

BANKING

09 June 2020

Sharp reduction in term deposit rates in April

Fresh lending rates down 50bps MoM: As per latest RBI data, banks’ fresh lending rates declined 52bps MoM to 8.3% in Apr’20, registering the steepest ever fall since Oct’14. A large part of the decline was driven by public sector banks (PSB) where fresh rates dropped 60bps to ~8% while private banks saw a 38bps decline to 8.9%. The lending rate on outstanding loans fell 11bps in Apr’20 and ~40bps over the last six months. Banks have been reducing MCLR on the back of lower policy rates, which has translated into lower fresh rates.

Term deposit rates dip 30bps: The weighted average domestic term deposit rate (WADTDR) of scheduled commercial banks (SCB) declined by 30bps to ~6.1% in Apr’20. Here too, PSBs fuelled the decline with a reduction of 34bps in WADTDR to ~6% (and 65bps since Nov’19) while that for private banks dipped 22bps to ~6.3%.

Spreads increase further for private banks: A sharper reduction in term deposit rates versus minor cuts in outstanding lending rates (down 5bps MoM to 10.9%) led to a further increase in spreads for private banks. As of Apr’20, spreads for private banks/PSBs stood at 4.6%/3.3%.

Likely pressure on NIMs ahead: The median MCLR of SCBs has dipped 15bps MoM to ~7.9% in May’20. A bulk of the banking sector’s loan portfolio is currently linked to MCLR where both large/mid-sized private banks and PSBs have cut rates by 15-65bps since Dec’19. We believe it won’t be long before surplus liquidity and weak credit growth start translating the policy rate cuts into lower lending rates. This apart, banks would also begin to register the impact of repo-linked loans. The resultant margin pressure is likely to be mitigated to some extent by reduced deposit rates.

FIG 1 – MCLR OF BANKS DOWN >15BPS SINCE DEC’19

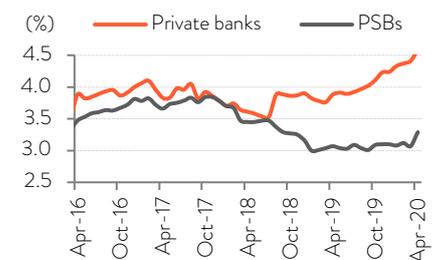
Banks	1-year MCLR (%)						Change (bps) May-20 over Dec-19
	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	
AXSB	8.15	8.15	8.15	8.10	7.95	7.80	(35)
HDFCB	8.15	8.15	8.15	8.15	7.95	7.95	(20)
ICICIBC	8.25	8.20	8.20	8.15	8.00	7.75	(50)
IIB	9.40	9.30	9.30	9.25	9.25	9.25	(15)
KMB	8.40	8.40	8.35	8.35	8.10	7.90	(50)
CBK	8.35	8.35	8.20	8.20	7.85	7.85	(50)
SBIN	7.90	7.90	7.85	7.75	7.40	7.25	(65)

Source: RBI, BOBCAPS Research

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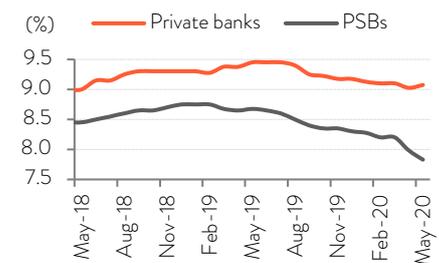
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LENDING SPREADS OF PRIVATE BANKS CONTINUE TO INCH UP



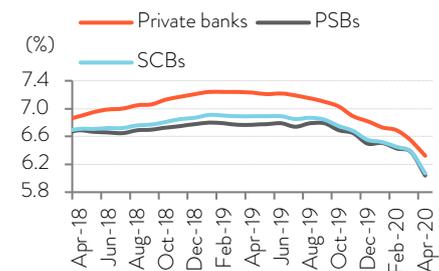
Source: RBI, BOBCAPS Research

MEDIAN MCLR ON THE DECLINE



Source: RBI, BOBCAPS Research

TERM DEPOSIT RATES HAVE BEGUN TO COME OFF



Source: RBI, BOBCAPS Research



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

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

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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