Money & Banking

Credit costs to remain elevated for NBFCs: CARE Ratings

Our Bureau Mumbai | Updated on April 30, 2021

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.

"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.

Published on April 30, 2021