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Lenders have strong operating profits and capital positions; but funding costs are rising

Bank Loans could Grow 13.2% in FY24: ICRA

Our Bureau

Mumbai: Indian banks' loans could grow as much as 13.2% this fiscal year led by a strong growth in retail loans, but rising funding costs could crimp their profitability even if their gross bad loans fall on better credit underwriting, rating company ICRA said.

While the retail segment is the fastest growing, the risks are building up with the possibility of repayment ability of some sections of the borrowers being tested, it said.

"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, group head, ICRA.

"Nonetheless, banks have strong operating profits and capital positions. Consequently, they are much better placed at present for navigating through such a scenario."

Indian banks have been bulking up on retail loans amid increasing data availability of the borrowers and rising incomes even as they reduced lending to companies after they led to pile up of bad loans in the previous growth cycle. Retail loans growth outpaced other segments, with its share in bank credit rising to 32% in fiscal 2023, from 18% a decade earlier.

The rating company forecasts gross bad loans to fall to a decade low of 2.8% this year from 3.96%. Credit costs are estimated to remain at 1% of advances which should help banks overcome pressure on profitability.