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NBFC sector's gross NPL ratio to rise to 7.3% by March 2017

By PTI | Updated: Feb 07, 2016, 01:58 PM IST

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MUMBAI: The overall non performing loans of NBFC sector is likely to increase to 7.8 per cent in financial year 2016-17 from an estimated 6.7 per cent in the current fiscal, says a report.

"The overall gross NPA ratio of NBFCs across asset classes is likely to rise to 7.8 per cent by March 2017, from 6 per cent at end-September 2015 and an estimated 6.7 per cent in FY16," India Ratings and Research said in a report.

Of the 7.8 per cent gross NPL, 1.5-1.7 per cent of the increase will be due to the shift to 120-day NPL recognition norm in financial year 2016-17 from 150-days at financial year 2015-16.

The norm says NBFCs will have to classify an asset as NPA if it stays overdue for 120 days.

By financial year 2017-18, NBFCs will have to shift to 90-day NPL recognition norm, which will bring them at par with the banks.

NBFCs' access to cheaper funding sources and improving operating efficiencies could help them maintain adequate pre-provisioning operating profit buffers to cushion rising credit costs.

The report said moderation in incremental delinquencies in the sector will continue through financial year 2016-17, led by strengthening of risk management systems of lenders, an economic recovery and a portfolio mix shift to less volatile asset classes.

The revival in heavy and medium commercial vehicles led by fleet operators to trickle down to small road transport operators and driver-turned-owner segments, and boost the used vehicle market, it said.

"However, the small commercial vehicle market is likely to be under continued pressure, due to persistent overcapacity in the system," the report said.

NBFCs with a higher exposure to the rural economy are also likely to see increased stress, until the agricultural economy revives.

The rating agency said NBFCs will continue to gain credit market share at the expense of banks, as banks struggle to raise capital for a successful transition to the Basel-III regime, which is forcing them to reduce credit growth.

The retail-focused NBFCs will gradually reduce their single product concentration by diversifying into other asset classes, primarily secured in nature.

Large NBFCs are likely to grow at 14 per cent in financial year 2016-17, with SME/MSME growing faster than commercial vehicles.

Housing finance companies (HFCs) with reach and specialisation will continue to safeguard their market share despite increased competition from banks, the report said.

"Large HFCs will grow at 13-15 per cent while mid-sized and regional HFCs will continue to grow at 8-10 per cent, higher than the system average," it said.

For loan against property (LAP) segment, the rating agency has maintained a negative outlook as delinquencies are showing a rising trend and asset prices are visibly under pressure.

The report said establishment of the MUDRA Bank as a refinance agency and the proposed credit guarantee fund for refinanced loans will

help the NBFCs lower their credit and liquidity risks.

The applicability of SARFAESI to NBFCs could also support improved recoveries.

"While the transition to 90-day NPL recognition will have a material impact on profitability, these guidelines could also improve the eligibility of NBFCs to avail specialised banking licences," the rating agency said.

The report said NBFCs will continue to diversify their funding sources.

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