Industrial credit growth slips to 12-month low

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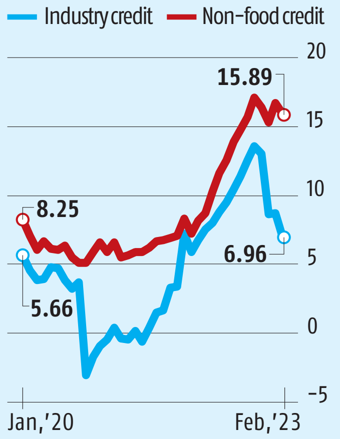
Mumbai, 25 April

ILLUSTRATION: BINAY SINHA

MONTHLY TREND OF BANK CREDIT

YoY GROWTH (%)



Source: Reserve Bank of India

The sharp recovery in industrial credit from banks in the first half of financial year 2022-23 (FY23) appears to have tapered off, as year-on-year growth declined to a 12-month low of 7 per cent in February, according to Reserve Bank of India data.

For comparison, industrial credit grew at a decadal high of 13.6 per cent YoY in October. The growth in the first half of FY23 had raised hopes of a revival in private sector capital expenditure, which had been in the slow lane for nearly a decade.

The slowdown in industrial credit was much sharper than the slowdown in overall non-food credit, which continued to grow in double digits at 15.9 per cent YoY in February. This was marginally lower than the 16.7 per cent YoY growth seen in January, and the decadal high of 17.1 per cent in October.

According to RBI data, the total outstanding credit to industry grew to ₹32.9 trillion at the end of February from ₹30.8 trillion at the corresponding period last year. In that period, the total outstanding non-food credit increased to ₹134.15 trillion from ₹115.75 trillion.

The lower offtake has now made industrial credit a minor business segment for banks and they largely depend on personal loans to individuals and loans to non-banking financial companies (NBFCs) to grow their loan book.

In all, banks disbursed fresh loans worth ₹18.4 trillion in the 12 months till February end and only 11.65 per cent of this or ₹2.14 trillion went to industry. This was lower even than the ₹2.15 trillion worth of fresh loans issued for agriculture.

In comparison, personal loans were the biggest driver of growth, accounting for 37 per cent of all fresh credit in the 12-month period, followed by loans to firms in the service sectors at 32.8 per cent.

Credit to services was in turn driven by NBFCs such as non-bank retail lenders, housing finance companies, and vehicle financiers.

Experts attribute the slowdown in industrial credit to the waning importance of the sector to India's economic growth.

"India's gross domestic product (GDP) growth is now largely driven by services such as finance, IT and personal services, and the farm sectors. In contrast, there has been a decline in contribution from industry, including manufacturing, in recent quarters," said G Chokkalingam, founder and managing director of Equinomics Research & Advisory Services.

According to him, this has translated into sub-optimal capacity utilisation in sectors such as cement, metals, automotive, chemicals and pharmaceuticals, resulting in little or no investments in new projects and capacity expansion by private firms.

Others point to a slowdown in aggregate demand growth and companies' revenue growth in the last six months.

"The bump-up in industrial credit in the H1FY23 was led by working capital loans as companies rushed to meet the pent-up demand. There has been a sharp slowdown in sales and revenue growth for non-finance companies in Q3FY23 and Q4FY23, leading to a corresponding decline in working capital loans," said Dhananjay Sinha, director and head strategy and research at Systematix Institutional Equity.