Lower tariff lifts lending outlook for banks, NBFCs

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BANKS AND NON-BANKING financial companies (NBFCs) with exposure to tariff-affected sectors are likely to see a revival in lending activity following the reduction in US tariffs from 25% to 18%, though lenders remain cautious as they await the final contours of the trade deal.

When the US tariff hike was announced in July, there were concerns that export-driven MSMEs, especially in the textiles and gems & jewellery sectors, would face pressure, hurting growth and asset quality. However, the sector had export orders till January, which provided a cushion through Q3, and domestic support measures further limited the impact. The fear was of sharper stress in Q4 and early Q1, but that risk has now eased, analysts said.

"While some asset-quality pressure may persist in the near-term, the medium-term outlook remains positive with expected improvement in cash flows of MSMEs," said Sachin Sachdeva, vice president, ICRA.

According to a Nomura report, as on July-end, banks had around 4–12% lending exposure to sectors impacted by tariffs, with direct exposure to the US market being even lower.

Bank lending to export credit under priority sector was down 14% to ₹10,749 crore as on December 31

"NBFCs had become a little cautious after the tariff announcement, but now they will be more comfortable. To some extent, there will be higher demand for credit and lenders who were guarded will be more open to lending," said Umesh Revankar, executive vice chairman of Shriram Finance.

Textile exporters, especially MSME clusters, are expected to be key beneficiaries. Salee S Nair, managing director and CEO at Tamilnad Mercantile Bank, said textile exports to the US had been under pressure due to tariff uncertainty, affecting hubs such as Tirupur.

"With these barriers now easing, we expect a revival in export demand, healthier order pipelines and improved pricing power for exporters. This is likely to translate into higher working capital requirements, capacity expansion and greater demand for structured trade finance and credit support," he said.

Bank lending to export credit, under priority sector, was down nearly 14% on year to ₹10,749 crore as on December 31, according to RBI's sectoral deployment data.

As per a report by Motilal Oswal Financial Services, State Bank of India, Federal Bank and Bandhan Bank are expected to emerge as second-order beneficiaries due to potential improvement in SME asset quality and credit demand.