Bank credit to grow 15% in FY23-24, says Crisil

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Bank credit is expected to grow around 15 per cent in FY23 and FY24, led by broad-based economic recovery and stronger, cleaner balance sheets of lenders, according to rating agency Crisil. The growth estimate also factors in GDP growth of 7 per cent in FY23, impetus to credit growth from the government's infrastructure push, higher working capital demand in a high-inflation environment, and some substitution of debt capital market borrowings, it said in a release.

"While GDP growth could see some moderation in FY24, this would be on a higher base, thereby having limited impact on credit demand," Crisil said.

It expects public sector banks to grow at 12 per cent, and private banks at 17 per cent over FY23 and FY24. While in FY23, credit growth is likely to be driven by retail and MSME segments, corporate credit could be a larger contributor to growth in FY24.

SEGMENTAL GROWTH

"Corporate credit (45 per cent of overall credit) may grow at a 2-year CAGR of 10-12 per cent up to March 2024, after a mere 3 per cent growth in FY19-22. Next fiscal should see a revival in private sector capex, which then will become the key driver for higher corporate credit growth," said Krishnan Sitaraman, Senior Director and Deputy Chief Ratings Officer at Crisil.

On the other hand, retail credit—which accounts for 26 per cent of total advances—is expected to grow at 17-19 per cent, led by robust demand for home loans despite rising interest rates and real estate prices.

Even as unsecured retail loans have picked up and are likely to remain a lucrative segment for banks, the impact of a continued rise in interest rates on retail credit demand will need to be watched, Crisil said, adding that the MSME segment is seen growing at 16-18 per cent, and agrilcutre credit at around 10 per cent.

"What will be a key monitorable in this high credit growth environment is whether deposit growth can keep pace, " said Subha Sri Narayanan, Director at Crisil.

Banks may now have to raise deposit rates at a faster pace and also resort to higher cost wholesale deposits, which may impinge on their margins, she said, adding profitability for the sector, however, should still remain higher than FY22.