

## BANKING

30 September 2020

### Lending rates dip in August

**Fresh lending rate of SCBs declines to 8.4%:** As per latest RBI data, the weighted average lending rate (WALR) on fresh rupee loans sanctioned by scheduled commercial banks (SCB) declined 18bps MoM to ~8.4% in August, driven by a ~30bps fall in rates at private banks. Public sector (PSB) and private banks have reduced fresh lending rates by ~60bps and ~50bps respectively since Mar'20. Banks have been cutting MCLR on the back of lower policy rates, which has translated into lower fresh rates. The WALR on outstanding loans remained largely stable at 9.7%.

**Term deposit rate down 10bps MoM to ~5.9%:** The weighted average domestic term deposit rate of SCBs declined 10bps MoM to 5.9% in August. PSBs saw a fall of ~9bps MoM to ~6%. For private banks, rates dropped 11bps to ~5.9%, coming in below that of PSBs for the first time since Jul'17.

**Spreads largely stable:** Spreads for private banks and PSBs remained largely stable in August at 4.7% and 3.1% respectively as the reduction in outstanding lending rates was compensated for by lower term deposit rates. Spreads for private players are currently ~160bps higher than that of PSBs.

**NIMs likely to remain steady for now:** The median MCLR of SCBs remained largely stable at 7.4% in Aug'20. A bulk of the banking sector's loan portfolio is still linked to MCLR where both large/mid-sized private banks and PSBs have cut rates by 35-95bps since Jan'20. We believe that surplus liquidity coupled with tepid disbursements would translate into lower lending rates. This apart, banks would also begin to register the impact of repo-linked loans. While multiple negative variables are currently at play, we believe that banks are likely to mitigate pressure on NIMs by reducing deposit rates.

**FIG 1 – MCLR OF BANKS DOWN >40BPS SINCE MAR'20**

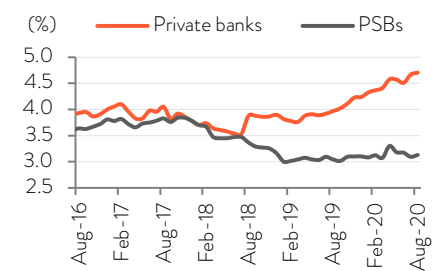
Banks	1-year MCLR (%)							Change (bps) Sep-20 over Mar-20
	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	
AXSB IN	8.1	8.0	7.8	7.8	7.7	7.6	7.5	(60)
HDFCB IN	8.2	8.0	8.0	7.7	7.5	7.4	7.3	(85)
ICICIBC IN	8.2	8.0	7.8	7.7	7.6	7.5	7.4	(75)
IIB IN	9.3	9.3	9.3	9.2	9.1	9.0	8.9	(40)
KMB IN	8.4	8.1	7.9	7.8	7.6	7.5	7.5	(85)
CBK IN	8.2	7.9	7.9	7.7	7.6	7.5	7.4	(80)
SBIN IN	7.8	7.4	7.3	7.0	7.0	7.0	7.0	(75)

Source: RBI, BOBCAPS Research

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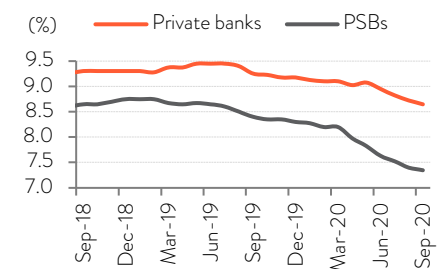
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### LENDING SPREADS OF PRIVATE BANKS DECLINED IN AUG'20



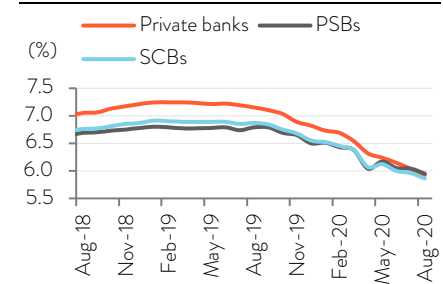
Source: RBI, BOBCAPS Research

### MEDIAN MCLR STABLE



Source: RBI, BOBCAPS Research

### TERM DEPOSIT RATES FOR SCBs DECLINED IN AUG'20



Source: RBI, BOBCAPS Research

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

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**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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