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Lenders staring at additional Rs 1.67 lakh crore of bad debts due to Covid-19

 BY [JOEL REBELLO](#), ET BUREAU | UPDATED: JUL 06, 2020, 05.48 PM IST

MUMBAI: Impact of the Covid 19 [pandemic](#) could result in an additional Rs 1.67 lakh crore of debt slipping into non performing asset (NPA) between the current and next financial years, [India Ratings and Research](#) (Ind-Ra) said in a note.

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The rating agency analysed top 500 debt-heavy private sector borrowers and said the additional stressed [loans](#) will take the cumulative quantum of delinquent loans to Rs 4.21 lakh crore over the FY21 and FY22.

"This is over and above the Rs 2.54 lakh crore anticipated prior to the onset of pandemic. It constitutes 6.63% of the total debt (previous estimate: 4%). Given that 11.57% of the outstanding debt is already stressed, the proportion of [stressed debt](#) is likely to increase to 18.21% of the outstanding quantum," Ind-Ra said. It expects banks expects credit cost to be 3.57% of the total debt.

The agency believes that in the worse case scenario wherein funding markets continue to exhibit heightened [risk aversion](#), corporate stress could increase further by Rs 1.68 lakh crore resulting in Rs 5.89 lakh crore of corporate debt (9.27% of the total debt) becoming stressed in FY21-FY22.

"The resultant credit cost could be higher at 4.82% of the outstanding book. Consequently, 20.84% of the outstanding debt could be under stress in the agency's stress case scenario," the agency said.

The risk of a significantly prolonged recovery in the economic activity through FY22 and a larger-than-anticipated dent on demand could even result in stresses surpassing the agency's stress-case estimates.

Additional downside risks emanate beyond the top 500 debt-heavy private sector corporates too. could be more severe depending on the access to liquidity, and could even be disproportionately higher.

"As economic uncertainties continue to linger, lenders despite adequate liquidity are most likely to deploy their capital at the upper end of the credit curve with a shorter tenure. Lenders may turn even more selective – weakening the resource mobilisation ability of lower rated issuers in the investment grade, including those rated in the 'A' and 'BBB' categories," the agency said.

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