

## Monetary easing drives further reduction in lending rates

### Private Banks maintaining better control on spreads

- According to the RBI's latest release for Apr'20, the Weighted Average Lending Rates (WALR) on fresh loans has moderated by 43bp MoM with private banks seeing a sharp moderation of 98bp MoM to ~9.3%.
- The 1-year MCLR rates for large banks has moderated in the range of 15-35bp MoM (20-50bp since Jan'20) while for mid-sized banks, it has moderated by 5-25bp (5-30bp since Jan'20). The maximum reduction in 1-year MCLR since Jan'20 has been by SBIN at 50bp, followed by KMB at 30bp.
- With sharp cuts in retail and bulk term deposit rates, the Weighted Average Term Deposit Cost (WATDR) for private banks has moderated by 15bp MoM (28bp QoQ) while for PSBs, it has moderated by 5bp (12bp QoQ).
- Further, banks are reducing interest rates on SA deposits. SBIN has reduced its SA rate to 2.75% while large private banks have reduced it by 25bp to 3.25%. KMB has cut its SA rate by a massive 125-150bp to 3.75-4.5%.
- The lending yield differential between private banks and PSBs currently stands at ~60bp while the deposit rate differential is at ~15bp.
- 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 TD/SA rates. We maintain preference for ICICIBC, HDFCBC and SBIN.

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

- The Weighted Average Lending Rates (WALR) on fresh loans has moderated by 43bp MoM with private bank seeing a sharp moderation of 98bp MoM to ~9.3%.
- The WALR on outstanding loans for banks declined by 11bp MoM to ~10.0% with private banks' yields moderating by 11bp MoM to 10.9% while PSB's yields moderated by 10bp MoM to 9.4%.
- The 1-year MCLR rates for large banks has moderated in the range of 15-35bp MoM (20-50bp since Jan'20) while for mid-sized banks, it moderated by 5-25bp (5-30bp since Jan'20). The maximum reduction in 1-year MCLR since Jan'20 was by SBI at 50bp, followed by KMB at 30bp.

### Weighted Average Term Deposits Cost (WATDR) moderates further

- The WATDR has been declining for the past one year. It has declined ~70bp for private banks to 6.5% while for PSU banks, it has declined by ~40bp to 6.4%.
- MoM WATDR for private banks has moderated by 15bp (28bp QoQ) while for PSBs, it has moderated by 5bp (12bp QoQ).
- SBI has reduced its peak term deposit rate to 5.5% and large private banks have reduced their TD rates by up to 150bp. Further, banks have reduced interest rates on SA deposits. SBIN has reduced its SA rate to 2.75% while large private banks have reduced it by 25bp to 3.25%. KMB has cut its SA rate by a massive 125-150bp to 3.75-4.5%.

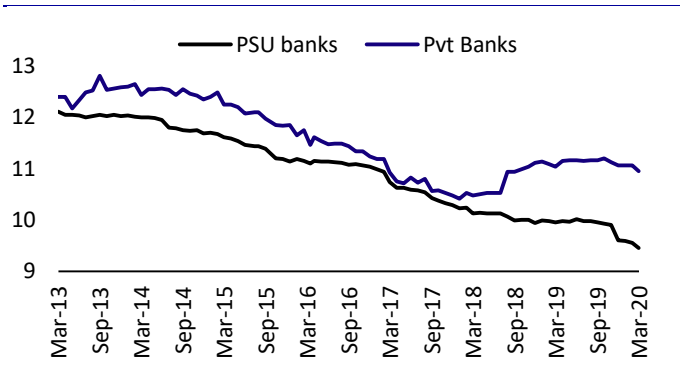
**Spreads differential widens further between Private Banks and PSBs**

Private banks have been focusing on high yielding assets while PSBs (barring SBIN) have not been very aggressive, and thus, the lending yield differential between the two remains high. However, continued monetary easing has resulted in lower yields under the external benchmark-based pricing regime, and therefore, lending yield differential between private banks and PSBs has narrowed to ~60bp (v/s 150bp in Mar'19) while the deposit rate differential is at ~15bp. However, the spread differential between private banks and PSBs continues to widen and stood at ~130bp led by higher decline in deposit rates by the former.

**Valuation and view:**

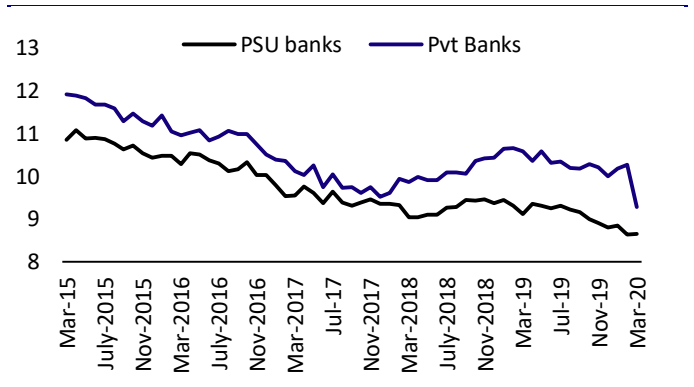
The continued monetary easing should result in lower yields under the external benchmark, and thus, banks with strong/granular liability franchise would be able to tackle the margin pressure by reducing TD/SA rates. SBIN has reduced its SA rate to 2.75% and large private banks have reduced it by 25bp to 3.25%. On the other hand, large banks have reduced TD rates by up to 150bp. We maintain our preference for ICICBC, HDFCBC and SBIN.

**Exhibit 1: Weighted Average Lending Rates (WALR) on outstanding loans – trends for PSBs/Private Banks**



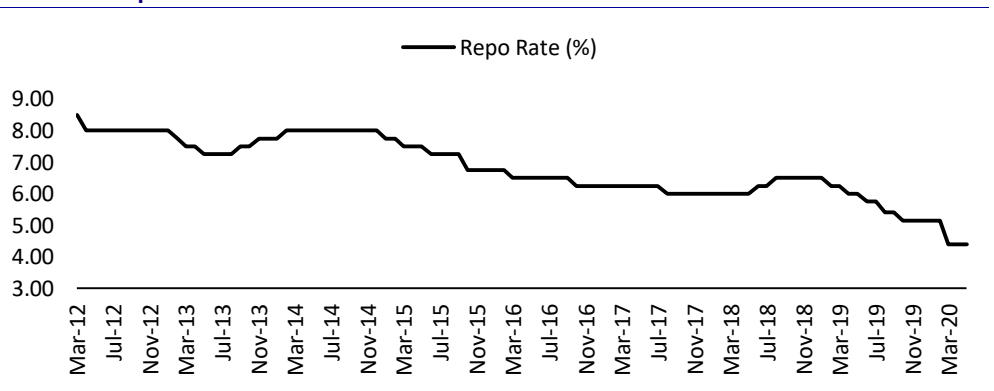
Source: RBI, MOFSL

**Exhibit 2: Weighted Average Lending Rates (WALR) on fresh loans – trends for PSBs/Private Banks**



Source: RBI, MOFSL

**Exhibit 3: Repo rate trends....**



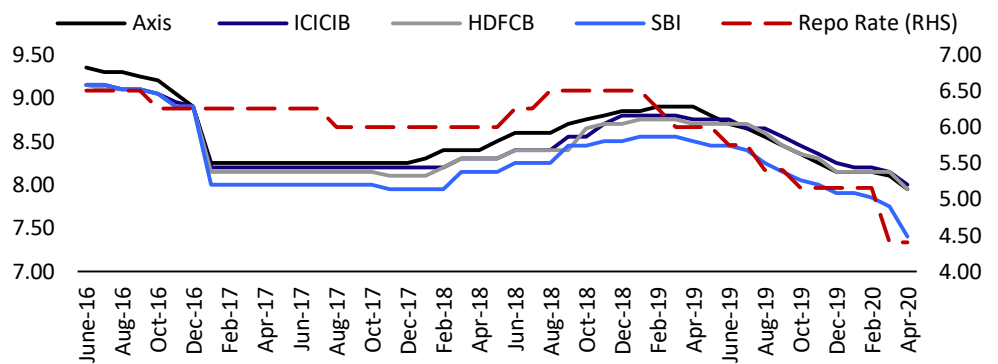
Source: RBI, MOFSL

1-year MCLR declined for large banks in the range of 15-35bp MoM

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

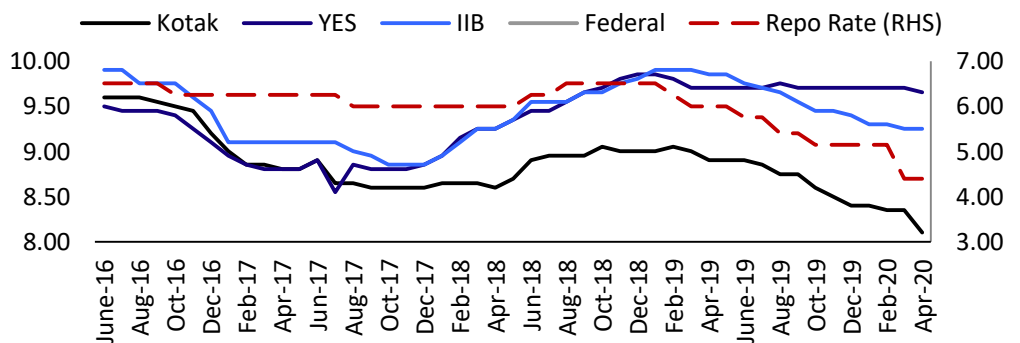
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**Exhibit 4: Large Banks have cut their MCLR in the range of 20-50bp since Jan'20**



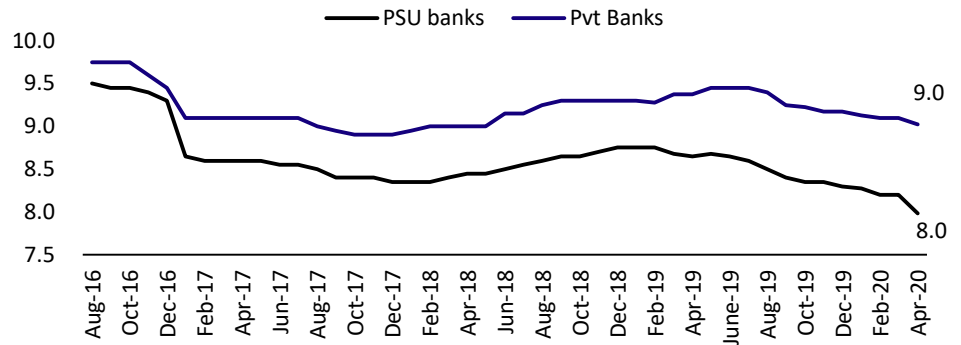
Source: RBI, MOFSL

**Exhibit 5: While mid-sized banks like KMB and Federal Bank have cut MCLR rates up to 30bp since Jan'20, IIB has cut MCLR rate by 5bp**



Source: RBI, MOFSL

**Exhibit 6: Median 1-year MCLR moderated by 22bp/8bp MoM for PSBs/Private banks to ~8.0%/9.0%**

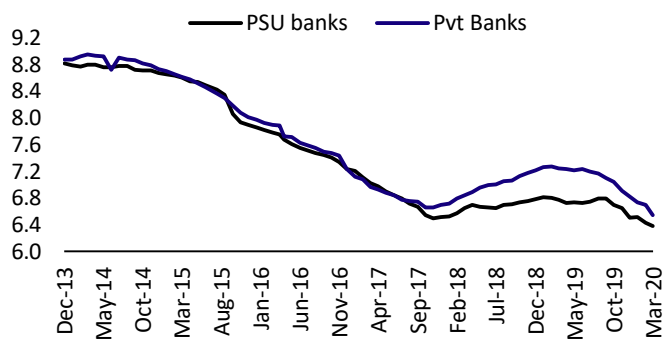


Source: RBI, MOFSL

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

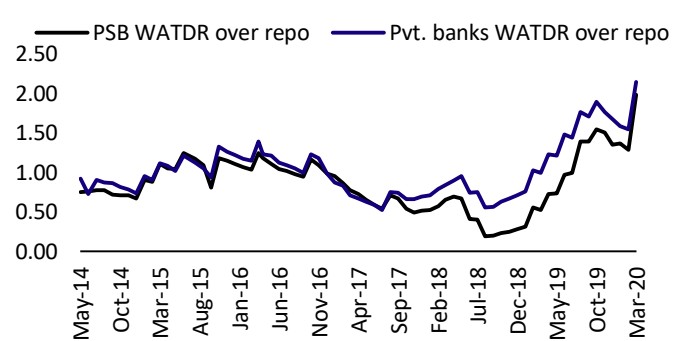
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- SBIN has reduced its peak term deposit rate to 5.5% and large private banks have reduced their TD rates by up to 150bp. Further, banks have reduced interest rates on SA deposits. SBIN has reduced its SA rate to 2.75% while large private have reduced it by 25bp to 3.25%. KMB has reduced SA rate by a massive 125-150bp to 3.75-4.5%.

**Exhibit 7: WATDR for PSBs stands at 6.4% while for Private banks it is at 6.5%**



Source: MOFSL, RBI

**Exhibit 8: WATDR over repo rate for private banks stands at ~210bp as against ~200bp for PSBs**



Source: MOFSL, RBI

**Exhibit 9: Peak term deposit rates between banks**

Peak Deposit rate (%)	Sep'18	Dec'18	Mar'19	Jun'19	Sep'19	Nov'19	Apr'19	Change (bps)
BOB	6.75	6.80	6.80	6.80	6.60	6.40	5.70	-110
PNB	6.75	6.75	6.75	6.75	6.60	6.40	5.80	-95
SBIN	6.75	6.75	6.80	6.80	6.70	6.25	5.70	-110
AXSB	7.25	7.30	7.50	7.50	7.00	6.85	6.10	-140
HDFCB	7.25	7.40	7.40	7.40	7.00	6.85	6.00	-140
ICICIBC	7.80	7.70	7.50	7.50	7.00	6.85	6.00	-150
KMB	7.50	7.40	7.30	7.30	6.80	6.50	5.80	-150
Repo Rate	6.50	6.50	6.25	5.75	5.40	5.15	4.40	-185

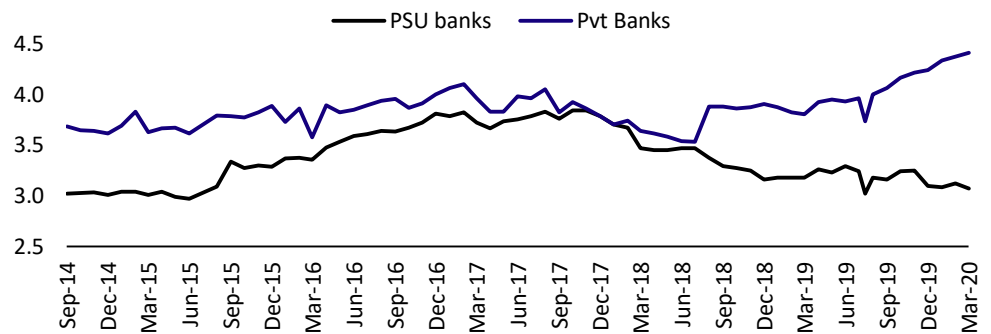
Source: MOFSL, Company website

Spread differential between PSBs and private banks widens by ~130bp

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**Exhibit 10: Spreads between PSBs and Private banks continue to widen**



Source: MOFSL, RBI

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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