

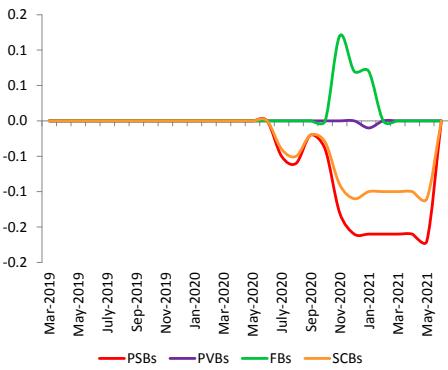
10 August 2021

No signs of change in spread trajectories in June'21

SECTOR UPDATE

Industry Banking

Difference between revised data & past data on fresh loans WALR



Source: Systematix Institutional Research

In its end-July'21 data release, the Reserve Bank of India (RBI) revised the data series pertaining to lending & deposit rates for prior months. There were significant alterations in the weighted average term deposit rates (WATDR) and minor changes in the weighted average lending rates (WALR, fresh loans and outstanding loans). The WATDR of public sector banks (PSBs) were overstated by 2bps-17bps for July'20-May'21. Foreign banks' fresh loans WALR and outstanding loans WALR were under-stated by 2bps for Nov'20-Jan'21 and 2bps-13bps for Nov'20-Feb'21. As the data submitted by banks is provisional, the past data points have undergone a revision. As a result of the revision in the data series, PSBs' spreads improved during July'20-May'21.

Given private banks' (PVBs) risk-averse stance on high-yielding unsecured retail credit, a larger portion of credit on the external benchmark interest rate regime continues to reflect in spread contraction over various yardsticks. On the other hand, PSBs did not take an aggressive stance on the unsecured side of the retail business in pre-pandemic times and their loans under the external benchmark regime have been much lower, leading to a better margin trajectory. Any slight change in the spread trajectory would be a key monitorable.

PVBs' fresh loans lending rate remains priced below median MCLR

During 1QFY22, PVBs/PSBs witnessed a 79bps drop/21bps rise in their fresh loans WALRs respectively on a sequential basis. PVBs' cautious stance on unsecured retail loans and a switch to external benchmark rates have led to a faster decline in fresh loan lending rates, as evident from the spreads movements – the spread trendline that depicts the difference between PVBs' fresh loan WALR & 5-year GSec yield has been falling faster as compared to the spread trendline that represents the difference between PVBs' outstanding loan WALR & 5-year GSec yield. This indicates that PVBs' rate of transmission over the last 6-8 months has been faster. The private sector banking group's fresh loan WALRs were again priced below their median MCLRs in May'21 & June'21, leading to lower spreads. PSBs' spreads over their median MCLRs also contracted from the April'21 levels.

PVBs' lending spreads over AAA-rated papers and risk-free papers continue to moderate

The banking sector continued to witness contraction in outstanding loan WALR during 1QFY22; PVBs and PSBs O/s loan WALR contracted by 22bps and 2bps on a QoQ basis, respectively. PVBs' spreads over 1-year AAA PSU paper yields and 1-year government bond bid yields moderated further. The moderation in spreads had begun in Nov'20 itself, but the gradient of the downward slope increased post Jan'21-Feb'21. There has been no trend reversal since then, in fact, the downtrend continued in June'21. Any large private bank consistently deviating from the banking industry's trend may have to undergo scrutiny.

PVBs and PSBs continue to witness divergent trends on proxy spread trajectories

The banking sector's WATDR continued to decline in 1QFY22 on a sequential basis; PVBs and PSBs WATDR fell by 14bps and 9bps on a QoQ basis to 539bps and 524bps, respectively. PVBs & PSBs proxy spreads (difference between O/s loans WALR and WATDR) continued to witness divergent trends – PVBs proxy spreads contracted further, while PSBs proxy spread remained steady above its 12-months moving average trend. The two important tools 'proxy spread' and 'difference between O/s loan WALR & median MCLR', which factor in O/s loan WALR indicate stagnation in PSBs' spreads in June'21. The sustenance of the trend or moderation in the spread would require reconsideration of opinion on PSBs.

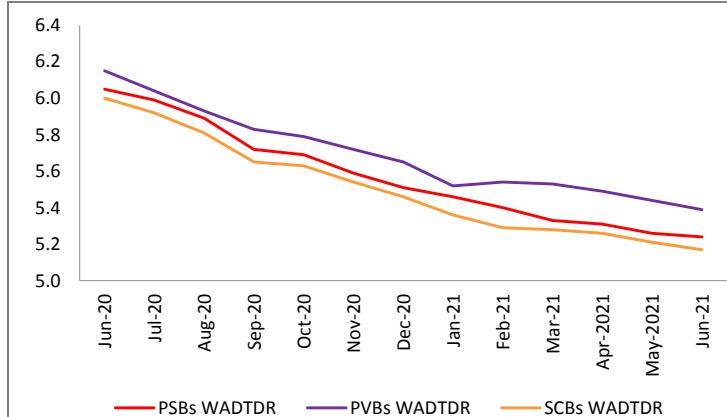
Interest rate transmission improves

The banking system's interest rate transmission has improved as close to one-fourth of PVBs' loans and one-sixth of PSBs' loans are indexed to the external benchmark interest rate regime.

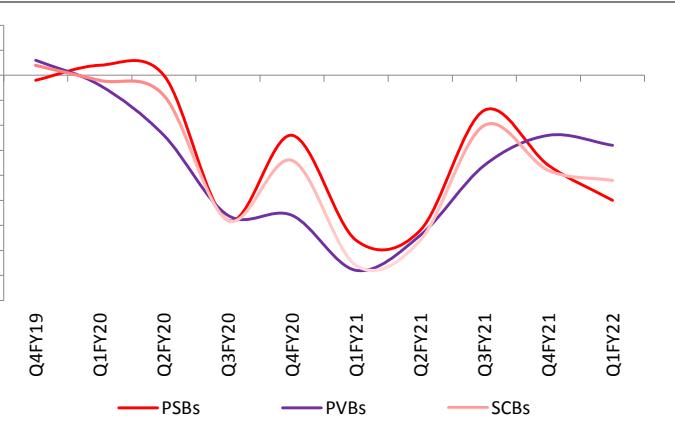
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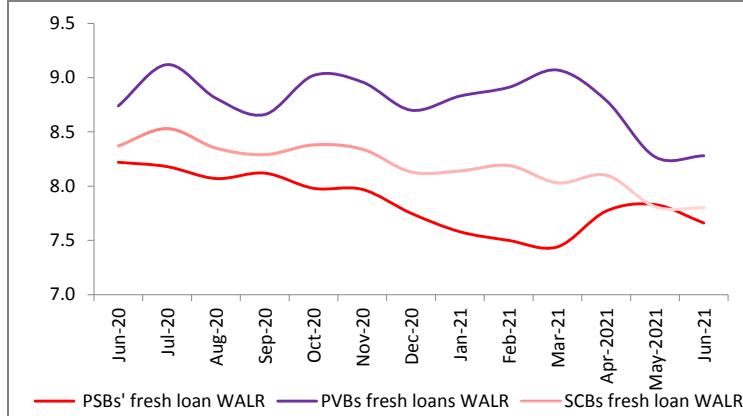
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Exhibit 1: Banks' WADTDR trajectory

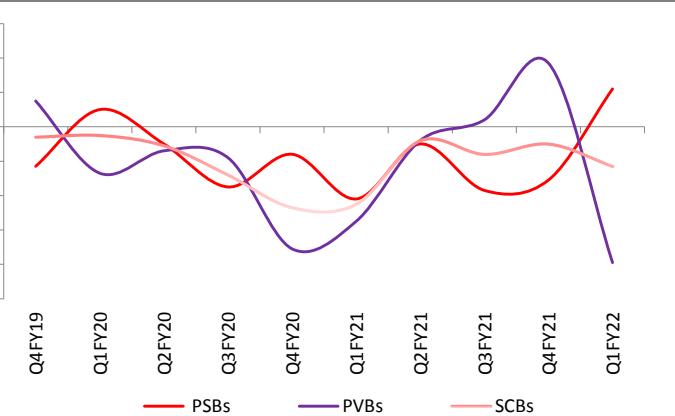
Source: Systematix Institutional Research

Exhibit 2: Quarterly changes in WADTDR

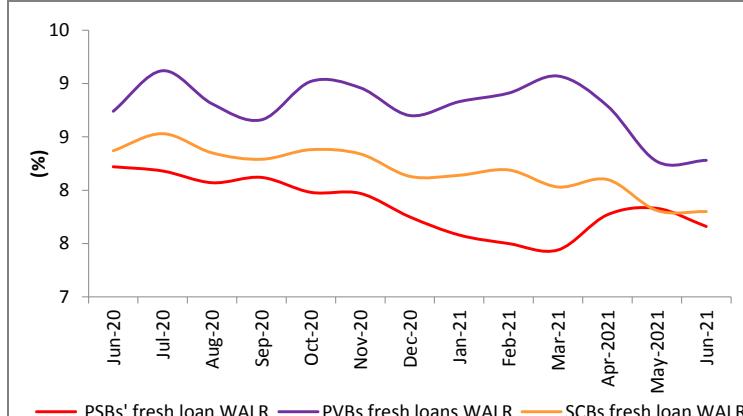
Source: Systematix Institutional Research

Exhibit 3: Banks' fresh loans WALR trajectory

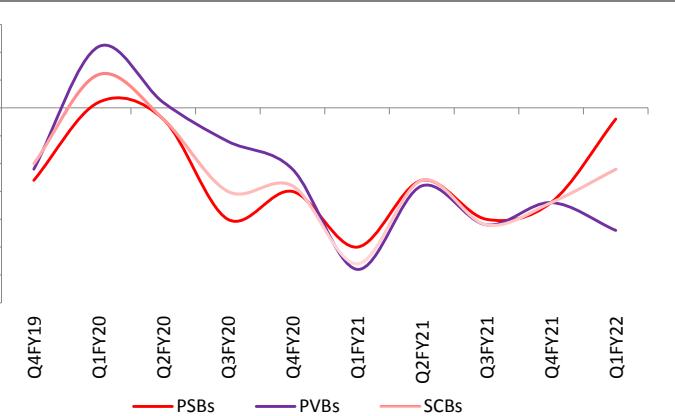
Source: Systematix Institutional Research

Exhibit 4: Quarterly changes in fresh loans WALR

Source: Systematix Institutional Research

Exhibit 5: Banks' outstanding loans WALR trajectory

Source: Systematix Institutional Research

Exhibit 6: Quarterly changes in O/s loans WALR

Source: Systematix Institutional Research

Exhibit 7: Trend in spread over PSBs fresh loans & o/s loans WALR and 5-year G-sec

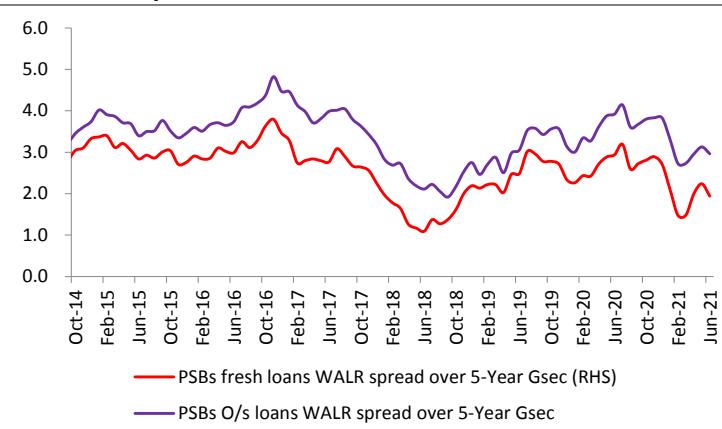


Exhibit 9: Movement in 5-year G-Sec yield and PSBs & PVBs fresh loans WALR

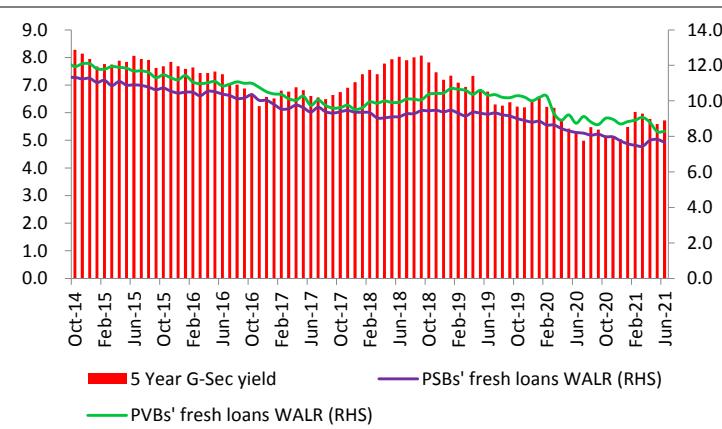


Exhibit 11: Trend in credit spread (over 1-year liquid AAA PSU yield)

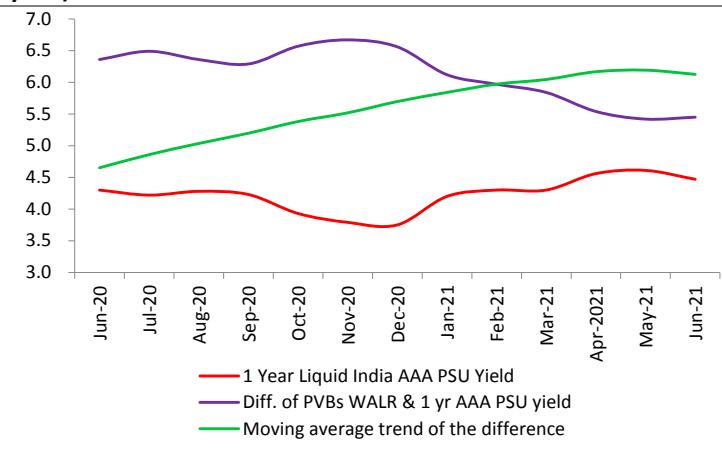


Exhibit 8: Trend in spread over PVBs fresh loans & o/s loans WALR and 5-year G-sec

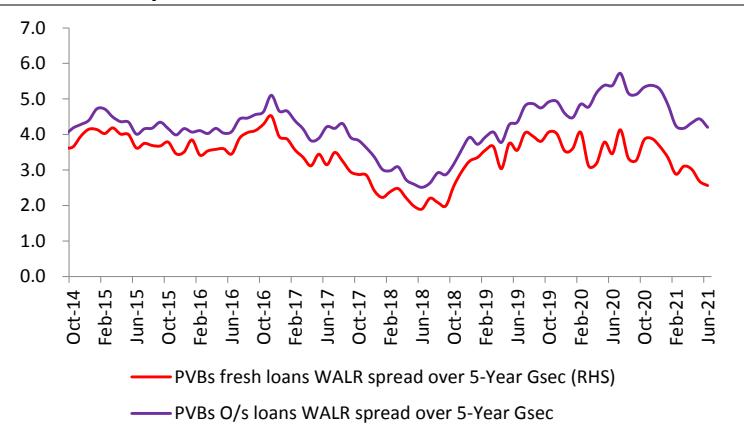


Exhibit 10: Movement in PSBs & PVBs fresh loans (over median MCLR)

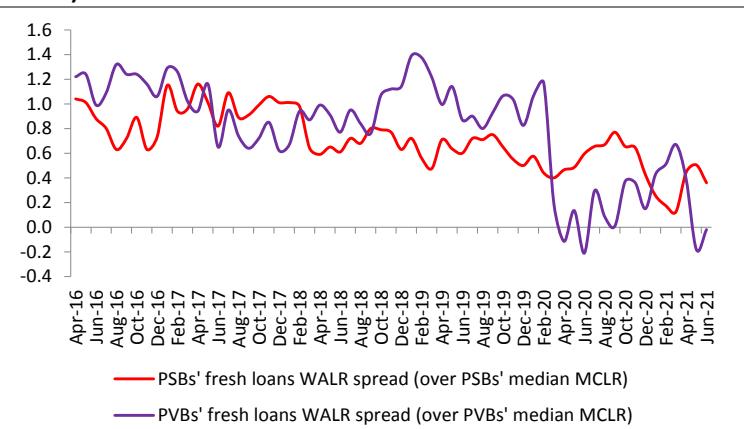


Exhibit 12: Trend in spread of PVB's WALR & 1 year India government bond generic bid yield

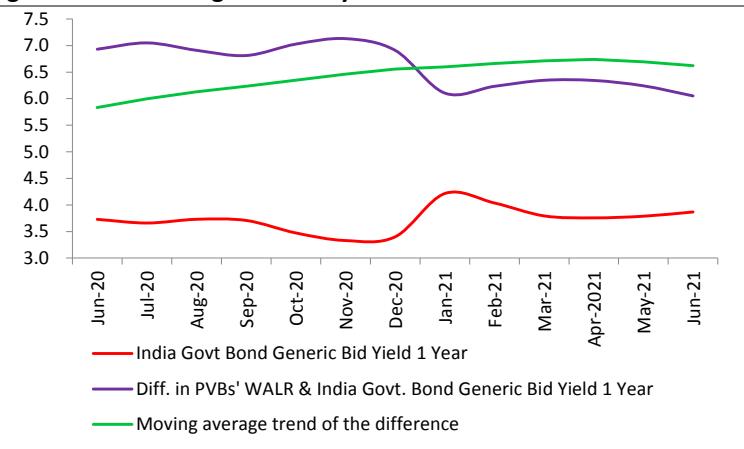
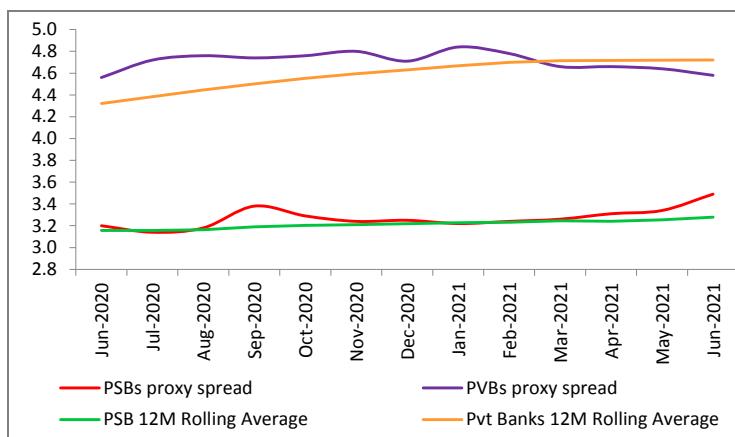
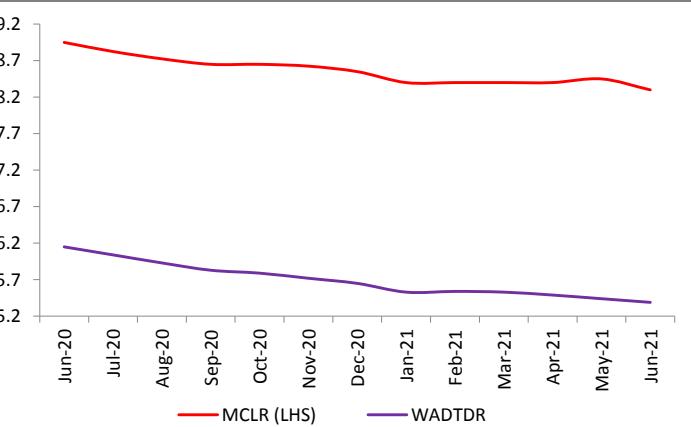
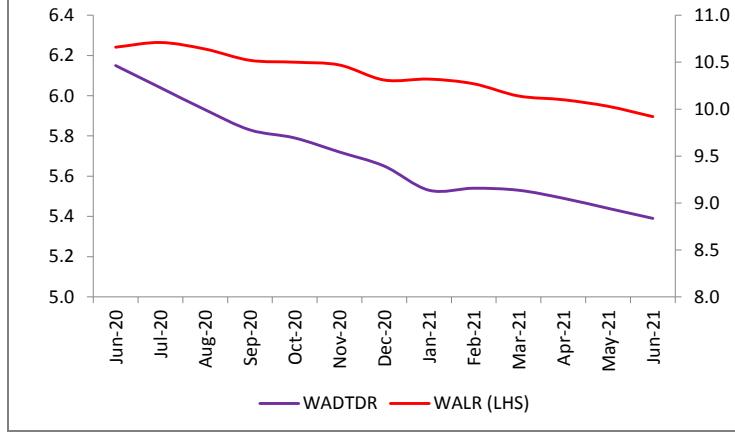


Exhibit 13: Movement in PSBs & PVBs proxy spreads

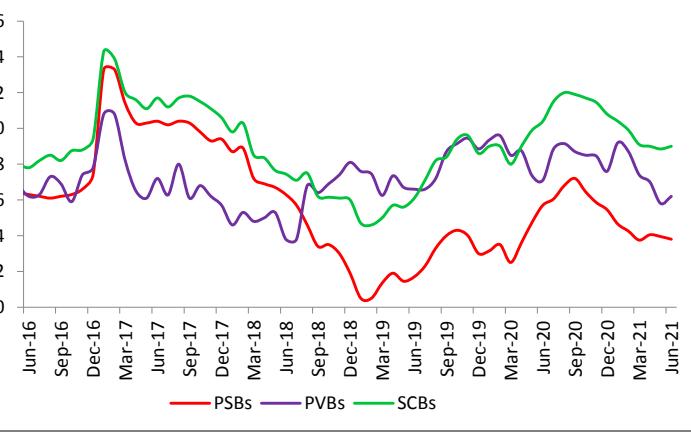
Source: Systematix Institutional Research

Exhibit 14: PVBs' movement in WADTDR & median MCLR (in %); fall in WADTDR reflects in lower MCLR

Source: Systematix Institutional Research

Exhibit 15: PVBs' difference between WALR & WADTDR (in %); slower transmission as WALR contracts gradually

Source: Systematix Institutional Research

Exhibit 16: SCBs, PSBs & PVBs difference between WALR & median MCLR (in %); softening of spreads (over MCLR) witnessed across banks

Source: Systematix Institutional Research

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