At 12.6%, credit to industry grew fastest in 8 years

SUBRATA PANDA
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Credit to industries in September 2022 grew at the fastest pace it has grown in the last 100 months, aided primarily by a pick-up in working capital loans from corporates.

According to the latest sectoral deployment data of the Reserve Bank of India, credit to industries, which accounts for 27.6 per cent of non-food credit, was up 12.6 per cent year-on-year to ₹32.4 trillion. Month-on-month, it rose 1.4 per cent—the highest in seven months. On a year-to-date basis it was up 2.7 per cent.

Apart from the base effect, credit to industry got a big boost from micro, small and medium enterprises (MSMEs). Credit to small and micro firms grew 27.1 per cent YoY and that to medium-sized firms grew 36 per cent. Credit to large industries grew 8 per cent YoY during the same period.

Among sectors, petroleum, gems & jewellery, engineering, iron & steel, and construction were the key drivers of industry credit growth, while food processing, cotton textiles (down 0.9% MoM) and roads (down 0.3% MoM) partially offset the accretion.

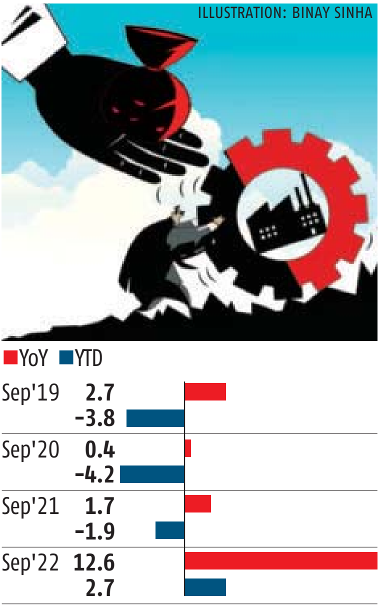
"Working capital loans, which had come down drastically during Covid, are expanding. And, there has been a shift from capital markets to banks for credit demand of industry. Inflation too has played a major role in propelling the credit demand from the corporate side. Lending to NBFCs has also picked up from last year. So, a combination of these factors is supporting the pickup in credit growth to industries. However, it is still too early to say whether the capex demand is picking up at a similar pace," said Prakash Agarwal, director and head, financial institutions, India Ratings and Research.

Corporate credit growth is mirroring the overall credit growth seen in the economy.

The RBI's latest data suggests that bank credit grew at 17.9 per cent, a multi-year high, compared to 6.5 per cent a year-ago.

CHARGING AHEAD

Credit to industry (growth in %)



Source: RBI

According to Suresh Ganapathy & Param Subramanian of Macquarie Research, unlike in the past cycles, credit growth this time around is very broad-based.

"Retail loan growth has been driven by strong growth in both secured as well unsecured loans. Loans to industry and services sector have been strong and sectors like cement and steel, which were seeing deleveraging have now been consistently posting increasing credit growth. Going by the bounce rates data, the debit bounce rates are at the lowest level in the past ₹4years, indicating very strong asset quality outcomes as reflected in the credit costs of banks reporting this quarter," they said in a report.

Analysts at ICICI Securities have suggested that India Inc, after undergoing a phase of deleveraging over the past few years, is now better positioned to embark on releveraging.