

Month	SCB's		WATDR
	WALR – O/s Loans	WALR - Fresh Loans	
Aug-23	9.82	9.47	6.60
Sep-23	9.81	9.38	6.70
Oct-23	9.82	9.50	6.76
Nov-23	9.81	9.41	6.79
Dec-23	9.81	9.32	6.83
Jan-24	9.83	9.43	6.85
Feb-24	9.81	9.36	6.86
Mar-24	9.83	9.37	6.88
Apr-24	9.81	9.55	6.91
May-24	9.86	9.45	6.92
Jun-24	9.89	9.32	6.91
Jul-24	9.89	9.40	6.92
Aug-24	9.89	9.41	6.93

Month	PSB Banks		WATDR
	WALR – O/s Loans	WALR - Fresh Loans	
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
Jun-24	9.21	8.46	7.00
Jul-24	9.20	8.55	7.03
Aug-24	9.20	8.60	7.05

Month	Private Banks		WATDR
	WALR - O/s Loans	WALR - Fresh Loans	
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
Jun-24	10.83	10.31	6.83
Jul-24	10.84	10.34	6.85
Aug-24	10.84	10.19	6.85

## WALR on O/S loans stable; NIMs to exhibit a slight contraction WATDR rises marginally

- The Weighted Average Lending Rate (WALR) on fresh loans remained flat MoM, increasing 1bp MoM in Aug'24 vs. 8bp rise in Jul'24. PSB banks reported an increase of 5bp MoM (up 9bp MoM in Jul'24), while private banks' WALR on fresh loans declined 15bp on an MoM basis. The systemic WALR on outstanding loans, however, remained flat MoM.
- The Weighted Average Term Deposit Rate (WATDR) for the system increased 1bp MoM to 6.93% (a 2bp MoM rise for PSBs, while flat for PVBs). Notably, PSBs witnessed a marginal increase of 5bp during Jul-Aug'24 vs. 2bp for PVBs. This increase indicates that PSBs remained competitive and raised deposits at higher rates amid tight liquidity conditions.
- The credit growth for the system declined but remained healthy at 14.6% YoY. We expect it to moderate to 12.5% in FY25, while the gap between the credit and deposit growth is likely to narrow down to <100bp over the year.
- 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 rise in deposit rates by select banks.
- We, thus, expect the banking system's margins to exhibit a slight contraction 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, FB, and AUBANK.

## WALR on fresh loans flat in Aug'24 amid the 15bp MoM decline for PVBs

- The WALR on fresh loans was flat MoM (up 1bp) in Aug'24, with PSBs witnessing an uptick of 5bp, while PVBs experienced a decline of 15bp post the rise of 18bp in Jun'24. During Jul-Aug'24, WALR rose 9bp, mainly led by PSBs at 14bp increase, while PVBs experienced a decline of 12bp during the same period. As of Aug'24, fresh rupee loan over repo premium stood at 3.69% for PVBs (3.84% in July) vs. 2.1% for PSBs (2.05% in July). This indicates that competition among banks remained intense, as they sought healthy growth while aiming to maintain margins.
- The WALR on outstanding loans stood flat MoM at 9.89%, with both PSBs and PVBs remaining flat in Aug'24 and July'24.
- The one-year MCLR for most of the PVBs increased 15-55bp YoY, with IDFCFB recording the maximum increase of 55bp and DCB experiencing a decline of 90bp YoY. Meanwhile, PSBs experienced an MCLR expansion of 25-40bp.

## WATDR rises 1bp MoM in Aug'24 as the competitive environment for deposits persists

- The WATDR rose 1bp MoM in Aug'24, led by 2bp MoM increase for PSBs, while remaining flat for PVBs. This increase indicates that PSBs continued to remain competitive and raise deposits at higher rates amid tight liquidity conditions.
- PVBs witnessed a WATDR increase of 2bp during Jul-Aug'24 vs. a 5bp 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 despite the anticipated rate cuts. However, banks' focus will remain on achieving a well-balanced combination of LCR, CASA, and retail deposits.

Nitin Aggarwal - Research Analyst (Nitin.Aggarwal@MotilalOswal.com)

Research Analyst: Dixit Sankharva (Dixit.sankharva@motilaloswal.com) | Disha Singhal (Disha.Singhal@MotilalOswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

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### Gap between credit and deposit growth reduced to 3% (3 yr avg. at 3.2%)

- While intense deposit mobilization continues, deposits have sustained decent growth at 11.6% YoY, indicating continued traction in liabilities for the banking system.
- Credit expansion was healthy over the past 2 years; however, the slower deposits growth has compelled banks to slow down on the credit front, resulting the gap between credit and deposits growth to reduce to 3%. Banks were observed increasing deposit mobilization efforts over the past few months by raising short-term TD rates to match the ALM requirements, while some banks chose to either opt for bulk TDs or to redirect their emphasis on Certificate of Deposits (CDs)
- Currently, banks except for PSBs have limited flexibility to utilize additional liquidity on their balance sheets in order to sustain healthy margins.

### CD ratio elevated; incremental CD ratio remains high for PSBs

- The credit growth for the system moderated to 14.6% YoY and we expect the same to moderate to 12.5% in FY25, with the gap between the credit and deposit growth narrowing down to <100bp over the year.
- Systemic LDR moderated to 79.1% while still remaining elevated, with most of the banks reporting an increase over the past year.
- Incremental LDR for banks under our coverage stood at 67-120%, with Bandhan being the lowest at 67% and PNB the highest at 120.5% (except for HDFC Bank, which had a higher CD ratio due to the merger). The LCR ratio, however, remained at a comfortable level, with most large PVBs falling in the range of 117-137%.

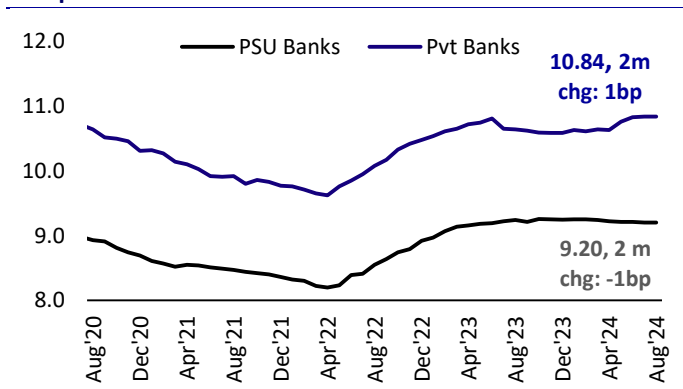
### Margin compression to continue, albeit at a slower pace

- With repo rates remaining unchanged since February 2023, lending rates have largely stayed stable; however, funding costs have gradually increased due to continuous liability re-pricing and hikes in term deposit rates by select banks.
- As a result, NIMs for the banking sector have been under pressure. Additionally, considering the tight interest rate environment and liquidity conditions, we expect NIMs to experience slight contraction in the near term.
- Consequently, aggregate NII growth rates for PVBs/PSBs are likely to moderate to an average of 11.5%/6% YoY by 2QFY25E vs. 13%/6.5% YoY in 1QFY24.

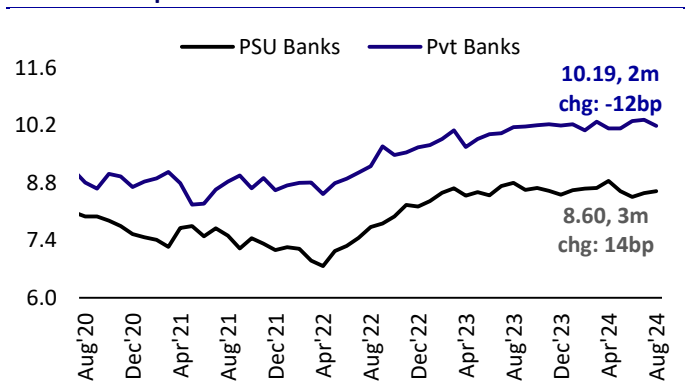
### Our View: Maintain preference for ICICIBC, HDFCB, FB, and AUBANK

- We keenly monitor the FY25 margins trajectory, 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 report NIM expansion in FY26.
- We remain vigilant about margins and the delinquency cycle in unsecured loans, and expect the credit cost to inch up for select banks.
- For our coverage universe, we anticipate banks to achieve a decent earnings growth of ~14% in both FY25 and FY26. For PVBs, we expect YoY growth of 10% in FY25 and 16% in FY26. For PSBs, we estimate growth of 18% in FY25 and 12% in FY26.
- **Our top picks are: ICICI, HDFCB, SBI, FB, and AUBANK.**

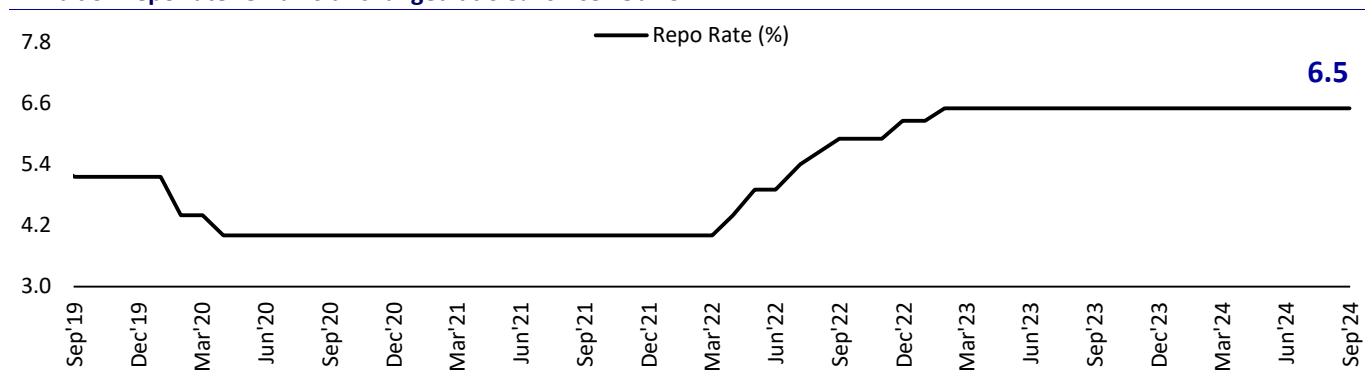
**Exhibit 1: WALR on outstanding loans: flat for both private and public banks**



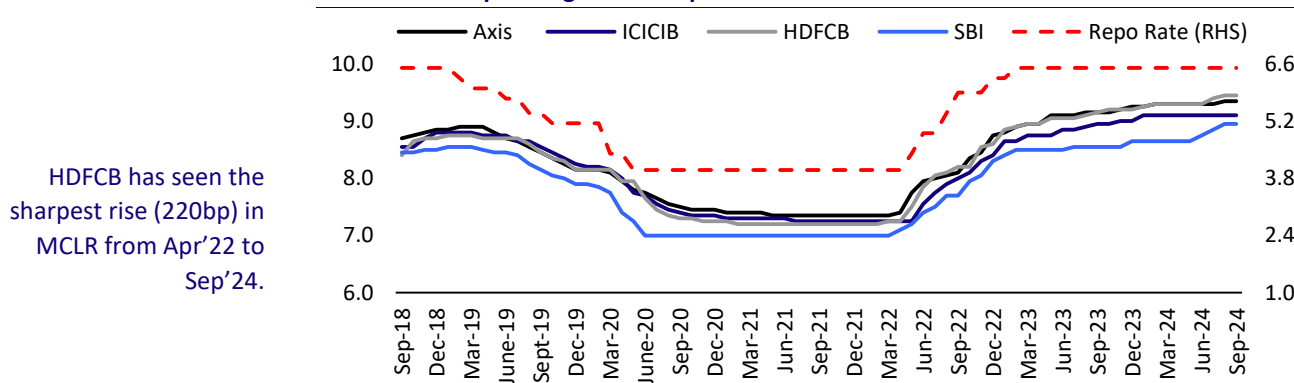
**Exhibit 2: WALR on fresh loans: declined in Aug for private banks but improved for PSB banks**



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



**Exhibit 4: MCLR for large banks rose 185-220bp from Apr-22 to Sep-24, while repo rate increased 250bp during the same period**



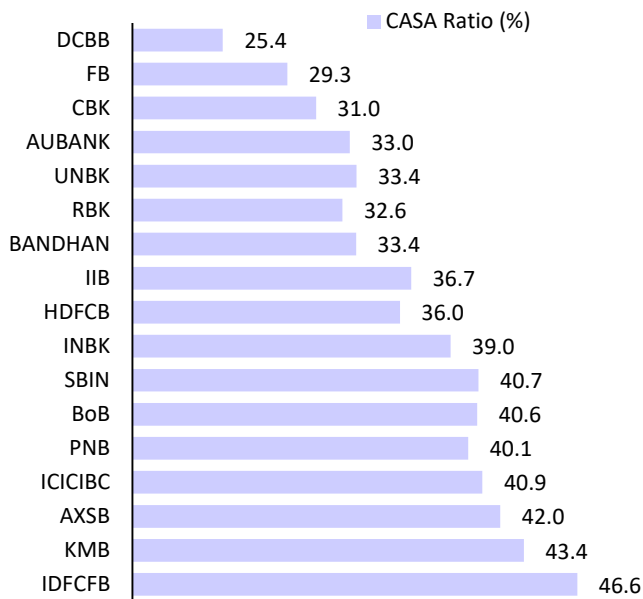
Source: RBI, MOFSL

**Exhibit 5: One-year MCLR rate for PVBs rose 15-55bp YoY while that for PSBs rose 25-40bp YoY**

	2022				2023				2024				YoY Change (in %)
	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Sep	
Kotak	7.25	7.40	8.05	8.45	8.95	9.10	9.25	9.35	9.45	9.45	9.50	9.55	0.25
IIB	8.45	8.55	9.10	9.55	9.95	10.20	10.25	10.30	10.35	10.40	10.45	10.55	0.30
RBL	8.35	8.60	9.15	9.70	9.95	10.20	10.10	10.20	10.30	10.37	10.30	10.40	0.25
Federal	8.10	8.00	8.30	8.70	9.20	9.30	9.45	9.50	9.70	10.55	9.70	9.80	0.40
BOB	7.30	7.35	7.65	7.95	8.50	8.60	8.65	8.70	8.80	9.70	8.90	8.95	0.30
CBK	7.25	7.25	7.50	7.90	8.35	8.65	8.65	8.70	8.80	8.85	8.95	9.00	0.30
INBK	7.30	7.30	7.55	7.85	8.30	8.60	8.65	8.70	8.80	8.90	8.95	9.00	0.35
PNB	7.25	7.25	7.55	7.75	8.30	8.50	8.60	8.65	8.70	8.85	8.85	8.90	0.30
UNBK	7.25	7.25	7.55	7.90	8.40	8.65	8.65	8.70	8.80	8.80	8.90	8.95	0.30
SBI	7.00	7.10	7.50	7.95	8.40	8.50	8.55	8.55	8.65	8.90	8.85	8.95	0.40

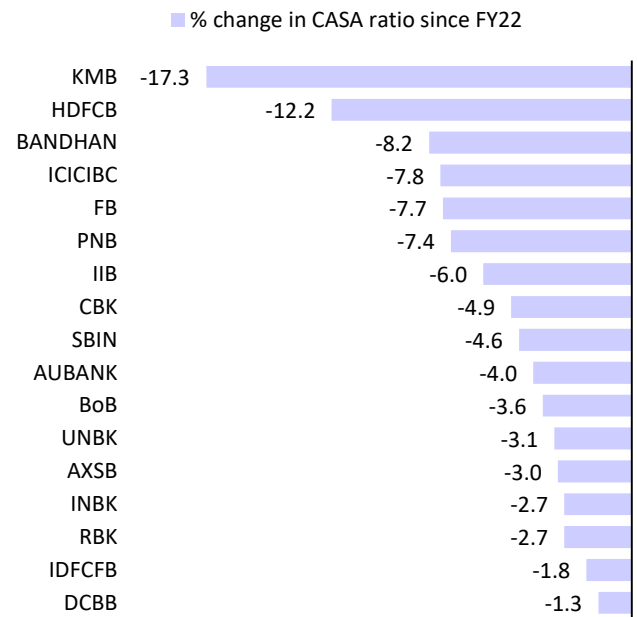
Source: RBI, MOFSL

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



Source: MOFSL, Company

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



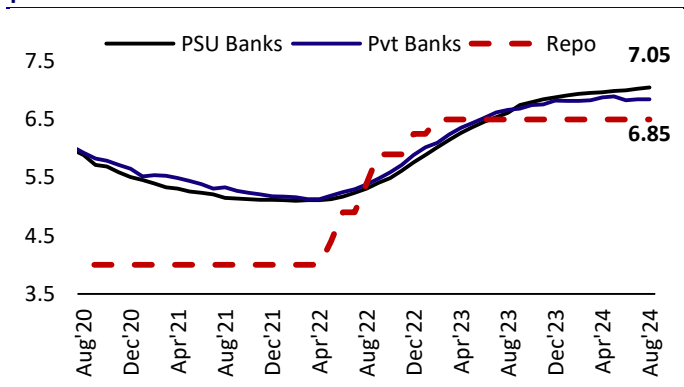
Note: Decline in HDFCB is attributed partly to the merger;  
Source: MOFSL, Company

**Exhibit 8: PSBs had a sizeable mix of MCLR-linked loans as of 1QFY25 (%)**

Loans Mix (%) - 1QFY25	MCLR	EBLR	Repo Linked	Others (Fixed, base rate, foreign currency-floating)
AXSB	13	4	50	33
ICICIBC	17	2	50	31
RBL	7	35		58
FB	11	52		37
CBK	51	38		10
INBK	60		34	6
PNB	33	10	40	17
SBIN	36	27		37

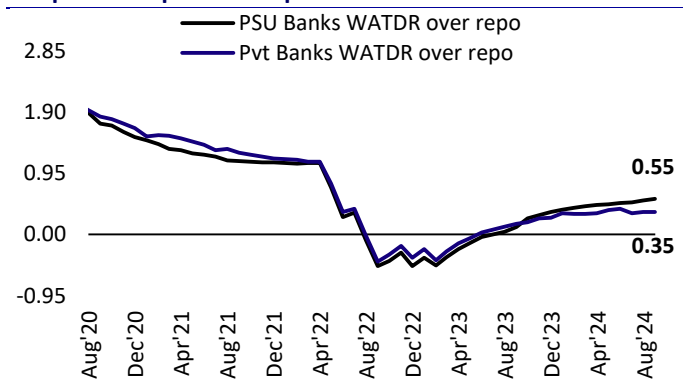
Source: MOFSL, Company

**Exhibit 9: WATDR for PSBs stood at 7.05% while that for private banks was 6.85%**



Source: MOFSL, RBI

**Exhibit 10: WATDR for both private and PSBs was higher at 55bp and 35bp vs. 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	3.50% to 7.75% (max rate for deposits between INR0.75b to 1.25b)
IDFCFB	3% to 7.25% (max rate for deposits between INR0.5m-500m)
BANDHAN	3.0% to 8.0% (max rate for deposits above INR0.5b)
AUBANK	3.0% to 7.25% (max rate for deposits between INR10m to 50m)
BOB	2.75%/4.5% (max rate for deposits for INR10b and above)
PNB	2.7%/3.0% (max rate for deposits for INR1b and above)
SBIN	2.7%/3% (>INR100m)
DCBB	1.75% to 8.0% (max rate for deposits between INR10m to 20m)

Source: MOFSL, Company

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

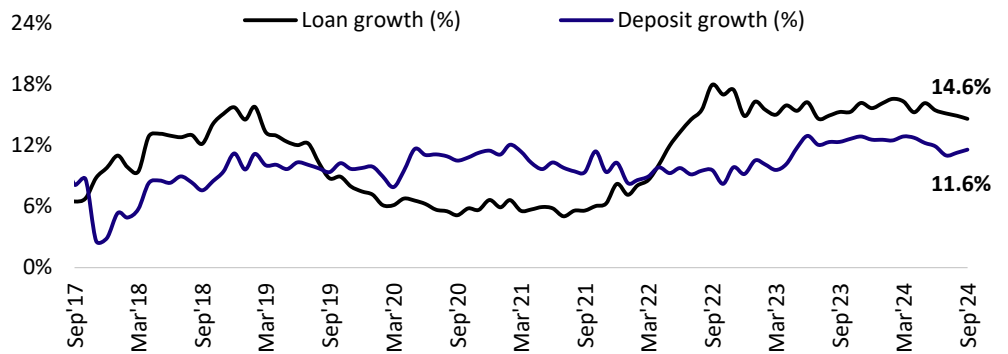
**Exhibit 12: Peak term deposit rates across different buckets for major banks**

(%)	7-14 days	0-3 months	3-9 months	9-15 months	15-36 months
<b>Large pvt banks</b>					
HDFCB	3.00	4.50	5.75	6.60	7.35
AXSB	3.00	4.50	5.75	6.70	7.25
ICICIBC	3.00	4.50	5.75	6.70	7.25
KMB	2.75	3.50	7.00	7.40	7.40
IIB	3.50	4.75	6.10	7.75	7.99
<b>Mid-size pvt banks</b>					
RBK	3.50	4.50	6.05	7.50	8.10
IDFCFB	3.00	4.50	5.75	7.75	7.00
BANDHAN	3.00	4.50	4.50	8.05	8.00
Federal	3.00	4.75	6.50	7.35	7.40
<b>Small Finance Banks</b>					
AUBANK	3.75	5.50	7.25	7.85	8.00
EQUITASB	3.50	4.50	6.25	8.50	8.25

Source: MOFSL, Company

**Exhibit 13: Deposit growth stood at 11.6% YoY while credit growth was ~14.6% YoY**

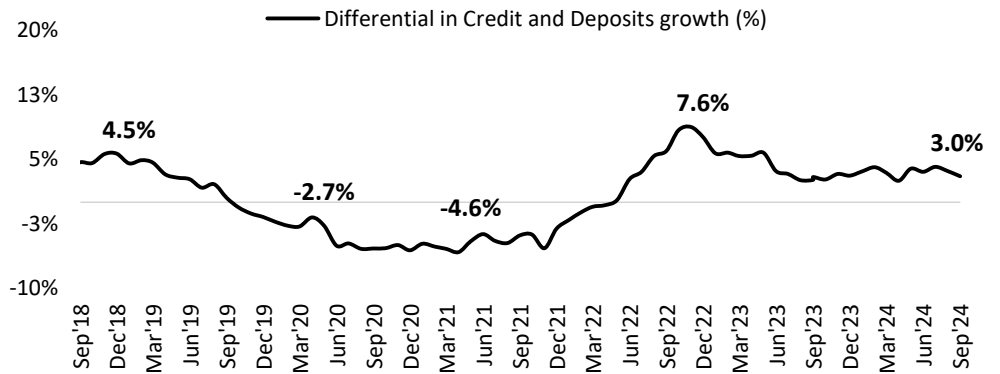
Credit growth stood at 3.0% during 5<sup>th</sup> Apr-6<sup>th</sup> Sep'24, while deposit growth stood at 2.8% over the same period.



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

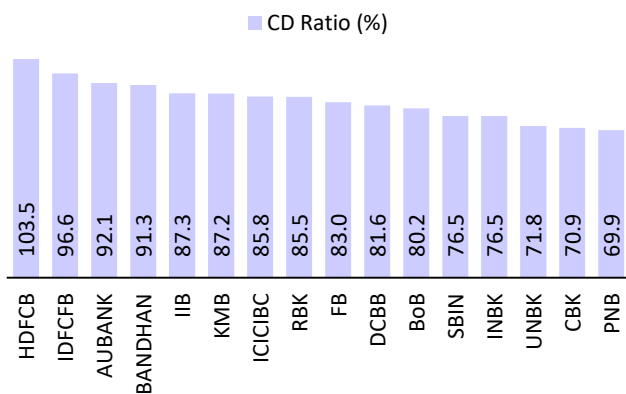
**Exhibit 14: Gap between loan and deposit growth moderated to 3.0%**

The gap between the credit and deposit growth decreased to 3% from the peak of 7.6% during Oct-Nov'22.



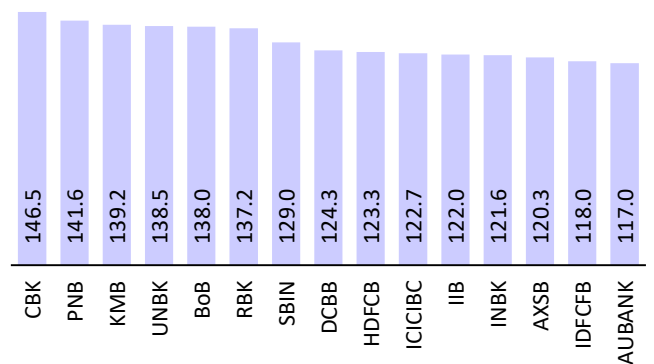
Source: MOFSL, RBI

**Exhibit 15: CD ratio remained high for PVBs; PSBs had a lower CD ratio (as of 1QFY25)**



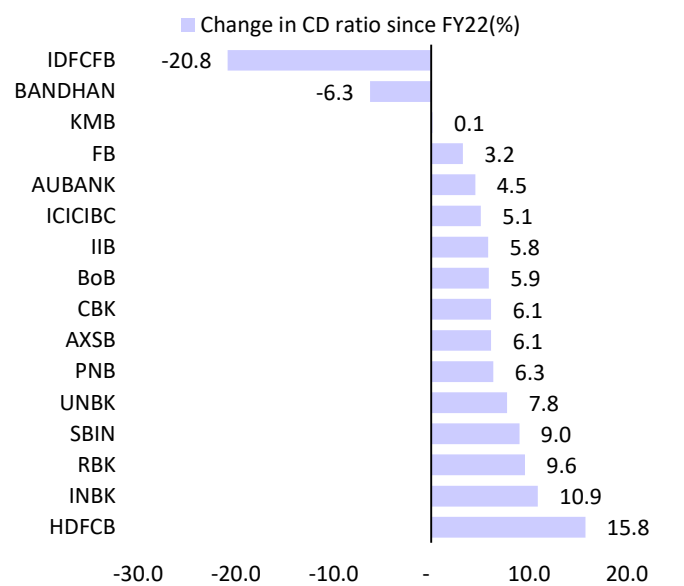
Higher CD ratio for HDFCB amid merger; Source: MOFSL, Company

**Exhibit 16: LCR ratio was at a healthy level for most PSBs; PVBs' ratio was comfortable in the range of 117-137%**



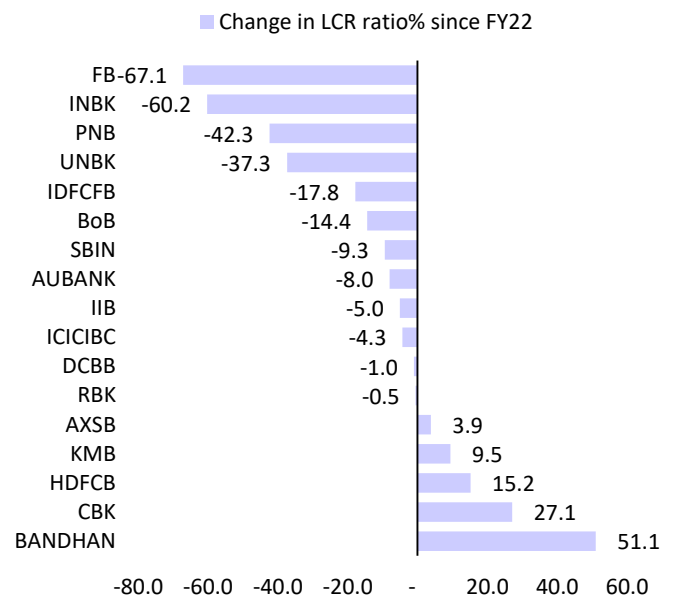
Source: MOFSL, Company

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



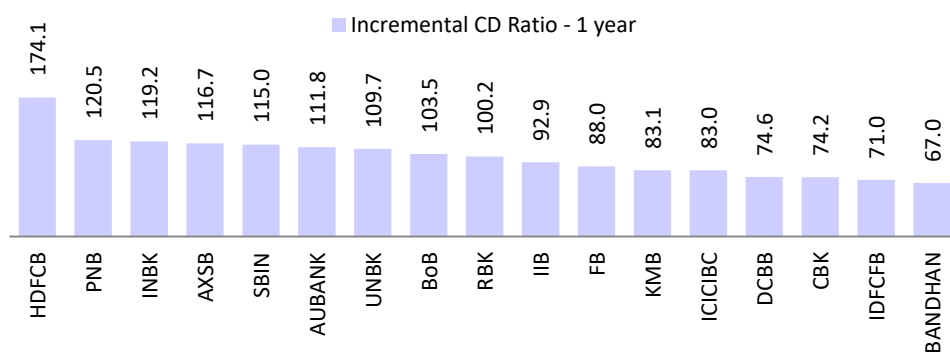
Higher CD ratio for HDFCB amid the merger; Source: MOFSL, Company

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



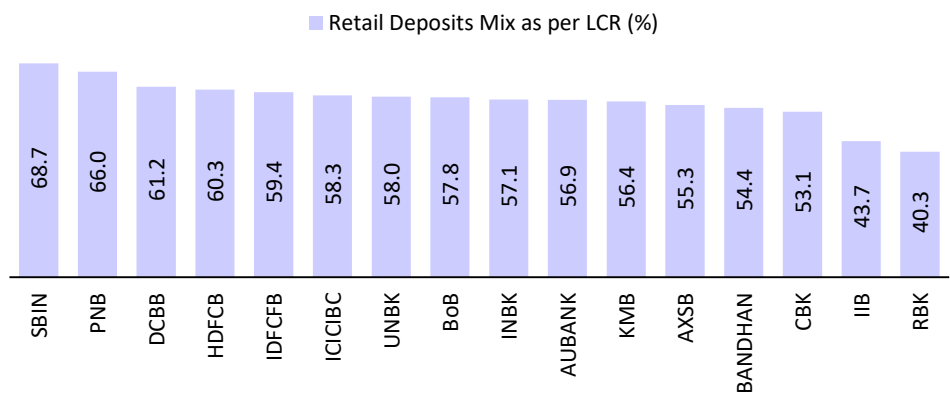
Source: MOFSL, Company

**Exhibit 19: Most of the PSB banks barring CBK have shown an incremental CD ratio of >100%**



HDFCB CD ratio stands higher due to the 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 – 1QFY25**

%	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*	9.6	21.6	24.2	10.3	-0.7	0.2	5.4	41.0	1.0	6.6	39.8	22.7
HDFCB**	10.9	136.9	13.5	11.5	141.6	12.9	4.9	90.0	0.0	NA	NA	NA
ICICIBC	8.7	-5.0	-5.0	9.8	-6.0	-8.0	5.1	45.0	0.0	4.8	53.0	2.0
IDFCFB**	14.1	44.3	46.6	15.9	34.3	-2.3	6.9	35.5	32.5	NA	NA	NA
IIB	9.9	27.0	2.0	12.6	33.0	-9.0	5.6	31.0	3.0	6.5	41.0	5.0
KMB**	10.1	-7.5	2.5	10.9	-1.7	-0.2	5.1	60.0	0.0	NA	NA	NA
RBK***	12.6	85.2	29.4	14.2	33.0	8.0	6.6	45.0	9.0	6.5	43.0	11.0
AUBANK***	14.4	74.6	90.9	16.2	0.0	0.0	7.0	68.4	4.3	NA	NA	NA

\* YoF and YoA are calculated

\*\* All ratios are calculated

\*\*\* YoF is calculated

Source: MOFSL,  
Company**Exhibit 22: NIM progression over the past two years**

NIM (%)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25
AXSB	3.60	3.96	4.26	4.22	4.10	4.11	4.01	4.06	4.05
HDFCB	4.00	4.10	4.10	4.10	4.10	3.40	3.40	3.44	3.47
ICICIBC	4.01	4.31	4.65	4.90	4.78	4.53	4.43	4.40	4.36
IDFCFB	5.89	5.98	6.36	6.41	6.33	6.32	6.42	6.35	6.22
IIB	4.21	4.24	4.27	4.28	4.29	4.29	4.29	4.26	4.25
KMB	4.92	5.15	5.47	5.75	5.57	5.22	5.22	5.28	5.02
FB	3.22	3.30	3.49	3.31	3.15	3.16	3.19	3.21	3.16
BoB	3.02	3.33	3.37	3.53	3.27	3.07	3.10	3.27	3.18
CBK	2.78	2.86	3.05	3.07	3.05	3.00	3.03	3.07	2.90
PNB	2.79	3.00	3.16	3.24	3.08	3.11	3.15	3.10	3.07
SBIN	3.02	3.32	3.50	3.60	3.33	3.29	3.22	3.30	3.22
UNBK	3.00	3.15	3.21	2.98	3.13	3.18	3.08	3.09	3.05
INBK	3.10	3.20	3.74	3.59	3.61	3.52	3.49	3.52	3.53
AU SFB	5.90	6.20	6.20	6.10	5.72	5.50	5.50	5.10	6.00
RBK	5.04	5.02	5.27	5.62	5.53	5.54	5.52	5.45	5.67
BANDHAN	8.00	7.00	6.50	7.30	7.30	7.20	7.20	7.60	7.60
DCBB	3.61	3.88	4.02	4.18	3.83	3.69	3.48	3.62	3.39

Source: MOFSL, Company

**Exhibit 23: NII growth for PVBs and PSBs to moderate further from FY24 levels**

NII growth (YoY)	1QFY24	4QFY24	FY24	1QFY25	FY25E	FY26E	FY27E
HDFCB	21.1	24.5	25.0	26.4	14.0	11.1	12.3
IDFCFB	36.1	24.2	30.2	25.4	21.4	19.0	22.7
FB	19.6	15.0	14.7	19.5	16.7	21.4	20.7
IIB	18.0	15.1	17.2	11.1	7.9	18.1	19.8
AUBANK	27.7	10.2	16.5	54.1	56.2	25.7	25.8
UNBK	16.6	14.4	11.6	6.5	6.6	8.3	13.3
RBK	19.6	17.9	20.9	19.5	15.1	17.9	19.2
AXSB	27.4	11.5	16.2	12.5	10.6	14.1	22.3
BANDHAN	-0.9	16.0	11.5	20.7	20.6	13.8	15.5
CBK	27.7	11.2	16.3	5.8	4.5	10.5	10.4
INBK	25.8	9.2	15.1	8.3	9.1	9.4	12.0
DCBB	25.9	4.4	12.3	5.5	13.9	22.7	18.3
KMB	32.7	13.2	20.6	9.8	8.0	16.1	21.5
ICICIBC	38.0	8.1	19.6	7.3	10.1	14.0	18.3
PNB	26.0	9.1	16.2	10.2	9.0	6.3	11.5
SBIN	24.7	3.1	10.4	5.7	6.6	12.3	12.9
BoB	24.4	2.3	8.1	5.5	5.5	8.4	12.4

Source: MOFSL, Company

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.



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
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Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
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