

Money & Banking

Credit costs to remain elevated for NBFCs: CARE Ratings

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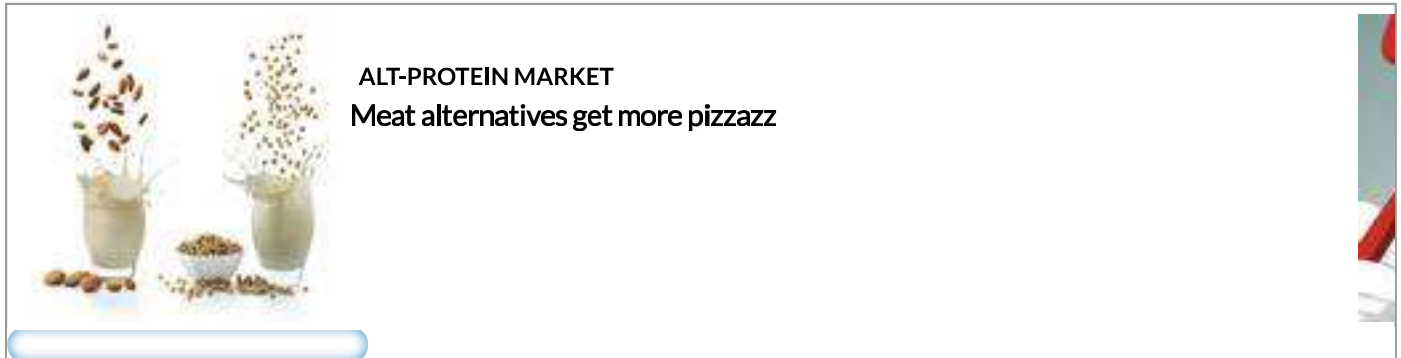


The second wave of Covid-19 has pulled back the recovery gains with subsequent impact on asset quality, Says the credit rating agency

Credit rating agency CARE Ratings expects credit costs to remain elevated for non-banking finance companies (NBFCs) in FY22 amid the second wave of Covid-19 pandemic.

For FY22, CARE Ratings expects a level of stress, especially in the loan portfolio under restructuring and those which were under moratorium, the impact is likely to be visible in the next one year.

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“As such, delinquencies are estimated to rise moderately,” according to a report by the credit rating agency.

The agency observed that NBFCs have been grappling with a succession of uncertain events since 2016 – demonetisation, Goods and Service Tax (GST) implementation, liquidity crisis in 2018 and Covid-19 pandemic in 2020.

These uncertain events derailed growth, disrupted collections and increased loan loss provisioning across asset classes.

Financial metrics

“From Q4 (January-March) FY20, credit costs across major NBFC sub-segments reported substantial increase and has remained at elevated levels. This affected the financial metrics for H1 (April-September) FY21 negatively,” the report said.

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The agency assessed that after September 2020, the economy re-opened with signs of revival which led to improvement in the sector, collections inched closer to pre-Covid levels and growth gathered momentum. But the second wave of Covid-19 has pulled back the recovery gains with subsequent impact on asset quality.

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