



Moderation in growth expectations;  
asset quality pressures to persist

ICRA Survey

JULY 2021



# List of Abbreviations

---

**AUM** : Assets Under Management

**NBFC** : Non-Banking Finance Company

**HFC** : Housing Finance Company

**MFI**: Micro Finance Institutions

**AHFC** : Affordable Housing Finance Company

**NBFC-IFC**: NBFC Infrastructure Finance Company

**NBFC-IDF**: NBFC Infrastructure Debt Fund

**NBFC-IFC**: NBFC Infrastructure Finance Company

**FY**: Financial Year

**GNPA**: Gross Non-Performing Assets

**RoA**: Return on Assets

**GoI** : The Government of India

**RBI**: The Reserve Bank of India

**Non-Banks**: NBFC+HFC+MFI



## Click to Provide Feedback

*Lenders have moderated the growth expectations for FY2022*

*Asset quality indicators expected to remain elevated; higher restructuring likely*

*Expectation of support from Government/regulator remains*

*Much higher proportion of entities planning capital raise this year*

*Liquidity buffers to be maintained*



Growth expectations of lenders have moderated compared with the earlier survey done in December 2020. 42% of the issuers now expect growth of more than 15% in the AUM in FY2022, much lower than 56% earlier. Overall, 39% of the issuers are now expecting growth of 0-10% vis-à-vis 20% earlier.



83% of the overall issuers are expecting credit costs to either remain stable or to increase in FY2022 compared with FY2021, thus reflecting the expectation that asset quality stress will continue.



70% of the overall issuers are expecting the reported GNPA/Stage 3% ratio as of the end of March 2022 to remain stable or increase from the March 2021 levels. However, a divergent trend is seen within subsectors; 86% of the HFCs expect reported numbers to remain largely stable while 67% of the MFIs are expecting a decline in the reported numbers.



55% of the issuers expect restructuring to still be contained within less than 2% of AUM, though a sizeable 26% expect 2-4% of the AUM to get restructured in FY2022, which is higher than the earlier survey expectations. Vehicle financing NBFCs expect much higher restructuring.



Over 70% of the issuers feel that GoI/RBI support (like last fiscal) would be required this year as well. More impacted sector such as MFIs, vehicle financing NBFCs, and wholesale lending NBFCs are keener on such support compared with HFCs.

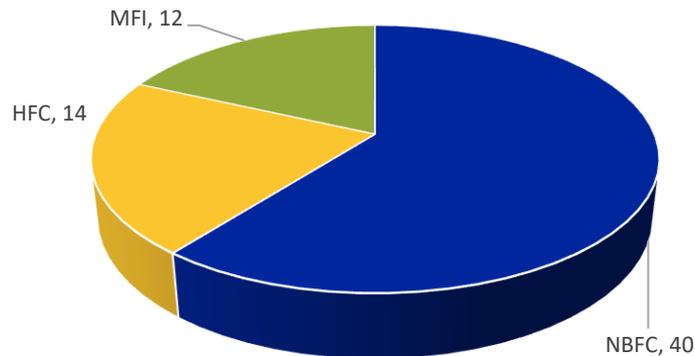


The number of issuers expecting to raise capital almost doubled to 56% this year compared with earlier survey results. Within the sector, the proportion of MFIs expecting to raise capital is much higher than HFCs and NBFCs, possibly to take care of higher credit costs.



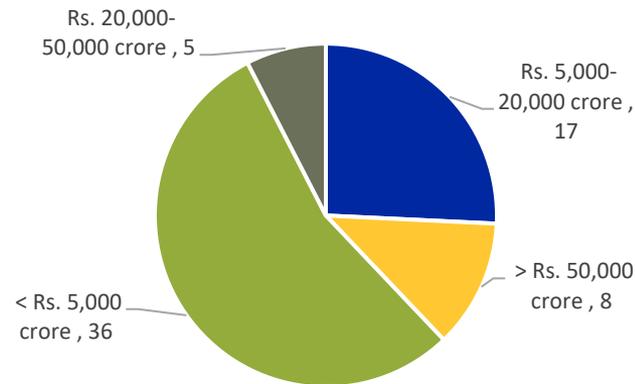
80% of the issuers are expected to maintain or increase on-balance sheet liquidity to take care of market volatility. Further, despite the pressure in the operating environment, 94% of the issuers expect higher or stable profitability in FY2022 vis-à-vis FY2021.

**Exhibit: Breakup of sample by type of entity**



Source: ICRA Research

**Exhibit: Breakup by AUM size (Rs. crore)**



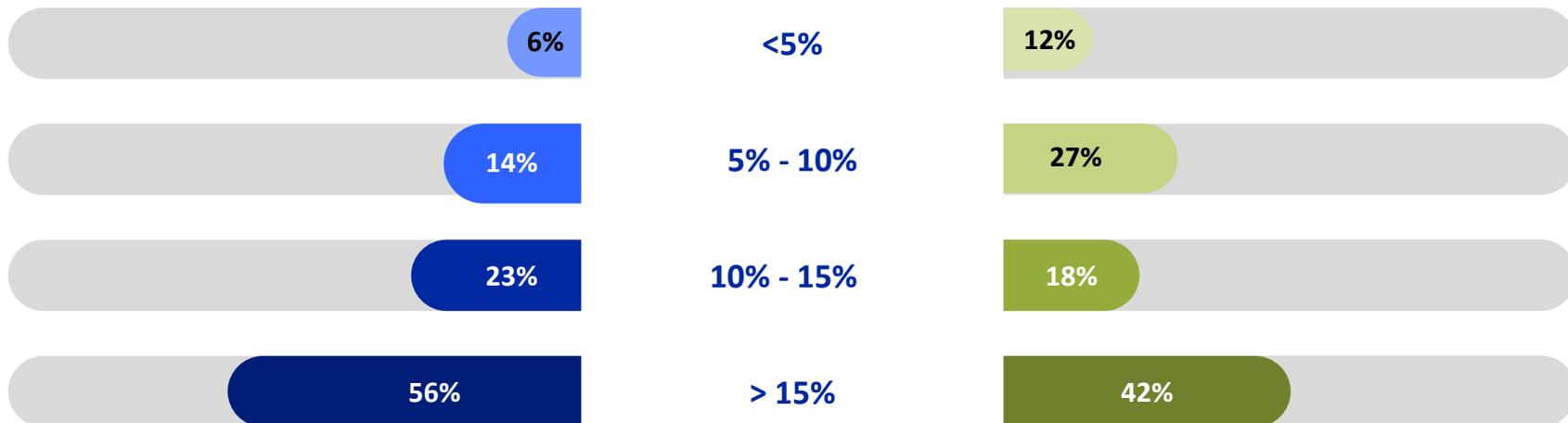
Source: ICRA Research

The analysis presented in the following slides is based on the aggregate results of ICRA's survey of over 65 NBFCs/HFCs/MFIs, constituting ~60% of the industry AUM {excluding NBFC-IFC and NBFC-IDF}

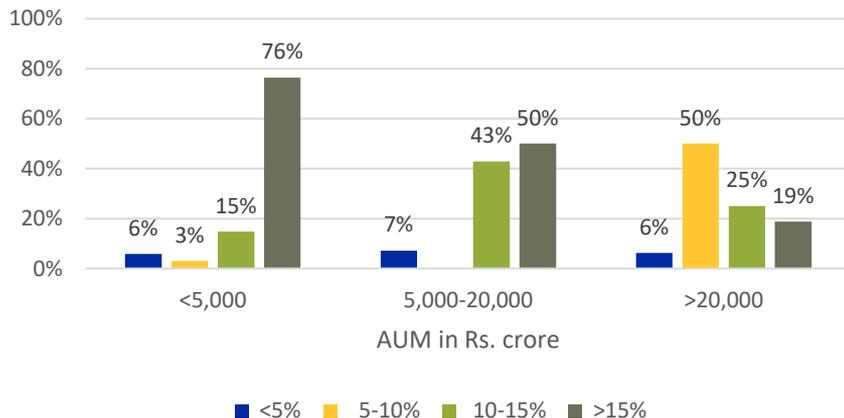
### December 2020 Survey

VS

### June 2021 Survey

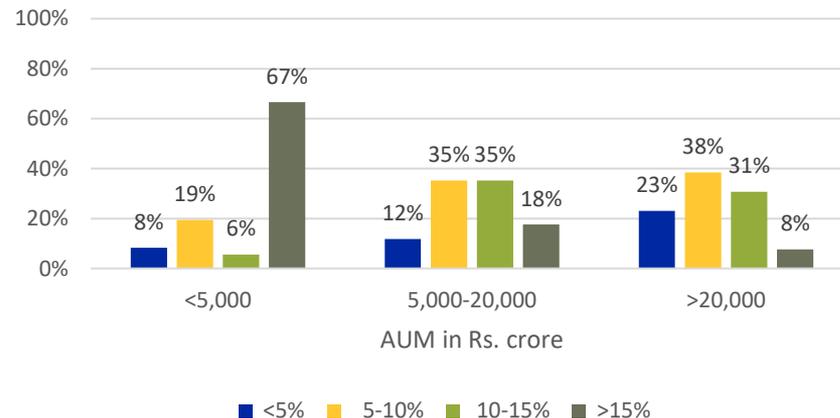


**Exhibit: AUM growth expectation as per ICRA Survey of December 2020, by number of issuers**



Source: ICRA Research

**Exhibit: AUM growth expectation as per ICRA Survey of June 2021, by number of issuers**



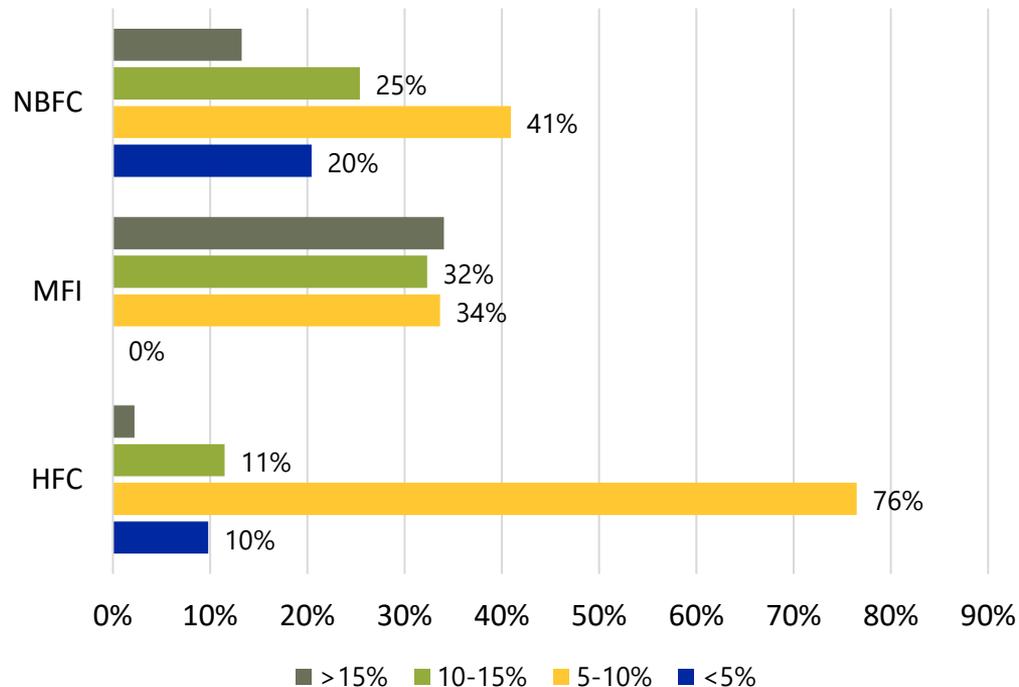
Source: ICRA Research

- Moderation in growth expectations seen across category of non-banks possibly due to the impact of Covid 2.0 on business in Q1 FY2022
- Lenders expecting growth to pick up in remainder of FY2022, leading to overall higher growth compared to FY2021
- Smaller-size entities expected to grow at a much higher rate owing to the base effect

# Overall industry growth likely to be modest

## Distribution basis AUM weight

Exhibit: Growth expectations across sectors



After the modest growth in FY2021, non-banks are expecting a pickup in growth in FY2022

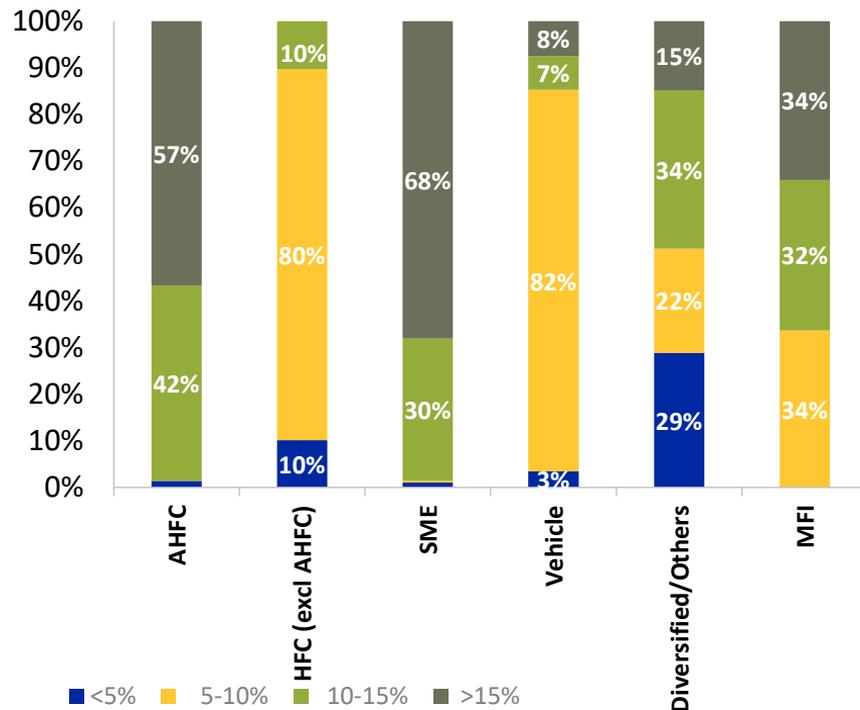


Within the set, MFIs are more bullish on growth compared to HFCs



Relatively larger players expecting modest growth of 5-10%, leading to overall industry growth of 7-9%

Exhibit: Distribution basis AUM weight, for different subsector



SME-focused lenders and MFIs are more bullish on growth in AUM

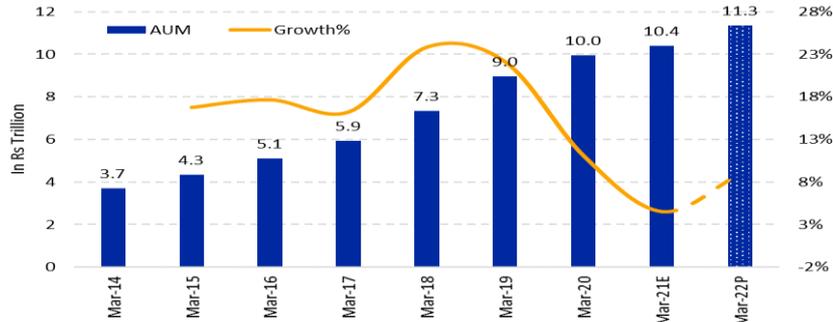


AHFCs continue to have much higher growth expectations than traditional HFCs.



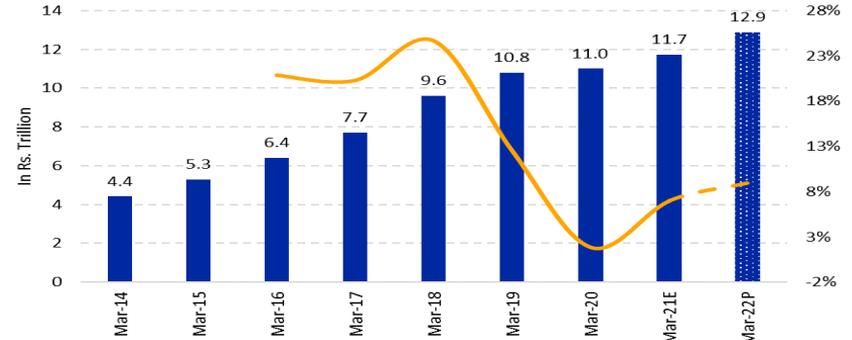
Larger entities/groups with diversified business segments are expecting a more calibrated growth

### Exhibit: Retail NBFC AUM Growth Trends



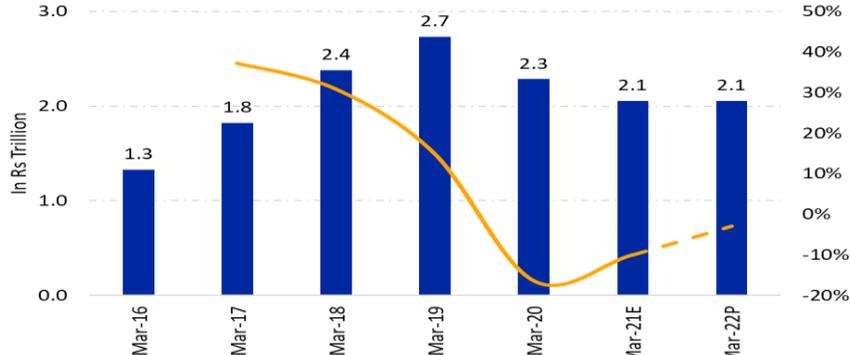
Source: ICRA Research ; Note: Data based on ICRA Sample of large entities excluding Infra NBFCs; E-Estimated ; P-Projected

### Exhibit: HFC AUM Growth Trends



Source: ICRA Research ; Note: Data based on ICRA Sample of large entities; E-Estimated ; P-Projected

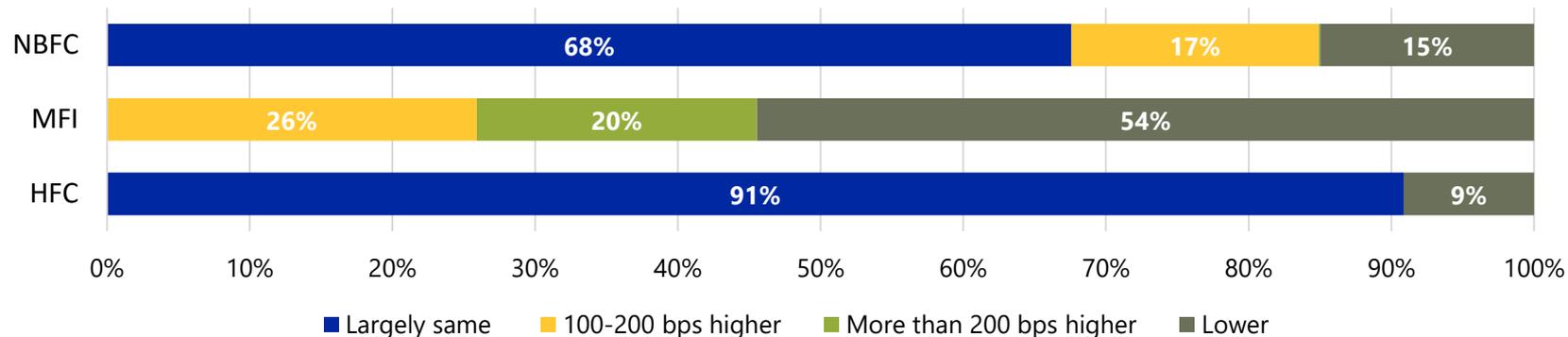
### Exhibit: Wholesale NBFC AUM Growth Trends



Source: ICRA Research ; Note: Data based on ICRA Sample of large entities excluding Infra NBFCs; E-Estimated ; P-Projected

- The projected growth for non-banks in FY2022 is currently maintained at 7-9%, given the low base of the last fiscal for which the growth is estimated at ~4%. Moreover, while the infection rate is a concern, the start of the vaccination drive provides some comfort and entities are better prepared and seasoned to deal with restrictions/lockdowns compared to the last fiscal
- Retail exposures, including housing credit, are expected to grow (~8-10%); wholesale exposures are expected to decline (by up to 5%) despite the 10%(E) contraction in the last two fiscals

Exhibit: Expectation on reported stage 3/gross NPA% as on March 31, 2022, compared to March 31, 2021; breakup by AUM weight



Overall, 87% of issuers (by AUM) expect reported gross stage 3/NPA to be either same or higher than March 2021 levels.

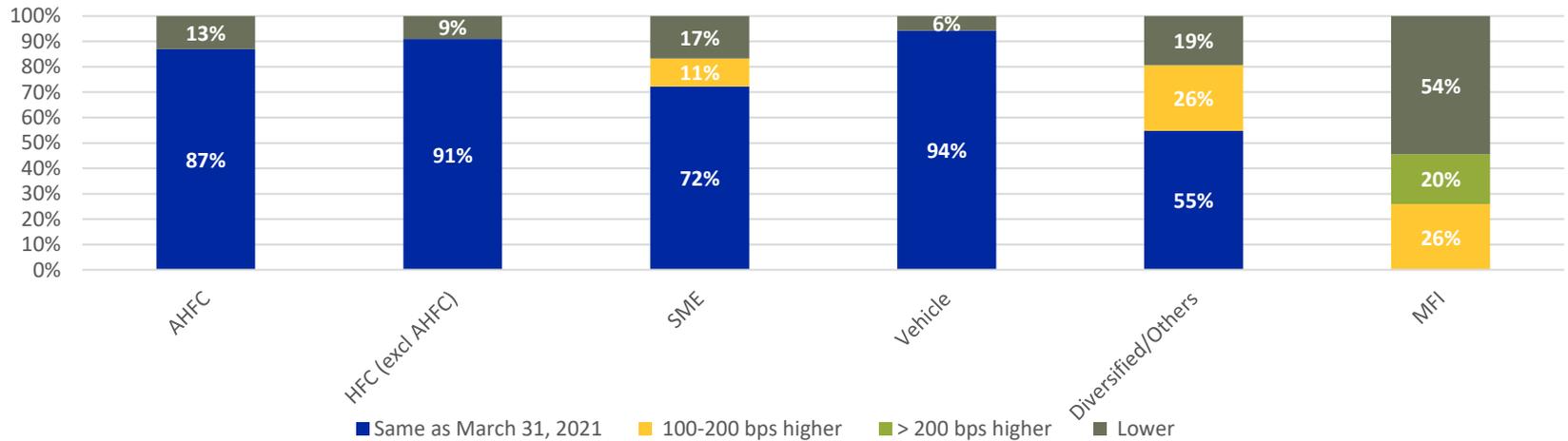


A divergent trend seen across MFIs with almost 46% of the issuers (by AUM weight) expecting a further increase in reported gross Stage 3% while 54% are expecting a decline



HFCs unanimously expecting to maintain stable asset quality, however NPA is expected to remain elevated vis-a-vis pre covid levels

**Exhibit: Expectation on reported stage 3/gross NPA% as on March 31, 2022 compared to March 31, 2021; breakup by subsectors and basis AUM weights**



- Within the overall non-bank space, MFIs and SME focused entities expecting an uptick in the reported asset quality numbers
- HFCs across the board are expecting either stable or better asset quality indicators by the end of March 2022

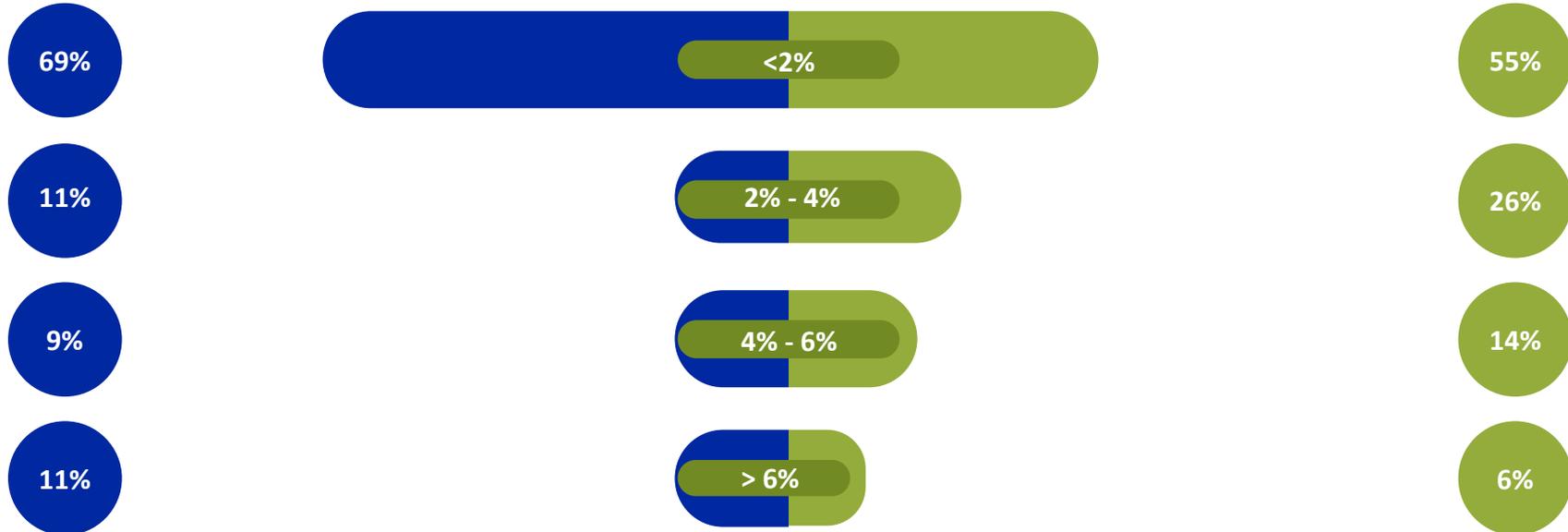
Source: ICRA Research; based on recent survey

Expectation on percentage of AUM likely to be restructured, though overall numbers still expected to remain low

## ICRA Survey of December 2020

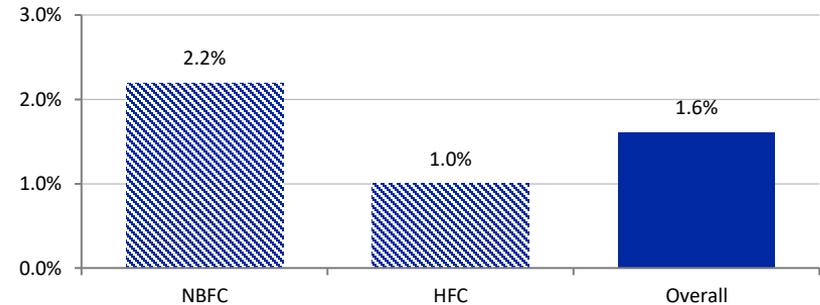
VS

## ICRA Survey of June 2021

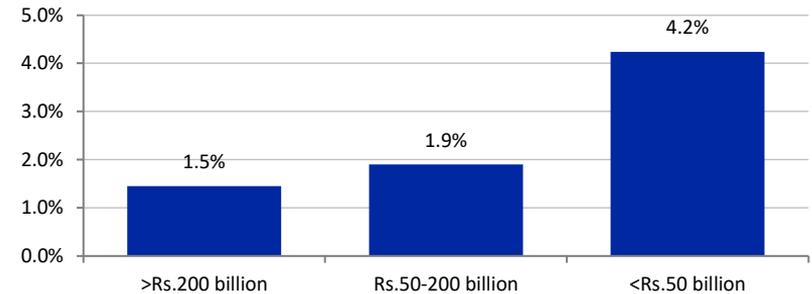


- The overall restructuring by non-bank finance entities in FY2021 was significantly lower than previously anticipated (4-6% of AUM in January 2021)
- The overall restructuring by non-banks is estimated at 1.6% of the AUM as of March 2021.
- NBFCs and small-sized entities witnessed higher restructuring in FY2021

### Exhibit: Restructuring as % of AUM (based on segment)



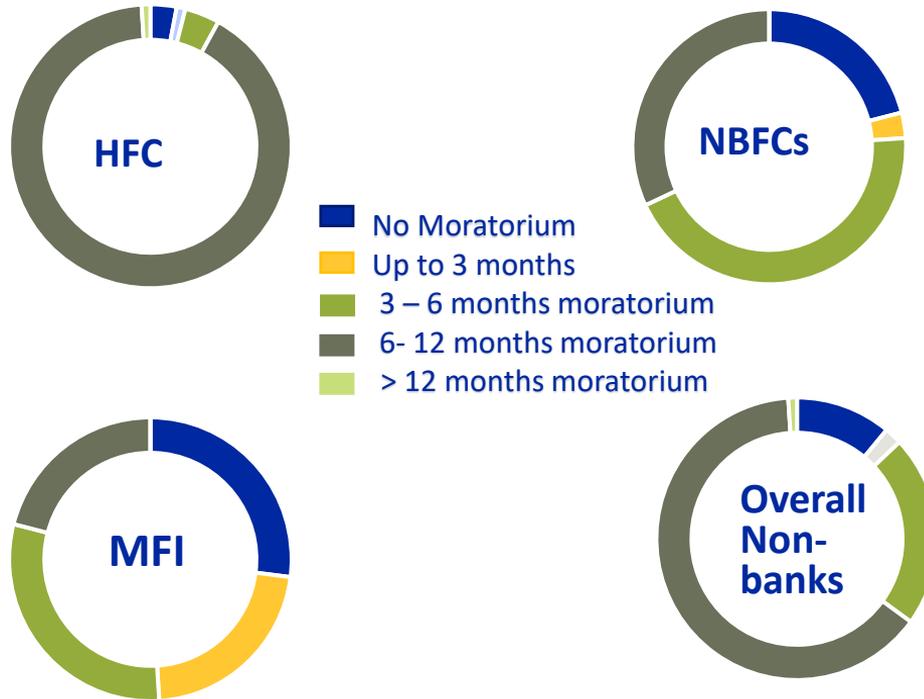
### Exhibit: Restructuring as % of AUM (based on size)



Source: ICRA Research

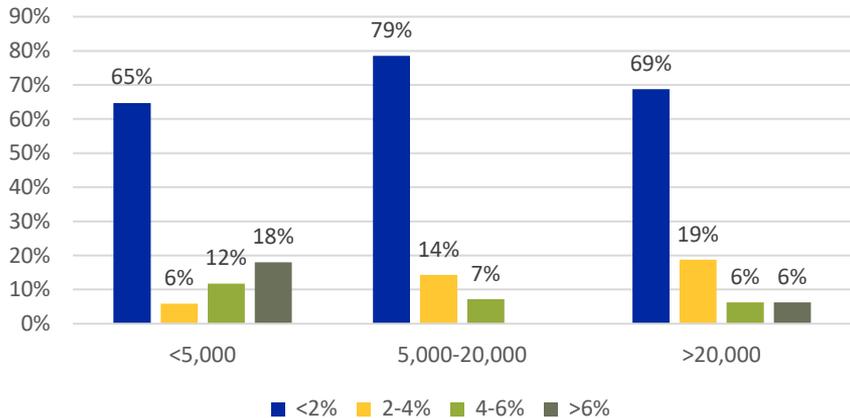
# Typical moratorium/loan holiday given under Restructuring 1.0

Exhibit: Breakup by sector and based on AUM weights



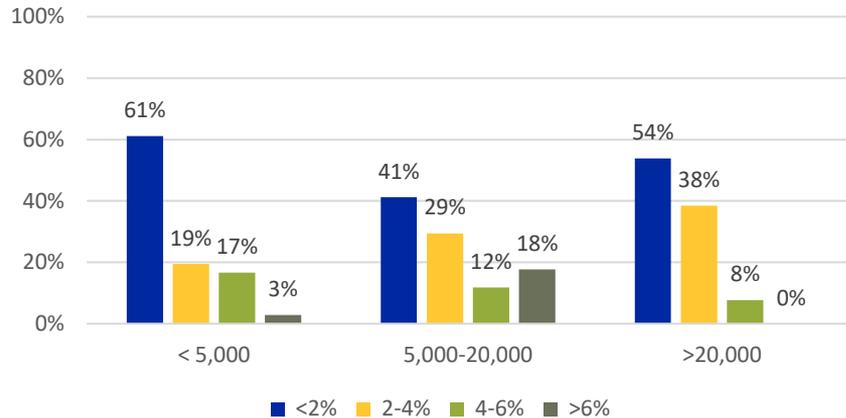
- Almost 85% of the restructured portfolio for these non-banks has 3-12 months moratorium, thus asset quality of this book would only be visible by Q3FY2022.
- Overall, only 1% of restructured AUM had moratorium greater than 12 months. Thus, the entire set could be eligible for further restructuring under restructuring 2.0

**Exhibit: Expectation on percentage of AUM likely to be restructured basis ICRA Survey of December 2020; breakup by AUM size**



Source: ICRA Research

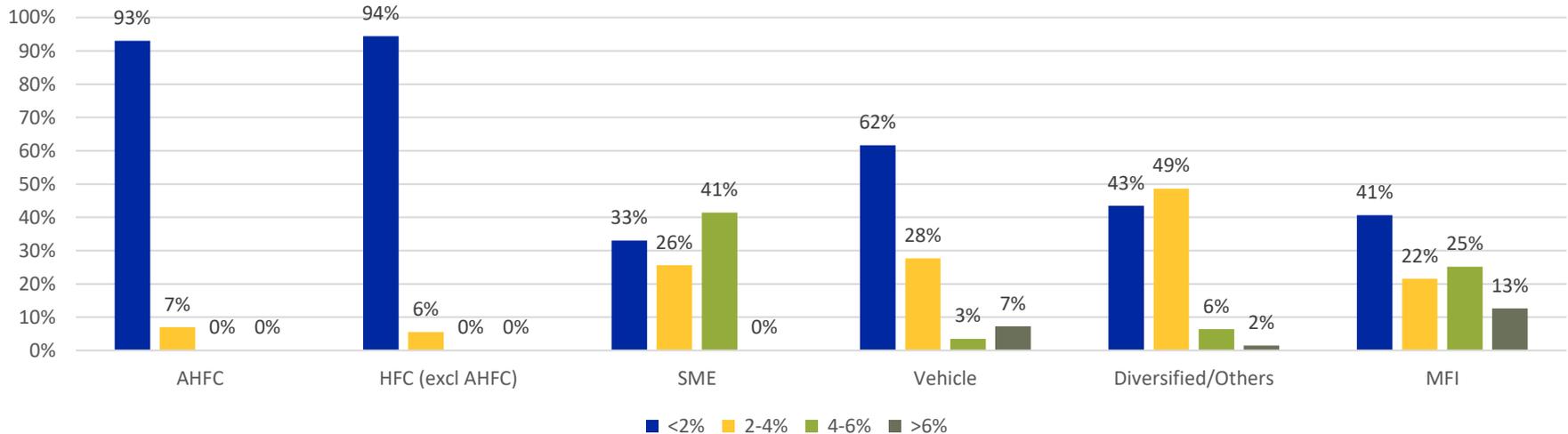
**Exhibit: Expectation on percentage of AUM likely to be restructured basis ICRA Survey of June 2021; breakup by AUM size**



Source: ICRA Research

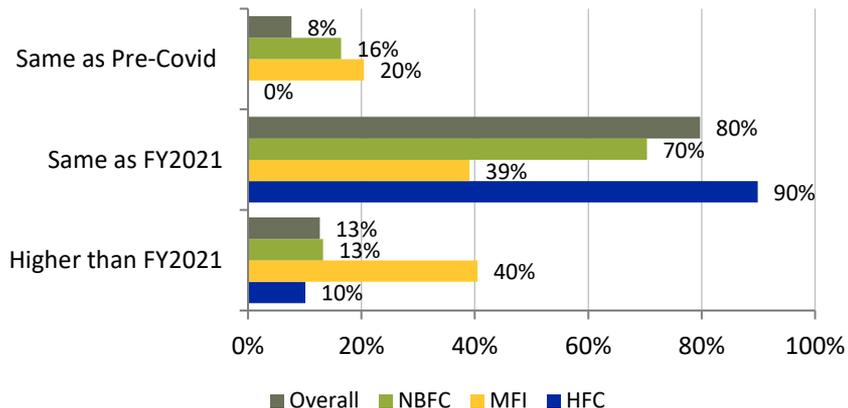
With no blanket moratorium and reflecting the stress on the cashflows of the underlying borrowers, mid-sized lenders (lender with AUM between Rs. 5,000-Rs. 20,000 crore) are expecting a higher share of restructuring under Restructuring 2.0

**Exhibit: Share of AUM expected to be restructured under Restructuring 2.0; breakup by Subsectors and basis AUM weights**



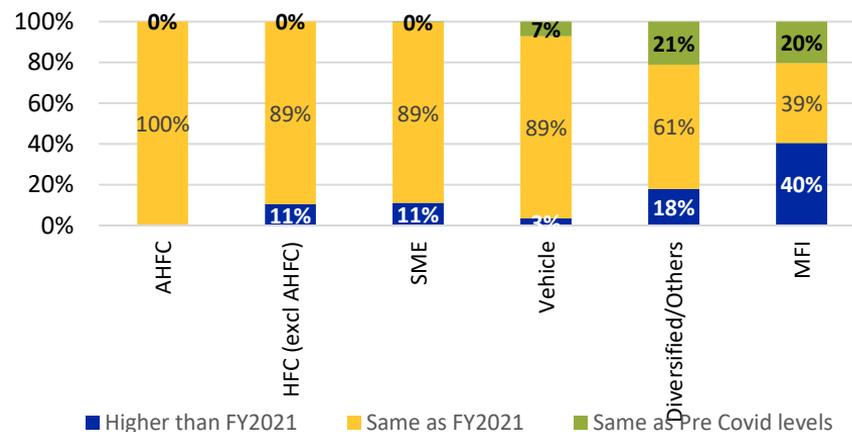
- Segments such as MFIs, SME lending and vehicles expected to undergo larger share of restructuring compared with industry average
- In line with the trend seen in FY2021, HFC portfolio likely to remain largely resilient

**Exhibit: Expectation on credit cost for FY2022, breakup by AUM weight**



Source: ICRA Research; based on recent survey

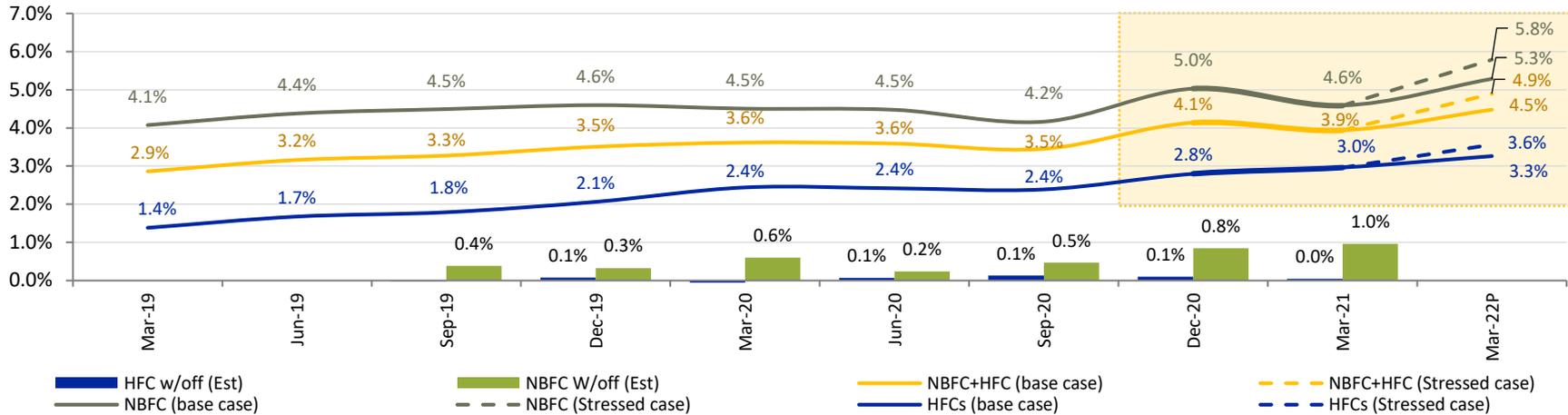
**Exhibit: Expectation on credit cost for FY2022, breakup by Subsector & AUM weight**



Source: ICRA Research; based on recent survey

- Overall, 18% (by number) and 13% (by AUM weight) of the respondents are expecting a further increase in credit costs in FY2022
- In line with the expectations on higher gross Stage 3 and higher restructuring expected for SME-focused non-banks and MFIs, the credit costs for these lenders are also expected to increase further in FY2022
- While HFCs are expecting to maintain the credit costs at FY2021 levels, credit costs are still expected to be higher than the pre-Covid levels

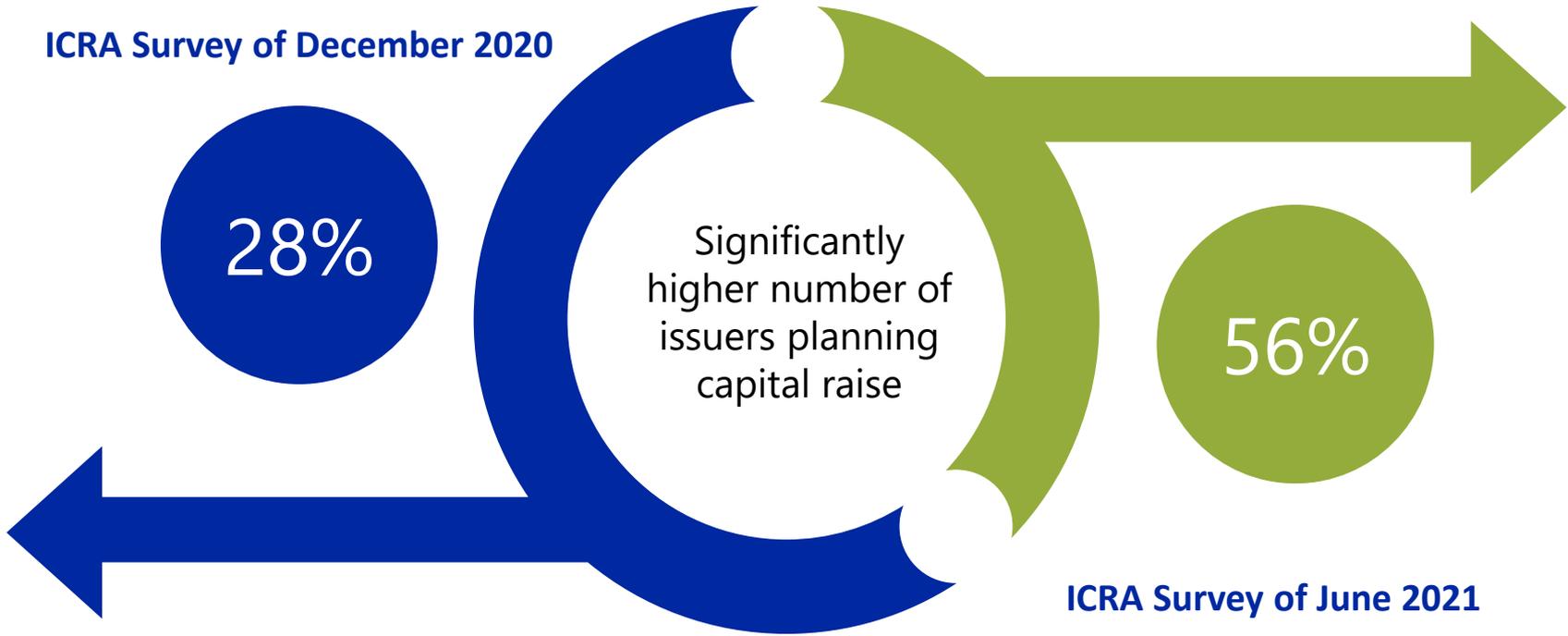
**Exhibit: Asset quality trends and expectations -90+dpd**



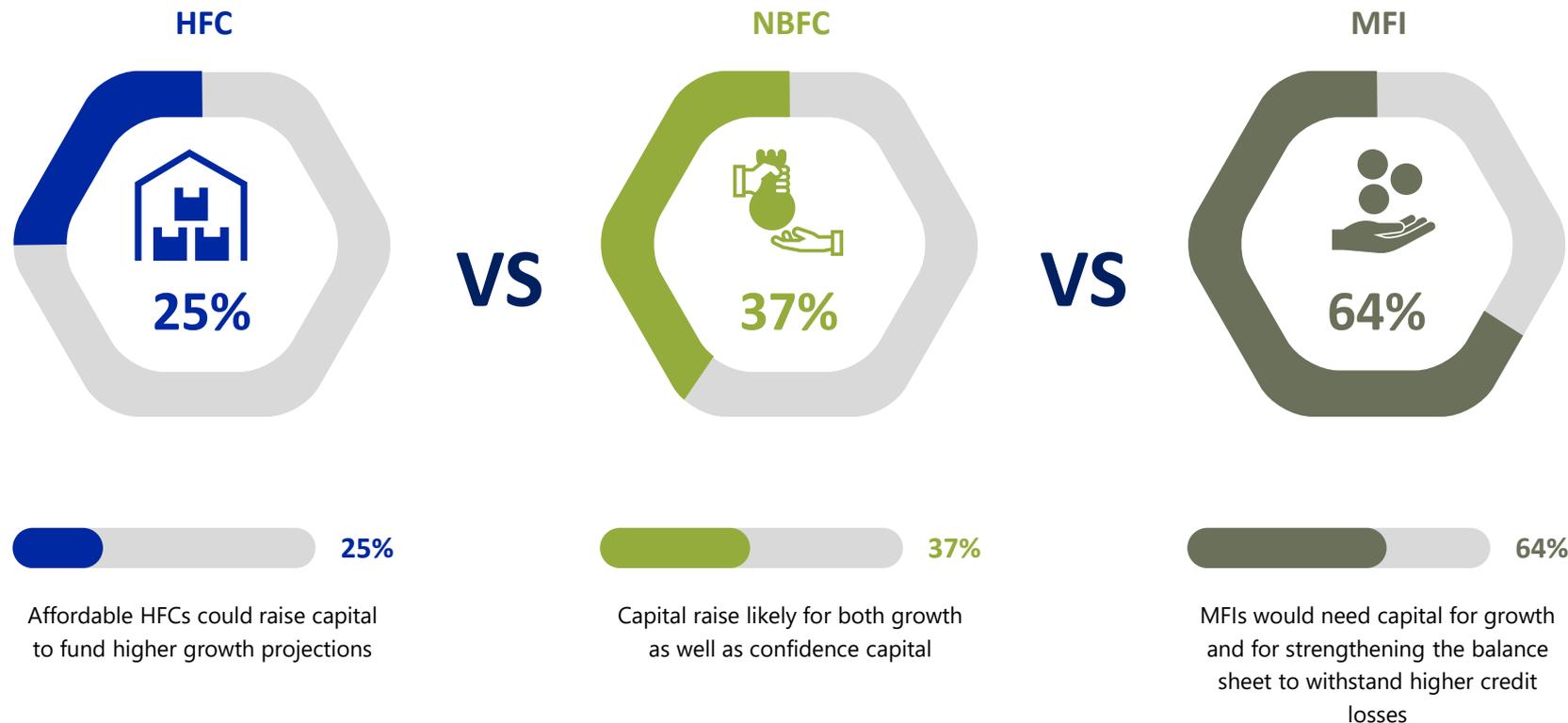
**Source:** ICRA Research; data of 22 NBFCs and 11 HFCs (excluding PSUs); Note: NBFC+HFC data is computed based on the NBFC (excluding PSU) and HFC share in the overall sectoral AUM March 2021 is estimated

- The impact of asset quality pressures unfolded partly in FY2021 with the 90+ days past due (dpd) moving up by ~40-50 bps. Higher write-offs in Q3 and Q4 lessened the impact to some extent. With risks further compounded by the recent rise in the infection rate on account of the second wave, the 90+dpd could inch up further by 50-100 bps even while the loan losses are likely to remain elevated and similar to the last fiscal
- Softer bucket overdues are expected to spike in the near term. Recovery, if any, is likely only in H2FY2022

## Are there capital raise plans in FY2022?

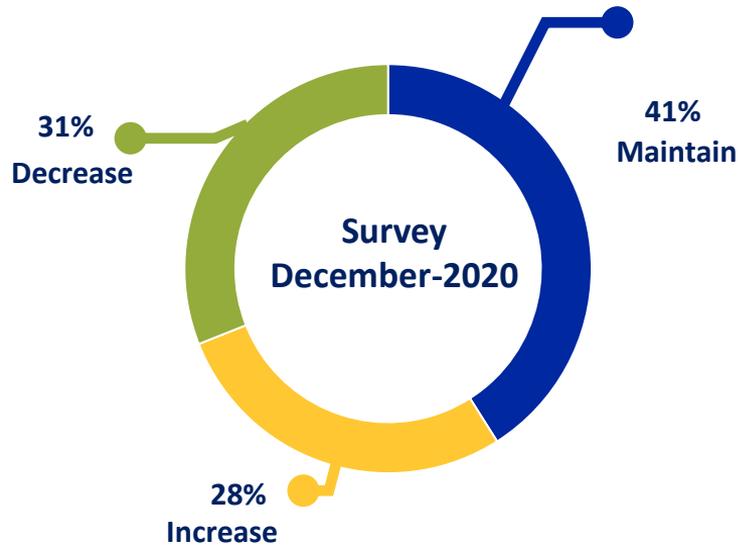


Source: ICRA Research,; Analysis based on number of issuers

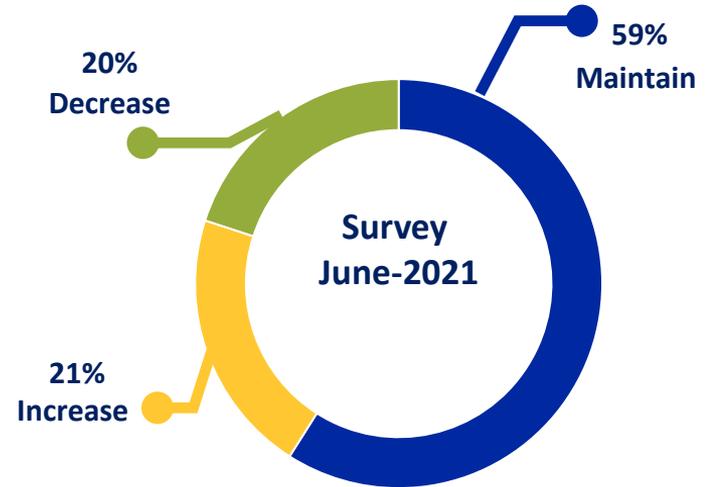


Source: ICRA Research; based on recent survey and basis AUM weights

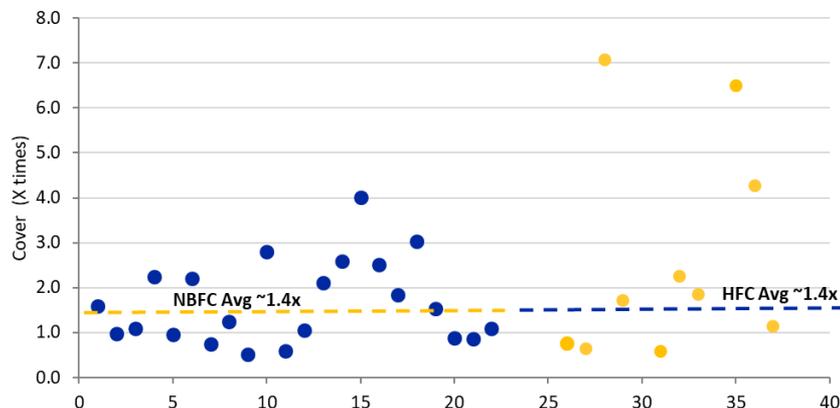
### Expectation of on-balance sheet liquidity (as a % of AUM) as of FY2022 vis-à-vis September 2020



### Expectation of on-balance sheet liquidity (as a % of AUM) as of March 2022 vis-à-vis March 2021

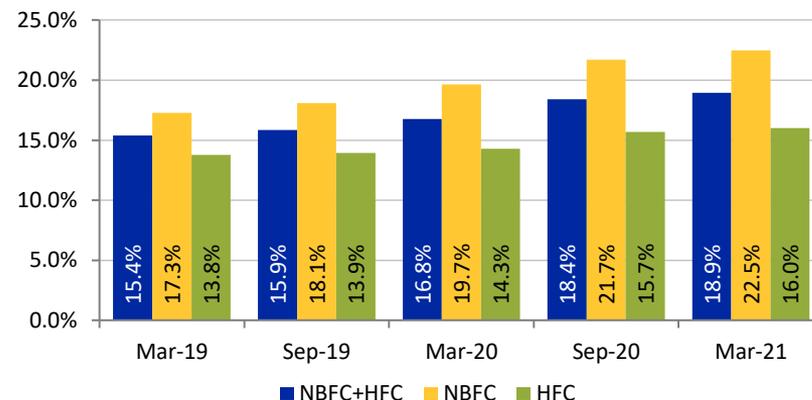


### Exhibit: Coverage: Overall liquidity/ 3-month principal repayment as of Mar 2021



**Source:** ICRA Research; data of 22 NBFCs and 10 HFCs; Overall liquidity - On B/s liquidity + Sanctioned credit lines; estimates and nearest data used where Mar 21 data was not available

### Exhibit: Capital profile : Net worth /AUM

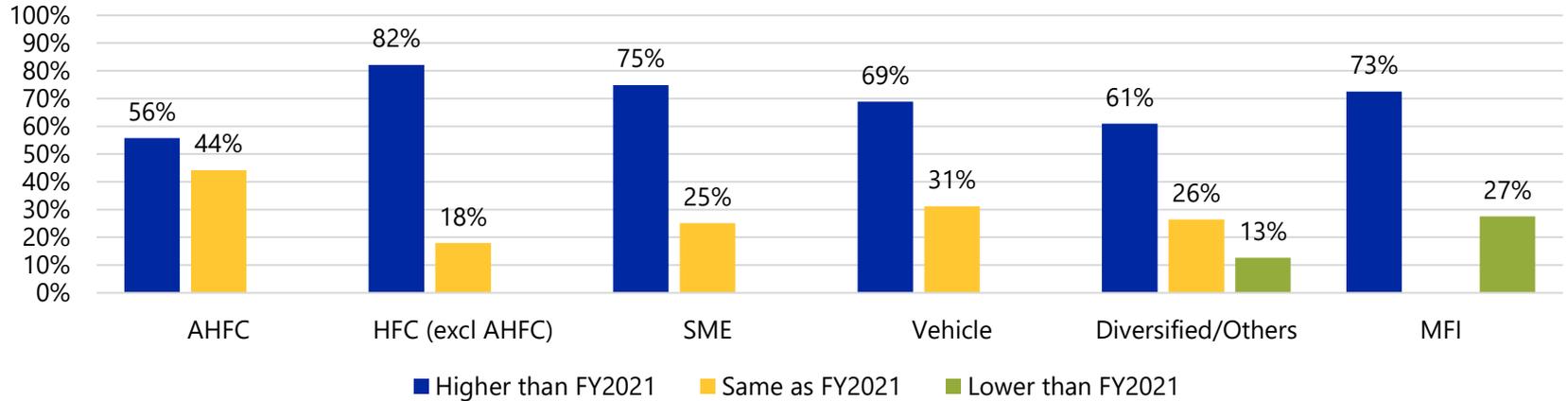


**Source:** ICRA Research; data of 22 NBFCs and 11 HFCs, excluding PSUs; March 21 is estimated

- Entities were maintaining liquidity to cover more than 3-months of debt repayments (without factoring any collections) for a major part of the last fiscal
- Considering the emerging uncertainties because of Covid-19, which could affect their near-term collections and fresh debt raise, ICRA expects the liquidity profile to be maintained with adequate buffer to give comfort to various stakeholders. Non-banks would require about Rs. 2.0 trillion of additional funding in FY2022
- The extension of the on-tap Targeted Long-Term Repo Operations (TLTRO) scheme and the priority sector lending (PSL) status of lending to NBFCs for on-lending to specific segments would support the credit flow to the sector. The GoI and the RBI directed funding would be key for the sustainable near-term revival of the sector as the operating environment remains volatile in view of the rise in the infection rates
- Capitalisation of non-banks is expected to remain adequate, considering the low growth expectations, although internal generation is muted

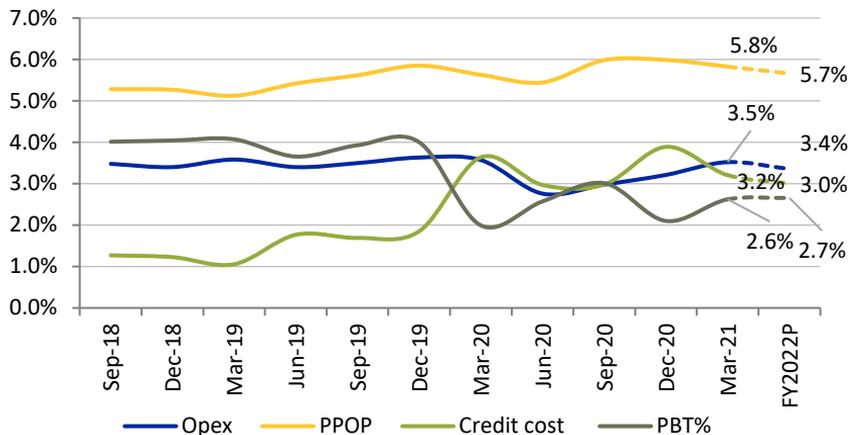
## Analysis by AUM weight

Exhibit: Expectation on profitability (RoA) for FY2022 ; breakup by Subsector



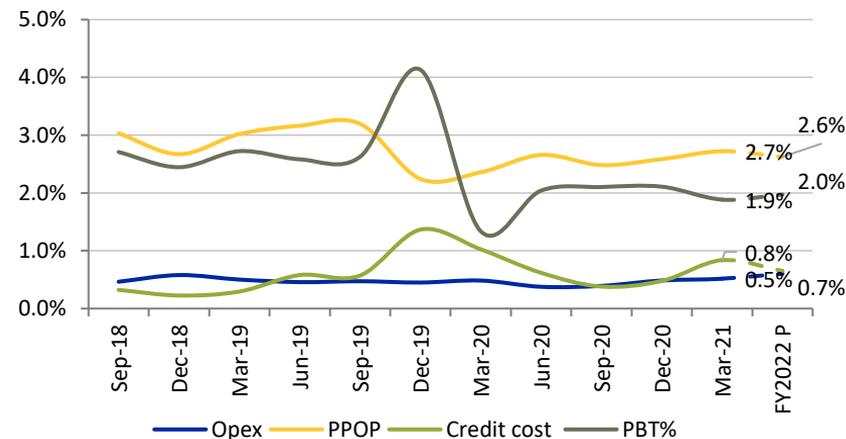
- Most non-banks are expecting an improvement in the return indicators in FY2022, supported by business growth, expectation on improvement in margins and controlled credit costs
- Some mid-sized non-banks expect lower profitability owing to higher credit costs

Exhibit: NBFC earnings profile



Source: ICRA Research; data of 22 NBFCs; P - Projected

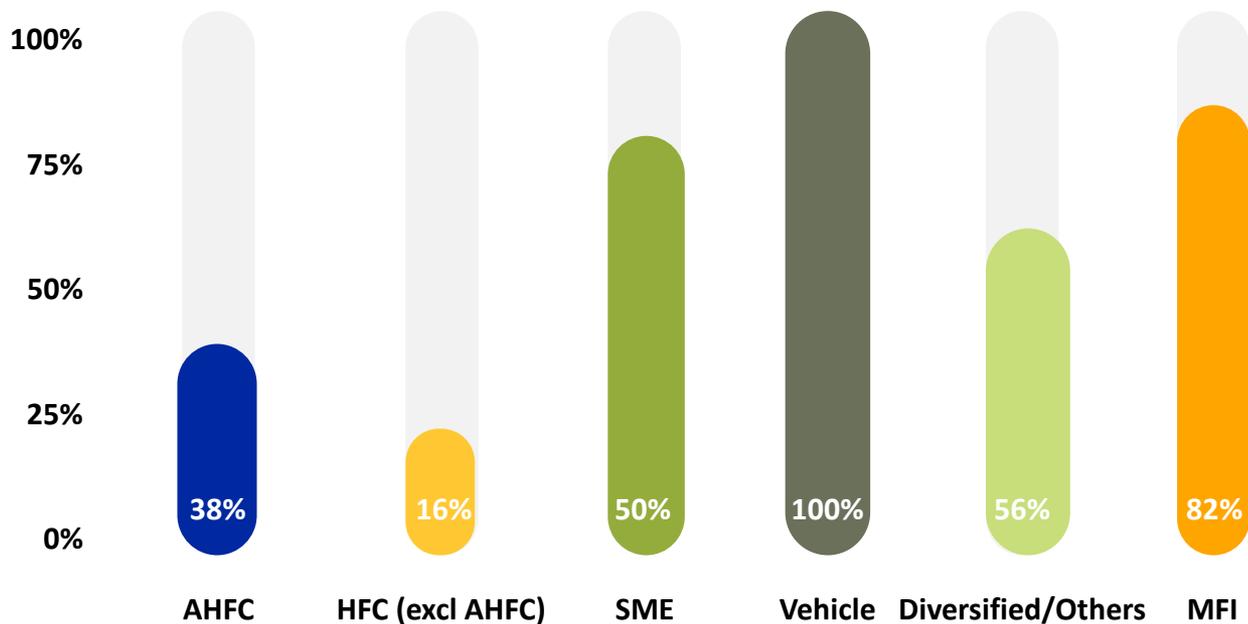
Exhibit: HFC earnings profile



Source: ICRA Research; data of 11 HFCs; P - Projected

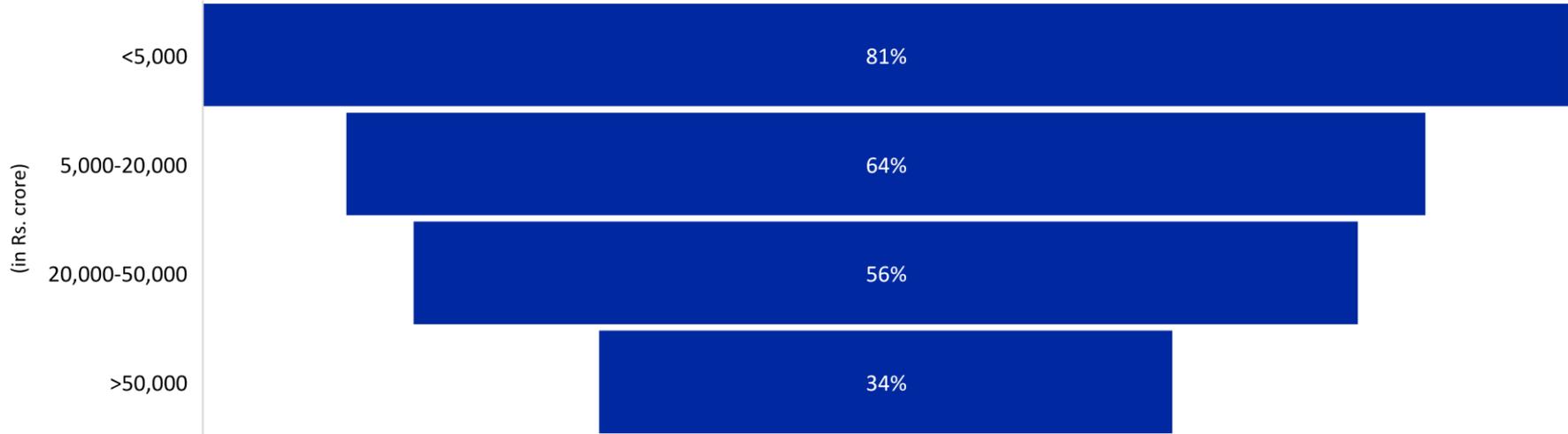
- The performance of most key target asset/borrower segments continues to be suboptimal, which would impact loan recoveries, leading to higher loan losses. This, in turn, is pushing up the loss given defaults (LGDs) and requires entities to maintain higher provisions. Some entities have dug into their provisions in Q4, which may have to be augmented in view of the second wave
- Earnings to remain under pressure (around 30% below the pre-Covid level and similar to FY2021) in FY2022 as growth is expected to remain below historical trends while the cost of funds is expected to increase and credit costs are expected to remain high as write-offs are likely to remain high

Exhibit: Is GoI/RBI directed funding required in the current fiscal as well?



Source: ICRA Research; based on recent survey; denotes proportion of lenders who responded "Yes"

**Exhibit: Is GoI/RBI directed funding required in the current fiscal as well? Breakup by AUM size (Rs. crore) and AUM weight**



Mid-sized entities and non-banks lending to the relatively more impacted sectors such as MFIs, vehicle loans, SME and small HFCs believe Government/RBI directed liquidity/funding support should continue in the current fiscal

Source: ICRA Research; based on recent survey; denotes proportion of lenders who responded "Yes"

## FY2022 Outlook -Negative

AUM Growth	Asset Quality	Funding and Liquidity	Profitability	Capital
				
<p><b>7-9% Growth</b></p> <p>Growth to remain moderate in FY2022 vis-à-vis long-term average</p> <p>Access to adequate funding would be critical as demand is expected to revive in the next fiscal</p>	<p><b>50-100 bps increase in GNPA's</b></p> <p>After the spike in FY2021; reported NPAs to increase further in FY2022</p> <p>Restructuring in FY2021 was lower at ~ 1.5%; Increase expected because of the second wave</p>	<p><b>Rs. 1.9-2.2 trillion</b></p> <p>Additional funding required in FY2022 to support growth, apart from refinancing existing/maturing lines.</p> <p>Continuation of RBI/Gol initiatives would be critical</p>	<p><b>~30% lower than pre-Covid levels</b></p> <p>Profitability pressures to remain in the current and next fiscal because of higher credit cost and slower growth</p>	<p><b>Comfortable</b></p> <p>No capital requirement considering the muted growth outlook</p>



Click to Provide Feedback



ICRA

# Analytical Contact Details



**Karthik Srinivasan**

*Senior Vice-President*

**A M Karthik**

*Vice-President*

**Manushree Saggar**

*Vice-President*



[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

[a.karthik@icraindia.com](mailto:a.karthik@icraindia.com)

[manushrees@icraindia.com](mailto:manushrees@icraindia.com)



+91-9967651530

+91-9791018775

+91-9810290745





ICRA

# Business Development/Media Contact Details



**L. Shivakumar**

*Executive Vice-President*

**Jayanta Chatterjee**

*Executive Vice-President*

**Naznin Prodhani**

*Head Media & Communications*



shivakumar@icraindia.com

jayantac@icraindia.com

communications@icraindia.com



022- 6114 3406

080 – 4332 6401

0124 – 4545 860





***© Copyright, 2021 ICRA Limited. All Rights Reserved.***

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.



ICRA

**Thank You!**