RBI clampdown may limit loan growth in FY25, says S&P Global

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The Reserve Bank of India's (RBI's) push for improving governance and transparency at finance companies and banks could impede growth and lead to higher capital costs for institutions, according to Standard and Poor's (S&P) Global Ratings.

The recent regulatory measures included restraining IIFL Finance Ltd and JM Financial Products Ltd from disbursing gold loans and loans against shares, respectively, and asking Paytm Payments Bank Ltd to stop onboarding of new customers.

S&P Global Ratings in a statement said the regulatory actions to drive banks and finance companies to better focus on policies and processes were expected to ultimately enhance the operational resilience of the system. But this shift is likely to lead to increased compliance costs for the sector. This may curb the ability of smaller companies to compete in the market.

"In our view, smaller and weaker companies may need to increasingly rely more on originate and distribute models, leveraging co-lending, and direct assignments," said Geeta Chugh, S&P Global credit analyst. Combined with tight liquidity, the RBI's new measures are likely to limit credit growth in 2024-25. "We expect loan growth to decline to 14 per cent in FY25 from 16 per cent in FY24, reflecting the cumulative impact of all these actions," the agency said.