

Pressure on NIMs to Persist as O/s Spread Continues to Narrow

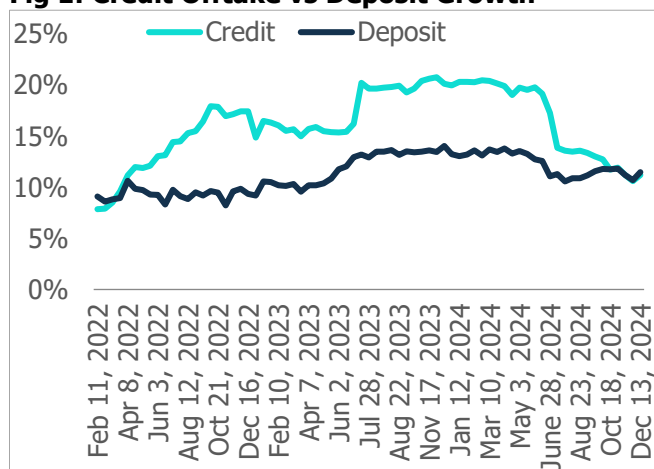
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Overview

- In November 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 three basis points (bps) m-o-m to 2.89%.
 - The outstanding (o/s) PSB spread has been compressing over the past year, declining marginally by 2 bps to 2.09% as of November 2024, while the PVBs spread declined by one bps, standing at 3.93%.
 - The SCBs’ lending rate on o/s rupee loans marginally declined by one bps and stood at 9.87%. In contrast, the deposit rate on o/s rupee term deposits rose by two bps and stood at 6.98%.
 - Meanwhile, the one-year median Marginal Cost of Funds-based Lending Rate (MCLR) remained flat and stood at 9.00% as of December 2024. However, PSBs witnessed an uptick of three bps m-o-m and stood at 9.03%. This could be attributed to the rising cost of funds and margin pressures for PSBs.

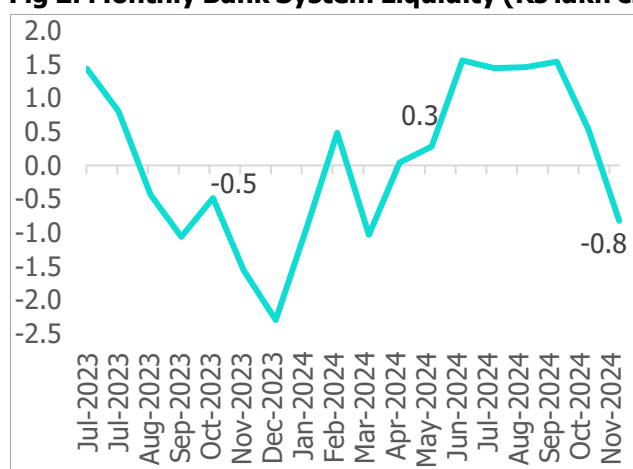
Credit Offtake Cools, while Deposit Growth Trudges Along

Fig 1: Credit Offtake vs Deposit Growth



Source: CMIE, RBI; Note: Data post-HDFC Merger in July 2024

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



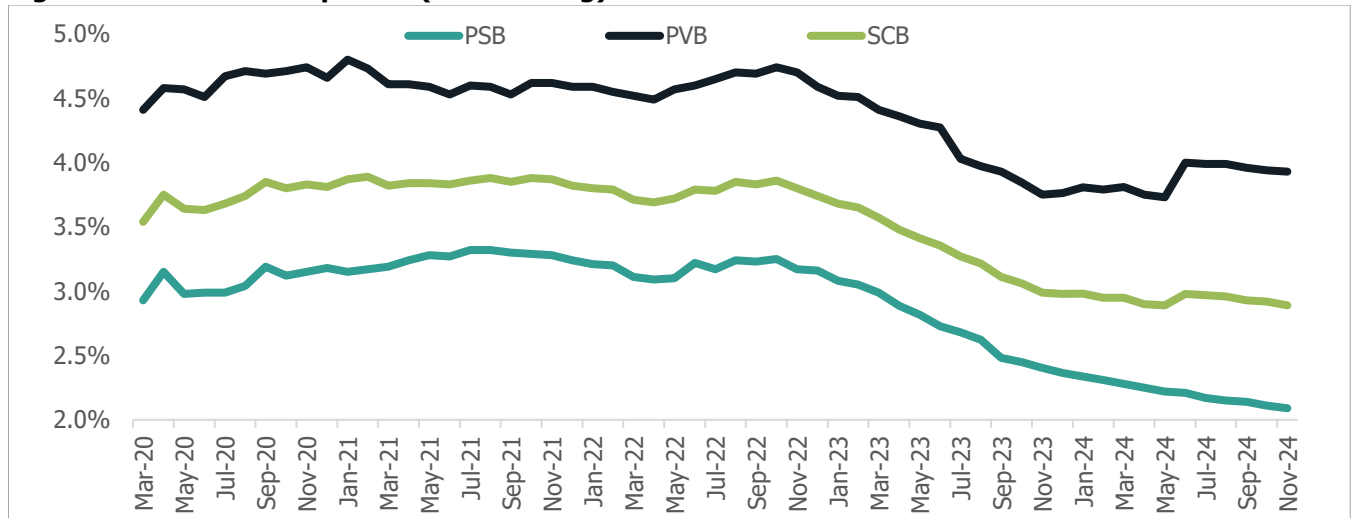
Source: RBI, CMIE, Note: data is end of month

Credit offtake and deposit growth for the fortnight (period ending December 13, 2024) have aligned. As of December 13, 2024, credit offtake increased by 10.2% y-o-y (20.6% previous year), reaching Rs 175.9 lakh crore. 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 9.9% y-o-y, reaching Rs 220.7 lakh crore as of December 13, 2024. This growth is attributed to increasing term deposits of SCBs, partially offset by a slower rise in CASA.

As of November 2024, the liquidity in the banking system is in deficit. To address this, RBI has infused liquidity through multiple Variable Repo Rate (VRR) auctions and reduced the Cash Reserve Ratio (CRR).

O/s Spread Saw a Marginal Downtick in November

Figure 3: Evolution of Spreads (Outstanding)

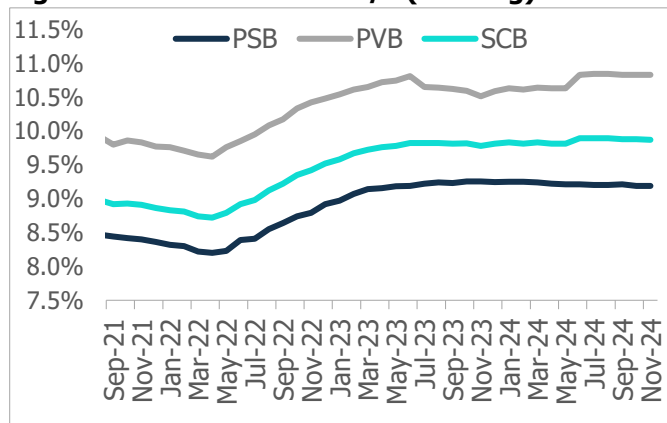


Source: RBI; Note: Data post HDFC Merger in July 2024

- The SCBs o/s spread between the lending and deposit rates stood at 2.89% as of November 2024, having marginally decreased by 3 bps on a m-o-m basis as banks raised deposit rates to mobilise funds.
- The o/s PSB spread has been compressing over the past year, dropping by two bps sequentially to reach 2.09% as of November 2024, due to growing competition and increasing pressure on deposit rates. Meanwhile, the spread for PVBs has marginally declined by 1 bps to 3.93% during the same period.

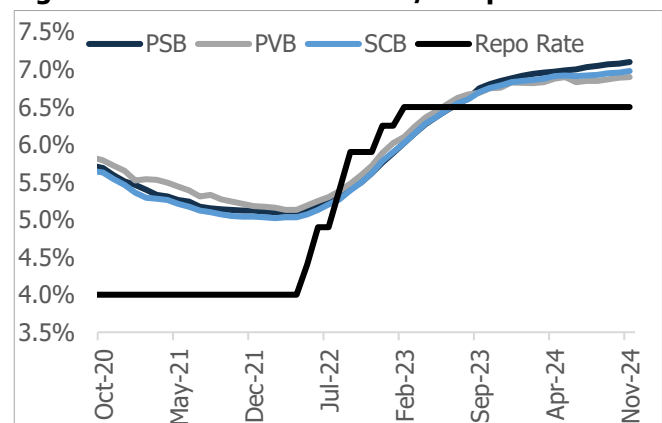
Outstanding Business: Deposit Rates witness Uptick, Lending Rates Marginally Decrease

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 November 2024, the outstanding lending rates for PSBs and PVBs remained flat at 9.19% and 10.83%, respectively. On the other hand, SCBs experienced a marginal decrease of one bps, reaching 9.87%. This deviation in SCBs was primarily due to the influence of foreign banks, which reduced their rates from 9.20% to 9.14%. Meanwhile, outstanding deposit rates saw an uptick of two bps, one bps and two bps across PSBs, PVBs and SCBs, standing at 7.10% ,6.90% and 6.98%, respectively.

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

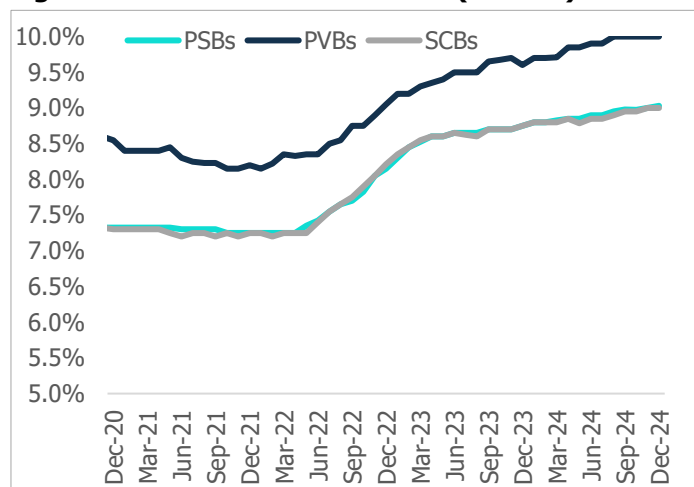
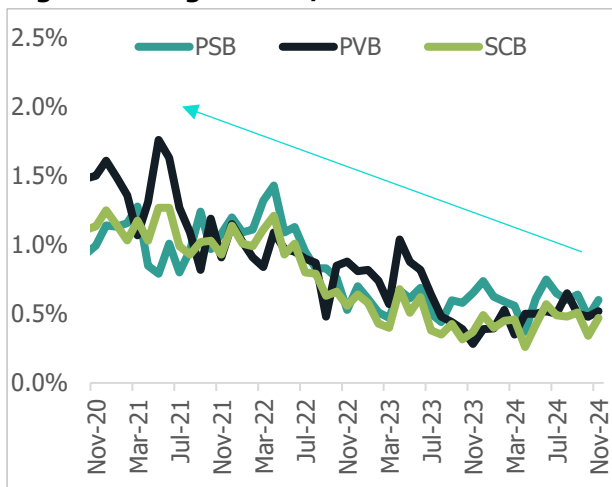


Fig 7: Lending Rate: O/s vs Fresh



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

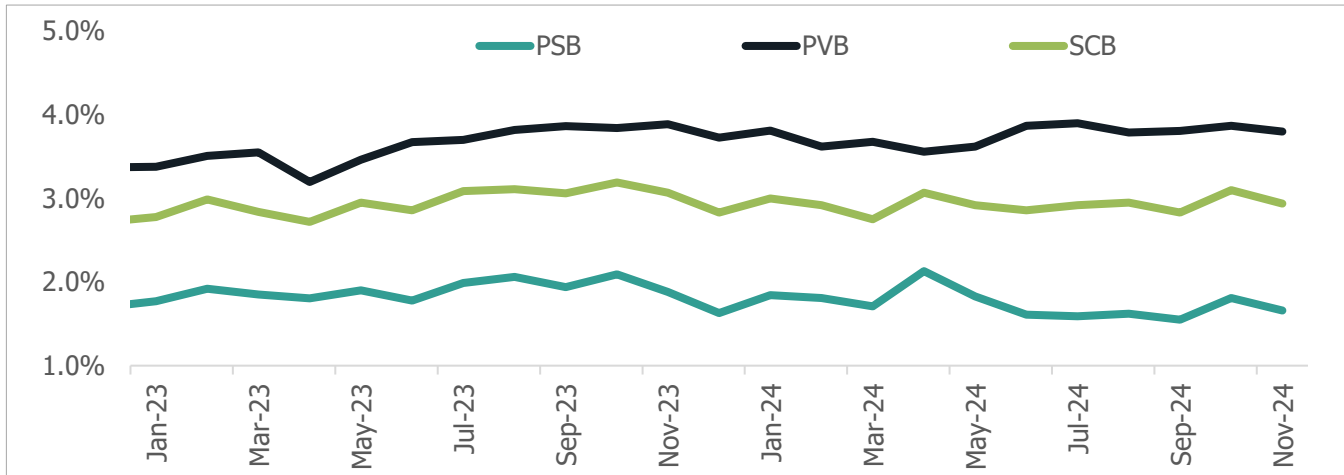
- On an m-o-m basis in December 2024, the one-year median MCLR remained flat at 9.00%. Meanwhile, on a y-o-y basis, the one-year median MCLR of SCBs rose by 25 bps, and when compared to pre-pandemic levels, the MCLR median for SCBs increased by 80 bps (compared with March 20).

Fig 8: MCLR Rates (in %) remained flat on the m-o-m basis

Banks	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	YoY
Public Sector Banks														
BoB	8.75	8.80	8.80	8.80	8.85	8.85	8.90	8.95	8.95	8.95	8.95	9.00	9.00	0.25
BoI	8.80	8.80	8.80	8.85	8.85	8.85	8.90	8.95	8.95	8.95	8.95	9.00	9.00	0.20
BoM	8.70	8.70	8.80	8.80	8.80	8.85	8.95	8.95	8.95	9.00	9.05	9.05	9.05	0.35
Canara	8.75	8.80	8.85	8.90	8.90	8.90	8.95	9.00	9.00	9.00	9.05	9.05	9.10	0.35
CBI	8.70	8.70	8.75	8.75	8.75	8.75	8.85	8.85	8.85	8.95	8.95	8.95	9.00	0.30
Indian	8.75	8.80	8.85	8.85	8.85	8.85	8.95	8.95	8.95	9.00	9.00	9.00	9.05	0.30
IOB	8.75	8.80	8.80	8.80	8.85	8.90	8.95	9.00	9.00	9.00	9.00	9.05	9.05	0.30
PSB	8.95	8.95	8.95	8.95	8.95	8.95	9.05	9.10	9.10	9.10	9.15	9.15	9.20	0.25
PNB	8.65	8.70	8.80	8.80	8.80	8.80	8.85	8.90	8.90	8.90	8.95	8.95	9.00	0.35
SBI	8.65	8.65	8.65	8.65	8.65	8.65	8.85	8.95	8.95	8.95	8.95	9.00	9.00	0.35
UCO	8.75	8.75	8.80	8.85	8.85	8.85	8.90	8.95	8.95	9.00	9.00	9.00	9.05	0.30
UBI	8.80	8.80	8.90	8.90	8.90	8.90	8.90	8.95	8.95	8.95	8.95	9.00	9.00	0.20
Private Sector Banks														
HDFC	9.20	9.20	9.20	9.30	9.30	9.30	9.30	9.40	9.45	9.45	9.45	9.45	9.45	0.25
ICICI	9.00	9.00	9.00	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	0.10
Axis	9.20	9.25	9.25	9.30	9.30	9.30	9.30	9.30	9.35	9.35	9.35	9.35	9.45	0.25
IndusInd	10.35	10.35	10.35	10.40	10.40	10.40	10.45	10.45	10.55	10.55	10.55	10.55	10.55	0.20
Kotak	9.35	9.35	9.35	9.45	9.45	9.45	9.45	9.50	9.55	9.55	9.55	9.55	9.55	0.20
Yes	10.40	10.50	10.50	10.50	10.60	10.60	10.60	10.50	10.50	10.50	10.60	10.60	10.60	0.20

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 a decrease of 16 bps m-o-m, reaching 2.94% as of November 2024. Within SCBs, both PVBs and PSBs witnessed a decline in their spreads by seven bps and 15 bps over the month, settling at 3.80% and 1.66%, respectively. Meanwhile, PVBs continue to maintain a higher spread because they maintain a higher lending rate than PSBs.

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

Fig 10: Evolution of Lending Rate Fresh Loans

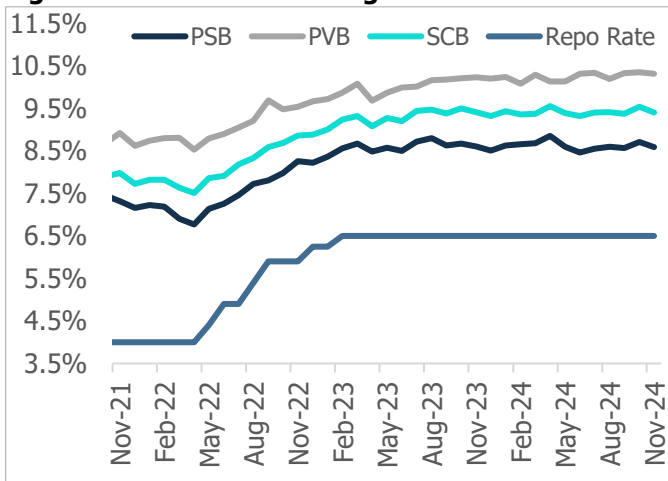
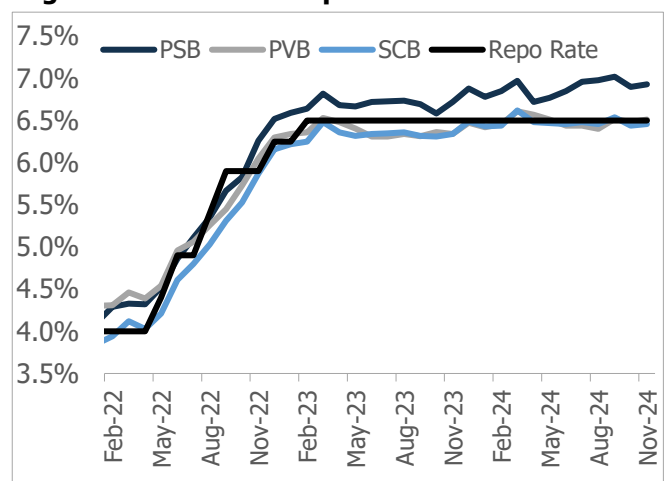


Fig 11: Evolution of Deposit Rate Fresh



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

- The lending rates on fresh loans for SCBs decreased by 14 bps m-o-m. Within SCBs, both PVBs and PSBs decreased by four bps and 12 bps and stood at 10.31% and 8.59% respectively.
- Conversely, fresh deposit rates for SCBs increased by two basis points m-o-m, reaching 6.46%. Within SCBs, Both PVBs and PSBs increased and stood at 6.51% and 6.93%, respectively, as of November 2024.
- When compared to April 2022 (before the commencement 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 November 2024, fresh lending and deposit rates have increased by 189 bps and 243 bps, respectively, reaching 9.40% and 6.46% from their levels in April 2022.

Private banks excel in EBLR loans, while public banks lead in MCLR

Figure 12: PSBs

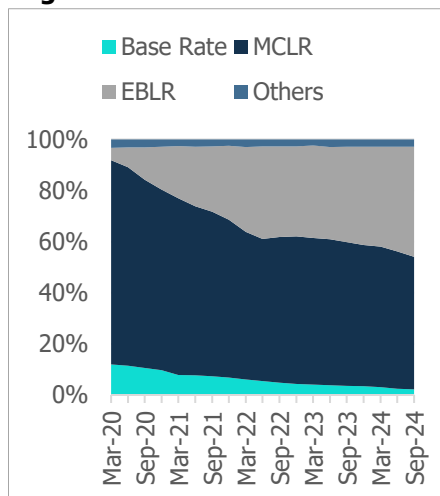


Figure 13: PVBs

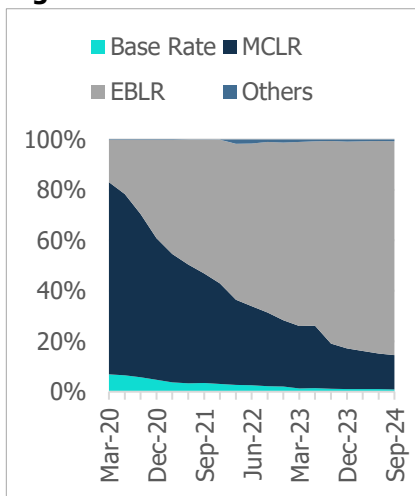
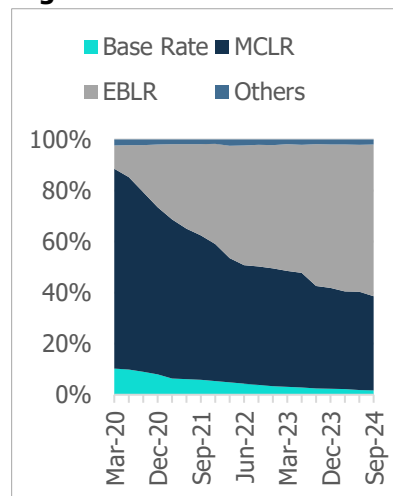


Figure 14: SCBs



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 59.4% in September 2024 (vs 55.5% in September 2023), while that of MCLR linked loans was 36.9% in September 2024 (vs 40.1% in September 2023). Compared with PSBs, PVBs have a higher share of EBLR (EBLR share as of Sep 24, PVBs-84.9%, PSBs-43.0%). Hence, the lending rate transmission is faster in PVBs compared to PSBs. Further, if rates are reduced, PVBs would be impacted faster than PSBs.

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 79.7% as of December 13, 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, thereby impacting NIMs.

In November 2024, pressure on o/s spreads has continued to rise, yet these spreads have remained below pre-pandemic levels since June 2023. Consequently, lending rates may remain under pressure, and NIMs for SCBs could see a slight decline in the coming quarters. A potential rate cut late in FY25 would further exert pressure on NIMs and particularly impact private sector banks since they have most of their proportion of loans linked to external benchmarks.

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