

## INDIA BANK'S NPA TO RISE TO 11-12% IN FY22: S&P

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

MUMBAI: Stressed assets of Indian banks will remain elevated at 11-12% in fiscal 2022, S&P Global Ratings said on Wednesday. The agency expects non-performing loans plus restructured assets to increase to 11.5% in the current fiscal from 8.7% a year ago. It also expects banks' performance to be affected in the first half of the fiscal due to the impact of the second wave.

"The second wave has front-ended weakness in asset quality. Financial institutions face a strained first half amid weak collections and poor disbursements," said S&P Global Ratings credit analyst Deepali Seth Chhabria.

According to S&P, while incremental bad loans will remain elevated in the current fiscal, resolutions should pick up, which will limit the increase in bad debt. The establishment of a bad bank and the government's emergency credit guarantee scheme will reduce stress in the sector.

Sectors like tourism and recreation-related sectors, commercial real estate, and unsecured retail loans may contribute to higher non-performing loans. However, the banking system's exposure to many of these segments is moderate, and should have only a limited effect, it said.

S&P also said the government's decision to extend the guarantee scheme for new lending to microfinance borrowers will add liquidity, but some of the affected borrowers may struggle to repay their accumulating debt. The global rating agency therefore expects borrower requests for restructuring to rise under the second restructuring scheme, which could push back recognition of bad loans.

That said, S&P added, that banks are better prepared to bounce back from the second wave than they were earlier. While many raised capital last year, few such as IDBI Bank, Indian Bank raised equity capital this year. Non-banks may see a bigger impact.

The global rating agency expects the return on average assets to remain at 0.7% in fiscal 2022, similar to last year, but an improvement compared with the 0.1% seen in fiscal 2020. Banks have already created COVID-related provisions of 0.5-1.5% of loans. Additionally, the central bank has allowed banks to use all other floating and countercyclical provisions to address non-performing loans, it said.

In January, the Reserve Bank of India's Financial Stability report had projected that scheduled commercial banks' gross non-performing assets ratio may increase to 13.5% by September from 7.5% a year ago, under the baseline scenario. If the macroeconomic environment deteriorates, the ratio may escalate to 14.8% under the severe stress scenario, the central bank said.

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