

Small businesses shy away from extra credit despite easy availability

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Bankers said that it is also imperative that small businesses get their dues on time and corporates do not hold up large receivables. Photo: Mint

- According to bankers, many borrowers remain reluctant to actually draw fresh funds, putting lenders in a spot
- Some MSMEs are taking loans without utilising them because they want to ensure liquidity when demand picks up

MUMBAI Small businesses mainly belonging to Micro Small and Medium Enterprises (MSME) sector in India are not availing fresh loans, despite being given extra credit lines through enhanced borrowing limits as part of the government's push to infuse up to Rs3 trillion liquidity into small businesses. Bankers who spoke to Mint said that uncertain demand remains the key reason, why these businesses remain reluctant to take fresh loans, notwithstanding the availability.

According to bankers, while borrowers are lining up for increasing their limits through fresh loan sanctions, many remain reluctant to actually draw fresh funds, putting lenders in a spot.

Government data showed that under the emergency credit line guarantee scheme (ECLGS) scheme, public and private sector banks have sanctioned loans worth over Rs79,000 crore as of 20 June, of which only Rs35,000 crore have been disbursed.

“Despite sanctioning Rs18,000 crore worth of loans, people have not drawn the full amount and even if they have drawn, they have put it in their cash credit account because they are not sure how this is going to play out,” C S Setty, managing director, State Bank of India (SBI), India's largest bank, told Mint in a recent interview.

“They are waiting it out to see whether they need the money. In fact, a large number of people said that please sanction me the extra credit, but I do not need the money. There is a great amount of uncertainty and hopefully July and August will help us understand how it will play out,” added Setty.

Two senior public sector bankers said on condition of anonymity that the divergence in the sanction and disbursement numbers is because of the reluctance to utilise the loans.

According to a banker at a mid-sized public sector bank, some MSMEs are taking loans without utilising them because they want to ensure they have sufficient liquidity when demand picks up.

Industry watchers say that while timely availability of affordable credit is important for the MSME sector, it is not the only thing the sector needs. Bankers said that it is also imperative that these small businesses get their dues on time and corporates do not hold up large receivables.

A study by Brickwork Ratings has revealed that close to Rs3.3 trillion of MSME funds are stuck with strong, large corporates. The study, Brickwork said on 22 June, is based on data analysis of top 1,000 companies in terms of market capitalisation.

Rajat Bahl, chief ratings officer, Brickwork Ratings said that even if 50% of the funds held up by strong, large corporates with high creditor days, are released, it will shore up the liquidity for the MSME sector by close to Rs1.6 trillion and significantly reduce their liquidity pressure and working capital burden.