

Lower retail loan rates may pinch banks' margins

Amid the languishing demand for loans from the corporate sector, banks have slashed rates, waived processing fees and charges, etc, to draw retail borrowers. Some lenders are also offering retail loans, particularly home loans, at the base rate—the lowest rate a bank can charge.

However, the zeal to garner a sizable chunk of the retail pie might hurt margins, bankers said.

State Bank of India (SBI) has slashed the spreads on home, automobile and other loans by about 100 basis points. Similar moves by Union Bank of India and HDFC Bank followed. SBI's net interest margin for the quarter ended December was 3.7 per cent, an annual and sequential fall. SBI officials say the reduction in cash reserve ratio (CRR) by the central bank (200 basis points in the last year) has helped the bank protect its margins, as funds locked as CRR have now been deployed profitably. Banks do not earn any interest from the Reserve Bank of India on CRR balances.

"Pricing has become very tight in certain pockets of retail loans. Some banks are working at margins that are not sustainable. Our strategy is different. We aim to grow profitably. Not everybody can be the lowest-price player. Also, for customers, interest rate is not the only criteria while selecting a bank. They look at other aspects such as accessibility, processing time and service quality," said Jairam Sridharan, head of consumer lending and payments at Axis Bank.

SBI claimed after it cut interest rates on retail loans, the equated monthly instalments of its home loan customers were the lowest in the country. SBI offers home loans (up to Rs 30 lakh) at rates below 10 per cent. Punjab National Bank and Bank of Baroda offer home loans at the base rate—10.25 per cent. While Punjab National Bank offers housing loans of up to Rs 75 lakh at its base rate, Bank of Baroda offers home loans of up to Rs 30 lakh at its base rate. For Bank of Baroda, the offer is valid till March 31.

Base rate is the benchmark reference rate for all loans and banks are not allowed to lend at rates below this. Ideally, the base rate should be offered to higher-rated corporate borrowers, which have better risk profiles than individuals.

Federal Bank considers itself the most aggressive player in the car loan market. The bank offers both home and automobile loans at the base rate. "We were out of the market for some time. We evaluated the market and decided to offer these rates to our customers. The rates are for a specific period of time. We will

review these at the beginning of the new financial year," said Managing Director and Chief Executive Officer Shyam Srinivasan.

Some banks, however, aren't willing to dilute margins to drive growth in retail loans. "The retail segment continues to be very competitive and we have seen that play out in the last few quarters, with some banks being aggressive on mortgages and automobile loans. However, from an overall perspective, we believe we would be able to maintain margins. The approach we have taken, for example in the automobile loan segment, is instead of looking at increasing the market share in a very competitive segment, we continue to be satisfied with a base level of volumes," a senior ICICI Bank executive said in a recent call with analysts. To grow at 20 per cent, the lender wouldn't have to compromise on margins, as it wouldn't have to undercut competition, the official added.

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