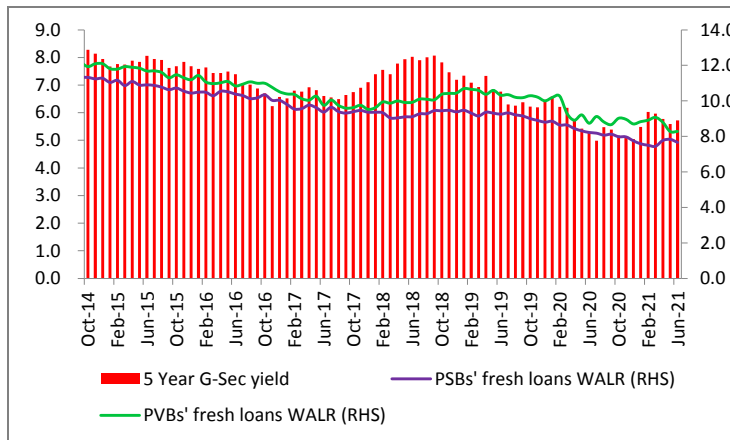
Source: Systematix Institutional Research

Exhibit 7: Trend in spread over PSBs fresh loans & o/s loans WALR and 5-year G-sec

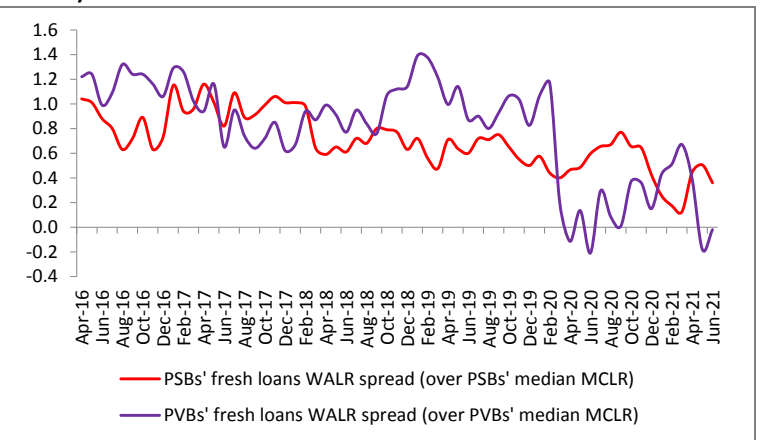
Source: Systematix Institutional Research

Exhibit 8: Trend in spread over PVBs fresh loans & o/s loans WALR and 5-year G-sec

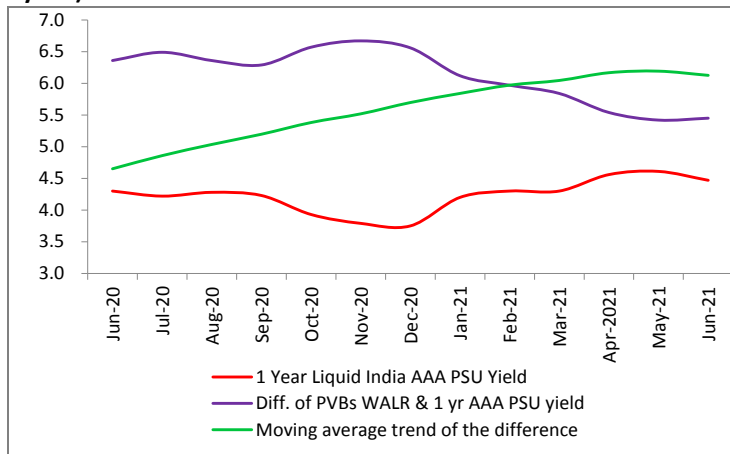
Source: Systematix Institutional Research

Exhibit 9: Movement in 5-year G-Sec yield and PSBs & PVBs fresh loans WALR

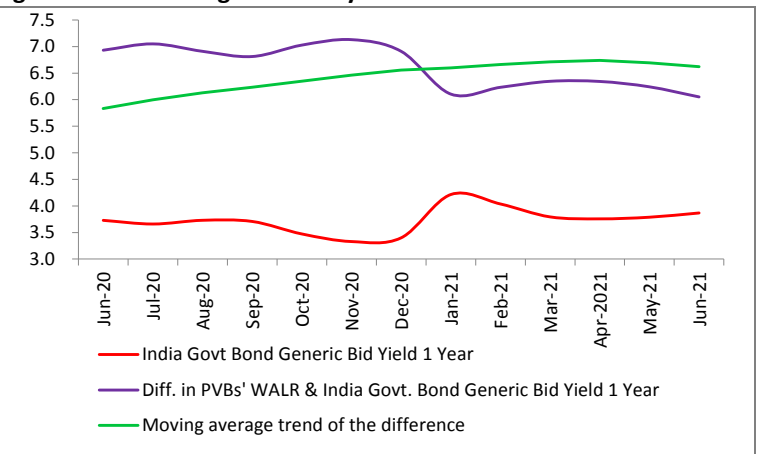
Source: Systematix Institutional Research

Exhibit 10: Movement in PSBs & PVBs fresh loans (over median MCLR)

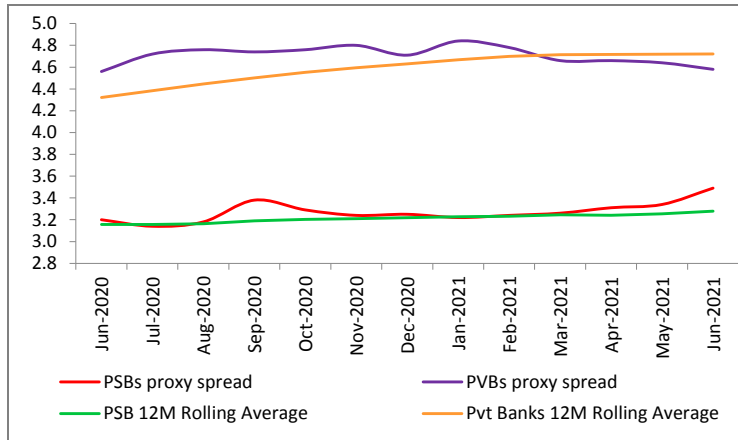
Source: Systematix Institutional Research

Exhibit 11: Trend in credit spread (over 1-year liquid AAA PSU yield)

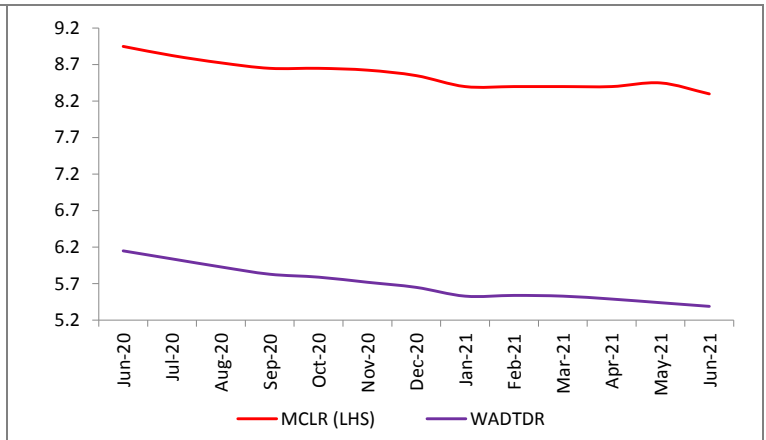
Source: Systematix Institutional Research

Exhibit 12: Trend in spread of PVB's WALR & 1 year India government bond generic bid yield

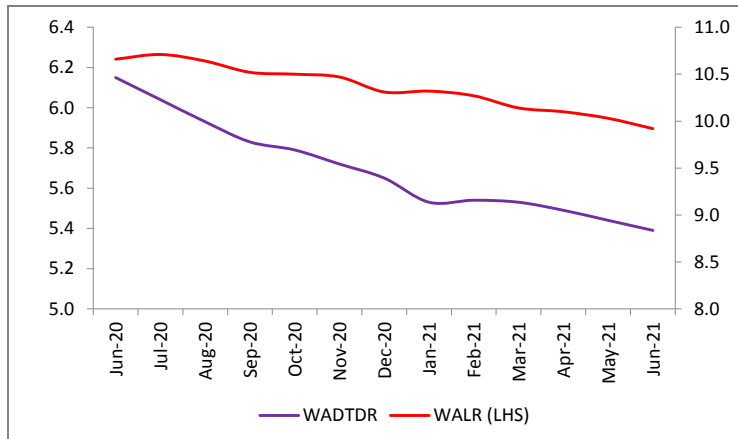
Source: Systematix Institutional Research

Exhibit 13: Movement in PSBs & PVBs proxy spreads

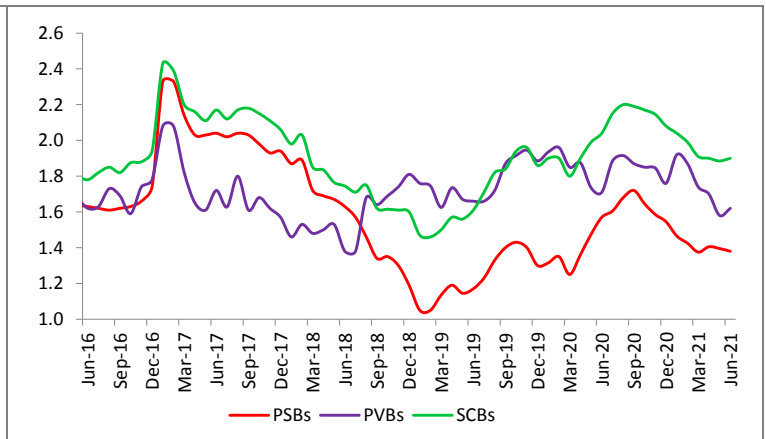
Source: Systematix Institutional Research

Exhibit 14: PVBs' movement in WADTDR & median MCLR (in %); fall in WADTDR reflects in lower MCLR

Source: Systematix Institutional Research

Exhibit 15: PVBs' difference between WALR & WADTDR (in %); slower transmission as WALR contracts gradually

Source: Systematix Institutional Research

Exhibit 16: SCBs, PSBs & PVBs difference between WALR & median MCLR (in %); softening of spreads (over MCLR) witnessed across banks

Source: Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal	Managing Director	+91-22-6704 8001	nikhil@systematixgroup.in
Navin Roy Vallabhaneni	President & Head – IE & ECM	+91-22-6704 8065	navin@systematixgroup.in

Equity Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Rahul Jain	Metals & Mining	+91-22-6704 8066	rahuljain@systematixgroup.in
Ronak Sarda	Auto, Auto Ancillaries	+91-22-6704 8059	ronaksarda@systematixgroup.in
Rakesh Kumar	Banking, Insurance	+91-22-6704 8041	rakeshkumar@systematixgroup.in
Praful Bohra	Pharmaceuticals and Healthcare	+91-22-6704 8064	prafulbohra@systematixgroup.in
Shubhramshu Mishra	NBFCs & Diversified Financials	+91-22-6704 8024	shubhramshumishra@systematixgroup.in
Sanjeev Kumar Singh	Cement, Building Materials, Paints	+91-22-6704 8017	sanjeevsingh@systematixgroup.in
Premal Kamdar	Consumer Staples	+91-22-6704 8090	premalkamdar@systematixgroup.in
Amar Kedia	Infra, Cap Goods, Logistics, Consumer Durables	+91-22-6704 8084	amarkedia@systematixgroup.in
Ashutosh Joytiraditya	Consumer, Retail	+91-22-6704 8068	ashutoshj@systematixgroup.in
Naushad Chaudhary	Chemicals, Textiles, Building Materials, Midcaps	+91-22-6704 8036	naushadchaudhary@systematixgroup.in
Harsh Mittal	Cement, Building Materials, Paints	+91-22-6704 8098	harshmittal@systematixgroup.in
Poorvi Banka	Auto, Auto Ancillaries	+91-22-6704 8063	poorvibanka@systematixgroup.in
Nikhil Shah	Banking, Insurance	+91-22-6704 8091	nikhilshah@systematixgroup.in
Tausif Shaikh	Pharmaceuticals and Healthcare	+91-22-6704 8046	tausifshaikh@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Shilpashree Venkatesh	Macro-Strategy	+91-22-6704 8078	shilpav@systematixgroup.in

Equity Sales & Trading

Name		Desk-Phone	E-mail
Vipul Sanghvi	Director and Head - Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Ashok Kumar Agarwal	Sales	+91-22-6704 8058	ashokagarwal@systematixgroup.in
Jigar Kamdar	Sales	+91-22-6704 8060	jigarkamdar@systematixgroup.in
Rahul Khandelwal	Sales	+91-22-6704 8033	rahul@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Rahul Thakar	Sales Trading - Derivatives	+91-22-6704 8073	rahlthakar@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8050	vipulchheda@systematixgroup.in
Amit Sawant	Dealer	+91-22-6704 8054	amitsawant@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Suketu Vyas	Dealer	+91-22-6704 8050	suketuvyas@systematixgroup.in

Corporate Access

Audrey Leolyn Mendonca	Assistant Vice President	+91-22-6704 8088	audreymendonca@systematixgroup.in
-------------------------------	---------------------------------	-------------------------	------------------------------------------

Production

Yukti Vidyarthi	Editor	+91-22-6704 8071	yukti@systematixgroup.in
Mrunali Pagdhare	Production	+91-22-6704 8057	mrunalip@systematixgroup.in
Vijayendra Achrekar	Production	+91-22-6704 8089	vijayendraachrekar@systematixgroup.in

Operations

Sachin Malusare	Vice President	+91-22-6704 8055	sachinmalusare@systematixgroup.in
Sugandha Rane	Assistant Vice President	+91-22-6704 8056	sugandha@systematixgroup.in
Jignesh Mistry	Manager	+91-22-6704 8049	jigneshmistry@systematixgroup.in
Ravikiran Dasaka	Manager	+91-22-6704 8622	ravikiran@systematixgroup.in
Ravi Agarwal	Assistant Manager	+91-22-6704 8016	raviagarwal@systematixgroup.in

DISCLOSURES/APPENDIX

DISCLOSURES/APPENDIX

I. ANALYST CERTIFICATION

I, **Rakesh Kumar, Nikhil Shah**; hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

II. ISSUER SPECIFIC REGULATORY DISCLOSURES, unless specifically mentioned in point no. 9 below:

- The research analyst(s), SSSIL, associates or relatives do not have any financial interest in the company(ies) covered in this report.
- The research analyst(s), SSSIL, associates or relatives collectively do not hold more than 1% of the securities of the company(ies) covered in this report as of the end of the month immediately preceding the distribution of the research report.
- The research analyst(s), SSSIL, associates or relatives did not have any other material conflict of interest at the time of publication of this research report.
- The research analyst, SSSIL and its associates have not received compensation for investment banking or merchant banking or brokerage services or any other products or services from the company(ies) covered in this report in the past twelve months.
- The research analyst, SSSIL or its associates have not managed or co-managed a private or public offering of securities for the company(ies) covered in this report in the previous twelve months.
- SSSIL or its associates have not received compensation or other benefits from the company(ies) covered in this report or from any third party in connection with this research report.
- The research analyst has not served as an officer, director or employee of the company(ies) covered in this research report.
- The research analyst and SSSIL have not been engaged in market making activity for the company(ies) covered in this research report.
- Details of SSSIL, research analyst and its associates pertaining to the companies covered in this research report:

Sr. No.	Particulars	Yes / No.
1	Whether compensation was received from the company(ies) covered in the research report in the past 12 months for investment banking transaction by SSSIL.	No
2	Whether research analyst, SSSIL or its associates and relatives collectively hold more than 1% of the company(ies) covered in the research report.	No
3	Whether compensation has been received by SSSIL or its associates from the company(ies) covered in the research report.	No
4	Whether SSSIL or its affiliates have managed or co-managed a private or public offering of securities for the company(ies) covered in the research report in the previous twelve months.	No
5	Whether research analyst, SSSIL or associates have received compensation for investment banking or merchant banking or brokerage services or any other products or services from the company(ies) covered in the research report in the last twelve months.	No

- There is no material disciplinary action taken by any regulatory authority that impacts the equity research analysis activities.

STOCK RATINGS

BUY (B): The stock's total return is expected to exceed 15% over the next 12 months.

HOLD (H): The stock's total return is expected to be within -15% to +15% over the next 12 months.

SELL (S): The stock's total return is expected to give negative returns of more than 15% over the next 12 months.

NOT RATED (NR): The analyst has no recommendation on the stock under review.

INDUSTRY VIEWS

ATTRACTIVE (AT): Fundamentals/valuations of the sector are expected to be attractive over the next 12-18 months.

NEUTRAL (NL): Fundamentals/valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.

CAUTIOUS (CS): Fundamentals/valuations of the sector are expected to deteriorate over the next 12-18 months.

III. DISCLAIMER

The information and opinions contained herein have been compiled or arrived at based on the information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy completeness or correctness.

This document is for information purposes only. This report is based on information that we consider reliable; we do not represent that it is accurate or complete and one should exercise due caution while acting on it. Description of any company(ies) or its/their securities mentioned herein are not complete and this document is not and should not be construed as an offer or solicitation of an offer to buy or sell any securities or other financial instruments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. All opinions, projections and estimates constitute the judgment of the author as on the date of the report and these, plus any other information contained in the report, are subject to change without notice. Prices and availability of financial instruments are also subject to change without notice. This report is intended for distribution to institutional investors.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject to SSSIL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any individual in such country, especially USA, the same

may be ignored and brought to the attention of the sender. Neither this document nor any copy of it may be taken or transmitted into the United States (to U.S. persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. Any unauthorized use, duplication, redistribution or disclosure of this report including, but not limited to, redistribution by electronic mail, posting of the report on a website or page, and/or providing to a third party a link, is prohibited by law and will result in prosecution. The information contained in the report is intended solely for the recipient and may not be further distributed by the recipient to any third party.

SSSIL generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, SSSIL generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that they cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein. Our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. The views expressed in this research report reflect the personal views of the analyst(s) about the subject securities or issues and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The compensation of the analyst who prepared this document is determined exclusively by SSSIL; however, compensation may relate to the revenues of the Systematix Group as a whole, of which investment banking, sales and trading are a part. Research analysts and sales persons of SSSIL may provide important inputs to its affiliated company(ies).

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations which could have an adverse effect on their value or price or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies, effectively assume currency risk. SSSIL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on the basis of this report including but not restricted to fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

SSSIL and its affiliates, officers, directors, and employees subject to the information given in the disclosures may: (a) from time to time, have long or short positions in, and buy or sell, the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation (financial interest) or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential material conflict of interest with respect to any recommendation and related information and opinions. The views expressed are those of the analyst and the company may or may not subscribe to the views expressed therein.

SSSIL, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall SSSIL, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. The company accepts no liability whatsoever for the actions of third parties. The report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of the company, the company has not reviewed the linked site. Accessing such website or following such link through the report or the website of the company shall be at your own risk and the company shall have no liability arising out of, or in connection with, any such referenced website.

SSSIL will not be liable for any delay or any other interruption which may occur in presenting the data due to any technical glitch to present the data. In no event shall SSSIL be liable for any damages, including without limitation, direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by SSSIL through this presentation.

SSSIL or any of its other group companies or associates will not be responsible for any decisions taken on the basis of this report. Investors are advised to consult their investment and tax consultants before taking any investment decisions based on this report.



Systematix Shares and Stocks (India) Limited:

Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

CIN - U65993MH1995PLC268414 | BSE SEBI Reg. No.: INZ000171134 (Member Code: 182) | NSE SEBI Reg. No.: INZ000171134 (Member Code: 11327) | MCX SEBI Reg. No.: INZ000171134 (Member Code: 56625) | NCDEX SEBI Reg. No.: INZ000171134 (Member Code: 1281) | Depository Participant SEBI Reg. No.: IN-DP-480-2020 (DP Id: 34600) | PMS SEBI Reg. No.: INP000002692 | Research Analyst SEBI Reg. No.: INH200000840 | Investment Advisor SEBI Reg. No. INA000010414 | AMFI : ARN - 64917