

# Smaller pvt banks raise lending rates as costs of funding bite

KSHIPRA PETKAR

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**FUNDING PRESSURES ARE** beginning to bite smaller private sector banks, with their lending rates inching up even as the broader rate environment stays largely stable. The one-month marginal cost of funds-based lending rate (MCLR) rose by 5-10 basis points in March, according to Reserve Bank of India (RBI) data, reflecting tightening liquidity and rising dependence on higher-cost funding among lenders with weaker deposit traction.

Venkatakrishnan Srinivasan, managing partner, Rockfort Fincap, said, "Small private banks are seeing MCLR drift upwards primarily because of deposit-side stress. With retail deposits remaining muted and CD ratios already elevated, these banks are increasingly turning to higher-cost funding to sustain credit growth. The resulting competition for deposits, along with greater reliance on market instruments like CDs, is pushing up their marginal cost of funds even in an otherwise stable rate environment."

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## INCHING UP

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uidity. According to India Ratings and Research, CD issuances stood at ₹2 lakh crore as on March 24, 2026, up from ₹1.9 lakh crore in February.

This has witnessed the rise in lending rates, particularly for small private sector banks that have been struggling to garner deposit (CASA) and are depending on bulk deposits. The trend is visible across Bandhan Bank, CSB Bank, IDFC First Bank, RBL Bank and Yes Bank, all of which

increased their one-year MCLR by 10 bps during the month.

In contrast, larger banks with stronger retail franchises have been able to hold or even reduce their benchmark lending rates. HDFC Bank, for instance, cut its one-year MCLR by 5 bps to 8.35% at the end of March. "PSU banks, with stronger balance sheet buffers, are relatively insulated for now," Srinivasan said.

Axis Bank, ICICI Bank and Kotak Mahindra Bank kept their one-year MCLR unchanged month-on-month. However, Axis Bank's one-year MCLR has cumulatively risen by 10 bps since January, touching 8.8% in March.

Sachin Sachdeva, vice president and sector head – financial sector ratings at ICRA, said the divergence between small and large banks is rooted in funding dynamics.

"The one-year MCLR is linked to the incremental cost of funds, which has edged up in the current environment. Banks with higher dependence on bulk and wholesale deposits are facing greater pressure on funding costs, leading to an increase in MCLR. Larger banks with a stronger retail deposit base have seen a limited impact on their MCLRs."