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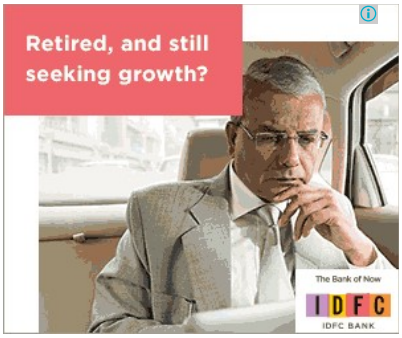

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New loan pricing not to shave off banks margins: Jefferies

By PTI | Updated: Dec 20, 2015, 12.30 PM IST

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MUMBAI: The new base rate calculation method based on banks' marginal cost of funds put in place by the RBI will not shave much off their net interest margins, leading foreign brokerage Jefferies said.

The base rate calculation method to be effective April 1 will usher in international best practices in loan pricing to the country as it moves away from a one-rate system, to a multi-rate one, with greater flexibility to price tenor, asset liability mismatch.

The new method will be based on the marginal cost determined by cost of their deposits.

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Banks will see a major erosion in their NIMs and those with better asset liability management, greater core stable CASA and higher share of retail loan books such as HDFC Bank BSE -1.47 % and IndusInd Bank BSE 0.09 % will benefit from the RBI move, its analysts Nilanjan Karfa and Anurag Mantry said in a note.

"The feared margin compression for the banking system is expected to be much more muted and the net impact will be positive on all banks," they said, but pointed out that the new scheme is still a half-way mark to international standards, as it now broadens tenor-based pricing, although it is still dependent on a bank's cost of funds and subjective variables like return on equity, which imparts rigidity.

On the impact of banking stocks, they said though the net impact is positive for all banks, banks with higher CASA ratio but stability of CASA based on statistical maturity tests, low-cost of operations, least asset-liability mismatch across buckets will be able to price their products better and gain quality market share.

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On RBI allowing banks also calculate return on equity as one of the methods for calculating the cost of funds, they said, "We are unable to comprehend why the desired RoE has been introduced in the lending rate calculations as an explicit input variable, which theoretically correct but impractical. It's like asking a sell side analyst his bonus expectation at the year end."

The report pointed out that going forward the loan pricing will be based on MCLR, which is a function of marginal cost of funds which is the marginal cost of deposits and borrowings, and RoE; negative carry on account of CRR; operating costs, and tenor premium which will be uniform for all borrowers for a given tenor.

The analysts said they hope banks reset retail loan pricing every month and that for corporates in every three months, as was the case under the prime lending rate system prior to July 2010.

Among the banking stocks, the report said HDFC Bank is the best positioned bank followed by IndusInd as they are focused on retail loans and have therefore given a buy call on their stocks.

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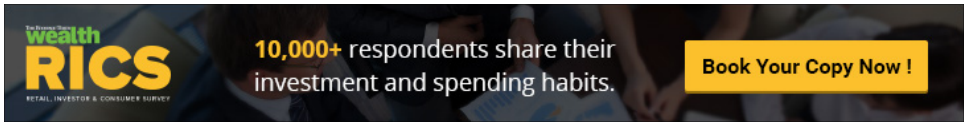

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