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Retail loans to aid overall credit growth, says ICRA

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RETAIL LOANS WILL be a key contributor to overall credit growth going ahead, ICRA Ratings has said.

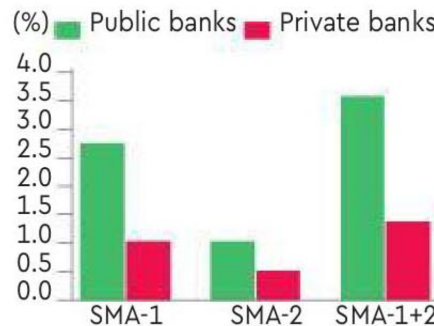
However, the rating agency notes that the sustainability of asset quality will hinge on macro-economic conditions remaining favourable.

"Even as the retail segment has performed well, the material weakening of macro-economic conditions could exert pressure on the debt-servicing abilities of borrowers and we remain watchful of its impact on the asset quality of lenders," said Anil Gupta, senior vice president and co-group head, ICRA.

Gupta added that banks have strong operating profits and capital positions, due to which they are much better placed at present for navigating through such a scenario.

Retail loans have been a key contributor of credit growth in the last 10 years. Its share in bank credit rose to 32% as on March 31, 2023 from 18% in March 2013.

On the other hand, the corporate book has witnessed underperformance in recent years, including weaker asset quality levels and muted expansion, resulting in slower growth trends relative to the retail segment.



Source: RBI, ICRA Research;
SMA: Special mention accounts

The gross non-performing asset ratio of banks are expected to fall to around 3% as on March 31, 2024 from 4% as on March 31, 2023.

While Covid-19 was a stress test event on the asset quality across segments, while defaults and losses were relatively higher in the unsecured segments, ICRA said in a press release.

With more insight on the borrowers' repayment behaviour during the pandemic, lenders can take better decisions while growing unsecured retail loans.

"...the retail segment continued to report resilience despite volatile macro-economic conditions, including rising interest rates and surging inflation, which impacted disposable income," the release said.

Overall, the credit rating agency expects the banking sector to report a strong earnings, driven by the strong loan growth.

"...incremental credit expansion would be the second highest ever at ₹16.5-18.0 trillion, next only to the record level of ₹18.2 trillion (+15.4%) last year," Gupta said.

While the upward re-pricing of the deposit base is likely to lead to a moderation in the interest margin, benign asset quality pressures would support lower credit costs and earnings.

The net interest margin of banks is expected to fall by 20-25 basis points in the 2023-24 (April-March).

Credit costs are estimated to remain at 1.0% of advances in 2023-24, in line with 2022-23.