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BANKS WEIGH SHIFT FROM T-BILL RATES AS MARGINS GET SQUEEZED

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MUMBAI : With the glut in liquidity continuing to squeeze margins, a clutch of state-run lenders is trying to convince top-rated private and state-owned borrowers to avail loans benchmarked to the marginal cost of funds-based lending rate (MCLR) instead of rates linked to treasury bills.

MCLR is an internal rate of the bank, while treasury, or T-bills, is an external benchmark. While the Reserve Bank of India (RBI) has mandated banks to lend to retail and small business customers based only on an external benchmark, corporate loans are primarily linked to MCLR. However, AAA-rated companies tend to raise credit on T-bill rates as it turns out cheaper, said bankers.

“The public and private sectors’ AAA-rated companies raise bonds at rates lower than our MCLR. Therefore, they take bank loans only if we offer a lower rate," said a senior banker, seeking anonymity.

For instance, AAA-rated borrowers could avail working capital loans at, say, 4.5-5.5% with the 91-day treasury bill, typically used to price short-term corporate loans, at 3.77% as of 18 March. However, loans based on the median one-year MCLR rate for banks, which stood at 7.2% in February, could take the final rate up by another 20 basis points after adding a spread, the banker added. The three-month MCLR for State Bank of India is a bit lower at 6.65%. One basis point is 0.01%.

According to the banker, treasury departments of corporates are also discussing if they should move away from the T-bill benchmark now that a rate hike is imminent.

While T-bill rates would immediately move upwards on repo rate hikes, MCLR rates, based on bank’s deposit rates, would take more time to adjust, giving borrowers more room.

“Moving away from T-bill would also help top corporates in the long term once the interest rate cycle turns. We are discussing the issue with some large borrowers," he added.

However, surplus liquidity has also pitted one bank against another, and lenders that are happy to accept lower margins for more volumes are luring borrowers away.

Net liquidity surplus stood at 5.5 trillion as of 24 March.

Experts said the banks’ decision to nudge borrowers away from T-bill rates could be partly due to RBI’s decision to introduce the variable rate reverse repo (VRRR) as a part of the liquidity operations. The VRRR scheme has led to higher returns on money parked with the central bank, while conserving capital.

“Now that VRRR auctions of RBI have been introduced, wherein rates are coming in close to the repo, the returns on surplus liquidity have improved," said Anil Gupta, vice president, financial sector ratings, Icra Ratings.

While T-bill rates have increased, they still remain below the repo rate, said Gupta. Borrowers understand that sooner or later, the monetary policy committee (MPC) would hike the repo rate and when that happens, T-bill rates would go up much faster than the MCLR benchmark, and it may make sense for corporate borrowers to use the T-bill rate only if the difference with MCLR is 120-150 bps, he added.

With rising global commodity prices upsetting its inflation forecast, RBI is expected to change its stance to neutral from accommodative at its April or June policy review. Experts also said the MPC's inflation forecast for FY23, at 4.5%, have to be revised upwards.

Icra Ratings said in a note on 24 March that the consumer price index (CPI)-based inflation is projected to average 5.6% in FY23, well above the MPC's projection.

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