

## RIISING LOAN YIELDS, EASING DEPOSIT COSTS MAY AID MARGINS

# Banks likely to see some relief on profitability

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**HIGHER RATES ON** fresh loans and moderation in deposit costs are likely to bring some relief for banks on the profitability front, as these will help stabilise margins after several quarters of pressure. However, analysts said the extent of margin improvement would depend on how quickly deposit costs adjust and whether credit growth remains strong enough to support loan pricing.

Data released by the Reserve Bank of India last week showed that while the weighted average lending rate on fresh rupee loans inched up in January, the weighted average term deposit rate eased marginally. The shift suggests that banks may start seeing some improvement in spreads if the trend persists, particularly after a prolonged period during which funding costs rose faster than lending rates.

RBI data showed that yields on fresh loans increased by 44 basis points (bps) for public sector banks, 18 bps for private sector banks and 39 bps for the banking system during the month.

A report by Motilal Oswal Financial Services said yields rose across bank categories in

## MARGIN PRESSURE TENDS TO EASE



Source: RBI data, Motilal Oswal Report

January, signalling a favourable lending environment towards the end of the current fiscal.

“Now that we are near the end of the rate-cut cycle, further transmission looks difficult,” a report by Phillip Capital said. Analysts said the uptick in fresh loan rates could also reflect a shift in the composition of loans being disbursed in a particular month.

“Fresh lending rates are heavily influenced by the asset mix in a given month. If corporate or large NBFC loans dominate disbursements, the average rate tends to fall because these loans are usually finely priced,” Sachin Sachdeva, vice president, sector head - financial sector ratings at ICRA, said.

Bankers said lending rates seem to have bottomed out. “We saw an uptick in deposit rates

and money market rates during the last six months. Secondly, banks have already brought the yield on advances down as around 60% of loans are linked to external benchmarks. Banks have started to look for segments where yields are high to protect the net interest margin (NIM). This has led to a shift towards those segments and high-yield portfolios have grown faster than low-yield ones,” said Alok Singh, treasury head at CSB Bank.

At the same time, weighted average term deposit rate for fresh deposits declined marginally to 5.66% in January, reflecting early signs of easing deposit costs after months of intense competition among banks to attract deposits.

The moderation in deposit costs could help banks contain

their cost of funds and support NIM, which had come under pressure over the past year as lenders raised deposit rates aggressively to mobilise funds amid strong credit demand.

The credit growth has shown signs of improvement, with loans expanding by around 13.7% year-on-year, and analysts expect credit demand to remain healthy in the coming quarters.

“We expect credit growth estimate at +14% over FY26 28E vs. earlier expectation of +13% for FY27,” Motilal Oswal said in its report.

Brokerages expect credit growth to sustain at around 14% annually over the medium term, supported by retail demand as well as a gradual pick-up in corporate and SME lending.

