

Financials - Banks

RBI releases final LCR guidelines: Another shot in the arm

Systemic LCR to improve by 6%; funding and liquidity pressures to ease

- The RBI has released revised guidelines for the LCR framework, which offers a more relaxed stance than the earlier draft and is intended to enhance the overall liquidity position of the banking sector.
- In our earlier note from Nov'24 ([Link](#)), we had estimated a potential 8.8-17.4% impact on overall LCR if the draft norms were implemented. However, the RBI has now eased the additional run-off rate criteria for Internet and Mobile Banking (IMB)-linked retail and small business deposits.
- The final guidelines also recommend reducing the run-off factor for wholesale funding from 'other legal entities' to 40% from the current 100%. These amendments are expected to positively impact the system-wide LCR by around 6%, as indicated by the RBI.
- To provide banks adequate time to transition their systems to the new standards for LCR computation, the revised guidelines will be applicable w.e.f 1st April'26.
- These revised guidelines will offer another shot in the arm, easing the funding and liquidity conditions for banks and further supporting their operating performance. Top picks: ICICIBC, HDFCB, SBIN, and AUBANK.

Additional run-off factor of 2.5% for IMB-linked retail and small business deposits

- The RBI's final guidelines suggest a lower run-off factor for IMB-linked retail and small business customer deposits of 2.5% vs 5% as suggested earlier in the draft guidelines.

Wholesale deposits to have a lower run-off factor of 40% (currently 100%)

- The revised guidelines also propose reducing the run-off factor on wholesale funding from 'other legal entities' to 40% vs the current 100%.
- We believe this move will be beneficial for banks in terms of both NIMs and RoA as the funds previously locked in HQLAs can now be redirected towards lending activities.

LCR for the banking system to improve by 6%

The revised LCR norms are more relaxed than the earlier draft, benefiting banks with a lower share of retail deposits and a higher proportion of eligible wholesale deposits. In this context, we believe AU Bank, RBL, and IndusInd stand to benefit the most, given their relatively lower retail deposit base. (Refer to Exhibit 6 for details). The RBI has already indicated that the updated framework could raise the system-level LCR by 6%, implying that most banks could see a 3-9% improvement in their individual LCRs—making the move broadly beneficial.

Regulatory actions remain supportive; maintain a positive view on the sector

The revised LCR framework is expected to enhance banks' funding and liquidity operations. In recent months, numerous regulatory measures have been introduced to support the sector and boost banks' operational performance. This includes: i) reduction of repo rates, ii) undertaking liquidity-enhancing operations, iii) deferment of ECL and project-financing regulations, iv) the lifting of supervisory restrictions on KMB, and now, v) relaxation of LCR guidelines.

- Given the already elevated CD ratio, the previously stringent LCR norms would have further restricted lending capacity and adversely affected underlying profitability for the banking sector.
- The revised LCR norms now offer banks significant relief. While many had already strengthened their LCR buffers over the past year in anticipation of stricter norms, the eased guidelines should now make maintaining LCR more manageable.
- Among our coverage, banks with lower LCRs—such as AU Bank, IDFC First Bank, IndusInd, and Federal—stand to benefit the most from relaxation in the LCR framework.
- Besides, banks with a lower share of retail deposits (IIB, AUBANK, RBK) will further stand to benefit from the reduced run-off factor on wholesale deposits.
- While PSBs were already maintaining strong LCRs and were less impacted by the earlier draft, the revised norms will still support their ability to deploy surplus liquidity into the market.
- **We maintain our positive view on the banking sector. Top picks: ICICIB, HDFCB, SBIN, and AUBANK.**

Story in charts

Exhibit 1: LCR stood healthy for most PSBs, while PVBs' LCR ratio stood in the range of 113-147%

LCR ratio has been healthy for most banks, barring AUBANK and IDFCB.

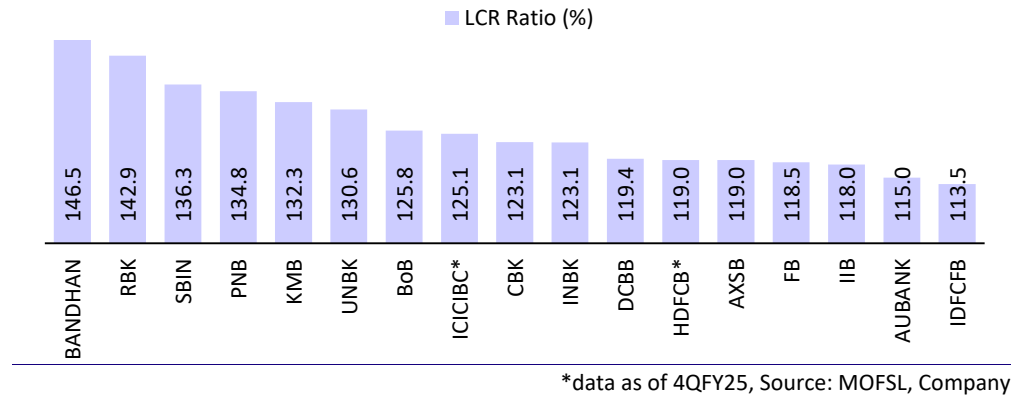


Exhibit 2: CD ratio remained high for PVBs; PSBs had a lower CD ratio

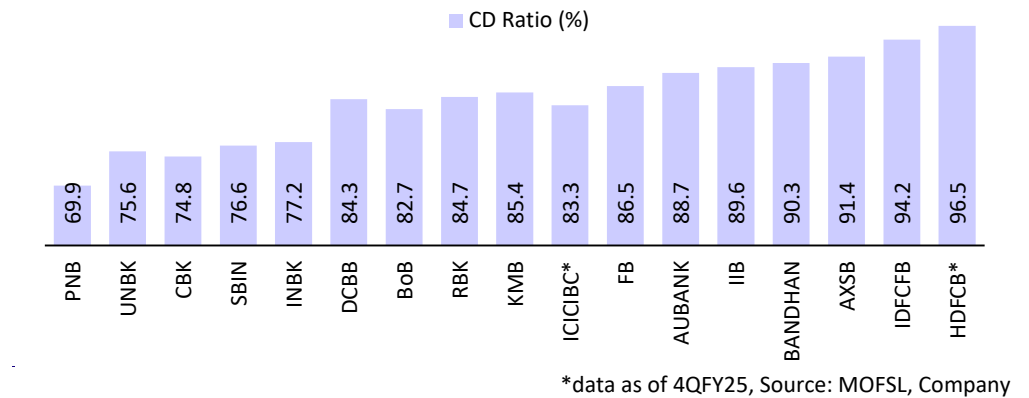


Exhibit 3: Retail deposits across banks as per LCR

Banks with lower retail deposits and higher wholesale deposits to be more beneficial.

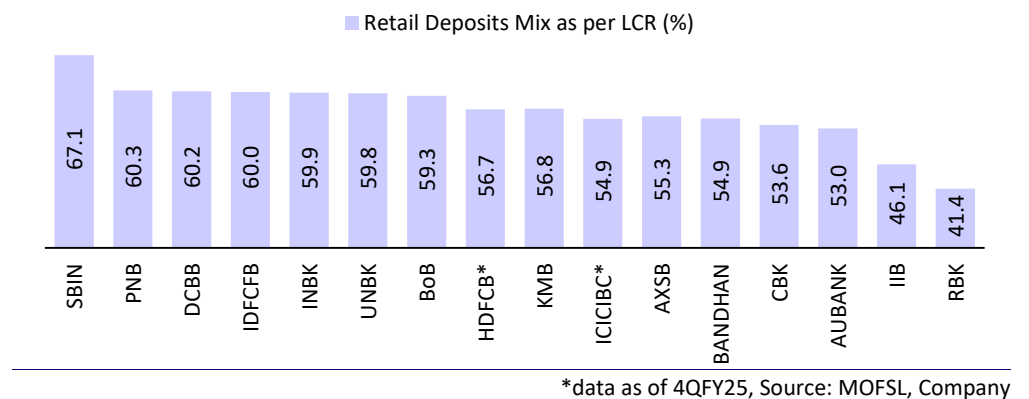


Exhibit 4: Valuation summary for banks

Company	CMP (INR)	Rating	EPS (INR)			P/E (x)			P/B (x)			RoE (%)		
			FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Financials														
Banks-Private														
ICICIBC	1,409	Buy	66.8	72.9	85.5	17.1	15.7	13.4	2.8	2.5	2.2	18.0	17.1	17.5
HDFCB	1,928	Buy	88.7	96.7	112.6	18.3	16.8	14.4	2.5	2.2	2.0	14.3	14.0	14.6
AXSB	1,222	Neutral	85.7	92.2	107.1	12.9	12.0	10.3	1.9	1.7	1.4	16.2	15.0	15.0
BANDHAN	168	Neutral	17.9	22.2	25.8	9.4	7.6	6.5	1.2	1.0	0.9	12.8	14.4	15.0
KMB	2,243	Buy	70.2	76.9	90.8	22.2	20.3	17.2	2.8	2.5	2.2	13.5	13.0	13.5
IIB	828	Neutral	61.2	81.3	104.0	13.5	10.2	8.0	1.0	0.9	0.8	7.3	9.1	10.7
FB	202	Buy	16.2	18.1	22.8	12.5	11.2	8.8	1.5	1.3	1.2	12.8	12.7	14.2
DCBB	128	Buy	19.1	23.7	30.4	6.7	5.4	4.2	0.7	0.7	0.6	11.8	13.1	14.8
IDFCFB	67	Neutral	2.1	4.0	6.7	31.8	16.6	10.0	1.3	1.2	1.1	4.3	7.4	11.2
EQUITASB	68	Buy	1.6	5.5	8.7	43.3	12.5	7.8	1.3	1.2	1.1	3.0	10.0	14.5
AUBANK	627	Buy	29.4	35.7	47.1	21.3	17.6	13.3	2.8	2.5	2.1	14.4	15.0	16.9
RBK	192	Neutral	10.8	20.1	31.9	17.7	9.5	6.0	0.8	0.7	0.7	4.4	7.8	11.6
Banks-PSU														
SBIN	817	Buy	79.3	84.1	94.2	7.1	6.7	6.0	1.2	1.1	0.9	18.7	17.2	16.8
PNB	102	Buy	14.8	16.8	19.1	6.9	6.1	5.3	1.0	0.8	0.7	15.3	15.1	15.2
BOB	250	Neutral	37.5	39.1	44.2	6.7	6.4	5.6	1.0	0.9	0.8	16.9	15.6	15.6
CBK	99	Buy	17.8	19.7	21.7	5.5	5.0	4.6	0.9	0.8	0.8	19.2	18.4	18.1
UNBK	129	Buy	23.1	24.1	26.3	5.6	5.3	4.9	0.9	0.8	0.7	17.9	16.2	15.5
INBK	577	Buy	80.3	83.6	92.5	7.2	6.9	6.2	1.2	1.1	0.9	19.0	17.2	16.7
Fintech and payments														
Paytm	878	Neutral	-4	3	16	-245.8	299.3	55.9	4.3	4.4	4.3	-1.7	1.5	7.9
SBICARD	909	Neutral	20	31	41	44.4	29.6	22.1	6.3	5.2	4.3	15.0	19.3	21.3

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