Banks to up scrutiny on loans to export firms post RBI relief

LOAN UPTICK. Lenders' outstandings to the segment were ₹11,755 cr in Sept, up 3% on year

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Banks will step up scrutiny of loans extended to exporting companies as the Reserve Bank of India's recently announced relief measures for exporters are implemented, experts say.

Lenders' outstandings to the segment were ₹11,755 crore in September, up 3 per cent on year, according to RBI data.

Madan Sabnavis, Chief Economist at Bank of Baroda, said banks need to monitor the asset quality closely post December as exports of garments, jewellery, auto components and leather products, mostly by the MSME sector, could be vulnerable to the US tariff shock. "As exporters have been given time to bring back their dollars from 9 to 15 months, there can be a temporary mismatch between inflows and outflows, thus putting pressure on the currency," he said.

TEMPORARY SHOCK

- Tariff hits MSME-heavy export sectors, leaving them more vulnerable
- As exporters have been given time to bring back their dollars from 9-15 months, there can be a temporary mismatch between inflows and outflows, thus putting pressure on the currency
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- Bankers say the stress faced by export-driven companies could be temporary as authorities work towards a final trade deal with the US

RISK WATCH

Anil Gupta, Senior Vice-President and Co-Group Head at ICRA Ratings, said banks will have to monitor the extent of moratorium or deferment availed of by the exporters. A large quantum of borrowers availing either of the relief measures could potentially increase the uncertainty on the asset quality for the lenders. A five per cent provisioning on such loans, where lenders have given a relief to exporters, could also result in increased provisions, but it is unlikely to have a material impact on near-term profitability, he said.

Karan Gupta, Director and Head of Financial Institutions at India Ratings and Research, said that similar to the Covid-19 period, there is always an option to extend the moratorium period, if required. "If the trade deal takes a longer time to complete and the regulator sees continuing impact, then the moratorium can be extended. That flexibility always exists. Lenders will be cautious in lending to export-related entities. They will assess fresh loans on an entity-to-entity and sector-to-sector basis," he said.

The increased hesitancy or oversight on existing exposure will be there, he said, adding that not all of the export-related advances will be impacted due to the tariffs. Among the impacted loans, banks will have to ascertain how many are secured and unsecured.

CREDIT SUPPORT

Harsh Dugar, Executive Director, Federal Bank, said the moratorium and deferment permitted to these exporters would provide liquidity, with repayment deferment going till September 2026. Additionally, reduction of margins permitted by reassessment of limits would provide additional liquidity against existing stocks and book debts.

"Lastly, the extension of export credit up to 450 days would help exporters tide over these trade disruptions. These measures would provide relief to exporters and the required liquidity till normalcy resumes and bilateral trade agreements are signed. The market expectations are that the stress being faced by these would be temporary and should get resolved as the government is working on multiple initiatives to resolve the situation and explore other possibilities as well," he said.