For PSBs, average lending rate dips, despite hikes in MCLR

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Risk averse lending appears to have dragged the yield down on fresh lending

Banks have been hiking deposit and lending rates since the beginning of this year. Interestingly though, the weighted average lending rate for public sector banks (on fresh loans) during the March quarter has fallen by a tidy 30 basis points over the December quarter, despite hikes in the benchmark lending rate — marginal cost of funds-based lending rate (MCLR). The one-year MCLR for a few leading PSU banks went up by 10-20 basis points between December 2017 and March 2018.

Market players suggest that PSU banks turning risk averse towards lending — focusing more on less risky credit with lower yields — appear to have dragged down the overall weighted lending rate for the PSU pack. This partial freezing of lending on the part of PSU banks, is cause for concern say industry players.

Hikes in MCLR

Since the beginning of 2018, a few PSU banks have been gradually increasing their benchmark lending rates. Canara Bank hiked its one-year MCLR by 10 basis points to 8.4 per cent in March. Oriental Bank of Commerce and Punjab National Bank increased their MCLR by 15 basis points between December 2017 and March 2018. SBI hiked its MCLR by a higher 20 basis points during this period.

Incremental lending rates fall for PSBs in the March quarter

Weighted Average Lending Rates
on fresh loans sanctioned (%)

Month	Public Sector Banks	Private Sector Banks
06/16	10.38	10.84
09/16	10.17	10.99
12/16	10.03	10.51
03/17	9.56	10.12
06/17	9.37	9.75
09/17	9.31	9.75

09/17	9.31	9.75
12/17	9.36	9.52
03/18	9.04	9.87

But despite these hikes, the weighted average lending rate (on fresh loans) for public sector banks fell from 9.36 per cent in the December quarter to 9.04 per cent in the March quarter, according to RBI data.

PSU banks preferring to lend to less risky segments such as housing, is likely to have caused the dip. As yields on safer credit are relatively lower than say on lending to riskier corporates, the overall lending rate on incremental loans for PSU banks has fallen, despite MCLR hikes. Remember, it is mostly corporate loans that are linked to MCLR (retail loans barring housing are mostly fixed). Hence, cautious lending to the corporate segment, can impact the overall yield and, in turn, the spread (difference between loan rates and cost of funds).

For private sector banks, on the other hand, the weighted average lending rate (on fresh loans) shot up from 9.52 per cent in the December quarter to 9.87 per cent in the March quarter, a tidy 35 basis points increase. Aside from healthy growth in corporate loans, aggressive hikes in MCLR have helped too. IndusInd and YES Bank, for instance, increased their one-year MCRL by 40 basis points in the first three months of 2018.

Shrinking spreads

Since March, more PSU banks such as Andhra Bank, BOB, Bank of India and Central Bank of India, have joined the bandwagon and increased their MCLR by 10-15 basis points. However, a risk averse lending approach that in effect compromises spreads, can continue to weigh on the overall yields for PSU banks.

For the banking sector (in which PSU banks constitute two-thirds of the overall lending), spreads have shrunk to 1-2 percentage points in recent years, from 3-4 percentage points a decade back. Growing competition, tighter lending rate norms and pressure on asset quality have led to a narrowing of spreads. A cautious lending approach to low-yielding less riskier segments, will continue to add pressure on PSU banks' profitability.

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