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Press Release

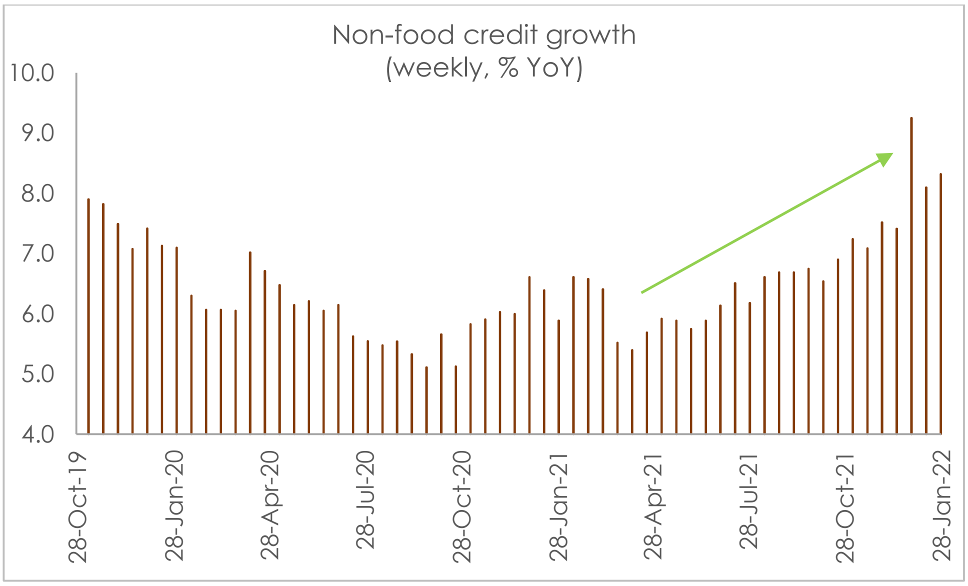
The revival of India's credit growth

Gradual economic recovery to push credit growth in the range of 9.5-10% in FY23

23 Feb 2022

Credit growth in the banking sector of India which had recorded a setback even before the Covid pandemic, has recently started manifesting signs of a revival, with growth across several sectors recording a healthy expansion. As such, non-food credit growth for Dec-21 rose to a two-year high of 9.3% YoY from 6.6% in Dec-20. While the credit growth for Jan-22 eased marginally to 8.3% YoY led by the spread of Omicron variant, Acuité expects a higher trajectory for credit growth over the next 1-2 years driven by the additional working capital funding particularly to small and medium scale businesses, the demand from the infrastructure sector and the likely uptick in large private sector capital expenditure. We expect non-food credit growth for the whole of FY22 to be in the range of 7.5-8.0% and thereafter move to almost double digits in FY23.

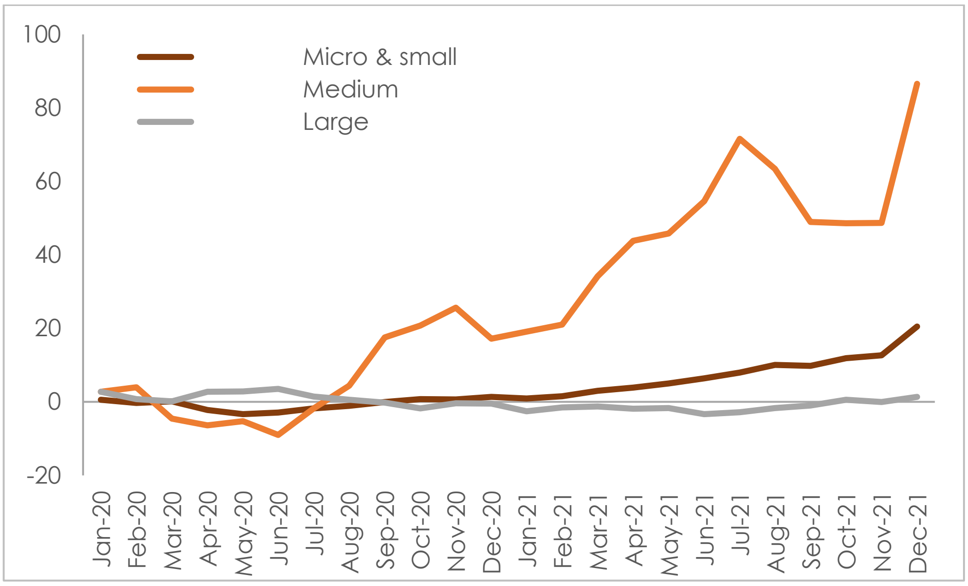
Chart 1: Non-food credit growth gradually undergoing a turnaround



Credit off-take for medium industrial enterprises has shown a robust expansion backed by support from the Emergency Credit Line Guarantee Scheme (ECLGS) scheme announced by the Government in May 2020. As per the data available till Nov-21, loans amounting to Rs 2.28 Lakh Cr were disbursed under the Emergency Credit Line Guarantee Scheme (ECLGS) to MSMEs and other businesses by banks, out of Rs 2.82 Lakh Cr loans sanctioned and these figures are likely to witness a further uptick in Q4FY22.

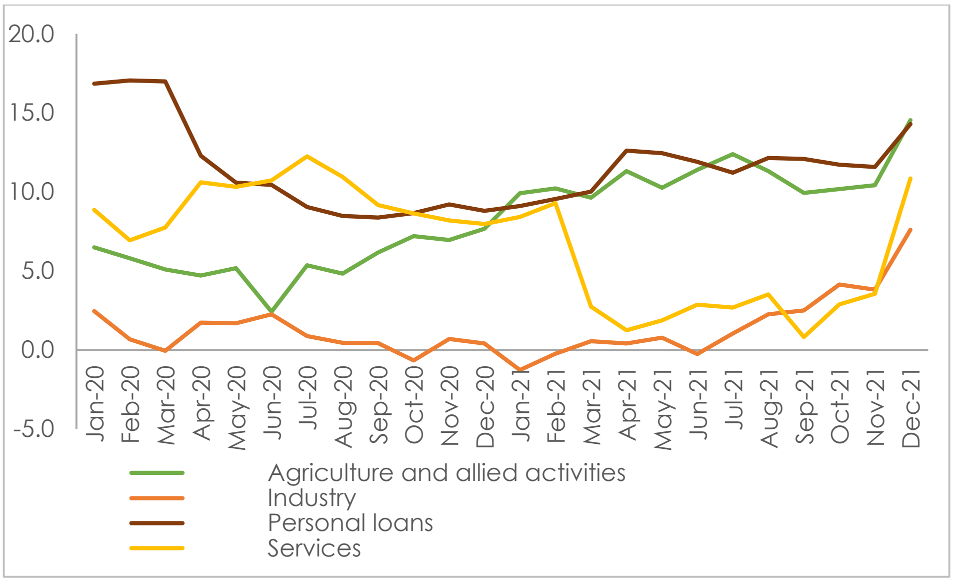
Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "ECLGS has not only pushed up credit growth in the medium enterprise category but has certainly helped in alleviating the financial stress in the MSME segment during the pandemic. In our ratings portfolio, we have noted that over 50% of the rated companies with a turnover of less than Rs 250 Cr have availed the ECLGS facility. This has helped to ease the liquidity scenario for MSMEs apart from lowering the cost of borrowings to an extent. Further extension of ECLGS till March 2023 with an aggregate coverage of Rs 5 Lakh Cr, with an increased guarantee cover Rs 50,000 Cr for the hospitality sector announced in the Union Budget FY23, will help meet the working capital requirement of small to midsized businesses. On a sectoral basis, some big ticket disbursements have started to be visible in industries such as textiles, petroleum, chemicals, electronics, and infrastructure especially roads and airports."

Chart 2: Medium enterprises drive growth in Industry segment



As per the granular data released by the RBI, the uptick in momentum is also driven by the agricultural sector followed by retail loans including housing loans. A healthy monsoon and good crop sowing in both the kharif and the rabi season of 2021-22 have led to higher credit demand in the agricultural sector. Going forward, forecasts of a normal monsoon could further support the trend in agriculture sector. The credit growth in the services sector in the last one year has been primarily due to funding demand from the NBFC sector facilitated by the special funding programmes announced by RBI during the pandemic period.

<u>**Chart 3: Credit growth also driven by retail loan and agriculture segment**</u>



Concludes Suman Chowdhury "Acuité believes there is a structural upside to credit growth over the next 1-2 years driven by the additional working capital funding requirement from small and medium enterprises on the back of a demand revival, the project pipeline in the infrastructure sector and the likely uptick in large private sector capital expenditure. The government's continued thrust on capital expenditure with a view to crowd in private investments through production linked incentive scheme (PLI) in the domestic manufacturing sector, PM Gati Shakti and National Infrastructure Pipeline (NIP) is expected to provide additional impetus to credit growth from FY23. An improvement in banks' overall asset quality and a reduction in the systemic risk aversion will also aid the buoyancy visible in bank credit. While we expect credit growth in the range of 9.5-10.0% in FY23 in our base case, there can be a significant upside to this print if loans to the infrastructure sector and to the PLI driven capex projects start to pick up."

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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