



Growth revival, amidst asset quality improvement, to drive NBFC profitability

NBFC-Retail Quarterly Update

February 2023



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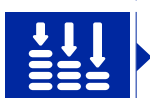
Highlights

NBFC-Retail (ex-HFCs) expected to grow 13-15% in FY2023.

HFCs expected to maintain slower growth rate of 11-13% during this period

Asset quality indicators to moderate to pre-Covid levels by the end of March 2023

Profitability of NBFC Retail (ex-HFCs) to improve by 40-50 bps in FY2023, supported by stable NIMs and lower credit costs



- The profitability of Non Banking Financial Companies (NBFCs) is expected to improve from the level seen in FY2022, reach the pre-Covid-19 pandemic level in FY2023. This improvement is expected to be an interplay of higher growth in the assets under management (AUM) and lower credit costs.
- Growth is expected to be broad-based across various sub-sectors within the NBFC-Retail¹ space with microfinance and personal loans leading the growth. Vehicle finance loans are also expected to show higher growth numbers, though the same will be lower than the historical highs.
- The asset quality indicators for NBFC-Retail and HFCs have been improving steadily since December 2021. This was on the back of higher collections, lower-than-anticipated share of the restructured portfolio and controlled slippages from this book.
- While there could be further slippages from the restructured book in H2 FY2023, the existing balance sheet provisions, which were built-up during the pandemic, could be used by the entities, thus limiting the impact on incremental profitability.
- While demand remains firm at present, uncertain global macroeconomic conditions could pose some downside risks towards the end of FY2023 or in early FY2024.
- The impact of rising interest rates on funding costs is likely to be visible in H2 FY2023, which could exert some pressure on the net interest margins (NIMs). However, it is expected to be somewhat offset by the upward revision in yields.
- Stable NIMs, along with moderation in credit costs, will support the improvement in the profitability indicators in the NBFC-Retail segment. ICRA expects these entities to report a return on managed assets (RoMA) of 2.6-2.9% for FY2023.

¹NBFC-Retail refers to NBFC exposure to retail asset classes excluding HFCs



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Thank You!