

Banks slide on RBI deposit move

Traders book profits on lenders' outperformance to broader markets since November 8

Hamsini Karthik November 28, 2016 Last Updated at 23:31 IST



On expected lines, most banking stocks fell hugely on Monday opening, courtesy the frenzy due to Reserve Bank of India's (RBI)'s move to increase the cash reserve ratio (CRR) for banks to 100 per cent on Saturday.

The move is only for deposits generated between September 16 and November 11.

CRR is the amount of deposits required to be held in cash by banks or to be deposited with RBI, which do not earn any income for the bank. Therefore, banks, seen as the beneficiaries of the surge in deposits, which included most of the state-owned ones felt much of the pressure in Monday's trade. State Bank of India, Bank of Baroda, Bank of India and ICICI Bank fell by two to three per cent, before recovering some of these losses.

Analysts believe some profit-booking in these stocks also weighed on them, given their outperformance to the broader market since November 8 (the BSE Sensex is down 4.5 per cent). Among larger banking stocks, Axis and Kotak closed higher.

While experts feel the CRR increase was on expected lines, given the surge of liquidity in the system, they also expect RBI to undertake further measures. And, that at the end, the pain might not be as high as thought initially.

Indranil Sen Gupta, India Economist, Bank of America Merrill Lynch, says RBI is set to shift to the standard mix of reverse repos, treasury bills, cash management bills and market stabilisation scheme (MSS) bonds as CRR is hiked. MSS bonds are government securities (G-Secs) issued to absorb surplus liquidity and park the

proceeds with RBI. Currently, the budgeted limit for MSS bonds is Rs 200,000 crore and the government requires parliamentary approval to raise this. Therefore, the pain for banks might be short-term.

Macquarie, while calling the estimated loss to the banking system as exaggerated, feels that at best banking system might be impacted by Rs 1,500 crore a month. The losses were initially pegged at Rs 7,000–7,500 crore. An analyst from a domestic brokerage works with a much smaller number. “From November 8 till date, the banks have earned a net income of Rs 600 crore on a deposit base of Rs 300,000 crore. Going forward, as hiking the CRR to 100 per cent cuts the ability of banks to earn this income henceforth, the net interest forgone could be Rs 750-800 crore till December 9. So, the net loss to the banking system until RBI revisits its decision on CRR is about Rs 200 crore.”

RBI is expected to take a decision on other instruments that it might use to manage liquidity on December 9.

CRR aside, experts believe what is important is whether liquidity as seen in the banking system today will remain and how soon the cash withdrawal limits are revisited. Nomura believes that irrespective of the CRR increase, there will be an additional Rs 300,000 crore flowing into the banking channel, adding more liquidity into the system. More important, experts feel, RBI’s move to suck up the surplus liquidity is unlikely to disrupt the 25 basis points (bps) rate cut expectation at RBI’s December 7 review of policy.

BANKING: TOP 10 LOSERS & GAINERS

Name % change in 1 day

State Bank of Bikaner & Jaipur	-3
Bank of Baroda	-2.9
State Bank of India	-2.8
Bank of India	-2.7
Oriental Bank of Commerce	-2.7
State Bank of Travancore	-2.7
Punjab National Bank	-2.2
IndusInd Bank	-2.2
Union Bank of India	-2.1
City Union Bank	-2
IDFC Bank	0.2
Axis Bank	0.3
DCB Bank	0.4
Indian Bank	0.5
RBL Bank	0.9
Jammu & Kashmir Bank	1.2
Vijaya Bank	1.2
Dhanlaxmi Bank	1.5
Karur Vysya Bank	1.6
Central Bank of India	2.8

List sorted on one-day change in share price
Compiled by BS Research Bureau
Source: Bloomberg

“Conversion of black money into deposits should allow banks to cut lending rates in the October- March busy industrial period,” Sen adds in his report.

As for disturbing the profitability of banks, analysts at Kotak Economic Research feel the CRR hike would have negligible impact. “With the greater share of deposits mobilised post November 11, the impact from a net interest income perspective would still be positive as we end this programme, even after assuming 30 per cent withdrawal of current deposits,” they say. For now, there is a general belief that banks’ profitability will not be impacted significantly.

A lot will depend on RBI’s action next week. In volatile trade, Sensex moved up another 34 points to end at 26,350 on buying mainly in telecom, power, realty, and auto.

Among banking stocks, analysts remain confident on those of SBI, Bank of Baroda, HDFC Bank, ICICI Bank and Punjab National Bank.