

# NBFC Performance Update

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**Second wave of infections nips the budding recovery**

**JUNE 2021**



# Highlights



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*The second wave of Covid-19 infections has impacted business sentiments for Q1 FY2022. ICRA however continues to maintain its AUM growth estimates at present.*

*Asset quality pressures are likely to keep credit cost high and also could result in higher restructuring vis-a-vis last year*

*Capital and liquidity remain adequate to support entity level risk profile. Collections trends, in view of the possible new wave of infection, remains a key monitorable*



- Disbursements were impacted in Q1 after a robust recovery since Q3 FY2021. Expect disbursements to grow by about 6-8% in FY2022 after a YoY decline of about 11-12% in the previous two fiscals



- AUM growth was impacted in the last fiscal on account of the falling disbursements and higher write-offs, especially in NBFC (non-mortgage) space. The AUM growth in FY2022 is estimated to be at 7-9% vis a vis ~ 4% (estimated) growth in FY2021



- About 30% of the exposure is deemed to be in the risky segments. Geographically, the large states- Maharashtra, Karnataka and Tamil Nadu, which accounted for ~40% of the sectoral credit, were amongst the severely affected states by the second wave and witnessed tighter restrictions



- Reported NPAs/Stage 3 was lower than anticipated, as loan write-offs were higher. Prolonged stress in the operating environment is likely to push the NPAs by about 50-100 bps in the current fiscal; NPAs increased by about 40-50bps during the last fiscal



- Provision buffers to partly offset asset quality risks. While restructuring during FY2021 was lower than expected, the second wave of infections, prolonged business-level stress and the lack of a comprehensive forbearance (loan moratorium) is likely to revive demand for loan restructuring in the current fiscal.



- Earnings to remain under pressure in FY2022, as credit cost is expected to remain similar to the last fiscal, in the base case. RoMA to remain about 30% below pre-Covid levels.



- Capitalisation and liquidity profile remain a silver lining for the sector. The sector would require about Rs. 2.0 trillion of additional funding for the envisaged growth. Funding to remain a key differentiator among entities



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