

**BANKING**

31 May 2021

**Lending rates increase marginally in April**

As per RBI data on lending and deposit rates, the WALR on fresh rupee loans sanctioned by SCBs inched up to 8.1% in April while that on outstanding loans was stable at 9.2%. Deposit rates held steady at 5.4% for the month but given adequate liquidity in the system, rates of both private and PSBs have declined by 70-75bps over the last 12 months. Spreads for public banks have improved marginally to 3.3% in April but remain ~135bps lower than that of private peers. We expect NIMs of large private players to remain stable in the near term.

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**PSBs' fresh lending rate rises 30bps:** As per latest RBI data, the weighted average lending rate (WALR) on fresh rupee loans sanctioned by scheduled commercial banks (SCB) increased 7bps MoM to 8.1% in Apr'21 led by a ~30bps rise in rates at public sector banks (PSB). Fresh lending rates of public and private banks have reduced by ~55bps and ~40bps respectively since May'20. Over the last 12 months, the median MCLR of banks has declined ~40bps, translating into lower fresh rates. WALR on outstanding loans was largely stable at 9.2% in April.

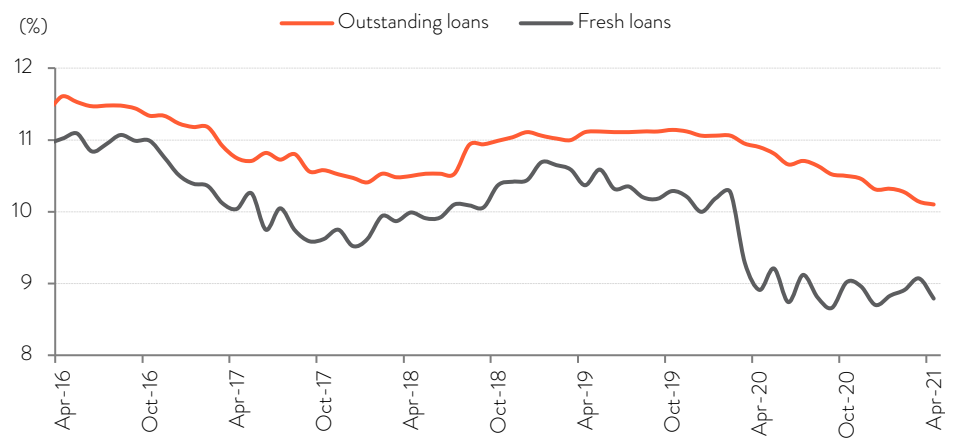
**Term deposit rate broadly steady MoM:** SCBs' weighted average domestic term deposit rate was stable at 5.4% in April as rates of both private banks (down 4bps MoM) and PSBs (down 2bps) were largely flat. Private and PSBs have reduced deposit rates by 75bps and 70bps respectively over the last 12 months. Indeed, aggressive cuts by private players over the past few quarters have brought them on par with public sector peers.

**PSBs manage to improve spreads:** Spreads for private banks were stable in April at 4.6% while PSBs managed a 5bps MoM uptick to 3.3% given a marginal increase in outstanding lending rates coupled with lower term deposit rates. Private players thus continue to maintain a ~135bps lead over PSBs.

**NIMs likely to hold steady for now:** The median MCLR of SCBs was stable at 7.3% in April. A large chunk 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 30-50bps since Jun'20. We expect NIMs for large private banks under our coverage to remain stable in the near term.

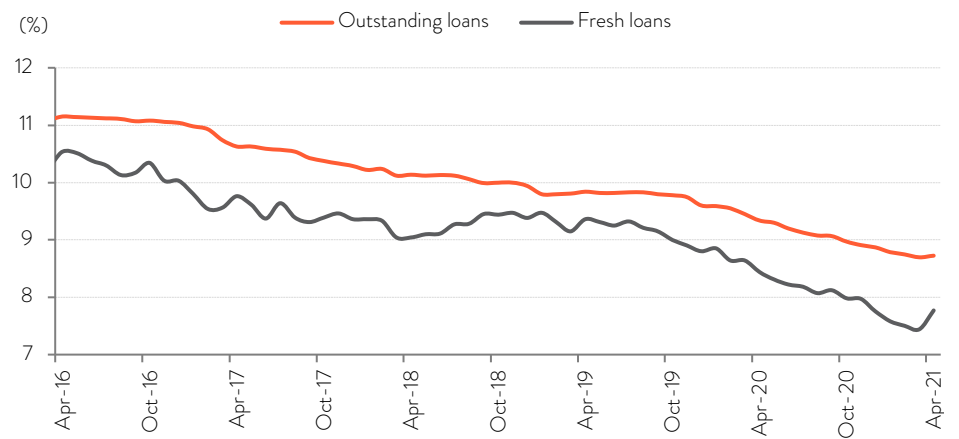


**FIG 1 – GAP BETWEEN OUTSTANDING LOAN RATES AND FRESH LOAN RATES FOR PRIVATE BANKS STANDS AT 130BPS IN APR'21...**



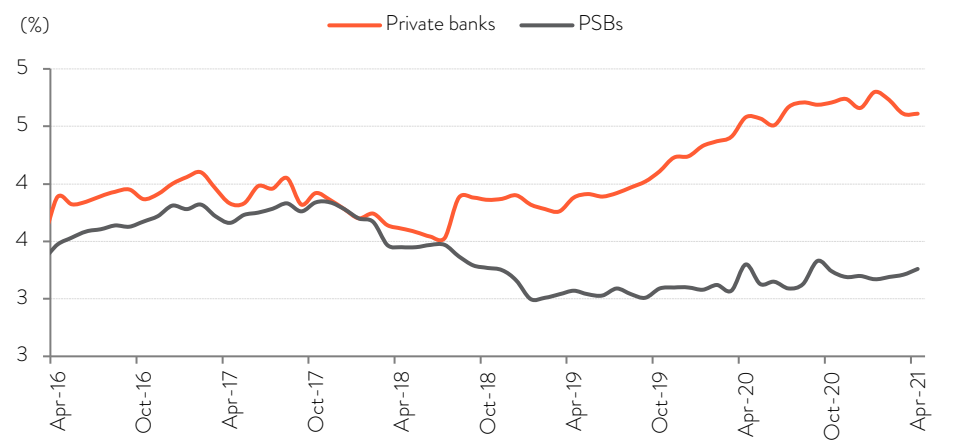
Source: RBI, BOBCAPS Research

**FIG 2 – ...WHILE THAT FOR PUBLIC BANKS STANDS AT 96BPS**

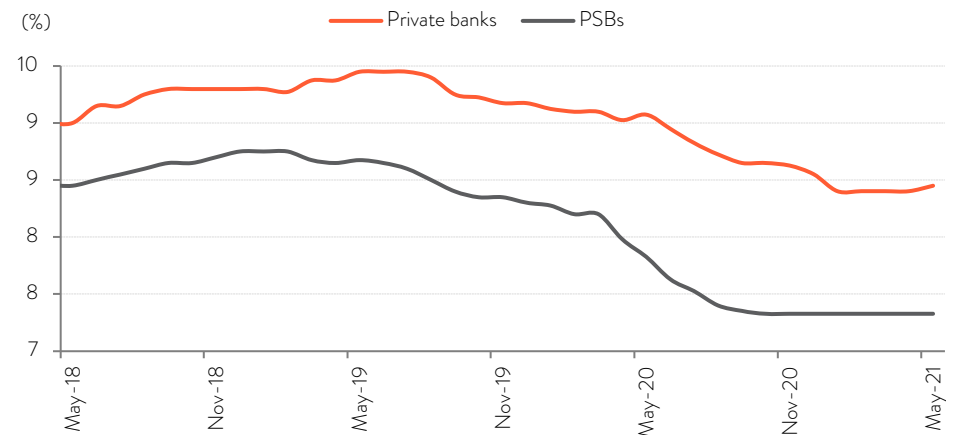


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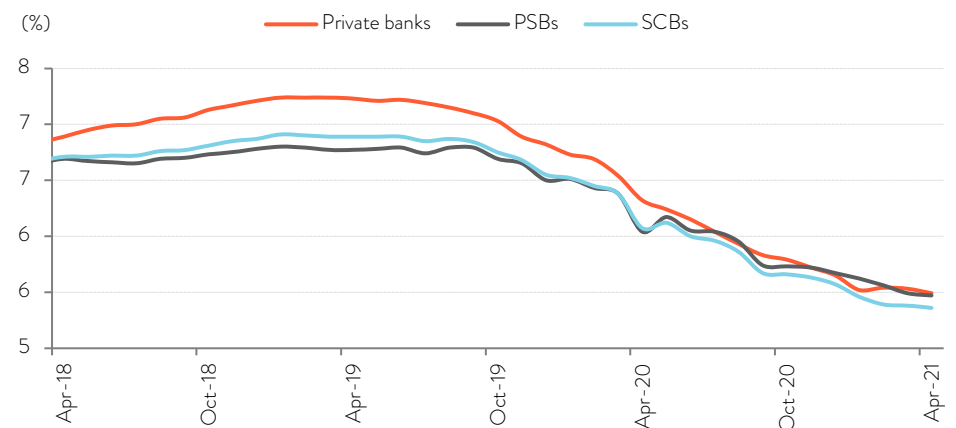
**FIG 3 – SPREAD DIFFERENTIAL BETWEEN PRIVATE AND PSBs AT 135BPS**



Source: RBI, BOBCAPS Research

**FIG 4 – MEDIAN MCLR OF BANKS DOWN ~40BPS OVER LAST 12 MONTHS**

Source: RBI, BOBCAPS Research

**FIG 5 – WEIGHTED AVERAGE DOMESTIC TERM DEPOSIT RATE OF SCBs STABLE AT 5.4% IN APR'21**

Source: RBI, BOBCAPS Research

**FIG 6 – BANKS UNDER OUR COVERAGE HAVE CUT RATES BY 30-90BPS SINCE JUN'20**

Bank	1-year MCLR (%)					Change (bps) May-21 over Jun-20
	Jun-20	Aug-20	Nov-20	Feb-21	May-21	
AXSB	7.8	7.6	7.5	7.4	7.4	(40)
BANDHAN	9.7	9.4	9.0	9.0	9.1	(59)
CBK	7.7	7.5	7.4	7.4	7.4	(30)
HDFCB	7.7	7.4	7.3	7.2	7.2	(45)
ICICIBC	7.7	7.5	7.4	7.3	7.3	(40)
IIB	9.2	9.0	8.7	8.6	8.6	(55)
KMB	7.8	7.5	7.4	7.3	7.3	(50)
RBK	9.4	9.1	8.9	8.7	8.5	(90)
FB	8.4	8.1	8.0	7.9	7.9	(50)
DCBB	10.1	10.0	9.9	9.4	9.4	(65)

Source: RBI, BOBCAPS Research

FIG 7 – PEER COMPARISON

Bank	MCap (Rs bn)	Target (Rs)	Rating	ROA (%)			ROE (%)			P/BV (x)			P/E (x)		
				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
AUBANK	309	1,300	BUY	2.5	1.7	2.0	22.4	15.1	18.4	5.1	4.4	3.7	26.4	31.6	22.1
AXSB#	2,299	815	BUY	0.7	1.5	1.7	7.1	14.9	16.8	2.3	2.0	1.7	33.5	14.2	11.0
ICICIBC#	4,583	675	BUY	1.4	1.6	1.8	12.3	13.5	16.0	2.8	2.7	2.3	27.4	21.9	16.5
HDFCB#	8,368	1,800	BUY	1.9	2.0	2.0	16.6	17.2	18.2	4.0	3.5	3.1	26.8	22.4	18.6
KMB#	3,584	2,100	BUY	1.9	2.1	2.2	12.5	12.8	13.5	3.8	3.4	3.0	50.6	41.8	35.1
IIB	784	1,100	BUY	0.9	1.6	1.7	7.7	13.5	15.3	1.9	1.7	1.5	25.4	13.1	10.3
RBK	128	200	ADD	0.5	1.0	1.2	4.4	8.3	10.6	1.0	0.9	0.9	23.3	11.7	8.5
BANDHAN	495	335	ADD	2.1	2.6	2.9	13.5	17.4	21.0	2.8	2.4	2.1	22.4	15.1	10.7
FB	174	95	BUY	0.8	0.9	0.9	10.4	10.8	12.1	1.1	1.0	0.9	10.9	9.5	7.7
DCBB	326	100	ADD	0.9	0.8	0.9	9.6	8.0	9.3	0.9	0.9	0.8	9.5	10.5	8.4
SBIN#	3,786	515	BUY	0.5	0.6	0.7	8.4	11.3	13.7	0.9	0.8	0.8	18.5	12.5	9.3
CBK	265	165	ADD	0.3	0.2	0.2	5.2	4.1	4.7	0.5	0.5	0.5	8.4	11.3	10.0

Source: Bloomberg, BOBCAPS Research | #Core P/BV

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

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