Financials: Banks

Potential LDR increase under the LCR/NSFR approach

Metrics (%)	Minimal LDR inc. (details inside, %)
Large PVBs	
HDFC	3.6
Axis	2.6
Kotak	5.0
ICICI	8.0
Indusind	4.6
Mid PVBs	
IDFC First	3.2
Bandhan	12.4
RBL	4.0
Federal	4.8
DCB	6.4
PSBs	
BoB	5.9
SBI	11.3
Union	4.4
Indian	6.9
Canara	6.1
PNB	9.5

Recent media articles on LCR, NSFR, and CD ratios, showing their rising relevance (Source: ET/MINT)

NEW NORMS THESE DEPOSITS TO FACE LOWER RUNOFF FACTORS

Pvt Lenders to Log Higher LCR Gains on Wholesale Deposits

Rozebud Gonsalves

Mumbai: Banks with a larger pool of wholesale deposits, predominantly private sector lenders, are set to see an improvement in their liquidity coverage ratios (LCR) when the revised norms take effect on April 1.

Under the new norms, wholesale deposits, particularly funds from trusts, partnerships and limited liability partnerships (LLPs), will attract lower run-off factors from FY27, reducing the assumed outflows in a stress scenario.

By contrast, lenders with a heavier reliance on retail deposits, largely public sector banks, would see a relatively smaller benefit from the changes to the run-off assumptions, experts said.

"The reduction in the run-off factor from April 2026 is driven towards deposits of trusts, partnerships and LLPs, which had a higher runoff. Different banks will have varying shares of these deposits, and therefore, will benefit accordingly, but benefits to public sector banks may be lower than private sector banks," said Alok Singh, head of treasury at CSB Bank.

In the new norms that RBI released in April 2025, trusts, partnerships, LLPs will attract a lower run-off rate of 40% against 100% currently. The central bank said the estimated net impact of these measures will improve the LCR of banks, at the aggregate level, by around 6 percentage points.

LCR for HDFC Bank and ICICI Bank stands at 116% and 126%, respectively. Of the total deposits, HDFC Bank has 83% of wholesale deposits and 17% of retail deposits, positioning it to gain from the upcoming LCR changes. While ICICI bank did not disclose the exact wholesale-retail deposit share in their investor presentation, its share of CASA deposits, which are largely retail is at 40%.

SBI and Bank of Baroda, the top two PSU banks have a LCR of 125% and 116%, respectively. SBI has a CASA share of 41%, while Bank of Baroda has a CASA share of 38%.

Bank liquidity may come under stress

Large volumes of short-term CDs raised in recent months mature in March which may put bank liquidity under stress

LCR and NSFR headroom to support healthy credit growth

LDR ratio can increase 3-12% across our coverage banks; PSBs to benefit more!

- **The RBI MPC highlights that bank liquidity assessment is increasingly driven by the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) rather than the Loan-to-Deposit Ratio (LDR). As the system moves away from deposit-linked reserves, LDR's relevance as a standalone liquidity indicator has diminished.**
- **Under the LCR and NSFR frameworks, liquidity buffers are calibrated based on total liabilities, not just deposits. Since funding is sourced from deposits, borrowings, and equity, banks can maintain higher LDRs without compromising liquidity resilience.**
- **The LCR-NSFR framework is structurally more supportive of growth and profitability than LDR. By focusing on stress liquidity and funding stability, it enables asset expansion without one-for-one deposit growth, allowing banks to optimize balance sheets and enhance returns.**
- **Under the LCR and NSFR frameworks, surplus liquidity and stable funding can be redeployed into loans without a corresponding increase in deposits, theoretically raising LDRs by ~3-23% based on both methods. PSU banks emerge as key beneficiaries, possessing greater liquidity deployment headroom than large private banks. Using a conservative approach—taking the lower end of gains from LCR and NSFR optimization—the LDR can theoretically increase by 3–12% across banks.**
- **We thus note that this optimization of LDR and NSFR could enable an incremental ~7% credit expansion for the system, assuming deposits remain constant. Consequently, the system-wide LDR could theoretically increase to ~89% from the current ~82%.**
- **Our top picks: ICICI Bank, HDFC Bank, SBI, and AU Bank.**

LCR and NSFR gaining significance over LDR

The RBI, in its MPC conference *(Link)*, suggested that LDR is not the sole factor to determine the banking system's ability to pursue loan growth; liquidity is more important, as assessed by the **LCR and NSFR** framework. Thus, the relevance of the LDR needs to be re-evaluated in the context of the evolving regulatory architecture with respect to the evaluation of a bank's liquidity. Historically, LDR was a meaningful indicator because reserve requirements, CRR, and SLR were explicitly linked to deposit liabilities. In that regime, higher LDRs directly implied thinner liquidity buffers and raised concerns around solvency during periods of stress. However, the recent communications by the RBI indicate that the Indian banking system is transitioning to a framework dominated by LCR and NSFR, where reserve creation is no longer deposit-centric. This structural shift materially weakens the signaling power of LDR as a measure of balance sheet liquidity.

Liquidity buffers now centered on total liabilities, not deposits alone

Under LCR and NSFR, banks are required to maintain sufficient high-quality liquid assets and stable funding against estimated outflows and asset books, respectively. Crucially, these buffers can be created using a combination of deposits, wholesale borrowings, and equity capital. This means that incremental loans do not need to be matched one-for-one with incremental deposits. As long as a bank maintains adequate LCR and NSFR, it can operate with a higher LDR without compromising liquidity resilience. In this context, focusing narrowly on loans-to-deposits risks ignores the broader funding flexibility embedded in modern bank balance sheets.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Recent media articles on the LCR, NSFR & CD ratios:

Business Standard - Bank CD ratio stays at record 82.5%

ET - CD ratio at 82.5%, banks step up short-term borrowings

Business Line - Why lenders no longer view the credit-deposit ratio as the primary indicator of a bank's liquidity

Live Mint – Banks are okay with credit about to surpass four-fifth of deposits-so does this ratio still matter?

ET - Banks' liquidity buffers shrink as deposits lag credit growth

LCR-NSFR framework: More supportive of growth and profitability

Moving away from LDR as a binding constraint helps expand banks' growth runway. LDR has been a more static indicator and completely hinged on deposits, ignoring the dynamic nature of the market, such as the stress period liquidity requirements and the funding stability. LCR and NSFR reframe this by focusing on stress liquidity (30 days) and funding stability (one year), enabling asset growth without one-for-one deposit expansion. A shift toward LCR–NSFR-led balance-sheet management allows banks to optimize their balance sheets by unlocking assets, thus supporting credit growth and underlying profitability.

Excess liquidity deployment may theoretically drive a 3-12% increase in LDR

Unlike LDR, which implicitly links lending capacity only to deposits, the LCR framework creates liquidity buffers from the entire liability base – deposits, borrowings, and equities. As the bank maintains the targeted LCR cushion above regulatory minima, surplus liquidity parked in low-yielding assets can be redeployed into loans without requiring incremental deposit mobilization, thereby supporting loan growth. Based on the outstanding LCR of our coverage banks, we reckon that the transition to an LCR-based framework to assess liquidity and growth potential will enable **7%** growth in banking credit as banks deploy the excess liquidity on the balance sheet. LDRs could thus theoretically increase by 3-12% across our coverage universe, with PSU banks emerging as the key beneficiaries. Large private banks may see a relatively lower LDR uplift of 4-11%, while PSU banks will have the highest gains of 6-11%.

NSFR optimization can lift LDR by 3-23%; PSU banks again better positioned

Optimization under the NSFR framework can help raise LDRs by ~3-23%, with PSU banks being better positioned given their surplus stable funding buffers. By focusing on one-year funding stability, NSFR allows banks with ratios well above 100% to redeploy excess Available Stable Funding (equity, long-term borrowings, and stable deposits) into incremental loans without matching deposit growth. This excess can support incremental loan growth without a commensurate rise in deposits, pushing LDRs higher while preserving structural funding strength. Under this NSFR-based optimization, banks are estimated to witness a 3-23% increase in LDR. The analysis continues to indicate that PSU banks remain the preferred segment (details inside), as they maintain higher NSFR ratios and will benefit more from surplus liquidity deployment.

Several global banks operate at an LDR>100%

Global banking systems operating under LCR and NSFR frameworks routinely function with LDRs at or above 100% without raising investor concerns. In these markets, analytical focus has decisively shifted away from simple deposit–loan matching toward stress liquidity coverage, funding maturity, and capital adequacy. **As long as banks maintain strong LCR/NSFR buffers and healthy capital ratios, higher LDRs are viewed as an outcome of efficient balance sheet utilization rather than a measure of inadequate balance sheet liquidity and funding stretch.**

Valuation and View

- The transition from an LDR-centric lens to an LCR–NSFR framework to assess the available lending headroom materially improves visibility on sustainable credit growth. Under LCR–NSFR, lending capacity is determined by overall liquidity buffers and stable funding, not deposits alone, reducing the structural constraint implied by elevated LDRs.
- As Indian banks increasingly operate and are viewed from this framework, similar to global peers, the concern that high LDRs will limit growth should gradually fade, supporting credit growth that can outpace deposits over time.
- Valuation differentiation is therefore likely to shift from headline LDRs to liquidity surplus, funding maturity profile, and capital strength. Large private banks, trading at ~1.8–2.3x FY27E P/BV with ~1.6–1.8% RoAs, remain well placed, as surplus LCR/NSFR cushions allow growth without funding constraints. This also opens room for PSU banks to narrow valuation gaps as surplus liquidity deployment improves growth outlook and potential returns.
- **We believe that banks that are nimble and well-positioned to monetize excess liquidity under the LCR–NSFR regime are better poised to grow the balance sheet.**
- **Our top picks: ICICI Bank, HDFC Bank, SBI, and AU Bank.**

Exhibit 1: Minimum approach – LDR increase that banks can pursue, factoring in the minimum gains from optimization of both the LDR and NSFR (%)

Metrics (%)	Current LDR	LDR gains from LCR optimization	LDR gains from NSFR optimization	LDR gains – minimum of both
Large PVBs				
HDFC	98.7	3.6	5.2	**3.6**
Axis	91.9	4.1	2.6	**2.6**
Kotak	88.6	11.4	5.0	**5.0**
ICICI	88.3	8.0	12.1	**8.0**
IndusInd	80.6	6.5	4.6	**4.6**
Mid PVBs				
IDFC First	92.7	3.2	11.5	**3.2**
Bandhan	90.0	12.4	14.1	**12.4**
RBL	86.1	6.5	4.0	**4.0**
Federal	85.8	4.8	14.2	**4.8**
DCB	83.5	6.4	13.0	**6.4**
PSBs				
BoB	85.7	5.9	7.6	**5.9**
SBI	81.2	11.3	14.1	**11.3**
Union	81.0	5.5	4.4	**4.4**
Indian	79.1	6.9	22.8	**6.9**
Canara	77.1	6.1	15.1	**6.1**
PNB	72.0	9.5	9.9	**9.5**

Source: MOFSL, Company

LCR and NSFR gaining significance over LDR

- The RBI, in its MPC conference *(Link)*, suggested that LDR is not the sole factor; liquidity is more important to assess the credit growth that banks can pursue while keeping adherence to the LCR and NSFR framework.
- The relevance of the LDR needs to be re-evaluated in the context of the evolving regulatory architecture with respect to the evaluation of a bank's liquidity. Historically, LDR was a meaningful indicator because reserve requirements, CRR, and SLR were explicitly linked to deposit liabilities.
- RBI indicates that the Indian banking system is transitioning to a framework dominated by LCR and NSFR, where reserve creation is no longer deposit-centric. This structural shift materially weakens the signaling power of LDR as a measure of balance sheet liquidity.

Exhibit 2: Difference between LDR, LCR, and NSFR frameworks

Parameter	LDR-based framework (Legacy)	LCR-based framework (Short-term liquidity)	NSFR-based framework (Structural funding)
Primary objective	Measure loan funding through deposits	Ensure survival under a 30-day stress scenario	Ensure stable funding over a one-year horizon
Regulatory focus	Balance between loans and deposits	Coverage of stressed net cash outflows	Matching asset profile with stable funding
Key ratio definition	Loans / Deposits	High Quality Liquid Assets / 30-day net outflows	Available Stable Funding / Required Stable Funding
Funding base considered	Deposits only	Deposits, borrowings, and equity	Deposits, borrowings, and equity
Reserve creation logic	CRR and SLR are linked largely to deposits	HQLA can be built from total liabilities	Stable funding sourced from total liabilities
Implicit constraint on LDR	Higher LDR implies thinner liquidity	No direct cap on LDR	No direct cap on LDR
Can LDR exceed 100%?	Structurally discouraged	Permissible if LCR is maintained	Permissible if NSFR is maintained
What constrains loan growth?	Deposit mobilization	Availability of surplus liquidity after HQLA	Availability of excess stable funding
Sensitivity to deposit growth	High	Moderate	Moderate
Role of wholesale borrowings	Viewed negatively beyond limits	Accepted as part of the funding mix	Accepted if funding is stable
Profitability implication	Conservative; caps asset deployment	Allows redeployment of surplus liquidity	Enables balance sheet optimization
Impact on NIM/RoA	Neutral to negative at high LDRs	Positive via redeployment into loans	Positive via structural funding efficiency
Risk signal interpretation	High LDR seen as liquidity risk	Liquidity risk is judged by the LCR buffer	Liquidity risk is judged by funding stability
Relevance in the current regime	Declining	High	High
Investor focus on mature markets	Low	High	High

Source: MOFSL

PSU banks have been better in terms of lower LDR, comfortable LCR, and better cushion on NSFR ratio vs. private banks

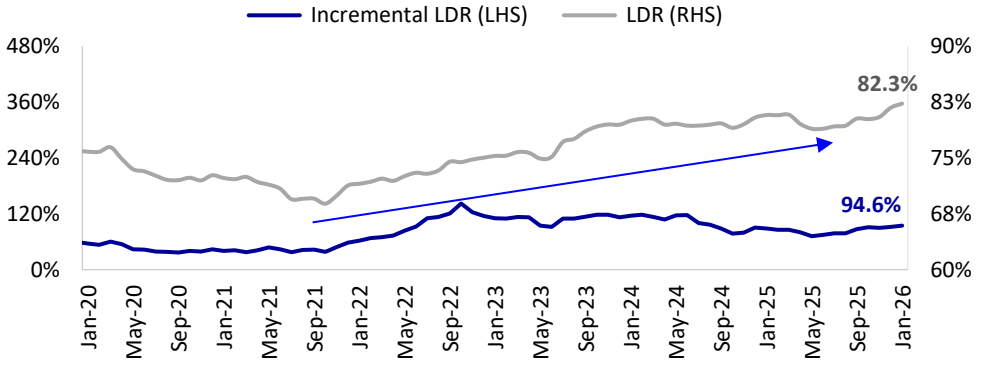
Exhibit 3: LDR, LCR, and NSFR ratio comparison of banks

Metrics (%)	LDR	LCR	NSFR
Large PVBs			
HDFC	98.7	116.0	115.3
Axis	91.9	116.4	112.8
Kotak	88.6	134.8	115.6
ICICI	88.3	125.0	123.7
IndusInd	80.6	122.0	115.7
Mid PVBs			
IDFC First	92.7	115.2	122.4
Bandhan	90.0	161.1	125.7
RBL	86.1	125.0	114.6
Federal	85.8	123.9	126.5
DCB	83.5	133.8	125.5
PSBs			
BoB	85.7	126.0	118.8
SBI	81.2	137.8	127.4
Union	81.0	123.6	113.4
Indian	79.1	127.2	138.8
Canara	77.1	126.1	129.6
PNB	72.0	130.2	123.8

Source: MOFSL, Company

Lagging deposit growth has resulted in a spike in the LDR ratio to ~82%

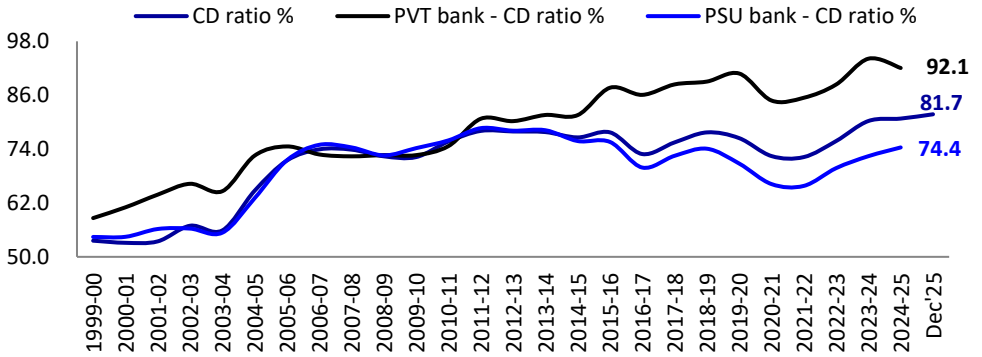
Exhibit 4: Systemic LDR has shot up to 82.3% in Jan'26



Source: MOSL, RBI

PSBs have reported a significant increase in CD ratio over the past few years, albeit it remains at comfortable levels

Exhibit 5: The CD ratio of private banks has been much ahead of that of PSU banks



2024 data is adjusted for the HDFC merger, Source: MOFSL, RBI

LCR-NSFR framework: More supportive of growth and profitability

Indian banks have to maintain a CRR of 3% and an SLR of 18% on NDTL. This means that broadly 21% of deposits are precluded from lending, leaving only 79% for pursuing credit growth

- Moving away from LDR as the primary growth constraint meaningfully expands banks' balance-sheet runways. LDR has been a more static indicator and completely hinged on deposits, ignoring the dynamic nature of the market, such as the stress period liquidity requirements and the funding stability.
- LCR and NSFR reframe this by focusing on stress liquidity (30 days) and funding stability (one year), enabling asset growth without one-for-one deposit expansion.
- Assessment based on LCR and NSFR thus offers a more growth-enabling lens. Instead of capping lending mechanically, LCR focuses on the ability to survive a 30-day stress scenario, while NSFR ensures stable funding over a one-year horizon.
- For example, a bank operating at an LCR of 120-130% may still have surplus HQLA beyond regulatory minimums that can be re-optimized, while an NSFR of 115-120% signals excess long-term funding capacity.
- Under this framework, banks can grow assets without commensurate deposit growth, as long as incremental loans are funded with stable liabilities and liquidity buffers remain compliant.
- Importantly, artificially driving LDR lower can cap profitability/RoA. If a bank with a structurally comfortable liquidity position pushes LDR down from, say, 80% to 72-73%, the foregone assets are typically replaced by low-yielding SLR or excess liquidity, dragging asset yields and operating leverage.
- **A shift toward LCR–NSFR-led balance-sheet management thus allows banks to optimize their balance sheet by unlocking assets, thereby supporting credit growth and underlying profitability.**

LCR optimization: Excess liquidity deployment may theoretically drive a 3-12% increase in LDR

Increment in LDR post-LCR optimization:
Large PVBs (4-11%)
Mid PVBs (3-12%)
PSBs (6-11%)

PSBs to benefit more!

- Unlike LDR, which implicitly links lending capacity to deposits, the LCR framework creates liquidity buffers from the entire liability base – deposits, borrowings, and equities. The RBI's final LCR guidelines *(Link)*, effective from Apr'26, are further expected to lift system-wide LCR by ~6%.
- At the bank level, pro forma LCRs improve mainly due to lower run-off rates on non-financial entity deposits, more than offsetting higher retail run-offs and HQLA haircuts. Consequently, banks should see an improvement in their LCR ratios under the new methodology.
- As banks maintain the targeted LCR cushion above regulatory minima, surplus liquidity parked in low-yielding assets can be redeployed into loans without requiring incremental deposit mobilization, thereby supporting loan growth.
- Importantly, a higher LDR in this context does not imply weaker liquidity, as the bank continues to meet 30-day outflow requirements while benefiting from improved asset yields and profitability through better utilization of existing balance sheet resources.
- **In our methodology, we have assumed a minimum LCR threshold of 108%. The system-level LCR itself is going to rise by 6% under the new LCR guidelines, which will result in an actual LCR of ~115%. For select mid-size private banks, we have taken a higher LCR threshold due to higher business volatility. Any surplus liquidity above this level is assumed to be deployed into loans, which are better-yielding assets.**
- **We reckon that post the LCR optimization, LDRs could expand by ~3-12% across the banks under our coverage, with large private sector banks likely to see a relatively lower increase of 4-11%, while PSBs are likely to see a rise of 6-11%.**

Exhibit 6: Large private banks may witness a benefit of 4-11% on their existing LDRs post-LCR optimization

INR m	HDFC	ICICI	Axis	KMB	IndusInd
HQLA (I)	74,86,021	48,72,202	36,31,352	15,61,170	11,29,540
Current cash outflow (II)	64,49,897	38,98,827	31,20,962	11,57,925	9,26,540
Current LCR (%) (III = I/II)	116.1%	125.0%	116.4%	134.8%	121.9%
HQLA @ LCR of 108% (IV = I*108%/III)	69,65,889	42,10,733	33,70,639	12,50,559	10,00,664
Additional Lending (V = I - IV)	5,20,132	6,61,469	2,60,713	3,10,611	1,28,876
Current Loans (VI)	2,82,14,465	1,46,61,536	1,15,90,517	48,06,730	31,75,360
New loans (VII = V+VI)	2,87,34,597	1,53,23,004	1,18,51,229	51,17,341	33,04,236
Current Deposits (VIII)	2,86,00,546	1,65,96,109	1,26,07,859	54,26,380	39,38,150
LDR (%) (VI/VIII)	98.7%	88.3%	91.9%	88.6%	80.6%
New LDR (%) (VII/VIII)	100.5%	92.3%	94.0%	94.3%	83.9%
Increment in LDR (%)	1.8%	4.0%	2.1%	5.7%	3.3%
LDR (Under assumption of release of Level 2 HQLA)	102.3%	96.3%	96.1%	100.0%	87.2%
Range of LDR expansion	100.5% - 102.3%	92.3% - 96.3%	94% - 96.1%	94.3% - 100%	83.9% - 87.2%
Maximum expansion in LDR	**3.6%**	**8.0%**	**4.1%**	**11.4%**	**6.5%**

Source: MOFSL, Company

Exhibit 7: Mid-size banks could see an incremental growth of 3-12% in their existing LDRs

INR m	Federal	IDFC FB	RBL	Bandhan	DCB
HQLA (I)	5,57,969	7,49,640	2,84,934	4,00,698	1,13,006
Current cash outflow (II)	4,50,454	6,50,580	2,27,878	2,48,753	84,472
Current LCR (%) (III = I/II)	123.9%	115.2%	125.0%	161.1%	133.8%
HQLA @ LCR of 108% (IV = I*108%/III)	4,86,491	7,02,626	2,46,109	3,03,479	91,229
Additional Lending (V = I - IV)	71,478	47,014	38,826	97,219	21,777
Current Loans (VI)	25,55,690	26,99,878	10,30,860	14,11,000	5,66,000
New loans (VII = V+VI)	26,27,168	27,46,891	10,69,686	15,08,219	5,87,777
Current Deposits (VIII)	29,77,960	29,11,334	11,97,210	15,67,200	6,77,540
LDR (%) (VI/VIII)	85.8%	92.7%	86.1%	90.0%	83.5%
New LDR (%) (VII/VIII)	88.2%	94.4%	89.3%	96.2%	86.8%
Increment in LDR (%)	2.4%	1.6%	3.2%	6.2%	3.2%
LDR (Under assumption of release of Level 2 HQLA)	90.6%	96.0%	92.6%	102.4%	90.0%
Range of LDR expansion	88.2% - 90.6%	94.4% - 96%	89.3% - 92.6%	96.2% - 102.4%	86.8% - 90%
Maximum expansion in LDR	**4.8%**	**3.2%**	**6.5%**	**12.4%**	**6.4%**

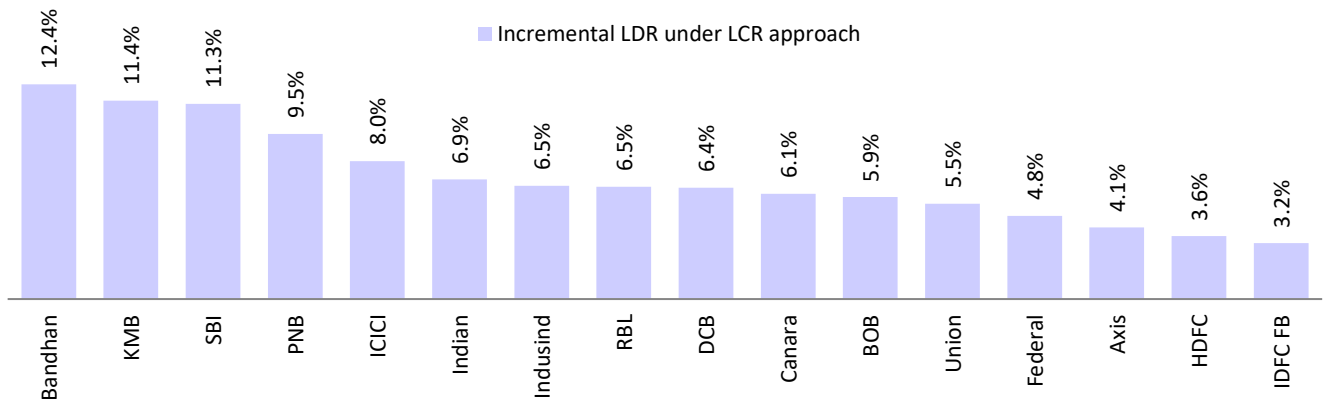
Source: MOFSL, Company

Exhibit 8: PSBs are the most favored, with LDRs rising by 6-11%

INR m	SBI	BOB	PNB	Union	Canara	Indian
HQLA (I)	1,48,54,340	31,81,137	34,72,158	26,61,423	32,24,998	18,09,524
Current cash outflow (II)	1,07,76,990	25,23,873	26,65,979	21,52,613	25,58,377	14,22,202
Current LCR (%) (III = I/II)	137.8%	126.0%	130.2%	123.6%	126.1%	127.2%
HQLA @ LCR of 108% (IV = I*108%/III)	1,16,39,149	27,25,783	26,80,883	23,24,822	27,63,047	15,35,978
Additional Lending (V = I - IV)	32,15,191	4,55,354	7,91,274	3,36,601	4,61,951	2,73,545
Current Loans (VI)	4,62,77,341	1,32,50,740	1,19,62,076	99,08,650	1,17,28,157	62,55,470
New loans (VII = V+VI)	4,94,92,531	1,37,06,094	1,27,53,351	1,02,45,252	1,21,90,108	65,29,015
Current Deposits (VIII)	5,70,13,089	1,54,67,488	1,66,02,900	1,22,28,559	1,52,12,683	79,09,230
LDR (%) (VI/VIII)	81.2%	85.7%	72.0%	81.0%	77.1%	79.1%
New LDR (%) (VII/VIII)	86.8%	88.6%	76.8%	83.8%	80.1%	82.5%
Increment in LDR (%)	5.6%	2.9%	4.8%	2.8%	3.0%	3.5%
LDR (Under assumption of release of Level 2 HQLA)	92.4%	91.6%	81.6%	86.5%	83.2%	86.0%
Range of LDR expansion	86.8% - 92.4%	88.6% - 91.6%	76.8% - 81.6%	83.8% - 86.5%	80.1% - 83.2%	82.5% - 86%
Maximum expansion in LDR	**11.3%**	**5.9%**	**9.5%**	**5.5%**	**6.1%**	**6.9%**

Source: MOFSL, Company

Exhibit 9: Summary – LDR gains are possible for banks post-LCR optimization

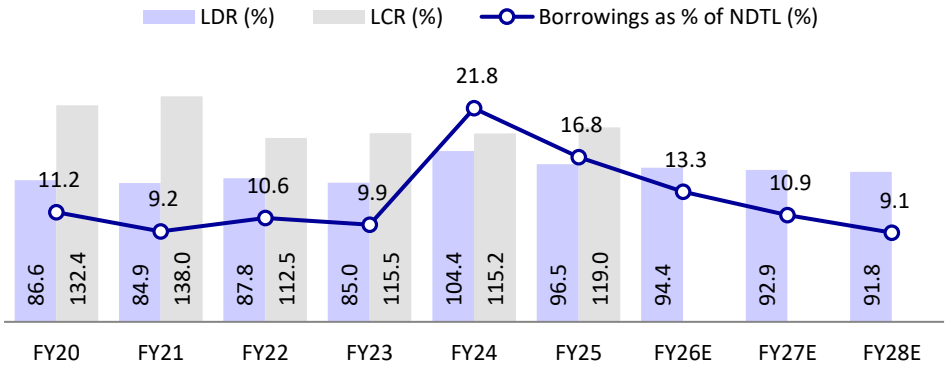


Source: MOFSL, Company

Why LDR cannot increase more than what we have estimated? HDFC Bank operated on 110% peak LDR after the merger with HDFC Ltd.!

- HDFC Bank operated with an LCR of ~115% and an LDR of ~104% around the time of the merger, supported by a significantly higher borrowing mix of ~22% of NDTL, compared with ~9-11% before the merger.
- As the borrowing mix has been steadily declining post-merger, the LDR is unlikely to return to historical peak levels of ~110% and instead is expected to gradually moderate toward ~92% by FY28E.
- In our view, incremental upside to the LDR is limited, with scope for only ~3% increase through optimization of LCR and NSFR buffers.
- We do not envisage a scenario where a bank will increase LDR on the back of borrowings, as that will be counterproductive and only dilute its underlying profitability.

Exhibit 10: HDFC Bank operated at a higher LDR when the borrowing mix was high post-merger



Source: MOFSL, Company

NSFR optimization can lift LDR by 3-23%

PSU Banks again better positioned!

Increment in LDR post NSFR optimization:
Large PVBs (3-12%)
Mid PVBs (4-14%)
PSBs (4-23%)

- The NSFR optimization enables higher LDRs by focusing on the availability of stable funding over a one-year horizon. Available stable funding includes equity, long-term borrowings, and stable deposits, and banks operating with NSFRs well above 100% carry surplus stable funding capacity.
- This excess can support incremental loan growth without a commensurate rise in deposits, pushing LDRs higher while preserving structural funding strength.
- For our NSFR analysis, we have assumed a target threshold of 110% and, on this basis, estimated surplus ASF for banks that they can deploy into loans while watching out for the RSF-to-loans ratio against the excess ASF (please refer to the tables below for details).
- Under this NSFR-based framework, banks are estimated to witness a 3-23% increase in LDR. The analysis again indicates that PSU banks remain the key segment to benefit (3-23% increase), as they gain from meaningful liquidity deployment under both methodologies.

Exhibit 11: NSFR optimization can increase the LDR by 3-12% for large PVBs

INR m	HDFC	ICICI	Axis	KMB	IndusInd
ASF (I)	2,98,30,539	1,68,34,312	1,23,77,773	59,20,230	33,43,130
RSF (II)	2,58,69,682	1,36,05,755	1,09,73,760	51,20,300	28,89,320
NSFR (III = I/II)	115.3%	123.7%	112.8%	115.6%	115.7%
Excess lending (ASF) available @110% (IV = III-110%)	5.3%	13.7%	2.8%	5.6%	5.7%
Excess ASF available (V = IV*II)	13,73,888	18,67,981	3,06,638	2,87,900	1,64,878
Loans O/S (VI)	2,82,14,465	1,46,61,536	1,15,90,517	48,06,730	31,75,360
RSF/ Loans ratio (VII = VI/I)	92%	93%	95%	107%	91%
Incremental Loans in the same ratio (VIII)	14,98,415	20,12,932	3,23,872	2,70,269	1,81,201
Current Deposits (IX)	2,86,00,546	1,65,96,109	1,26,07,859	54,26,380	39,38,150
LDR (%) (VIII/VI)	98.7%	88.3%	91.9%	88.6%	80.6%
New LDR (%) ((VI+VIII)/IX)	103.9%	100.5%	94.5%	93.6%	85.2%
Increment in LDR (%)	**5.2%**	**12.1%**	**2.6%**	**5.0%**	**4.6%**

Source: MOFSL, Company

Exhibit 12: Mid-size private banks can see an increase of 4-14%

INR m	Federal	IDFC FB	RBL	Bandhan	DCB
ASF (I)	27,31,054	26,96,820	9,01,240	13,49,727	5,63,808
RSF (II)	21,58,411	22,02,910	7,86,200	10,73,985	4,49,148
NSFR (III = I/II)	126.5%	122.4%	114.6%	125.7%	125.5%
Excess lending (ASF) available @110% (IV = III-110%)	16.5%	12.4%	4.6%	15.7%	15.5%
Excess ASF available (V = IV*II)	3,56,802	2,73,619	36,420	1,68,344	69,746
Loans O/S (VI)	25,55,690	26,99,878	10,30,860	14,11,000	5,66,000
RSF/ Loans ratio (VII = VI/I)	84%	82%	76%	76%	79%
Incremental Loans in the same ratio (VIII)	4,22,475	3,35,346	47,754	2,21,170	87,892
Current Deposits (IX)	29,77,960	29,11,334	11,97,210	15,67,200	6,77,540
LDR (%) (VIII/VI)	85.8%	92.7%	86.1%	90.0%	83.5%
New LDR (%) ((VI+VIII)/IX)	100.0%	104.3%	90.1%	104.1%	96.5%
Increment in LDR (%)	**14.2%**	**11.5%**	**4.0%**	**14.1%**	**13.0%**

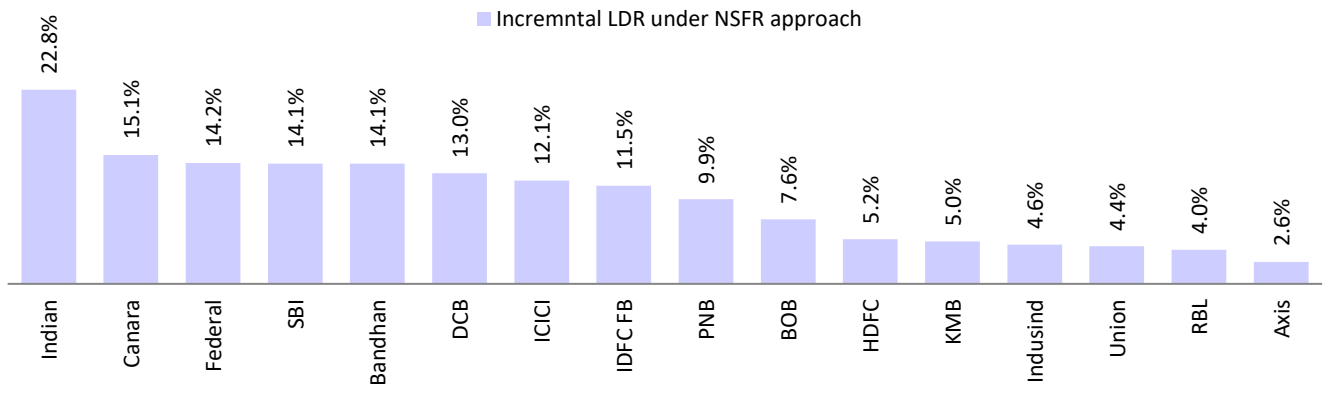
Source: MOFSL, Company

Exhibit 13: PSU banks are the most favored, with a potential increase of 4-23%

INR m	SBI	BOB	PNB	Union	Canara	Indian
ASF (I)	5,37,14,590	1,31,25,598	1,43,76,130	99,87,342	1,19,83,510	64,24,250
RSF (II)	4,21,65,260	1,10,45,128	1,16,14,020	88,04,218	92,46,910	46,28,876
NSFR (III = I/II)	127.4%	118.8%	123.8%	113.4%	129.6%	138.8%
Excess lending (ASF) available @110% (IV = III-110%)	17.4%	8.8%	13.8%	5.4%	19.6%	28.8%
Excess ASF available (V = IV*II)	73,32,804	9,75,957	16,00,708	4,78,787	18,11,909	13,32,487
Loans O/S (VI)	4,62,77,341	1,32,50,740	1,19,62,076	99,08,650	1,17,28,157	62,55,470
RSF/ Loans ratio (VII = VI/I)	91%	83%	97%	89%	79%	74%
Incremental Loans in the same ratio (VIII)	80,47,921	11,70,847	16,48,679	5,38,848	22,98,103	18,00,725
Current Deposits (IX)	5,70,13,089	1,54,67,488	1,66,02,900	1,22,28,559	1,52,12,683	79,09,230
LDR (%) (VIII/VI)	81.2%	85.7%	72.0%	81.0%	77.1%	79.1%
New LDR (%) ((VI+VIII)/IX)	95.3%	93.2%	82.0%	85.4%	92.2%	101.9%
Increment in LDR (%)	**14.1%**	**7.6%**	**9.9%**	**4.4%**	**15.1%**	**22.8%**

Source: MOFSL, Company

Exhibit 14: Summary – PSU banks will witness higher LDR gains post-NSFR optimization



Source: MOFSL, Company

Exhibit 15: Minimum approach – LDR increase that banks can pursue, factoring in the minimum gains from optimization of both the LDR and NSFR

Metrics (%)	Current LDR	LDR gains from LCR optimization	LDR gains from NSFR optimization	LDR gains – minimum of both
Large PVBs				
HDFC	98.7	3.6	5.2	**3.6**
Axis	91.9	4.1	2.6	**2.6**
Kotak	88.6	11.4	5.0	**5.0**
ICICI	88.3	8.0	12.1	**8.0**
IndusInd	80.6	6.5	4.6	**4.6**
Mid PVBs				
IDFC First	92.7	3.2	11.5	**3.2**
Bandhan	90.0	12.4	14.1	**12.4**
RBL	86.1	6.5	4.0	**4.0**
Federal	85.8	4.8	14.2	**4.8**
DCB	83.5	6.4	13.0	**6.4**
PSBs				
BoB	85.7	5.9	7.6	**5.9**
SBI	81.2	11.3	14.1	**11.3**
Union	81.0	5.5	4.4	**4.4**
Indian	79.1	6.9	22.8	**6.9**
Canara	77.1	6.1	15.1	**6.1**
PNB	72.0	9.5	9.9	**9.5**

Source: MOFSL, Company

Several global banks operate at an LDR>100%

- Global banking systems operating under LCR and NSFR frameworks routinely function with LDRs at or above 100% without raising investor concerns. In these markets, analytical focus has decisively shifted away from simple deposit–loan matching toward stress liquidity coverage, funding maturity, and capital adequacy.
- As long as banks maintain strong LCR/NSFR buffers and healthy capital ratios, higher LDRs are viewed as an outcome of efficient balance sheet utilization rather than a measure of inadequate balance sheet liquidity and funding stretch.

Exhibit 16: Reserve requirements across countries and the regulatory views on LDR, LCR, and NSFR

Country / Region	LDR Used as a Regulatory Constraint?	Cash / Statutory Reserves	Framework in Practice (What Actually Matters)
India	No formal cap; but monitored	CRR ~3%; SLR ~18% of NDTL	LCR/NSFR binding; LDR largely optical
United States	No	No CRR	Liquidity judged via LCR/NSFR + stress tests
Euro Area	No	No CRR	Fully LCR/NSFR-driven
United Kingdom	No	No CRR	PRA focuses on liquidity buffers, not LDR
Canada	No	No CRR	Funding stability key metric
Australia	No	No CRR	High LDRs are common; liquidity via LCR
Japan	No	Minimal reserve requirement (RRR at 0.8%)	LCR/NSFR dominate
South Korea	No formal cap	CRR ~7%	Banks operate with LDRs >100%
China	Yes (supervisory guidance)	RRR ~6–9% (varies by bank)	Hybrid: LCR/NSFR + LDR oversight
Hong Kong	No	No CRR	Pure LCR/NSFR framework
Singapore	No	No CRR	Liquidity assessed via LCR/NSFR
Saudi Arabia	Preferred, not binding	CRR ~7%	LDR often >100%, accepted
Qatar	Preferred, not binding	CRR ~4.5%	LCR/NSFR primary
Mexico	No	No CRR	LDR is not a risk metric
Chile	No	No CRR	High LDRs are structurally normal
Brazil	No	High directed reserves	Liquidity judged beyond LDR
ASEAN (avg.)	Limited / none	CRR ~2–8% (country-specific)	Region aligned to Basel III

Source: MOFSL

Exhibit 17: Across many countries, banks operate at an LDR>100%

Country	Banks	LDR	LCR	NSFR	CET-1	Tier-1	CRAR
Mexico	**Banorte**	102%	162%	131%	12.6%	19.7%	20.1%
S Korea	**KB Financial**	106%	NA	NA	13.8%	15.2%	16.2%
	Shinhan	104%	NA	NA	13.3%	15.0%	15.9%
Saudi Arabia	**Saudi National**	115%	285%	114%	17.7%	19.8%	21.2%
Qatar	**QNB**	104%	144%	105%	15.0%	18.2%	19.3%
Australia	**Commonwealth**	107%	132%	117%	12.3%	13.8%	20.6%

Exhibit 18: BFSI valuation matrix

Val summary	Rating	CMP INR	MCap INRb	TP INR	Upside (%)	RoA (%) FY26E	RoA (%) FY27E	RoE (%) FY26E	RoE (%) FY27E	P/E (x) FY26E	P/E (x) FY27E	P/BV (x) FY26E	P/BV (x) FY27E	P/ABV (x) FY26E	P/ABV (x) FY27E
Private Banks															
ICICIBC*	Buy	1,312	9,812	1,750	25	2.2	2.3	16.1	16.1	15.0	13.1	2.8	2.5	2.4	2.0
HDFCB*	Buy	849	13,756	1,175	31	1.8	1.9	14.1	14.5	14.6	12.8	2.4	2.1	2.1	1.8
AXSB*	Neutral	1,315	4,325	1,400	0	1.4	1.6	13.0	14.4	14.6	11.8	2.0	1.8	1.9	1.6
BANDHAN	Buy	182	300	190	2	0.6	1.3	5.2	11.0	22.9	10.4	1.2	1.1	1.2	1.1
KMB*	Buy	392	4,221	500	18	1.9	2.0	11.5	12.5	16.2	13.7	3.2	2.8	1.9	1.7
IIB	Neutral	898	751	930	-4	0.1	0.6	0.7	5.2	145.3	20.7	1.1	1.0	1.1	1.1
FB	Buy	276	736	310	3	1.1	1.3	11.3	12.2	17.1	13.8	1.8	1.6	1.9	1.6
DCBB	Buy	175	59	220	17	0.9	1.0	13.1	15.3	7.5	5.6	0.9	0.8	1.0	0.8
IDFCFB	Neutral	67	626	80	10	0.6	0.9	5.0	8.8	25.2	13.5	1.2	1.1	1.3	1.2
EQUITASB	Buy	58	75	80	21	0.1	1.0	0.8	10.5	141.5	10.3	1.1	1.0	1.2	1.1
AUBANK	Buy	938	725	1,250	28	1.5	1.7	14.4	17.1	26.8	19.0	3.6	3.0	3.7	3.1
RBK	Buy	309	202	370	13	0.6	1.4	5.7	8.8	21.1	18.9	1.2	1.1	1.2	1.1
PSU Banks															
SBIN*	Buy	1,112	11,162	1,300	8	1.2	1.1	17.8	15.9	8.4	8.2	2.0	1.8	1.4	1.3
PNB	Buy	118	1,499	145	11	0.9	1.0	13.1	15.1	8.2	6.3	1.0	0.9	1.0	0.8
BOB	Neutral	295	1,680	320	-1	1.0	1.0	14.7	14.8	7.8	7.1	1.1	1.0	1.2	1.0
CBK	Buy	142	1,441	175	10	1.1	1.0	19.3	17.8	6.7	6.5	1.2	1.1	1.1	1.0
UNBK	Neutral	186	1,539	180	-11	1.2	1.2	15.5	14.3	8.1	7.8	1.2	1.0	1.2	1.1
INBK	Buy	931	1,335	1,025	3	1.4	1.4	18.5	17.8	10.1	9.2	1.7	1.5	1.7	1.5
Payments & Fintech															
SBI Cards	Neutral	715	738	875	13	3.1	3.8	14.5	17.9	22.4	17.5	4.4	3.7	4.5	3.8
						PAT (INRb)		RoA (%)		RoE (%)		P/E (x)		P/Sales (x)	
One 97 Comm.	Neutral	1,041	714	1,275	14	5.6	8.9	3.3	3.5	5.0	5.7	78.1	40.7	8.0	7.4
NBFC (lending)					**Upside**	**Credit cost (%)**		**RoA (%)**		**RoE (%)**		**P/E (x)**		**P/BV (x)**	
Housing Finance															
LIC Housing Fin	Neutral	512	300	550	1	0.2	0.2	1.7	1.7	14.3	13.2	5.1	5.0	0.7	0.6
PNB Housing	Buy	790	220	1,200	42	-0.3	0.1	2.5	2.3	12.3	11.8	9.3	8.7	1.1	1.0
Bajaj Housing	Neutral	85	729	100	14	0.2	0.2	2.3	2.3	12.3	13.3	27.0	21.9	3.1	2.7
AAVAS Financiers	Neutral	1,223	102	1,500	16	0.2	0.2	3.3	3.3	14.0	14.3	14.7	12.6	1.9	1.7
Home First Fin.	Buy	1,078	121	1,370	16	0.4	0.3	4.0	4.0	16.0	14.2	20.4	17.1	2.6	2.3
Can Fin Homes	Neutral	855	118	1,015	14	0.1	0.1	2.4	2.2	18.7	16.9	11.1	10.6	1.9	1.7
Repco Home Fin	Neutral	367	24	450	17	-0.1	0.1	2.8	2.7	12.5	11.9	5.2	4.9	0.6	0.6
Vehicle Finance															
Chola. Inv & Fin.	Buy	1,622	1,471	2,000	14	1.6	1.5	2.4	2.6	19.1	19.7	26.9	21.1	4.6	3.8
M & M Financial	Buy	361	537	450	16	1.7	1.6	2.0	2.1	12.5	12.9	17.9	15.0	2.0	1.8
Shriram Finance	Buy	1,063	2,077	1,200	9	1.8	1.8	3.2	3.7	16.3	14.5	20.3	19.2	3.1	2.2
IndoStar Capital	Buy	211	31	270	19	6.4	1.1	5.5	2.0	15.6	5.2	5.7	15.0	0.8	0.8
Gold Finance															
Muthoot Finance	Neutral	3,284	1,380	4,500	31	0.3	0.2	6.4	5.6	30.1	27.2	13.4	11.6	3.6	2.8
Manappuram Finance	Neutral	261	248	330	13	2.8	1.4	1.7	3.1	6.8	12.6	25.4	12.2	1.6	1.4
Microfinance															
CreditAccess	Buy	1,218	214	1,600	19	6.1	3.2	2.7	4.4	10.7	17.3	24.8	13.2	2.5	2.1
Fusion Finance	Buy	172	33	230	13	5.3	3.1	-0.4	3.7	-1.5	12.2	-89.0	8.9	1.2	1.0
Spandana Sphoorty	Neutral	231	18	260	1	9.7	2.5	-9.6	2.4	-29.3	7.2	-2.6	12.2	1.0	0.8
NBFC-lending	**Rating**	**CMP (INR)**	**MCap INRb**	**TP INR**	**Upside (%)**	**Credit cost (%) FY26E**	**Credit cost (%) FY27E**	**RoA (%) FY26E**	**RoA (%) FY27E**	**RoE (%) FY26E**	**RoE (%) FY27E**	**P/E (x) FY26E**	**P/E (x) FY27E**	**P/BV (x) FY26E**	**P/BV (x) FY27E**
Diversified															
Bajaj Finance	Neutral	940	6,288	1,075	6	2.0	1.6	3.8	4.1	18.4	20.2	30.0	23.0	5.1	4.3
Poonawalla Fincorp	Buy	424	361	610	31	2.5	2.1	1.1	2.2	5.9	12.4	63.4	23.1	3.4	2.3
Aditya Birla Cap	Buy	332	929	415	17			-	-	12.4	14.4	21.8	16.7	2.6	2.3

L&T Finance	Buy	274	748	370	23	2.1	2.1	2.2	2.6	10.9	13.5	23.4	17.3	2.5	2.2
Piramal Finance	Buy	1,785	398	2,040	16	1.7	1.4	1.5	1.9	5.8	8.2	25.0	16.7	1.4	1.3
MAS Financial	Buy	310	62	395	16	1.2	1.3	2.7	2.8	13.4	14.7	15.5	12.4	2.0	1.7
IIFL Finance	Buy	492	214	720	43	2.2	2.0	2.2	2.4	12.2	14.8	13.0	9.5	1.5	1.3
HDB Financial	Neutral	664	592	815	14	2.5	2.3	2.2	2.4	13.9	14.2	21.6	17.3	2.6	2.3
Northern Arc	Buy	245	41	360	42	3.0	2.8	2.6	3.0	10.6	13.0	10.2	7.4	1.0	0.9
Power Financiers															
PFC	Buy	412	1,387	500	19	-0.1	0.2	3.2	3.1	19.9	18.0	7.0	6.8	1.3	1.1
REC	Buy	335	932	430	22	-0.1	0.1	2.7	2.7	20.0	18.7	5.3	4.9	1.0	0.9
MSME															
Five-Star Business	Buy	388	125	590	39	1.5	1.2	7.3	7.1	16.3	15.8	10.3	9.1	1.6	1.3

Non-lending	**Rating**	**CMP (INR)**	**MCap INRb**	**TP INR**	**Upside (%)**	**VNB Margins (%)**		**RoEV (%)**		**P/E (x)**		**P/VNB**		**P/EV (x)**	
						FY26E	**FY27E**	**FY26E**	**FY27E**	**FY26E**	**FY27E**	**FY26E**	**FY27E**	**FY26E**	**FY27E**
Life Insurance															
HDFC Life Insur.	Buy	656	1,581	930	27	24.7	26.0	15.4	16.4	73.4	68.4	32.7	26.6	2.2	1.9
ICICI Pru Life	Buy	602	974	800	19	24.5	25.0	11.7	13.0	60.5	54.2	32.5	27.5	1.6	1.4
SBI Life Insurance	Buy	1,964	2,089	2,570	23	27.5	28.0	18.4	18.6	88.5	80.9	28.2	24.0	2.4	2.0
Max Financial	Buy	1,733	640	2,200	19	25.0	26.0	18.4	19.8	390.9	139.9	22.3	18.0	2.5	2.1
Canara HSBC	Buy	148	139	180	23	19.8	20.5	17.5	17.8	130.3	112.9	24.2	19.6	2.0	1.7
Life Insurance Corp.	Buy	822	5,508	1,100	26	19.5	20.0	11.9	11.7	9.4	8.7	40.2	37.0	0.6	0.5
General Insurance					**Upside**	**Claims Ratio (%)**		**Combined Ratio (%)**		**RoE (%)**		**P/E (x)**		**P/BV (x)**	
Star Health	Buy	452	278	560	18	69.2	69.0	101	99	7.6	11.2	47.7	29.4	3.5	3.1
Niva Bupa Health	Buy	71	141	92	20	69.0	66.5	106	101	-0.7	5.6	-524.5	60.9	3.5	3.3
ICICI Lombard	Buy	1,890	964	2,260	16	70.8	70.1	104	103	19.5	19.4	31.0	26.9	5.6	4.9
Insurtech					**Upside**	**EBITDA margins (%)**		**PAT (INRb)**		**RoE (%)**		**P/E (x)**		**P/BV (x)**	
PB Fintech	Neutral	1,466	700	1,750	15	7.1	11.2	6	10	9.2	13.2	108.4	67.5	9.5	8.4
Broking and Exchanges						**EBITDA margins (%)**		**PAT (INRb)**		**RoE (%)**		**P/E (x)**		**P/BV (x)**	
Angel One	Buy	225	222	340	38	33.4	36.9	9	13	14.6	19.2	23.6	16.1	3.3	2.9
Billionbrains	Buy	157	1,019	190	15	58.5	65.0	20	31	27.2	27.0	48.4	31.5	9.8	7.5
BSE	Neutral	2,861	1,137	3,350	20	65.6	65.6	25	32	39.5	36.1	46.4	36.7	18.3	13.2
MCX	Neutral	2,578	627	2,750	12	71.0	74.0	12	17	60.9	74.4	53.8	38.4	30.9	26.6
Wealth Management															
Anand Rathi Wealth	Neutral	3,152	256	3,100	1	45.8	47.1	4	5	47.5	42.1	66.5	52.3	26.6	18.8
Nuvama Wealth	Buy	1,238	226	1,750	37	61.2	61.6	11	13	28.2	29.2	21.0	17.9	5.5	4.9
360 ONE WAM	Buy	1,056	456	1,400	24	48.7	50.9	12	15	14.8	14.2	34.5	29.3	4.4	3.8
Prudent Corp.	Neutral	2,224	102	2,550	3	22.8	22.6	2	3	29.4	27.8	40.8	33.6	10.6	8.3
Intermediaries															
Cams Services	Buy	670	175	840	19	45.0	45.7	5	6	39.0	39.1	35.1	29.9	12.7	10.9
KFin Technologies	Neutral	945	167	1,110	14	41.5	40.7	4	4	27.5	29.1	43.1	35.9	11.2	9.8
CDSL	Neutral	1,249	271	1,410	9	52.3	53.0	5	6	26.5	27.2	52.4	45.4	13.1	11.7
NSDL	Neutral	876	184	1,100	20	31.0	31.5	3	4	18.5	18.3	43.7	38.3	7.4	6.2
AMCs					**Upside**	**MF Yields (Bps)**		**PAT (INRb)**		**RoE (%)**		**P/E (x)**		**P/AUM (%)**	
Aditya Birla AMC	Buy	977	263	1,020	12	40.3	38.8	10.4	11.6	26.2	26.4	25.4	22.6	6.1	5.3
HDFC AMC	Buy	2,535	1,178	3,200	16	46.3	45.3	29.2	32.9	34.2	35.1	40.3	35.8	13.1	11.2
Nippon Life AMC	Buy	878	603	1,060	12	39.4	37.9	15.6	18.3	36.8	42.1	38.1	32.6	8.9	7.4
UTI AMC	Buy	979	132	1,400	36	32.9	31.9	6.9	9.3	13.2	16.8	18.9	14.2	3.4	3.0

*Adjusted for subsidiaries; Source: MOFSL, Company

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