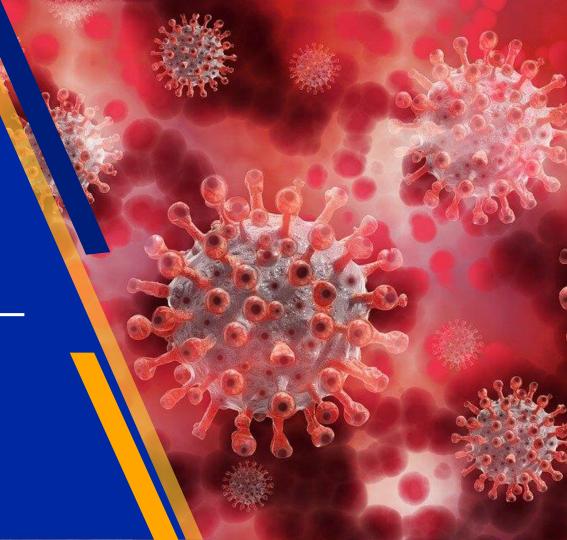


NBFC Performance Update

Second wave of infections nips the budding recovery

JUNE 2021



Highlights



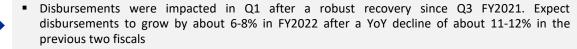
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The second wave of Covid-19 infections has impacted business sentiments for Q1 FY2022. ICRA however continues to maintain its AUM growth estimates at present.

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







 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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