

Month	SCBs		
	WALR – O/s Loans	WALR – Fresh Loans	WATDR
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
Sep-24	9.88	9.37	6.95
Oct-24	9.88	9.54	6.96
Nov-24	9.87	9.40	6.98
Dec-24	9.86	9.25	7.00
Jan-25	9.85	9.32	7.02
Feb-25	9.78	9.40	7.02

Month	PSBs		
	WALR – O/s Loans	WALR – Fresh Loans	WATDR
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
Sep-24	9.21	8.57	7.07
Oct-24	9.19	8.71	7.08
Nov-24	9.19	8.59	7.10
Dec-24	9.18	8.54	7.12
Jan-25	9.17	8.59	7.15
Feb-25	9.10	8.68	7.16

Month	Private Banks		
	WALR – O/s Loans	WALR – Fresh Loans	WATDR
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	10.76	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
Sep-24	10.83	10.33	6.87
Oct-24	10.83	10.35	6.89
Nov-24	10.83	10.31	6.90
Dec-24	10.82	10.16	6.92
Jan-25	10.81	10.20	6.92
Feb-25	10.75	10.24	6.93

Rate transmission suppresses lending yields; margin bias negative

Marginal increase in WATDR points to controlled rise in funding costs

- The weighted average lending rate (WALR) on fresh loans increased 8bp MoM in Feb'25, following a 7bp increase in Jan'25. Public sector banks (PSBs) reported a 9bp increase MoM (up 5bp MoM in Jan'25), while private banks (PVBs) reported a mild increase of 4bp MoM (up 4bp MoM in Jan'25).
- WALR on outstanding loans, however, declined 7bp MoM to 9.78%, with both PSBs and PVBs reporting a 7bp and 6bp MoM decline, respectively.
- The weighted average term deposit rate (WATDR) for the system was flat MoM at 7.02%. During Nov'24-Feb'25, WATDR rose 4bp (6bp for PSBs and 3bp for PVB), indicating intense competition for deposits as demand for credit moderates.
- Systemic credit growth continues to grow at a moderate pace at 11.1% YoY as of 7th Mar'25, amid stress in unsecured segments and a high CD ratio. We estimate credit growth for FY26 to sustain at ~12% YoY.
- The turn in repo-rate cycle has affected portfolio yields as banks have passed on the benefit of the rate cut to borrowers. The full impact of the same will be visible in subsequent months, which will keep the margin bias negative for the sector over 1HFY26.
- Our top picks are ICICI, HDFCB, SBIN, and AUBANK.

WALR on fresh loans rises in Feb'25; decline in O/S WALR loans indicates NIM compression for banks

- WALR on fresh loans inched up 8bp MoM (up 7bp in Jan'25), with a 9bp increase for PSBs and 4bp for PVBs. During Nov'24-Feb'25, WALR on fresh loans was flat – up 9bp for PSBs and down 7bp for PVBs.
- With a 25bp decline in repo, fresh rupee loans over repo premium stood at 3.99% for PVBs and 2.43% for PSBs. Despite the repo cuts, banks have not seen a decline in fresh rupee loans, while further rate cuts will impact lending rates.
- **WALR on O/S loans declined by 7bp MoM** to 9.78% vs. flat trends in the previous nine months. With more repo cuts around the corner, banks can further see some decline in NIMs in FY26.
- One-year MCLR for most PVBs increased by 10-80bp, with Bandhan Bank reporting a maximum increase of 80bp. For large PVBs, MCLR expansion was range bound at 0-10bp YoY.

WATDR flat MoM for both PSBs and PVBs

- WATDR was flat MoM in Feb'25, with PSBs and PVBs both reporting flat trends. During Nov'24-Feb'25, WATDR rose 4bp: +6bp for PSBs and +3bp for PVBs – indicating intense competition in the industry and high CoF.
- With the RBI injecting liquidity to address the liquidity deficit, the revival of deposits should play an important role in easing the higher funding cost in the system. We estimate that CoF may start to see a downward trend from 2HFY26 onward as the repricing of deposits plays out amid repo cuts.

Credit growth moderates to 11.1% YoY; deposits growth crucial to drive credit growth

- Systemic credit growth has moderated to ~11.1% YoY, impacted by a slowdown in unsecured retail lending, subdued demand in select secured segments, and elevated CD ratios across banks.
- Deposit growth has stayed within a narrow 10-12% range over the past two years, with FY25 YTD deposit growth at 9.9% and credit growth at ~10.3%. Deposits remain crucial for supporting credit expansion as the systemic CD ratio remains high, compelling banks to focus on TD growth despite elevated rates. **We estimate credit growth to sustain at ~12% YoY in FY26.**

CD ratio remains high at 80.5%; select PSBs witness sharp expansion in CD ratios

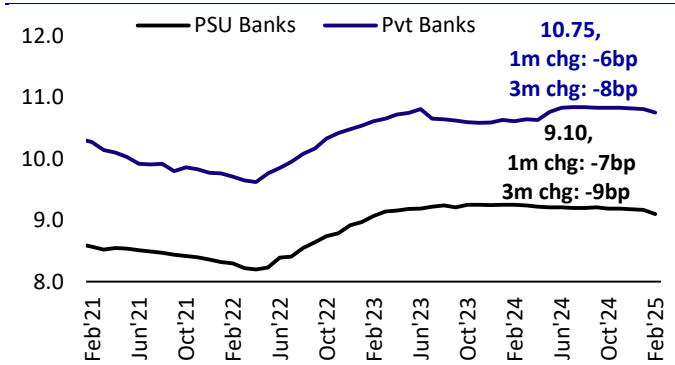
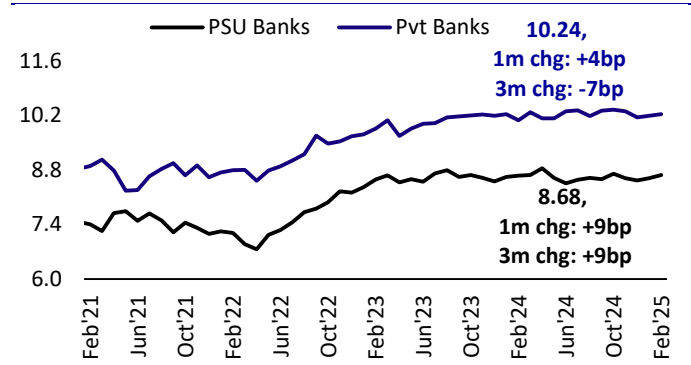
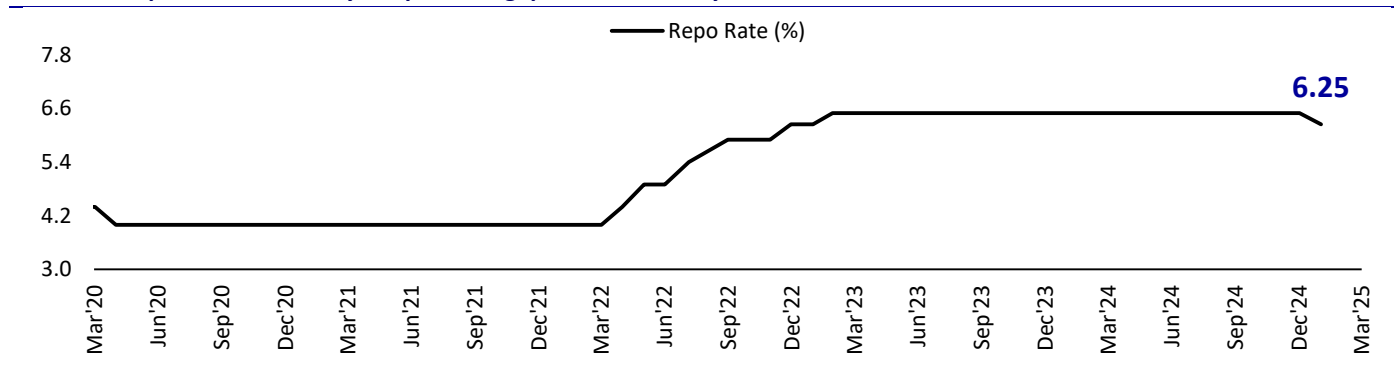
- Outstanding LDR has reached an all-time high of 80.5%. While PVBs are already at elevated LDR levels, PSBs have also seen an increase over the past 1-2 years, though still lower than private peers.
- The outstanding CD ratio has increased for most banks, with PSBs leading the surge. Indian Bank and Union Bank saw the highest rise at 12% in CD ratio vs FY22 levels, followed by Canara at 10%. PSBs saw a greater increase compared to PVBs. Among PVBs, HDFCB recorded a 10.4% rise due to the merger, while RBL saw an 8.7% increase vs. FY22. Additionally, PSBs maintain a higher LCR than PVBs.

Rate transmission to affect lending yields; NIM bias negative

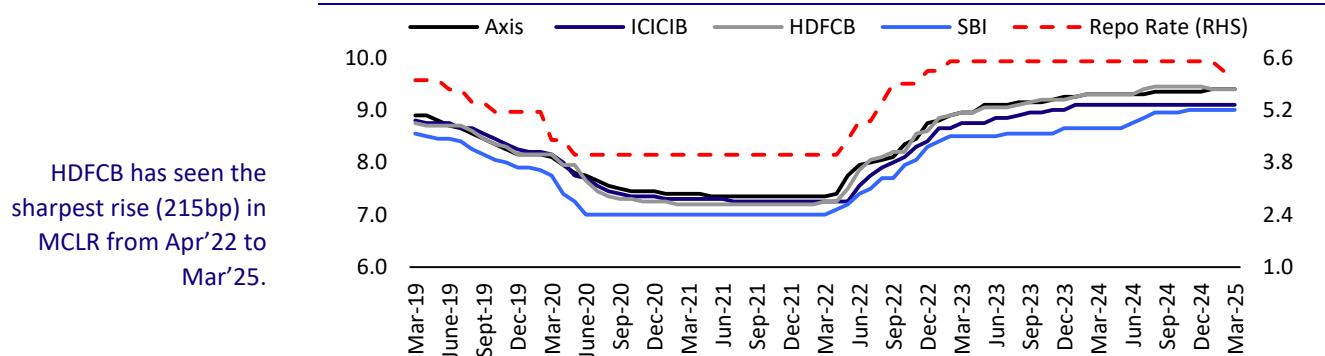
- The turn in repo-rate cycle has affected portfolio yield as banks passed on the benefit of the rate cut to borrowers. The full impact of the same will be visible in subsequent months, which will keep the margin bias negative for the sector over 1HFY26.
- Furthermore, data indicates that WALR on O/S loans is declining, suggesting that NIM contraction will continue while WATDR is increasing, albeit at a slower pace. This will keep NIMs in check for most banks.
- That said, a 50bp CRR cut in Dec'24 is expected to provide some relief, and MCLR adjustments by select PSBs could help to sustain NIMs in the near term.

Earnings growth to bottom out in FY26E; Top ideas: ICICIB, HDFCB, SBI, and AUBANK

- WALR for outstanding loans declined in Feb'25, and with repo cuts now underway, banks' portfolio yields will be impacted in the coming months as the full effect is passed on to borrowers. Lower inflation and stable currency would provide necessary room to ease repo rates which will weigh on margins in coming quarters. Meanwhile, with deposit mobilization remaining a challenge retail deposit rates are likely to remain elevated keeping CoF high in 1HFY26.
- In line with the trend seen in 9MFY25, our checks suggest that asset quality will remain under stress for most MFI lenders (mainly mid-sized banks). We expect asset quality stress to remain higher for select banks like IIB, RBK, Bandhan, IDFCB, AU Bank and Equitas in the near term.
- We expect banks' NIMs to have a downward bias in the near term while growth will be slower particularly in unsecured loans. For MOFSL Banking Universe, we estimate earnings growth of 0.5% YoY in 4QFY25E, and an 11.8% CAGR over FY25-27E. We expect earnings growth to bottom-out in FY26E followed by a gradual recovery next fiscal.
- **Top picks: ICICI, HDFCB, SBI, and AUBANK.**

Exhibit 1: WALR on outstanding loans declines in Feb'25, for both PSBs and PVBs

Exhibit 2: WALR on fresh loans increases MoM for both PVBs and PSBs

Exhibit 3: Repo rate declines by 25bp after a gap of almost two years


Source: RBI, MOFSL

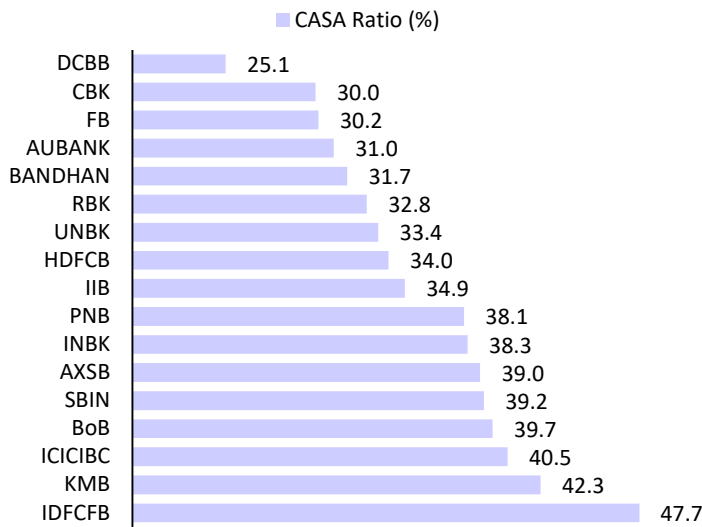
Exhibit 4: MCLR for large banks rose 185-215bp from Apr'22 to Mar'25, while repo has started to see a declining trend from Feb'25


Source: RBI, MOFSL

Exhibit 5: One-year MCLR rate rose 5-20bp YoY for PVBs and 20-35bp for PSBs

	2022		2023				2024				2025		YoY Change (in %)
	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Mar	
Kotak	8.05	8.45	8.95	9.10	9.25	9.35	9.45	9.45	9.50	9.55	9.55	9.55	0.10
IIB	9.10	9.55	9.95	10.20	10.25	10.30	10.35	10.40	10.45	10.55	10.55	10.45	0.05
RBL	9.15	9.70	9.95	10.20	10.10	10.20	10.30	10.37	10.30	10.50	10.45	10.40	0.10
Federal	8.30	8.70	9.20	9.30	9.45	9.50	9.70	10.55	9.70	9.80	9.90	9.90	0.20
BOB	7.65	7.95	8.50	8.60	8.65	8.70	8.80	9.70	8.90	8.95	9.00	9.00	0.20
CBK	7.50	7.90	8.35	8.65	8.65	8.70	8.80	8.85	8.95	9.05	9.10	9.10	0.20
INBK	7.55	7.85	8.30	8.60	8.65	8.70	8.80	8.90	8.95	9.00	9.05	9.10	0.25
PNB	7.55	7.75	8.30	8.50	8.60	8.65	8.70	8.85	8.85	8.95	9.00	9.05	0.25
UNBK	7.55	7.90	8.40	8.65	8.65	8.70	8.80	8.80	8.90	9.00	9.00	9.00	0.10
SBI	7.50	7.95	8.40	8.50	8.55	8.55	8.65	8.90	8.85	8.95	9.00	9.00	0.35

Source: RBI, MOFSL

Exhibit 6: CASA ratio continues to moderate for most banks


Source: MOFSL, Company

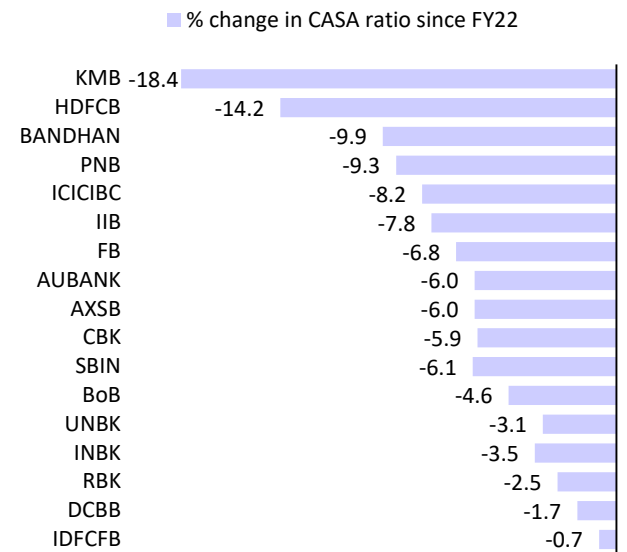
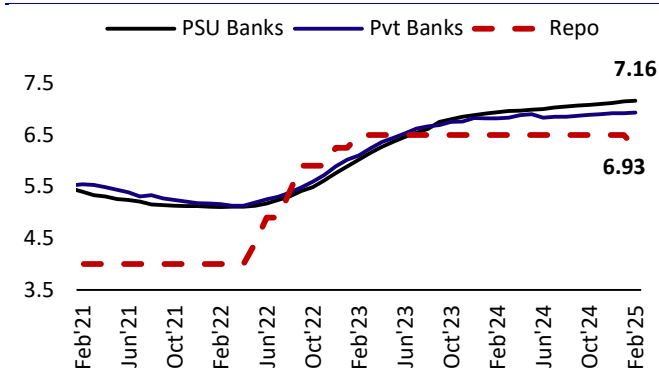
Exhibit 7: Decline in CASA ratio for banks since FY22

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 3QFY25 (%)

Loans Mix (%) - 3QFY25	MCLR	EBLR	Repo linked	Others (fixed, base rate, and foreign currency-floating)
AUBANK	28	10		62
AXSB	11	4	54	31
CBK*	48	41		11
FB	10	51		39
HDFCB	25		45	30
ICICIBC	16	1	52	31
INBK	57	37		5
KMB*	13	60	-	27
PNB	32	16	41	11
RBL ***	7	35	58	
SBIN**	36	27		34
BOB*	47	33		20
Equitas		20		80

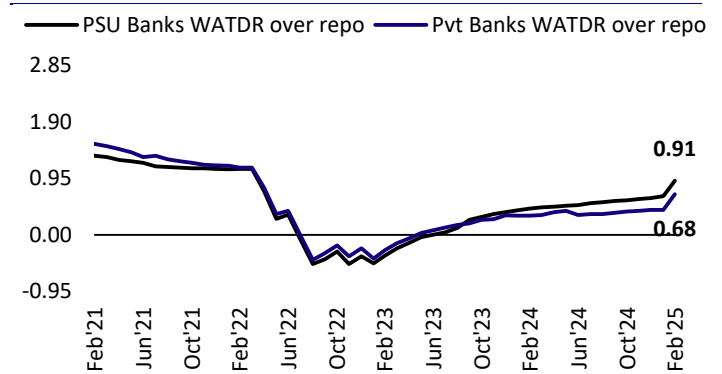
*as of 2QFY25, **as of 1QFY25, *** as on FY24; Source: MOFSL, Company

Exhibit 9: WATDR stood at 7.16% for PSBs and 6.93% for PVBs



Source: MOFSL, RBI

Exhibit 10: WATDR was higher for both PVBs/PSBs by 91bp/68bp vs. the repo rate



Source: MOFSL, RBI

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	3.0%/3.5% (>INR5m)
IIB	3.0% to 7.0% (max rate for deposits between INR1m and above)
RBK	3.25% to 7.50% (max rate for deposits between INR2.5m to 30m)
IDFCFB	3% to 7.25% (max rate for deposits between INR1m-10b)
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 0.25b)
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 INR20m to 30m)

Source: MOFSL, Company

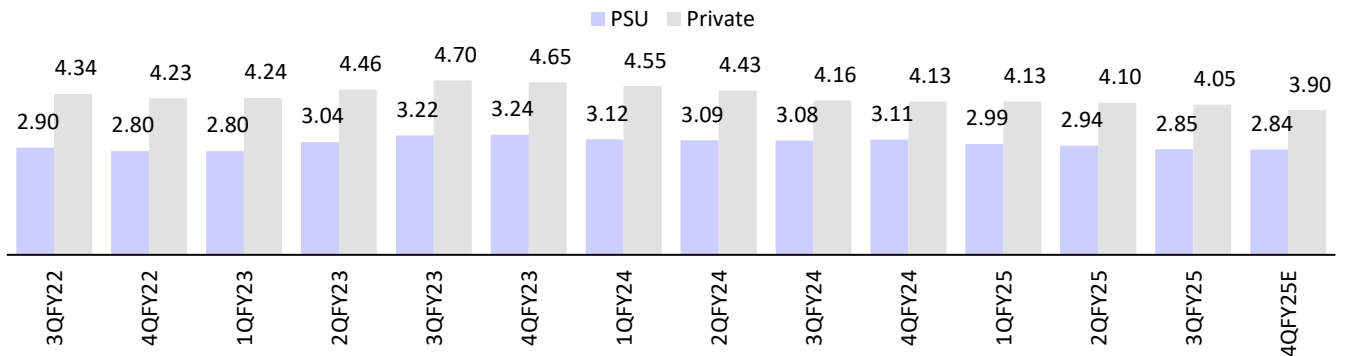
Exhibit 12: Peak term deposit rates across different buckets for major banks

(%)	7-14 days	0-3 months	3-9 months	9-15 months	15-36 months
Large pvt banks					
HDFCB	3.00	4.50	5.75	6.60	7.25
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	7.75
Mid-size pvt banks					
RBK	3.50	4.50	6.05	7.50	8.00
IDFCFB	3.00	4.50	5.75	7.25	7.90
BANDHAN	3.00	4.50	4.50	8.05	7.25
Federal	3.00	5.50	6.25	7.35	7.40
Small finance banks					
AUBANK	3.75	5.50	7.25	7.85	8.00
EQUITASB	3.50	4.50	6.75	8.15	8.25
JANASFB	3.00	5.00	7.50	8.25	8.25
UJJIVAN	3.75	4.75	7.00	8.10	8.25

Source: MOFSL, Company

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

HDFC Bank has lowered its peak term deposits rate in 13-36 month bucket

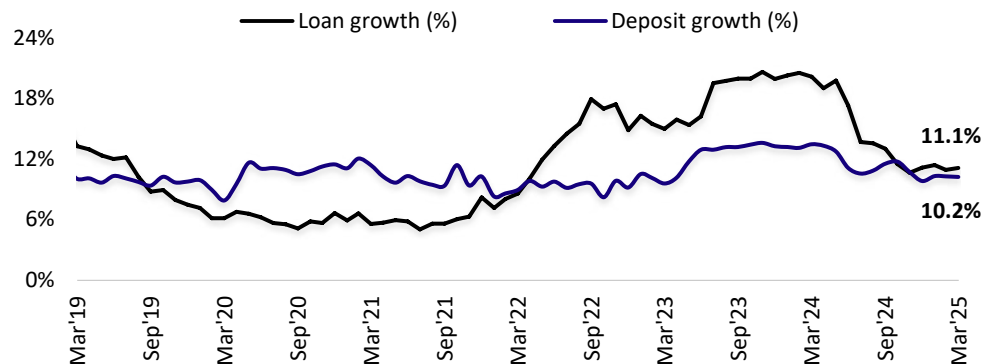
Exhibit 13: Estimate NIMs to see a slight downward bias


Source: MOFSL, Company

Exhibit 14: Estimate NIMs to decline for most banks, barring ICICI Bank

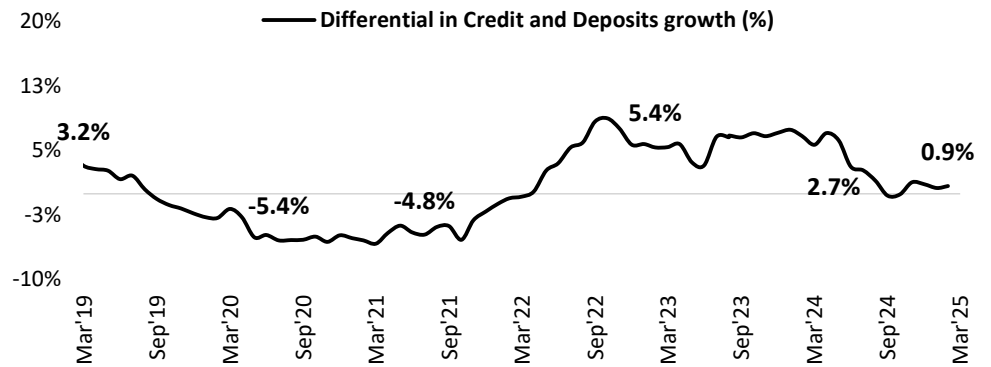
NIM (%)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25E
AXSB	4.10	4.11	4.01	4.06	4.05	3.99	3.93	3.92
HDFCB	4.10	3.40	3.40	3.44	3.47	3.46	3.43	3.40
ICICIBC	4.78	4.53	4.43	4.40	4.36	4.27	4.25	4.28
IDFCFB	6.33	6.32	6.42	6.35	6.22	6.18	6.04	5.95
IIB	4.29	4.29	4.29	4.26	4.25	4.08	3.93	3.78
KMB	5.57	5.22	5.22	5.28	5.02	4.91	4.93	4.92
FB	3.20	3.22	3.19	3.21	3.16	3.12	3.11	3.04
BoB	3.27	3.07	3.10	3.27	3.18	3.10	2.94	2.90
CBK	3.05	3.00	3.03	3.07	2.90	2.86	2.71	2.68
PNB	3.08	3.11	3.15	3.10	3.07	2.92	2.93	2.93
SBIN	3.33	3.29	3.22	3.30	3.22	3.14	3.01	2.98
UNBK	3.13	3.18	3.08	3.09	3.05	2.90	2.91	2.86
INBK	3.61	3.52	3.49	3.52	3.53	3.49	3.57	3.49
AUBANK	5.72	5.50	5.50	5.10	6.00	6.05	5.90	5.80
RBK	5.53	5.54	5.52	5.45	5.67	5.04	4.90	4.77
BANDHAN	7.30	7.20	7.20	7.60	7.60	7.40	6.90	6.73
DCBB	3.83	3.69	3.48	3.62	3.39	3.27	3.30	3.27

Source: MOFSL, Company

Exhibit 15: As of 7th Mar'25, deposit growth stood at 10.2% YoY; credit growth at ~11.1% YoY


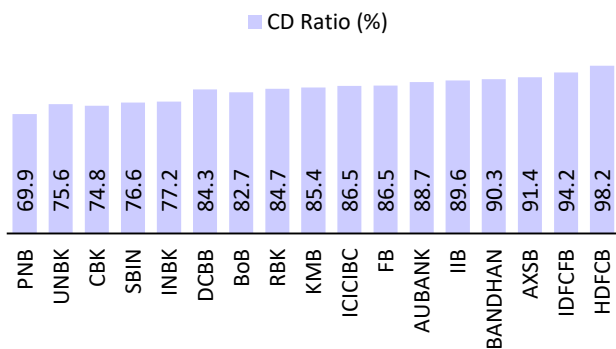
Credit growth adjusted for HDFC merger; Source: MOFSL, RBI

Exhibit 16: Differential between credit and deposit growth has narrowed to <1%



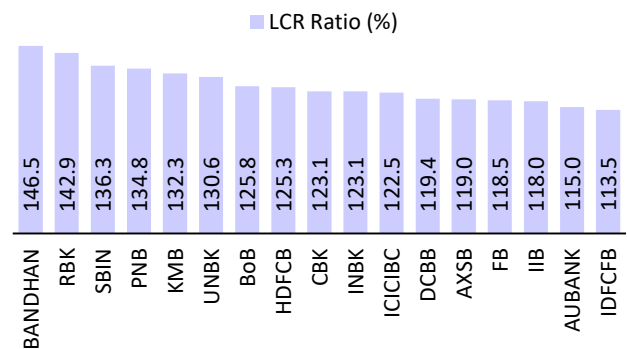
Source: MOFSL, RBI

Exhibit 17: CD ratio remains high for PVBs; PSBs have a lower CD ratio (as of 3QFY25)



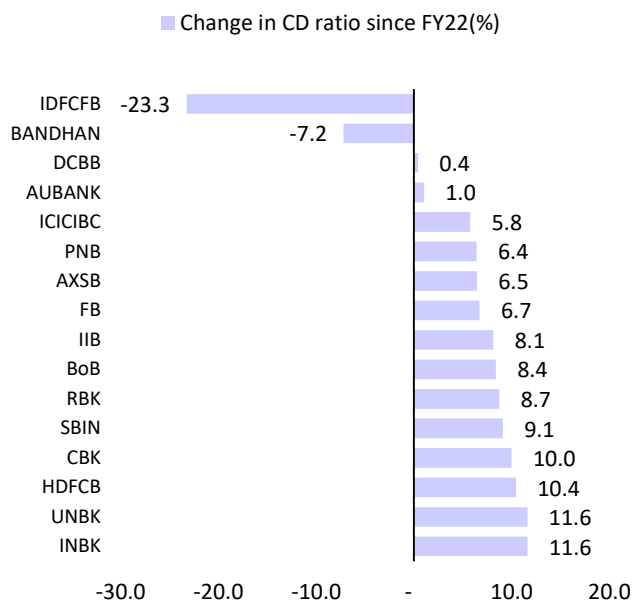
Source: MOFSL, Company

Exhibit 18: LCR is healthy for most PSBs; PVBs LCR ratio ranges from 113% to 146%



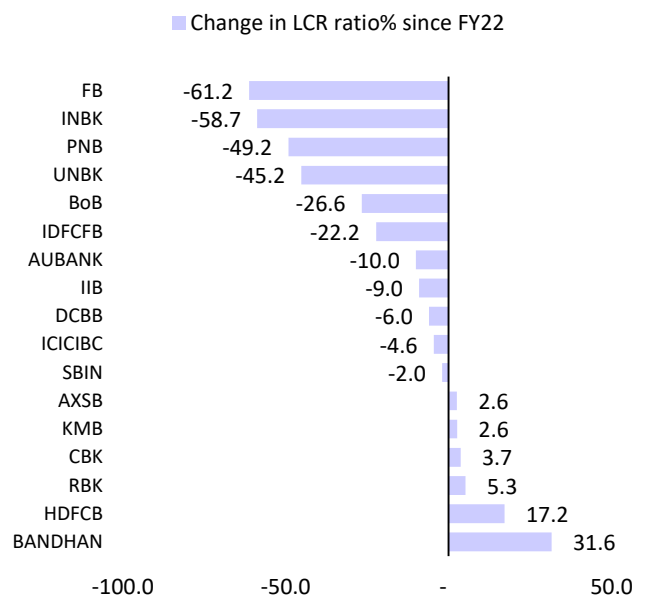
Source: MOFSL, Company

Exhibit 19: CD ratio increases for most banks since FY22 – the increase is more significant for PSBs than PVBs



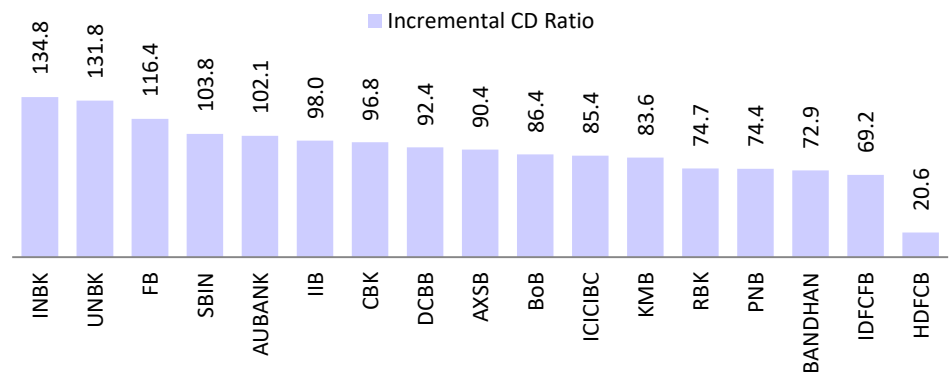
Higher CD ratio for HDFCB amid the merger; Source: MOFSL, Company

Exhibit 20: Change in LCR ratio since FY22 – most banks have deployed excess liquidity on their balance sheets



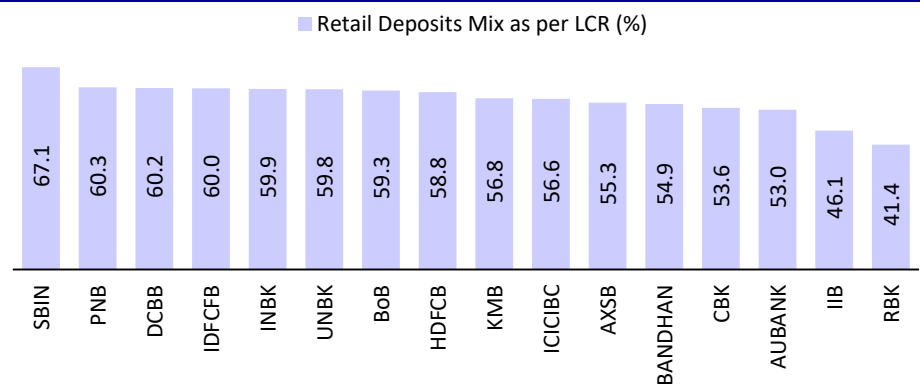
Source: MOFSL, Company

Exhibit 21: Incremental CD ratio has been high for most PSBs



Source: MOFSL, Company

Exhibit 22: Retail deposits across banks as per LCR



Source: MOFSL, Company

Exhibit 23: Yields and cost ratios for key banks – 3QFY25

%	YoF			YoA			CoF			CoD		
	3QFY25	YoY (bp)	QoQ (bp)	3QFY25	YoY (bp)	QoQ (bp)	3QFY25	YoY (bp)	QoQ (bp)	3QFY25	YoY (bp)	QoQ (bp)
AXSB*	9.3	-18.9	-15.2	10.1	-43.4	-10.4	5.5	11.0	1.0	6.6	-5.5	-2.8
HDFCB**	9.4	-152.8	-1.3	9.7	-183.3	-18.8	4.9	0.0	0.0	NA	NA	NA
ICICIB	8.6	-9.0	-1.0	9.7	-14.0	-8.0	5.1	13.0	0.0	4.9	19.0	3.0
IDFCB**	13.6	-65.1	5.2	15.5	-79.9	7.1	7.0	2.9	20.7	NA	NA	NA
IIB	9.6	-12.0	-6.0	12.2	-24.0	-10.0	5.7	24.0	9.0	6.6	14.0	3.0
KMB**	9.9	-25.0	-13.2	10.7	-28.7	-13.5	5.1	14.0	-9.0	NA	NA	NA
RBK***	12.2	-18.7	-16.8	13.3	-70.0	-24.0	6.6	15.0	3.0	6.6	29.0	7.0
AUBANK***	14.4	120.0	0.0	16.6	267.0	5.4	7.0	14.0	0.0	NA	NA	NA

* YoF and YoA are calculated

** All ratios are calculated

*** YoF is calculated

Source: MOFSL, Company

Earnings growth to bottom-out in FY26E; Top ideas: ICICIB, HDFCB, SBI, and AUBANK

- WALR for outstanding loans declined in Feb'25, and with repo cuts now underway, banks' portfolio yields will be impacted in the coming months as the full effect is passed on to borrowers. Lower inflation and stable currency would provide necessary room to ease repo rates which will weigh on margins in coming quarters. Meanwhile, with deposit mobilization remaining a challenge retail deposit rates are likely to remain elevated keeping CoF high in 1HFY26.
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- We expect banks' NIMs to have a downward bias in the near term while growth will be slower particularly in unsecured loans. For MOFSL Banking Universe, we estimate earnings growth of 0.5% YoY in 4QFY25E, and an 11.8% CAGR over FY25-27E. We expect earnings growth to bottom-out in FY26E followed by a gradual recovery next fiscal.
- **Top picks: ICICI, HDFCB, SBI, and AUBANK.**

Exhibit 24: Banking valuation summary

	Rating	CMP	EPS (INR)		RoA (%)				P/E (x)				P/BV (x)			
	FY27E	(INR)	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
ICICIB IN	Buy	1,331	72.2	83.2	2.4	2.3	2.2	2.2	18.2	16.0	14.7	12.8	3.2	2.7	2.3	2.0
HDFCB IN	Buy	1,797	93.5	107.4	1.8	1.8	1.7	1.8	18.8	17.2	16.1	14.0	2.6	2.3	2.1	1.9
AXSB IN	Neutral	1,085	92.2	107.1	1.8	1.7	1.7	1.8	12.0	11.3	10.5	9.0	2.0	1.7	1.5	1.3
BANDHAN IN	Neutral	152	22.2	25.8	1.3	1.5	1.7	1.8	10.9	8.5	6.8	5.9	1.1	1.0	0.9	0.8
KMB IN	Neutral	2,155	76.9	90.8	2.5	2.2	2.1	2.2	21.2	20.9	19.1	16.2	3.0	2.6	2.3	2.0
IIB IN	Buy	702	81.3	104.0	1.8	0.9	1.1	1.2	6.1	11.5	8.6	6.8	0.9	0.8	0.8	0.7
FB IN	Buy	192	18.1	22.8	1.3	1.2	1.2	1.3	11.7	11.9	10.6	8.4	1.6	1.4	1.3	1.1
DCBB IN	Buy	115	23.7	30.4	0.9	0.9	0.9	0.9	6.7	6.0	4.8	3.8	0.7	0.7	0.6	0.5
IDFCB IN	Neutral	57	4.0	6.7	1.1	0.5	0.8	1.0	13.3	27.3	14.3	8.6	1.3	1.1	1.0	0.9
EQUITASB IN	Buy	57	5.5	8.7	2.0	0.4	1.1	1.4	8.0	36.0	10.3	6.5	1.1	1.1	1.0	0.9
AUBANK IN	Buy	539	35.7	47.1	1.5	1.6	1.6	1.7	23.4	18.3	15.1	11.5	2.9	2.4	2.1	1.8
RBK IN	Neutral	172	20.1	31.9	0.9	0.5	0.8	1.1	8.9	15.8	8.5	5.4	0.7	0.7	0.6	0.6
SBIN IN	Buy	776	84.1	94.2	1.0	1.1	1.0	1.1	7.7	6.6	6.2	5.6	1.3	1.1	1.0	0.9
PNB IN	Neutral	97	16.8	19.1	0.5	1.0	1.0	1.0	13.0	6.6	5.8	5.1	1.1	0.9	0.8	0.7
BOB IN	Buy	232	39.1	44.2	1.2	1.2	1.1	1.1	6.7	6.2	5.9	5.2	1.1	1.0	0.9	0.8
CBK IN	Buy	91	19.7	21.7	1.0	1.0	1.0	1.0	5.7	5.1	4.6	4.2	1.0	0.9	0.8	0.7
UNBK IN	Buy	127	24.1	26.3	1.0	1.2	1.2	1.2	6.7	5.5	5.3	4.8	1.0	0.9	0.8	0.7
INBK IN	Buy	530	83.6	92.5	1.1	1.3	1.2	1.3	8.5	6.6	6.3	5.7	1.3	1.1	1.0	0.9
PAYTM IN	Neutral	818	3	16	-8.0	-1.2	0.9	4.4	-36.9	-229.0	278.8	52.0	3.9	4.0	4.1	4.0
SBICARD IN	Neutral	856	31	41	4.6	3.2	4.1	4.8	33.7	41.8	27.9	20.9	6.7	5.9	4.9	4.1

Source: MOFSL, Company

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UNDER REVIEW	Rating may undergo a change
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