

Rising Interest Rate Cycle Continues in November 2022

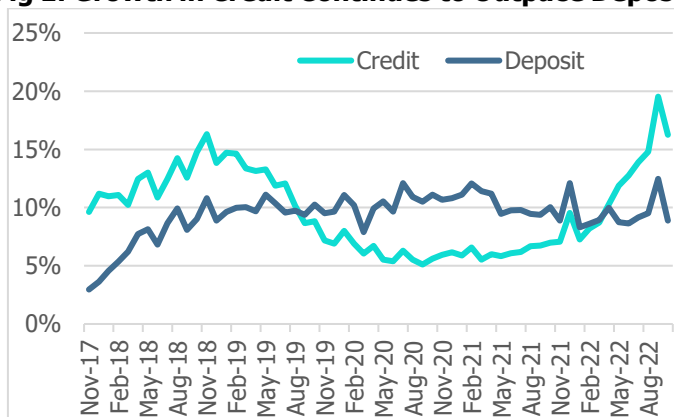
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Synopsis

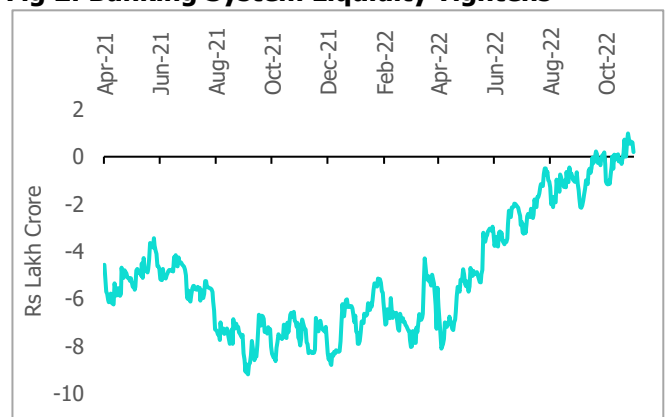
- Lending rates on fresh loans continued to grow faster compared to deposit rates.
 - The weighted average lending rate (WALR) on fresh loans of SCBs increased by 17 basis points (bps) from 8.69% in October 2022 to 8.86% in November 2022.
 - The weighted average domestic term deposit rate (WADTDR) on outstanding term deposits of SCBs increased by 13 bps from 5.49% in October 2022 to 5.62% in November 2022.
- Private bank fresh lending rates rose past their March 2020 levels, while Public Banks are yet to reach their pre-pandemic levels.
- The share of External Benchmark based Lending Rate (EBLR) linked loans in total outstanding floating rate rupee loans of SCBs stood at 47.6% at end-September 2022, while share of MCLR-linked loans was 46.5%.
- CareEdge expects the uptick in the deposit rate to continue given the widening gap between credit & deposit growth and tightening liquidity conditions.
- Private Sector Banks (PVB) and Public Sector Banks (PSB) have maintained high spreads between lending and deposit rates, with PVBs seeing higher spreads, as banks raised rates amid RBI's tightening moves. Rate hikes and subsequent faster resets in lending rates vs. deposit rates have led to NIM expansion in the near term however, widening gap between credit and deposit growth amidst tightening liquidity is leading to aggressive pricing of deposits.

Widening Credit and Deposit Growth Gap Coupled with Lowering Liquidity Levels

Fig 1: Growth in Credit Continues to Outpace Deposit **Fig 2: Banking System Liquidity Tightens**



Source: CMIE



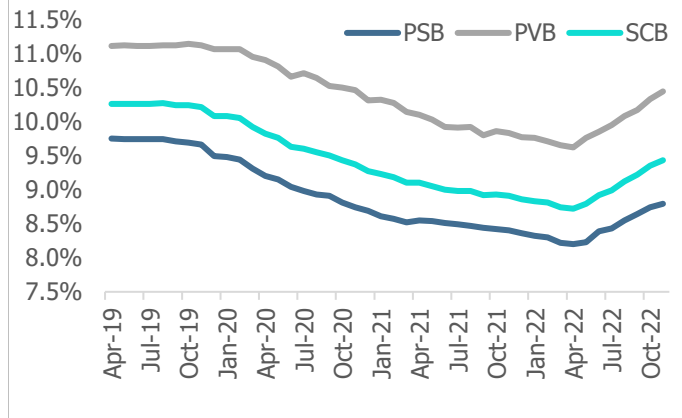
Source: RBI, CEIC

Credit demand has been recording double-digit growth driven by increased working capital requirements and demand revival. The gap between credit offtake and deposit growth is at the highest over the past 10 years (excluding the 2016 deposit growth during demonetization). Meanwhile, lower deposit mobilisation and pick-up in credit demand have pushed the credit deposit ratio to nearly 74.5% in October 2022.

The banking system liquidity surplus has narrowed from Rs 6.3 lakh crore at the start of FY23. The banking system liquidity stayed in deficit in the second half of December due to advance tax outflows and GST payments. These tightening liquidity conditions have pushed the short-term interest rates higher. The weighted average call money rate has risen from 3.25% at the start of FY23 to 6.21% by end-October 2022.

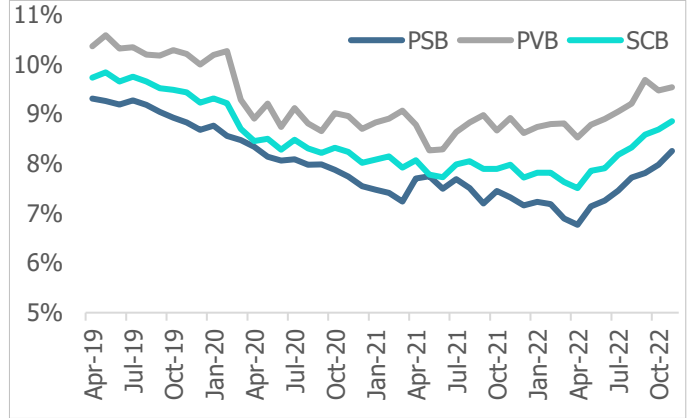
Lending Rate (WALR/ MCLR) to Continue Rising Reflecting the Rise in the Repo Rate

Figure 3: Evolution of WALR O/s (Lending) Loans



Source: RBI

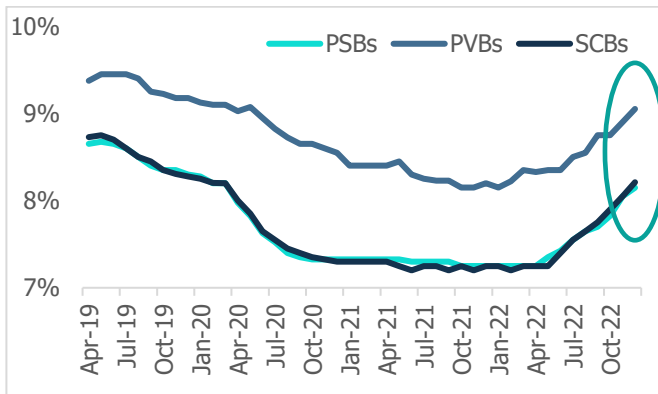
Figure 4: Evolution of WALR Fresh Loans



WALR on fresh loans continues to reflect the rising interest rate cycle faster as it increased m-o-m for PSBs (28 bps), PVBs (6 bps), and SCBs (17 bps). PVBs fresh lending rates have moved past their Mar-20 levels, while Public Banks have yet to reach their pre-pandemic levels.

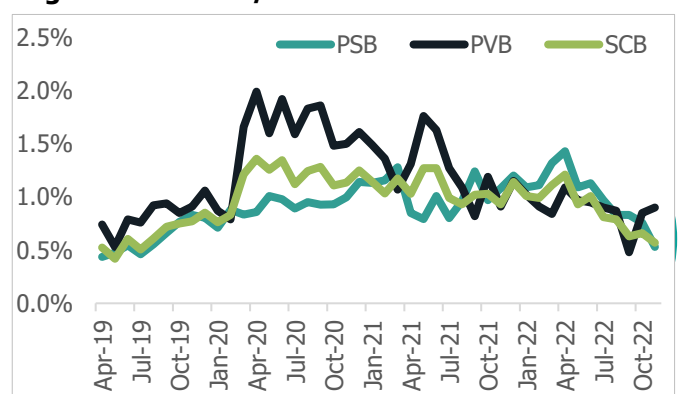
The spread between WALR O/s loans and WALR fresh loans for PSBs narrowed on a m-o-m, while the same increased for PVBs in November 2022 due to a higher rise of WALR on fresh loans as compared to WALR on O/s loans for PSBs and vice versa for PVBs.

Figure 5: Movement in 1-Year MCLR (Median)



Source: RBI

Figure 6: WALR o/s Loans vs WALR Fresh Loans



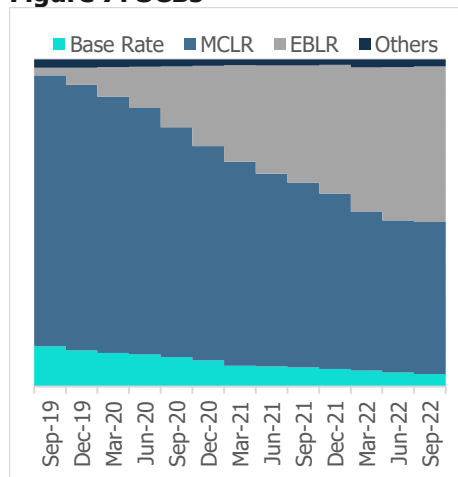
Source: RBI

On a m-o-m basis given the tightening interest rate scenario, 1-Year median MCLR of SCBs increased from 8.05% in November 2022 to 8.21% in December 2022, inching closer to the 8.25% level of March 2020.

Rate hikes and expectations for further rises have prompted banks to raise rates. The rising policy rate also has had a faster impact on the lending rate of fresh loans as new loans are being priced at newer rates, while older loans are re-priced based on repricing dates for specific loans. Consequently, the spread between WALR O/s loans and WALR fresh loans is broadly narrowing in the near term and is expected to stabilise over the medium term.

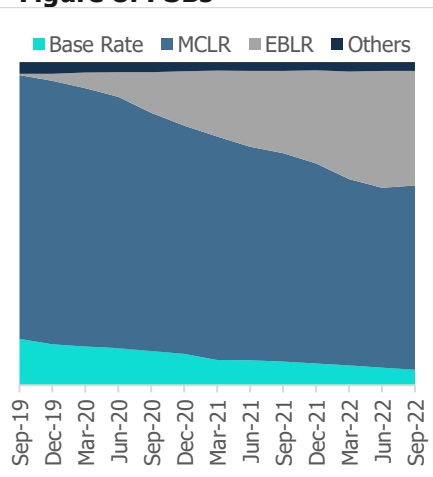
Outstanding Floating Rate Rupee Loans across Interest Rate Benchmarks - Private Banks Continue to Have a Higher Share of EBLR loans vs. Public Banks

Figure 7: SCBs



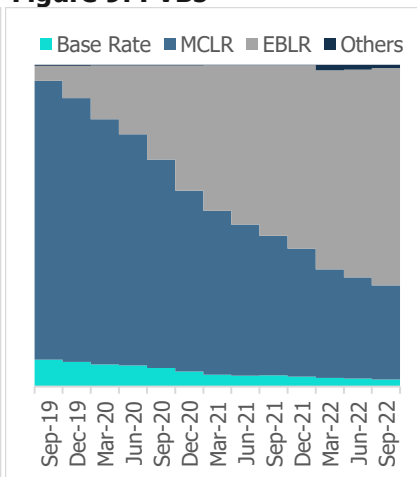
Source: RBI

Figure 8: PSBs



Source: RBI

Figure 9: PVBs



Source: RBI

The share of External Benchmark based Lending Rate (EBLR) linked loans in total outstanding floating rate rupee loans of SCBs was 47.6% at end-September 2022 while that of MCLR-linked loans was 46.5%. Compared with PCBs, PVBs have a higher share of EBLR, consequently, the lending rate transmission is faster in PVBs. Banks with a higher mix of floating-rate book stands to benefit from the rising rate cycle.

Figure 10: Steady Increase in MCLR Rates (in %)

Banks	12/21	01/22	02/22	03/22	04/22	05/22	06/22	07/22	08/22	09/22	10/22	11/22	12/22	YoY
Public Sector Banks														
BoB	7.30	7.30	7.30	7.30	7.35	7.40	7.50	7.65	7.70	7.80	7.95	8.05	8.30	1.00
BoI	7.25	7.25	7.25	7.25	7.25	7.25	7.35	7.50	7.60	7.70	7.80	7.95	8.15	0.90
BoM	7.25	7.25	7.25	7.25	7.25	7.40	7.70	7.50	7.60	7.60	7.80	7.90	7.90	0.65
Canara	7.25	7.25	7.25	7.25	7.25	7.35	7.40	7.50	7.65	7.75	7.90	8.10	8.15	0.90
CBI	7.15	7.15	7.15	7.25	7.25	7.25	7.40	7.45	7.50	7.55	7.60	7.65	7.90	0.75
Indian	7.30	7.30	7.30	7.30	7.30	7.30	7.40	7.55	7.65	7.75	7.85	8.10	8.20	0.90
IOB	7.45	7.45	7.45	7.45	7.45	7.45	7.45	7.55	7.65	7.75	7.90	8.05	8.25	0.80
PSB	7.45	7.45	7.45	7.45	7.45	7.50	7.50	7.55	7.65	7.70	7.80	8.00	8.15	0.70
PNB	7.25	7.25	7.25	7.25	7.25	7.25	7.40	7.55	7.65	7.70	7.75	8.05	8.10	0.85
SBI	7.00	7.00	7.00	7.00	7.10	7.20	7.40	7.50	7.70	7.70	7.95	8.05	8.30	1.30
UCO	7.30	7.30	7.30	7.30	7.30	7.45	7.65	7.65	7.65	7.65	7.70	7.95	8.10	0.80
UBI	7.25	7.25	7.25	7.25	7.25	7.35	7.45	7.55	7.70	7.75	7.90	8.20	8.25	1.00
Private Sector Banks														
HDFC	7.20	7.20	7.20	7.25	7.25	7.50	7.85	8.05	8.10	8.20	8.20	8.55	8.60	1.40
ICICI.	7.25	7.25	7.25	7.25	7.25	7.25	7.55	7.75	7.90	8.00	8.10	8.30	8.40	1.15
Axis	7.35	7.35	7.35	7.35	7.40	7.75	7.95	8.00	8.05	8.10	8.35	8.45	8.75	1.40
Indusind	8.45	8.45	8.45	8.50	8.55	8.75	9.00	9.10	9.30	9.40	9.55	9.80	9.95	1.50
Kotak	7.20	7.25	7.30	7.35	7.40	7.65	7.85	8.05	8.10	8.20	8.45	8.55	8.65	1.45
Yes.	8.45	8.45	8.50	8.50	8.50	8.60	8.75	8.95	9.05	9.20	9.60	9.70	9.75	1.30

Source: RBI

Lending rates (WALR (o/s)) of SCBs according to occupation steadily moving up

Figure 11: Agriculture

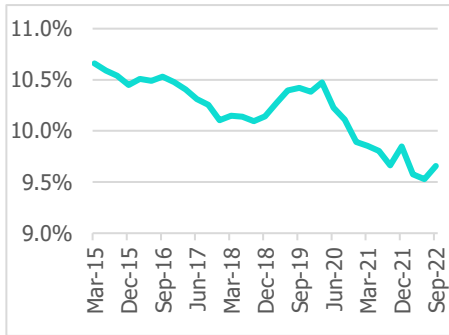


Figure 12: Industry

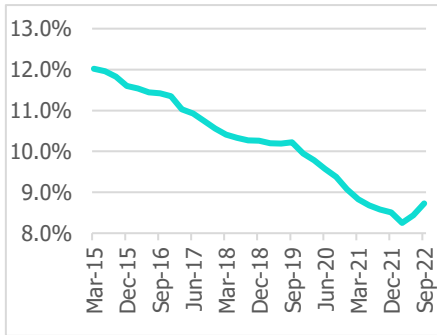


Figure 13: Professional Services

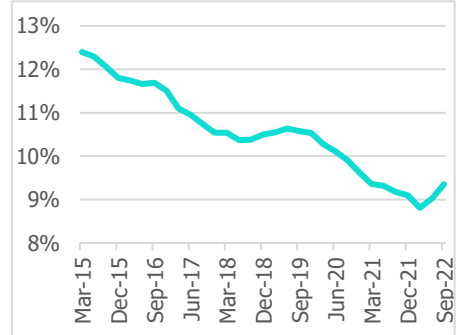


Figure 14: Trade

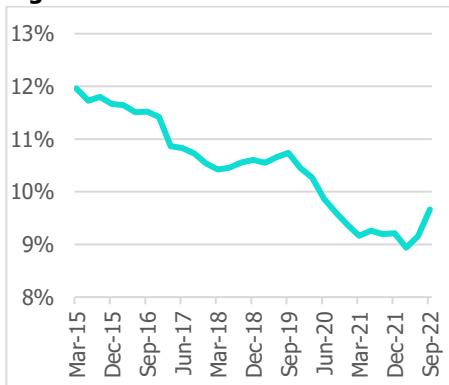


Figure 15: Finance

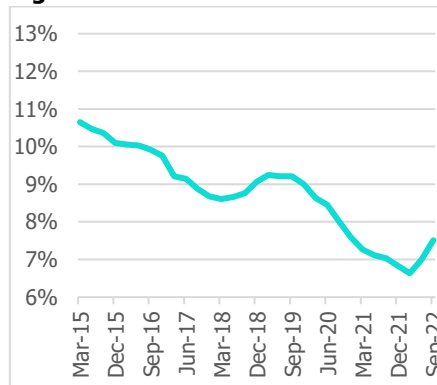


Figure 16: Personal Loans

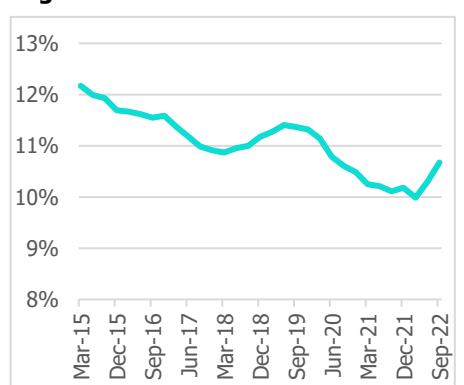


Figure 17: Personal – Housing

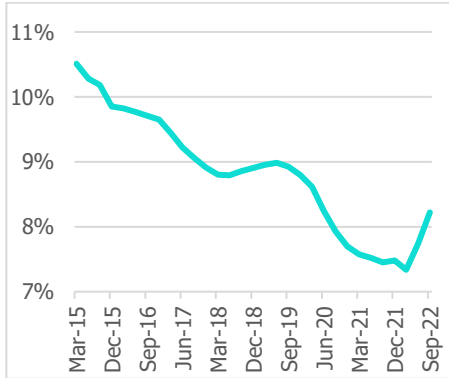
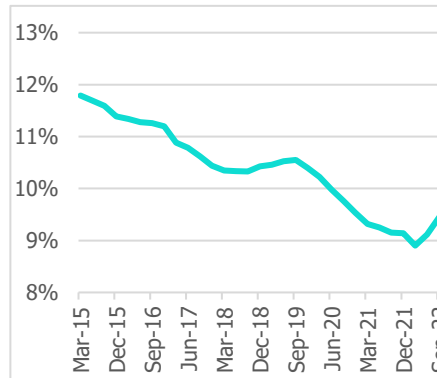


Figure 18: Aggregate



Source: RBI

The charts both above and below in interest rates and borrower mix indicate that the loan portfolio is gradually moving to higher interest rate buckets compared to the rates that prevailed during the covid pandemic. However, the rates are yet to catch up with pre-covid levels, let alone move to the kind of yields that have prevailed in earlier periods.

Outstanding Loans Mix of SCBs by Interest Rates according to occupation moving up steadily

Figure 19: Agriculture

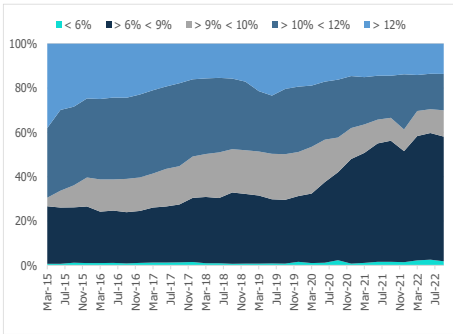


Figure 20: Industry

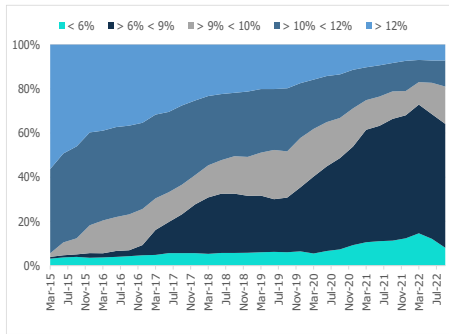


Figure 21: Professional Services

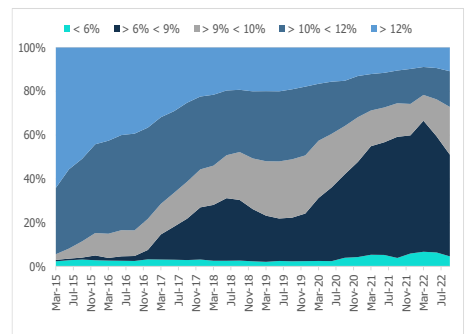


Figure 22: Trade

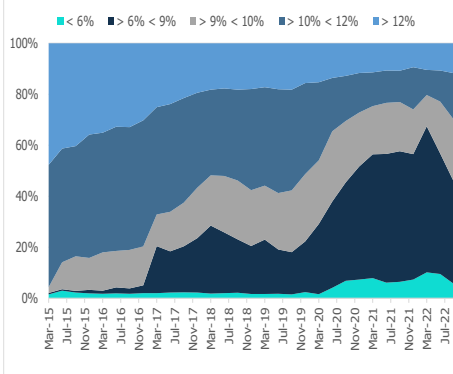


Figure 23: Finance

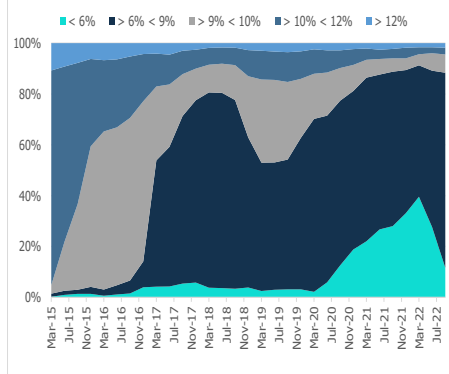


Figure 24: Personal Loans

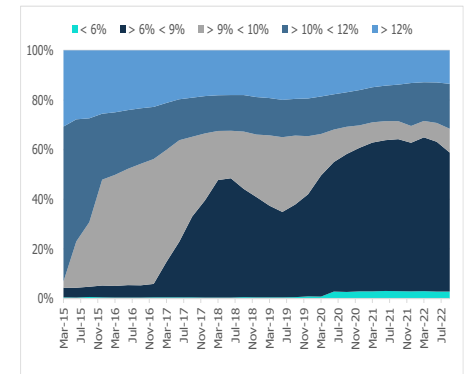


Figure 25: Personal – Housing

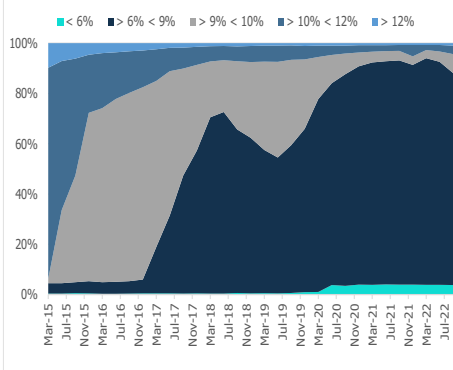
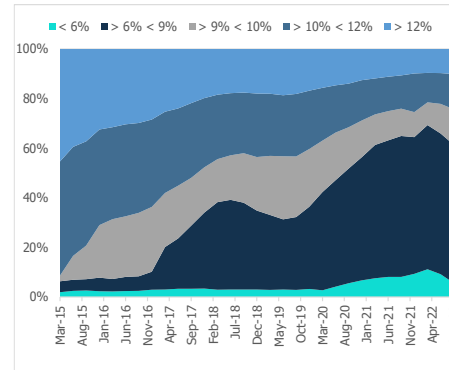


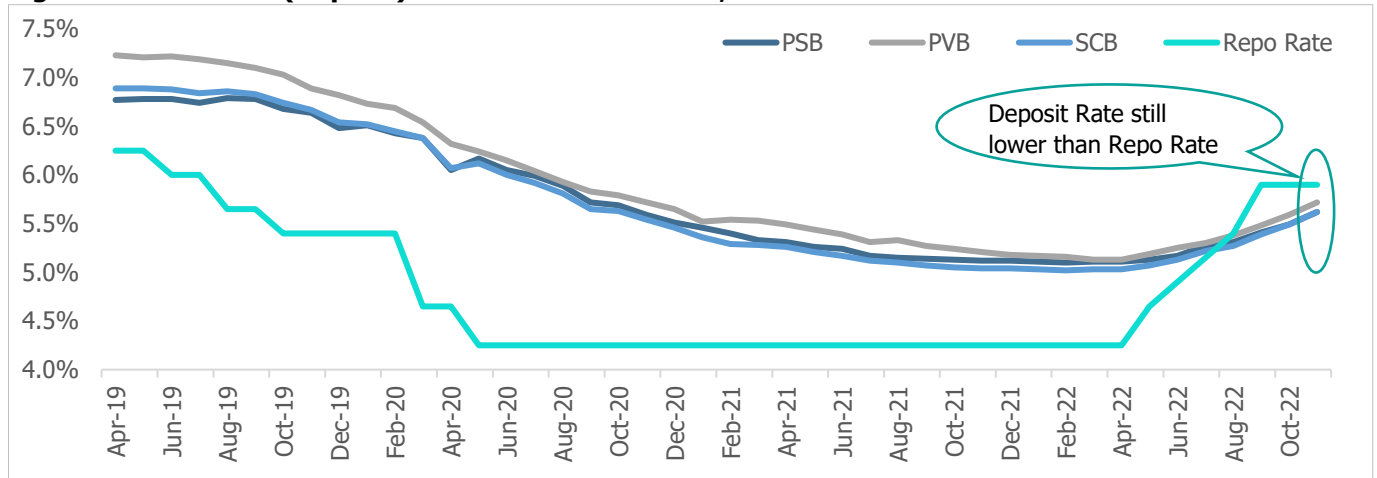
Figure 26: Aggregate



Source: RBI

Deposit Rates Rise Faster vs. Previous Months but slower compared to the Repo Rate

Figure 27: WADTDR (Deposit) Rates Continue to Rise, Remain Below Pre-Pandemic Levels

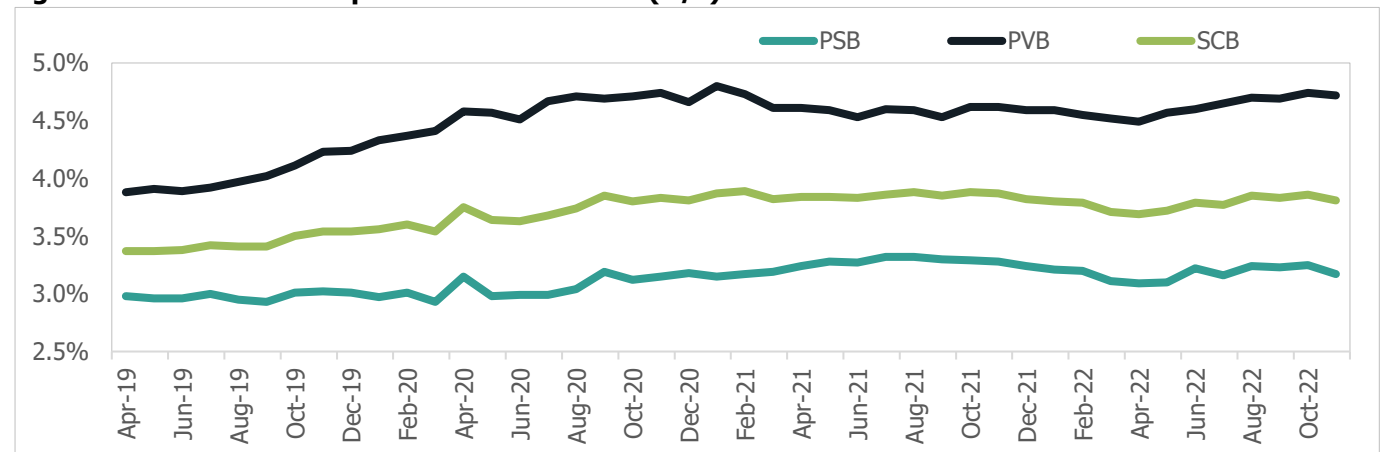


Source: RBI

Deposit rates for PSBs, PVBs and SCBs too witnessed a rise by 13 bps m-o-m in November 2022, however, they continue to be lower than their pre-pandemic levels (as of March 2020) by around 75 bps, indicating the distance the deposit rates have yet to traverse to reach the repo rate as well as their pre-pandemic levels, let alone move past the same.

Banks have raised lending rates in-line with an increase in repo rates over the last few months. However, an increase in deposit rates is much lower than the rise in lending yields. Banks maintain significant levels of investments in G-Secs which can be used to fund credit growth, and the focus on deposits is rapidly increasing going further. As competitive intensity picks up on the liability side, a sharper increase in deposit rates is anticipated, thus driving an increase in funding costs.

Figure 28: Movement in Spread between WALR (O/s) and WADTDR



The spread of SCBs between WALR (O/s) and WADTDR (the net interest rate spread) stood at 3.81% in November. The spread for PSBs (8 bps), PVBs (2 bps) and SCBs (5 bps) narrowed in November 2022 as deposit rates continued their rise. On a y-o-y basis, PSB spread narrowed, PVB spreads rose, while the spreads of both PSB and PVBs have continued to remain elevated compared to the pre-pandemic levels. PVBs continue to maintain a higher spread given that they charge more as compared to PSBs while paying out at a similar rate.

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