

Corporate credit slows further on note ban

Bank loans shrunk Rs 59,000 cr to Rs 735 lakh cr in the fortnight ended November 11

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Corporate credit growth, which has remained in low-single digits for several quarters, has slipped down further following

An image of RBI headquarters in Mumbai (Photo: Kamlesh Pednekar)

demonetisation. This comes on the back of banks being wary of lending to corporates expecting an uptick in bad loans in the short term and also because corporates are keeping a check on lending requirements as the picture looks uncertain.

Showing the initial impact of demonetisation, bank credit shrunk by Rs 59,000 crore to Rs 735 lakh crore in the fortnight ended November 11, according to Reserve Bank of India (RBI) data. The year-to-date (since the start of FY17) expansion credit was just 1.4% against 4.2% in the same period of FY16.

In the previous fortnight ended October 28, 2016 credit had grown by Rs 50,200 crore. The fortnight ended November 25 saw a sharp drop in credit off take.

Being the festive season, the credit off-take was expected to gather steam but the unexpected demonetisation changed the business and credit climate, said some bankers. However, according some public-sector bankers, this could not be linked to demonetisation.

A senior IDBI Bank executive said banks were hit badly on both sides of the balance sheet. “On the deposit side, there is liquidity overhang with negative carry. And, minimal interest income due to tepid credit offtake

and falling interest rates.”

The dip in personal consumption could be a temporary blip, while corporate credit might take a longer time to recover.

For several quarters, investments have been mainly for working capital. Lenders said this lag in corporate credit might last for another quarter, till the end of the financial year.

“Beyond the cash-freeze worries, discretionary consumption takes a hit, exacerbated by a squeeze as untaxed currency moves out of the system or its velocity slows down and demand/sentiment adjusts to the new reality. This could take anywhere between two and six quarters, if not longer. Private investments have been weak and unlikely to improve under these conditions,” said Nilanjan Karfa and Avinash Singh of Jefferies.

Bankers said they might take a selective approach in corporate lending. “Banks in general may be apprehensive about lending to certain sectors such as real estate but the cement sector could be a good opportunity. Similarly, banks may continue to avoid the steel sector but certain pockets in power look better,” said Ashutosh Khajuria, executive director and chief financial officer, Federal Bank.