

# Financials

Month	PSU Banks		
	WALR – O/s Loans	WALR - Fresh Loans	WATDR
Dec-22	8.92	8.22	5.76
Jan-23	8.97	8.36	5.89
Feb-23	9.07	8.56	6.02
Mar-23	9.14	8.67	6.15
Apr-23	9.16	8.49	6.27
May-23	9.18	8.57	6.37
Jun-23	9.19	8.50	6.46
Jul-23	9.22	8.72	6.54
Aug-23	9.24	8.80	6.62
Sep-23	9.23	8.63	6.75
Oct-23	9.25	8.67	6.80
Nov-23	9.25	8.60	6.85
Dec-23	9.28	8.51	6.88

Month	Private Banks		
	WALR - O/s Loans	WALR - Fresh Loans	WATDR
Dec-22	10.48	9.67	5.89
Jan-23	10.54	9.72	6.02
Feb-23	10.61	9.87	6.10
Mar-23	10.65	10.08	6.24
Apr-23	10.72	9.68	6.36
May-23	10.74	9.87	6.44
Jun-23	10.81	9.99	6.53
Jul-23	10.65	10.01	6.62
Aug-23	10.64	10.16	6.67
Sep-23	10.62	10.18	6.69
Oct-23	10.59	10.20	6.75
Nov-23	10.59	10.23	6.76
Dec-23	10.62	10.20	6.83

## WALR on fresh loan declines; Pace of TD increase moderates

### NIM compression to continue

- The weighted average lending rate (WALR) on fresh loans declined 9bp MoM in Dec'23, while it has increased 181bp since Apr'22. PSU banks (PSUs) reported a decline of 9bp MoM, and private banks (PVBs) saw a decline of 3bp MoM. The decline in PSU banks' WALR for fresh loans can be attributed to the uptick in the corporate segment, which ideally should reflect lower yields.
- Systemic WALR on outstanding loans, however, increased 5bp MoM (114bp increase since Apr'22). This rise can primarily be attributed to the ongoing MCLR repricing, especially at PSU banks with a significantly higher proportion of loans linked to MCLR.
- The weighted average term deposit cost (WATDR) for the system has increased 4bp MoM to 6.8% (3bp MoM increase for PSUs & 7bp MoM increase for PVBs). More importantly, the increase in cost of WATDR has moderated significantly with the December month witnessing the slowest MoM increase for both PSUs and PVBs over the past one year.
- With intense mobilization efforts and assertive increases in deposit rates, there has been noticeable momentum in liability growth across banks (except for some select large PVBs). Systemic deposit growth has thus improved to 12.4% YoY. The gap in credit-deposit growth has also thus narrowed to ~3% vs. a peak of ~9% in Oct'22.
- Credit growth for the system remains robust at 16% YoY and we estimate this to sustain at a ~13.5% CAGR over FY25-26E. Importantly, the systemic LDR remains at elevated levels of 79.9% (77.6% adjusted for HDFC merger). Most banks reported incremental LDR of 80-140% over the past one year, with AU SFB at the lowest at 58.6% and BOB at the highest with 139.3% in our coverage (HDFCB stands at 195.4% due to the merger).
- With repo rates remaining unchanged since Feb-23, lending rates have remained broadly stable; however, funding cost has been gradually rising due to the ongoing liability re-pricing. NIMs for the banking sector have thus been witnessing pressure barring select banks. We expect NIM compression to continue at a more moderate pace over the near term with PSUs continuing to show relative resilience. Top picks: ICICI, IIB & SBI.

### WALR on fresh loans decline 9bp MoM in Dec'23 (up 181bp since Apr'22)

- WALR on fresh loans declined 9bp MoM in Dec'23, but has increased 181bp since Apr'22, with PSUs seeing a decline of 9bp (up 174bp since Apr'22). PVBs too saw a decline of 3bp (up 167bp since Apr'22). For the quarter, it declined 6bp, led by a 12bp QoQ decline in PSU banks WALR. This indicates the rising competition among banks to deliver healthy loan growth and a pick-up in corporate loan growth. The increase over FY23 is a reflection of the rise in the repo rate, which has cumulatively increased 250bp since Apr'22 to 6.5%.
- WALR on outstanding loans nevertheless increased 5bp MoM (up 114bp since Apr'22) to 9.86%, with PSUs experiencing a 5bp MoM increase and PVBs remaining flat. This can be attributable to the MCLR repricing in the PSUs. The one-year MCLR rate for PVBs increased 25-50bp YoY, with Federal seeing the highest rise at 50bp, while PSU banks too seeing an MCLR expansion of 25-50bp.

**WATDR rises 4bp MoM in Dec'23; 180bp increase since Apr'22**

- WATDR rose 4bp MoM and 180bp since Apr'22 to 6.83%. The increase was largely driven by PVBs, up 7bp MoM, while PSUs saw a 3bp MoM increase, as PSUs are better placed in terms of CD ratio vs private banks. More importantly, the increase in the cost of WATDR has moderated significantly with the December month witnessing the slowest MoM increase for both PSUs and PVBs over the past one year.
- Due to a more restricted liquidity environment and growing competition for attracting additional deposits, there has been an increase in deposit costs for the majority of banks in recent quarters.
- We believe that despite the ongoing importance of deposit mobilization for sustaining loan growth, banks will focus on achieving a well-balanced combination of LCR, CASA, and retail deposits.

**Gap between Credit and Deposit growth continues to narrow**

- With intense mobilization efforts and assertive increases in deposit rates, there has been noticeable momentum in liability growth across banks (except for some select large PVBs). Systemic deposit growth has thus improved to 12% YoY. The gap in credit-deposit growth has also thus narrowed to ~3% vs. the peak of ~9% in Oct'22.
- Due to the recent rise in short-term TD rates by PSUs, select mid-sized PVBs have taken a proactive approach to elevate their SA rates. Remarkably, these SA rates exceed even the TD rates offered by larger PVBs. Amidst the heightened competition for liabilities, several banks have chosen to strategically shift either toward bulk TDs or to redirect their funding emphasis toward higher Certificate of Deposits (CDs).
- Nevertheless, this strategy incurs higher costs compared to the traditional retail term deposits. The LCR has decreased for most banks, and there appears to be limited flexibility for banks, with the exception of PSUs to utilize additional liquidity in order to sustain healthy margins.

**Credit-deposit ratio remains elevated; incremental CD ratio under watch**

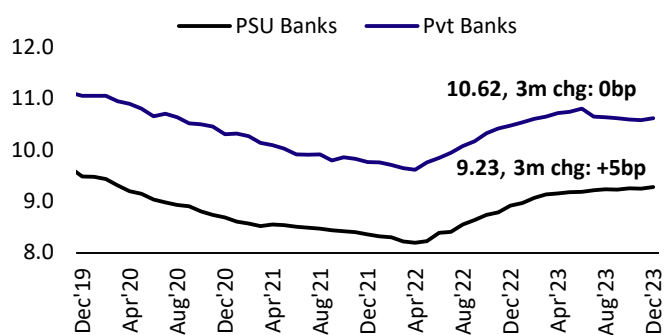
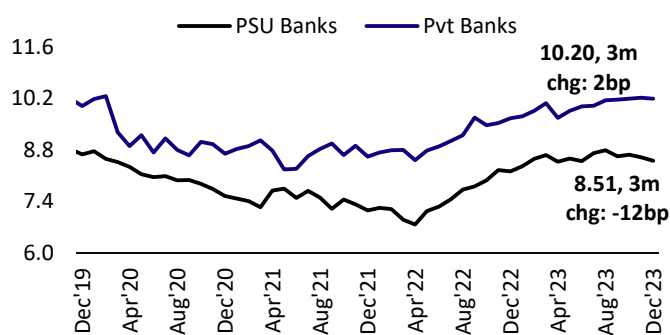
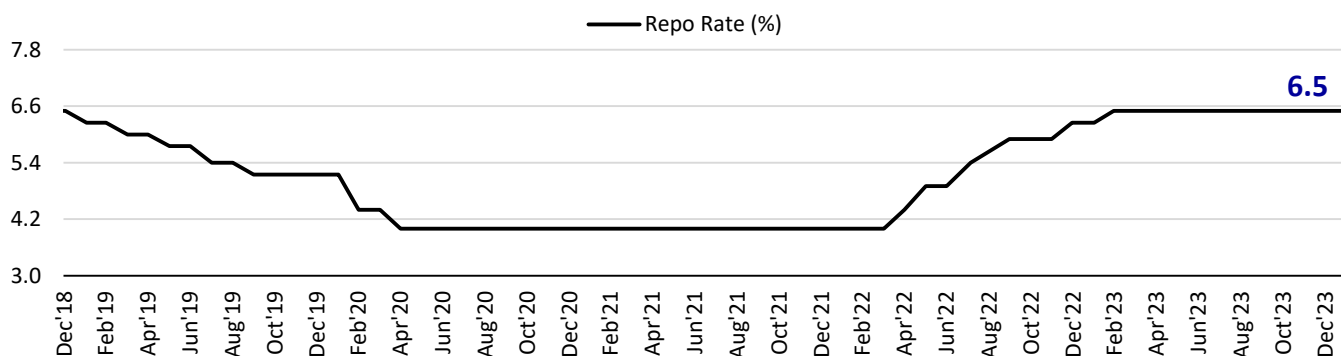
- Credit growth for the system remains robust at 16% YoY, and we estimate this to sustain at a ~13.5% CAGR over FY25-26E.
- Importantly, the systemic LDR remains at elevated levels of 79.9% (77.6% adjusted for HDFC merger) with most banks reporting an increase.
- Incremental LDR for banks under our coverage stood at 80-140% over the past one year, with AU SFB at the lowest at 58.6%, and BOB at the highest with 139.3% in our coverage (HDFCB stands at 195.4% due to the merger).
- Among large banks, notable increases in the CD ratio have been observed, with HDFCB (195.4% increase mainly due to merger, while the outstanding CD would have been 89% otherwise), followed by BoB with an increase of around 8%, IndusInd with about 7%, and Axis with approximately 7% from FY22 levels.
- LCR ratio however remains at a comfortable level with most of the large PVBs being in the range of 110-127%. This indicates limited headroom for deploying further excess liquidity.

**Margin compression to continue – albeit at a moderate pace**

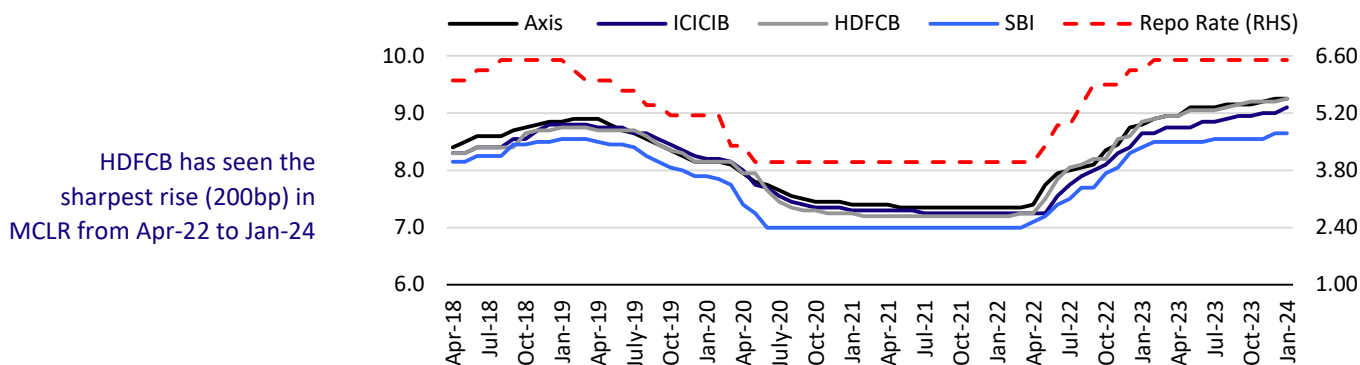
- With repo rates being unchanged since Feb-23, lending rates have remained broadly stable; however, funding cost has been gradually rising due to the ongoing liability re-pricing.
- NIMs for the banking sector have thus been witnessing pressure, barring select banks. We expect NIM compression to continue at a more moderate pace over the near term with PSUs continuing to show relative resilience as they benefit from a gradual re-pricing of the MCLR-linked portfolio (MCLR-linked loans at 35-65%; see Exhibit 8 for details). Consequently, aggregate NII growth for PVBs/PSUs is likely to moderate to average 17%/7% YoY by 4QFY24E vs. 29%/28% YoY in 4QFY23.
- Additionally, certain mid-sized banks have aggressively increased SA rates and offered attractive TD sweep products, which will keep cost of funds elevated over the next few quarters.

**Banks with a higher mix of retail deposits and fixed rate loans well placed**

- We remain watchful on margins in FY25 as a potential shift in the interest rate cycle could directly influence lending yields. Banks with a higher proportion of fixed loan books, such as AU and IIB, are expected to fare better and may report NIM expansion over 2HFY25.
- Although there has been some recent moderation in bond yields, following the interim budget, funding pressure persists for the banking sector. Thus, banks with a higher mix of retail deposits are better positioned to navigate the current tight liquidity environment.
- **Top picks:** ICICI, IIB & SBI.

**Exhibit 1: WALR on outstanding loans: Marginal increase for PSU banks compared to flattish trend for Private Banks****Exhibit 2: WALR on fresh loans: Declined for PSUs compared to marginal increase for Private Banks****Exhibit 3: Repo rate unchanged at 6.5% since Feb'23**

**Exhibit 4: MCLR for large banks rose 155-200bp from Apr-22 to Jan-24, while the repo rate increased 250bp during the same period**



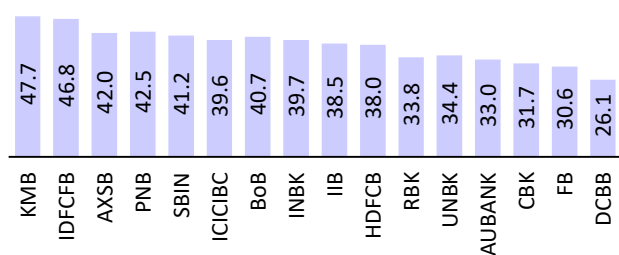
**Exhibit 5: One-year MCLR rate for PVBs up 35-50bp YoY, while the increase in PSBs has been more controlled at 25-50bp YoY**

	2021				2022				2023				2024	YoY Change (in %)
	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	
Kotak	7.35	7.25	7.25	7.20	7.25	7.40	8.05	8.45	8.95	9.10	9.25	9.35	9.45	0.50
IIB	8.65	8.60	8.55	8.45	8.45	8.55	9.10	9.55	9.95	10.20	10.25	10.30	10.35	0.40
RBL	8.65	8.40	8.40	8.15	8.35	8.60	9.15	9.70	9.95	10.20	10.10	10.20	10.30	0.35
Federal	7.90	7.90	8.00	8.10	8.10	8.00	8.30	8.70	9.20	9.30	9.45	9.50	9.70	0.50
BOB	7.40	7.40	7.35	7.30	7.30	7.35	7.65	7.95	8.50	8.60	8.65	8.70	8.80	0.30
CBK	7.35	7.35	7.35	7.25	7.25	7.25	7.50	7.90	8.35	8.65	8.65	8.70	8.80	0.45
INBK	7.30	7.30	7.30	7.35	7.30	7.30	7.55	7.85	8.30	8.60	8.65	8.70	8.80	0.50
PNB	7.35	7.35	7.30	7.25	7.25	7.25	7.55	7.75	8.30	8.50	8.60	8.65	8.70	0.40
UNBK	7.20	7.20	7.20	7.25	7.25	7.25	7.55	7.90	8.40	8.65	8.65	8.70	8.80	0.40
SBI	7.00	7.00	7.00	7.00	7.00	7.10	7.50	7.95	8.40	8.50	8.55	8.55	8.65	0.25

Source: RBI, MOFSL

**Exhibit 6: CASA ratio continues to moderate for most banks**

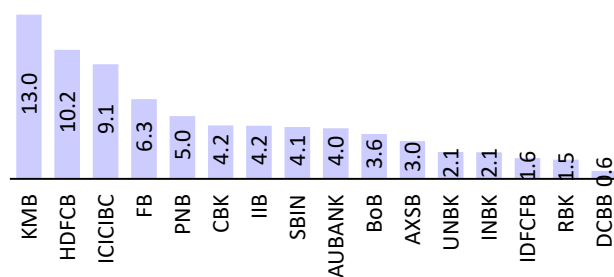
■ CASA Ratio (%)



Source: MOFSL, Company

**Exhibit 7: Decline in CASA ratio for banks since FY22**

■ % change in CASA ratio since FY22

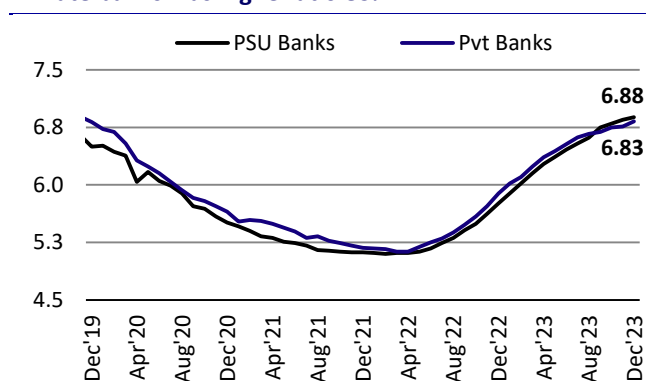


Note: Decline in HDFCB is attributed partly to merger  
Source: MOFSL, Company

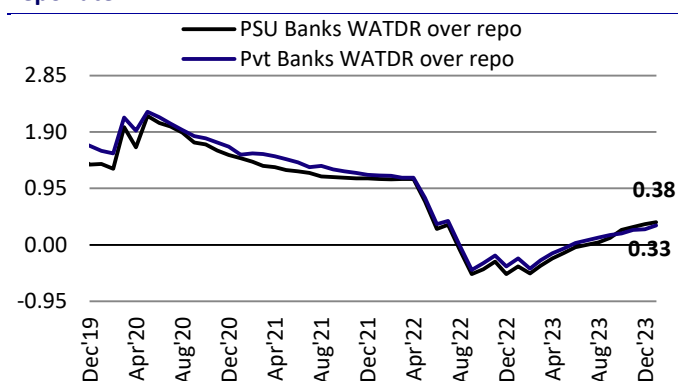
**Exhibit 8: PSUs have a sizeable mix of MCLR-linked loans as of 3QFY24 (%)**

Loans mix (%)	MCLR	Repo linked	Other EBLR linked	Total floating loans
AXSB	15	48	6	69
HDFCB*	6	49		55
ICICIBC	18	49	2	69
KMB	12	57	NA	69
FB#	23	51		74
BOB*	52	28	2	82
CBK	51	38	NA	89
INBK	61	31	NA	95
PNB	37	39	17	92
UNBK#	50	22	10	82
SBIN	38	42		79

\*As on FY23, # 2QFY24 Source: MOFSL, Company

**Exhibit 9: WATDR for PSUs stood at 6.88%. The same for Private banks was higher at 6.83%**

Source: MOFSL, RBI

**Exhibit 10: WATDR for both private and PSUs is higher than repo rate**

Source: MOFSL, RBI

AU, IDFCB, RBK, DCB, and IIB offer much higher interest rates in certain buckets than other larger banks

**Exhibit 11: SA rates offered by various banks**

(%)	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	3.5% to 6.75% (max rate for deposits between INR2.5m to 50m)
RBK	4.25% to 7.5% (max rate for deposits between INR2.5m to 20m)
IDFCB	3%-7% (max rate for deposits between INR0.5m-500m)
BANDHAN	3.0% to 8.05% (max rate for deposits above 2.5b)
AUBANK	3.5% to 7.25% (max rate for deposits between INR10m to 50m)
BOB	2.75%/3%(>INR500m)/3.05%(>INR2b)/3.35%(>INR5b)
PNB	2.7%/2.75%(>INR1m)/3.0%(>INR1b)
SBIN	2.7%/3%(>INR100m)
DCBB	1.75% to 8.0% (max rate for deposits between INR1m to 20m)

Source: MOFSL, Company

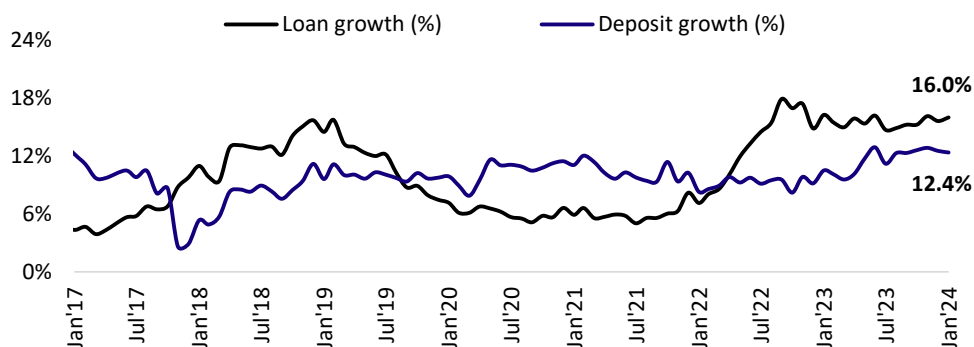
Top four Private banks offer lower FD rates vs. other players

**Exhibit 12: Peak term deposit rates across different buckets for major banks**

(%)	7-14 days	0-3 months	3-9 months	9-15 months	15-36 months
HDFCB	3.0	4.5	5.75	6.6	7.15
AXSB	3.0	4.5	5.75	6.7	7.1
ICICIBC	3.0	4.5	5.75	6.7	7.1
KMB	2.75	3.5	6.0	7.2	7.15
IIB	3.5	4.6	6.1	7.5	7.25
RBK	3.5	4.5	6.05	7.5	7.5
IDFCB	3.0	4.5	5.75	7.5	7.25
BANDHAN	3.0	4.5	4.5	7.25	7.25
AUBANK	3.75	4.25	6.75	7.75	7.5
SBIN	3.5	4.75	6.0	6.8	7.0
BOB	4.25	5.5	6.15	6.85	7.25
PNB	3.5	4.5	6.0	7.25	7.0

Source: MOFSL, Company

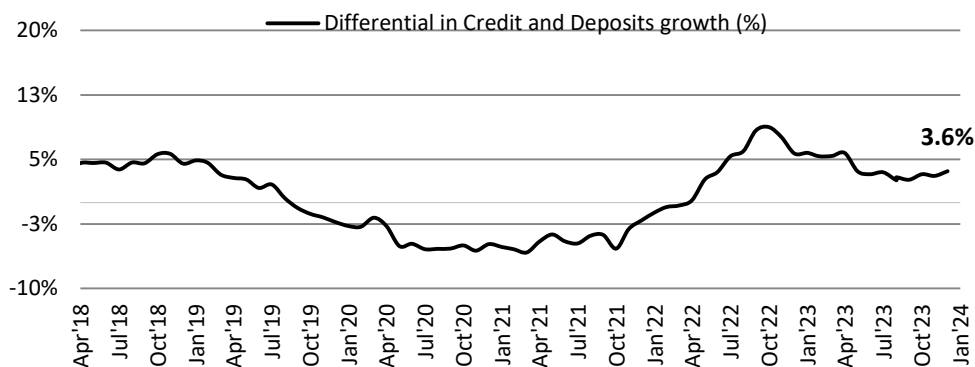
**Exhibit 13: Deposit growth improved to 12.4% YoY, while credit growth sustains at ~16% YoY**



Credit growth adjusted for HDFC merger, Source: MOFSL, RBI

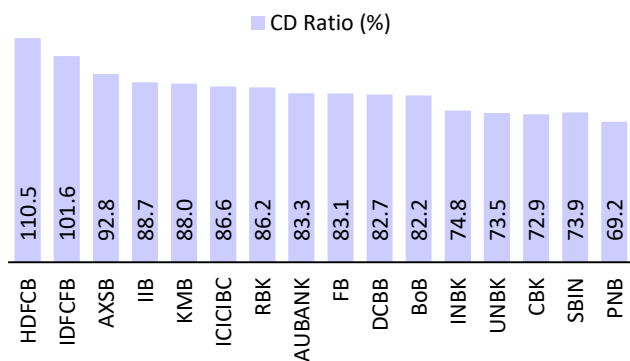
**Exhibit 14: Gap between loan and deposit growth has moderated over the past one year**

The differential between credit and deposit growth increases marginally



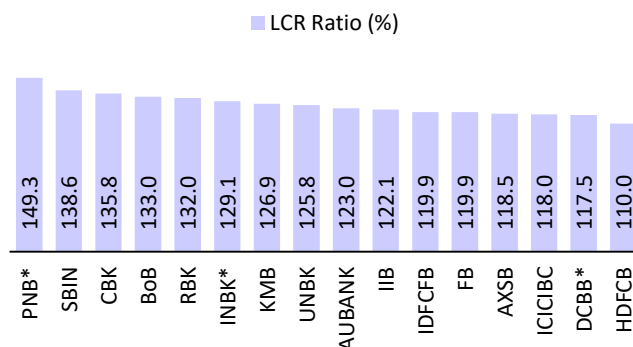
Source: MOFSL, RBI

**Exhibit 15: CD ratio is gradually inching up across banks; PSUs have a lower CD ratio vs. private peers (3QFY24)**



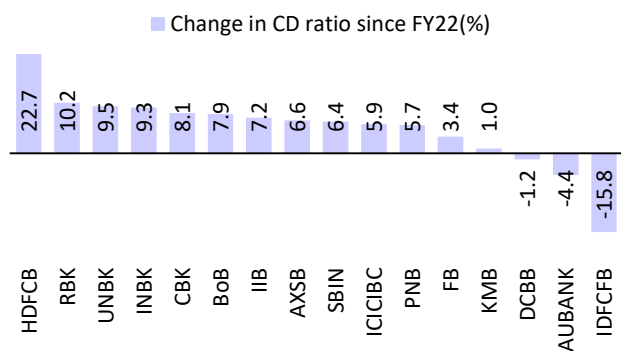
Source: MOFSL, Company

**Exhibit 16: LCR ratio stands at a comfortable level, but most of the large PVBs are now in the range of 110-127%**



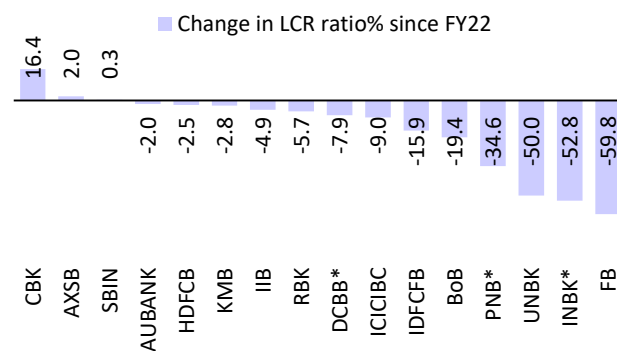
\*As on 2QFY24, Data as per LCR disclosure, Source: MOFSL, Company

**Exhibit 17: CD ratio increased for most banks since FY22 – the increase is more for PSBs than Private Banks**



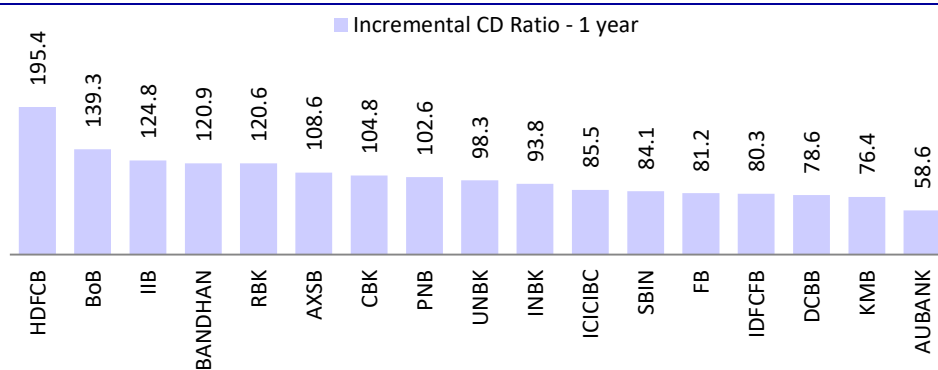
Source: MOFSL, Company

**Exhibit 18: Change in LCR ratio since FY22 – most of the banks have deployed excess liquidity on the balance sheet**

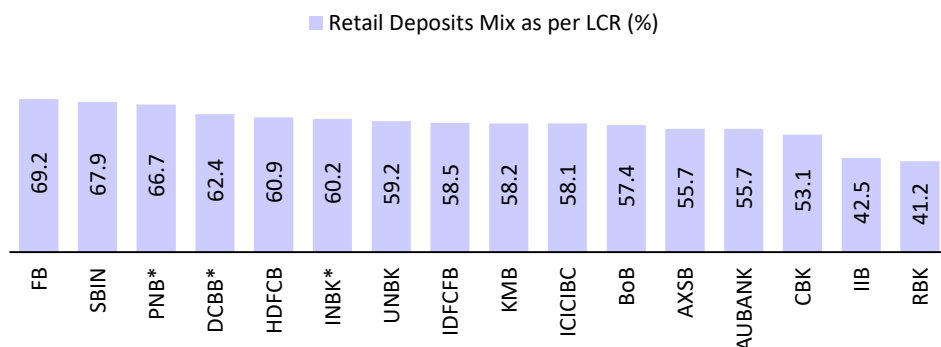


\*As on 2QFY24, Data as per LCR disclosure, Source: MOFSL, Company

**Exhibit 19: Most of the PSU Banks have witnessed increase in incremental CD ratio above 100%**



HDFCB CD ratio stands higher due to merger, Source: MOFSL, Company

**Exhibit 20: Retail deposits as per LCR across banks**

\*As on 1QFY24, Data as per LCR disclosure, Source: MOFSL, Company

**Exhibit 21: Yields and cost ratios for key banks - 3QFY24**

%	YoF			YoA			CoF			CoD		
	3QFY24	YoY (bp)	QoQ (bp)	3QFY24	YoY (bp)	QoQ (bp)	3QFY24	YoY (bp)	QoQ (bp)	3QFY24	YoY (bp)	QoQ (bp)
AXSB*	9.5	74.3	-2.3	10.6	97.8	11.6	5.4	101.0	18.0	6.7	134.3	17.9
HDFCB**	11.0	176.3	23.7	11.5	176.6	9.3	6.9	688.1	208.1	NA	NA	NA
ICICIBC	8.7	64.0	7.0	9.8	66.0	-2.0	5.0	101.0	18.0	4.7	107.0	19.0
IDFCFB**	14.2	52.1	38.6	16.3	103.9	40.3	6.9	57.6	18.8	NA	NA	NA
IIB	9.8	76.0	6.0	12.5	70.0	15.0	5.5	74.0	6.0	6.4	97.0	9.0
KMB**	10.2	95.9	-12.6	11.0	85.3	18.5	5.2	141.2	13.7	NA	NA	NA
RBK***	12.4	193.4	46.7	14.0	122.0	-3.0	6.5	90.0	12.0	6.3	84.0	10.0
AUBANK***	13.2	-20.0	-10.0	13.9	-92.4	-39.4	6.9	93.0	20.0	NA	NA	NA

\* YoF and YoA is calculated

\*\* All ratios are calculated

\*\*\* YoF is calculated

Source: MOFSL, Company

**Exhibit 22: NIMs progression over the past two years**

NIM (%)	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
AXSB	3.49	3.60	3.96	4.26	4.22	4.10	4.11	4.01
HDFCB	4.00	4.00	4.10	4.10	4.10	4.10	3.40	3.40
ICICIBC	4.00	4.01	4.31	4.65	4.90	4.78	4.53	4.43
IDFCFB	6.27	5.89	5.98	6.36	6.41	6.33	6.32	6.42
IIB	4.20	4.21	4.24	4.27	4.28	4.29	4.29	4.29
KMB	4.78	4.92	5.15	5.47	5.75	5.57	5.22	5.22
FB	3.16	3.22	3.30	3.49	3.31	3.15	3.16	3.19
BoB	3.08	3.02	3.33	3.37	3.53	3.27	3.07	3.10
CBK	2.93	2.78	2.86	3.05	3.07	3.05	3.00	3.03
PNB	2.76	2.79	3.00	3.16	3.24	3.08	3.11	3.15
SBIN	3.12	3.02	3.32	3.50	3.60	3.33	3.29	3.22
UNBK	2.75	3.00	3.15	3.21	2.98	3.13	3.18	3.08
INBK	2.87	3.10	3.20	3.74	3.59	3.61	3.52	3.49
AU SFB	6.30	5.90	6.20	6.20	6.10	5.72	5.50	5.50
RBK	5.04	5.04	5.02	5.27	5.62	5.53	5.54	5.52
BANDHAN	8.70	8.00	7.00	6.50	7.30	7.30	7.20	NA
DCBB	3.93	3.61	3.88	4.02	4.18	3.83	3.69	3.48

Source: MOFSL, Company

**Exhibit 23: NII growth for PVBs and PSBs is expected to moderate in 4QFY24 vs 4QFY23 and 3QFY24; however, it is expected to stay healthy in FY25E**

NII growth (YoY)	4QFY23	3QFY24	4QFY24E	FY24E	FY25E	FY26E
HDFCB	23.7	23.9	29.3	26.3	21.3	19.7
IDFCB	34.7	30.5	23.0	29.8	21.0	20.9
FB	25.2	8.5	15.9	14.9	22.0	17.4
IIB	17.2	17.8	15.7	17.3	18.3	17.6
AUBANK	29.5	14.9	14.7	17.8	29.3	25.3
UNBK	21.9	6.3	15.3	11.8	8.4	11.7
RBK	19.9	21.1	18.9	21.2	17.4	18.6
AXSB	33.1	9.4	9.5	15.6	12.8	16.3
BANDHAN	-2.7	24.0	13.4	11.4	18.1	17.1
CBK	23.0	9.5	11.6	16.4	8.6	12.7
INBK	29.5	5.7	9.5	15.1	8.1	11.3
DCBB	27.7	6.3	1.6	11.5	15.1	18.9
KMB	35.0	15.9	8.8	19.4	13.3	17.2
ICICIB	40.2	13.4	8.7	19.8	13.6	16.6
PNB	30.0	12.1	10.4	16.6	7.3	8.9
SBIN	29.5	4.6	4.9	10.9	11.9	14.4
BoB	33.8	2.6	-1.2	7.1	12.8	14.2

Source: MOFSL, Company

- **Margin compression to continue – albeit at a moderate pace:** With repo rates remaining unchanged since Feb-23, lending rates have remained broadly stable; however, funding cost has been gradually rising due to the ongoing liability re-pricing. NIMs for the banking sector have thus been witnessing pressure barring select banks. We expect NIM compression to continue at a more moderate pace over the near term with PSUs continuing to show relative resilience as they benefit from a gradual re-pricing of the MCLR-linked portfolio. Additionally, certain mid-sized banks have aggressively increased SA rates and offered attractive TD sweep products, which will keep cost of funds elevated over the next few quarters.
- **Banks with a higher mix of retail deposits and fixed rate loans well placed:** We remain watchful on margins in FY25 as a potential shift in the interest rate cycle could directly influence lending yields. Banks with a higher proportion of fixed loan books, such as AU and IIB, are expected to fare better and may report NIM expansion over 2HFY25. Although there has been some recent moderation in bond yields, following the interim budget, funding pressure persists for the banking sector. Thus, banks with a higher mix of retail deposits are better positioned to navigate the current tight liquidity environment. **Top picks: ICICI, IIB & SBI.**

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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