

O/s Spreads Continue to Narrow as Deposit Rates Grow Marginally

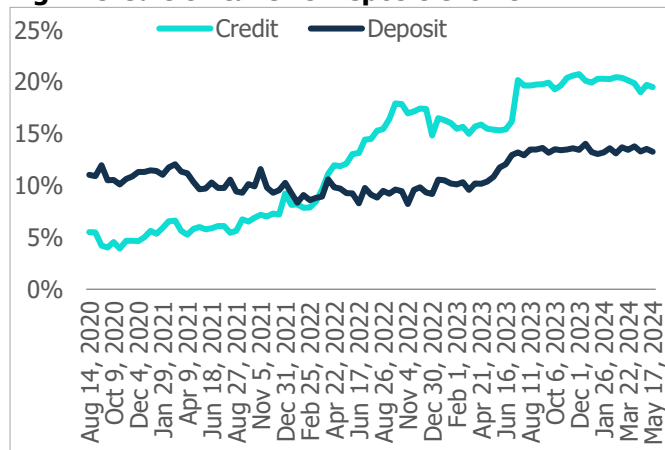
July 03, 2024 | BFSI Research

Overview

- In May 2024, scheduled commercial banks (SCBs) spread between the outstanding (o/s) weighted average lending rate (WALR – Lending Rate) and weighted average domestic term deposit rate (WADTDR – Deposit Rate) decreased by 1 bps reaching a new 9-year low of 2.89%.
 - The Lending Rate on o/s rupee loans remained flat sequentially to 9.81%, in contrast, the deposit rate on o/s rupee term deposits increased marginally by 1 bps to 6.92% in May 2024.
 - Meanwhile, the one-year median Marginal Cost of Funds-based Lending Rate (MCLR) increased by 6 bps m-o-m and stood at 8.85% as of June 2024.
- SCBs fresh spreads between WALR and WADTDR narrowed sequentially by 15 bps and stood at 2.92%.
 - The Lending Rate on fresh rupee loans sequentially decreased by 16 basis points (bps) to 9.39% in May 2024, while the Deposit Rate (Fresh) decreased marginally by 1 bps to 6.47% in May 2024.

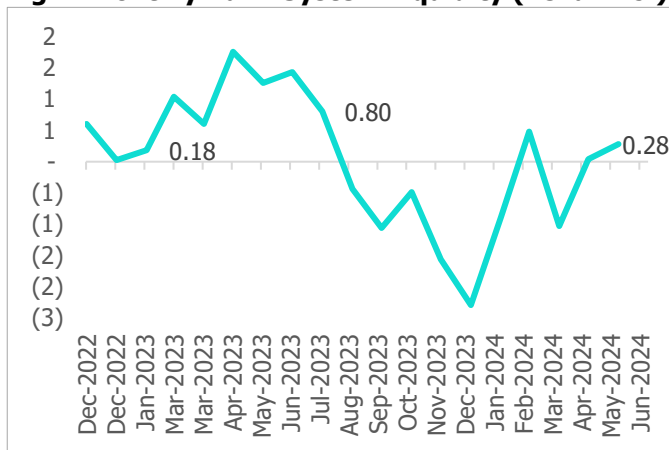
Persistent Gap Between Credit and Deposit Growth

Fig 1: Credit Offtake vs Deposit Growth



Source: CMIE, RBI; Note: Data post HDFC Merger in July

Fig 2: Monthly Bank System Liquidity (Rs lakh cr)

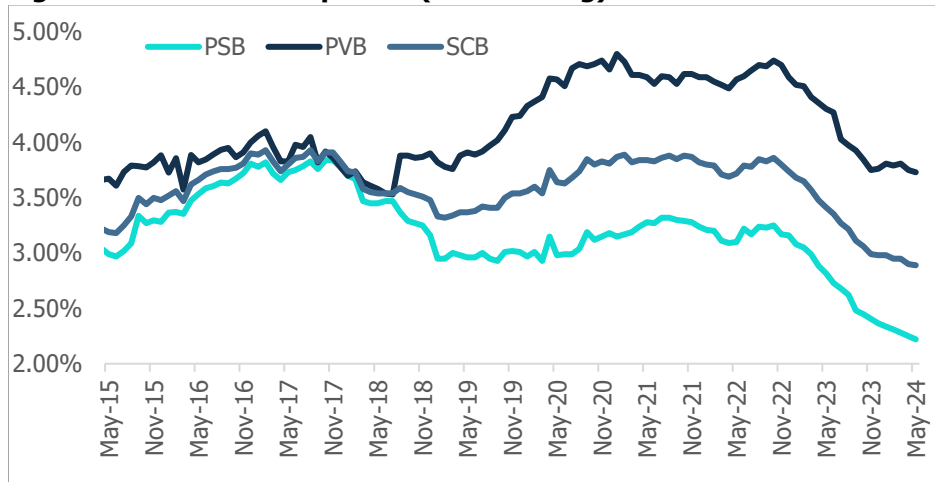


Source: RBI, CMIE, Note: data is end of month

Credit offtake continued at 19.2% year-on-year (y-o-y) (including HDFC merger) to reach Rs. 167.1 lakh crore, for the fortnight ending June 14, 2024. This rise can continue to be attributed to growth in the personal loans segment and real estate segments.

RBI has been conducting Voluntary Retention Route (VRR) auctions to manage liquidity conditions effectively. FPI inflows have helped ease liquidity conditions.

O/s Spread Compression Continues for SCBs
Figure 3: Evolution of Spreads (Outstanding)

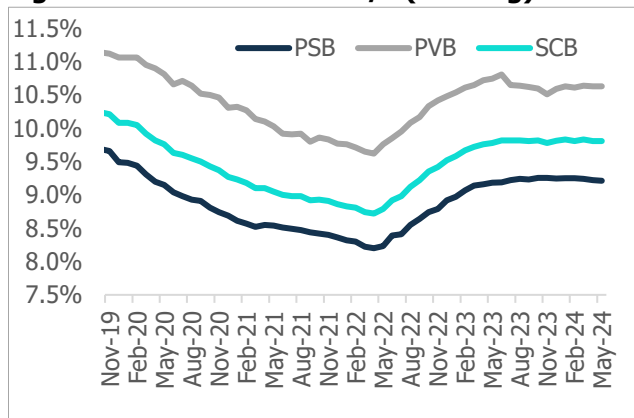


Source: RBI; Note: Data post HDFC Merger in July

- The spread of SCBs between the outstanding lending rate and outstanding deposit rate stood at 2.89% as of May 2024 and reduced by 1 bps on m-o-m basis reaching a 9-year low.
 - The o/s PSB spread has been compressing over the last year, decreasing by 60 bps and touching 2.22% as of May 2024, while the PVBs spread declined by 2 bps and stood at 3.73% as of May 2024 compared to a marginal increase seen last month.

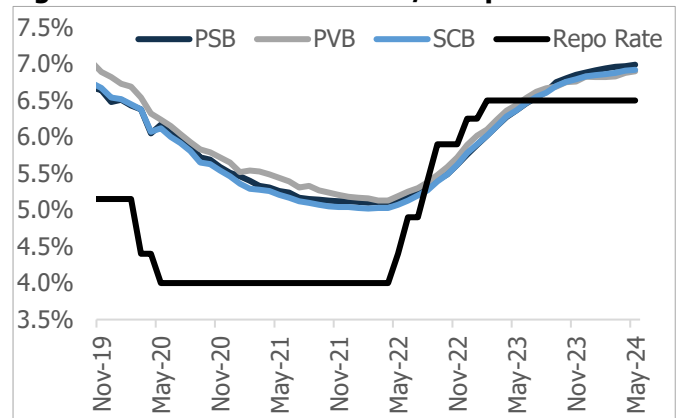
Outstanding Business: Deposit Rates Rise, However Lending Rates Drop

Fig 4: Evolution of WALR O/s (Lending) Rate



Source: RBI; Note: Data post HDFC Merger in July

Fig 5: Evolution of WADTDR O/s Deposit Rate



Outstanding lending rates for SCBs remained flat on m-o-m basis and stood at 9.81% for SCBs, PVBs too remained flat at 10.63%, however, PSBs dropped marginally by 1 bps and stood at 9.21% as of May 2024.

Meanwhile, outstanding deposit rates saw a m-o-m uptick by 1 bps and stood at 6.92%, wherein PVBs and PSBs both increased by 2 bps each and continue to remain above their pre-pandemic levels (compared with March 2020). When we compare pre covid o/s deposit rates for PSBs and PVBs, there is a divergence in trend wherein deposit rates have seen a increasing trend (due to banks raising rates on shorter-term time deposits amid tight liquidity conditions) compared to a marginal fall in lending rates due to growing competition (could lead to healthy credit growth).

Fig 6: Movement in 1-Year MCLR (Median)

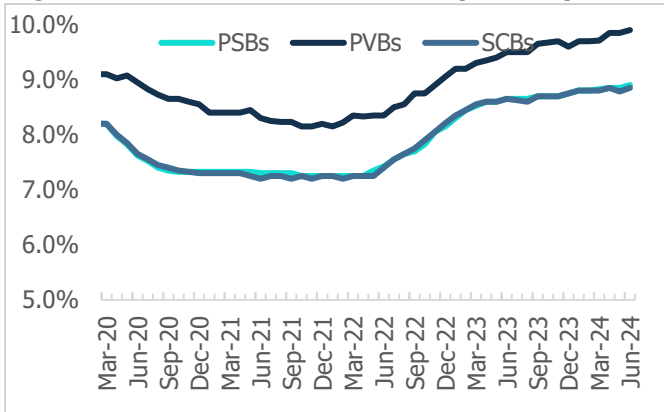
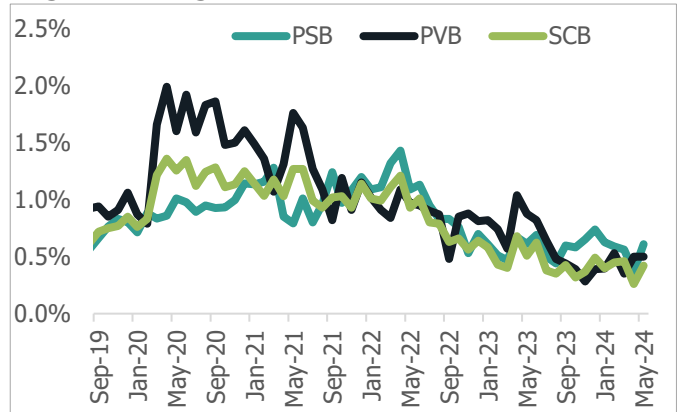


Fig 7: Lending Rate: O/s vs Fresh



Source: RBI, Note: Data post HDFC Merger in July

- On an m-o-m basis in June 2024, the 1-year median MCLR of SCBs increased by 6 bps, while PVBs and PSBs both witnessed an increase of 5 bps.
- On a y-o-y basis as of June 2024, 1 Year median MCLR of SCBs increased by 20 bps, meanwhile when we compare pre-pandemic levels, the MCLR median for SCBs is above 65 bps (compared with March 20).

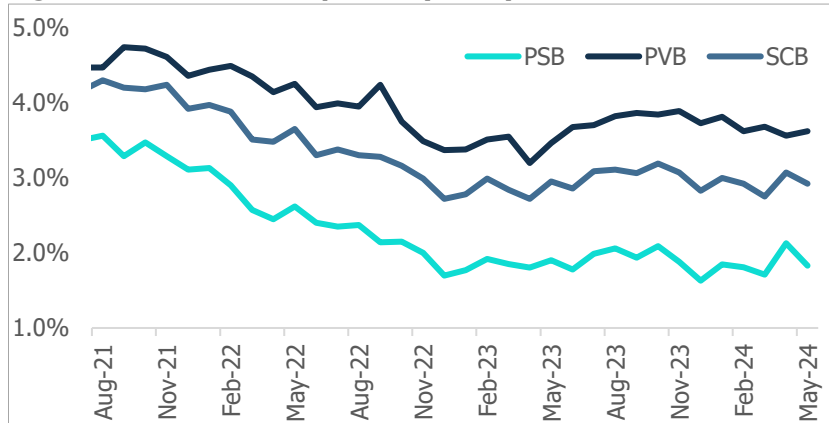
Fig 8: MCLR Rates (in %) Remained Broadly Flat on a m-o-m basis

Banks	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	YoY
Public Sector Banks														
Bob	8.65	8.65	8.65	8.70	8.70	8.75	8.75	8.80	8.80	8.80	8.85	8.85	8.85	0.20
BoI	8.65	8.65	8.70	8.70	8.70	8.75	8.80	8.80	8.80	8.85	8.85	8.85	8.90	0.25
BoM	8.50	8.50	8.60	8.60	8.70	8.70	8.70	8.70	8.80	8.80	8.80	8.85	8.95	0.45
Canara	8.65	8.65	8.70	8.70	8.70	8.75	8.75	8.80	8.85	8.90	8.90	8.90	8.90	0.25
CBI	8.60	8.60	8.60	8.60	8.65	8.70	8.70	8.70	8.75	8.75	8.75	8.75	8.75	0.15
Indian	8.65	8.65	8.65	8.70	8.70	8.75	8.75	8.80	8.85	8.85	8.85	8.85	8.90	0.25
IOB	8.65	8.65	8.70	8.70	8.70	8.70	8.75	8.80	8.80	8.80	8.85	8.90	8.90	0.25
PSB	8.65	8.70	8.90	8.90	8.90	8.95	8.95	8.95	8.95	8.95	8.95	8.95	9.05	0.40
PNB	8.60	8.60	8.60	8.65	8.65	8.65	8.65	8.70	8.80	8.80	8.80	8.80	8.85	0.25
SBI	8.50	8.55	8.55	8.55	8.55	8.55	8.65	8.65	8.65	8.65	8.65	8.65	8.75	0.25
UCO	8.65	8.65	8.65	8.70	8.70	8.70	8.75	8.75	8.80	8.85	8.85	8.85	8.90	0.25
UBI	8.65	8.65	8.65	8.70	8.70	8.70	8.80	8.80	8.90	8.90	8.90	8.90	8.90	0.25
Private Sector Banks														
HDFC	9.05	9.05	9.10	9.15	9.20	9.20	9.20	9.20	9.30	9.30	9.30	9.30	9.30	0.25
ICICI	8.85	8.85	8.90	8.95	8.95	9.00	9.00	9.00	9.10	9.10	9.10	9.10	9.10	0.25
Axis	9.10	9.10	9.15	9.15	9.15	9.20	9.25	9.25	9.30	9.30	9.30	9.30	9.30	0.20
IndusInd	10.20	10.25	10.25	10.30	10.30	10.35	10.25	10.25	10.40	10.40	10.40	10.45	10.45	0.25
Kotak	9.20	9.25	9.30	9.30	9.35	9.35	9.35	9.35	9.45	9.45	9.45	9.45	9.50	0.30
Yes.	10.05	10.15	10.15	10.25	10.25	10.40	10.50	10.50	10.50	10.60	10.60	10.60	10.60	0.55

Source: RBI, Note: Data post HDFC Merger in July

Fresh Spreads Sees an Upward Trend, However, PVBs Sees a Divergence

Figure 9: Evolution of Spreads (Fresh)



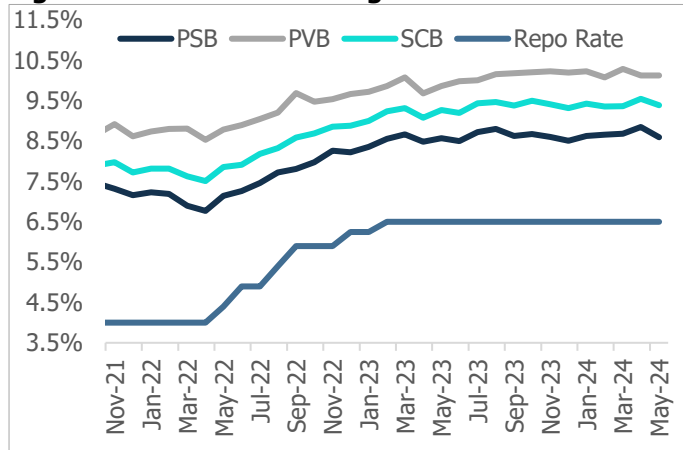
Source: RBI; Note: Data post HDFC Merger in July

The Fresh spread of SCBs business decreased by 15 bps on an m-o-m basis and stood at 2.92% as of May 2024. Within SCBs, we saw a divergence,

- PSBs decreased by 30 bps over the month and stood at 1.83%, while PVBs increased by 6 bps over the month and stood at 3.62%.
- PVBs continue to maintain a higher spread given that they charge more as compared to PSBs.
- The spread between outstanding lending rate and deposit rate continues to be lower than the spread between fresh lending rate and deposit rate.

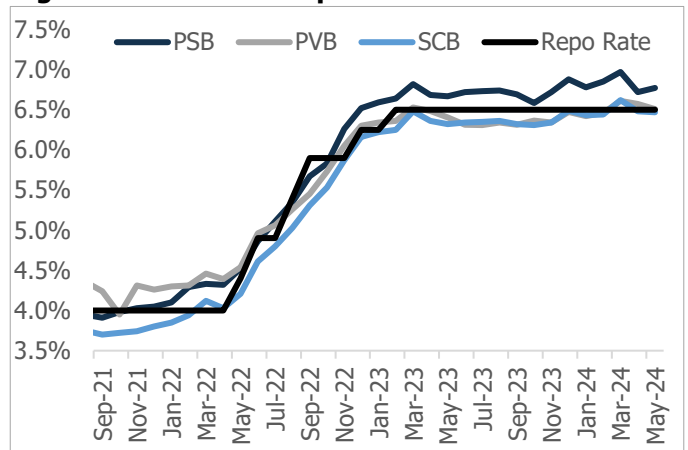
Fresh Rates both Lending and Deposits witnesses Downtick

Fig 10: Evolution of Lending Rate Fresh Loans



Source: RBI, Note: Data post HDFC Merger in July

Fig 11: Evolution of Deposit Rate Fresh

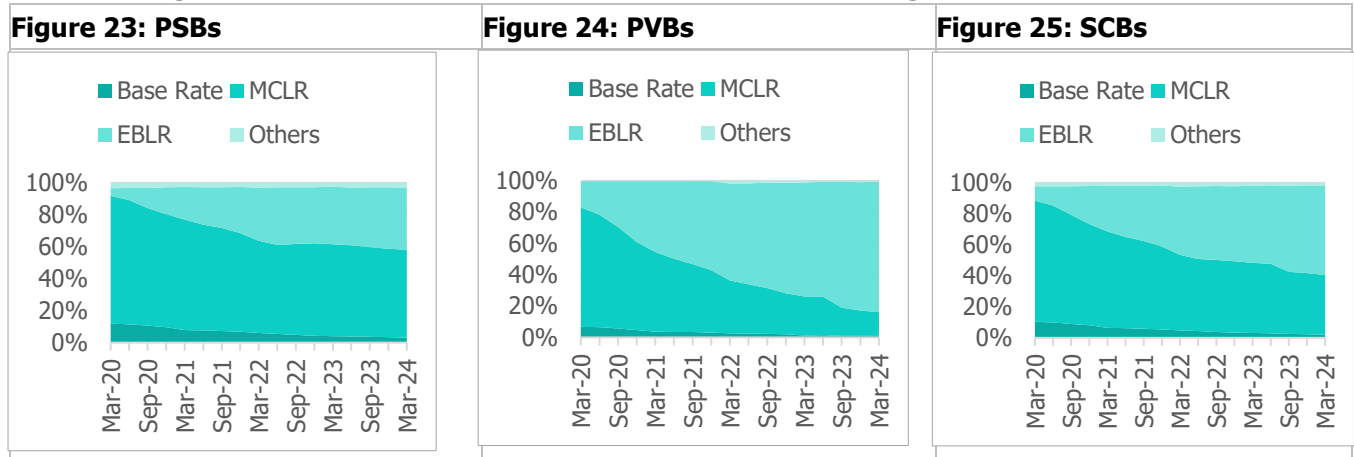


The lending rates on fresh loans for SCBs decreased on an m-o-m basis by 16 bps within which PSBs decreased by 25 bps, whereas PVBs remained flat at 10.1%.

On the other hand, fresh deposit rates saw a marginal downtick on an m-o-m basis of 1 bps for SCBs, within SCBs, PVBs saw a downtick of 6 bps, while PSBs increased by 5 bps in May 2024.

When compared to April 2022, (before the commencing of rate hikes in May 2022) repo rate increased by 250 bps to 6.5% and has remained stable since as of May 2024, fresh lending and deposit rates have increased by 188 bps and 244 bps to 9.39% and 6.47% as of May 2024 from April 2022.

Outstanding Floating Rate Rupee Loans across Interest Rate Benchmarks - Private Banks Continue to Have a Higher Share of EBLR loans, while Public Banks have a higher MCLR Share



Source: RBI, Note: Data post HDFC Merger in July

The share of External Benchmark Lending Rate (EBLR) linked loans in total outstanding floating rate rupee loans of SCBs stood at 57.5% at end-March 2024 (vs. 56.2% in December 2023), while that of MCLR linked loans was 38.3% in March 2024 (vs 39.4% in December 2023). Compared with PSBs, PVBs have a higher share of EBLR (ELBR share as of March 24, PVBs-83.2%, PSBs-39.0%), hence, the lending rate transmission is faster in PVBs compared to PSBs. Consequently, if rates are reduced, PVBs would be impacted faster compared to PSBs.

Conclusion

Credit offtake has been robust and is expected to continue in FY25. However, expanding the liability franchise to sustain this growth remains important, as the Credit to Deposit ratio remains elevated at 79.9%. Additionally, with repo rates remaining unchanged for more than a year, lending rates have remained broadly steady while funding costs have been on an uptrend due to ongoing re-pricing and an increase in select tenors by certain banks.

In May 2024, there has been pressure on o/s spreads which have been hovering below pre-pandemic levels since June 2023. The spread between the fresh lending & deposit rates has narrowed compared to the spread between outstanding lending & deposit rates. Furthermore, with RBI turning the heat on unsecured lending products, banks' exposure to high-yield products such as unsecured personal loans which have remained high but at a reduced rate, lending rates could also witness some pressure. Hence SCBs NIMs could see a marginal downside bias in the near term, and any potential rate cut during H2FY25 could further compact lending rates.

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