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# Banks not keen to lend big to small businesses

BY ASHWIN MANIKANDAN, ET BUREAU | UPDATED: JAN 02, 2020, 11.05 AM IST

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MUMBAI: Bank lending to India's micro, small and medium enterprises (MSMEs) shrank from a year earlier as well as the beginning of FY20, despite measures by the government to boost credit flow to these businesses as lenders turned cautious due to slowing economic growth.

The contraction in gross credit flow to the sector could be on the back of risk-averse lending by top banks as slowing consumption and stalling manufacturing growth have rubbed off on many of these businesses and raised likelihood of defaults, bankers and industry experts ET.

Gross loans to MSME sector fell 3.43% to <Rupee>4.65 lakh crore in November from <Rupee>4.81 lakh crore in March, as per RBI data. The drop was 0.5% from November 2018.

While loans to micro and small businesses shrank 3.4% since the beginning of FY20 against a contraction of 2.7% in the same timeframe last year, advances to medium-sized firms contracted 3.6% as against growth of 1.4% during March-November 2018.

Between November 2018 and 2019, gross loans to micro and small industries fell 0.1% and medium-sized units contracted 2.4%, compared with growth of 1.1% and 11%, respectively, a year earlier.

"In an environment of slowdown, where the overall credit growth of the industry is waning, most banks increase scrutiny standards while giving loans, especially to the corporate sector," said a banker requesting anonymity. "There have been several instances of promoters of these smaller companies trying to leverage more than what was on the block to get quick access to working capital. Banks are now becoming more prudent while lending to them."

The shrinking credit pie comes even after finance minister [Nirmala Sitharaman](#) made revival of MSMEs a priority in recent policies. The sector's contribution to GDP is estimated to be 30% and these small businesses are instrumental in generating employment.

Throughout last year, the government instructed banks to disburse working capital loans to these businesses through new schemes and channels such as festive season loan melas, the PSB59 loan portal and older ones including Pradhan Mantri MUDRA Yojana and TREDIS-based bill discounting platforms.

"Banks lend with the concept of risk returns. If a particular credit is not commercially viable, then banks won't disburse it despite the broader directions they may have been given," said Prakash Agarwal, head of [banking](#) and financial ratings at India Ratings.

"With risk aversion being the new guiding principle of the Indian banking industry, banks have started to reduce working capital limits, increase risk premium — thereby charging effective interest of over 16% — and insist on additional security when these SMEs are not even generating positive Ebitda," said Sridhar Ramachandran, CIO of IndiaNivesh Renaissance Fund. "Even large public-sector banks, once the backbone of economic development and now rightly concerned about non-performing assets, are avoiding lending to companies that are less than investment grade."

The Reserve Bank of India has warned banks about mounting defaults in accounts structured under the government's MUDRA scheme, signifying risks associated with such loans.



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“The MUDRA is a case in point... while such a massive push would have lifted many beneficiaries out of poverty, there has been some concern at the growing level of non-performing assets among these borrowers,” RBI deputy governor MK Jain said at a recent industry event. “Banks need to focus on repayment capacity at the appraisal stage and monitor the loans through the lifecycle much more closely.”

The Micro Units Development & Refinance Agency Ltd (MUDRA) was set up by the government to develop and refinance micro-enterprises by supporting finance institutions that lend to such businesses engaged in manufacturing, trading and service activities.

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