

Why top corporates may move away from banks

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Indian banks are likely to lose more large corporate customers in the coming quarters to the bond market where credit is cheaper, but are reluctant to sweeten the deal for these clients due to concerns over asset quality. This will further delay recovery in loan growth, which is at a multi-decade low because of weak macro-economic conditions.

“It is a question of how much risk a bank is willing to take. If you look at the NPA situation, most of it is in the large corporate accounts. Although returns are less, it is more

prudent to invest in the bond market,” said Shanker Iyer, general manager and CFO, Bank of India.

Companies with high credit ratings can raise funds at around 7% in the corporate bond market, while banks' marginal cost of fund-based lending rates is between 7.75% and 8.15%.

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The lenders are saddled with more than Rs 8 lakh crore worth of bad loans and proceedings against 12 accounts totalling about 25% of the current gross NPA of the banking system are on in various benches of the National Company Law Tribunal (NCLT).

Bankers expect this trend to continue in the coming quarters, hurting loan demand in an already fragile environment. According to the latest data available from the Reserve Bank of India, non-food credit grew merely 7.26% on a year-on-year basis at the beginning of July.

Confirming that large customers are continuing to migrate to the corporate bond market, Rajnish Kumar, managing director, National Banking Group, State Bank of India, said, “It is definitely what we are seeing with our large corporate accounts.”

The interest rates on bank loans are unlikely to come down in the near term unless the central banks pares its repo rate further. The Reserve Bank of India cut its key policy rates earlier this month to 6%, but bankers have said there is little chance of a further reduction in their lending rates. State Bank of India, the country's largest lender, had said after the monetary policy that its lending rate was low and it has passed on the benefits of policy rate cuts to its customers.

Other banks have also also echoed SBI's views. Rajat Verma, head-commercial banking at HSBC said its MCLR is already very competitive and there has been transmission of policy rates even before the latest reduction in the repo rate. He, too, believes that given the lower credit cost in the bond market, many of the large corporates will meet their requirement for funds from the bond market.