Cos may rein in capex as rate increases near

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not allowed to adjust their spreads for existing borrowers for three years in the absence of any significant credit event. While borrowers have enjoyed the benefits of this loan pricing so far under a falling interest rate scenario, bankers warn that the hike in lending rates will be equally sharp. Many economists are pencilling in a policy rate hike of as much as 200 basis points this year, translating into an equivalent amount of lending rate hike, which economists believe will impact demand recovery.

"The issue is, if the repo rate is raised by X basis points, the entire lending rate will go up by that amount, to the extent that other things remain the same. This will act as a disincentive for nascent demand recovery. In an increasing interest rate regime, transmission is therefore going to get difficult. Banks and RBI will find it difficult to tread this path," said Soumya Kanti Ghosh, chief economist, State Bank of India.

Telecom, realty, infra and a few more sectors with high debt and high working capital needs may feel the heat

Telecom, realty, infrastructure, and a few more sectors with high debt and high working capital requirements may feel the heat, experts said.

That said, banks have started hiking rates for existing corporate and retail loan customers who have taken loans under the marginal cost of funds lending rate. This comes when demand for corporate loans has started picking up after months of a lull.

According to CareEdge Ratings (formerly Care Ratings), outstanding bank credit rose 9.6% as of 25 March from a year earlier, driven by retail loans, a rise in working capital requirements, and raising capital by large firms from the banking system instead of the bond market. However, loan demand is likely to fall on rate hikes.

Telecom firms, set to spend heavily on upcoming 5G spectrum auctions and capex investments, may feel the pinch. Rising interest rates could cause worry for telcos, which have high net debt and have been struggling to show profitability, said experts.

Higher rates may hurt infrastructure sector firms. Metal companies that have committed to capacity expansions and capex may also face challenges. "However, many metal companies utilizing the favourable commodity cycle have deleveraged their balance sheets significantly," Shah said.

Rising interest rates will further dampen prospects of the auto sector.

"Higher rates have had an adverse impact on the auto sector as it leads to an increase in the total cost of ownership of a vehicle. Any sharp hardening of interest rates shall affect the spending decisions of consumers," said Srikumar Krishnamurthy, vice-president and co-group head, corporate ratings, ICRA Ltd.

Shayan Ghosh in Mumbai; and Gulveen Aulakh and Alisha Sachdev in New Delhi contributed to the story.