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# Rising corporate loan defaults force banks like ICICI Bank and Axis Bank to step up retail lending

By [Saloni Shukla](#), ET Bureau | Updated: May 11, 2016, 01:32 AM IST

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MUMBAI: Retail lending was hardly a focus for Indian banks until a few years ago, except for some private lenders, but fiscal 2016 was different. From special offers by state-run banks to technology-driven package deals by private sector banks, retail lending has pushed the overall loan growth figures to double digits and has kept consumer business thriving, while corporates continued to suffer.

Stung by all-time high levels of bad loans, private sector lenders such as [ICICI Bank](#) and [Axis Bank](#)— with better grasp on consumers — are turning more aggressive on small borrowers to ensure growth and protect margins, while corporate lending remained slow amid poor demand and low factory output. Data released by the Reserve Bank of India (RBI) show that more than four-fifth of the total credit accounts are concentrated in agriculture and personal loan segments.

In the past one year, loans disbursed by Indian banks grew by nearly 10% although the wholesale lending book has not grown more than 5%. The growth has primarily been driven by the retail book which has grown roughly between 17% and 20%. Between FY11 and FY14, while total gross non-performing assets in the corporate sector grew by 300 basis points, non-performing loans in the retail segment fell by over 170 basis points.

"Retail has not disappointed banks that is why they are comfortable in lending to those customers," says Siddharth Purohit, senior research analyst, Angel Broking. "If you see banks' retail portfolio, it has not seen alarming levels of delinquencies unlike the corporate book."

India's largest private sector lender ICICI Bank, which has been facing the brunt of high slippages and a massive pile of bad loans, expects retail book to grow nearly 25%. "For the year ahead, we would target a loan growth of about 18% within which retail will grow by about 25%," Chanda Kochhar, MD & CEO, ICICI Bank, said after the bank's annual results.

"On the domestic corporate side, growth is expected at 5-7%, given the fact that we want to focus on lending to higher rated corporates and reducing the concentration risk to our portfolio."

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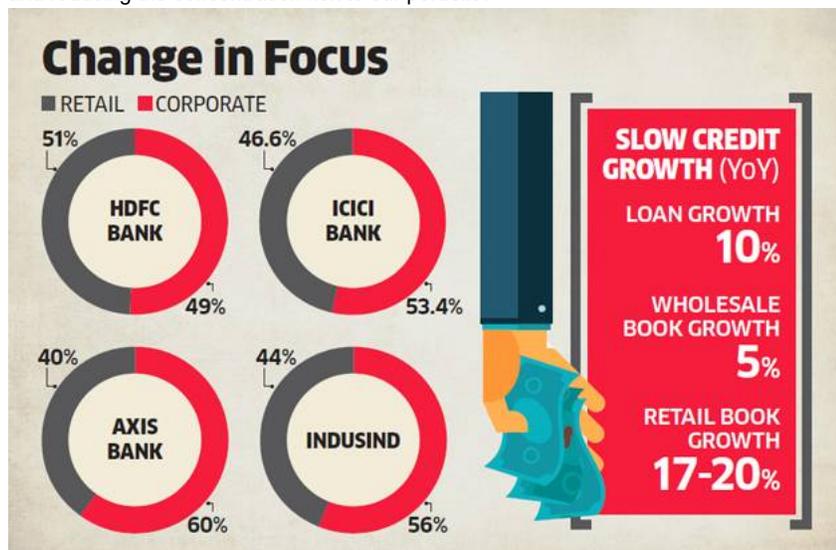
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ICICI Bank shares declined to Rs 226 from Rs 254 in the past 10 days, registering a fall of over 11%.

ICICI Bank's stock market loss seems to be helping Kotak Mahindra Bank. Last week, [Kotak Mahindra Bank](#) piped ICICI Bank to become the second-largest private lender in terms of market capitalisation.

Analysts suggest that investors may have sold ICICI Bank's shares to invest in [IndusInd Bank](#), another private sector lender which has demonstrated strong financials. The only bank defying the current trend is HDFC Bank, which has continued to grow both its retail and corporate books without being burdened by the bad loans mess.

"We are a market leader in most of the retail loan products and we are very well positioned to maintain our market leadership," Paresh Sukthankar, DMD, HDFC Bank, had told ET in an interview. "In some ways, (in light of) the increased competition, we have shown that we have the resilience to manage and protect our shown share."

HDFC Bank is looking into new opportunities in times of distress. The bank is now looking to aggressively grow its corporate banking pie, which recently crossed the Rs 1 lakh-crore mark. "If the economy starts looking up, there will be opportunities to grow the corporate book slightly more. I think within our credit appetite, there will be credit opportunities for us to pick up."

But it's not as easy as it looks. The 2008-09 downturn has taught banks that uncertain economic environment could very well increase the risk of delinquencies in the retail book.

[Axis Bank](#) has worked very hard to shed the infrastructure lender tag and is now aiming to reduce concentration risks on its book. "I think beyond a certain point if you are too much overweight in one segment, risks, to some extent, increase," V Srinivasan, ED, Axis Bank, said.

## THE RISKS

The lone voice against this desperate fight for consumer space has been Arundhati Bhattacharya, chairman of the nation's largest lender, State Bank of India (SBI). Bhattacharya recently spoke against banks being motivated to focus only on the retail segment and wondered who would do the job of infrastructure financing in the absence of development finance institutions.

"Every other bank is now being goaded on towards the same model (of focusing on retail segment)," Bhattacharya had said. "If we, as a developing country, are only going to advise banks to follow the retail model, who then is going to do project financing? Are we content as a nation to stay where we are with no need for further infrastructure development?" asked Bhattacharya.

While the SBI chief is right in cautioning banks against shunning project financing, this risk-aversion looks more like a case of 'once bitten, twice shy'. RBI's Financial Stability Report released in December last year had expressed concerns over the stress emanating from the infrastructure sector. Mining, iron & steel, textiles, infrastructure and aviation — together constituted 24.2% of banks' total loans and accounted for 53% of stressed advances. The report added that stressed advances in infrastructure rose to 24% in June 2015, from 22.9% in March.

As digitisation accelerates, the biggest challenge banks face is to remain relevant despite all odds. The battle to acquire customers is expected to heat up with peer-to-peer lenders and Fin Tech startups making life tough for banks. But as they say "Every Cloud Has A Silver Lining" — the banking game is set to change with small borrowers set to get more attention by banks.

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