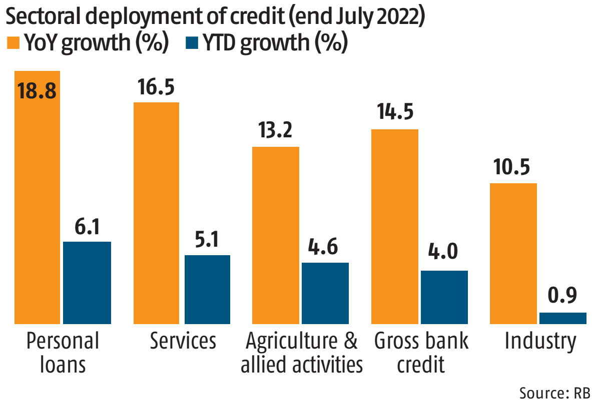
Bank's credit to industry grows the most in 8 years

SUBRATA PANDA & BHASKAR DUTTA
Mumbai, 1 September

WHO GOT HOW MUCH



Credit growth in the industries segment hit an eight-year high as Indian corporate houses looked to come out of their deleveraging phase and turned towards banks for their funding requirements, given bond yields have moved up sharply as compared to lending rates of banks.

According to the latest Reserve Bank of India (RBI) data, loans to micro, small, medium, and large industries rose to ₹31.82 trillion as of July-end, up 10.5 per cent year-on-year (YoY). Even on a month-on-month (MoM) basis, it witnessed a 0.4 per cent growth and on a year-to-date (YTD) basis, it was up almost 1 per cent. Credit to industry constitutes 27.7 per cent of the non-food credit of the banking industry. The last time credit to the industries segment grew at a similar pace was in May 2014 when corporate credit grew over 11 per cent.

Loans to micro and small industries grew by 28.3 per cent YoY, medium industries by 36.8 per cent, while it was 5.2 per cent for large industries. According to a report by ICICI Securities, sectoral lending to petroleum, iron and steel, petrochemicals, and mining were the key drivers of industry credit growth. On the other hand, telecommunications, textiles, food, processing, and other infrastructure offset the accretion partially.

"Utilisation of existing sanction limits and re-leveraging in a few sectors led to industry credit breaking out of the range of ₹28-29 trillion during the past three years. We believe revival in consumer demand, rise in private capex followed by rise in government expenditure can be potential triggers for industry credit growth, and catalyse overall credit growth revival," the report said. A sharp rise in bond yields has led India Inc to reduce their reliance on capital markets and move towards bank borrowings for funding requirements. "Bond yields have risen faster than marginal cost of funds-based lending rate (MCLR) of banks and this, perhaps, has prompted industries to move from capital markets to the banking sector for funds. Also, since the Federal Reserve has started raising rates, the borrowing overseas for Indian corporates has become costlier. As a result, they are now borrowing domestically. Once bond yields stabilise, this trend could change," said Anil Gupta, VP, financial sector ratings, ICRA.

Corporate credit growth is mirroring the overall credit growth. The RBI's latest data suggested that bank credit grew 15.3 per cent as of August 12, compared to 6.5 per cent in the year-ago period.

Ashutosh Khajuria, executive director, Federal Bank, said, "The trend itself is suggesting that the overall credit growth is more than 15 per cent and lending to micro, small and medium industries is particularly healthy. Banks are well capitalised, many of the issues surrounding NPAs have been sorted out, and as the economy recovers, they are ready to expand activities in sectors where they are convinced of credibility."

Karan Gupta, director, financial institutions, India Ratings and Research, said, "The industry segment has been weak for quite a few years now through the whole corporate asset quality cycle. In fact, for the last couple of years there was deleveraging seen in this segment. Some brownfield expansions, a higher working capital requirement and government driven focus on infra spending are together factors which are leading to higher credit growth for the segment."