

BANKING

08 July 2020

Lending rates remain stable in May

Fresh lending rate for SCBs steady at 8.5%: As per latest RBI data, the weighted average lending rate (WALR) on fresh rupee loans sanctioned by public sector banks (PSB) declined 26bps MoM to ~8.2% in May, whereas that for scheduled commercial banks (SCB) remained unchanged at 8.5% as private players managed to improve fresh lending rates by 30bps to 9.2%. The WALR on outstanding loans was stable at 9.9%. Banks have been reducing MCLR on the back of lower policy rates, which has translated into lower fresh rates.

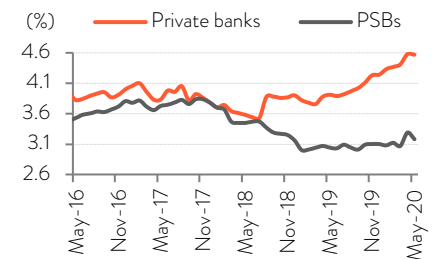
Term deposit rate largely stable at 6.1%: The weighted average domestic term deposit rate (WADTDR) of SCBs held at ~6.1% in May. PSBs clocked improvement of ~13bps MoM to ~6.2% while private banks saw a decline of 8bps to ~6.2%.

Spreads for private banks steady: Private banks managed to maintain their spreads at ~4.6% given that the reduction in outstanding lending rates was compensated for by lower term deposit rates. However, the same for PSBs declined by ~10bps MoM to 3.2% in May.

Likely pressure on NIMs ahead: The median MCLR of SCBs has dipped 15bps MoM to 7.7% in Jun'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 15-90bps since Jan'20. We believe that surplus liquidity and weak credit growth would translate 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.

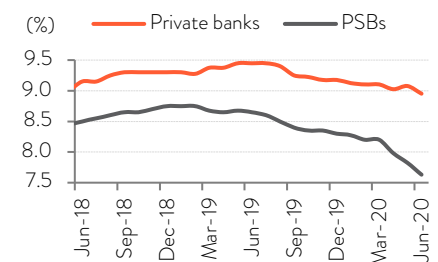
Vikesh Mehta
research@bobcaps.in

LENDING SPREADS OF PRIVATE BANKS STABLE IN MAY'20



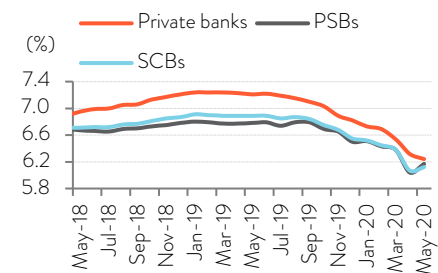
Source: RBI, BOBCAPS Research

MEDIAN MCLR ON THE DECLINE



Source: RBI, BOBCAPS Research

TERM DEPOSIT RATES FOR SCBs REMAIN STEADY IN MAY'20



Source: RBI, BOBCAPS Research

FIG 1 – MCLR OF BANKS DOWN >15BPS SINCE JAN'20

Banks	1-year MCLR (%)						Change (bps) Jun-20 over Jan-20
	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	
AXSB IN	8.15	8.15	8.10	7.95	7.80	7.75	(40)
HDFCB IN	8.15	8.15	8.15	7.95	7.95	7.65	(50)
ICICIBC IN	8.20	8.20	8.15	8.00	7.75	7.70	(50)
IIB IN	9.30	9.30	9.25	9.25	9.25	9.15	(15)
KMB IN	8.40	8.35	8.35	8.10	7.90	7.75	(65)
CBK IN	8.35	8.20	8.20	7.85	7.85	7.65	(70)
SBIN IN	7.90	7.85	7.75	7.40	7.25	7.00	(90)

Source: RBI, BOBCAPS Research



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

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