

BANKING

12 May 2020

Lending yields plummet in March

Fresh lending yields down 40bps MoM: As per latest RBI data, fresh lending yields continued to decline, with a 40bps MoM drop in Mar'20 to 8.8%.

Divergent trends were observed between private and public sector banks (PSB) as fresh yields for the former declined by ~98bps to 9.3% while that for PSBs was stable at ~8.7%. The lending rate on outstanding loans has fallen 11bps in Mar'20 and ~30bps since Oct'19. Banks have been reducing their MCLR over the past few months and this along with the 75bps repo rate cut by RBI in March may have translated into lower fresh yields, in our view.

Term deposit rates dip 7bps: The weighted average domestic term deposit rate (WADTDR) of scheduled commercial banks (SCB) declined by 7bps to ~6.4% in Mar'20. A large part of the decline was driven by private banks which lowered their WADTDR by 15bps to ~6.5% (and by 56bps since Oc'19 vs. a 46bps reduction by SCBs).

Spreads increase further for private banks: High lending rates and a sharper reduction in term deposit rates have raised the spread (outstanding loan yields less outstanding term deposit costs) for private banks to the highest level in over six years. As of Mar'20, the lending spread stood at 4.4% for private players vs. 3.1% for PSBs.

Likely pressure on NIMs ahead: The median MCLR of SCBs has dipped 20bps MoM to 8% in Apr'20. A bulk of the banking sector's loan portfolio is currently linked to MCLR where both large private banks and PSBs have cut rates by 30-65bps in the last six months. We believe it won't be long before surplus liquidity and weak credit growth start translating the policy rate cuts into lower lending yields for banks. This apart, banks would also start to register the impact of repo-linked loans. At the same time, some margin pressure is likely to be mitigated by the reduction in deposit rates by banks.

FIG 1 – MCLR OF BANKS DOWN >30BPS IN THE LAST SIX MONTHS

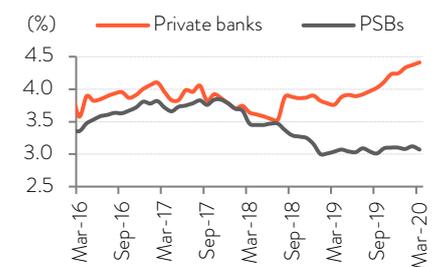
Banks	1 year MCLR (%)							Change (bps) Apr-20 over Oct-19
	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	
AXSB IN	8.4	8.3	8.2	8.2	8.2	8.1	8.0	(40)
HDFCB IN	8.4	8.3	8.2	8.2	8.2	8.2	8.0	(40)
ICICIBC IN	8.5	8.4	8.3	8.2	8.2	8.2	8.0	(45)
KMB IN	8.6	8.5	8.4	8.4	8.4	8.4	8.1	(50)
RBK IN	9.9	9.8	9.7	9.6	9.6	9.5	9.4	(50)
CBK IN	8.4	8.4	8.4	8.4	8.2	8.2	7.9	(55)
SBIN IN	8.1	8.0	7.9	7.9	7.9	7.8	7.4	(65)

Source: RBI, BOBCAPS Research

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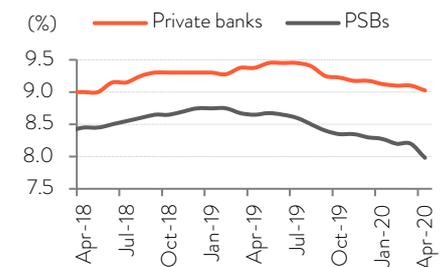
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LENDING SPREADS OF PRIVATE BANKS CONTINUE TO INCH UP



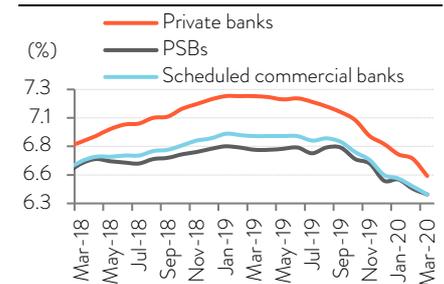
Source: RBI, BOBCAPS Research

MEDIAN MCLR



Source: RBI, BOBCAPS Research

TERM DEPOSIT RATES HAVE BEGUN TO COME OFF



Source: RBI, BOBCAPS Research

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BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

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