

High demand: NBFCs took 40% of all new corporate loans by banks

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The ratings agency expects this growth trend to hold in FY19.

Loans to non-banking financial companies (NBFCs) accounted for nearly 40% of all new corporate loans made by banks in FY18, showed data released by Reserve Bank of India ([RBI](#)). Bank loans outstanding to corporates rose 6% year-on-year (y-o-

y) to Rs 47.5 lakh crore on March 30, 2018. The quantum of increase was Rs 2.68 lakh crore, of which Rs 1.05 lakh crore, or 39.3%, were loans to NBFCs.

This suggests that the share of retail loans in banks' loan books is swelling to more than what is directly reflected as most NBFCs in the country are focused on small-ticket retail and MSME loans. Among all sectors in industry and services, NBFCs also saw the steepest jump in loans outstanding, growing 27% y-o-y.

Part of the reason for the high share of NBFC lending is attributable to the sluggish investment environment by private players. In a recent note, Kotak Institutional Equities (KIE) said while there was some expectation of a recovery in loan growth led by the implementation of Goods and Services Tax (GST) implementation, that did not materialise.

“Discussions with banks did not elicit any favourable response on increase in credit limits and higher utilisation of undrawn limits, but we probably need to wait for a few more quarters as there would be bottlenecks at the start of this programme,” KIE wrote.

Banks' credit growth did receive some help from the hardening of bond yields, which led some companies to shift to bank borrowings from the commercial paper (CP) route. NBFCs are among the largest segment of borrowers in the money markets.

High demand for retail credit may also have pushed bank borrowings by NBFCs. According to Icra, NBFCs' retail credit growth revived sharply in Q3FY18, growing 6% during the quarter, as against an average sequential growth of about 3.7% over the previous four quarters. As on December 31, 2017, the total retail credit of NBFCs stood at nearly Rs 7 lakh crore, registering a y-o-y growth of 18.3%, up from 15.5% in FY17.

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