

India Banks

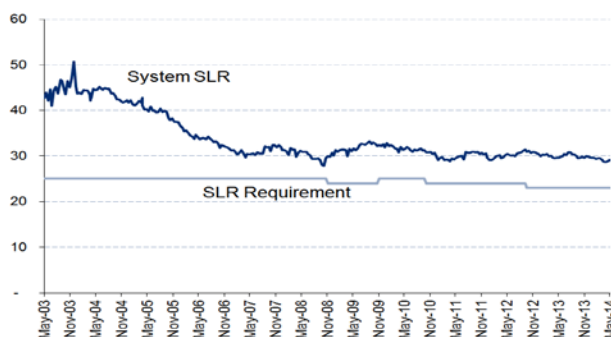
A New Mindset II - SLR Snip

- **The reform train rolls on** — The RBI, which promised to reshape the banking sector's landscape ([A New Mindset](#)), has cut the SLR (Statutory Liquidity Ratio) by 50bps (to 22.5%). It's a bit of a surprise, is modestly positive (liquidity, margins) and augurs well for India's bank reforms. It's a small step, but it is in the right direction.
- **The gain** — This move will moderate the burden of India's high Reserve Ratio's (SLR+CRR = 27%): it will free up 0.5% of deposits to lend, support margins 1-2bps, and effectively offer more lending flexibility to banks. It's moving in the right direction (20% the likely SLR target), and in line with the RBI's general direction: but it's slow-paced (last cut: 100bps, July 12) within a minimal near-term P&L or BS impact.
- **There's liquidity on BS's, so little immediate impact** — India's banks currently carry excess SLR (~29%): and even with 2-3% used as liquidity cushion – there's plenty to spare. This reflects the current lack of loan demand (13.6%): but will create some head-room, for if and when loan demand picks up. This will take time - but probably less than was believed pre-elections (and pre-mood swing).
- **It helps the newer / weaker deposit franchises** — It is a system-wide move: but should relatively benefit weaker / newer / more wholesale dependent franchises (Yes, IIB, Kotak) given the marginal strain of Reserve requirements is higher for them. It also hurts more in a higher / rising rate environment – the risks of which are probably receding ([RBI Stays Pat](#)). It also lends banks some bond trading leeway.
- **The reform train – chugging along steadily** — India's banks have been fired up (+35%% YTD) primarily by the markets' changing political/economic outlook. But we believe there is a steady tailwind of banking sector reform. It's been steady & measured (branch deregulation, bank licensing, stressed asset norms, Basel 3 phase-in, now SLR snip): and should keep the sector's improving outlook on track.

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Figure 1. Banking System's Excess SLR



Source: Citi Research, RBI

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

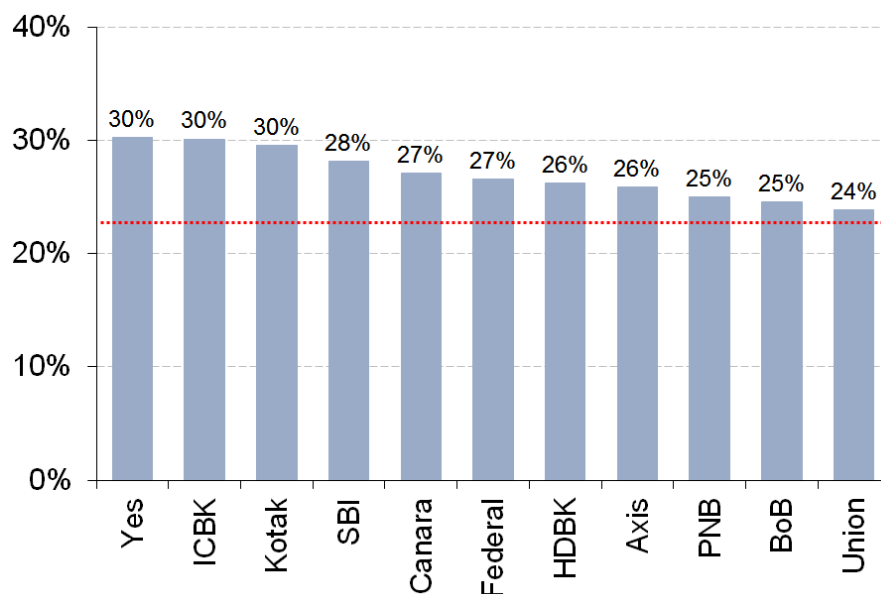
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A New Mindset II – SLR Snip

Banks are carrying excess SLR

So there's little immediate impact....and while the excess SLR levels do not necessarily suggest so, should be more beneficial for the newer / weaker (and/or higher cost) deposit mobilisers

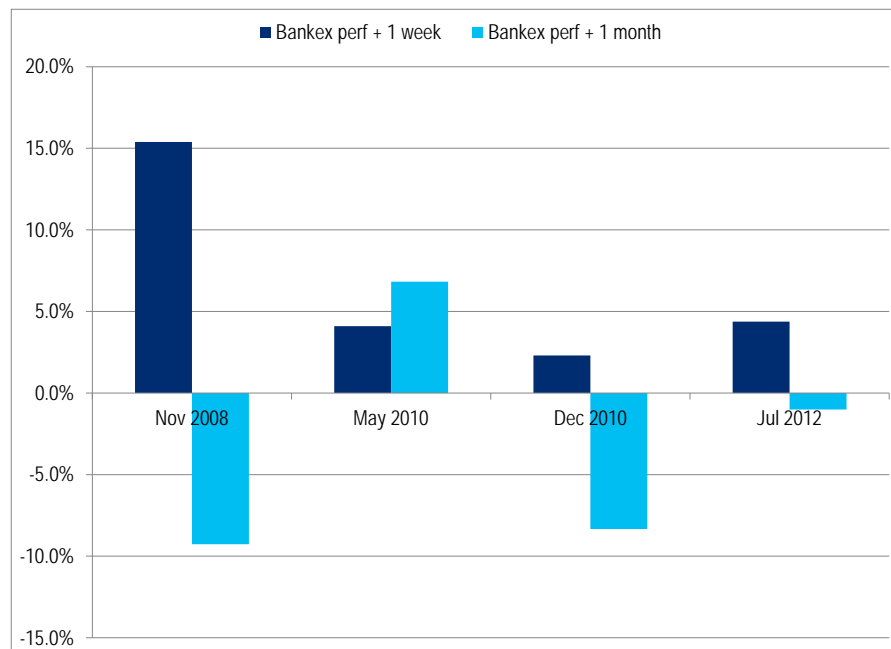
Figure 2. India Banks: High Levels of SLR vs. Requirement (23%) as of Mar-14



Source: Citi Research, Company Data

Banks do however respond well to SLR cuts...but the best gains come early

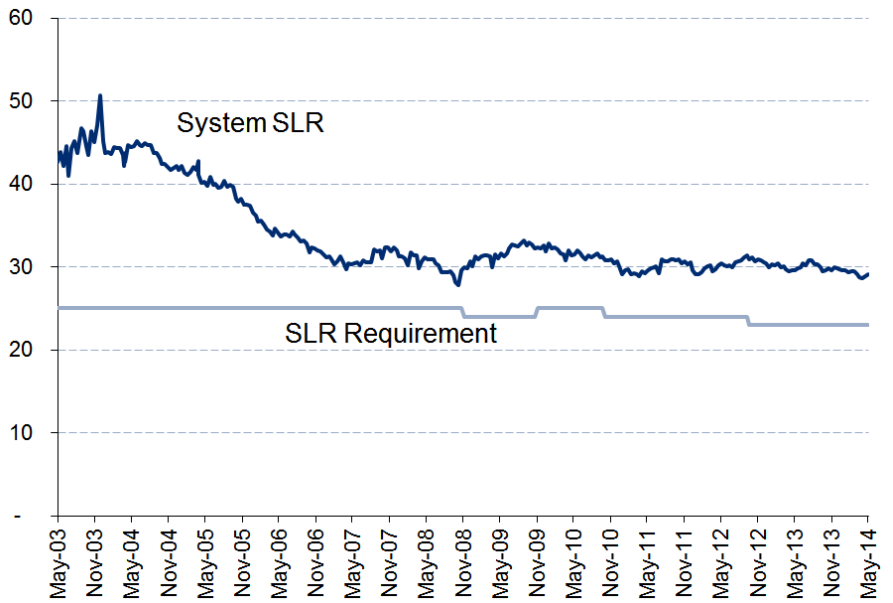
Figure 3. Bank stocks usually react positively to SLR cuts



Source: Citi Research, Bloomberg

The system is excess SLR too...a relative lack of demand, some liquidity cushion...so the SLR snips gains are more structural than near term...would mean more in a stronger or a higher rate environment..

Figure 4. Banking System's Excess SLR (% of Deposits)



Source: Citi Research, RBI

Appendix A-1

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