

O/s Spreads Continue to Drop Leading to NIM Compression

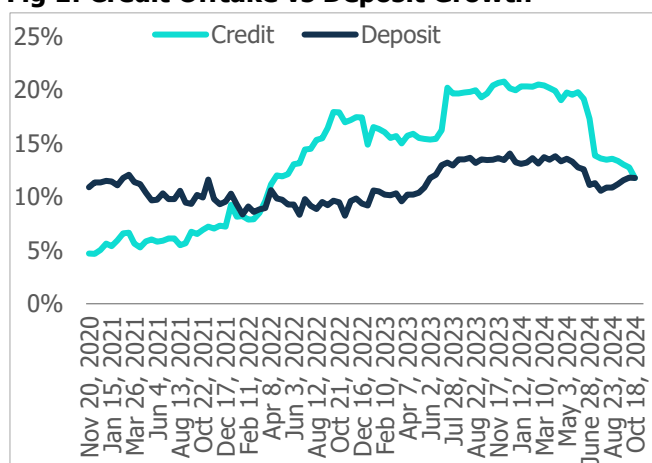
November 07, 2024 | BFSI Research

Overview

- In September 2024, the spread between the outstanding weighted average lending rate (WALR – Lending Rate) and the weighted average domestic term deposit rate (WADTDR – Deposit Rate) for scheduled commercial banks (SCBs) decreased by 3 basis points to 2.93%.
 - The o/s PSB spread has been compressing over the past year, with a slight sequential decline of 1 bps, touching 2.14% as of September 2024, while the PVBs spread stood unchanged at 3.96%.
 - Additionally, the SCBs’ ending Rate on o/s rupee loans fell by 1 bps and stood at 9.88%. In contrast, the deposit rate on o/s rupee term deposits rose by 2 bps and stood at 6.95%.
 - Meanwhile, the one-year median Marginal Cost of Funds-based Lending Rate (MCLR) remained stable on a m-o-m basis, standing at 8.95% as of October 2024.

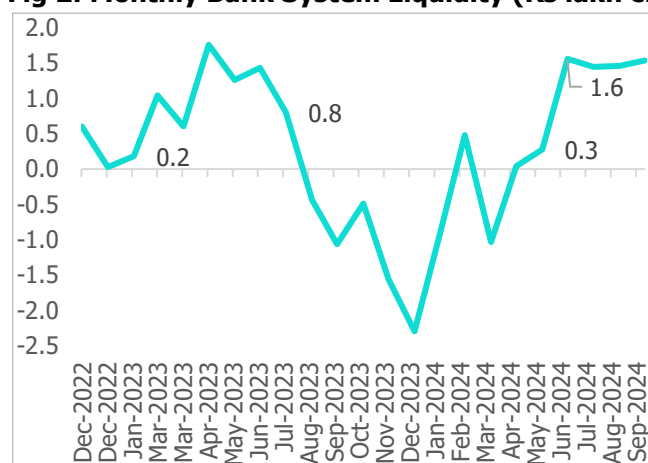
Credit Offtake and Deposit Growth Converges

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)

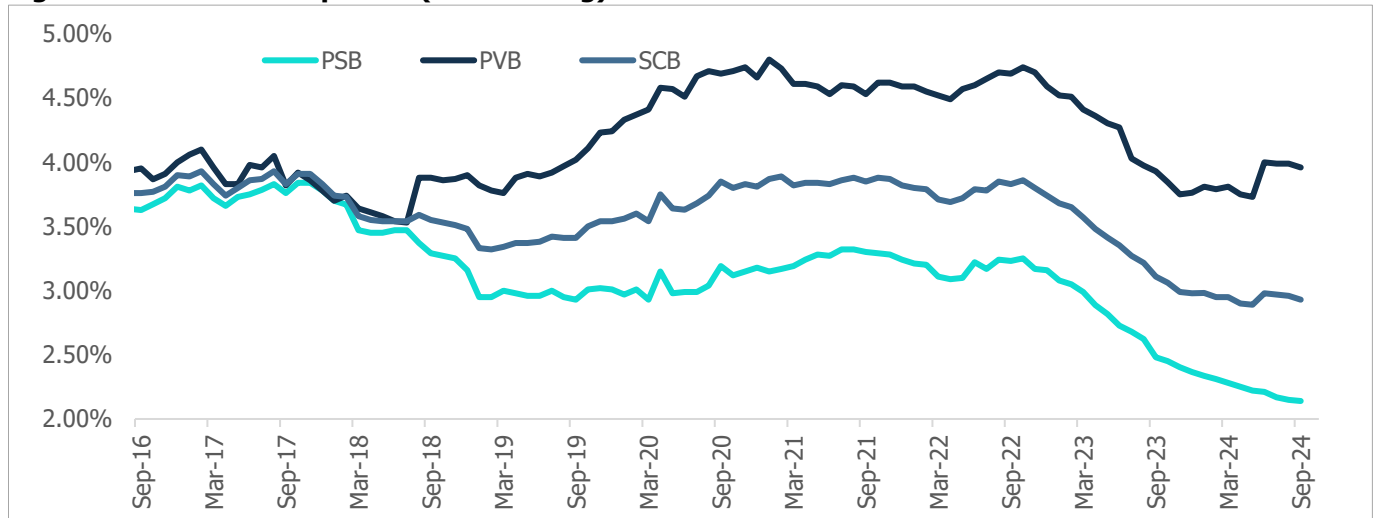


Source: RBI, CMIE, Note: data is end of month

Credit growth is trending downward, and (period ended October 18, 2024), deposit growth has outpaced credit offtake on an annual basis as well. Notably, when comparing growth rates with December 2023, deposit growth has consistently surpassed credit offtake each month since then. As of October 18, 2024, credit offtake increased by 11.7% y-o-y, (19.7% previous year), reaching Rs 172.4 lakh crores. This increase is primarily due to mortgages and MSMEs. The slowdown in growth compared to last year can be attributed to a higher base effect, resulting from the merger, as well as RBI measures such as higher risk weights and the proposed LCR norms. Meanwhile, deposits rose by 11.8 y-o-y%, reaching Rs 218.1 lakh crore as of October 18, 2024. This growth is attributed to rising term deposit rates of SCBs. In October, strong FPI outflows reduced liquidity conditions; however, the buyback of G-sec bonds helped maintain surplus liquidity.

O/s Spread Saw a marginal downtick in September

Figure 3: Evolution of Spreads (Outstanding)

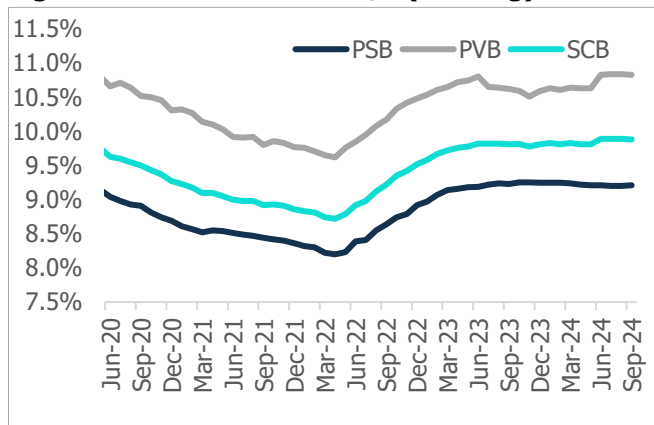


Source: RBI; Note: Data post HDFC Merger in July

- The spread of SCBs between the outstanding lending rate and the outstanding deposit rate stood at 2.93% as of September 2024, having decreased by 3 bps on a m-o-m basis.
- The o/s PSB spread has been compressing over the past year, having dropped by 1 bps sequentially to reach 2.14% as of September 2024. due to growing competition and increasing pressure on deposit rates. In contrast, the spread for PVBs remained unchanged at 3.96% during the same period.

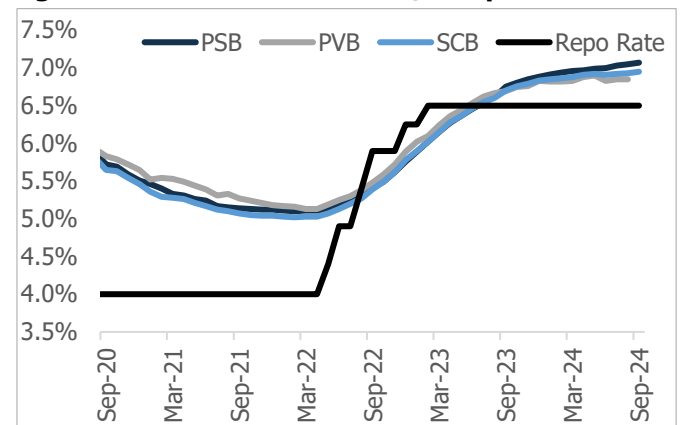
Outstanding Business: Deposit Rates Marginally Rise, However Lending Rates Remain Flat

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



As of September 2024, the outstanding lending rates for SCBs and PVBs decreased marginally by 1 bps on m-o-m, standing at 9.89% and 10.84%, respectively. On the other hand, PSBs experience a slight increase of 1 bps, reaching 9.21%. Meanwhile, outstanding deposit rates saw an uptick of 2 bps across SCBs, PVBs and PSBs, standing at 6.95%, 6.87 and 7.07%, respectively.

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

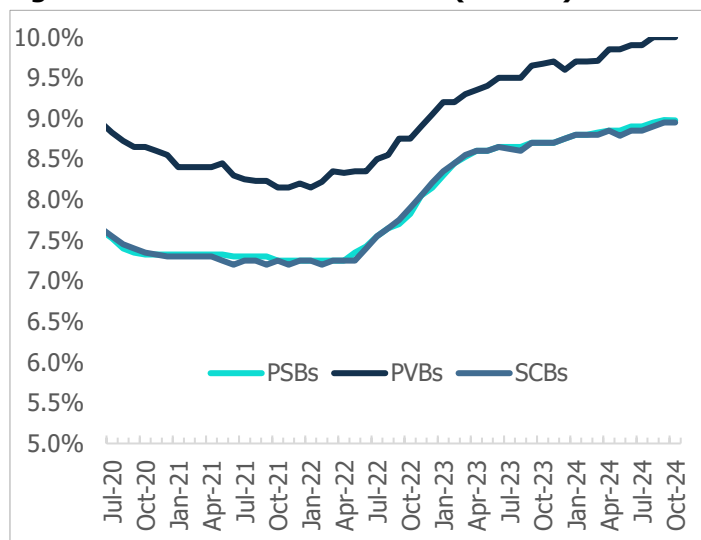
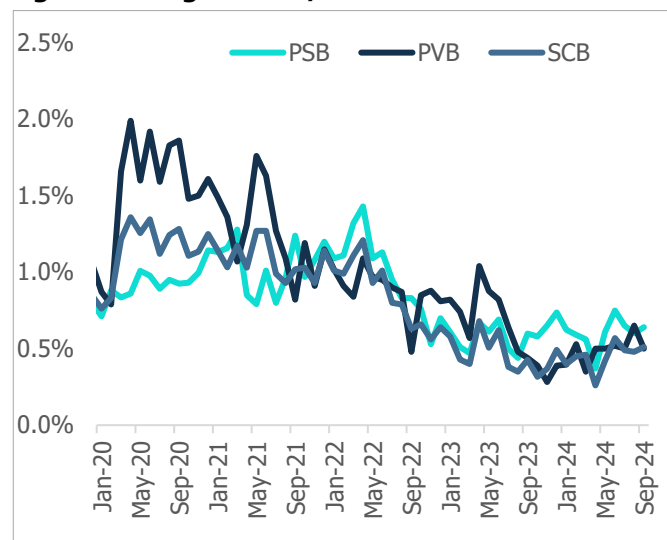


Fig 7: Lending Rate: O/s vs Fresh



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

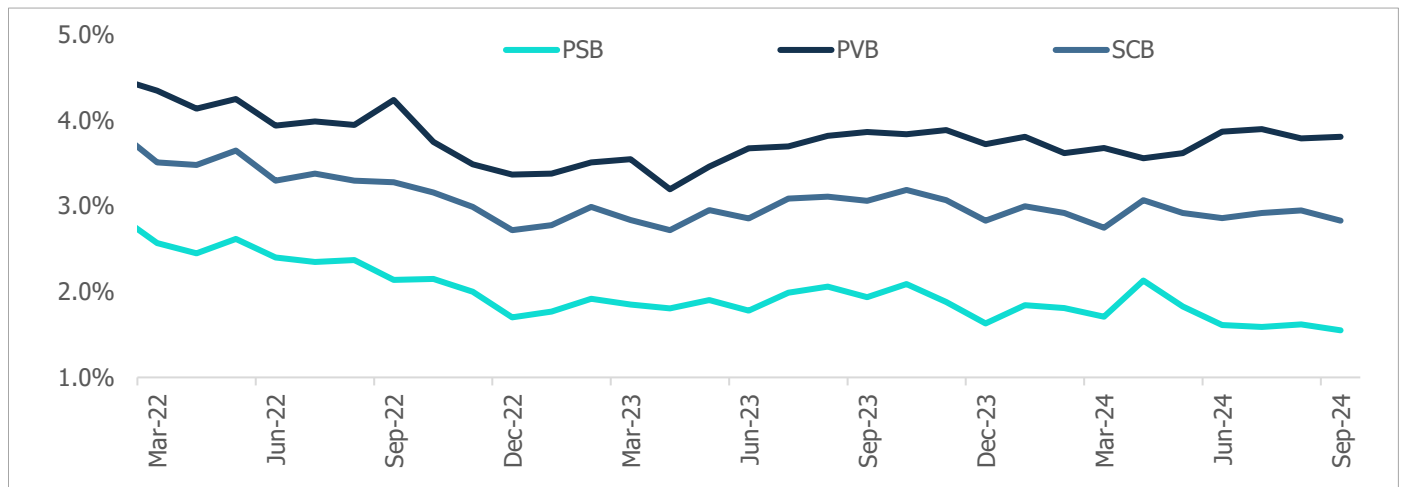
- On an m-o-m basis in September 2024, the 1-year median MCLR remained flat for SCBs and stood at 8.95%, while on a y-o-y basis, the 1 Year median MCLR of SCBs rose by 25 bps, meanwhile compared to pre-pandemic levels, the MCLR median for SCBs has increased by 75 bps (compared with March 20).

Fig 8: MCLR Rates (in %) majorly remains flat m-o-m

Banks	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	YoY
Public Sector Banks														
BoB	8.70	8.70	8.75	8.75	8.80	8.80	8.80	8.85	8.85	8.90	8.95	8.95	8.95	0.25
BoI	8.70	8.70	8.75	8.80	8.80	8.80	8.85	8.85	8.85	8.90	8.95	8.95	8.95	0.25
BoM	8.60	8.70	8.70	8.70	8.70	8.80	8.80	8.80	8.85	8.95	8.95	8.95	9.00	0.40
Canara	8.70	8.70	8.75	8.75	8.80	8.85	8.90	8.90	8.90	8.95	9.00	9.00	9.00	0.30
CBI	8.60	8.65	8.70	8.70	8.70	8.75	8.75	8.75	8.75	8.85	8.85	8.85	8.95	0.35
Indian	8.70	8.70	8.75	8.75	8.80	8.85	8.85	8.85	8.85	8.95	8.95	8.95	9.00	0.30
IOB	8.70	8.70	8.70	8.75	8.80	8.80	8.80	8.85	8.90	8.95	9.00	9.00	9.00	0.30
PSB	8.90	8.90	8.95	8.95	8.95	8.95	8.95	8.95	8.95	9.05	9.10	9.10	9.10	0.20
PNB	8.65	8.65	8.65	8.65	8.70	8.80	8.80	8.80	8.80	8.85	8.90	8.90	8.90	0.25
SBI	8.55	8.55	8.55	8.65	8.65	8.65	8.65	8.65	8.65	8.85	8.95	8.95	8.95	0.40
UCO	8.70	8.70	8.70	8.75	8.75	8.80	8.85	8.85	8.85	8.90	8.95	8.95	9.00	0.30
UBI	8.70	8.70	8.70	8.80	8.80	8.90	8.90	8.90	8.90	8.90	8.95	8.95	8.95	0.25
Private Sector Banks														
HDFC	9.15	9.20	9.20	9.20	9.20	9.30	9.30	9.30	9.30	9.40	9.45	9.45	9.45	0.30
ICICI	8.95	8.95	9.00	9.00	9.00	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	0.15
Axis	9.15	9.15	9.20	9.25	9.25	9.30	9.30	9.30	9.30	9.30	9.35	9.35	9.35	0.20
IndusInd	10.30	10.30	10.35	10.35	10.35	10.40	10.40	10.40	10.45	10.45	10.55	10.55	10.55	0.25
Kotak	9.30	9.35	9.35	9.35	9.35	9.45	9.45	9.45	9.45	9.50	9.55	9.55	9.55	0.25
Yes.	10.25	10.25	10.40	10.50	10.50	10.50	10.60	10.60	10.60	10.50	10.50	10.50	10.60	0.35

Source: RBI, Note: Data post HDFC Merger in July 2023

Figure 9: Evolution of Spreads (Fresh)



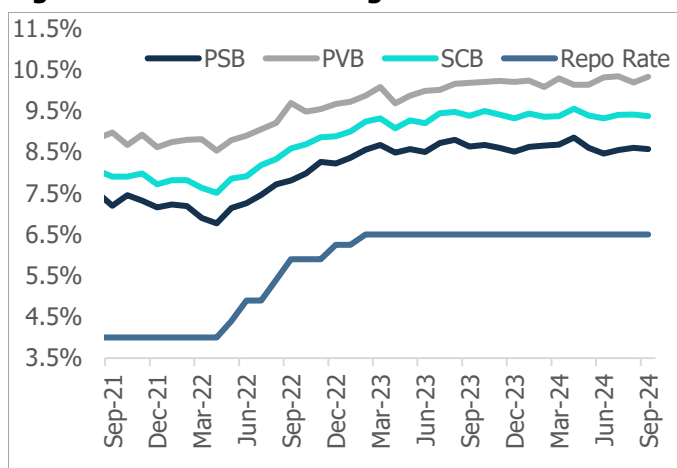
Source: RBI; Note: Data post HDFC Merger in July

The Fresh spread of SCBs witness a decline of 12 bps m-o-m, reaching 2.83% as of August 2024. Within SCBs we saw a divergence,

- PVBs increased their spread by 2 bps over the month to 3.81%, whereas, PSBs decreased their spread by 7 bps, settling at 1.55%.
- PVBs continue to maintain a higher spread because they charge more compared to PSBs.
- The spread between the outstanding lending rate and deposit rate remains lower than the spread between the fresh lending rate and deposit rate.

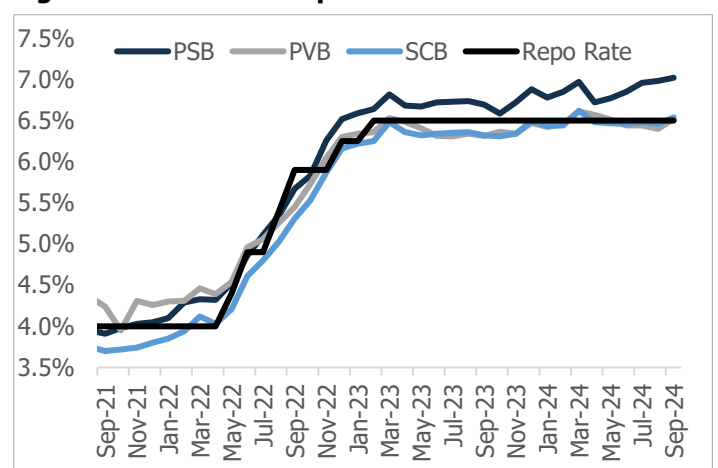
Fresh Lending and Deposit Rates Witness a Downtick

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 by 4 bps m-o-m. Within SCBs, we saw a divergence, where PVBs increased by 14 bps and stood at 8.57%, whereas PSBs saw a moderate decline of 3 bps and stood at 8.57% as of August 2024. Conversely, fresh deposit rates increased by 8 basis points m-o-m for SCBs, reaching 6.54%. Within SCBs, PVBs saw an uptick of 12 basis points, while PSBs experienced an increase of 4 basis points in September 2024.

When compared to April 2022, (before the commencing of rate hikes in May 2022) the repo rate has increased by 250 bps to 6.5% and has remained stable since then. As of September 2024, fresh lending and deposit rates have increased by 186 bps and 251 bps, respectively, reaching 9.37% and 6.54% from their levels in April 2022.

Lately, banks have seen a dip in yields due to a growing competitive environment, however cost of deposits has increased as banks transmitted repo rates on deposits over the last quarters subsequently impacting NIMs.

Conclusion

Credit offtake is expected to continue at a steady rate in FY25. However, expanding the liability franchise to sustain this growth is crucial, as the Credit to Deposit ratio remains elevated at 79.1% as of October 18, 2024. With repo rates unchanged for more than a year, lending rates have remained broadly stable, while funding costs have been trending upwards due to ongoing re-pricing and an increase in select tenors by certain banks as they compete for deposits to support credit growth.

In September 2024, pressure on o/s spreads has continued to shrink, maintaining levels below pre-pandemic figures since June 2023. Furthermore, with RBI tightening regulations on unsecured lending products, banks' exposure to high-yield offerings, such as unsecured personal loans, remains significant but at a reduced rate. Consequently, lending rates may continue to witness some pressure and SCBs' NIMs could see a marginal downside bias in the near term. Any potential rate cut during H2FY25 could further compress NIMs.

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