BFSI - Banks

RBI's impulsive SA rate nudge could further hurt credit growth

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Along with its discomfort on runaway growth in unsecured loans ultimately resulting in some action, the RBI has voiced its dissent about lower (<4%) and near-stagnant SA deposit rates for many banks, including large banks vs. a 250bps increase in repo rate. As per the RBI, this impacts effective policy transmission and hurts small-time savers already burdened with higher inflation. Most bankers have defied the RBI's nudge till now. We also believe the Regulator should/may not intervene in banks' commercial decision post the de-regulation of SA rates in 2011, but we thereby explore the earnings sensitivity of banks to any such impulsive nudge by the RBI.

SA rate has been largely stagnant and lower, at <4% for ~75% of the saving deposit pool vs. a 250bps increase in repo rate and higher CPI…

Many banks with relatively sub-optimal liability franchises increased their SA rate (e.g. Yes Bank and Kotak) post the SA de-regulation in 2011, to catch up with large peers. Even new-age banks being later entrants, including SFBs (Ujjivan, Equitas and AU) and universal banks (IDFCB, Bandhan and RBL), offered higher SA rates to mobilize SA deposits. However, banks with nearly 75% market share in SA deposits continue to offer a lower SA rate of <4% to manage their margins, despite a 250bps increase in repo rate and a few banks (e.g. SBI) linking SA rate to repo rate. This has possibly attracted RBI attention, leading to recent statements by the regulator that the near-stagnant/lower SA rate does not lead to effective policy transmission (repo increased by 250bps) and, thus, banks should consider raising it.

…leading to higher CASA cannibalization and, thus, slower SA growth in metropolitan areas

The gap between the SA and TD rate for a few large banks (viz. SBI, ICICIB, HDFCB and AxisB) has meaningfully increased, leading to accelerated CASA cannibalization, more so visible in metropolitan areas (~40%), which remain the country's key SA contributor. That said, some of the sequential SA deceleration during the recent past (Q2) can also be attributed to the Rs2K note DeMo which otherwise typically happens in Q1. Additionally, we believe the declining savings growth in the economy could have a long-term impact on overall deposits growth and, thus, could compel banks to keep rates elevated for prolonged periods, unless inflation cools off meaningfully. This will keep CASA mobilization under pressure for banks and, hence, hurt banks. In addition, the RBI nudging banks to increase SA could further hurt banks.

RBI may opt for softly prodding banks, instead of re-regulating the SA rate via any official directive

We believe that instead of openly directing banks to increase SA deposit rates and sending inaccurate signals to the market, an RBI nudge could come via asking banks to effectively link SA deposit rates to repo or other benchmark rates. We believe that the retrospective and full transmission of any such linkage to repo rate could lead to a sharp increase in SA rate which may not be viable for banks or for borrowers (as banks would pass-on the cost impact via higher lending rates), thereby derailing systemic growth. In our view, the RBI should ideally not intervene, but if it decides to do so, it may at best nudge banks to voluntarily increase the SA rate slightly and push them to pay the saving deposit interest on a monthly basis instead of the current practice of quarterly payments. Further, for banks already offering SA rate above 4% (e.g. SFBs, new-age banks), the RBI may provide full exemption or at least some relief, as it did when imposing higher RWA.

Increase in SA rate could impact banks with higher SA share, but could be partly offset by rising lending rates on floating rate loans

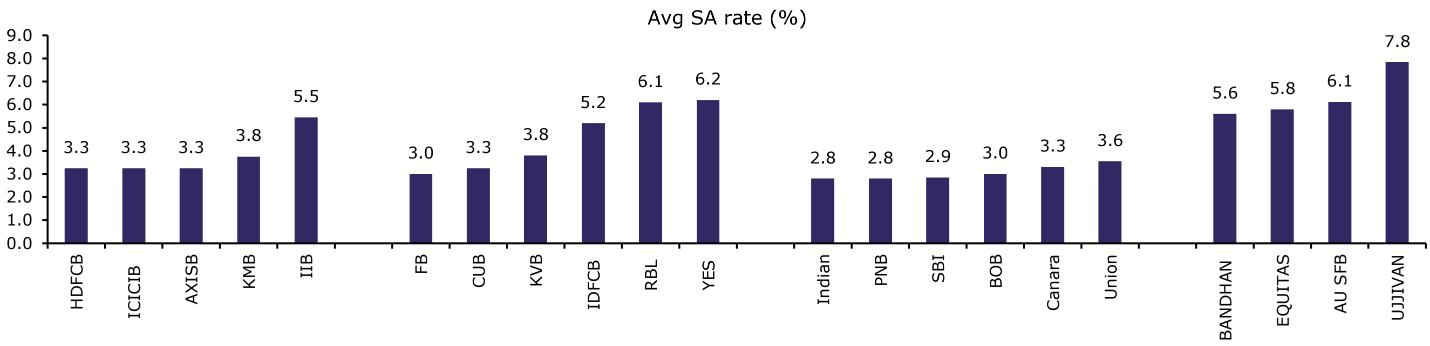
Though it is difficult to guess the possible SA rate increase, we hereby analyze the impact of a 25bps increase in SA rate on banks under our coverage and the required increase in lending rates to mitigate the impact. Our analysis suggests that a 25bps increase in SA rate across banks could lead to an adverse impact of 5-6bps on NIM, of 2-3% on EPS, 3-4bps on RoA, and 26-45bps on RoE for large PVBs (higher for AxisB, ICICIB and IIB). For small-to-mid size PVBs, the adverse impact could be 3-8bps on NIM, of 2-4% on EPS, 2-6bps on RoA (highest for IDFCB and lowest for Yes Bank), and 15-58bps on RoE (higher for IDFCB and FederalB). Within PSBs, the impact could be 6-9bps on NIM, of 4-12% on EPS, 4-6 bps on RoA (higher for Indian Bank, SBI, PNB, and BOB), and 70-103bps on RoE (higher for PNB and SBI due to elevated leverage). We expect SFBs to be spared, given that the SA rate is above 4%; but if not, then the impact on NIM will be 5-6bps, of 3-5bps on RoA (higher for AU, Equitas and Bandhan), and 29-40bps on RoE (higher for AU and Equitas). We believe banks will require increasing their lending rates on their floating rate loan portfolio, by 4-20bps for PVBs and 11-38bps for PSBs, to offset the impact of the increase in SA rate by 25bps.

RBI intrusion on SA rate, with recent action on unsecured loans, could hurt credit growth

We believe the recent RBI move—to increase RWA on unsecured retail loans/NBFC exposure—is justifiable, but any action on forcing banks to increase SA rate could bring in fear of over-regulation and further hurt credit growth & investor sentiment. Thus, we believe the SA rate should be left to banks' commercial decision. That said, an RBI decision to still push banks to raise SA rate could hurt banks' growth/earnings with higher SA deposit share (including Kotak, ICICIB, IDFCB, Indian Bank, SBI, PNB and BOB), unless mitigated by the increasing lending rates. On the other hand, HDFCB, CUBK, Canara Bank will be least impacted. Among these banks, we believe Kotak/IDFCB, given their higher share of fixed-rate loans, would have lower maneuverability in terms of increasing lending rates and mitigating the impact.

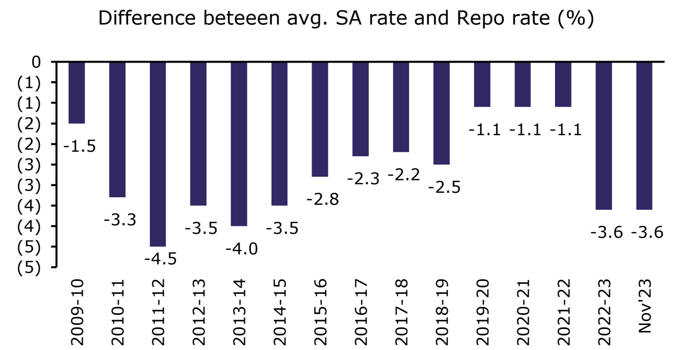
Story in Charts

Exhibit 1: Several banks still offer a lower than 4% SA rate and could be nudged to slightly increase the SA rate



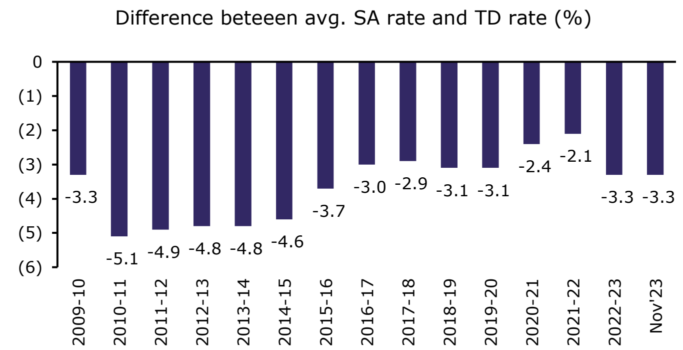
Source: Emkay Research

Exhibit 2: Difference between SA rate and repo rate near peak…



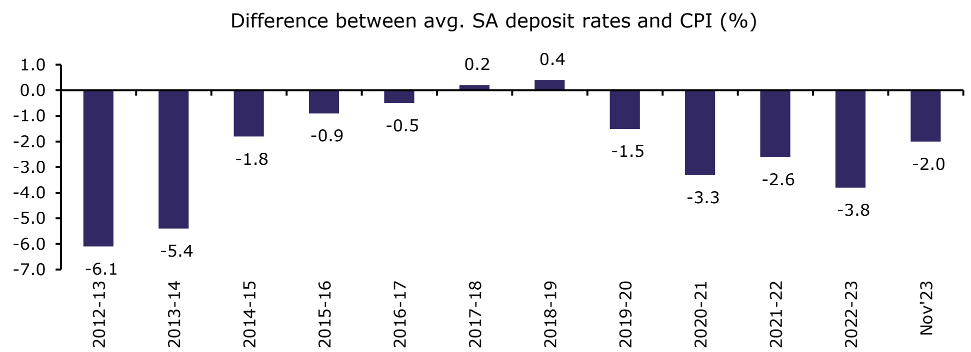
Source: RBI, Emkay Research

Exhibit 3: …but the difference between SA rate and TD rate lower, as banks raise TD rates only rationally this cycle



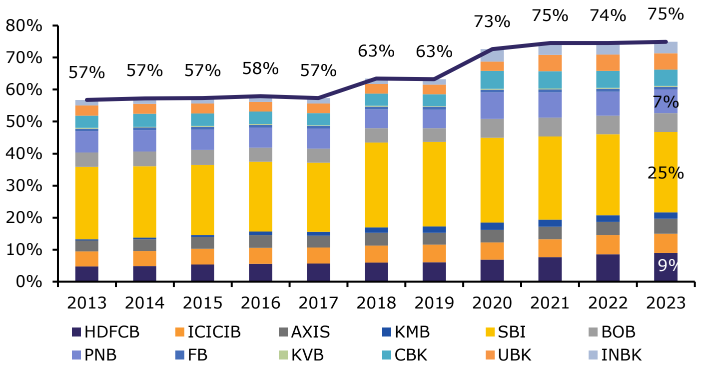
Source: RBI, Emkay Research

Exhibit 4: Barring during the 2017-18 and 2018-19 periods, saving interest has not been able to beat consumer inflation



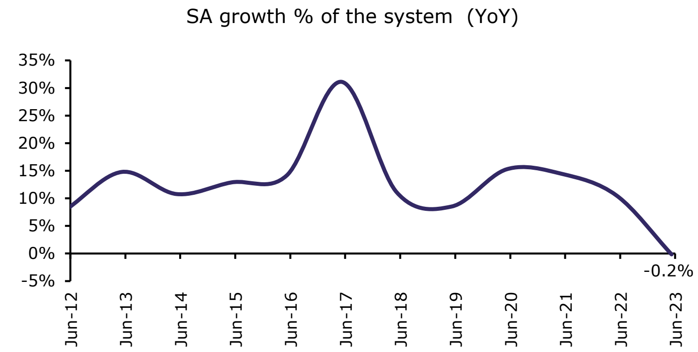
Source: RBI, Emkay Research

Exhibit 5: Banks with <4% SA rate have nearly 75% market share



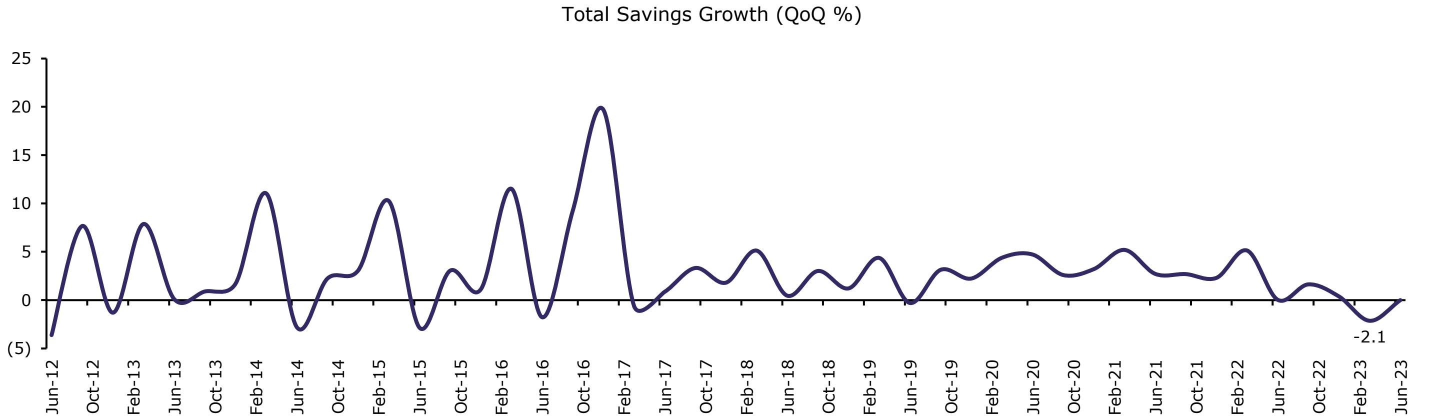
Source: RBI, Emkay Research

Exhibit 6: Savings growth for the system has dipped YoY



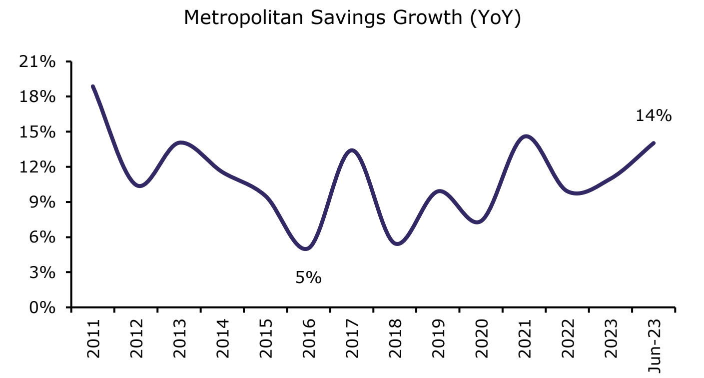
Source: RBI, Emkay Research

Exhibit 7: Savings growth has turned negative in 1Q, due to the widening gap between SA rate and TD rate and owing to seasonal factors



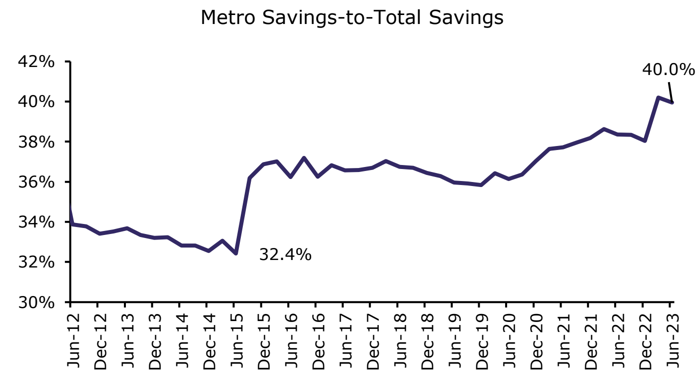
Source: RBI, Emkay Research

Exhibit 8: Savings growth rate for Metropolitan cities climbs continuously post demonetization…



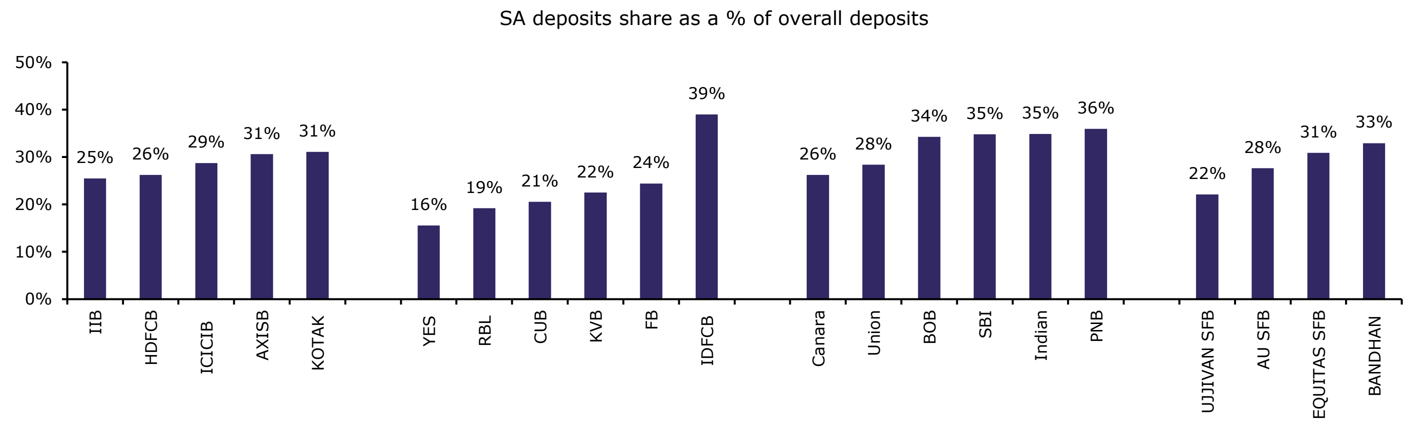
Source: CMIE, Emkay Research

Exhibit 9: …which is evident in the share of metro savings being on the rise



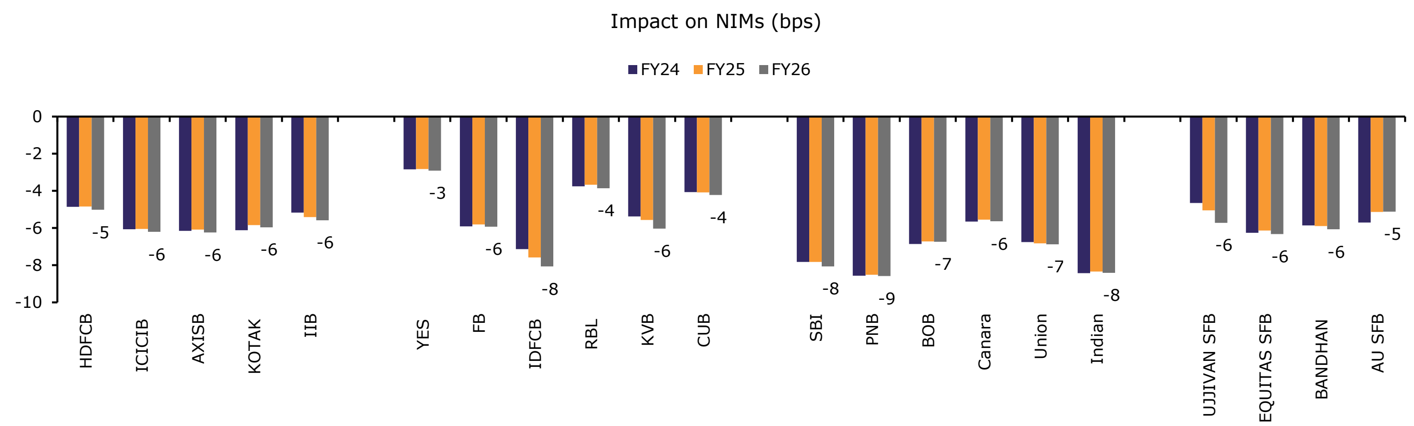
Source: CMIE, Emkay Research

Exhibit 10: Banks with a higher share of SA deposits will see increased impact due to any increase in SA rate, but we believe the RBI could nudge banks mainly offering SA rate of <4%



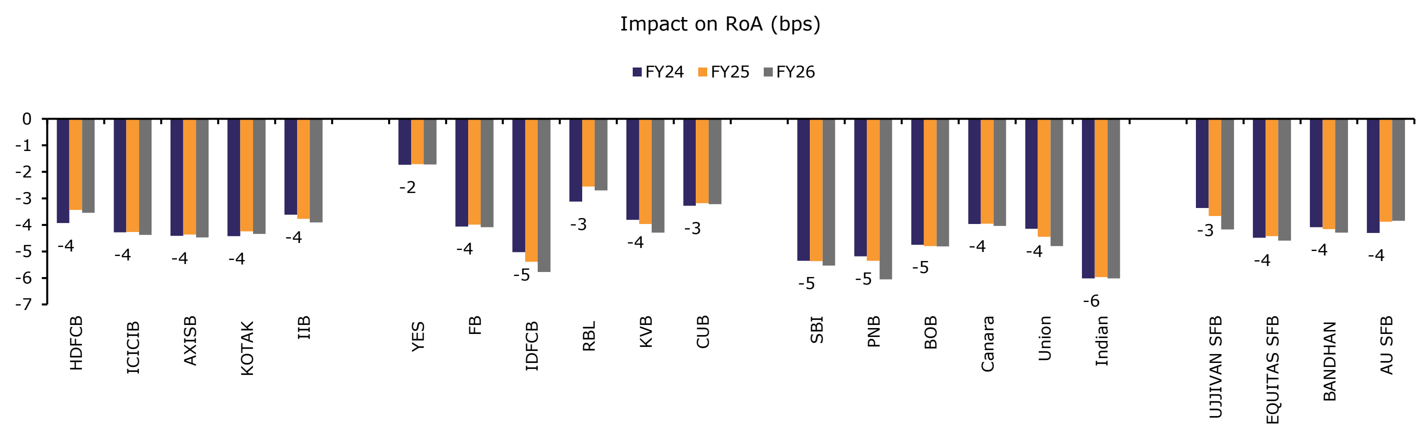
Source: Emkay Research

Exhibit 11: Impact of the increase in SA rate by 25bps on NIM could be higher for ICICIB, IDFCB, PNB, Equitas SFB, and Bandhan Bank vs respective peers



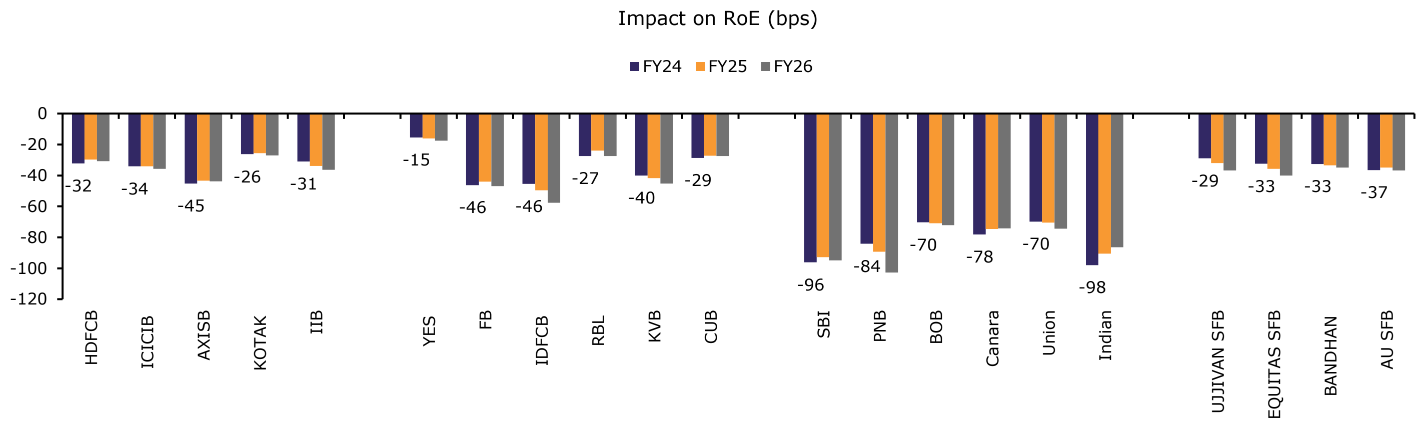
Source: Emkay Research

Exhibit 12: Post-tax impact of the increase in SA rate by 25bps on RoA will be higher for Kotak, IDFCB, Indian Bank and Equitas SFB, among peers



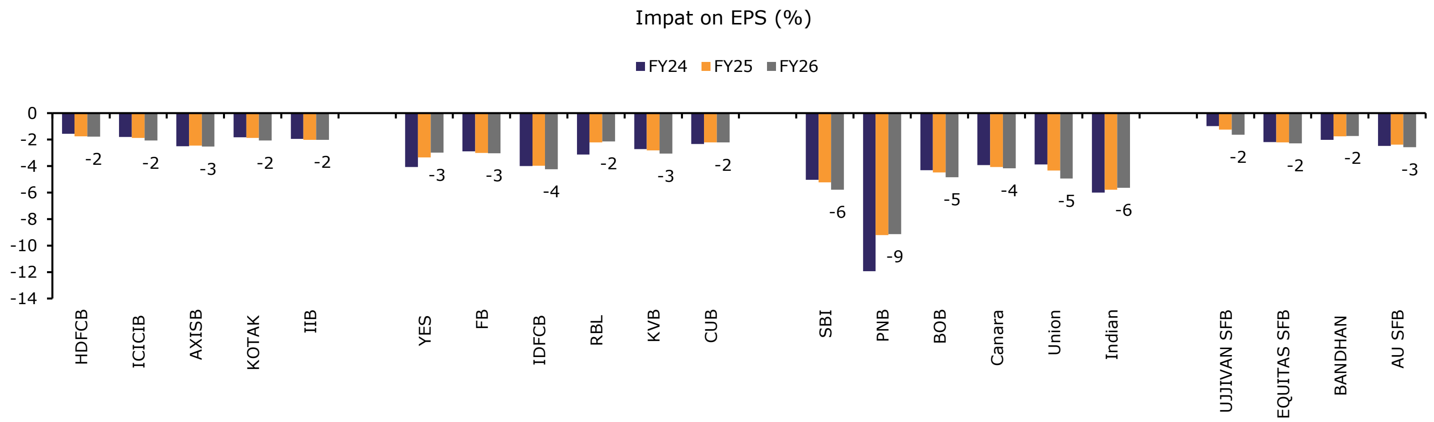
Source: Emkay Research

Exhibit 13: Post-tax impact of the increase in SA rate by 25bps on RoE will be higher for Axis, IDFCB, SBI, Indian Bank and AU SFB, among peers



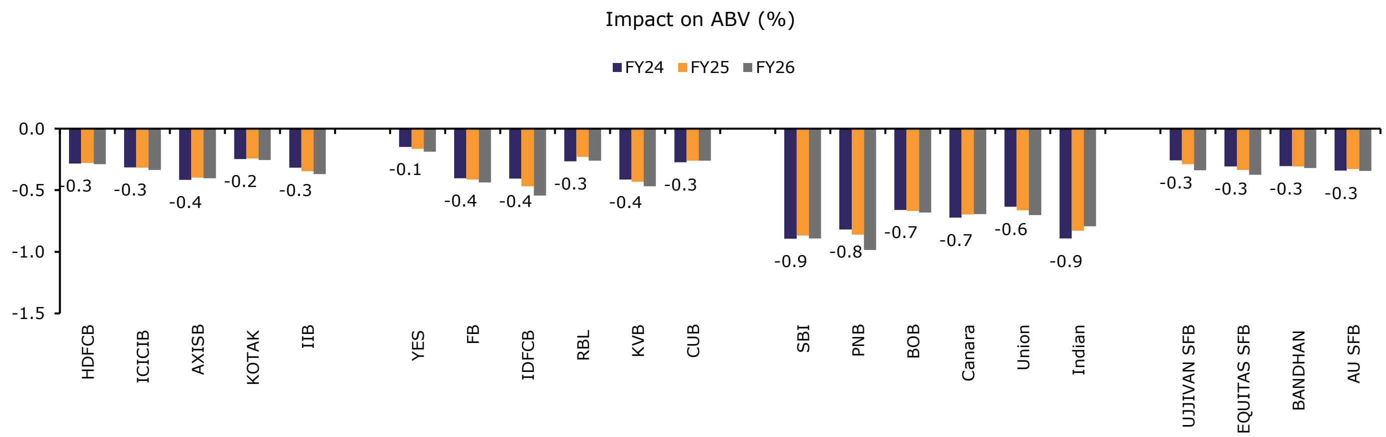
Source: Emkay Research

Exhibit 14: Post-tax impact of the increase in SA rate by 25bps on EPS will be higher for Axis, IDFCB, PNB, and AU SFB, among peers



Source: Emkay Research

Exhibit 15: Post-tax impact of the increase in SA rate by 25bps on ABV will be higher for Axis, IDFCB, SBI, PNB, and AU SFB, among peers



Source: Emkay Research

Exhibit 16: Impact from the increase in SA rate by 25bps on banks' overall performance (Emkay estimates)

Banks	Impact due to the increase in SA rate by 25bps on the banks' overall performance (Est.)																
	Latest SA Rate –Avg band (%)	SA (% of Total Deposits) for Q2FY24	Impact on NIMs (bps)			Impact on RoA (bps)			Impact on RoE (bps)			Impact on EPS (%)			Impact on ABV (%)		
			FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
Large PVBs																	
HDFCB	3.3	26	-5	-5	-5	-4	-3	-4	-32	-30	-31	-2	-2	-2	-0.3	-0.3	-0.3
ICICIB	3.3	29	-6	-6	-6	-4	-4	-4	-34	-34	-36	-2	-2	-2	-0.3	-0.3	-0.3
AXISB	3.3	31	-6	-6	-6	-4	-4	-4	-45	-43	-44	-3	-2	-3	-0.4	-0.4	-0.4
KOTAK	3.8	31	-6	-6	-6	-4	-4	-4	-26	-26	-27	-2	-2	-2	-0.2	-0.2	-0.3
IIB	5.5	25	-5	-5	-6	-4	-4	-4	-31	-34	-36	-2	-2	-2	-0.3	-0.4	-0.4
Small-mid size PVBs																	
YES	6.2	16	-3	-3	-3	-2	-2	-2	-15	-16	-18	-4	-3	-3	-0.2	-0.2	-0.2
FB	3.0	24	-6	-6	-6	-4	-4	-4	-46	-44	-47	-3	-3	-3	-0.4	-0.4	-0.5
IDFCB	5.2	39	-7	-8	-8	-5	-5	-6	-46	-50	-58	-4	-4	-4	-0.4	-0.5	-0.6
RBL	6.1	19	-4	-4	-4	-3	-3	-3	-27	-24	-28	-3	-2	-2	-0.3	-0.2	-0.3
KVB	3.8	22	-5	-6	-6	-4	-4	-4	-40	-42	-45	-3	-3	-3	-0.4	-0.4	-0.5
CUB	3.3	21	-4	-4	-4	-3	-3	-3	-29	-27	-28	-2	-2	-2	-0.3	-0.3	-0.3
PSBs																	
SBI	2.9	35	-8	-8	-8	-5	-5	-6	-96	-93	-95	-5	-5	-6	-0.9	-0.9	-0.9
PNB	2.8	36	-9	-9	-9	-5	-5	-6	-84	-89	-103	-12	-9	-9	-0.9	-0.9	-1.1
BOB	3.0	34	-7	-7	-7	-5	-5	-5	-70	-71	-72	-4	-4	-5	-0.7	-0.7	-0.7
Canara	3.3	26	-6	-6	-6	-4	-4	-4	-78	-75	-74	-4	-4	-4	-0.8	-0.8	-0.8
Union	3.6	28	-7	-7	-7	-4	-4	-5	-70	-70	-74	-4	-4	-5	-0.7	-0.7	-0.7
Indian	2.8	35	-8	-8	-8	-6	-6	-6	-98	-91	-86	-6	-6	-6	-0.9	-0.9	-0.8
SFBs/NBFC - MFIs																	
UJJIVAN SFB	7.8	22	-5	-5	-6	-3	-4	-4	-29	-32	-37	-1	-1	-2	-0.3	-0.3	-0.3
EQUITAS SFB	5.8	31	-6	-6	-6	-4	-4	-5	-33	-36	-40	-2	-2	-2	-0.3	-0.3	-0.4
BANDHAN	5.6	33	-6	-6	-6	-4	-4	-4	-33	-33	-35	-2	-2	-2	-0.3	-0.3	-0.3
AU SFB	6.1	28	-6	-5	-5	-4	-4	-4	-37	-35	-37	-2	-2	-3	-0.3	-0.3	-0.4

Source: Emkay Research

Exhibit 17: Increase in lending rate required on existing floating book to compensate for the impact of the increase in SA rate by 25bps

Regulated Entities	Floating Rate Book (%)	Increase in lending rate required on floating book (bps)
HDFCB	79	8
ICICIB	66	12
AXIS	66	13
KOTAK	70	12
IIB	45	15
YES	60	7
FB	74	10
IDFCB	44	20
RBL	49	4
KVB	54	13
CUB	64	6
SBI	65	38
PNB	72	18
BOB	76	12
Canara	73	11
Union	74	13
Indian	64	19
UJJIVAN SFB	5	123
EQUITAS SFB	3	255
BANDHAN	40	80
AU SFB	34	23

Source: Emkay Research

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Ratings	Expected Return within the next 12-18 months.
BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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