

'NEED TO ASSESS IF CREDIT DEMAND WILL CONTINUE'

Icra Cautious on Credit Growth, Raises Outlook for FY26 by a Tad

Growth led by retail and MSMEs with muted corporate loans may lead to asset quality challenges

Our Bureau



Sachin Sachdeva, vice president & sector head, Icra.

Bajaj Finance, India's biggest consumer-financing firm, Monday said it expects a relative moderation in credit growth toward the latter half of the year amid elevated credit costs. Its circumspect guidance on credit growth caused the stock — the only pureplay NBFC presence on India's top-10 market-cap leader-board — to plunge more than 7% on Tuesday.

Sachdeva noted that while most of the credit growth came from MSME and retail, demand from well-rated corporate borrowers seems to be muted and there is no great pick-up expected from that segment.

"As a large part of growth is coming

from retail and MSMEs, it leads to significant challenges or volatility in asset quality," he said.

Fresh non-performing asset (NPA) generation is expected to be ₹1.1 lakh crore in FY26, versus ₹90,000 crore in FY25 for public sector banks. For private sector banks it is expected to rise to ₹1.4 lakh crore in FY26 from ₹1.2 lakh crore in FY25, according to Icra.

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Icra noted that bank credit, however, is beginning to pick up as bond yields have remained firm, making market-linked borrowing less attractive.

"With bond yields hardening and banks becoming more competitive with cost of funds decreasing, some shift is happening from the bond market to bank credit. But the extent of this sustainability remains to be seen," Sachdeva said.

The agency expects bank net interest margins to bottom out in the fourth quarter, with its base case that the Reserve Bank of India (RBI) would not make further cuts in the policy repo rate.

"Repricing of the loan book will continue during Q4 where we will see its impact. But when we say that bottoming out has happened, it does not factor in another rate cut," said Anil Gupta, senior vice president and co-group head, Icra.