

## Corporate credit demand gains pace, showing signs of gathering steam

Economic growth pushing working capital need; insolvency cases create more refinancing demand

Nikhat Hetavkar & Advait Rao Palepu | Mumbai July 26, 2018 Last Updated at 07:02 IST



The demand for credit from companies in the manufacturing and services sectors is moving up, in tandem with economic growth showing clear signs of gathering steam.

Senior executives with banks and finance companies said while working capital has a major share in this higher demand, corporates are also beginning to seek credit for creating new capacities and to finance acquisitions, thanks to insolvency proceedings.

Refinancing of older credit also has a significant share, they add.

“Corporate credit has picked up this fiscal (2018-19). Last fiscal (FY18), it was less than five per cent (growth), with a low base. We are seeing private banks leading with a higher share of the overall credit — some are recording 15-20 per cent corporate credit growth,” said Krishnan Sitaraman, senior director at CRISIL Ratings.

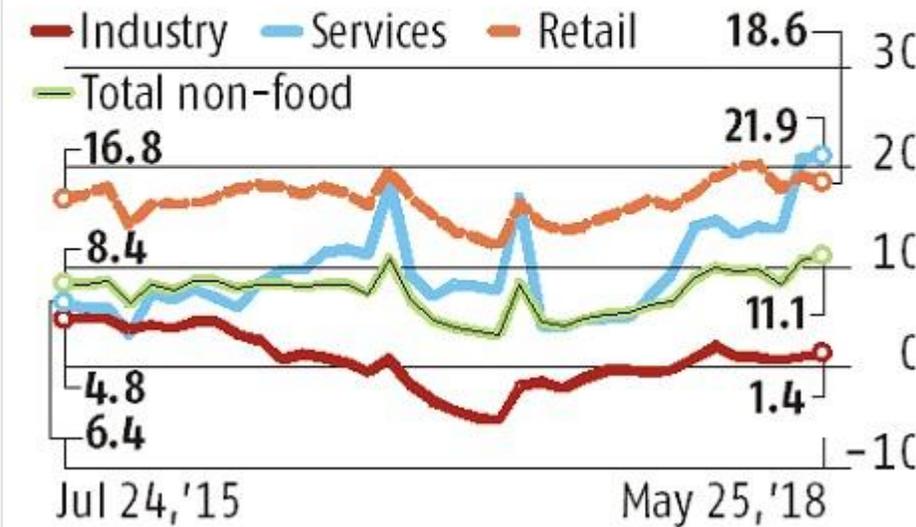
According to Reserve Bank (RBI) data for May, credit to the corporate sector in industry grew 1.4 per cent, against a contraction of 2.1 per cent in

last year’s May. Credit to services grew more than five times to 21.9 per cent, against four per cent growth in May 2017.

All the private lenders that have announced their June results till date — including HDFC Bank, IndusInd Bank, RBL Bank and Federal Bank – said they saw corporate loan growth of over 20 per cent from the previous year’s quarter.

## DEPLOYMENT OF BANK CREDIT BY MAJOR SECTORS

Change (% YoY)



Source: RBI

Compiled by BS Research Bureau

Ashutosh Khajuria, executive director at Federal Bank, said there was improvement in demand for term loans as capacities are getting created, both for expansion and new projects. Rising economic activity showed in the growth in the transportation and automobile ancillary segments. RBL Bank’s wholesale (to businesses) loans were 59 per cent of the total loan book. Most of these comprised working capital loans with a tenure less than two years. “We want to move towards a greater share of retail (to individuals) loans but both segments (corporate and retail) are showing strong growth,” said Vishwavir Ahuja, managing director and chief executive. He maintained that the bank would continue to have a greater share from the corporate segment for the next two to three years.

After the nationwide goods and services tax, there has been an increase in working capital requirements and inventory build-up in midsize corporates. This requires more financing and has, therefore, raised the amount of working capital financing.

Mainly being given by private banks.

As for change brought about by the drive to clean-up loan defaulters, bankers said they foresee better recoveries in the first list of 12 major accounts sent for resolution under the insolvency code. As some of these are steel companies, if steel prices improve with more demand, there could be higher recoveries.

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“A lot of corporate growth mainly comprises takeover of loans from other banks and the NCLT (National Company Law Tribunal) getting settled. This does not point towards a sustainable opportunity for banks in the marketplace,” said a top executive of a private bank.

Both private and other public sector banks (PSBs) have also taken advantage of the limited lending ability of the 11 PSBs put under RBI’s ‘Prompt Corrective Action.

“We are seeing corporate credit growing at a much faster rate, especially since these 11 banks are no longer active in the corporate sector,” said R A Sankara Narayanan, managing director and chief executive of Vijaya Bank.

The rise in bond rates has also played a huge part in raising demand for bank credit in the corporate sector. Companies have moved to banks to avail of the latter’s relatively cheaper credit lines.

“Even non-banking finance companies (NBFCs) that were tapping the bond markets last year have moved to banks for credit, said Sitaraman of CRISIL.

Credit to NBFCs showed the strongest growth in May at 30 per cent. That to the mining and petroleum sectors also saw strong growth, according to RBI data.

“On the infrastructure side, roads and construction is seeing increased demand for corporate credit. Plus, there is lower risk in these projects as compared to the risk in the power sector or capital goods. Private investment still needs time to pick up; public investment will be dominant,” said Sitaraman.