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Analysts go cautious on NBFCs after irregularities come up

By Joel Rebello, ET Bureau Last Updated: May 10, 2022, 12:28 AM IST

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Synopsis

Analysts say it is expected that some loan accounts will turn sour after restructuring and though it is too early to say whether this is a systemic problem, fiscal 2023 for non-banking finance companies (NBFCs) will most likely be a year of cautious optimism.



Representative Image

A shadow of doubt has been cast over the NBFC sector after recent disclosures of irregularities in some accounts, particularly post the Covid-led restructuring.

Late on Friday, Brookfield-backed [Indostar Capital](#) said preliminary findings of consultancy firm EY have

found deviations in the loan approval, foreclosure and restructuring in the company's commercial vehicle loan accounts.

On Monday, [Can Fin](#) NSE -3.40% Homes, the NBFC arm of [Canara Bank](#) disclosed that it had unearthed 37 accounts with fake income-tax returns and declared them as fraud and non-performing assets (NPAs). Though the company clarified that the total amount impacted was less than ₹4 crore, the fact that Canara Bank had sent a team to support Can Fin Homes in risk, audit and general admin after this discovery has raised eyebrows.

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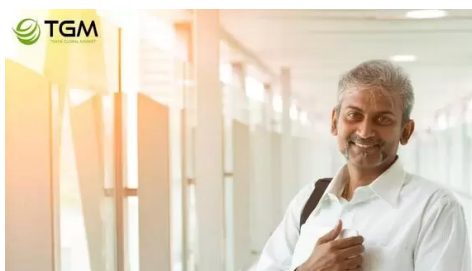
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"The accounts that have undergone a restructuring process are bound to be a weak credit. Also, these things take time to resurface after restructuring. But there is still no cause for alarm because the newly originated loans are also good quality, collection efficiencies are better than before and margins are strong. So, it's more of a cautious optimism," said Sanjay Agarwal, senior director, [CARE Ratings](#).

In its notice to the stock exchanges on Friday, [Indostar](#) said it will have to take a provision of between ₹557 crore to ₹677 crore based on its preliminary findings.

Though the initial amount talked about in the Can Fin case is low, analysts say the cases need to be watched closely.

"Only time will tell whether these are temporary shocks or surprises. Can Fin has clarified that the amount in question is too small but if this is bigger than what it is disclosed, then it could be an issue. We need to keep a close eye on it," said Prakash Agarwal, head - financial institutions at India Ratings & Research.

The Can Fin stock price lost 14% of its value intraday after news of these suspect accounts but then recovered to end at ₹520 apiece, down 5% from its close on Friday.

Indostar said it expects the review of its accounts to be completed by the time of finalisation of the audited financial statements for the year ended 31 March 2022.

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Why should retirement planning be a priority for every Indian?

Synopsis

To sustain a hassle free retirement, retirement planning should be our foremost task.



ET Spotlight

The fact that Indians shy away from discussing retirement plans has a lot to do with our lack of financial literacy. Most of us have spent many precious minutes fantasizing about the day when we can retire and won't have to go to work. We dream about a happy retirement, imagining ourselves taking a break from all responsibilities.

However, only a few of us will be able to live this ideal retirement life when the time eventually comes to do so.

After a certain age, we're all faced with the responsibility of looking after our aging parents but we fail to remember that the same fate awaits our children too when we meet our retirement age, unless we ensure adequate retirement planning ahead of time. For example, a stable retirement fund ensures that we're never financially vulnerable and can afford any care we require.

To be clear, experts believe there are three important reasons why retirement planning should be a priority.

1. You can't work forever. Many of us want to work post-retirement too. But will the meagre income be sustainable? Hence, retirement planning is essential to be financially independent after you stop working.
2. The future is uncertain, and you might have to make an unplanned large investment. But will it be possible to execute this if you can't work? Good savings and the right investment can help you through unprecedented times and challenges.
3. Health problems are unavoidable as time passes by. Medical expenses are bound to make a dent in your savings and leave you stranded financially post-recovery.

India, like several other developed countries, lacks a social security system to care for the aged. There is neither free medical care nor a monthly government pay-out on which pensioners can rely. Even government employees who formerly had the security of a guaranteed pension must now build a corpus because the government has eliminated this benefit for most of its employees.

So why are we not prioritizing retirement plans? How long can we postpone an ever-looming necessity? Beyond the age of 50, one barely has the time and money to plan a joyful retirement. If this rings a bell for you, here are some of the best tips from industry experts to plan your retirement.

1. Create alternate sources of income.
2. Keep increasing the contribution to your retirement savings every year.
3. Do not rely solely on security schemes.

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4. Keep risk factors in mind before investing a considerable sum of money.
5. Consider inflation. Rs. 10 lakhs today will not have the same monetary value 20 years later.
6. Stay away from excessive expenditure.

Conclusion

In an environment of rising inflation and market volatility, it's essential to have a retirement fund large enough to last you your lifetime. Otherwise, you risk being compelled to work during your retirement, a situation that no one wants to be in.

Sure, you can take a chance and trust that your children will take care of you, but that is a significant leap of faith to make. And even if they are prepared to do so, would you want to burden your offspring with the obligation of providing for your financial well-being in your old age?

Maloo Investwise cuts out the confusion over what modes of investment to use for the highest returns on your retirement fund and provides you with a comprehensive financial plan that stands true to the test of time. So with whatever little you have, start today!

Views are personal: The author, [Dr. Ramesh Chand Maloo](#) of MALOO INVESTWISE PRIVATE LIMITED is a Mutual Fund Distributor from Jaipur

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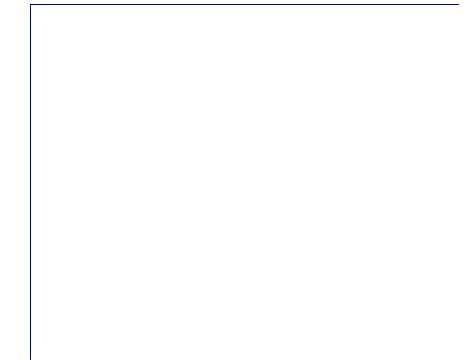
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