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Retail to drive loan book in FY'22, but asset quality a concern

Synopsis
Bank credit is expected to grow by 7.5% to 8.5% in FY'22 – largely driven by retail, according to Care Ratings. Covid-19 impacted overall asset quality. But NPAs moved up even as NPAs for other sectors generally slowed. Care Ratings notes that the second wave of infections has resulted in increase in slippages and restructuring of retail loans in the second quarter of FY'22 at a webinar along with industry experts.

Rise in slippages across segments – vehicle loans, gold loans and personal unsecured loans impacted the most, the ratings firm noted.

Banks have focused on the **retail loans** for their business growth in the absence of corporate demand. The **public sector banks** have focused more on retail is more. But the **second wave** has started impacting the asset quality of retail loans more so with respect to unsecured loans.

Bank credit is expected to grow by 7.5% to 8.5% in FY'22 – largely driven by retail, according to Care Ratings. Covid-19 impacted overall asset quality. But **NPAs** moved up even as NPAs for other sectors generally slowed. **Care Ratings** NSE 0.00 % notes that the second wave of infections has resulted in increase in slippages and restructuring of retail loans in the second quarter of FY'22 at a webinar along with industry experts.

But bankers see the stress in retail to be temporary. "Credit stress in retail is not cyclical like in any economic cycle but due to the lock down and not due to the disease itself" said Goutam Sanyal, head – retail & operational risk and credit monitoring at **ICICI Bank** NSE -1.84 %." The moment it opens up, life goes back to normal".

Rise in slippages across segments – vehicle loans, gold loans and personal unsecured loans impacted the most, the ratings firm noted. "Though stress in unsecured loans is expected to be high, segments where such loans are from salaried class are relatively less risky" said Ram Jass Yadav, chief general manager and head of retail assets & **MSME** at Bank of Baroda

Moreover, credit costs are expected to remain in the range of 1.3% to 1.5% supported by restructuring and likely recovery in second half of FY'22. Restructuring is on the uptick in current financial year which has managed to mask the true level of slippages in the sector. Retail and MSME have significant share in restructured assets. " Only those borrowers should be offered restructuring who need temporary hand holding and will probably be back once the pandemic is over." Sanyal said.