

RBI unveils plans to bolster credit flow to corporates, capital market

Regulator to remove cap on banks' market lending to single group, proposes to allow acquisition funding

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The central bank has proposed withdrawing the 2016 rules that capped lending to a single group through market instruments and also suggested measures like allowing banks to finance acquisitions to improve credit flow to corporates and capital markets.

The Reserve Bank of India (RBI) announced the proposal to withdraw its August 2016 framework on Credit Supply for Large Borrowers through Market Mechanism, according to a statement by the regulator. It was aimed at addressing concentration risk arising from the banking system's exposure to a single large corporate.

Separately, the regulator proposed an enabling framework allowing banks to finance acquisitions by Indian corporates, raising limits for lending against shares and units of real estate and infrastructure investment trusts. The regulator also seeks to remove the cap on lending against listed debt securities and introduce a more principle-based framework for lending to capital market intermediaries.

The RBI also proposed reviewing the September 2004 ban on issuing new licences for urban co-operative banks, citing "positive developments" over the past over two decades.

In the post-policy conference, RBI governor Sanjay Malhotra said the central bank is not worried about a resurgence in concentration risk given



The RBI governor said and banks' corporate credit exposure has come down.

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the introduction of other frameworks monitoring corporate exposure, and the reduction in corporate credit exposure of banks over this period.

"My understanding is that the 2016 policy was more about mitigating risk and reducing or limiting exposure to

"You have been seeing that the share of corporates in the total banking exposure has, in fact, come down over the years. I think last 10 years it has reduced by about 10% or so, so the risks are not so many. That's the primary reason we have proposed to

rowing at around ₹30 lakh crore in FY25. Banks have the potential to lend another 43-45 lakh crore even if 10-15% of the demand comes back to system, it said.

The 2016 framework disincentivized bank lending to specified large and highly leveraged borrowers for their incremental funding beyond a threshold, and encouraged them to explore market-based resources for meeting incremental financing needs.

These included borrowers with a credit limit from the banking system of ₹10,000 crore and above, including funds raised from banks via market instruments such as bonds, debentures, redeemable preference shares and any other non-credit liability, other than equity. The

norms required banks to make higher provisions and adopt higher risk weights for loans to entities with a certain exposure to bank credit.

RBI has sought feedback and comments on the norms by 24 October.

Meanwhile, Ica's Gupta said letting banks finance corporate acquisitions deepens their role in capital markets. Relaxed norms on lending against securities and initial public offer (IPO) financing will further support market growth, though non-banks may retain an edge with higher limits, he said.

Restrictions on such lending constrain large-ticket M&As in India, according to Atul Thakkar, executive director at Anand Rathi Investment Banking. Promoters and corporates then rely on offshore debt, structured non-bank finance companies (NBFCs) or private credit. This raises the overall cost of capital and makes Indian bidders less competitive versus global peers in leveraged buyouts or promoter-led deals, he said. "Domestic bank debt could make large acquisitions viable that were previously shelved due to expensive offshore leverage."

Some experts advised caution.

"RBI needs to consider the implications of interest rate risk in the banking book, as a result of allowing this acquisition funding for banks," said Vivek Iyer, partner and financial services risk leader, Grant Thornton Bharat. He said this could boost credit activity, but it also comes with risks, mainly because it could create asset-liability mismatches.

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LENDING UNCAPPED

THE RBI proposed withdrawing the 2016 rules that capped lending to single groups

IT suggested allowing banks to finance acquisitions to improve credit flow to corporates

THE regulator also seeks to remove the cap on lending against listed debt securities

IT plans to raise limits for lending against shares and units of real estate, infra investment trusts

large corporates at the banking system level, not at the bank level," he said, adding that the framework was unable to take care of the needs at the individual bank level.

remove this," he said.

According to SBI Research's 'Ecowrap, incremental corporate borrowing, including via bonds, commercial paper and external commercial bor-