

Lockdown impact on NBFCs' asset quality to be evident gradually- RBI

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Incremental credit flows to the retail sector continued to increase ,As Non-Banking Financial Companies (NBFCs) have continued to disburse credit despite the pandemic, the impact of the lockdown will be evident on their asset quality gradually, said an article in the RBI's monthly bulletin.

"NBFCs continued to disburse credit despite disruptions caused by the pandemic, albeit at a slower pace," said the article titled 'Performance of NBFCs during the Pandemic: A Snapshot'.

Credit performance

Incremental credit flows (on year-on-year basis) to the retail sector continued to increase in the second and third quarter of 2020-21, but at a slower pace, while services sector saw marginal increase in the third quarter last fiscal, wherein vehicle loans, gold loans, transport and tourism were the beneficial segments.

However, incremental credit to industries declined in the same period as the sector is yet to shake off the impact of the pandemic, it further noted.

"Agriculture was the bright spot with the highest growth in disbursements in the third quarter of 2020-21, however, it could be partly attributable to a favourable base effect," the article said.

Significantly, the share of industry in the sectoral deployment of credit by NBFCs was at 61.6 per cent as on December 2020 compared to 67.4 per cent in December 2019. The share of retail loans increased to 24.5 per cent as on December 2020 from 21 per cent a year ago.

"Asset quality of NBFCs witnessed improvement in 2020-21 so far, compared to the fourth quarter of 2019-20, due to regulatory forbearance," it said.

However, Gross Non-Performing Asset (GNPA) ratio of NBFCs was elevated in the first and second quarter of 2020-21 compared to the corresponding period in 2019-20 but in the third quarter of 2020-21, both GNPA and NNPA ratios fell compared to the third quarter of 2019-20.

"Nevertheless, the true extent of NPAs in the sector may be gauged in the upcoming quarters as the interim order by the Supreme Court on asset classification standstill was lifted in March 2021," the article further said. Among sectors, industry witnessed sequential reduction in their GNPA ratio while GNPA ratio of retail loans remained low compared to other sectors.