SBI's corp loan book hints at a change in market dynamics

While SBI's corporate loan book grew by 2.6% in FY21, if only loans are considered, it shrank

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Indian banks are realizing that to be able to see any sustainable growth in corporate credit, they also need to invest in debt securities of their borrowers, signalling a shift from their loan-driven growth strategy.

India's largest lender, State Bank of India, posted a total corporate credit growth of 2.6% in FY21, including loans and debt investments such as bonds and commercial papers; however, if only loans are considered, SBI's corporate book contracted 3%.

To be sure, SBI has been saying for several quarters now that corporate bonds should be added to the loan book to gauge the true extent of growth. However, it is only in fiscal 2021 that bond subscriptions managed to pull the bank's corporate credit book out of the negative territory.

The bank's chairman Dinesh Khara pointed out that working capital utilization for large corporates is even below 70%, and the bank is looking to support them in raising money from the debt market. However, while the larger corporates with better credit ratings are able to tap the bond markets, smaller companies find it difficult and still rely on bank loans.

"Large corporates have got the option of raising funds from the bond market also. That's the way we have started reckoning that as well. We are supporting them in their effort to raise funds from the bond market. It is going to be the reality for the large corporates," said Khara.

At least for the time being, it does not seem that such policies would lead to deepening of the bond market, as these investments would be limited to large borrowers.

The Reserve Bank of India (RBI) has for long argued that the development of a deeper corporate bond market is essential to meet the funding requirements of corporates. In its January 2019 bulletin, it said that the demand for corporate bonds as an investment, is mostly confined to institutional investors, with retail investors accounting for only 3% of the outstanding issuances.

Data suggests that the second wave has not only impacted credit growth but also fund-raising from the debt market. Localized lockdowns, though seemingly milder than the nationwide restrictions imposed last year, have hampered the movement of goods and services and forced companies into a wait-and-watch mode.

In April, corporate bond issuances fell 71% from the previous month to ₹27,888 crore, showed provisional data from Prime Database, collated by CARE Ratings. Similarly, commercial paper issuances in April 2021 were notably lower at ₹89,576 crore, a 60% decline from the previous month.

"The second wave of covid-19 pandemic and the consequent localized lockdowns in April 2021 has led to lower short term fund requirements by the corporates," the rating agency said in a report on 14 May.

That said, while corporates would benefit from the move towards bond markets, banks are likely to lose out on the margin front. For instance, while the median one-year marginal cost of funds-based lending rate (MCLR) of banks stood at 7.3% in April, the weighted average yield for corporate bonds was at 6.24% in the same period.

Khara believes that apart from retail loans, growth would also come from the mid-corporate and small business segments.

"Hopefully with demand improving there would be a better utilization of the working capital limits. Also, some of the projects where terms loans have already been sanctioned, we expect to have utilization because the current lockdown would have delayed some of such plans," he added.

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THE bank's chair Dinesh Khara says working capital utilization for large corp is below 70%

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