Financials

WALR on fresh loans declines in May'24; WATDR inches up

CD ratio stands elevated; estimate NIMs to exhibit a slight downside bias

- **The Weighted Average Lending Rate (WALR) on fresh loans declined 16bp MoM in May'24, following a spike of 18bp MoM in Apr'24. The PSU banks reported a decline of 25bp MoM (up 17bp MoM in Apr'24), while Private banks maintained a stable WALR on fresh loans on a MoM basis. The systemic WALR on outstanding loans, however, remained flat MoM.**
- **The Weighted Average Term Deposit Rate (WATDR) for the system has increased 1bp MoM to 6.92% (a 2bp MoM rise for PSUs and PVBs). More importantly, PVBs witnessed an increase of 7bp during Apr-May'24 vs. PSB's 3bp increase. This rise can be attributed to the banks raising their rates in short-term maturities amid tight liquidity conditions.**
- **Credit growth for the system remains robust at 15.6% YoY, and we estimate credit growth to sustain at a healthy 14% CAGR over FY25-26. However, liability mobilization to sustain this growth remains critical, as systemic LDR remains elevated at 79.9%.**
- **With repo rates remaining unchanged since Feb'23, lending rates have remained broadly stable; however, funding costs have been gradually rising due to ongoing liability re-pricing and the recent rise in deposit rates by select banks.**
- **We thus expect the banking system's margins to exhibit a slight downside bias in the near term, while the potential turn in the rate cycle during 2HFY25 will further compress lending yields. Our top picks are: ICICI, HDFCB, SBI, and FB.**

Month	PSU Banks		
	WALR – O/s Loans	WALR - Fresh Loans	WATDR
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	9.21	8.63	6.75
Oct-23	9.25	8.67	6.80
Nov-23	9.25	8.60	6.85
Dec-23	9.25	8.51	6.88
Jan-24	9.25	8.63	6.91
Feb-24	9.25	8.66	6.94
Mar-24	9.24	8.68	6.96
Apr-24	9.22	8.85	6.97
May-24	9.21	8.60	6.99

WALR on fresh loans declines 16bp MoM led by PSU banks

- The WALR on fresh loans declined 16bp MoM in May'24, with PSUs witnessing a decline of 25bp, while PVBs saw a flattish trend. During Apr-May'24, WALR rose 2bp, while it decreased 8bp in PSU banks and 16bp in PVBs. The 2bp increase in systemic WALR is attributed to the 36bp increase for foreign banks over the same period. This indicates that rising competition among banks would deliver healthy loan growth and a pick-up in corporate loan growth.
- **The WALR on outstanding loans nevertheless stood flat MoM** to 9.81%, with PSU banks experiencing a 1bp MoM decline and PVBs WALR remaining flat.
- The one-year MCLR rate for PVBs increased 20-75bp YoY, with KVB and IDFCFB seeing the maximum increase of 70-75bp, while PSU banks experienced an MCLR expansion of 15-45bp.

Month	Private Banks		
	WALR - O/s Loans	WALR - Fresh Loans	WATDR
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	10.59	10.20	6.83
Jan-24	10.63	10.23	6.82
Feb-24	10.61	10.08	6.82
Mar-24	10.64	10.29	6.83
Apr-24	10.63	10.13	6.88
May-24	10.63	10.13	6.90

WATDR rises 1bp MoM in May'24; amid a rise in short-term maturity TD rates

- The WATDR rose 1bp MoM in May'24, led by 2bp MoM increase for both PVBs and PSBs. This increase is due to the banks raising their rates on short-term maturity TDs amid tight liquidity conditions.
- PVBs witnessed a WATDR increase of 7bp during Apr-May'24 vs. a 3bp rise for PSBs during the same period. With systemic liquidity running in deficit and competition for deposits remaining intense, we expect TD rates to remain elevated in the near term. However, banks' focus will remain on achieving a well-balanced combination of LCR, CASA, and retail deposits.

Gap between credit and deposit growth at 3.5% (three-year avg. at 2.5%)

- With intense mobilization efforts and assertive increases in deposit rates, there has been a healthy traction in liability growth for the banking system. Systemic deposit growth, thus, stood at 12.1% YoY (two-year avg. of 11.2%).

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- The gap between credit and deposit growth, however, still remains elevated at 3.5%, and the banks will need to mobilize higher deposits to sustain the growth momentum. Select banks have recently revised short-term TD rates to match up their ALM requirements, while a few have chosen either to strategically shift toward bulk TDs or to redirect their funding emphasis towards higher Certificate of Deposits (CDs).
- Banks have limited flexibility, with the exception of PSUs, to utilize additional liquidity on their balance sheets in order to sustain healthy margins.

CD ratio remains elevated; incremental CD ratio remains a key monitorable

- Credit growth for the system remains robust at 15.6% YoY, and we estimate this growth to sustain at ~14% CAGR over FY25-26.
- The systemic LDR remains at elevated levels of 79.9% (77.9% adjusted for the HDFC merger), with most of the banks reporting an increase over the past year.
- In FY24, incremental LDR for banks under our coverage stood at 60-120%, with Bandhan being the lowest at 60.4% and PNB the highest at 117% (ex-HDFC Bank, which had a higher CD ratio due to the merger). The LCR ratio, however, remains at a comfortable level, with most large PVBs being in the range of 113-130%.
- Among PVBs, an increase in CD ratio was observed for AXSB, IIB, and FB, while ICICIBC, KMB, Bandhan, IDFCB, and RBK reported an improvement in CD ratio over FY24.

Margin bias remains downward in the near term

- With repo rates being unchanged since Feb-23, lending rates have remained broadly stable; however, funding costs have been gradually rising due to ongoing liability re-pricing and the recent increase in TD rates by select banks.
- NIMs for the banking sector have thus been under pressure. Further, given the tight rate environment and liquidity conditions, we estimate NIMs to exhibit slight downward pressure in the near term.
- Consequently, aggregate NII growth rates for PVBs/PSUs are likely to moderate to average 13%/9% YoY by 1QFY25E vs. 29%/24% YoY in 1QFY24.

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

- We keenly monitor the FY25 margins, as a potential turn in the interest rate cycle would adversely impact lending yields. Banks with a higher proportion of fixed loan books, such as AU, IIB, and EQUITAS, are expected to fare better and may report NIM expansion over late-FY25.
- Although there has been some recent moderation in bond yields owing to bond inclusion, 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.
- **Our top picks are: ICICI, HDFCB, SBI, and FB.**

Exhibit 1: WALR on outstanding loans: Decreased for PSU banks compared to flattish trend for Private banks

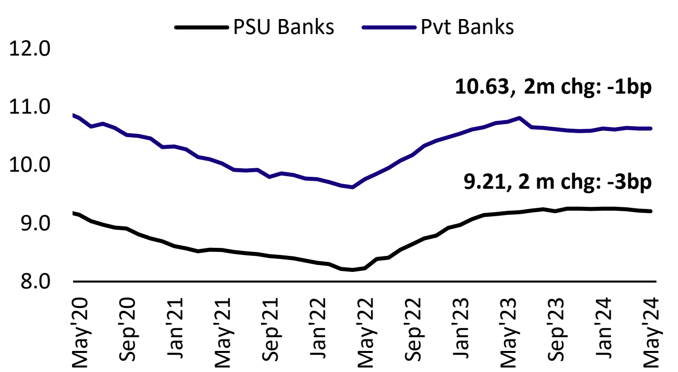


Exhibit 2: WALR on fresh loans: Declined in May for PSU banks compared to flattish trend for Private banks

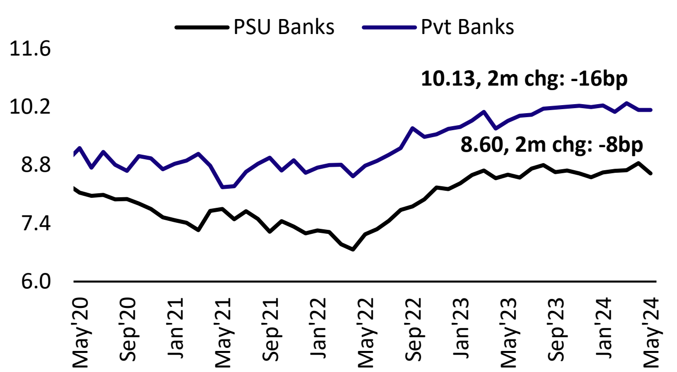
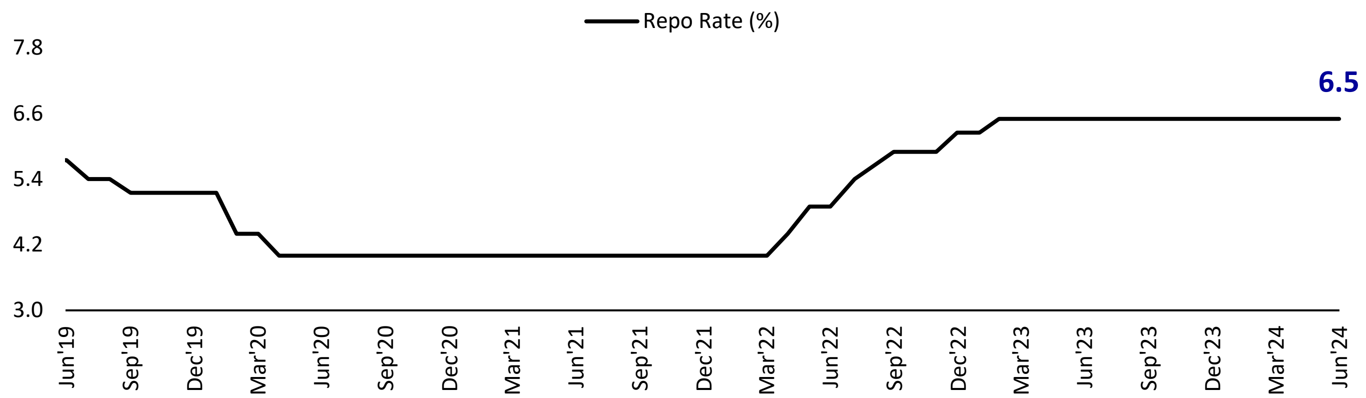
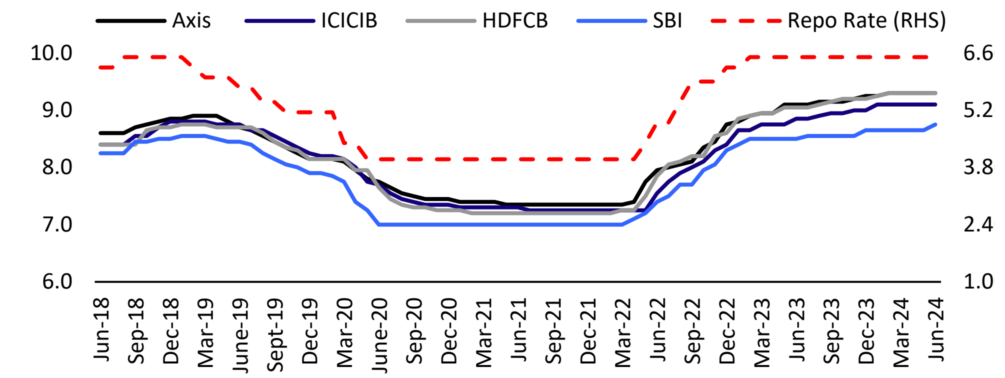


Exhibit 3: Repo rate remains unchanged at 6.5% since Feb'23



HDFCB has seen the sharpest rise (205bp) in MCLR from Apr-22 to Jun-24

Exhibit 4: MCLR for large banks rose 165-205bp from Apr-22 to Jun-24, while repo rate increased 250bp during the same period



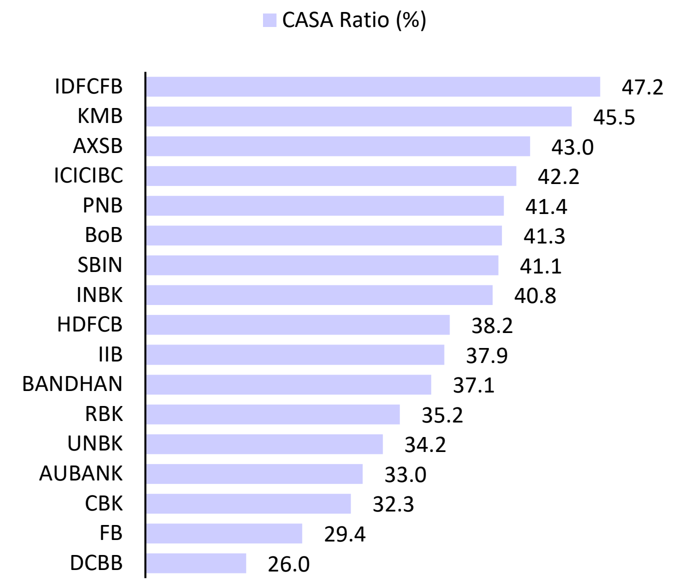
Source: RBI, MOFSL

Exhibit 5: One-year MCLR rate for PVBs rose 25-30bp YoY, while that for PSBs rose 25-40bp YoY

	2022				2023				2024			YoY Change
	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jun	(in %)
Kotak	7.25	7.40	8.05	8.45	8.95	9.10	9.25	9.35	9.45	9.45	9.50	0.30
IIB	8.45	8.55	9.10	9.55	9.95	10.20	10.25	10.30	10.35	10.40	10.45	0.25
RBL	8.35	8.60	9.15	9.70	9.95	10.20	10.10	10.20	10.30	10.37	10.73	-0.06
Federal	8.10	8.00	8.30	8.70	9.20	9.30	9.45	9.50	9.70	10.55	10.05	-0.05
BOB	7.30	7.35	7.65	7.95	8.50	8.60	8.65	8.70	8.80	9.70	9.70	0.40
CBK	7.25	7.25	7.50	7.90	8.35	8.65	8.65	8.70	8.80	8.85	8.85	0.20
INBK	7.30	7.30	7.55	7.85	8.30	8.60	8.65	8.70	8.80	8.90	8.90	0.25
PNB	7.25	7.25	7.55	7.75	8.30	8.50	8.60	8.65	8.70	8.85	8.90	0.25
UNBK	7.25	7.25	7.55	7.90	8.40	8.65	8.65	8.70	8.80	8.80	8.85	0.25
SBI	7.00	7.10	7.50	7.95	8.40	8.50	8.55	8.55	8.65	8.90	8.90	0.25

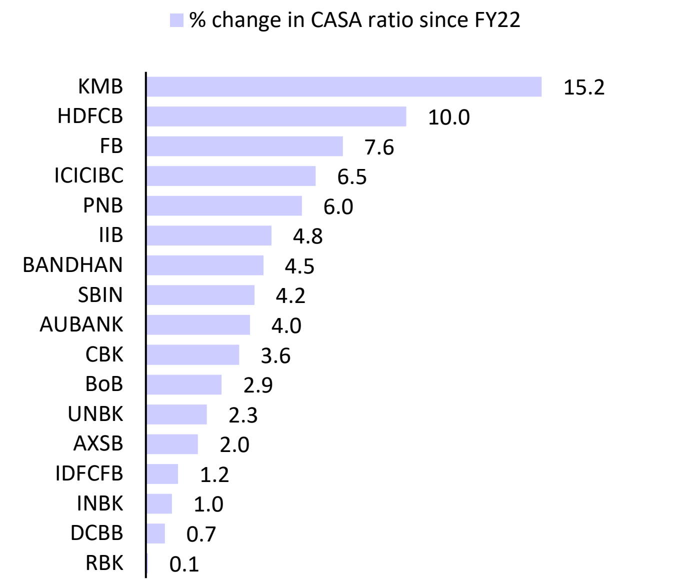
Source: RBI, MOFSL

Exhibit 6: CASA ratio continues to moderate for most banks



Source: MOFSL, Company

Exhibit 7: Decline in CASA ratio for banks since FY22



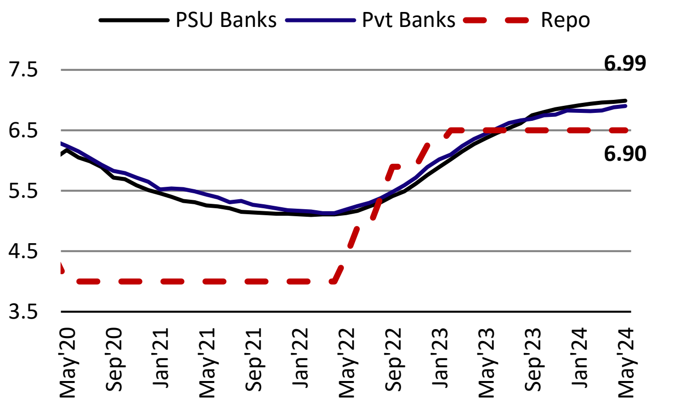
Note: Decline in HDFCB is attributed partly to merger
Source: MOFSL, Company

Exhibit 8: PSUs have a sizeable mix of MCLR-linked loans as of 4QFY24 (%)

Loans Mix (%) - 4QFY24	MCLR	EBLR	Repo Linked	Others (Fixed, base rate, foreign currency-floating)
AXSB	13	4	50	33
ICICIBC	17	2	49	32
RBL	7	35	58	
FB	11	52	37	
CBK	52	38		10
INBK	60		34	6
PNB	35	10	40	15
SBIN	36	27		37

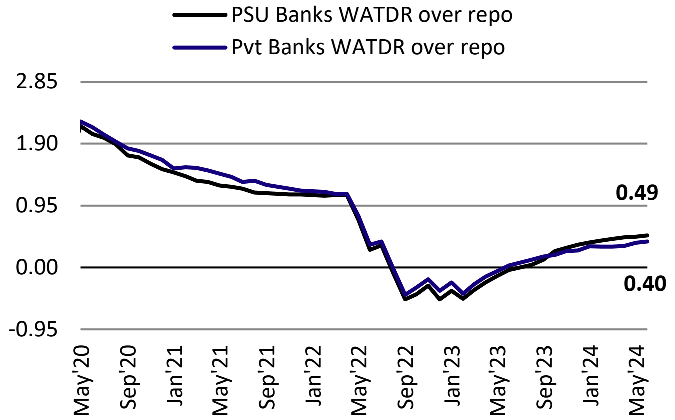
Source: MOFSL, Company

Exhibit 9: WATDR for PSUs stood at 6.99%; while the same for Private banks was at 6.90%



Source: MOFSL, RBI

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



Source: MOFSL, RBI

AU, IDFCB, RBK, Bandhan, 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 INR1m and above)
RBK	3.75% to 7.75% (max rate for deposits between INR0.75b to 1.25b)
IDFCFB	3% to 7.25% (max rate for deposits between INR1m-500m)
BANDHAN	3.0% to 8.0% (max rate for deposits above INR1b)
AUBANK	3.5% to 7.25% (max rate for deposits between INR10m to 50m)
BOB	2.75%/3%(>INR500m)/3.05%(>INR2b)/4.5%(>INR10b)
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

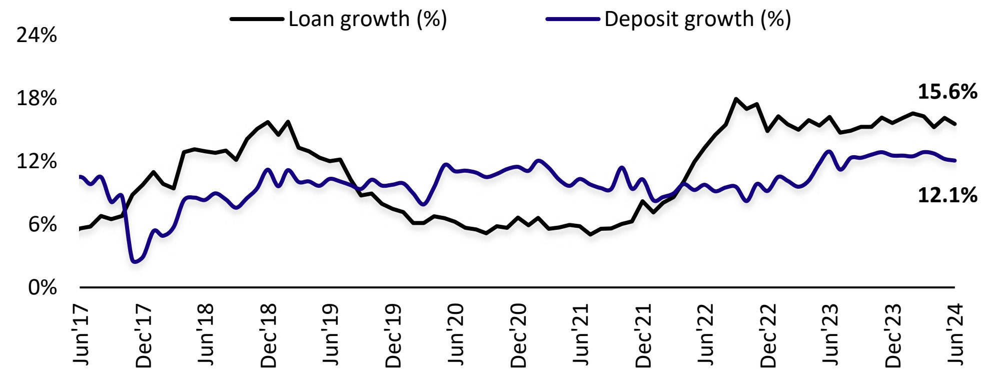
Exhibit 12: Peak term deposit rates across different buckets for major banks

(%)	7-14 days	0-3 months	3-9 months	9-15 months	15-36 months
HDFCB	3.0	4.5	5.75	6.6	7.25
AXSB	3.0	4.5	5.75	7.0	7.2
ICICIBC	3.0	4.5	5.75	6.7	7.2
KMB	2.75	3.5	7.0	7.4	7.4
IIB	3.5	4.75	6.1	8.0	8.0
RBK	3.5	4.5	6.05	7.5	8.0
IDFCFB	3.0	4.5	5.75	7.5	7.9
BANDHAN	3.0	4.5	4.5	7.25	7.25
AUBANK	3.75	5.5	7.25	7.85	8.0
SBIN	3.5	5.5	6.5	6.8	7.0
BOB	4.25	6.0	6.15	6.85	7.25
PNB	3.5	4.5	6.0	7.25	7.0

Source: MOFSL, Company

Credit growth stood at 0.8% during 5th Apr-14th Jun'24, while the deposit growth stood at -0.4% over the same period

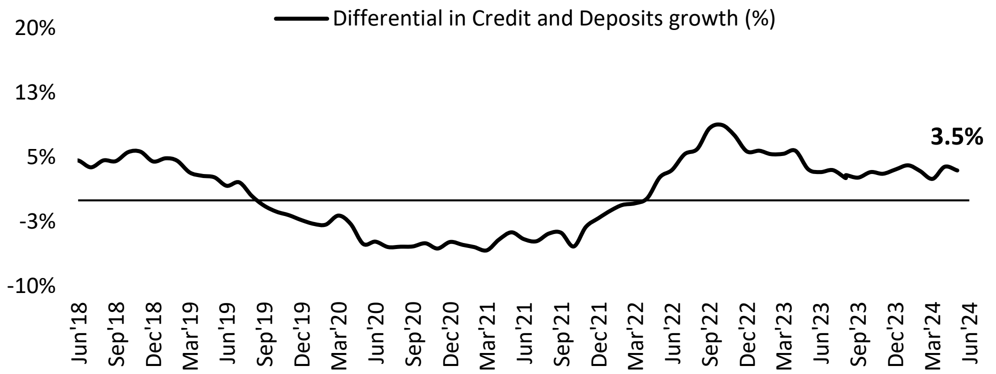
Exhibit 13: Deposit growth stood at 12.1% YoY, while credit growth was ~15.6% YoY



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

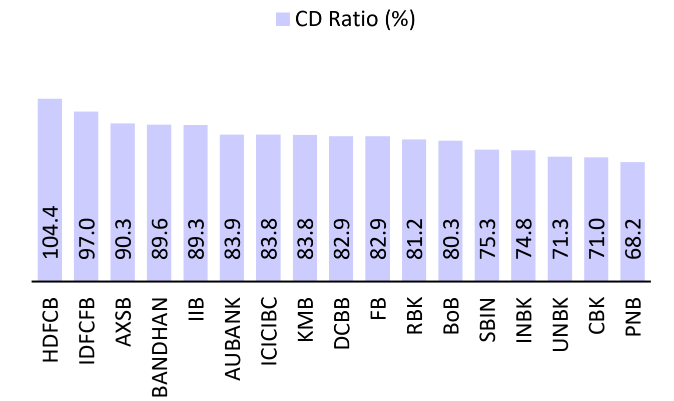
The gap between credit and deposit growth decreased from the peak of Oct-Nov'22

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



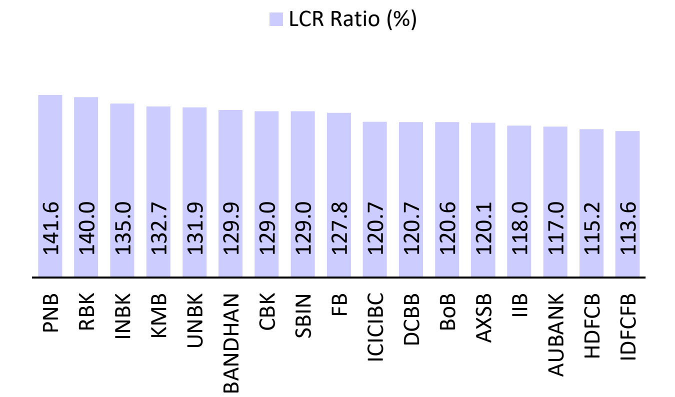
Source: MOFSL, RBI

Exhibit 15: CD ratio remained high for PVBs; PSUs had a lower CD ratio (as of 4QFY24)



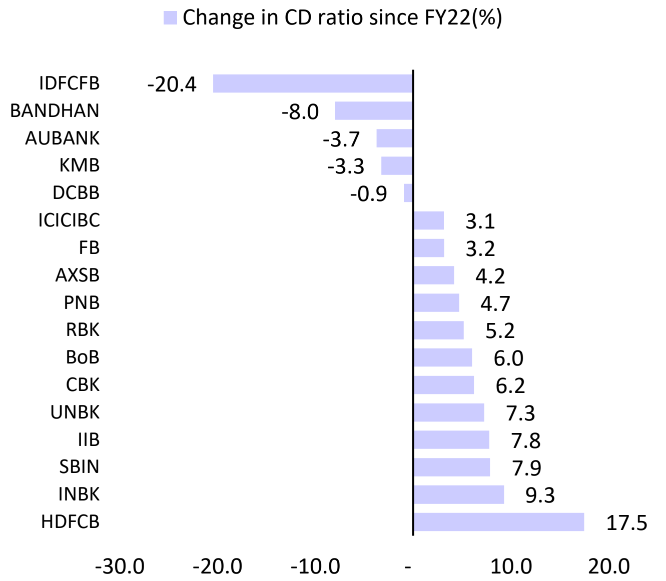
Higher CD ratio for HDFCB amid merger, Source: MOFSL, Company

Exhibit 16: LCR ratio was at a healthy level for most PSBs; PVBs' ratio was comfortable in the range of 113-130%



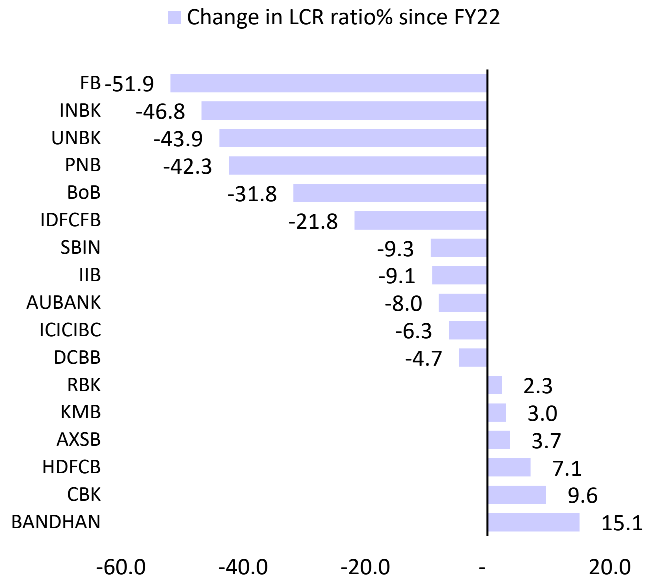
Source: MOFSL, Company

Exhibit 17: CD ratio increased for most banks since FY22 – the increase was more for PSBs than for PVBs



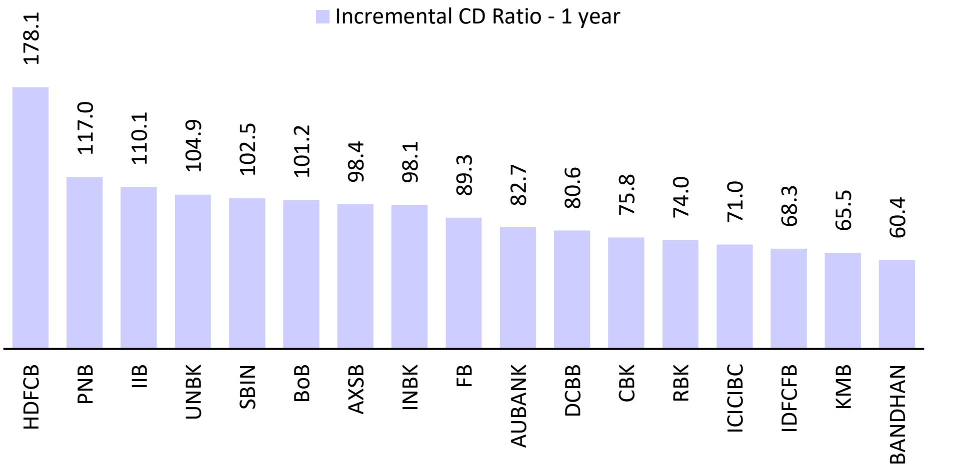
Higher CD ratio for HDFCB amid merger, Source: MOFSL, Company

Exhibit 18: Change in LCR ratio since FY22 – most banks have deployed excess liquidity on their balance sheets



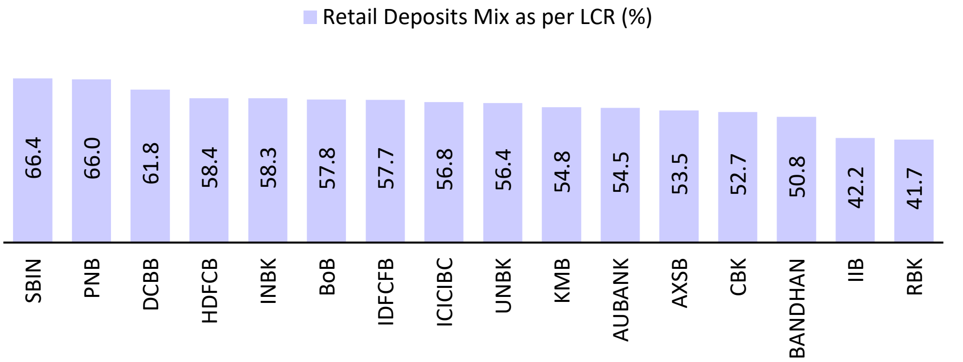
Source: MOFSL, Company

Exhibit 19: Most of the PSU banks have shown an incremental CD ratio of >100%



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

Exhibit 20: Retail deposits across banks as per LCR



Source: MOFSL, Company

Exhibit 21: Yields and cost ratios for key banks – 4QFY24

%	YoF			YoA			CoF			CoD		
	4QFY24	YoY (bp)	QoQ (bp)	4QFY24	YoY (bp)	QoQ (bp)	4QFY24	YoY (bp)	QoQ (bp)	4QFY24	YoY (bp)	QoQ (bp)
AXSB*	9.4	53.7	-11.0	10.3	88.7	-24.1	5.4	68.0	8.0	6.4	87.4	-25.7
HDFCB**	10.8	162.2	-17.5	11.4	178.3	-10.4	4.9	120.0	0.0	NA	NA	NA
ICICIBC	8.7	14.0	3.0	9.9	13.0	9.0	5.1	76.0	9.0	4.8	84.0	10.0
IDFCFB**	13.6	6.8	-64.0	16.0	59.0	-34.1	6.6	34.2	-30.6	NA	NA	NA
IIB	9.9	65.0	10.0	12.7	64.0	21.0	5.6	67.0	13.0	6.5	67.0	4.0
KMB**	10.1	45.9	-4.7	10.9	36.0	-10.1	5.0	89.1	-24.2	NA	NA	NA
RBK***	12.3	167.8	-9.9	14.1	58.0	12.0	6.5	66.0	6.0	6.4	66.0	8.0
AUBANK***	13.2	-20.0	0.0	13.6	-79.1	-24.6	7.0	71.0	10.0	NA	NA	NA

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

Exhibit 22: NIM progression over the past two years

NIM (%)	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
AXSB	3.49	3.60	3.96	4.26	4.22	4.10	4.11	4.01	4.06
HDFCB	4.00	4.00	4.10	4.10	4.10	4.10	3.40	3.40	3.44
ICICIBC	4.00	4.01	4.31	4.65	4.90	4.78	4.53	4.43	4.40
IDFCFB	6.27	5.89	5.98	6.36	6.41	6.33	6.32	6.42	6.35
IIB	4.20	4.21	4.24	4.27	4.28	4.29	4.29	4.29	4.26
KMB	4.78	4.92	5.15	5.47	5.75	5.57	5.22	5.22	5.28
FB	3.16	3.22	3.30	3.49	3.31	3.15	3.16	3.19	3.21
BoB	3.08	3.02	3.33	3.37	3.53	3.27	3.07	3.10	3.27
CBK	2.93	2.78	2.86	3.05	3.07	3.05	3.00	3.03	3.07
PNB	2.76	2.79	3.00	3.16	3.24	3.08	3.11	3.15	3.10
SBIN	3.12	3.02	3.32	3.50	3.60	3.33	3.29	3.22	3.30
UNBK	2.75	3.00	3.15	3.21	2.98	3.13	3.18	3.08	3.09
INBK	2.87	3.10	3.20	3.74	3.59	3.61	3.52	3.49	3.52
AU SFB	6.30	5.90	6.20	6.20	6.10	5.72	5.50	5.50	5.10
RBK	5.04	5.04	5.02	5.27	5.62	5.53	5.54	5.52	5.45
BANDHAN	8.70	8.00	7.00	6.50	7.30	7.30	7.20	NA	7.60
DCBB	3.93	3.61	3.88	4.02	4.18	3.83	3.69	3.48	3.62

Source: MOFSL, Company

Exhibit 23: NII growth for PVBs and PSBs is expected to moderate further from FY24 levels; however, the same is likely to stay healthy

NII growth (YoY)	4QFY23	3QFY24	4QFY24	FY24	FY25E	FY26E
HDFCB	23.7	23.9	24.5	25.0	16.0	17.2
IDFCFB	34.7	30.5	24.2	30.2	24.1	21.3
FB	25.2	8.5	15.0	14.7	18.0	19.5
IIB	17.2	17.8	15.1	17.2	15.9	20.5
AUBANK	29.5	14.9	10.2	16.5	63.7	28.0
UNBK	21.9	6.3	14.4	11.6	6.1	11.4
RBK	19.9	21.1	17.9	20.9	17.9	19.0
AXSB	33.1	9.4	11.5	16.2	11.5	14.9
BANDHAN	-2.7	21.4	16.0	11.5	16.4	15.4
CBK	23.0	9.5	11.2	16.3	8.1	12.5
INBK	29.5	5.7	9.2	15.1	11.2	12.3
DCBB	27.7	6.3	4.4	12.3	17.8	19.1
KMB	35.0	15.9	13.2	20.6	14.2	15.1
ICICIBC	40.2	13.4	8.1	19.6	13.2	16.6
PNB	30.0	12.1	9.1	16.2	5.6	10.0
SBIN	29.5	4.6	3.1	10.4	8.6	14.2
BoB	33.8	2.6	2.3	8.1	7.8	13.0

Source: MOFSL, Company

- **Margin bias remains downward in the near term:** With repo rates being unchanged since Feb-23, lending rates have remained broadly stable; however, funding costs have been gradually rising due to ongoing liability re-pricing and the recent increase in TD rates by select banks. NIMs for the banking sector have thus been under pressure. Further, given the tight rate environment and liquidity conditions, we estimate NIMs to exhibit slight downward pressure in the near term. Consequently, aggregate NII growth rates for PVBs/PSUs are likely to moderate to average 13%/9% YoY by 1QFY25E vs. 29%/24% YoY in 1QFY24.

- **Banks with a higher mix of retail deposits and fixed-rate loans well placed:** We keenly monitor the FY25 margins, as a potential turn in the interest rate cycle would adversely impact lending yields. Banks with a higher proportion of fixed loan books, such as AU, IIB, and EQUITAS, are expected to fare better and may report NIM expansion over late-FY25. Although there has been some recent moderation in bond yields owing to bond inclusion, 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. **Our top picks are: ICICI, HDFCB, SBI, and FB.**

NOTES

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

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