India’s non-banking financial institutions may not recover before a year; these sectors are on highest risks

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A near-term recovery for India's NBFI is not probable, as the sector continues to wrestle with the fallout from the coronavirus pandemic.

Fitch Ratings has predicted that uncertainty stemming from tepid consumer demand and a sustained high level of coronavirus infections are likely to hurt the gradual economic reopening.

Even as the Modi government injects liquidity into India’s non-banking financial institutions to provide cushion amid the coronavirus pandemic, the NBFIs may not see a significant recovery in less than a year. A near-term recovery for India’s NBFI is not probable, as the sector continues to wrestle with the fallout from the coronavirus pandemic, said Fitch Ratings. The rating agency has predicted that uncertainty stemming from tepid consumer demand and a sustained high level of coronavirus infections are likely to hurt the gradual economic reopening that has shown improved collections and funding availability since June 2020.

The NBFI sector, which has already been struggling for the last two years after the IL&FS crisis, is expected to take another two years before the recovery is evident, according to nearly 40 per cent of investors polled at the annual Fitch on India event, held in early July 2020. The results of the poll have indicated a longer recovery period than Fitch’s base-case assumption, and it is also expected that the sector’s downturn may prolong beyond the two-year horizon and cause irreversible damage to parts of the NBFI industry.

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While the mid- to small-sized franchises are at greatest risk of branch closures and staff cutting, more firms could exit from underperforming business segments. Given the ongoing crisis in the real estate sector, it is expected that the construction finance is one area where downsizing can happen as several portfolios have been announced for sales and strategic shifts have been made, aiming at shrinking the segment. Infrastructure finance, low-yielding corporate loans, and loans against property in urban areas are other areas where downsizing is likely to take place.

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Meanwhile, as various fields have reasons to worry, those in the gold-backed loan sectors, commercial vehicle finance, etc could see an earlier revival due to lower ticket sizes and greater market confidence in the loan collateral. Fitch has also estimated that India’s GDP will remain weak in the next two, making the annual GDP to contract by 5 per cent before recovering to 8 per cent growth in the next fiscal.