

O/s Spreads Continue to Narrow, Indicating Sustained NIMs Pressure

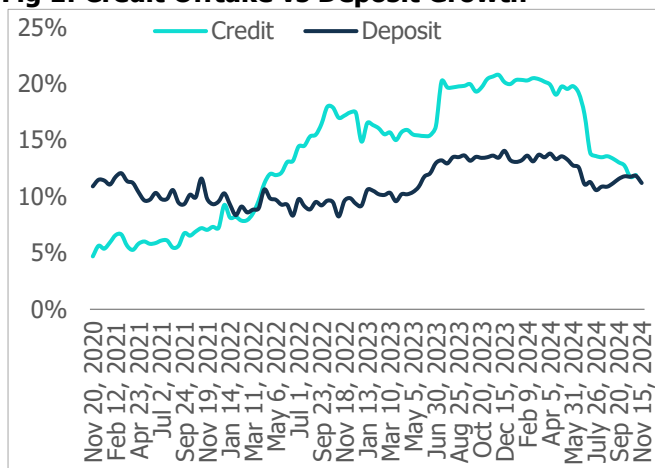
December 05, 2024 | BFSI Research

Overview

- In October 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 marginally by one basis point (bps) to 2.92%.
 - The o/s PSB spread has been compressing over the past year, with a slight sequential decline of 3 bps, touching 2.11% as of October 2024, while the PVBs spread declined by 2 bps and stood at 3.94%.
 - The SCBs’ lending rate on o/s rupee loans has remained flat and stood at 9.88%. In contrast, the deposit rate on o/s rupee term deposits rose by 1 bps and stood at 6.96%.
 - Meanwhile, the one-year median Marginal Cost of Funds-based Lending Rate (MCLR) increased by 5 bps on a m-o-m basis, to 9.00% as of November 2024 due to the rising cost of deposits and margin pressures impacting NIMs.
 - Fresh margins have jumped, indicating that banks as of now have been successful in protecting their margins.

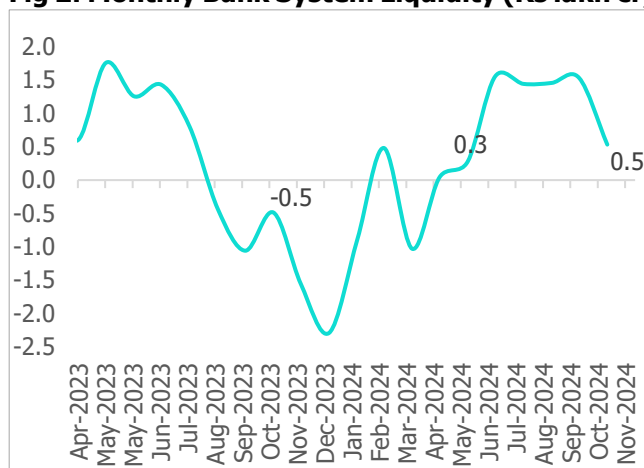
Credit Offtake Cools and Converges with Deposit Growth

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)



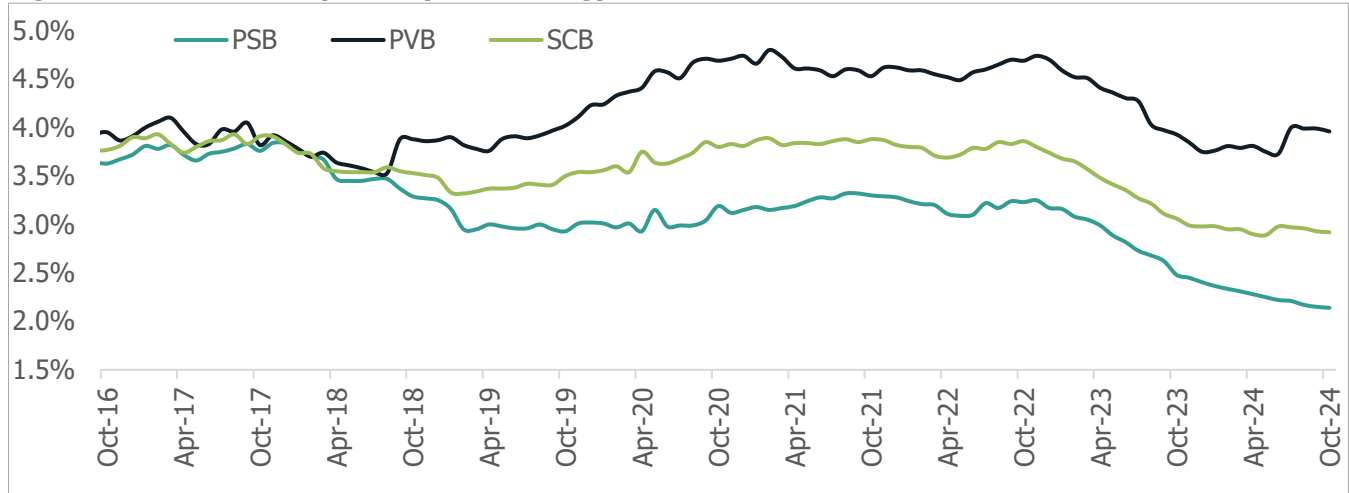
Source: RBI, CMIE, Note: data is end of month

Credit growth is in line and converging with deposit growth, (period ended November 15, 2024). Notably, when comparing growth rates with December 2023, deposit growth has consistently outpaced credit offtake. As of November 15, 2024, credit offtake increased by 11.1% y-o-y, (20.6% previous year), reaching Rs 173.6 lakh crores. This increase is primarily due to personal loans (housing), commercial real estate and MSMEs. The slowdown in growth compared to last year can be attributed to a higher base effect, a slowdown in credit offtake to NBFCs, and RBI measures such as higher risk weights and the proposed LCR norms. Meanwhile, deposits rose by 11.2% y-o-y, reaching Rs 218.5 lakh crore as of November 15, 2024. This growth is attributed to rising term deposits. In

November, strong FPI outflows reduced liquidity conditions; however, the buyback of G-sec bonds has helped maintain liquidity albeit at a lower level.

O/s Spread Saw a Marginal Downtick in October

Figure 3: Evolution of Spreads (Outstanding)

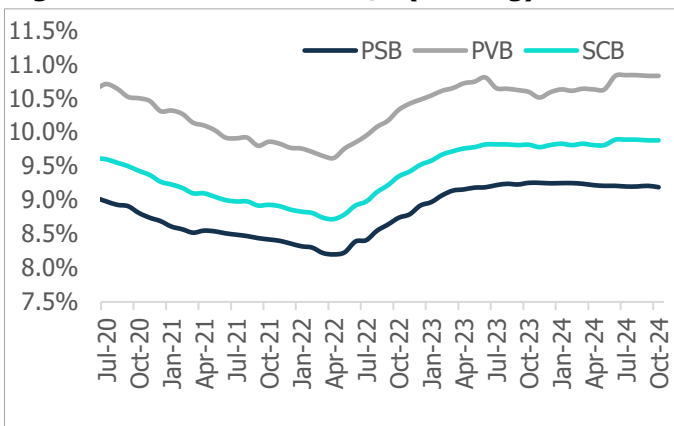


Source: RBI; Note: Data post HDFC Merger in July

- The spread of SCBs between the outstanding lending rate and the outstanding deposit rate stood at 2.92% as of October 2024, having marginally decreased by 1 bps on a m-o-m basis as banks raised the deposit rate to mobilize funds.
- The o/s PSB spread has been compressing over the past year, having dropped by 3 bps sequentially to reach 2.11% as of October 2024, due to growing competition and increasing pressure on deposit rates. Meanwhile, the spread for PVBs has declined by 2 bps to 3.94% during the same period given the differential levels of the lending rates of banks.

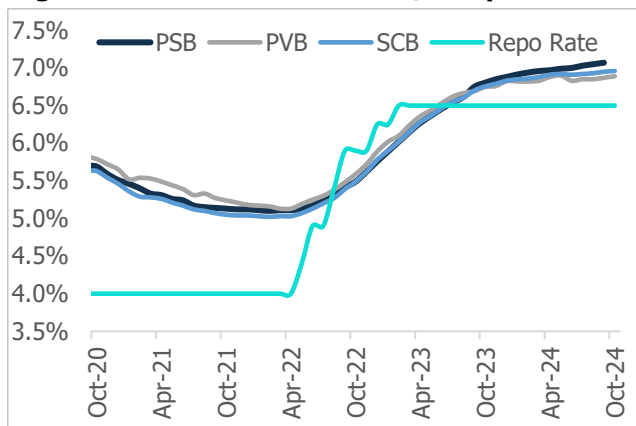
Outstanding Business: Deposit Rates Marginally Rise, However Lending Rates Remain Flat

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 October 2024, the outstanding lending rates for SCBs and PVBs remained flat, standing at 9.88% and 10.83%, respectively. On the other hand, PSBs experienced a marginal decrease of 2 bps, reaching 9.19%. Meanwhile,

outstanding deposit rates saw an uptick of 1 bps across SCBs and PSBs, standing at 6.96% and 7.08%, respectively and a rise of 2 bps for PVBs standing at 6.89%.

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

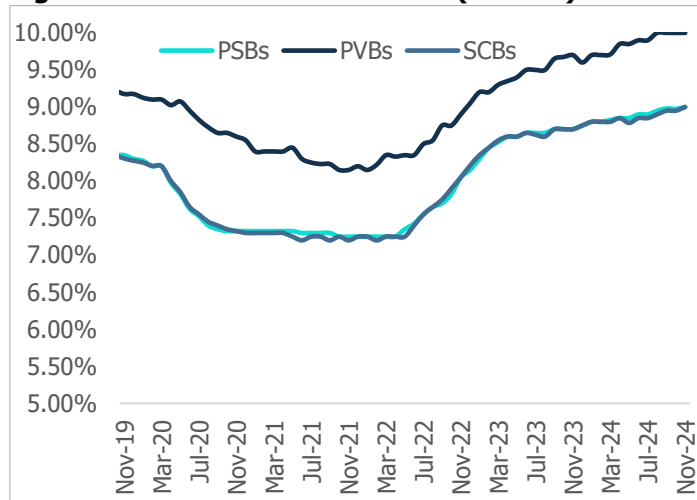
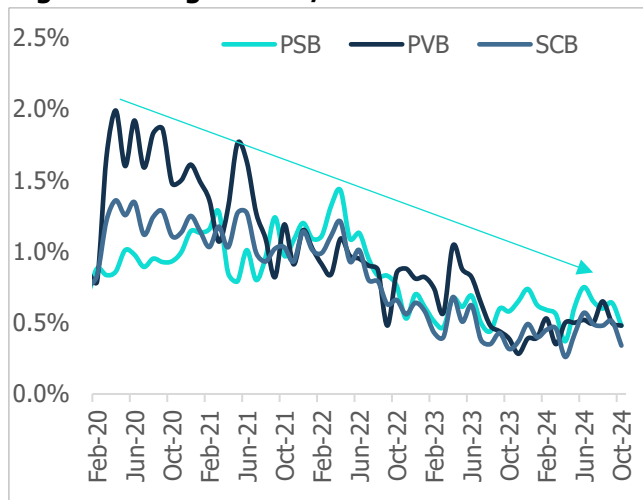


Fig 7: Lending Rate: O/s vs Fresh



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

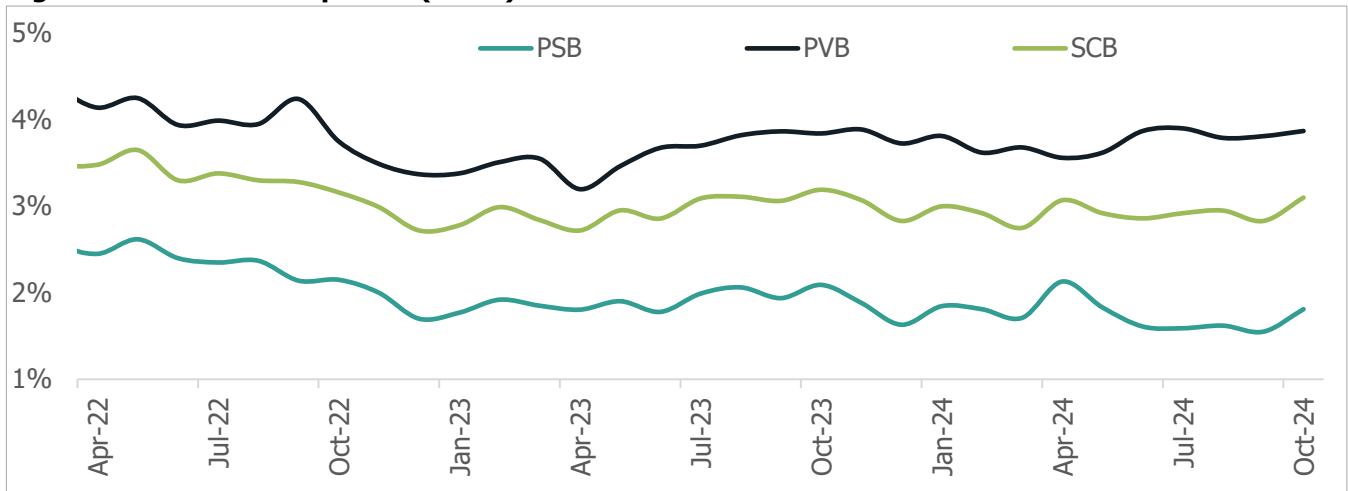
- On an m-o-m basis in November 2024, the 1-year median MCLR increased by 5 bps, standing at 9.00% as of November 2024 as banks adjusted the rate for the elevated deposit rates. Meanwhile, on a y-o-y basis, the 1-year median MCLR of SCBs rose by 30 bps, and when compared to pre-pandemic levels, the MCLR median for SCBs has increased by 80 bps (compared with March 20).

Fig 8: MCLR Rates (in %) increased by 5 bps on m-o-m basis

Banks	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	YoY
Public Sector Banks														
BoB	8.70	8.75	8.75	8.80	8.80	8.80	8.85	8.85	8.90	8.95	8.95	8.95	9.00	0.30
BoI	8.70	8.75	8.80	8.80	8.80	8.85	8.85	8.85	8.90	8.95	8.95	8.95	9.00	0.30
BoM	8.70	8.70	8.70	8.70	8.80	8.80	8.80	8.85	8.95	8.95	8.95	9.00	9.05	0.35
Canara	8.70	8.75	8.75	8.80	8.85	8.90	8.90	8.90	8.95	9.00	9.00	9.00	8.95	0.25
CBI	8.65	8.70	8.70	8.70	8.75	8.75	8.75	8.75	8.85	8.85	8.85	8.95	8.95	0.30
Indian	8.70	8.75	8.75	8.80	8.85	8.85	8.85	8.85	8.95	8.95	8.95	9.00	9.00	0.30
IOB	8.70	8.70	8.75	8.80	8.80	8.80	8.85	8.90	8.95	9.00	9.00	9.00	9.05	0.35
PSB	8.90	8.95	8.95	8.95	8.95	8.95	8.95	8.95	9.05	9.10	9.10	9.10	9.15	0.25
PNB	8.65	8.65	8.65	8.70	8.80	8.80	8.80	8.80	8.85	8.90	8.90	8.90	8.95	0.30
SBI	8.55	8.55	8.65	8.65	8.65	8.65	8.65	8.65	8.85	8.95	8.95	8.95	9.00	0.45
UCO	8.70	8.70	8.75	8.75	8.80	8.85	8.85	8.85	8.90	8.95	8.95	9.00	9.00	0.30
UBI	8.70	8.70	8.80	8.80	8.90	8.90	8.90	8.90	8.90	8.95	8.95	8.95	9.00	0.30
Private Sector Banks														
HDFC	9.20	9.20	9.20	9.20	9.30	9.30	9.30	9.30	9.40	9.45	9.45	9.45	9.45	0.25
ICICI	8.95	9.00	9.00	9.00	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	0.15
Axis	9.15	9.20	9.25	9.25	9.30	9.30	9.30	9.30	9.30	9.35	9.35	9.35	9.35	0.20
IndusInd	10.30	10.35	10.35	10.35	10.40	10.40	10.40	10.45	10.45	10.55	10.55	10.55	10.55	0.25
Kotak	9.35	9.35	9.35	9.35	9.45	9.45	9.45	9.45	9.50	9.55	9.55	9.55	9.55	0.20
Yes.	10.25	10.40	10.50	10.50	10.50	10.60	10.60	10.60	10.50	10.50	10.50	10.60	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 witnessed an increase of 27 bps m-o-m, reaching 3.10% as of October 2024. Within SCBs, Both PVBs and PSBs increased their spread by 6 bps and 26 bps over the month, settling at 3.87% and 1.81% respectively. While PVBs continue to maintain a higher spread because they charge more compared to PSBs.

Fresh Lending Rates Witness an Uptick while Deposit Rates Witness a Downtick

Fig 10: Evolution of Lending Rate Fresh Loans

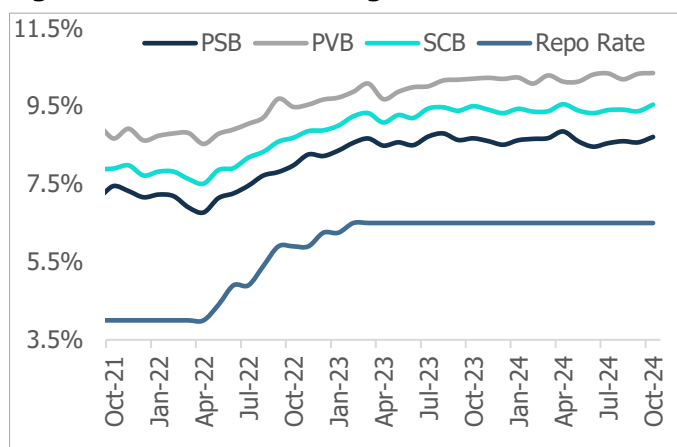
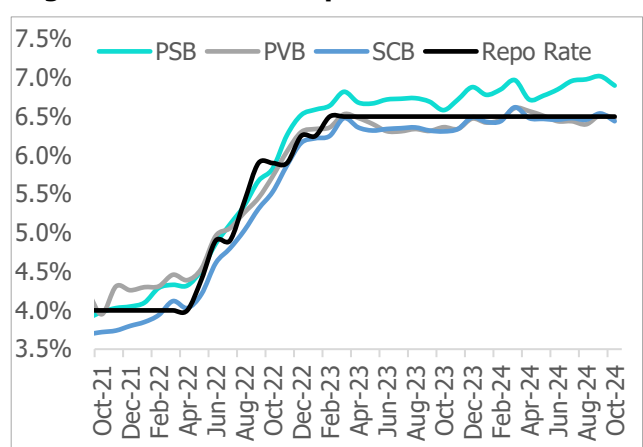


Fig 11: Evolution of Deposit Rate Fresh



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

The lending rates on fresh loans for SCBs increased by 17 bps m-o-m. Within SCBs, both PVBs and PSBs increased by 2 bps and 14 bps and stood at 10.35% and 8.71% respectively. Conversely, fresh deposit rates decreased by 10 basis points m-o-m for SCBs, reaching 6.44%. Within SCBs, Both PVBs and PSBs saw a downtick of 4 basis points and 12 basis points and stood at 6.48% and 6.90% respectively as of October 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 October 2024, fresh lending and deposit rates have increased by 203 bps and 241 bps, respectively, reaching 9.54% and 6.44% from their levels in April 2022.

Figure 12: SCBs – NIM Trend (%)

	FY23			FY24				FY25		y-o-y	q-o-q
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
Large PSBs	2.66	2.84	2.88	2.78	2.72	2.73	2.74	2.69	2.63	-0.09	-0.06
Other PSBs	2.88	3.06	3.01	3.12	2.91	2.87	2.97	2.90	2.86	-0.05	-0.04
PSBs	2.72	2.90	2.91	2.87	2.77	2.77	2.80	2.75	2.69	-0.08	-0.06
Large PVBs	3.86	4.10	4.06	3.98	3.89	3.63	3.59	3.62	3.61	-0.28	-0.01
Other PVBs	2.98	3.04	3.08	2.99	2.79	2.53	2.57	2.59	2.57	-0.22	-0.02
PVBs	3.51	3.68	3.67	3.59	3.45	3.19	3.18	3.21	3.19	-0.26	-0.01
SCBs	3.01	3.19	3.20	3.14	3.04	2.94	2.96	2.94	2.90	-0.14	-0.04

Source: Ace Equity, Bank Filings, CareEdge Calculations Note: Note: Includes 14 PSBs (5 Large, 9 Others,) and 16 PVBs (3 large, 13 Others)

NIMs of SCBs declined by 14 bps y-o-y at 2.90% in Q2FY25, due to muted NII growth which was driven significantly by transmission of repo rates on deposit rates along with comparatively slower CASA growth, PSBs declined by 8 bps at 2.69%, while PVBs saw a comparatively steeper decline of 26 bps and reached 3.19% which was driven by stronger assets growth seen in PVBs. Meanwhile, in terms of sequential performance, SCBs dropped by 4 bps, within SCBs, PSBs saw a downtick of 6 bps, however, PVBs saw a marginal decrease of 1 bps.

Conclusion

Credit offtake has been lower than what was witnessed in FY24. Meanwhile, expanding the liability franchise to sustain this growth is crucial, as the credit-to-deposit ratio remains elevated at 79.4%, as of November 15, 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 October 2024, pressure on o/s spreads has continued to rise, remaining below pre-pandemic levels since June 2023. The Marginal cost of funds-based lending rate (MCLR) has increased by 5 bps m-o-m, driven by higher deposit costs and margin pressures impacting NIMs. Despite RBI tightening regulations on unsecured lending, banks are still active in high-interest segments like personal loans, though to a lesser extent. Consequently, lending rates may remain under pressure, and NIMs for SCBs could see a slight decline in the coming quarters. A potential rate cut in H2FY25 could further exert pressure on NIMs.

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