



ICRA

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Retail-NBFC Credit Trends

Risks to remain elevated
in the near term; revival likely
in the next fiscal

JULY 2021

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RETAIL-NBFC OUTLOOK – NEGATIVE



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Growth to revive in FY2022 to 8-10% but to remain considerably below past trends; localised lockdowns would be a near-term monitorable

Asset quality pressure to persist

Profitability to remain subdued because of elevated levels of credit cost; expected to improve in FY2023

Assets under management (AUM) of the retail non-banking financial company (Retail-NBFC) sector is expected to grow at 8-10% in FY2022. Growth would be driven by the improvement in demand from all key target segments vis-à-vis FY2021, on the back of a low base. Growth in the vehicle finance, business loans, which account for the bulk of the AUM and is closely linked to economic activities, is expected to be better than FY2021, however, it is expected to take longer to register a reasonable revival. Some of the key segments which would bolster growth include gold loans, personal credit, rural finance and microfinance.

While decline in the collection efficiencies seems to have been arrested to an extent in June 2021, the asset quality pressures are expected to remain in the near term, which would keep credit costs higher and earnings subdued and similar to the last fiscal. The credit cost could moderate in the next fiscal, provided there are no new surges in the infection rates, which could result in the net profitability reaching pre-Covid levels by FY2023.

- **ICRA continues to have a Negative credit outlook on the Retail-NBFC Sector**
- **AUM growth moderated sharply in FY2021:** The YoY growth in AUM of the Retail-NBFC sector dipped to 4% in FY2021 from 11% FY2020 (22% in FY2019) as demand slowdown and risk aversion in the vehicle and small business loan segments impacted growth. The AUM in the vehicle segment, which accounted for about 48% of the overall Retail-NBFC AUM, grew 3% YoY while the loan against property and small and medium enterprises (LAP+SME) segment was flat during the period. Gold loans continued to grow at a healthy pace of 27%, supported by buoyant gold prices for most part of the year. The personal credit segment declined by about 6% while the microfinance segment grew by about 7%; QoQ growth in the microfinance segment was largely observed in the last two quarters of the fiscal.
- **Asset quality pressures to persist in the near term:** Overall 90+dpd in March 2021 moderated by about 20 bps and was largely similar to March 2020 levels, as collections improved steadily and reached pre-Covid levels in Q4 FY2021. Further, entities effected loan write-offs during Q3 and Q4 FY2021 and also extended restructuring to their borrowers with overdues. The second wave impacted the fragile recovery witnessed in Q4 and is likely to push up the overdues in the near term. While collection efficiency trends have shown some revival in June 2021, post the declines witnessed in the first two months of Q1 FY2022, ICRA expects the 90+dpd to increase by about 50-100 bps during the current fiscal as borrower level cash flows continue to remain stretched.
- **Earnings performance similar to last fiscal:** The retail NBFCs have been able to maintain their pre-provision operating profitability (PPOP) at healthy levels of (5.5-6.0%) over the recent past (FY2019-FY2021). The credit cost has been the key reason for the fall in profitability during FY2021. Earnings to remain subdued in FY2022 as well, as ICRA expects the overall credit cost to remain similar to the last fiscal. Thus, return on the managed assets (RoMA) is estimated to remain stable, at about 2.0-2.1% in FY2022.



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ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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