'A rate cut is required now to boost small and medium units' growth'

With all eyes on the next round of monetary measures from the Reserve Bank of India (RBI), foreign private sector banks like Citibank expect a promising business scenario to emerge, especially for small and medium enterprises (SMEs). **RAJAT MADHOK**, managing director and head of Commercial Bank, Citibank India, talks to Rutam Vora about the credit scenario for SMEs and future growth prospects. Edited excerpts:

With interest rates still high, how do you see credit off-take by SMEs?

Things are pretty tight at present. Not much capex creation is happening by SMEs. However, the past six months have shown some hope and we can see a reversal coming soon. RBI's monetary tightening has played a major role in making credit availability tight, but with some indications of revival, we are hopeful of a rate cut now. This will also get reflected in lending rates to SMEs. A rate cut is required now to boost SME growth. Currently, our lending rate for SMEs works out to 11-12 per cent, and it was last hiked in September-October 2011. Among SMEs there are pockets where there is some stability and we expect the growth in credit off-take to come from there. We are confident of achieving at least 15 per cent credit growth this year.

Which SME sectors are likely to perform well in 2012?

In some sectors, credit demand has taken off. SMEs in sectors like chemicals, engineering, power and pharma are likely to grow in 2012. These sectors have performed well in the past few years and have been able to attract investments. In pockets like Gujarat, specialty chemicals, two-wheeler auto ancillaries and engineering firms are likely to do well this year.

Public sector banks remain concerned about loans to SMEs turning into NPAs. As a private sector foreign bank, what is your take?

There are concerns mainly due to macroeconomic factors. Also, a number of SMEs have global exposure, and turmoil in the global economy would impact their performance. But for the past couple of quarters, things seem to be settling down. At Citibank, we have almost negligible NPAs in the commercial banking segment.

Q&A

RAJAT MADHOK

Managing director and head of Commercial Bank, Citibank India

For SMEs having global exposure, how serious are the recent currency fluctuations? Do you see more of them taking up currency hedging?

Well, the country is globally linked, and therefore our SMEs are also connected to global companies for various business transactions. Factors like global markets – commodity markets, among others – have increased the exposure of Indian SMEs, which is a good thing. Frequent currency fluctuations have led these SMEs to start hedging their foreign exchange risks.

A dedicated exchange for SMEs has become operational. What impact will it have on banks?

The newly formed SME Exchange will become instrumental in improving the capital structure in the industry. Banks' concern for clarity in the account books of SMEs is a valid one. The SME Exchange will improve the condition of the financial books of small companies. But the SME Exchange cannot be a substitute for banks. Capital provided by banks has a crucial role to play in the growth of SMEs.

What will be your growth strategy in 2012?

We will continue to focus on our existing client base and will look for more clients among SMEs that have set targets for developing global operations. Nationally, we have around 45,000 clients and we are targeting a growth of 25 per cent a year over the next two to three years. We have a strong focus on original equipment manufacturers in India.