

COMPANIES ARE DIVERSIFYING SOURCES OF BORROWING

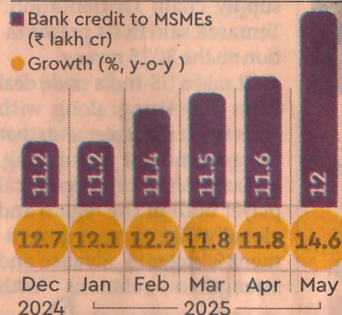
# Bank loan to MSMEs grows 4%, corporate book shrinks

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**WEIGHED DOWN BY** sluggish loan offtake by large companies, banks are increasing focus on micro, small and medium enterprises (MSME) portfolios. In the last two months, loan to MSMEs grew 4.4% to ₹12.03 lakh crore, while that to large companies fell 3.8% to ₹26.78 lakh crore, RBI data showed.

Bank loans to MSMEs had risen to an eight-month high of 14.6% at the end of May, compared with a 1% growth in large corporate loans. "Banks are trying to ramp up their MSME portfolios mainly because of two things. Firstly, the growth in bank borrowings by large corporates have been muted and they are also diversifying sources by utilising external commercial borrowings and bonds. Besides, personal loans are not growing as fast as they used to. Secondly,

## A TANGIBLE SHIFT IN FOCUS



Source: RBI



MSME has been growing due to improved asset quality and government support such as credit guarantee," said Saurabh Bhalerao, associate director and head of BFSI research at CareEdge. He added that MSME loans tend to get better pricing compared to large corporates.

Corporate bond issuances touched a record high during

the April-June quarter at ₹3.41 lakh crore, while commercial papers were at ₹4.50 lakh crore during the period, Prime database showed.

With the cumulative 100-bps rate cut since February, corporate entities get access to cheaper funds in bond market, which will reduce their cost of borrowing. This causes corpo-

rates to rely less on bank loans.

The asset quality of the MSME portfolio improved over the years, making the segment more attractive. The gross non-performing ratio fell to 3.6% in March 2025, from 4.5% in March 2024, according to the Reserve Bank of India's latest Financial Stability Report.

"Government is nudging banks to lend to MSMEs as they are big employers and contributors to the manufacturing sector. Therefore, you may expect more credit flow to this segment in a situation of massive surplus liquidity in the banking system and a sluggish credit growth," said a senior official from a large bank.

In an interview to *FE* earlier, Virat Diwanji, national head, consumer banking, Federal Bank, said the SME segment will be the key growth driver and the priority area for banks in the months to come.