Tariff cloud over corporate credit

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Indian banks have low exposure to the sectors in the direct line of US President Donald Trump's tariffs. Yet, as trade disruption ripples through the economy, they may not escape a further slowing in corporate loans.

Sectors including textiles, jewellery, apparel, seafood, machinery and mechanical appliances, chemicals, and auto components are expected to bear the brunt of the 50% tariffs on Indian goods entering the US. Direct lending by top banks such as State Bank of India, ICICI Bank and HDFC Bank to these industries is estimated to be about 10% of the overall loans, limiting the impact on lenders. What is concerning is the second-order hit.

There are three primary reasons behind concerns about a potential slowdown in corporate credit growth on account of tariffs, according to analysts at Fitch group company CreditSights.

"First, we expect banks to be more cautious to lend to export-oriented companies, particularly in sectors heavily reliant on US demand, as the 50% tariff

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India's growth rate is likely to fall by 20-30 basis points as Trump imposes tariffs on trading partners. AFP

Trump's tariffs cast a shadow over corp credit

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would have a significant impact on their businesses," Lim Ze Hao, analyst, financials at CreditSights, told *Mint*. It is likely that export orders are put on hold or even scrapped as US buyers seek cheaper alternatives from countries with lower tariffs, he said.

Second, with the high tariff rate now and some uncertainty over where the tariff rate will eventually settle, exporters and manufacturing firms are likely inclined to pause expansion plans, resulting in reduced demand for bank loans.

According to Ze Hao, finally, the 50% tariff rate will also have a moderate drag on India's GDP growth. "Slower GDP growth typically translates into slower overall system loan growth, as businesses become more conservative about expanding operations because of slower demand, and consumers will also be more cautious about making major purchases."

Firms have already flagged uncertainties emanating from tariffs.

Reliance Industries, in its annual report, warned that "continuing geopolitical and tariff-related uncertainties may affect trade flows and demand supply balance" for its oil-to-chemicals business. JSW Steel said in its annual report that "the policy uncertainty is adversely affecting business and consumer confidence".

On 8 August, C.S. Setty, chairman, State Bank of India, said that corporate loan demand is expected to be at least 10% in the December quarter of the current financial year. Earlier on 19 July, Sashidhar Jagdishan, CEO of HDFC Bank, said that the bank is "not seeing anything great on the capital, private capex side as yet".

Demand for corporate loans wasn't strong even earlier. Bank loans to industries stood at ₹39.3 trillion at end-June, up 5.5% on year. Yet, the growth has slowed down from 8.1% a year before.

But it's not just that the demand for corporate loans has slowed down.

"There is a general demand slowdown, whether it is consumption in general or demand for corporate loans," said Anil Gupta, senior vice-president and group head of financial sector ratings, Icra Ltd. "Banks would be ready to fund but in an uncertain environment, loan growth may remain tepid in the near term."

According to Gupta, exporters may be in a wait-and-watch mode, given the uncertainty on tariffs and possible additional costs, which may reduce demand for working capital loans. On term loans, clarity on demand revival may revive private capex, he said.

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