

NEW AVENUES Banks set to expand lending as regulatory easing strengthens balance sheets and opens opportunities in previously untapped segments

Lending Leeway to Pave Way for ₹5L-cr Credit Demand

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Mumbai: India's credit growth rate, now at a circumspect sub-10%, is expected to quicken as analysts believe a collective credit demand of ₹5 lakh crore could be unleashed by the latest raft of measures from the central bank, which eased individual corporate exposure curbs for local lenders and allowed them to fund share transfer-based M&As.

The State Bank of India's (SBI) economic research team said M&A activity in FY24 was valued at more than \$120 billion (around ₹10 lakh crore). Assuming a 40% debt component in such deals, with banks financing about 30% of the M&A capital structures, the potential incremental credit demand could be as high as ₹1.2 lakh crore.

"With reforms strengthening resilience and financial health across Indian banks—supported by anti-fragile balance sheets—it is natural for them to look beyond traditional banking themes and expand their scope into lucrative areas previously dominated by foreign banks, large NBFCs, and private equity firms," said Soumya Kanti Ghosh, group chief economic adviser, SBI. "Regulatory greenlighting



of acquisition financing promises to unlock significant value in the corporate funding cycle."

The Reserve Bank of India (RBI) has also withdrawn the 2016 framework that disincentivized banks from lending to large borrowers with system-wide exposures above the ₹10,000-crore threshold.

Incremental corporate borrowings through bonds, commercial paper, and external commercial borrowings (ECB) stood at around ₹30 lakh crore in FY25.

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SBI estimates that if even 10–15% of these borrowings now revert to the banking system, that could ge-

nerate an additional lending opportunity of ₹3–4.5 lakh crore, subject to risk pricing.

"This move will free up provisions and capital requirements that banks were carrying toward large exposures, improving profitability and capital ratios," said Anil Gupta, senior vice president and co-group head, Icra. "However, this could also lead to greater credit flow toward lower-rated large borrowers."

To be sure, these regulatory relaxations are positive for the medium-to-long term, and analysts believe that weak credit demand remains the real hurdle for faster expansion of credit in the economy.

"Reducing risk weights on mortgages and loans to real estate companies for residential housing, as well as lowering risk weights for MSME loans, will boost capital ratios across banks," said Suresh Ganapathy, India head—financials, Macquarie Capital. "Around 25–50% of bank portfolios could benefit. But at present, capital is not a constraint—the bigger issue is demand."

Macquarie expects overall credit growth to recover from sub-10% levels currently to about 11% by FY26.