

For cheaper funds, large corporates prefer bonds; move away from banks

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Mumbai, December 26: The number of lenders that large corporates are dealing with is gradually coming down. This development comes in the backdrop of better-rated corporates increasingly resorting to the bond markets for raising relatively cheaper resources.

This move should also be seen in the context of banks that have been put under the Reserve Bank of India's prompt corrective action (PCA) framework turning risk-averse and restricting corporate loan growth. Instead, these banks are focusing more on retail, agriculture and micro, small and medium enterprise (MSME) loans, thereby giving opportunity to stronger banks to increase their exposure to large corporates.

"There will be shifting of (corporate loan) accounts from bank to bank. Corporates are reducing the number of banks in the consortium...So, that gives opportunities for larger banks to have better accounts. This will help them increase their exposure to good corporates," said Rajkiran Rai G, MD & CEO, Union Bank of India.

Consortium-lending

Earlier, 20-30 banks used to be part of a consortium to lend to a large corporate, taking exposure ranging from 2 to 5 per cent each of the total loan amount. Now, when corporates float new loan proposals, they prefer dealing with fewer banks.

"Actually, what we are seeing is that good corporates want to deal with less number of banks because of the procedural hassles involved....So, larger and stronger banks will have higher credit growth because of this," explained Rai.

A top public sector bank official observed that with banks under PCA (almost 12 banks are under this framework) focussing their energies on lending to retail, agriculture and MSME (RAM), consortium lending will be restricted to bigger banks due to their strong capital base, credit assessment skills, and risk absorption capacity.

"Banks, willy-nilly, are getting differentiated as per their core competence," said the banker quoted above.

PCA refers to the imposition of appropriate regulatory sanctions by the banking regulator on troubled financial institutions as and when they begin to exhibit symptoms of stress.

The RBI's financial stability report (FSR) has underscored that the Indian financial system remains bank-dominated, even as the availability of finance from alternative sources has increased in recent years.

During 2016-17, the flow of financial resources to the commercial sector from banks was much lower and accounted for 35 per cent of the total flow against 51 per cent in the preceding year.

The central bank observed that enhanced flow of household savings into mutual funds, insurance firms and pension funds helped stoke domestic institutional investors' demand for bonds. Non-banking finance companies (NBFCs) and housing finance companies (HFCs) also emerged as alternate

source of funds in the non-bank segment, accounting for 18 per cent of the total financial flows. Among foreign sources, foreign direct investments were the pre-dominant source.

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