IN APRIL-JUNE QUARTER

Corporate loan growth slows as India Inc delays investments, turns to cheaper debt

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CORPORATE LOAN growth by domestic banks slowed down in the first quarter of FY26, as companies put off investment decisions. This was largely due to uncertainty around tariffs, weak demand that held back private capital spending, and a shift towards cheaper funding options in the corporate bond market. Additionally, many companies continued to reduce their debt levels, which further dampened loan demand.

Between April and June 2025, bank lending to industries grew at the slowest pace in over three years, signalling muted credit demand from the corporate sector. According to RBI data, loans to industries — including micro, small, medium, and large enterprises — rose by 5.49 per cent year-on-year to Rs 39.32 lakh crore, marking the weakest growth since March 2022. Corporate reliance on bank credit continued to decline in the April–June 2025 quarter. During this period, many banks reported only single-digit year-on-year (Y-o-Y) growth in their corporate loan portfolios. On a quarter-on-quarter (Q-o-Q) basis, loan growth was largely flat, and some banks even saw a decline in their corporate loan book during the June quarter.

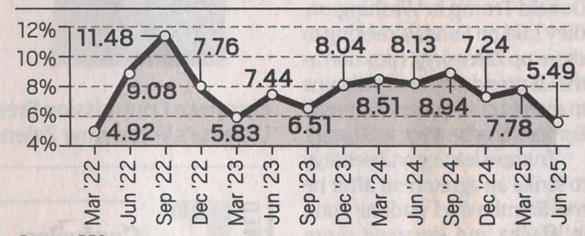
In Q1 FY26, the country's largest lender, State Bank of India (SBI), reported a 5.7 per cent Y-o-Y growth in its corporate loan book, but saw a fall of 3 per cent on a Q-o-Q basis. Private sector lenders ICICI Bank and HDFC Bank posted Y-o-Y growth of 7.5 per cent and 1.7 per cent, respectively, in their corporate loan portfolios, but witnessed sequential declines of 1.4 per cent and 1.3 per cent, respectively. A banking analyst noted that this reflects a phase of growth without fresh investment in the economy. The industrial growth as measured by the Index of Industrial Production (IIP) slowed to 2 per cent in April-June 2025, compared to 4 per cent in the previous quarter.

BANK LOANS TO CORPORATES (Rs lakh crore)

Bank	June 24	March 25	June 25	Y-o-Y*	Q-o-Q*
SBI	11.39	12.41	12.03	5.7%	-3%
BOB	3.55	4.12	3.70	4.2%	-10.2%
Union Bank	4.18	4.51	4.29	2.68%	-4.83%
BOI	2.27	2.41	2.37	4.49%	-1.5%
Canara Bank	4.26	4.63	4.65	9.23%	0.48%
PNB	4.38	4.63	4.69	6.9%	1.1%
ICICI Bank	2.56	2.80	2.76	7.5%	-1.4%
HDFC Bank	6.96	7.18	7.02	1.7%	-1.3%
Axis Bank	2.91	2.99	3.16	9%	5.51%

Source: Bank websites *Growth (%)

Bank credit to industries



Source: RBI

According to SBI chairman C S Setty, the tepid growth in the corporate loan book was mainly on account of delay in investment decisions by corporates due to uncertainties caused by the higher tariff announcement by US President Donald Trump in April this year, shift in borrowing from banks to other alternate sources and higher prepayments of loans by corporates.

While state-run Bank of Baroda's corporate loan book expanded by 4.2 per cent Y-o-Y, it registered a sharp dip of 10.2 per cent Q-o-Q. Corporate advances of Union Bank of India and Bank of India rose 2.68 per cent and 4.49 per cent Y-o-Y, respectively, though their books declined 4.83 per cent and 1.5 per cent sequentially in April-June 2025 quarter. Canara Bank and Punjab National Bank's corporate book grew flat at 0.48 per cent and 1.1 per cent, respectively, on a Q-o-Q basis in June 2025 quarter. Bank of Baroda's chief economist Madan Sabnavis attributed weak credit demand from corporates to the slowdown in investments as companies await a revival in demand.

The US President had initially announced a reciprocal tariff of 26 per cent on Indian goods in early April which was later paused for 90 days, which resulted in corporates holding back on expansions and new investments. Late July, Trump announced a 25 per cent tariff on all goods imported from India, which was later doubled to 50 per cent for buying Russian oil and arms.

"An important factor to consider is the uncertainty in terms of how these tariffs are going to play out and how quickly this is going to be addressed. Due to this uncertainty, a lot of investment decisions could be delayed and people will postpone their spending. This is the second order impact of tariffs," Setty said during a press conference post the declaration of the Q1 FY26 results.

Shift from bank loans to debt market

Easing rates in the debt market following the Reserve Bank of India's (RBI) 100 basis points (bps) reduction in the repo rate since February has prompted corporates to shift from banks to debt market instruments. "Some large corporates are accessing the commercial paper (CP) market to replace working capital limits. This is expected because there is a good amount of liquidity (in the CP market). The rates are much more affordable (in the CP market) compared to borrowing from banks," Setty said.

The lender has seen working capital limit utilisation by corporates in his bank falling to 58 per cent from 62 per cent in Q1 FY25. Total funds raised through CP increased to Rs 4.51 lakh crore in April-June 2025 quarter, compared Rs 3.8 lakh crore in same period of FY25, and Rs 4.38 lakh crore in January-March 2025 quarter, according to *primedatabase.com*.

Besides CPs, companies are also tapping the corporate debt market for cheaper funds compared to bank loans, which has impacted corporate loan growth of banks. In the first quarter of the current fiscal, corporates mobilised Rs 3.42 lakh crore through private placement of bonds, data from *primedatabase.com* showed.

"We believe that funds raised through the bond market are being largely used by corporates to support ongoing business needs rather than for long-term capital investment," said Saswata Guha, senior director, Financial Institutions (Banks), Fitch Ratings.

Corporate deleveraging slowing credit demand

With access to cheaper funds through CP and corporate bond markets, along with strong cash flows, domestic corporates have continuously reduced their debt, resulting in slower corporate credit growth. "Corporates having strong cash flows are deleveraging. So, the (credit) demand is not that much because there is a deleveraging happening on the corporate book," Bank of Baroda's managing director and CEO, Debadatta Chand, said during an analyst meet for the quarter ended June 2025.

Banks adopting a cautious strategy

Lenders have also become prudent in lending to corporates as they do not want to overexpose themselves while expanding their corporate loan book.

"Banks are mindful of risk-return tradeoff and focus on risk-adjusted returns which makes them quite sensitive to pricing. They are also mindful of concentration risk embedded in a corporate exposure," said Fitch Ratings' Guha.

"While lenders are trying to be more prudent in ensuring that their risk-adjusted returns on corporate exposure are justified, they can do so because retail and small business lending continues to grow healthy," he said.

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