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Confident of a broad-based cyclical recovery in 3-5 yrs

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SBI, Axis & others to be hit by new lending rate norm

By [Joel Rebello](#), ET Bureau | Updated: Dec 02, 2015, 02:02 AM IST Post a Comment

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ET Intelligence Group: The use of a new method for lending rate calculation is going to squeeze banks' net interest margin (NIM), depress interest income and hit their profits, especially those with high concentration of corporate loans.

Analysts said NIMs of banks could fall by 10-30 basis points as they adjusted to a new [interest rate](#) regime with public sector banks bearing the brunt of the squeeze due to their dependence on corporate loans. One basis point is 0.01 percentage points. Banks will use marginal cost of funds to price lending rates. RBI Governor Raghuram Rajan said that the central bank would release final guidelines within weeks in an attempt to quicken the transmission of the central bank's policy actions since January.

Banks with a larger floating rate pool will be hurt more. Among private players [Axis Bank](#) **BSE 0.54 %**, Yes Bank and [ICICI Bank](#) **BSE -0.04 %** will be hit while SBI, Bank of Baroda and PNB will also be impacted.

"However some private sector banks like Kotak Mahindra, IndusInd and HDFC Bank which have a high concentration of fixed rate retail loans will be least impacted," said Rajiv Mehta, analyst at India Infoline. The so-called marginal costs of the funding method will use incremental cost of funds to calculate [interest rates](#). In simple words banks will now have to use the latest deposit rates as a benchmark in calculating lending rates. Earlier, banks used to calculate the weighted average cost of deposits to arrive at base rate. As a result bank lending rates did not reflect the RBI's recent rate cuts.

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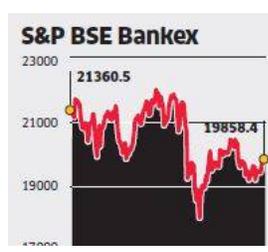
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ICICI bank	-0.10 (-0.04%)
Dena Bank	-0.80 (-2.16%)
Axis Bank	2.55 (0.54%)

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SPOTLIGHT

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Net Interest Margin (%)

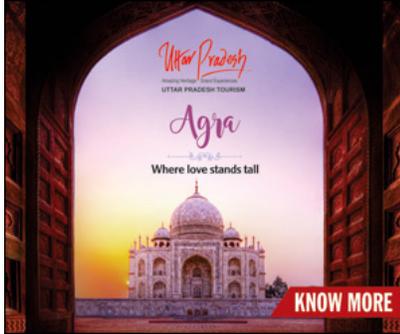
Co Name	(%)
SBI	3.01
ICICI Bank	3.52
Bank of Baroda	2.08
Axis Bank	3.85
PNB	2.97
Yes Bank	3.30

The RBI has reduced the benchmark repo rate by 125 basis points since January. A report by Crisil on Tuesday pointed out that the average lending rate of 10 major banks has dropped by only 58 basis

Pick up repo may become national policy

As the historical record shows, when people have to pick up, and are convinced of the civic good of doing so, then they will.

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consumption-led growth pick-up. For this to happen, transmission of repo rate cuts to bank lending rates must improve," Crisil said.

Banks are likely to lose about `15,000 crore in interest income as they adjust their lending rates to lower deposit rates, said Daljeet Singh Kohli, director and head research at India Nivesh Securities. "Small public sector banks like Dena Bank (BSE -2.16%), Corporation and Indian Overseas will be hit more because they will have to reduce their base rate in line with the cost of new deposits," he said.



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The impact will be severe in the next two quarters as banks with a big floating rate corporate book have to adjust to the new system, said Mehta.

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