

RBI Monetary Policy: Rates Cut by 25bps After a 24-Month Hiatus

The RBI finally reversed the interest rate cycle by announcing a **25bps rate cut** after holding rates steady for a couple of years. This was largely anticipated after the liquidity-boosting measures announced in late Jan’25. GDP growth for FY25 has been revised downwards to 6.4% vs. 6.6% previously. For FY26, GDP growth is expected to hold up at 6.7%. Inflation estimates for FY26 are expected to be closer to the regulator’s tolerance limit. **We could expect another rate cut of 25bps in the upcoming meetings.**

The credit growth momentum for banks has evidently slowed down either owing to a cautious approach by banks towards lending amidst asset quality concerns in the unsecured segment or softening demand. However, the recent budget announcements show positive levers for supporting credit growth revival. The budget announcements offer a fillip to rural and urban consumption through tax rate tweaks and should support retail credit. Similarly, continued thrust on infrastructure, development, and resumption of economic growth should support credit growth. However, we would closely monitor the deposit mobilisation to support this credit growth while maintaining a balanced LDR. The systemic LDR at the end of Jan’25 stood at ~81%.

The rate cut can be viewed as a **positive for lenders who have a higher share of fixed rate portfolios, especially credit card issuers, vehicle financiers, and gold financiers.** On the other hand, banks with a higher share of floating-rate loans would continue to face near-term headwinds on margins. However, we would remain watchful of asset quality trends for banks, especially those with meaningful exposure to unsecured lending, wherein recovery is still a couple of quarters away.

***Stock Picks:**

Banks – AU Small Finance Bank, Equitas SFB, Bandhan Bank
NBFCs – Shriram Finance, Cholamandalam Inv & Finance, Bajaj Finance and SBI Cards

(*Pls note these are event-based picks)

Key Policy Announcement

- ✓ The Governor indicated that the regulator will continue to strengthen, rationalise and refine the prudential and conduct-related regulatory framework in the overall interest of the economy - especially in the context of some of the proposed regulatory changes pertaining to liquidity coverage ratio (LCR), expected credit loss (ECL) framework for provisioning by banks, and the prudential norms governing projects under implementation. He also added that the regulator will ensure that the implementation of such regulations is smooth. RBI will give sufficient time for transition, and where regulations have major implications, the implementation will be phased.
- ✓ The RBI remains committed to providing sufficient system liquidity and has taken several steps in this regard. The regulator will continue to monitor the evolving liquidity and financial market conditions and proactively take appropriate measures to ensure orderly liquidity conditions.
- ✓ **Emphasis on Digital Security:** The rapid digitalisation of financial services has brought convenience and efficiency but has also increased exposure to cyber threats and digital risks. The surge in digital fraud is a matter of concern, warranting action. The Reserve Bank has been taking various measures to enhance digital security in the banking and payments system. Introducing an Additional Factor of Authentication (AFA) for domestic digital payments is one such measure. It is proposed that AFA be extended to online international digital payments made to offshore merchants, who are enabled for such authentication.

Key Rates

	Current (%)	Previous (%)
Repo Rate	6.25	6.50
Reverse Repo Rate	3.35	3.35
MSF	6.50	6.75
SDF	6.00	6.25

GDP Growth Estimates

	Current (%)	Previous (%)
Q4FY25	-	7.2
FY25	6.4	6.6
Q1FY26	6.7	6.9
Q2FY26	7.0	7.3
Q3FY26	6.5	-
Q4FY26	6.5	-
FY26	6.7	-

Inflation Estimates

	Current (%)	Previous (%)
Q4FY25	4.4	4.5
FY25	4.8	4.8
Q1FY26	4.5	4.6
Q2FY26	4.0	4.0
Q3FY26	3.8	-
Q4FY26	4.2	-
FY26	4.2	-

Dnyanada Vaidya
Research Analyst

Email: dnyanada.vaidya@axissecurities.in

Pranav Nawale
Research Associate

Email: pranav.nawale@axissecurities.in

Key Policy Announcements (Contd..)

- ✓ **Emphasis on Digital Security (Contd):** The regulator shall implement the 'bank.in' exclusive Internet Domain for Indian banks. Registration of this domain name will commence from Apr'25. This will help avoid banking fraud. This will be followed by the 'fin.in' domain for the financial sector.
- ✓ **Introduction of forward contracts in Government Securities:** Over the past few years, the RBI has expanded the suite of interest rate derivative products available to market participants to manage their interest rate risks. The regulator will include forward contracts in Government securities in this suite. This would facilitate long-term investors, such as insurance funds, managing their interest rate risk across interest rate cycles. It will also enable efficient pricing of derivatives that use Government securities as underlying instruments.
- ✓ **Access of SEBI-registered non-bank brokers to NDS-OM:** To enhance retail investors' access to government securities, the Reserve Bank shall expand the access of NDS-OM, the electronic trading platform for secondary market transactions in government securities, to non-bank brokers registered with SEBI.
- ✓ **Review of trading and settlement timings across various market segments:** In view of the various developments in financial markets and market infrastructure over the past few years, the RBI shall set up a working group with representation from various stakeholders to undertake a comprehensive review of trading and settlement timings in markets regulated by the RBI. The Group shall submit its report by 30th April 2025.

Disclaimer

Axis Securities Limited is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector banks and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.

Axis Securities Limited, is registered as a

- Stock Broker, Depository Participant, Portfolio Manager, Investment Adviser and Research Analyst with Securities and Exchange Board of India
- Corporate Agent with Insurance Regulatory and Development Authority of India
- Point of Presence with Pension Fund Regulatory and Development Authority
- Distributor for Mutual Funds with AMFI

Registration Details:

SEBI Single Reg. No.- NSE, BSE, MSEI, MCX & NCDEX – INZ000161633 | SEBI Depository Participant Reg. No. IN-DP-403-2019 | Portfolio Manager Reg. No.- INP000000654 | Investment Advisor Reg No. INA000000615 | SEBI-Research Analyst Reg. No. INH000000297 | IRDA Corporate Agent (Composite) Reg. No. CA0073 | PFRDA – POP Reg. No. POP387122023 | Mutual Fund Distributor ARN- 64610.

Compliance Officer Details: Name – Mr. Maneesh Mathew, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

In case of any grievances please call us at 022-40508080 or write to us helpdesk@axisdirect.in.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However, SEBI, Exchanges, Clearing Corporations and Depositories etc. have conducted the routine inspection and based on their observations have issued advise/warning/show cause notices/deficiency letters/ or levied penalty or imposed charges for certain deviations observed in inspections or in normal course of business, as a Stock Broker / Depository Participant/Portfolio Manager. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

By referring to any particular sector, Axis Securities does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors. Our research should not be considered as an advertisement or advice, professional or otherwise. This research report and its respective content by Axis Securities made available on this page or otherwise do not constitute an offer to sell or purchase or subscribe for any securities or solicitation of any investments or investment services for the residents of Canada and / or USA or any jurisdiction where such an offer or solicitation would be illegal.

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by ASL and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

The information and opinions in this report have been prepared by Axis Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Axis Securities. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite, investment objective or the particular circumstances of an individual investor. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing.

While we would endeavour to update the information herein on a reasonable basis, Axis Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Axis Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Axis Securities policies, in circumstances where Axis Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained in good faith from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Axis Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Axis Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Axis Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months. Axis Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction. Axis Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months. Axis Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Axis Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with

preparation of the research report. Accordingly, neither Axis Securities nor Research Analysts and / or their relatives have any material conflict of interest at the time of publication of this report. Please note that Axis Securities has a proprietary trading desk. This desk maintains an arm's length distance with the Research team and all its activities are segregated from Research activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Research Analyst may have served as an officer, director or employee of subject company(ies). Axis Securities or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report. Since associates of Axis Securities and Axis Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report. Axis Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centres on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Axis Securities may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. This should not be construed as invitation or solicitation to do business with Axis Securities. Axis Securities is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation.

RATING SCALE: Definitions of ratings

Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.