

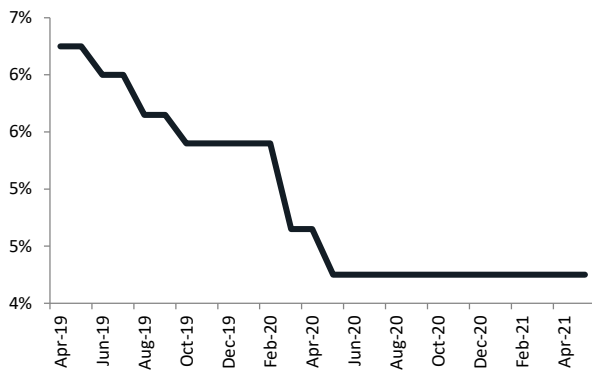
Banking system interest rates – Story of High NIIs

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Banking interest rates have generally trended downward

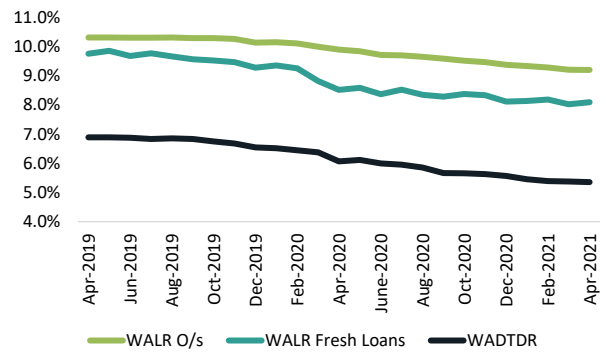
The impact of Covid-19 pandemic has been rampant globally affecting the lives and livelihood negatively across the board with global economic growth being disrupted. The second wave of the pandemic which has been more intense and widespread than the first has been a setback for India’s fledging economic recovery. The RBI has taken several measures to support the economy and unlock credit delivery, including rate cuts. Figure 1 captures movement in RBI’s bank rate. The overall credit growth in the banking sector has continued to moderate due to lack of demand from large industries and infrastructure sector, the rise in risk aversion in the banking system and continued parking of excess liquidity with RBI.

Figure 1: Bank rate



Source: RBI, CMIE

Figure 2: Movement in Banking System Interest Rates

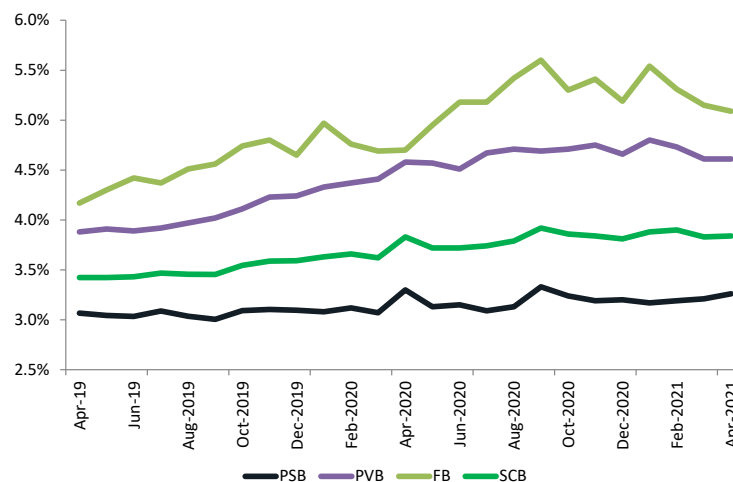


Source: RBI, CMIE

Interest rates in the banking system have generally trended lower. However, the interest rate transmission has been uneven. Additionally, WALR on fresh loans has increased marginally m-o-m in April 2021. Furthermore, both foreign banks (FBs) and private banks (PVBs) have not passed on the policy rate cuts as aggressively as the public sector banks (PSBs).

Movement in spread between lending and deposit rates

Figure 3: Movement in spread between WALR and WADTDR



Note: Difference between Outstanding Rupee Term Deposits and Outstanding Rupee Loans
Source: RBI, Scheduled Commercial Banks (SCBs) (All Banks)

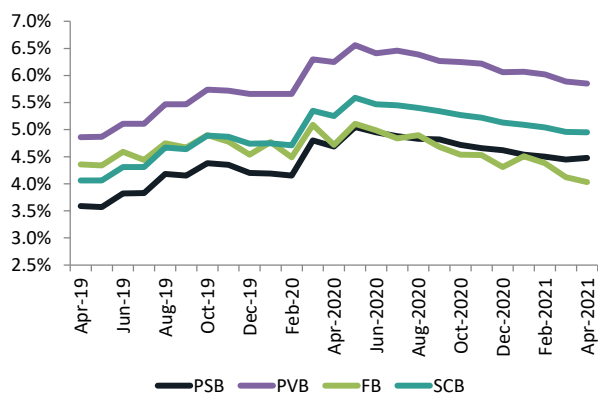
The net interest rate spread is the difference between the average lending rate and the deposit rate. The net interest rate spread is a key determinant of a financial institution's profitability. The lending rates of FBs are generally lower than the PVBs and the PSBs; the spread for these banks is higher as FBs pay even lower rates to deposit holders when compared with PSBs and PVBs. The spread between the Weighted Average Lending Rates (WALR) on outstanding loans and Weighted Average Domestic Term Deposit Rates (WADTDR) on outstanding term deposits has been the highest for

FBs, followed by PVBs, while PSBs have had the least spread. Both PSBs and PVBs pay deposit holders at similar rates, however, PVBs charge a higher WALR resulting in larger spreads.

- WADTDR on outstanding term deposits declined by 130 bps for PSBs, 174 bps for PVBs, 325 bps for FBs and 153 bps for SCBs between April 2019 and April 2021.

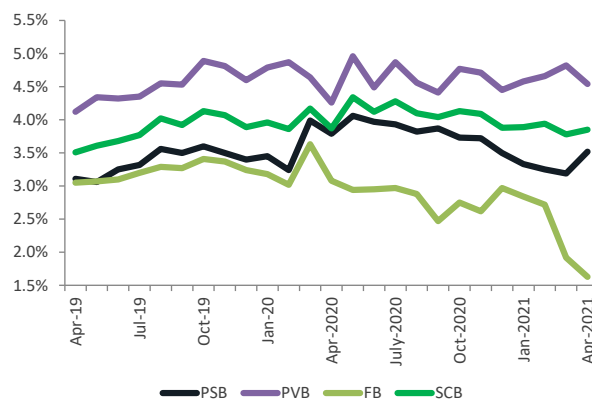
Movement of spread between lending rates and bank rate

Figure 4: Movement of spread between WALR (o/s loans) and bank rate



Source: RBI, CMIE

Figure 5: Movement of spread between WALR (fresh loans) and bank rate

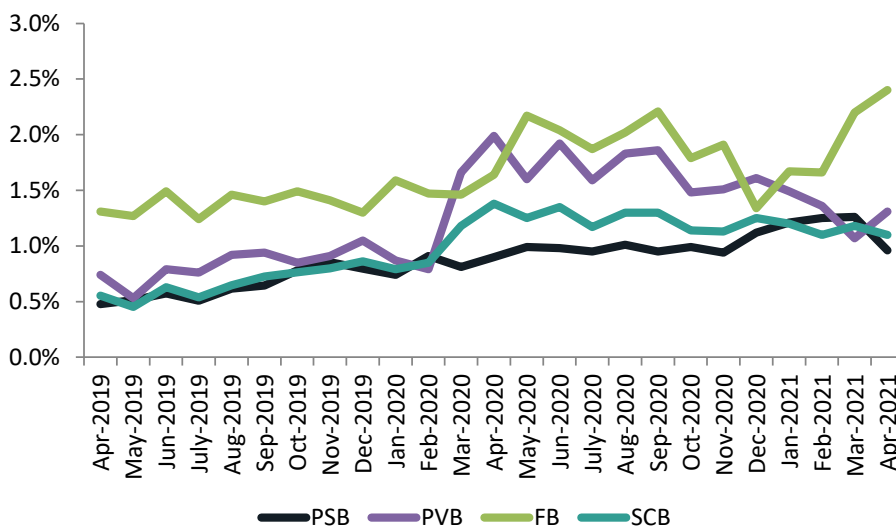


Source: RBI, CMIE

- WALR on fresh rupee loans declined by 159 bps for PSBs, 158 bps for PVBs, 342 bps for FBs and 166 bps for SCBs between April 2019 and April 2021, compared with the 200-bps reduction in the bank rate for the similar period.
- Decline in the WALR on outstanding loans has been less pronounced for the same period, with the decline being 111 bps for PSBs, 101 bps for PVBs, 233 for FBs and 111 bps for SCBs.

Movement of spread between WALR (o/s loans) and WALR (fresh loans)

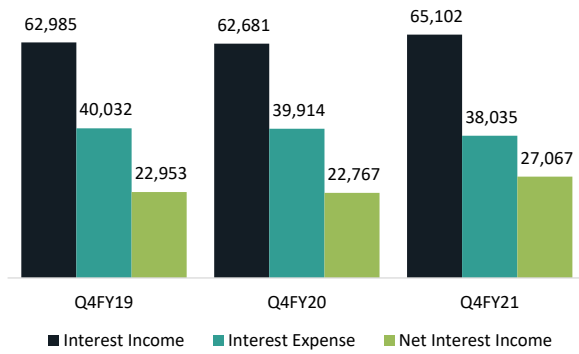
Figure 6: Movement in spread between WALR (o/s loans) and WALR (fresh loans)



Source: RBI

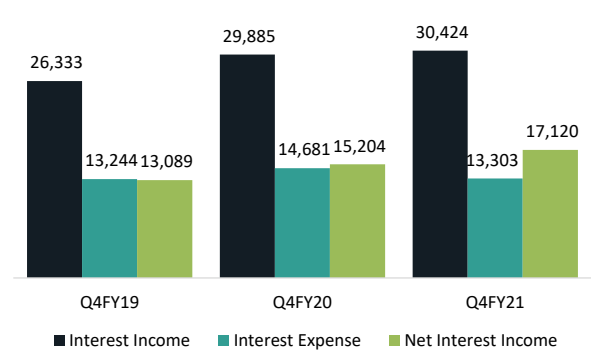
The WALR for all segments has generally been on a reducing trend. In April 2021, the difference between WALR on fresh loans and WALR on outstanding loans narrowed for PSBs and SCBs, while it increased for PVBs and FBs. The average difference between the two WALRs stands at 0.9% for PSBs, 1.3% for PVBs, 1.7% for FBs and 1.0% for SCBs, for the period between April 2019 and April 2021.

Figure 7: Movement in Net Interest Income of State Bank of India (Rs. cr.)



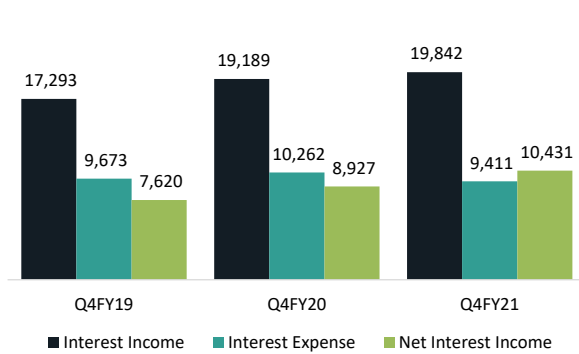
Source: Bank Filings

Figure 8: Movement in Net Interest Income of HDFC Bank (Rs. cr.)



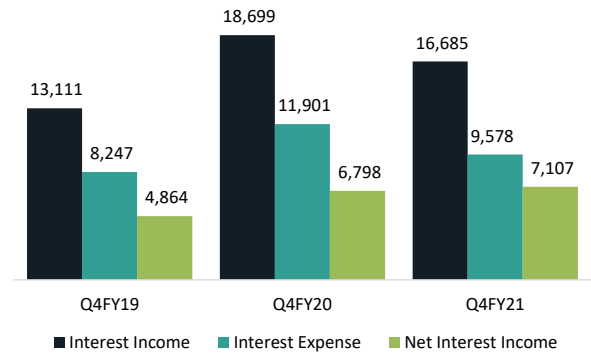
Source: Bank Filings

Figure 9: Movement in Net Interest Income of ICICI Bank (Rs. cr.)



Source: Bank Filings

Figure 10: Movement in Net Interest Income of Bank of Baroda (Rs. cr.)



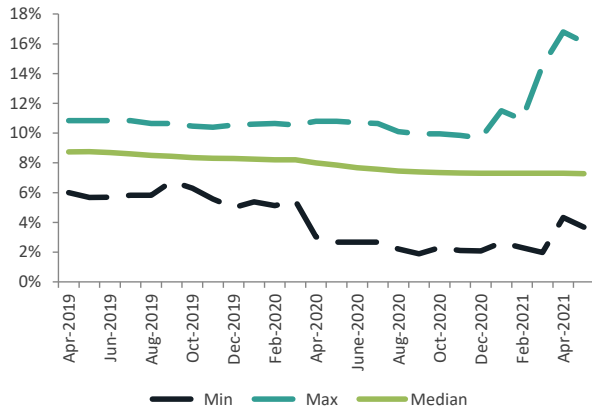
Source: Bank Filings

If we compare the Interest Income versus the Interest Expense, we can identify a discernible pattern, i.e., either the interest income has grown as a faster pace than the interest expense or that the interest income has fallen at a slower level than the interest expense. This is in line with the earlier charts where it can be observed that the interest rate cuts on the depositors have been sharper as compared to the rate cuts on the borrowers.

Another interesting facet which can be seen in the above banks is that the Net Interest Income has generally increased and in the case of the private banks is more than the Interest expense indicative of the spread between WALT and WADTDR (figure 3) and that the private banks generally charge a higher rate of interest compared to other banks.

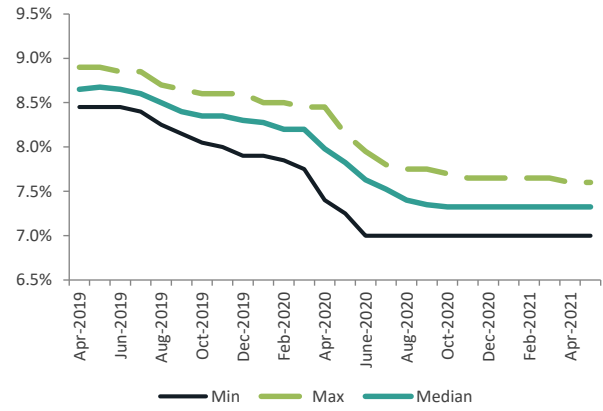
Movement in Bank Group-wise MCLR (1 Year): PVB corridor narrows, PSB rates continue to travel in the narrowest corridor. Foreign Banks maintain the highest variation. PVBs and FBs median rate rises marginally in May 2021.

Figure 11: Movement in 1 Year MCLR: Scheduled Commercial Banks



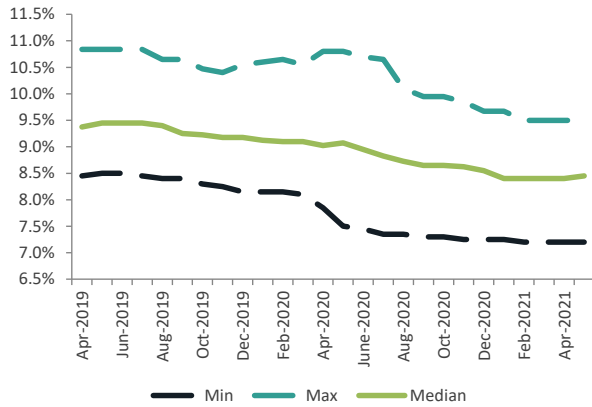
Source: RBI, CMIE

Figure 12: Movement in 1 Year MCLR: Public Sector Banks



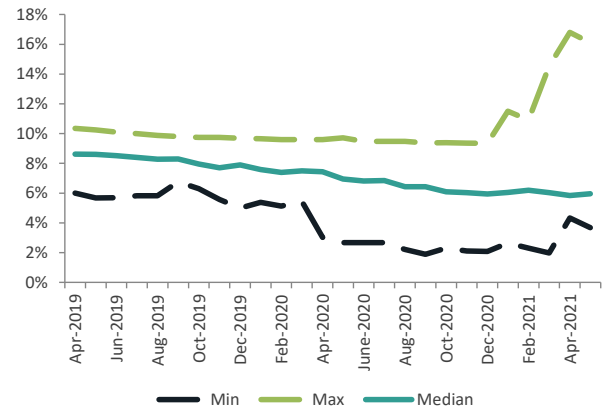
Source: RBI, CMIE

Figure 13: Movement in 1 Year MCLR: Private Sector Banks



Source: RBI, CMIE

Figure 14: Movement in 1 Year MCLR: Foreign Banks



Source: RBI, CMIE

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