

RBI OCTOBER 2020 POLICY IMPACT

On expected lines, RBI continued with pause in rate cuts and accommodative stance in its October 2020 policy. Even as inflation risks remain prevalent, the policy has kept growth revival in mind, by focusing on easing liquidity for lenders. On tap TLTROs and higher weekly OMO purchases lowering bond yields will provide liquidity cushion, especially for midsized / small lenders. For FY21, GDP growth is expected to decline by 9.5%. At the same time, the MPC sounded cautiously optimistic on rural revival and sector specific improvement categorised into three groups ranging from the early revivers to the most impacted. Additional measures of increase in limit for retail portfolio limits for small borrowers from Rs 5 cr to Rs 7.5 cr will be positive for banks like City Union Bank, AU Small Finance Bank etc. Further, for retail housing loans, rationalisation in risk weights linking them only to LTVs allows banks more room to lend to borrowers, especially for higher value loans.

The policy focus on growth is positive and the dovish stance retains the possibility of future rate cuts.

*** Picks: HDFC Bank, ICICI Bank, City Union Bank, AU SFB**

**(pl note these are event based picks)*

Key Highlights:

- **Easing liquidity through OnTap TLTRO and OMO market operations**

RBI announced key measures for enhancing liquidity viz i) On tap TLTRO with tenors of up to three years for a total amount of up to Rs 1 lac cr linked to the policy repo rate, available upto March 31, 2021 ii) Open Market Operations (OMOs) in State Development Loans (SDLs) as a special case during the current financial year. This is to impart liquidity to SDLs and thereby facilitate efficient pricing iii) Higher weekly OMO purchases of Rs 20,000 cr. These will help in lowering bond markets yields and provide comfortable liquidity.

View: Positive for all banks

- **Increase in limit for regulatory retail portfolio**

In order to reduce the cost of credit for individuals/small businesses (Rs 50 cr turnover), threshold limit has been increased to Rs 7.5 cr from Rs 5 cr and still be eligible for a 75% risk weight

View: Positive for smaller banks like City Union Bank, AU SFB

- **Rationalisation of risk-weights of individual housing loans**

For all new housing loans sanctioned upto 31st March 2022, risk weights will be linked to Loan to Value (LTV) only, vis-à-vis earlier when it was linked to loan size as well. For LTV <=80% risk weight assigned will be 35% and for LTV>80% but <=90% risk weight will be 50%. Only banks are specified in the policy statement. This tweaking of risk weights reduces the amount of capital banks need to hold against large-ticket loans and allows banks more room to lend to borrowers.

View: Positive for banks like ICICI Bank

Unchanged

Repo Rate	4%
Reverse Repo Rate	3.35%
Bank Rate	4.25%
MSF	4.25%

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About the analyst**Analyst:** Siji Philip**Contact Details:** siji.philip@axissecurities.in**Sector:** BFSI**Analyst Bio:** Siji Philip is MBA (Finance) from NMIMS with over 15 years of research experience in the Banking/NBFC and Stock markets.**About the analyst****Analyst:** Dnyanada Vaidya**Contact Details:** dnyanada.vaidya@axissecurities.in**Sector:** Banks**Analyst Bio:** Dnyanada Vaidya is M.M.S (Finance) with 3 years of research experience in the Banking/NBFC industry.**Disclosures:**

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