PL Capital
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# Banks

## Sector Update

April 22, 2025

## *In a boost for the sector, RBI eases LCR norms*

***To improve system liquidity and consequently spur credit growth, RBI has changed its stance to accommodative since Dec'24 as effected by (1) CRR cut of 50bps in Dec'24 (2) repo rate cut of 50bps till date (2) OMOs – purchase of G-Sec by RBI to improve liquidity (3) postponing the applicability of new LCR guidelines by a year to 1st Apr'26. In this backdrop of its accommodative stance, RBI has relaxed some requirements of the new LCR framework.***

**The key changes in the LCR guidelines are;**

- Additional run-off factor has been decreased from 5.0% to 2.5% (1) for retail deposits enabled with internet and mobile banking facilities (IMB) and (2) less stable deposits enabled with IMB. In other words, as per the proposed LCR guidelines the run-off factor for retail deposits enabled with IMB been reduced from 10.0% to 7.5% while run-off factor for less stable deposits has been cut from 15.0% to 12.5%.
- Run-off rate has been reduced to 40% from 100% on funding from non-financial corporates such as trusts, AoPs, partnerships, proprietorships, LLPs etc. unless the above entities are treated as SBCs under LCR framework.
- Adjustment of HQLA in line with margin requirement under LAF and MSF.

As per impact analysis of RBI as at Dec'24, net effect of these measures will improve LCR of banks at an aggregate level by ~6.0%. RBI is sanguine that these measures will enhance liquidity resilience of Indian banks, and further align the guidelines with the global standards in a non-disruptive manner.

## PL View

Basis Dec'24, analysis of top-20 banks that make up for 90% of system loans, suggests that HQLA base is ~Rs50trn or ~31% of overall credit (~Rs160trn). A benefit of 6% on HQLA would imply that lendable assets of ~Rs3.0trn or 1.9% of loans would be freed up. Benefit for large private banks (PVBs) could range from 1.7-2.1% while PSUs could benefit by 1.5-2.2%. While this is obviously positive for the sector, major beneficiaries are ICICB and KMB within PVBs and SBI among PSUs; positive impact is relatively lower for mid-cap banks i.e. FB, KVB and DCB.


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**Exhibit 1: Easing of LCR norms would lead to freeing up of ~2.0% system credit**

| As of Q3FY25 | HQLA (Rs bn) | HQLA % of loans | Loans (Rs bn) | HQLA @6% | Credit Impact % |
|---|---|---|---|---|---|
| **Sector** | **49,803** | **31.2** | **1,59,736** | **2,988** | **1.9** |
| **PSU** | **30,171** | **32.3** | **93,447** | **1810** | **1.9** |
| SBI | 14,368 | 35.9 | 40,046 | 862 | 2.2 |
| BOB | 2,931 | 25.5 | 11,513 | 176 | 1.5 |
| PNB | 3,436 | 32.1 | 10,700 | 206 | 1.9 |
| Canara | 3,067 | 30.0 | 10,237 | 184 | 1.8 |
| Union | 2,819 | 30.6 | 9,202 | 169 | 1.8 |
| BOI | 1,798 | 28.4 | 6,329 | 108 | 1.7 |
| Indian | 1,752 | 32.3 | 5,421 | 105 | 1.9 |
| **PVB** | **19,632** | **29.6** | **66,289** | **1178** | **1.8** |
| HDFC | 7,141 | 28.4 | 25,182 | 428 | 1.7 |
| ICICI | 4,341 | 33.0 | 13,144 | 260 | 2.0 |
| Axis | 2,959 | 29.2 | 10,146 | 178 | 1.7 |
| Kotak | 1,416 | 34.2 | 4,138 | 85 | 2.1 |
| Indusind | 1,027 | 28.0 | 3,669 | 62 | 1.7 |
| Yes | 738 | 30.2 | 2,448 | 44 | 1.8 |
| Federal | 534 | 23.2 | 2,304 | 32 | 1.4 |
| IDFC | 599 | 26.4 | 2,272 | 36 | 1.6 |
| RBL | 307 | 33.9 | 904 | 18 | 2.0 |
| KVB | 204 | 24.7 | 823 | 12 | 1.5 |
| CUB | 155 | 31.4 | 494 | 9 | 1.9 |
| DCB | 125 | 26.2 | 478 | 8 | 1.6 |
| CSB | 85 | 29.8 | 286 | 5 | 1.8 |

*Source: PL*

## Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---|---|---|---|---|
| 1 | AAVAS Financiers | Accumulate | 1,900 | 2,083 |
| 2 | Axis Bank | BUY | 1,350 | 1,048 |
| 3 | Bank of Baroda | BUY | 285 | 230 |
| 4 | Can Fin Homes | BUY | 860 | 660 |
| 5 | City Union Bank | BUY | 200 | 160 |
| 6 | DCB Bank | BUY | 155 | 113 |
| 7 | Federal Bank | BUY | 210 | 191 |
| 8 | HDFC Asset Management Company | BUY | 4,600 | 4,218 |
| 9 | HDFC Bank | BUY | 2,125 | 1,907 |
| 10 | ICICI Bank | BUY | 1,700 | 1,407 |
| 11 | IndusInd Bank | Hold | 860 | 676 |
| 12 | Kotak Mahindra Bank | BUY | 2,230 | 2,038 |
| 13 | LIC Housing Finance | BUY | 650 | 566 |
| 14 | Nippon Life India Asset Management | BUY | 725 | 545 |
| 15 | State Bank of India | BUY | 900 | 747 |
| 16 | Union Bank of India | BUY | 140 | 119 |
| 17 | UTI Asset Management Company | BUY | 1,320 | 1,035 |

## PL's Recommendation Nomenclature

| | | |
|---|---|---|
| **Buy** | : | > 15% |
| **Accumulate** | : | 5% to 15% |
| **Hold** | : | +5% to -5% |
| **Reduce** | : | -5% to -15% |
| **Sell** | : | < -15% |
| **Not Rated (NR)** | : | No specific call on the stock |
| **Under Review (UR)** | : | Rating likely to change shortly |

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