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Bankers set eyes on double-digit loan growth in FY23 as credit demand makes comeback

Low base, small ticket size loans, working capital requirements, and a shift to bank borrowings on account of high yields in the capital market continue to drive growth, rating agency CARE Edge said in a note on Tuesday.

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AUGUST 30, 2022 / 09:51 PM IST

Bankers are penciling in an over 10 percent year-on-year (y-o-y) loan growth in the current fiscal on account of a revival in credit demand across most sectors.

“The credit growth is expected to improve aided by the government's push on public spending. The loan growth in India is at a three-year high and is seen inching up further as the economic activity gains traction,” Murali Ramakrishnan, managing director and chief executive officer at South Indian Bank, told Moneycontrol on Tuesday.

As per the latest data from the Reserve Bank of India (RBI), banks’ credit offtake increased 15.3 percent y-o-y for the fortnight ended August 12, up from 5.5 percent in the year-ago period. In absolute terms, banks’ overall outstanding advances stood at Rs 124.3 lakh crore as of August 12, growing by Rs 16.5 lakh crore over the last 12 months.

Coming off a low base, small ticket-size loans, working capital requirements, and a shift to bank borrowings on account of high yields in the capital market continue to drive credit growth, rating agency CareEdge said in a note on Tuesday.

As per Ramakrishnan, loan demand is likely to pour in from sectors including healthcare, insurance, information technology (IT), fintech and renewable energy. The sectors that will be lagging in growth would be manufacturing and parts of the services sector including trade, hotels, transport, communication and services related to broadcasting.

“India’s manufacturing lags behind the agriculture sector mainly due to the cumbersome regulatory framework without proper assessment of facts and also the hostile attitude towards the manufacturing sector fuelled by environmental activists,” Ramakrishnan said.

"Also, the cheap goods available from China have hugely affected the manufacturing sector in India. In the last 11 years, the share of manufacturing in India's GDP has declined from 17 percent to 13 percent. In any vibrant economy, the manufacturing sector needs to be manifold larger than agriculture," he added.

Uttam Tibrewal, executive director of AU Small Finance Bank, said that retail segments like vehicle loans, MSME loans and affordable housing loans, mainly in the rural and semi-urban areas, are some of the products witnessing healthy demand so far this quarter.

For FY23, AU SFB expects credit demand to sustain, supported by a steady improvement in sentiment and economic activity, good monsoon, upcoming festive season and expected moderation in inflation.

"Given our relatively small market share in the segments we operate in and our strong capital position, we believe we should be able to grow our loan book comfortably in FY23," Tibrewal said.

As per Karan Gupta, director at India Ratings & Research, the sectors that are likely to generate higher loan demand are power, textiles, metals, cement and chemicals. Sectors that are likely to remain muted are pharma and commercial real estate, he said.

"In our full-year banking outlook released in February 2022, we had forecast credit growth of 10% y-o-y for FY23. However, there is likely to be upside to this despite all the macroeconomic challenges and supply chain disruptions as working capital demand is likely to be high even if pick-up in capex gets impacted," Gupta said.

How will banks fund growth?

In view of higher credit demand, banks may approach markets to raise capital, analysts say.

As per Sanjay Agarwal, director at CareEdge, a significant chunk of capital of PSU banks is already held by the government and banks are approaching the market to raise both equity and bonds at appropriate yields, for which sufficient headroom is available.

Ramakrishnan said the increase in the credit demand both from retail and wholesale borrowers will make banks raise further deposits at higher rates for funding these credits.

"The minimum capital requirement for banks in India stands at 11.50 percent. The increased credit growth will trigger the CRAR (capital to risk-weighted assets ratio or capital adequacy ratio) requirement to the extent of their risk-weighted assets. South Indian Bank will continue to look for adequate growth opportunities and will explore need based capital raising if required," the bank's MD said. As on June 30, South Indian Bank's CRAR stood at 16.25 per cent.

"Some of the large banks, both public and private sector ones, have been seen raising additional tier 1 bonds during the last quarter of FY2022. The banks are watching for favourable conditions for raising money from the market as and when opportunities arise," Ramakrishnan said.

Deposit rush

Banks are also likely to raise deposit rates in order to gain more funds to support growth.

Recently, while private sector lender YES Bank issued a repo-linked deposit product, Bank of Baroda came out with a limited-window special deposit scheme with higher interest rate to select customers.

“Banks have started aggressively pricing their FDs (fixed deposits) and CDs (certificates of deposit) keeping in mind the increased demand for deposits. The rise in credit growth and the measures from the central bank to curb inflation is also putting pressure on banks to increase their deposit rates. The bulk deposit rates of many banks are now already above their retail term deposit rates,” Ramakrishnan said.

Suresh Khatanhar, deputy managing director at IDBI Bank, said banks’ credit-deposit ratio has been rising, reflecting the higher credit growth which has been outpacing the increase in deposits. So far this year, while lending rates have increased in response to the policy rate hikes by the RBI, “by and large” the increase in deposit rates is lower than loans rates, he said.

“Hence, banks may find it necessary to raise deposit rates in order to attract more deposits. This is also expected to be spurred by the lower systemic liquidity on account of reversal of accommodative monetary policy by the RBI. Considering this, the credit-deposit ratio is expected to rise in the near term,” Khatanhar said.

“For the last few years, deposits had been growing at a fast clip, especially when compared to credit. Going ahead in FY23, deposit growth is expected to continue to lag credit growth,” he added.