Sector Update | 3 May 2023

Financials

Month	Repo Rate	PSU Banks: WALR on O/s Loans	PSU Banks: WALR on Fresh Loans
Mar-22	4.00	8.22	6.90
Apr-22	4.00	8.20	6.77
May-22	4.40	8.23	7.14
Jun-22	4.90	8.39	7.26
Jul-22	4.90	8.41	7.46
Aug-22	5.40	8.55	7.72
Sep-22	5.90	8.64	7.81
Oct-22	5.90	8.74	7.98
Nov-22	5.90	8.79	8.26
Dec-22	6.25	8.92	8.22
Jan-23	6.25	8.97	8.36
Feb-23	6.50	9.07	8.56
Mar-23	6.50	9.14	8.67

Month	Repo Rate	Private Banks: WALR on O/s Loans	Private Banks: WALR on Fresh Loans
Mar-22	4.00	9.65	8.81
Apr-22	4.00	9.62	8.53
May-22	4.40	9.76	8.79
Jun-22	4.90	9.85	8.90
Jul-22	4.90	9.95	9.05
Aug-22	5.40	10.08	9.21
Sep-22	5.90	10.17	9.69
Oct-22	5.90	10.33	9.48
Nov-22	5.90	10.42	9.54
Dec-22	6.25	10.48	9.67
Jan-23	6.25	10.54	9.72
Feb-23	6.50	10.61	9.87
Mar-23	6.50	10.65	10.08

Increase in WATDR outpaces WALR on o/s loans

Cost of deposits to increase sharply; NIMs set to moderate over FY24/25

- **We note that the Weighted Average Lending Rates (WALR) on fresh loans increased 8bp MoM and 181bp since Apr'22, with PSU Banks reporting an 11bp MoM and a 190bp increase since Apr'22. Private Banks saw an increase of 21bp MoM and 155bp since Apr'22. RBI in April took a pause in repo rate hike, which stands at 6.5%.**
- **The WALR on outstanding loans rose 5bp MoM and 100bp since Apr'22 to 9.72% for the system. The increase was 4bp/103bp for Private Banks and 7bp/94bp PSU Banks.**
- **Weighted Average Term Deposit Cost (WATDR) for the system rose 14bp MoM and 113bp since Apr'22 to 6.16%, led by a 14bp MoM and 111bp increase since Apr'22 for Private Banks v/s a 13bp MoM and 104bp increase since Apr'22 for PSU Banks.**
- **Interestingly, we note that WATDR rose ~13bp/14bp for PSU/Private Banks in Mar'23 – much higher than the 7bp/4bp rise in WALR, while the increase was broadly similar in Feb'23 (13bp/8bp rise in WATDR v/s 10bp/7bp in WALR). The increase in WATDR outpacing the rise in WALR suggests a spread compression, which is likely to exert pressure on the margins in the future.**
- **While the lending rates for banks have been constantly increasing over the past few quarters, the rise in deposit rates has been at a modest pace. While the deployment of excess liquidity and re-pricing of loans have aided the margins, we believe that further re-pricing of deposits will drive a sharper increase in the cost of deposit. While RBI's stance on further rate hike/pause would be a key monitorable to assess the interest rate trajectory, we nevertheless, expect margins to moderate over FY24/25. Our top picks are HDFCB, ICICIBC, SBIN, and IIB.**

WALR on fresh loans up 8bp MoM in Mar'23 (up 181bp since Apr'22)

- WALR on fresh loans rose 8bp MoM in Mar'23 and has increased 181bp since Apr'22, with PSU Banks seeing a rise of 11bp (up 190bp since Apr'22). Private Banks saw a rise of 21bp (up 155bp since Apr'22). The increase over FY23 is a reflection of the rise in repo rate, which has cumulatively increased by 250bp since Apr'22 to 6.5%.
- As a result, WALR on outstanding loans for Banks grew 5bp MoM and 100bp since Apr'22 to 9.72%, led by an expansion of 4bp/7bp MoM and 103bp/94bp since Apr'22 for Private/PSU Banks. Yields stood at 10.65%/9.14% for Private/ PSU Banks. The one-year MCLR rate for Private Banks rose 150-175bp since Mar'22, barring FB (1200bp). The increase for PSU Banks was at 125-150bp.

WATDR rose 14bp MoM in Mar'23 (up 113bp since Apr'22) – controlled v/s rise in loan yields

Weighted average term deposit rates (WATDR) rose 14bp MoM and 113bp since Apr'22 to 6.16%. The increase was similar at 14bp/13bp MoM for both private and PSU banks, while it increased 111bp/104bp since Apr'22 for Private/PSU Banks. Given the increase in competitive intensity to garner incremental deposits, we have seen a rise in the cost of deposit for most banks over 4QFY23. We expect that the margin will remain under pressure due to the anticipated increase in deposit cost. However, we believe that banks with a higher LCR and a healthy CASA mix can can effectively manage the increase in deposit rates, making them making them better equipped to tackle the challenges arising from the higher cost of funds.

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Differential in spreads stable between Private and PSU Banks

Private Banks has traditionally commanded a greater share of higher yielding assets than their PSU counterparts, due to their dominance in unsecured loans. PSU banks, compared to private banks, have been able to reduce the gap in their lending yields on fresh loans, owing to better lending spread and asset mix. However, the gap in lending yields for outstanding loans remains intact due to their current loan mix. While the spreads between the two sets has been stable at 140-145bp over the past few months, we expect it to narrow in the future.

Margins continue to expand; expect moderation over FY24-25, led by a rise in deposit cost

The gap between credit growth and deposit growth has narrowed over the past few months and currently stands at 5.5% v/s ~8% seen till Dec'22. This has been driven by an increased focus on garnering incremental deposits amid tightening of liquidity, which has resulted in higher cost of deposits. However, deployment of excess LCR and residual re-pricing of loans have aided margin expansion in 4Q as well. Nevertheless, we expect deposit cost to rise over FY24 and expect margins to moderate from 2QFY24 (expect range bound NIMs in 1QFY24 with a negative bias). We expect our NIM estimates for FY25 to be even lower, as it is likely to reflect the ongoing re-pricing of liabilities.

Benefits of higher LCR ratio declining; Deposit growth picked up over 4Q

In 4QFY23, the deposit growth has remained healthy across most banks which have grown at ~3-7% QoQ, barring AUBANK, which grew at ~13% QoQ. Surprisingly, we note that the traction in CASA deposits also stood healthy at 5-10% QoQ, barring AUBANK at ~14% QoQ (IIB saw a decline of ~1.2%. CASA ratio held broadly stable across banks, barring IIB, which reported a 200bp QoQ decline in CASA mix to 40%). While Banks, in general, are sitting on a comfortable LCR ratio, PSU Banks have a significantly stronger LCR ratio than their Private peers. Some of this continues to move out in the form of a higher loan growth, which has aided the NII and margins. As the excess liquidity moderates, we expect banks to focus on acquiring incremental deposits to sustain their operations, particularly as credit growth remains robust.

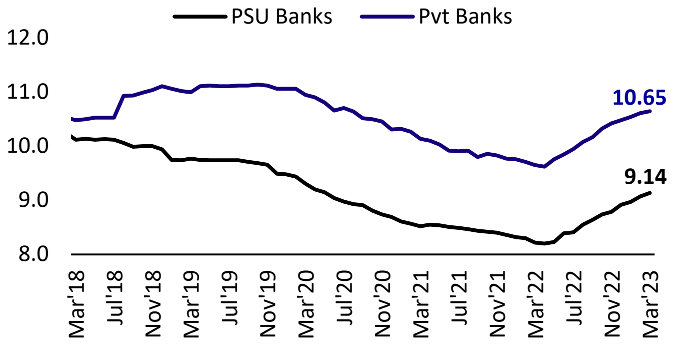
Increase in WATDR outpaces WALR on o/s loans, indicating spread compression in Mar'23

We further note that the WATDR rose ~13bp/14bp for PSU/Private Banks in Mar'23 – much higher than the 7bp/4bp rise in WALR. The increase was broadly similar in Feb'23, where WATDR increased 13bp/8bp v/s an increase of 10bp/7bp in WALR. The increase in WATDR outpacing the rise in WALR suggests a spread compression the sector has witnessed in Mar'23. We expect this trend to continue and exert pressure on the margins in the future.

Banks with a higher mix of retail deposits and floating loans are well placed; prefer HDFCB, ICICIBC, SBIN, and IIB

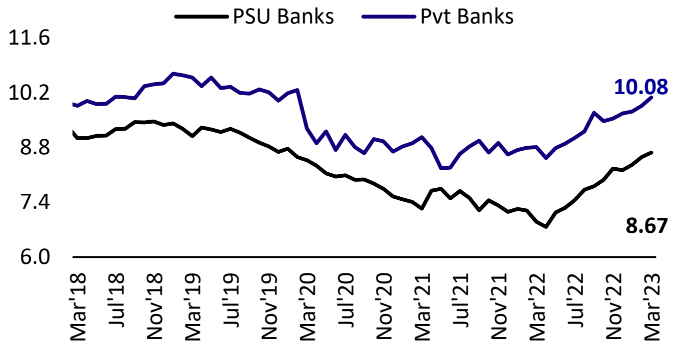
The lending rates for banks have been constantly increasing over the past few quarters, in tandem with the rise in the repo rate. However, the increase in deposit rates has been at a modest pace. In Q4FY23, the heightened competition for deposits led to an increase in deposit costs. Nevertheless deployment of excess liquidity and the residual re-pricing of loans contributed to improved margins. We expect that there will continue to be a strong emphasis on acquiring deposits, which when combined with re-pricing will result in a further increase in the cost of deposits. While RBI's stance on further rate hike/pause would be a key monitorable to assess the interest rate trajectory, we nevertheless, expect margins to moderate over FY24/25. **Our top picks are HDFCB, ICICIBC, SBIN, and IIB.**

Exhibit 1: WALR on outstanding loans for PSU/Private Banks



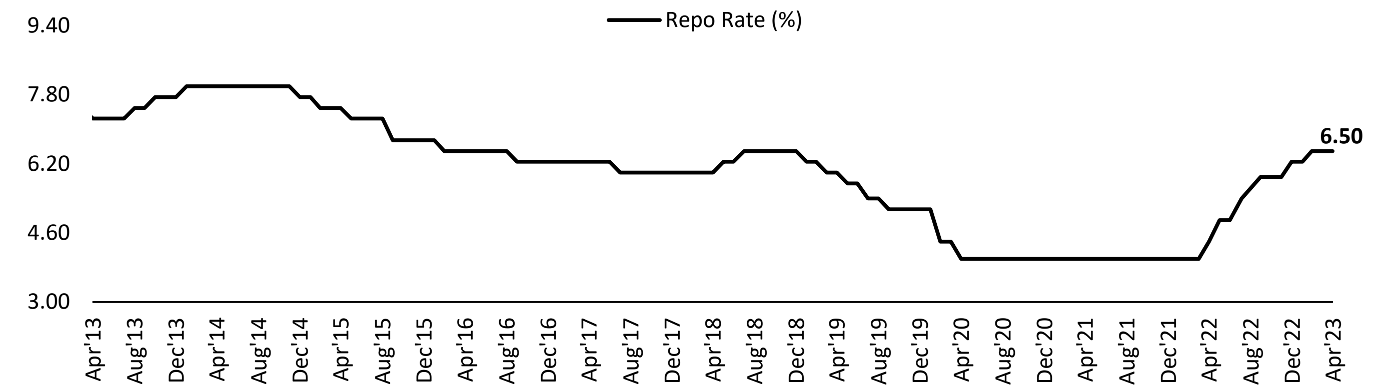
Source: RBI, MOFSL

Exhibit 2: WALR on fresh loans for PSU/Private Banks



Source: RBI, MOFSL

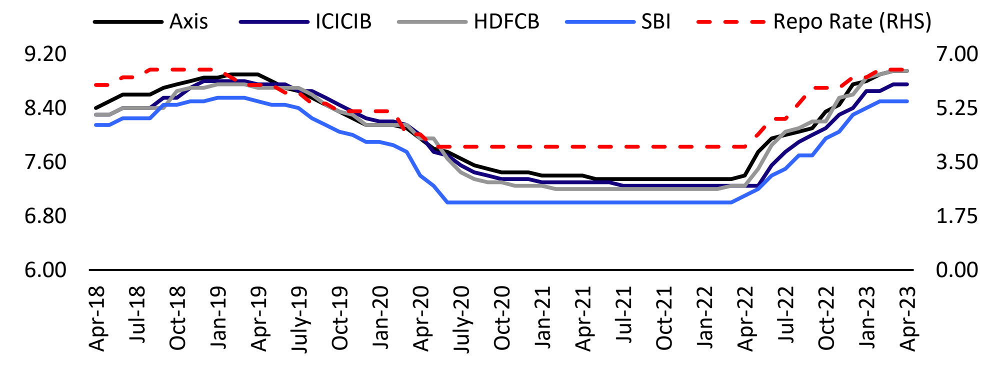
Exhibit 3: Repo rate currently stands at 6.5%



Source: RBI, MOFSL

Exhibit 4: MCLR for large Banks rose 150-170bp in FY23, even as the repo rate increased 250bp during the same period

HDFCB has seen the sharpest rise (170bp) in MCLR in FY23



Source: RBI, MOFSL

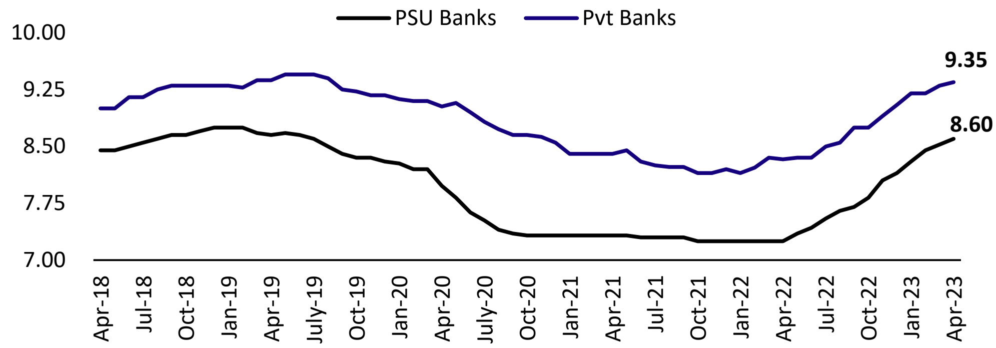
Exhibit 5: MCLR of mid-sized banks such as KMB, IIB, DCBB, and RBK is up 165-175bp in FY23, while the increase is lower for FB at 120bp; MCLR for PSU banks up 125-140bp over a similar period

	2019			2020				2021				2022				2023	
	Apr	July	Oct	Jan	Apr	July	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr
Kotak	8.90	8.85	8.60	8.40	8.10	7.60	7.45	7.35	7.25	7.25	7.20	7.25	7.40	8.05	8.45	8.95	9.10
IIB	9.85	9.70	9.45	9.30	9.25	9.05	8.75	8.65	8.60	8.55	8.45	8.45	8.55	9.10	9.55	9.95	10.20
DCB	10.84	10.84	10.47	10.31	10.15	10.08	9.95	9.67	9.43	9.33	8.97	8.91	9.21	9.50	9.96	10.61	10.76
RBL	10.15	9.95	9.85	9.55	9.35	9.25	8.85	8.65	8.40	8.40	8.15	8.35	8.60	9.15	9.70	9.95	10.20
Federal	9.15	9.15	8.90	8.90	8.60	8.20	8.00	7.90	7.90	8.00	8.10	8.10	8.00	8.30	8.70	9.20	9.30
BOB	8.65	8.60	8.35	8.20	8.00	7.60	7.50	7.40	7.40	7.35	7.30	7.30	7.35	7.65	7.95	8.50	8.60
CBK	8.65	8.60	8.40	8.35	7.85	7.55	7.40	7.35	7.35	7.35	7.25	7.25	7.25	7.50	7.90	8.35	8.65
INBK	8.65	8.60	8.35	8.30	8.10	7.40	7.30	7.30	7.30	7.30	7.35	7.30	7.30	7.55	7.85	8.30	8.60
PNB	8.45	8.40	8.25	8.05	7.75	7.60	7.35	7.35	7.35	7.30	7.25	7.25	7.25	7.55	7.75	8.30	8.50
UNBK	8.60	8.55	8.30	8.10	7.75	7.40	7.20	7.20	7.20	7.20	7.25	7.25	7.25	7.55	7.90	8.40	8.65

Source: RBI, MOFSL

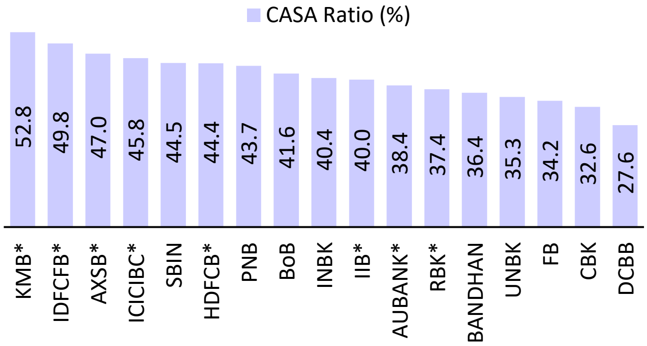
Exhibit 6: Median one-year MCLR for PSU/Private Banks rose 135bp/102bp to ~8.60%/9.35% in FY23

Higher rise in MCLR of PSU Banks v/s Private Banks



Source: RBI, MOFSL

Exhibit 7: CASA ratio witnesses a stable trend in 4QFY23 barring IIB; remains healthy across most banks



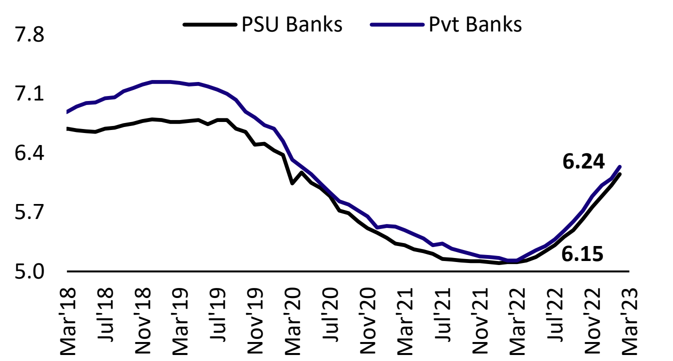
*As on 4QFY23 Source: MOFSL, Company

Exhibit 8: MCLR/external benchmark-linked loans across Banks in 3QFY23 (%)

Loans mix (%)	MCLR	Repo linked	Other EBLR linked	Total floating loans
AXSB*	20	41	4	65
HDFCB*	6	49		55
ICICIBC*	20	45	5	70
KMB*	13	57	NA	70
FB	15	50		65
BOB	50	28	2	80
CBK	49	38		87
INBK	56	36		92
PNB	36	38	11	85
UNBK**	52	22	10	84
SBIN	40	23	11	74

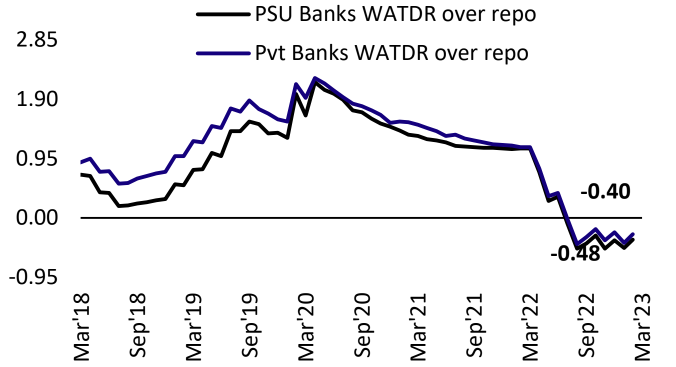
*As on 4QFY23 ** As on 1QFY23 Source: MOFSL, Company

Exhibit 9: WATDR for PSU Banks stood at 6.15%. The same for Private Banks was higher at 6.24%



Source: MOFSL, RBI

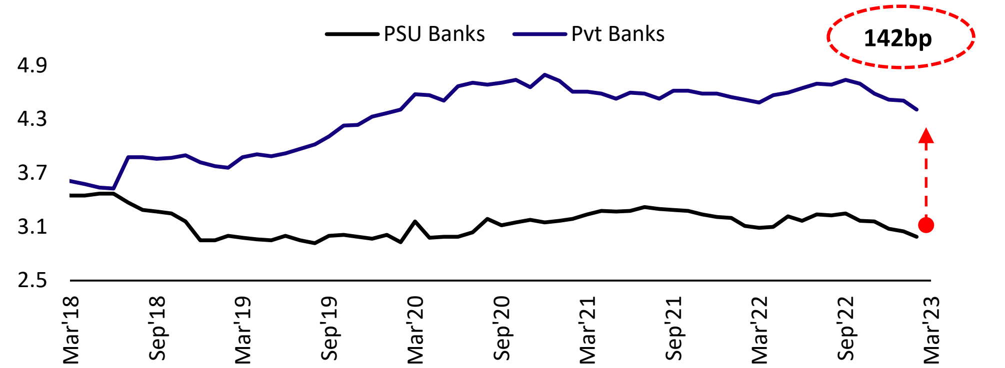
Exhibit 10: Repo rate stands higher than WATDR for PSUs and Private Banks, pointing to a further rise in deposit cost



Source: MOFSL, RBI

Difference in spreads of PSUs and Private Banks remains in a narrow range

Exhibit 11: The spread differential between PSUs and Private Banks is stable at 142bp



Source: MOFSL, RBI

RBK and IIB offer much higher interest rates than other larger Banks

Exhibit 12: Interest rates offered by Banks on Savings accounts

(%)	SA Rate
AXSB	3.0%/3.5% (>INR5m)
HDFCB	3.0%/3.5% (>INR5m)
ICICIBC	3.0%/3.5% (>INR5m)
KMB	3.5%/4.0% (>INR5m)
IIB	4.0%/5.0%/6.0% (>INR1m)
RBK	4.25%/5.5%/6.0%/7.0% (>INR2.5m)
IDFCFB	4.0%/6.75% (>INR1m)
BANDHAN	3.0%/6.0%/6.25% (>INR1m)
AUBANK	3.5%/5.0%/6.0%/7.0%/7.25% (>INR10m)
BOB	2.75%/3% (>INR500m)
PNB	2.7%/2.75% (>INR1m)
SBIN	2.7%/3% (>INR100m)

Source: MOFSL, Company

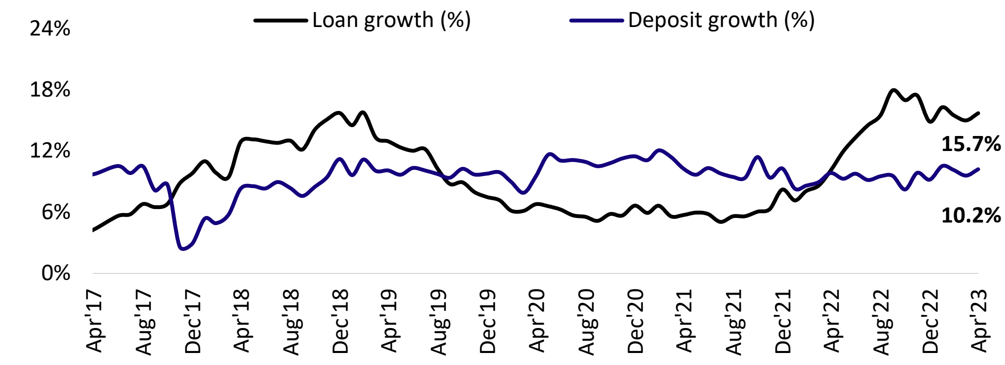
Exhibit 13: Term deposit rates offered across Banks

(%)	7-14 days	0-3 months	3-9 months	9-15 months	15-36 months
HDFCB	3.0	4.5	6.0	7.1	7.0
AXSB	3.5	4.8	6.0	7.2	7.2
ICICIBC	3.0	4.8	6.0	7.1	7.0
KMB	2.8	4.0	6.0	7.2	7.2
IIB	3.5	4.8	6.3	7.8	7.8
RBK	3.5	4.8	6.1	7.8	7.8
IDFCFB	3.5	5.0	6.8	7.8	7.8
BANDHAN	3.0	4.5	4.5	8.0	8.0
AUBANK	3.8	5.0	6.4	8.0	8.0
SBIN	3.0	4.5	5.8	7.0	7.0
BOB	3.0	4.5	5.8	6.8	6.8
PNB	3.5	4.5	5.8	7.3	7.0

Source: MOFSL, Company

Credit growth continues to outpace the deposit growth

Exhibit 14: The gap between loan growth and deposit growth has moderated to ~5.5%



Source: MOFSL, Company

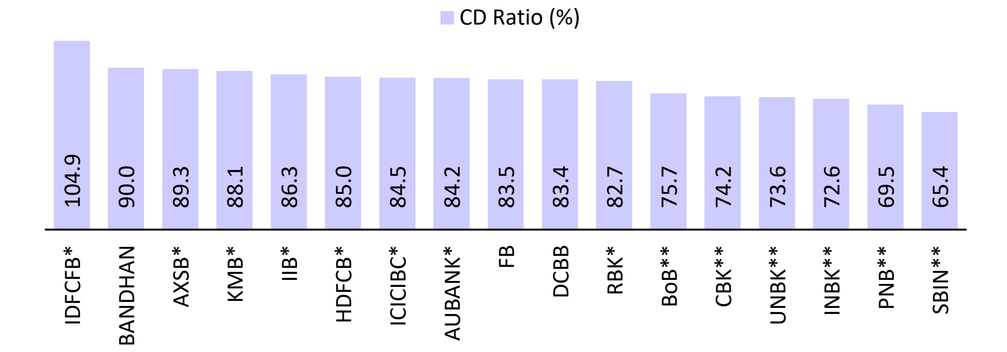
Exhibit 15: Loan growth remains healthy; deposit growth picks up with CASA broadly stable, barring IIB

	Loans			Deposits			CASA deposits			CASA ratio (%)		
INR b	4QFY23	YoY (%)	QoQ (%)	4QFY23	YoY (%)	QoQ (%)	4QFY23	YoY (%)	QoQ (%)	4QFY23	YoY (bp)	QoQ (bp)
AXSB	8,453	19.4	10.9	9,469	15.2	11.6	4,465	20.7	18.2	47.0	200	200
HDFCB	16,006	16.9	6.2	18,834	20.8	8.7	8,360	11.3	9.6	44.4	(380)	40
ICICIBC	10,196	18.7	4.7	11,808	10.9	5.2	5,413	4.4	6.4	45.8	(290)	50
IDFCFB	1,518	28.8	3.2	1,446	36.9	8.7	720	40.7	8.2	49.8	133	(23)
IIB	2,899	21.3	6.3	3,361	14.6	3.3	1,347	7.5	-1.2	40.0	(270)	(200)
KMB	3,199	17.9	2.9	3,631	16.5	5.3	1,918	1.4	4.5	52.8	(790)	(50)
RBK	702	17.0	5.3	849	7.4	3.8	317	13.7	5.9	37.4	210	80
AUBANK	584	26.7	5.1	694	31.9	13.5	267	36.0	13.6	38.4	140	40

Source: MOFSL, Company

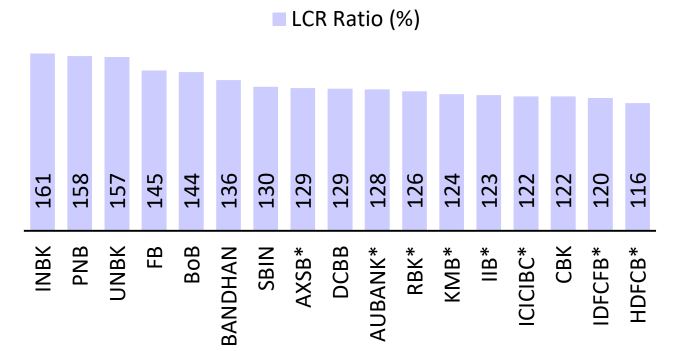
CD ratio gradually moving higher for individual banks

Exhibit 16: CD ratio is gradually inching up across all banks; PSU Banks have a lower CD ratio v/s private peers (3QFY23)



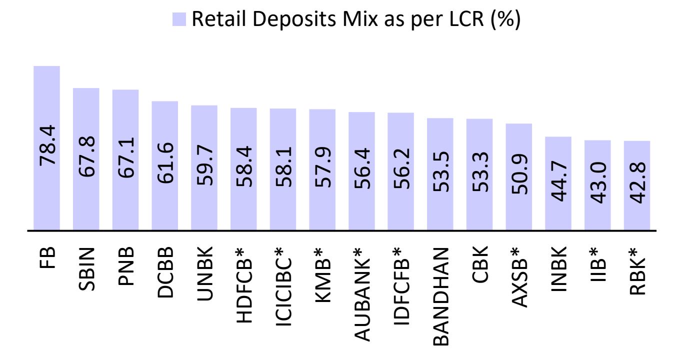
*As on 4QFY23 **Indicates domestic CD ratio Source: MOFSL, Company

Exhibit 17: LCR ratio in 4QFY23 continues to remain healthy; though has moderated from previous quarters



*As on 4QFY23 Source: MOFSL, Company

Exhibit 18: Retail deposits, as per LCR, across banks stands healthy



*As on 4QFY23 Source: MOFSL, Company

Exhibit 19: Yields and cost ratios for bank declared their results in 4QFY23

	YoF			YoA			CoF			CoD		
%	**4QFY23**	**YoY (bp)**	**QoQ (bp)**	**4QFY23**	**YoY (bp)**	**QoQ (bp)**	**4QFY23**	**YoY (bp)**	**QoQ (bp)**	**4QFY23**	**YoY (bp)**	**QoQ (bp)**
AXSB*	8.8	113	10	9.4	153	(15)	4.8	92	41	4.3	66	37
HDFCB**	9.2	129	(3)	9.6	132	(12)	4.5	91	14	NA	NA	NA
ICICIBC	8.6	141	53	9.8	144	62	4.3	61	34	4.0	50	33
IDFCFB**	13.6	188	(3)	16.0	197	80	6.3	113	(7)	NA	NA	NA
IIB	9.2	92	21	12.0	73	27	4.9	84	20	5.8	121	34
KMB**	9.7	159	45	10.5	209	39	4.1	93	28	NA	NA	NA
RBK***	10.6	89	16	12.6	38	64	5.9	104	30	5.7	98	26
AUBANK***	13.0	52	(11)	13.4	-	-	6.3	59	32	NA	NA	NA

* YoF and YoA is calculated ** All ratios are calculated *** YoF is calculated Source: MOFSL, Company

Exhibit 20: NIMs have witnessed a healthy expansion over FY23

NIM (%)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
AXSB	3.4	3.6	3.6	3.6	3.5	3.4	3.5	3.5	3.6	4.0	4.3	4.2
HDFCB	4.3	4.1	4.2	4.2	4.1	4.1	4.1	4.0	4.0	4.1	4.1	4.1
ICICIBC	3.7	3.6	3.7	3.8	3.9	4.0	4.0	4.0	4.0	4.3	4.7	4.9
IDFCFB	4.9	4.9	5.0	5.1	5.5	5.8	6.2	6.3	5.9	6.0	6.1	6.4
IIB	4.3	4.2	4.1	4.1	4.1	4.1	4.1	4.2	4.2	4.2	4.3	4.3
KMB	4.4	4.5	4.4	4.4	4.6	4.5	4.6	4.8	4.9	5.2	5.5	5.8
FB	3.1	3.1	3.2	3.2	3.2	3.2	3.3	3.2	3.2	3.3	3.5	NM
BoB	2.5	2.8	2.8	2.7	3.0	2.9	3.1	3.1	3.0	3.3	3.4	NM
CBK	2.8	2.8	2.7	2.5	2.7	2.8	2.8	2.9	2.8	2.9	3.1	NM
PNB	2.5	3.2	3.1	2.7	2.7	2.4	2.9	2.8	2.8	3.0	3.2	NM
SBIN	3.0	3.1	3.1	2.9	2.9	3.2	3.2	3.1	3.0	3.3	3.5	NM
UNBK	2.8	2.8	2.9	2.4	3.1	3.0	3.0	2.8	3.0	3.2	3.2	NM

Source: MOFSL, Company

Exhibit 21: NIMs likely to moderate over FY24/25 due to rising cost of deposits

NIM (%)	FY20	FY21	FY22	FY23E	4Q23	FY24E	FY25E
AXSB	3.2	3.4	3.3	3.7	4.2	3.9	3.9
HDFCB	4.2	4.1	3.9	4.1	4.1	4.2	4.2
ICICIBC	3.7	3.7	4.0	4.6	4.9	4.6	4.5
IIB	4.1	4.0	3.9	4.1	4.3	4.2	4.4
KMB	4.3	4.4	4.5	5.1	5.8	5.2	5.0
IDFCFB	3.8	4.7	5.5	5.9	6.4	6.1	5.9
FB	3.0	3.2	3.2	3.5	NM	3.5	3.5
RBK	4.5	4.2	4.1	4.3	5.0	4.5	4.5
AUBANK	5.4	5.3	5.7	6.2	6.1	5.8	5.8
BoB	2.5	2.7	2.7	3.2	NM	3.2	3.2
CBK	2.0	2.3	2.4	2.6	NM	2.7	2.7
PNB	2.3	2.6	2.4	2.7	NM	2.8	2.8
SBIN	3.0	3.0	2.9	3.2	NM	3.3	3.3
UNBK	2.3	2.5	2.6	2.8	NM	2.9	2.9

Source: MOFSL, Company

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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