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Withdrawal symptoms: Bank loan disbursals, repayments to be hit

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Lower credit demand from realty, auto sectors to hit Q3 performance of banks

Hyderabad/Mumbai, November 16:

Demonetisation will hit the business of banks in the third quarter of this fiscal.

The adverse impact will be driven by both internal/operational and external factors, according to experts.

“For the last one week, normal business operations such as processing of loan applications have been impacted in many branches, including those in key centres such as Mumbai,” a top executive of Bank of Maharashtra told *BusinessLine* .

This is either due to lack of follow-up from customers or pressure on staff on account of currency exchange/accepting deposits, he added.

According to Madan Sabnavis, Chief Economist, Care Ratings, one fallout of demonetisation will be fall in demand for consumer durables and automobiles in this quarter although this may improve subsequently. Capacity utilisation of many industries is still low and therefore credit demand is also low. As a result, the performance of banks is likely to be affected, he said.

“While the housing sector (mortgages) has been buoyant till now, there could be some negative impact for this sector in the third quarter since small builders receive a part of the cost (down-payment/ margins) in cash,” he added.

Credit growth

Housing and auto loans, along with others, have been the mainstay of credit growth for banks in the first two quarters of the current financial year. For instance, SBI reported over 20 per cent growth in home, auto and other personal loans, which drove its retail loan portfolio.

However, the impact on business depends on the nature of branches. Transactions at big currency branches could be more affected than those in smaller/non-currency branches. The situation is being watched keenly to see how things will pan out.

Santanu Mukherjee, MD, State Bank of Hyderabad, said that he would not be able to “immediately” comment on the impact on other business transactions. “There are staff to attend to different functions. I need to wait for data,” he added.

Operational difficulties may be overcome in the weeks ahead once the supply of new notes increases and public pressure eases. But back-office work, such as accounting and data reporting, might continue as the deadline for exchange of currency is till the end of this quarter.

Some bankers also expressed concern over asset quality/ loan repayments in segments such as micro, small and medium enterprises (MSMEs), which might face some hiccups from demonetisation.

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