

# Banks

## Near-term NIM headwinds

The downtrend in lending and deposit rates has expectedly persisted and the following broad trends stand out:

- The lending rate on fresh loans (WALR (fresh)) has seen the greatest fall so far, particularly in the case of private banks,
- The fall in term deposit rates (WATDR) has exceeded the fall in lending rate on outstanding loans (WALR (o/s)),
- However, the fall in lending rate on outstanding loans is beginning to accelerate,
- The median MCLR too has trended down, but the reduction has been significantly lesser than that in lending rates on fresh loans and is more recent in case of private banks,
- Banks have cut their deposit rates sharply, with large private banks leading the way,
- Within our coverage universe of banks, most have seen a QoQ rise in their LCR and HQLA, and
- Most of these banks' NIMs compressed QoQ.

We expect further compression, at least over FY21E. Our stance is premised on the following:

- Given the sharp fall in the lending rates on fresh loans and the more recent fall in the median MCLR, lending rates on outstanding loans will continue to trend down, putting pressure on banks' yields,
- While most banks have cut deposit rates significantly, these rate reductions have been higher in case of shorter-term deposits,
- The fall in the cost of incremental deposits will result in further reductions in banks' MCLR, and
- Banks' asset-sides will be re-priced faster than their liabilities' sides,
- Elevated slippages in 2HFY21E, as the moratorium is expected to come to an end, will result in high-interest reversals, and
- High liquidity will continue to drag NIMs.

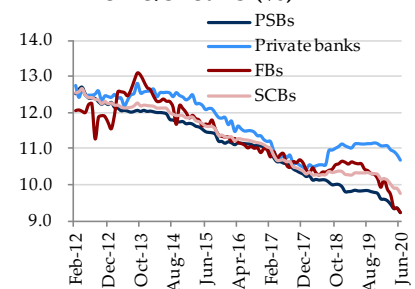
On the NIM front, banks with a higher proportion of fixed-rate loans and strong liability franchises are likely to be better off. Within our coverage, we believe RBK is set to see the highest NIM compression. KMB is relatively better placed with as it will benefit from the sharp SA rate cut. We continue to prefer large private banks with strong liability franchises and superior capital adequacy.

An analysis of weighted average lending and deposit rates along with MCLR yields the following trends:

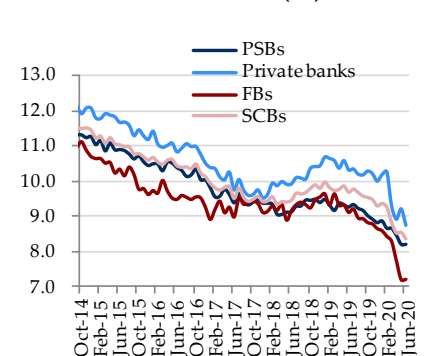
- **WALR (o/s):** The WALR (o/s) has dipped 53bps since January 2019 to 9.74%. Much of this decline, is fairly recent, as the WALR (o/s) dipped 26bps between April and June 2020. Since January 2019, private banks' WALR (o/s) has fallen 40bps, (29bps between April and June 2020). The RBI cut the repo by a total of 250bps over the corresponding period. The spread between the WALR (o/s) and the repo remained elevated at 570bps (670bps in case of private banks). We believe that this reflects weak policy transmission as well as a difference in loan book mix.

Note: WALR (o/s)- Weighted average lending on outstanding loans, WALR (fresh)- Weighted average lending rate on fresh loans, and WATDR- Weighted average term deposit rate

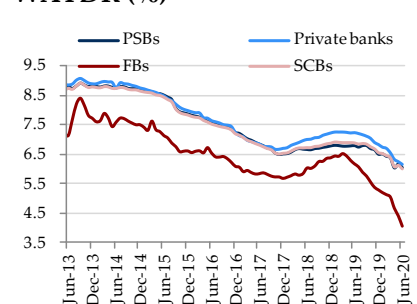
WALR on o/s loans (%)



WALR on fresh loans (%)



WATDR (%)



Source: RBI, HSIE Research

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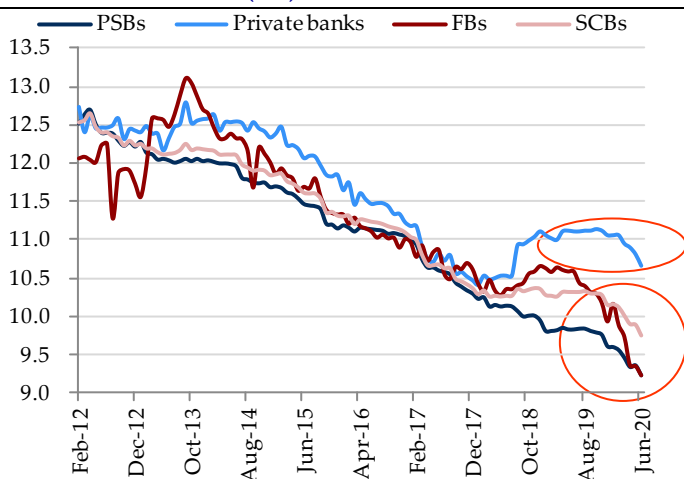
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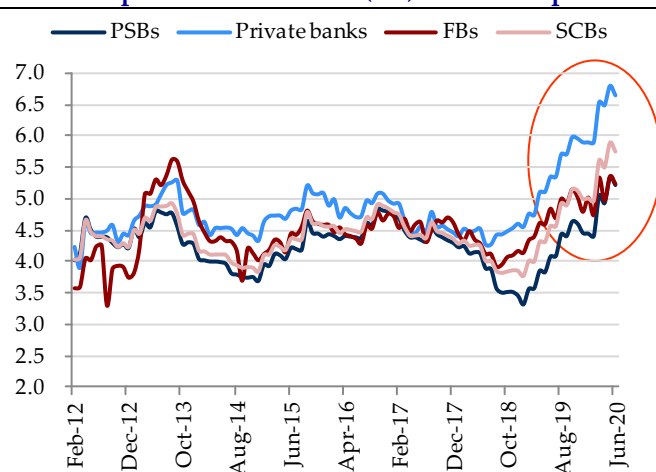
- WALR (fresh):** The WALR (fresh) has fallen by 162bps since January to 8.35%. While the decline in the WALR (fresh) has not been as recent as the decline in the WALR (o/s), it has been more significant in recent months, with a fall of 47bps between April and June 2020. Since January 2019, private banks' WALR (fresh) has fallen by 195bps. The fall in private banks' WALR (fresh), at 98bps between February and March 2020, and at 55bps between April and June 2020, has been relatively recent. The spread of the WALR (fresh) over the repo is lower (440bps; 470bps in case of private banks) than that of the WALR (o/s), but is higher than its average (370bps) over the past ~6 years.
- MCLR:** MCLR continues to trend down, but much of the fall in MCLRs has been fairly recent. The median MCLR has fallen 123bps since January 2019, and 62bps since April 2020. Private banks' median MCLR has fallen just 48bps since January 2019, and 28bps since April 2020.
- WATDR:** The WATDR has fallen 87bps (106bps in case of private banks) since January 2019. The extent of the fall has exceeded the fall in that in the WALR (o/s) over the same period. Since April 2020, the WATDR has fallen 38bps (39bps in case of private banks). Nevertheless, the change in the WATDR continues to lag the change in the repo by a wide margin, as indicated by the spread. We believe the long maturity profiles of banks' deposit bases are responsible for this. As of March 2019, more than half of the deposits of SCBs were in the maturity bucket of 'one year & above', and over 20% were in the maturity bucket of 'five years and above'. This, in turn, translates to slower MCLR reductions and policy rate transmission, especially during an easing cycle.
- On the term deposits (TD) front, banks within our universe have reduced their TD rates by an average of ~100bps across buckets. The average reduction is greater in shorter-term buckets (until ~6 months). Large private banks have seen the greatest reduction in term deposit rates. This development is not surprising and is in line with our thesis that large private banks will benefit from the polarisation of deposit flows. Surprisingly, the reduction in term deposit rates by PSBs within our universe of banks was lower than the average for the universe.
- Liquidity:** Most banks within our universe set reported a significant QoQ rise in their LCR, and their LCR were well above the regulatory minimum (which in fact stands reduced). Several banks reported extremely high LCRs, such as- KVB (360.5%), and FB (229.1%).

Exhibit no. 1: WALR (o/s)



Source: RBI, HSIE Research

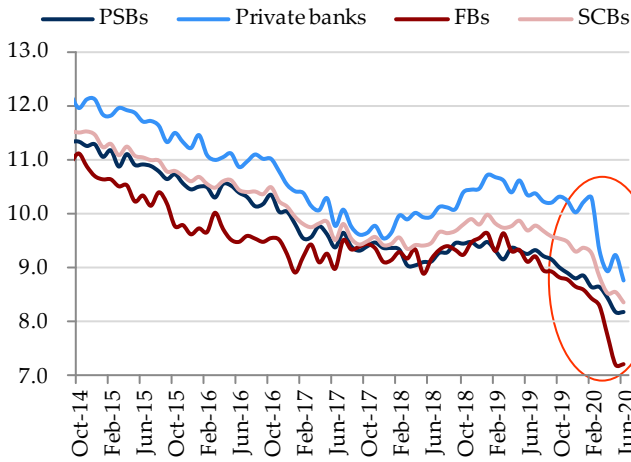
Exhibit 2: Spread of the WALR (o/s) over the repo



Source: RBI, HSIE Research

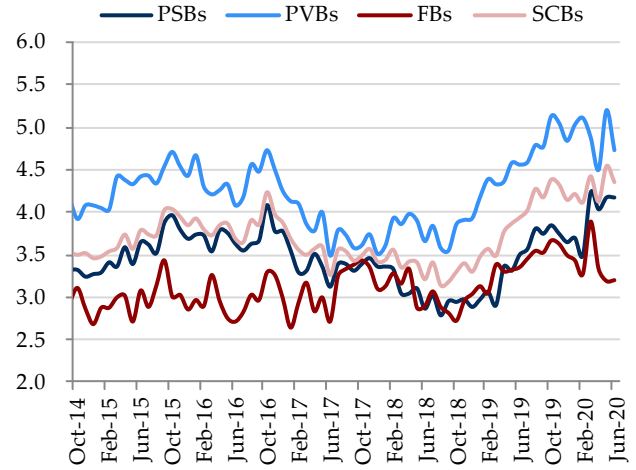
# Banks : Sector Update

**Exhibit 3: WALR (fresh)**



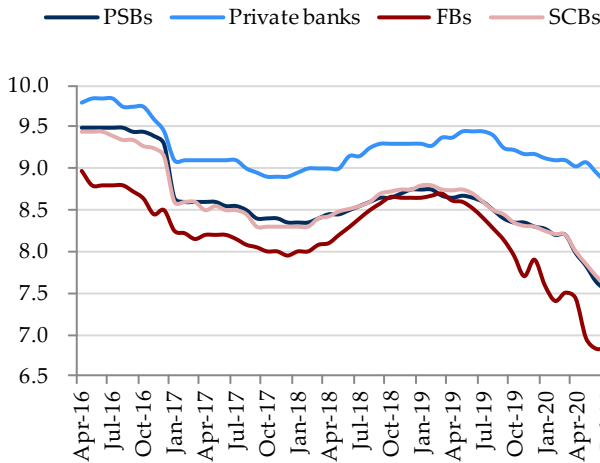
Source: RBI, HSIE Research

**Exhibit 4: Spread of the WALR (fresh) over the repo**



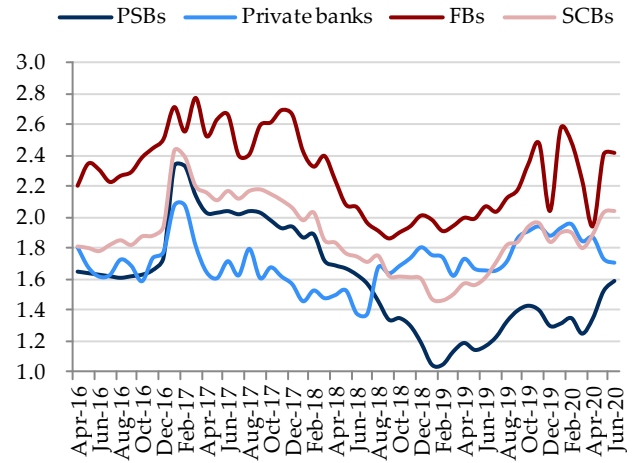
Source: RBI, HSIE Research

**Exhibit 5: Median one-year MCLR**



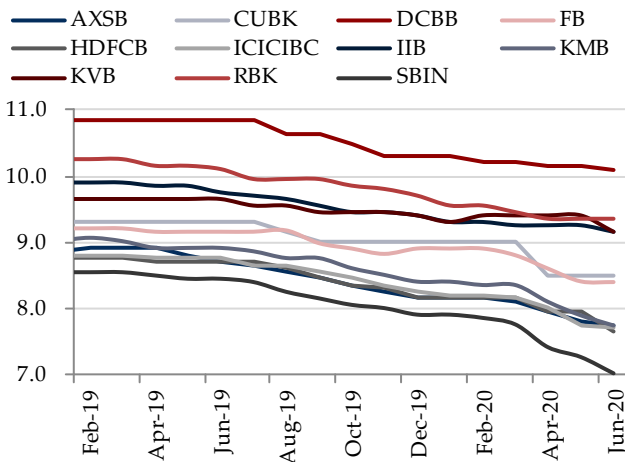
Source: RBI, HSIE Research

**Exhibit 6: Median one-year MCLR spread over WALR**



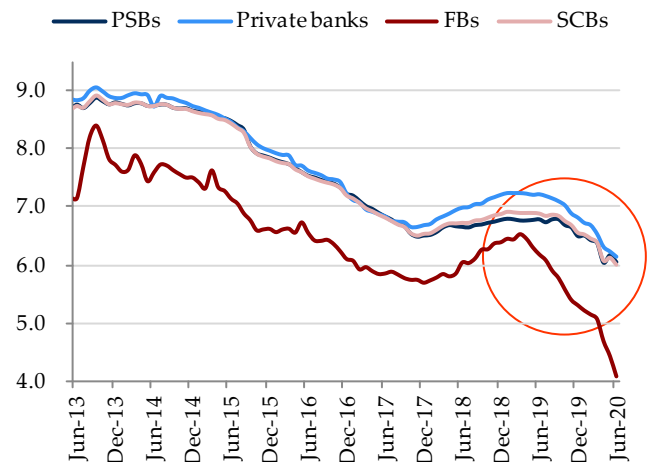
Source: RBI, HSIE Research

**Exhibit 7: One-year MCLR trends across our coverage banks**



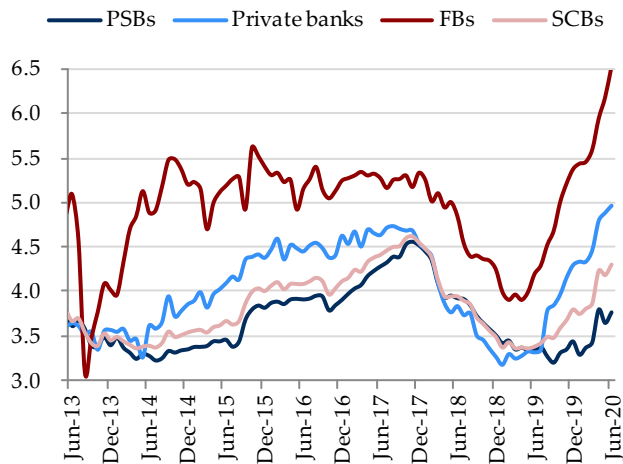
Source: RBI, HSIE Research

**Exhibit 8: WATDR**

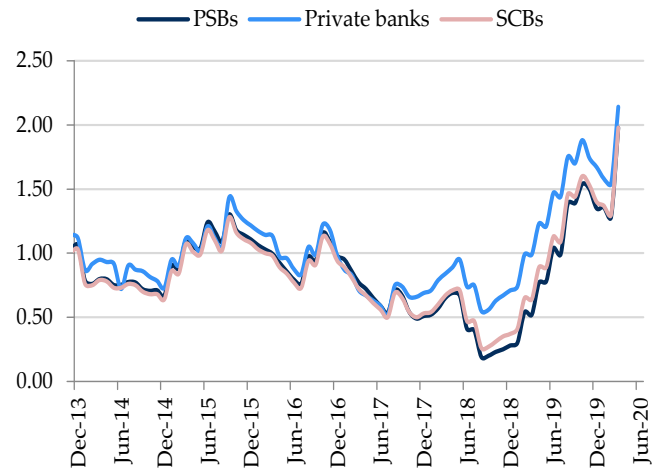


Source: RBI, HSIE Research

## Banks : Sector Update

**Exhibit 9: WALR (o/s) spread over the WATDR**


Source: RBI, HSIE Research

**Exhibit 10: WATDR spread over the repo**


Source: RBI, HSIE Research

**Exhibits 11: SA rates across banks**

Bank	Upto Rs 0.1mn	Rs 0.1mn-1mn	Rs 1mn- 5mn	Rs 5mn- 50mn	Rs 50mn- 100mn	Rs 100mn- 1bn	Rs 1bn- 2bn	Rs 2bn- Rs 25bn
AXSB	3.0%	3.0%	3.0%	3.5%	3.5%	Repo - 65bp	Repo - 25bp	Repo
BOB	3.0%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
CUBK	3.5%	3.8%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
DCBB	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
FB	Repo-150bps	Repo-150bps	Repo-150bps	Repo-150bps	Repo+10bps	Repo+10bps	Repo+50bps	Repo+50bps
HDFCB	3.0%	3.0%	3.0%	3.5%	3.5%	3.5%	3.5%	3.5%
ICICIBC	3.0%	3.0%	3.0%	3.5%	3.5%	3.5%	3.5%	3.5%
IIB	4.0%	5.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
KMB	3.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
KVB	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
PNB	3.0%	3.0%	3.0%	3.3%	3.3%	3.3%	3.3%	3.3%
RBK	4.8%	6.0%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
SBIN	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
UNBK	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

**Exhibit 12: Change in SA rates across banks since April, 2020**

Bank	Upto Rs 0.1mn	Rs 0.1mn-1mn	Rs 1mn- 5mn	Rs 5mn- 50mn	Rs 50mn- 100mn	Rs 100mn- 1bn	Rs 1bn- 2bn	Rs 2bn- Rs 25bn
AXSB	-0.5%	-0.5%	-0.5%	0.0%	0.0%	-0.7%	-1.0%	-1.3%
BOB	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%
CUBK	-0.5%	-0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
DCBB	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%
HDFCB	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.9%
ICICIBC	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%
IIB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
KMB	-0.5%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
KVB	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%
PNB	-0.5%	-0.5%	-0.5%	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%
RBK	-0.3%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
SBIN	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
UNBK	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Banks, HSIE Research

**Exhibits 13: FD rates across banks**

Particulars	7-14 d	15-29d	30- 45d	46- 60d	61- 90d	91d -120d	121d- 185d	6m 1d- 9m	9m 1d- 1yr	1yr 1 d- 2yr	2yr 1 d- 3yr	3yr 1d- 5yr	5yr 1d- 10 yr
AUBANK	3.75%	3.75%	4.25%	4.25%	4.25%	5.00%	5.00%	5.50%	5.50%	6.50%	6.75%	6.50%	6.50%
AXSB	2.50%	2.50%	3.00%	3.25%	3.25%	4.10%	4.10%	4.50%	5.15%	5.15%	5.50%	5.50%	5.50%
BOB	2.90%	2.90%	2.90%	3.90%	3.90%	3.90%	3.90%	4.40%	4.40%	5.10%	5.10%	5.30%	5.30%
CUBK	3.00%	3.25%	3.25%	3.50%	3.50%	3.75%	3.75%	4.00%	5.00%	5.75%	5.75%	5.50%	5.25%
DCBB	4.75%	5.05%	5.05%	5.25%	5.25%	5.75%	5.75%	6.35%	6.35%	6.73%	6.80%	6.85%	6.80%
FB	2.75%	3.00%	3.25%	3.50%	3.75%	3.90%	3.90%	4.00%	4.75%	5.45%	5.50%	5.60%	5.60%
HDFCB	2.50%	2.50%	3.00%	3.00%	3.00%	4.00%	4.00%	4.40%	4.50%	5.10%	5.20%	5.35%	5.50%
ICICIBC	2.50%	2.50%	2.75%	2.75%	3.00%	3.10%	3.10%	3.60%	3.85%	4.10%	4.60%	4.60%	4.60%
IIB	3.25%	3.25%	3.75%	4.10%	4.30%	4.50%	5.00%	5.40%	6.60%	7%	7.00%	6.75%	6.65%
KMB	2.50%	2.50%	3.00%	3.00%	3.00%	4.00%	4.00%	4.75%	4.75%	5.10%	4.90%	4.83%	4.50%
KVB	3.50%	3.75%	3.75%	3.75%	3.75%	4.75%	4.75%	4.75%	5.00%	5.50%	5.50%	5.65%	5.65%
PNB	3.00%	3.00%	3.00%	3.25%	3.25%	4.00%	4.00%	4.40%	4.50%	5.25%	5.25%	5.30%	5.30%
RBK	4.00%	4.50%	4.50%	5.50%	5.50%	5.75%	5.75%	6.25%	6.35%	7%	7.00%	6.75%	6.75%
SBIN	2.90%	2.90%	2.90%	3.90%	3.90%	3.90%	3.90%	4.40%	4.40%	5.10%	5.10%	5.30%	5.40%
UNBK	3.50%	3.50%	3.75%	4.00%	4.00%	4.50%	4.75%	5.00%	5.00%	5.40%	5.40%	5.45%	5.45%

**Exhibits 14: Change in FD rates across banks since April, 2020**

Particulars	7-14 d	15-29d	30- 45d	46- 60d	61- 90d	91d -120d	121d- 185d	6m 1d- 9m	9m 1d- 1yr	1yr 1 d- 2yr	2yr 1 d- 3yr	3yr 1d- 5yr	5yr 1d- 10 yr
AUBANK	-1.60%	-1.60%	-1.10%	-1.80%	-1.80%	-1.00%	-1.00%	-1.50%	-1.50%	-1.00%	-1.10%	-1.00%	-0.80%
AXSB	-1.00%	-1.80%	-1.90%	-2.20%	-2.20%	-1.30%	-1.30%	-1.30%	-1.00%	-1.30%	-1.00%	-1.00%	-1.00%
BOB	-0.60%	-0.60%	-0.60%	0.40%	0.40%	-0.60%	-0.60%	-0.60%	-0.60%	-0.60%	-0.60%	-0.40%	-0.40%
CUBK	-1.30%	-1.30%	-1.30%	-1.30%	-1.30%	-1.60%	-1.60%	-1.60%	-0.80%	-0.30%	-0.10%	-0.40%	-0.60%
DCBB	-0.50%	-0.50%	-0.50%	-0.80%	-0.80%	-0.50%	-0.50%	-0.40%	-0.50%	-0.80%	-0.50%	-0.60%	-0.50%
FB	-0.80%	-1.50%	-1.80%	-1.50%	-1.80%	-1.90%	-1.90%	-2.00%	-1.30%	-0.90%	-0.90%	-0.80%	-0.80%
HDFCB	-1.00%	-1.50%	-1.80%	-2.30%	-2.30%	-1.70%	-1.70%	-1.50%	-1.70%	-1.10%	-1.10%	-0.90%	-0.70%
ICICIBC	-1.00%	-1.30%	-1.60%	-2.10%	-1.80%	-1.70%	-1.70%	-1.70%	-1.70%	-1.70%	-1.40%	-1.40%	-1.40%
IIB	-0.80%	-1.30%	-1.30%	-0.90%	-1.20%	-1.30%	-0.80%	-0.60%	0.30%	0.30%	0.20%	-0.10%	-0.10%
KMB	-0.80%	-1.30%	-1.00%	-1.80%	-1.80%	-0.80%	-1.00%	-0.80%	-0.80%	-0.80%	-1.00%	-1.10%	-1.00%
KVB	-0.90%	-1.00%	-1.20%	-1.50%	-1.50%	-1.00%	-1.00%	-1.00%	-0.90%	-0.80%	-0.80%	-0.70%	-0.70%
PNB	-1.30%	-1.30%	-1.30%	-1.80%	-1.80%	-1.00%	-1.00%	-1.10%	-1.10%	-0.60%	-0.60%	-0.50%	-0.50%
RBK	-1.00%	-1.00%	-1.00%	-0.70%	-0.70%	-0.70%	-0.70%	-0.50%	-0.40%	-0.20%	-0.30%	-0.30%	-0.40%
SBIN	-0.60%	-0.60%	-0.60%	-0.60%	-0.60%	-0.60%	-0.60%	-0.60%	-0.60%	-0.60%	-0.60%	-0.40%	-0.30%
UNBK	-0.50%	-0.50%	-0.60%	-0.50%	-0.50%	-0.50%	-0.60%	-0.50%	-0.50%	-0.40%	-0.40%	-0.40%	-0.40%

Source: Banks, HSIE Research

**Exhibit 15: LCR trends**

Bank	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
AUBANK	98.46%	93.88%	95.02%	101.41%	137.00%
AXSB	125.39%	119.72%	112.99%	113.03%	120.26%
CUBK	188.52%	197.63%	219.25%	234.34%	270.00%
DCBB	105.10%	113.00%	107.74%	112.30%	137.77%
FB	157.65%	189.40%	201.41%	185.40%	229.07%
HDFCB	125.51%	132.53%	140.33%	132.41%	140.21%
ICICIBC	122.01%	123.56%	126.81%	130.03%	142.22%
IIB	110.52%	114.20%	113.57%	112.30%	123.66%
KMB	124.90%	120.71%	116.22%	121.01%	164.54%
KVB	359.48%	307.37%	306.24%	302.03%	360.48%
RBK	136.57%	156.02%	164.47%	155.16%	163.95%
SBIN	125.65%	135.06%	147.18%	143.59%	151.00%

Source: Banks, HSIE Research

**Exhibit 16: HQLA trends**

Bank	YoY	QoQ
AUBANK	109.28%	49.98%
AXSB	37.07%	17.65%
DCBB	45.83%	20.26%
FB	50.50%	20.22%
HDFCB	51.20%	21.00%
ICICIBC	68.24%	34.96%
IIB	19.30%	6.80%
KMB	65.70%	46.85%
KVB	27.96%	14.74%
RBK	72.12%	30.81%
SBIN	51.16%	20.99%

Source: Banks, HSIE Research

**Exhibit 17: QoQ NIM trends**

Bank (%)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	QoQ Chg (bps)
AUBANK	5.0	5.3	5.4	5.5	5.0	-50
AXSB	3.4	3.5	3.6	3.6	3.4	-15
CUBK	4.1	3.9	4.0	3.9	4.0	7
DCBB	3.7	3.7	3.7	3.6	3.4	-22
FB	3.2	3.0	3.0	3.0	3.1	3
HDFCB	4.3	4.2	4.2	4.3	4.3	-
ICICIBC	3.6	3.6	3.8	3.9	3.7	-18
IIB	4.1	4.1	4.2	4.3	4.3	3
KMB	4.5	4.6	4.7	4.7	4.4	-32
KVB	3.5	3.5	3.3	3.5	3.4	-10
RBK	4.3	4.4	4.6	4.9	4.9	-8
SBIN	2.8	2.8	2.9	3.1	3.0	-8

Source: Banks, HSIE Research

**Exhibit 18: QoQ yield trends**

Bank (%)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	QoQ chg (bps)
AUBANK	14.5	14.7	14.7	14.7	14.6	-10
AXSB	9.2	9.4	9.2	9.0	8.9	-12
CUBK	11.0	10.8	10.7	10.5	10.4	-5
DCBB	11.6	11.5	11.5	11.4	11.1	-24
FB	9.6	9.3	9.3	9.2	9.0	-20
HDFCB	10.6	10.4	10.2	10.0	9.6	-34
ICICIBC	9.2	9.5	9.5	9.3	9.1	-13
IIB	12.0	12.0	12.0	11.9	11.9	-4
KMB	10.0	10.0	9.8	9.7	9.4	-29
KVB	9.6	9.9	9.5	9.5	9.3	-13
RBK	12.0	12.1	12.3	12.5	13.0	50
SBIN	8.6	8.7	8.9	8.7	8.4	-37

Source: Banks, HSIE Research

Exhibit 19: QoQ CoF trends

Bank (%)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	QoQ chg (bps)
AUBANK	7.9	7.8	7.6	7.5	7.2	-25
AXSB	5.7	5.6	5.4	5.2	4.7	-47
CUBK	6.3	6.3	6.2	6.1	5.9	-18
DCBB	7.1	7.1	7.1	6.9	6.8	-6
FB	6.0	5.9	5.8	5.7	5.4	-37
HDFCB	5.4	5.4	5.3	4.7	4.5	-22
ICICIBC	5.0	5.0	4.9	4.6	4.5	-11
IIB	6.9	6.7	6.5	6.1	5.7	-32
KMB	5.4	5.3	5.0	4.6	4.2	-40
KVB	5.8	5.9	5.8	5.6	5.4	-18
RBK	7.0	6.9	6.7	6.4	6.3	-13
SBIN	5.1	5.0	5.0	4.9	4.5	-46

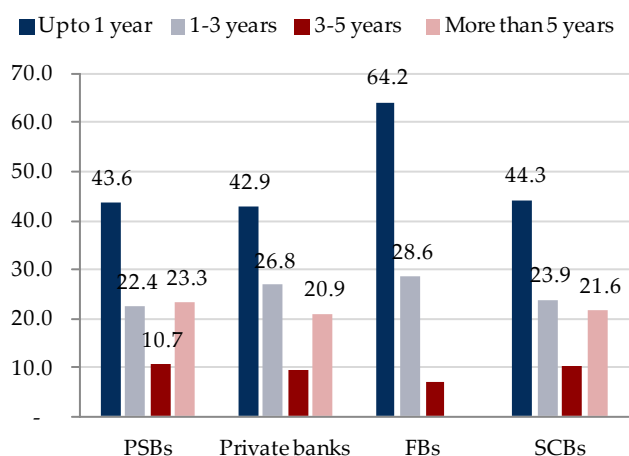
Source: RBI, HSIE Research

Exhibit 20: Average tenure of deposits as of FY20

AUBANK	AXSB	BOB	CUBK	DCBB	FB	HDFCB	ICICIBC	IIB	KMB	KVB	PNB	RBK	SBIN	UNBK
0.92	2.98	2.32	1.85	1.25	1.98	2.20	2.87	2.15*	1.27	3.02*	2.93	0.94	2.34	2.91

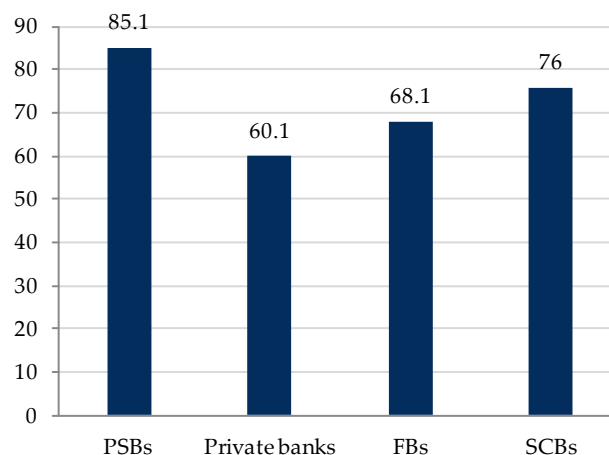
Source: Banks, HSIE Research, \*-FY19

Exhibit 21: Deposit maturity profiles across banks\*



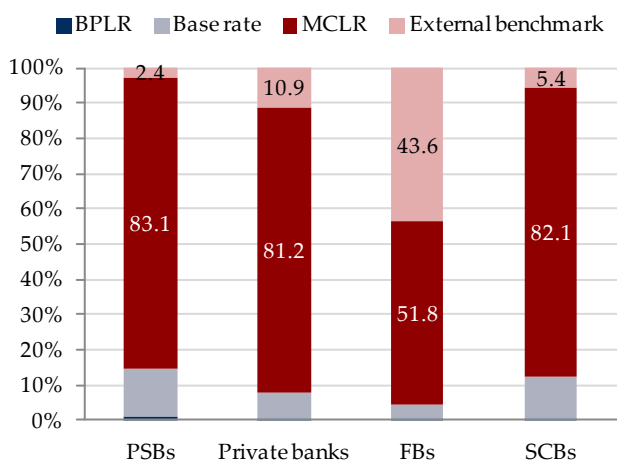
Source: RBI, HSIE Research, \*as of FY19

Exhibit 22: Proportion of floating rate loans as of 3QFY20



Source: RBI, HSIE Research

Exhibit 23: Floating rate loan mix as of 3QFY20



Source: RBI, HSIE Research

## Peer set comparison

	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
AUBANK	223	732	ADD	724	135	148	175	32.3	32.5	27.5	5.31	4.85	4.11	18.6	14.5	14.8	1.61	1.41	1.47
AXSB	1,308	463	BUY	565	268	291	344	77.2	14.2	10.2	1.66	1.53	1.28	2.1	9.8	12.2	0.19	0.93	1.18
CUBK	99	135	BUY	164	61	65	77	20.9	18.9	13.2	2.20	2.06	1.76	9.4	9.5	12.3	1.00	1.04	1.39
DCBB	29	92	ADD	103	93	94	113	8.5	9.6	7.5	0.99	0.98	0.82	10.3	8.3	9.8	0.91	0.76	0.90
FB	113	57	BUY	64	65	64	75	7.3	9.4	7.3	0.88	0.88	0.76	11.1	8.0	9.6	0.91	0.64	0.75
IIB	439	568	ADD	584	459	511	580	8.9	15.1	10.2	1.24	1.11	0.98	14.7	7.6	9.7	1.51	0.91	1.23
KMB#	2,840	1,436	ADD	1,331	232	287	328	37.4	37.1	31.8	5.01	4.11	3.48	13.9	11.8	11.1	1.78	1.66	1.70
KVB	32	40	REDUCE	35	60	51	62	13.7	9.9	7.0	0.67	0.79	0.65	3.6	4.8	6.7	0.34	0.46	0.61
RBK	102	200	REDUCE	148	185	196	215	20.2	21.0	12.4	1.09	1.02	0.93	5.6	4.5	7.2	0.60	0.53	0.82
SBIN#	1,873	210	BUY	286	175	170	210	5.7	7.7	3.9	0.53	0.55	0.44	6.4	4.6	8.3	0.38	0.27	0.48

Source: Banks, HSIE Research, #Adjusted for subsidiaries



## Banks : Sector Update

### Rating Criteria

**BUY:** >+15% return potential  
**ADD:** +5% to +15% return potential  
**REDUCE:** -10% to +5% return potential  
**SELL:** >10% Downside return potential

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