



## Monetary easing drives further reduction in lending rates

**Monetary easing drives further reduction in lending rates**  
Private Banks maintaining better control on spreads

According to the RBI's latest release for April 20, the Weighted Average Lending Rate (WALR) on fresh loans has moderated by 43bp MoM with private banks seeing a sharp moderation of 80bp MoM to 7.3%.

The 1-year MCLR rates for large banks has moderated in the range of 10-20bp MoM (20 banks since Apr'20) while for mid-sized banks, it has moderated by 5-20bp (5 banks since Apr'20). The maximum reduction in 1-year MCLR since Apr'20 has been by SBI at 15bp, followed by KIB at 10bp.

WALR shows rate on retail and bulk term deposits rates. The Weighted Average Term Deposit Cost (WATDC) for private banks has moderated by 15bp MoM (20bu GoCo) while for PSU, it has moderated by 10p (20bu GoCo).

Further, banks are reducing interest rates on SA deposits. SBI has reduced its SA rate to 2.7% while large private banks have reduced by 20bp to 3.2%. KMB has cut its SA rate by a massive 120-150bp to 2.7%-3.5%.

The widening credit differential between private banks and PSU currently stands at 10bp while the deposit rate differential is at 130bp.

Overall, the continued monetary easing should result in lower yields under the external benchmark, and thus, banks with strong granular liability franchise would be able to tackle the margin pressure by reduction in TQDA rates. We maintain preference for ICICIB, HDFCB, and SBIN.

**Average lending rate (WALR) on fresh loans moderated by 43bp MoM**

- The Weighted Average Lending Rate (WALR) on fresh loans has moderated by 43bp MoM with private banks seeing a sharp moderation of 80bp MoM to 7.3%.
- The WALR on outstanding loans for banks declined by 110bp MoM to 7.0% with private banks seeing moderation by 110p MoM to 5.3% while PSU's yield moderated by 20bp MoM to 6.4%.
- The 1-year MCLR rates for large banks has moderated in the range of 10-20bp MoM (20 banks since Apr'20) while for mid-sized banks, it moderated by 5-20bp (5 banks since Apr'20). The maximum reduction in 1-year MCLR since Apr'20 was by SBI at 15bp, followed by KIB at 10bp.

**Weighted Average Term Deposits Cost (WATDC) moderates further**

- The WATDC has been declined for the past one year. It has declined 70bp for private banks to 6.5% while for PSU banks, it has declined by 70bp to 6.4%.
- MCLR (WATDC) for private banks has moderated by 10bp (10bu GoCo) while for PSU, it has moderated by 20p (10bu GoCo).
- SBI has reduced its peak term deposit rate to 5.5% and large private banks have reduced their TD rates by 5 to 20bp. Further, banks have reduced interest rates on SA deposits. SBI has reduced its SA rate to 2.7% while large private banks have reduced by 10-20bp to 3.2%. KMB has cut its SA rate by a massive 120-150bp to 2.7%-3.5%.

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%	SA Rate
AXSB	3.00%
HDFCB	3.25%
ICICIBC	3.00%
IIB	4.00%
KMB	3.50%
RBK	5.00%
BoB*	3.25%
PNB*	3.50%
SBIN*	2.70%

## Assessing margin trajectory amid rapidly easing environment

### Sharp cut in deposit rates to offset NIM pressures; Private banks better placed

The interest rate environment has eased rapidly in recent months as the government and RBI announced steps to handhold the system amid the COVID-19 shock. Most large private and PSU banks have announced a series of sharp cuts in Term/Savings rates to offset NIM pressures. In a recent move, AXSB and ICICIBC reduced their SA rate by 25bp to 3.0%, and SBIN lowered its SA rate by 5bp to 2.7%. While a sharp reduction in the repo rate has resulted in moderation in yield under the externally benchmark-based price regime loans, a reduction in deposit rates would offset margin pressure to some extent. Amid this backdrop, we assessed the margin trajectory for the major banks; we believe private banks are relatively well-positioned to preserve their margins even as we expect slight compression in NIMs at the sector level. We maintain our preference for ICICIBC, HDFCB, and SBIN.

- The RBI has been lowering the repo rate since Feb'19 and has to date effected a **250bp reduction in the repo rate (115bp alone in Mar'20 and Apr'20) v/s 80–130bp decline in MCLR** for most banks during this period. The maximum reduction in one-year MCLR has been by SBI at 130bp, followed by KMB at 115bp.
- Most banks have followed this up with reducing interest rates on SA/TDs. **SBIN has reduced its peak term deposit rate by 150bp to 5.3%, and large private banks have reduced their TD rates between 165–205bp.** Over the past six months, TD rates have declined in the range of 65–95bp for PSU banks and in the range of 105–125bp for private banks.
- While **SBIN has reduced its SA rate further by 5bp to 2.7%, large private banks have announced a further reduction in the SA rate by 25bp to 3.0%.** KMB has effected a massive 150bp/200bp SA rate cut to 3.5%/4% and is thus likely to maintain resilient margins as SA deposits re-price immediately. **TD rates** have also been revised down across banks, **with short-tenure rates in the range of 2.9–3.5%, well below the repo rate.** KMB witnessed a sharp uptick in its CASA deposits, with SA deposits forming ~40% of the total deposits.
- We believe this would help lenders tackle margin pressures as continued monetary easing would result in lower yield under the external benchmark-based pricing regime. With the proportion of SA deposits rising, we believe a reduction in SA rates could support margins as TD reduction takes time to re-price, while SA rate re-pricing happens instantly.
- Thus, banks with a strong/granular liability franchise and a rising proportion of loan mix toward high-yielding products would be able to tackle margin pressures in a better way. Nevertheless, we expect margins to decline in the range of 5–20bp over FY21. Maintain preference for ICICIBC, HDFCB, and SBIN.

### Weighted Average Lending Rate (WALR) on fresh loans moderated by 43bp MoM

- WALR on fresh loans **declined ~100bps to 9.20% for private banks in Feb'20 and 35bps to 8.65% for PSU banks over the past six months.**

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- WALR on O/S loans stood at **10.95% for private banks in Mar'20 (decline of 11bp in Feb'20)**. For PSU banks, WALR has been on the decline and stood at **9.45% in Mar'20, implying a drop of 55bps over the past six to nine months**.
- WATDR has been declining over the past one year; it fell by **~70bps to 6.54% for private banks and by 40bps to 6.38% for PSU banks**.

#### Spread differential between private banks and PSBs doubles to ~134bp

Private banks have been focusing on high-yielding assets, while PSBs (barring SBIN) have not been very aggressive; thus, the lending yield differential between the two remains high. However, continued monetary easing has resulted in lower yield under the external benchmark-based pricing regime, and the lending yield differential between private banks and PSBs has therefore narrowed to ~60bp (v/s 150bp in Mar'19). On the other hand, the deposit rate differential is at ~15bp. This has caused the **spread difference between private and PSU banks to widen—the gap has more than doubled to ~134bp v/s ~62bp over the past one year**.

#### Valuation and view

We believe this reduction in deposit rates would help lenders tackle margin pressures as continued monetary easing would result in lower yield under the external benchmark-based pricing regime. With the proportion of SA deposits rising, we believe a reduction in SA rates could support margins as TD reduction takes time to re-price, while SA rate re-pricing happens instantly. Thus, banks with a strong/granular liability franchise and rising proportion of loan mix toward high-yielding products would be able to better tackle margin pressures. Nevertheless, we expect margins to decline in the range of 5–20bp over FY21. Maintain preference for ICICIBC, HDFCB, and SBIN.

**Exhibit 1: SA rates across banks along with CASA mix**

SA Rate (%)	Old	Revised	CA Mix	SA Mix	CASA Mix
AXSB	3.25%	3.00%	14.1%	27.1%	41.0%
HDFCB	3.50%	3.25%	15.2%	27.0%	42.2%
ICICIBC	3.25%	3.00%	13.3%	31.9%	45.1%
IIB	4.00%	4.00%	14.1%	26.3%	40.4%
KMB	4.00%	3.50%	16.4%	39.8%	56.2%
RBK	5.50%	5.00%	13.0%	16.6%	29.6%
BoB*	3.25%	3.25%	6.1%	32.7%	38.8%
PNB*	3.50%	3.50%	7.1%	36.6%	43.7%
SBIN*	2.75%	2.70%	6.3%	38.4%	44.7%

\*CA, SA and CASA mix as on 3QFY20

Source: Banks, MOFSL

**Exhibit 2: TD rates across tenures – Short-tenure TD rates in the range of 2.9–3.5%, well below the repo rate**

TD Rates (%)	7-14 days	0-3 months	3-9 months	9-15 months	15-36 months
HDFCB	3.0%	4.5%	5.0%	5.6%	5.8%
AXSB	3.3%	4.5%	5.0%	5.8%	5.8%
ICICIBC	3.3%	4.3%	4.8%	5.6%	5.8%
KMB	3.0%	4.0%	4.8%	5.3%	4.8%
IIB	4.0%	5.5%	6.0%	7.0%	6.8%
SBIN	2.9%	3.9%	4.4%	5.1%	5.1%
BoB	3.3%	4.3%	4.9%	5.6%	5.6%
PNB	3.5%	4.5%	5.3%	5.8%	5.8%

Source: Banks, MOFSL

**Exhibit 3: 1–3 year peak term deposit rates across banks**

1–3 Year Peak Deposit rate (%)	Mar'19	Jun'19	Aug'19	Sep'19	Nov'19	Apr'20	May'20	Change (bps)
BOB	6.80%	6.80%	6.70%	6.60%	6.40%	5.70%	5.70%	-110
PNB	6.75%	6.75%	6.75%	6.60%	6.40%	5.80%	5.75%	-100
SBIN	6.80%	6.80%	6.70%	6.70%	6.25%	5.70%	5.30%	-150
AXSB	7.50%	7.50%	7.20%	7.00%	6.85%	6.10%	5.80%	-170
HDFCB	7.40%	7.40%	7.30%	7.00%	6.85%	6.00%	5.75%	-165
ICICIBC	7.50%	7.50%	7.10%	7.00%	6.85%	6.00%	5.75%	-175
KMB	7.30%	7.30%	6.90%	6.80%	6.50%	5.80%	5.25%	-205
<b>Repo Rate</b>	<b>6.25%</b>	<b>5.75%</b>	<b>5.40%</b>	<b>5.40%</b>	<b>5.15%</b>	<b>4.40%</b>	<b>4.00%</b>	<b>-250</b>

Source: MOFSL, Company website

**Exhibit 4: One-year MCLR across banks**

One-year MCLR (%)	Feb'19	Apr'19	Jun'19	Aug'19	Oct'19	Dec'19	Feb'20	Apr'20	May'20	Change over Feb'20 (bps)
BOB	8.75%	8.65%	8.70%	8.45%	8.35%	8.25%	8.15%	8.00%	7.80%	-95
PNB	8.55%	8.45%	8.45%	8.30%	8.25%	8.15%	8.05%	7.75%	7.75%	-80
SBIN	8.55%	8.50%	8.45%	8.25%	8.05%	7.90%	7.85%	7.40%	7.25%	-130
AXSB	8.90%	8.80%	8.70%	8.55%	8.35%	8.15%	8.15%	7.95%	7.80%	-110
HDFCB	8.75%	8.70%	8.70%	8.60%	8.35%	8.15%	8.15%	7.95%	7.70%	-105
ICICIBC	8.80%	8.75%	8.75%	8.65%	8.45%	8.25%	8.20%	8.00%	7.75%	-105
KMB	9.05%	8.90%	8.90%	8.75%	8.60%	8.40%	8.35%	8.10%	7.90%	-115
<b>Repo Rate</b>	<b>6.25%</b>	<b>6.00%</b>	<b>5.75%</b>	<b>5.40%</b>	<b>5.15%</b>	<b>5.15%</b>	<b>5.15%</b>	<b>4.40%</b>	<b>4.00%</b>	<b>-250</b>

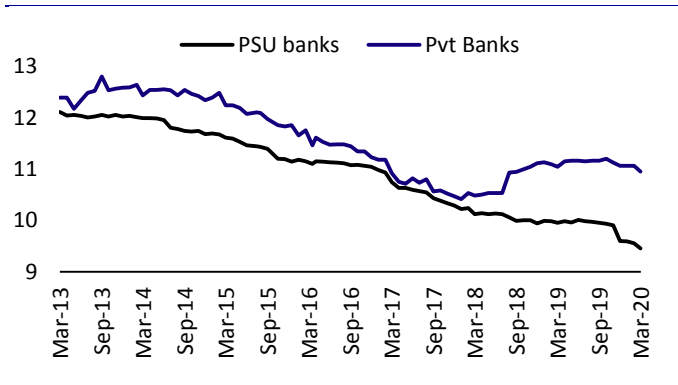
Source: MOFSL, Company website

**Exhibit 5: Home loan rate across banks based on External Benchmark Based Pricing regime**

Home Loan Rates (%)	BOB	BOI	PNB	SBIN	Syndicate	UNBK	AXSB	FB	ICICIBC
Repo Rate	4.00	4.00	4.00	4.00	4.40	4.00	4.00	4.00	4.00
Spread (bps)	285	285	265	265	270	280	335-415	395-410	370-480
Additional for customer risk (bps)	Upto 100	Upto 90	15-75	35-70	20-85	0-30p	NA	NA	NA
<b>Housing Loan as per Repo linked (A)</b>	<b>6.85-7.85</b>	<b>6.85-7.75</b>	<b>6.80-7.40</b>	<b>7.00-7.35</b>	<b>7.30-7.95</b>	<b>6.80-7.10</b>	<b>7.35-8.15</b>	<b>7.95-8.10</b>	<b>7.70-8.80</b>
One Year MCLR	7.80	7.95	7.75	7.25	8.15	7.70	7.80	8.50	7.75
Spread (bps)	Upto 100	Upto 90	75-80	15-75	NA	10-25	NA	NA	NA
<b>Housing Loan as per MCLR (B)</b>	<b>7.80-8.80</b>	<b>7.95-8.85</b>	<b>8.50-8.55</b>	<b>7.40-8.00</b>	<b>8.15</b>	<b>7.80-7.95</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
<b>Difference in rates (B-A) - bps</b>	<b>95</b>	<b>110</b>	<b>115-170</b>	<b>40-65</b>	<b>20-85</b>	<b>85-100</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

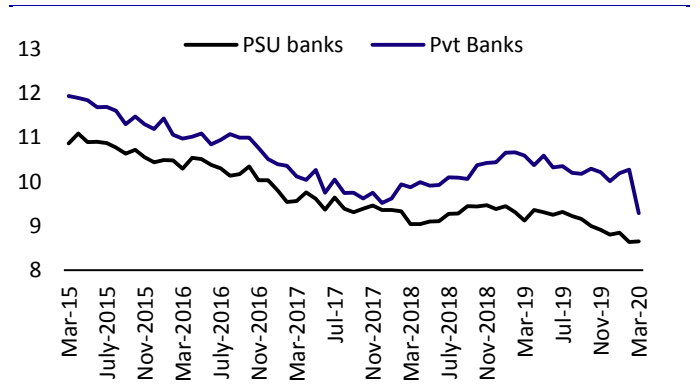
Source: MOFSL, Company website

**Exhibit 6: WALR on outstanding loans stands at 11%/9.5% for Private/PSU banks**



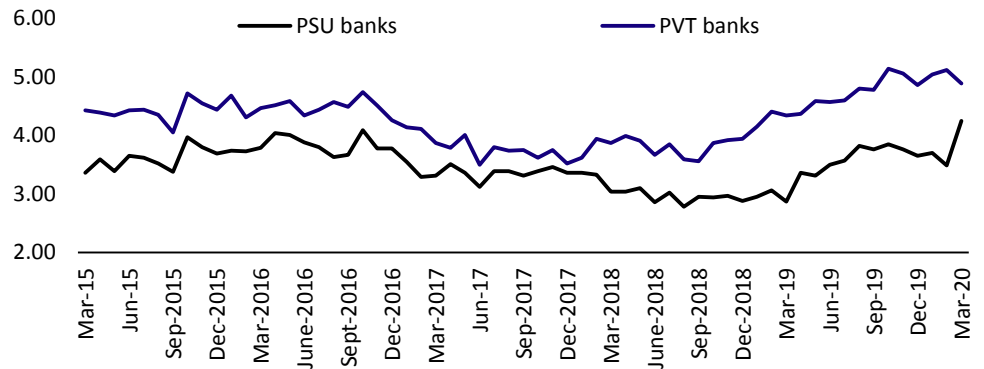
Source: RBI, MOFSL

**Exhibit 7: WALR on fresh loans at 9.3%/8.7% for Private/PSU banks**



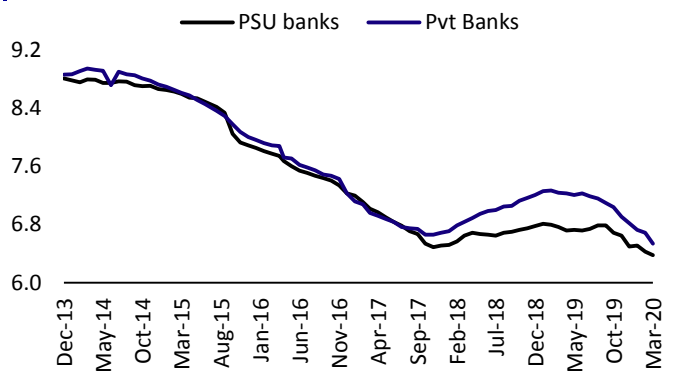
Source: RBI, MOFSL

**Exhibit 8: Fresh rupee loans over repo rate – Increased for private banks over the past three months**



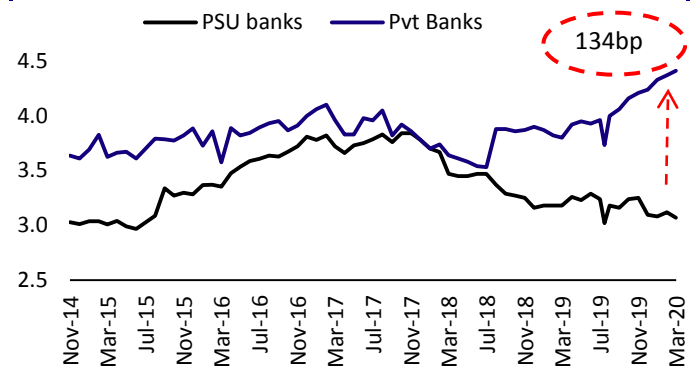
Source: RBI, MOFSL

**Exhibit 9: WATDR declining and stands at 6.5%/6.4% for Pvt/PSU banks**



Source: MOFSL, RBI

**Exhibit 10: Spread difference between Pvt and PSU banks widening and doubles over past year to 134bp**



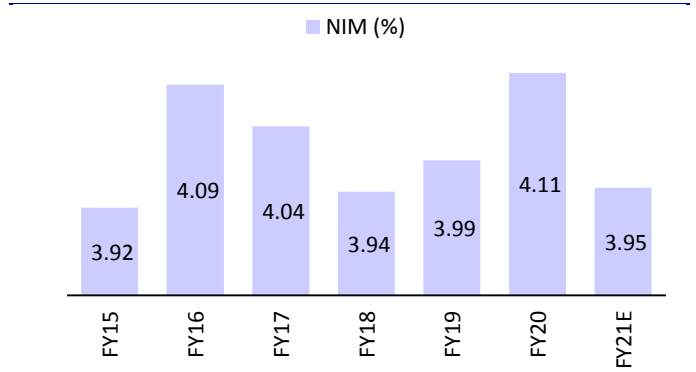
Source: MOFSL, RBI

**Exhibit 11: We factor NIM decline of 5–20bps over FY21**

NIM (%)	FY18	FY19	FY20	FY21E
AXSB	3.14	3.17	3.24	3.13
DCBB	4.00	3.79	3.69	3.60
HDFCB	4.16	4.18	4.05	4.00
ICICIBC	3.21	3.37	3.66	3.60
IIB	4.19	3.95	4.64	4.49
KMB	3.98	3.90	4.02	3.91
FB	3.11	3.07	3.01	2.91
RBK	3.31	3.70	4.47	4.30

Source: RBI, MOFSL

**Exhibit 12: NIMs to moderate ~15bps for our coverage universe**



Source: RBI, MOFSL

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