

Point of View

Building Resilience:

West Asia Geopolitics and Ind AS 109
ECL: A 90-Day Response Framework
for Indian NBFCs Under Energy,
FX and Funding Stress

May 2026

Executive Summary

Recent geopolitical developments in West Asia have triggered the largest energy and trade shocks since the 1970s, with Brent crude trading in sustained three-digit territory and LNG exports from the Gulf significantly curtailed. For India, a structurally energy-import-dependent country, the transmission into fuel prices, logistics costs, inflation and the rupee has been both rapid and material.

For Indian NBFCs operating under **Ind AS 109 Expected Credit Loss (ECL)** frameworks, this is no longer a background macroeconomic condition. It is an explicit **credit risk regime shift**.

1 A multi-channel macro shock

- **Energy and FX shock:** Closure and disruption of key shipping routes have pushed India's crude basket above USD 100/bbl and contributed to INR weakness into the 90s per USD, raising landed input costs and imported inflation.
- **Affordability squeeze:** Higher fuel, LPG and essential-goods prices are expected to compress household disposable income and MSME margins, especially in fuel-intensive, logistics-linked and import-dependent sectors.
- **Funding amplifier:** Rising G-sec yields and widening credit spreads are expected to increase NBFC funding costs, with repricing lags to customers. This compresses NBFC margins and simultaneously pushes borrower affordability and PDs in the same direction.
- **Portfolio differentiation:** Stress will surface first and more sharply in:
 - unsecured retail and personal loans,
 - microfinance and low-income segments,
 - MSME and commercial vehicle portfolios exposed to fuel, logistics and Gulf trade/remittance linkages,
 - before generalising to broader retail books.

2 A macro shock with micro credit consequences (Ind AS 109 lens)

Under Ind AS 109:

- Pre-war **PD/LGD/EAD calibrations and scenario sets are no longer fit-for-purpose** for Indian NBFC portfolios. Continuing with legacy assumptions is not conservative; it is a **model-risk position**.
- **SICR and Stage 1 → Stage 2 migration** in NBFC portfolios will increasingly be driven by **behavioural and affordability indicators** (utilisation spikes, partial payments, collection-efficiency drift), not just days-past-due (DPD).
- **Well-governed management overlays** become essential to bridge the gap between fast-moving geopolitical and macro dynamics and slower model recalibration cycles.

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Where credit risk is likely to emerge first

- **Unsecured retail and consumer finance:** Affordability-driven PD migration; earlier SICR for self-employed and variable-income borrowers.
- **MSME and small-business portfolios:** Cash-conversion delays, margin compression and higher reliance on working-capital lines; simultaneous pressure on PD (cash-flow risk) and EAD (higher utilisation).
- **Microfinance and low-income borrowers:** Rapid erosion of repayment capacity and group discipline, with potential for behavioural contagion.
- **Two-wheeler and consumer-durable finance:** Sensitivity to entry-level affordability and discretionary consumption.
- **Supply-chain finance:** Liquidity and counterparty-driven spikes in EAD and PD where anchors face longer cycles and stretched payables.

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What will regulators, auditors and markets expect

- **Timely recalibration** of scenarios, SICR thresholds, PD/LGD/EAD assumptions and overlays to reflect current inflation, FX and funding stress.
- **SICR discipline beyond arrears:** Reliance on DPD-based triggers alone will be viewed as insufficient, especially for unsecured retail and microfinance.
- **Overlay governance and defensibility:** Clear rationale, quantification logic, data inputs and defined exit/ unwinding criteria.
- **Enhanced Ind AS 107 disclosures:** Better articulation of forward-looking assumptions, scenario sensitivity, sector/geography concentrations, stage-migration drivers and overlays.
- **Capital and earnings resilience:** Transparent linkage from revised ECL outcomes to credit cost, capital buffers, leverage, liquidity and growth capacity.

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A practical 90-day ECL response playbook

This paper sets out a 90-day ECL response framework for Indian NBFCs to:

1. **Stabilise** the measurement of portfolio risk under the new regime.
2. **Re-tool** Ind AS 109 models and scenarios for energy, FX and funding shocks.
3. **Lock in** governance, disclosure and monitoring so that ECL remains forward-looking, defensible and India-specific.



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The Geopolitical Shock: What Has Changed

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From Regional Tensions to a Systemic Energy, Trade and Financial Shock

The ongoing geopolitical tensions in West Asia have escalated into a systemic energy, trade and financial shock for the global economy. The impact is visible through three primary channels:

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Energy and logistics disruption

- A significant share of global oil and LNG flows is being rerouted or delayed.
- Brent crude and the Indian crude basket have moved into sustained three-digit price ranges.
- Shipping and aviation routes around the Gulf and Red Sea now face longer transit times, higher war-risk premia and elevated freight costs.

FX and financial-market stress

- Higher energy imports and risk-off capital flows have pushed the **INR into the 90s per USD**, despite active RBI intervention.
- Bond yields and risk premia have risen, with **10-year G-sec yields up ~30–50 bps** since the pre-crisis period.
- Markets price a slower, more inflationary near-term path for India and other energy-importing economies.

Domestic cost-of-living and funding conditions

- Fuel, LPG and logistics costs are expected to feed rapidly into domestic inflation.
- Households and MSMEs are experiencing pressure on cash flows even before wages or revenues adjust.

Funding conditions remain available but **more selective and more expensive**, especially for market-funded and lower-rated NBFCs.

1.2

Why This Matters for Indian NBFCs

India's economic structure makes it particularly sensitive to external cost shocks

- High energy import dependence.
- A consumption-driven growth model.
- Extensive MSME-led supply chains.

For NBFCs, these structural characteristics are amplified by portfolio mix

- Concentration in retail, MSME and informal-income segments, where:
 - Repayment capacity is closely tied to daily/weekly cash flows.
 - Financial buffers are thin.
 - Cost-of-living shocks transmit quickly into repayment behaviour.

Consequently

- **Households** face compression in disposable income as a larger share of earnings is diverted to fuel, LPG and essentials.
- **MSMEs** face rising input and logistics costs, elongation of receivable cycles and increased reliance on short-term working-capital lines.
- **NBFCs' own funding costs** rise with G-sec yields and spreads, but lending-rate repricing lags, squeezing margins and indirectly increasing borrower-level credit stress.

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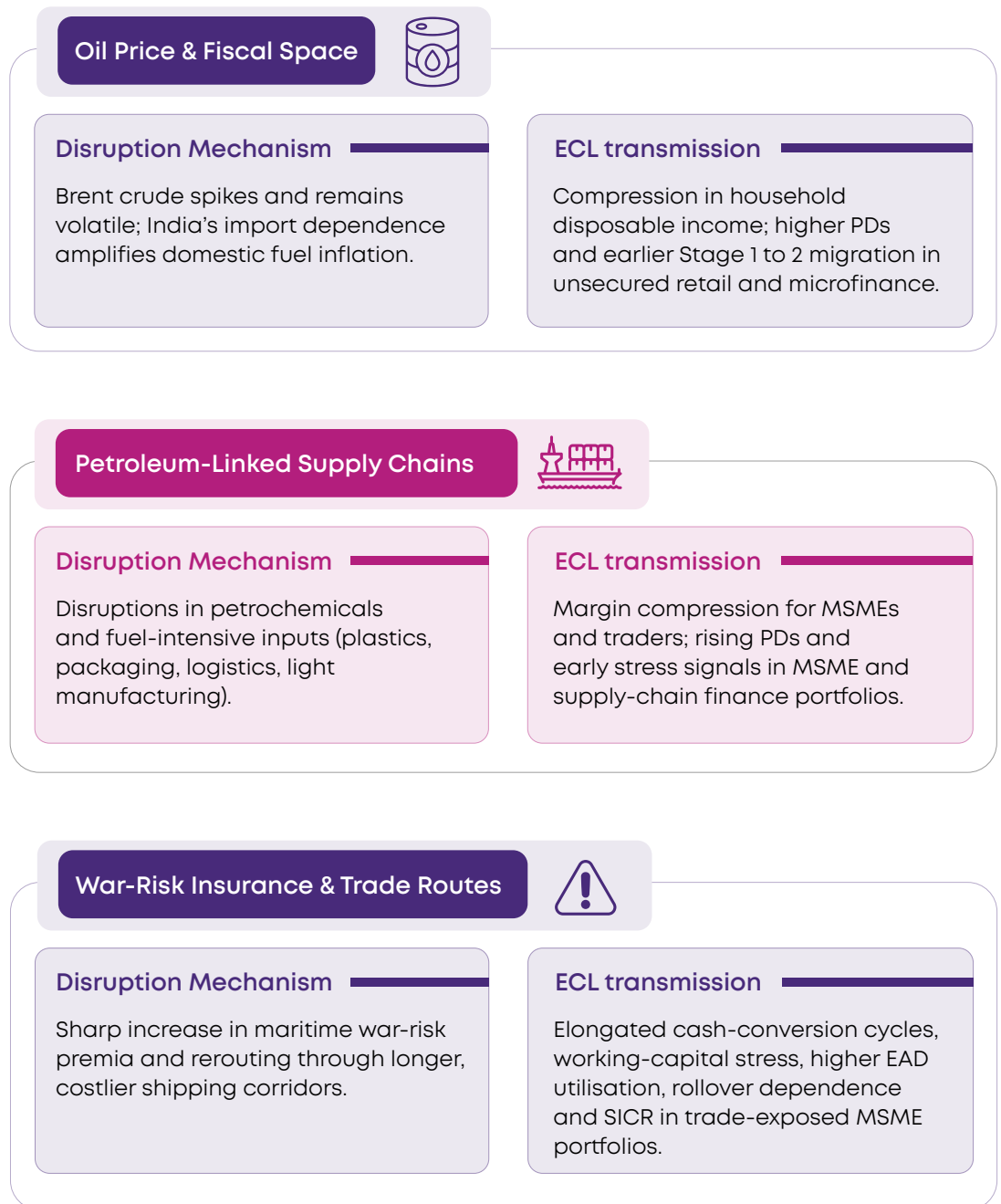
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Transmission Channels to the Indian Economy and NBFC Portfolios

The key transmission channels from West Asia disruptions into Indian NBFC credit risk can be summarised as follows



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FX and Imported Inflation



Disruption Mechanism

INR depreciation into low/mid-90s per USD raises landed cost of energy and key intermediates.

ECL transmission

Higher inflation and input costs compress household and MSME cash flows, leading to affordability-led credit stress and broader PD pressure.

Domestic Yields & Liquidity



Disruption Mechanism

10-year G-sec yields up ~30–50 bps; liquidity more selective across NBFCs.

ECL transmission

Higher and more differentiated NBFC funding costs; tighter credit conditions for riskier borrowers; increased refinancing risk.

Operational Continuity



Disruption Mechanism

Airspace closures, logistics bottlenecks and volatility affecting business continuity.

ECL transmission

Temporary delinquencies and overdraft utilisation; challenges in data quality and SICR assessment under the 60-DPD/30-DPD backstops.



Key message

This is not a generic macro headwind. It is a **targeted stress** for specific:

- **Portfolios:** unsecured retail, microfinance, MSME, CV/vehicle, supply-chain finance.
- **Geographies:** Gulf-remittance-linked corridors and high-inflation pockets.
- **Funding profiles:** market-funded and FX-borrower NBFCs.

ECL frameworks must reflect these targeted risk concentrations, not just a generic downturn.

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Where Credit Risk Could Emerge First in NBFC Portfolios

The question is no longer **whether** risk will emerge, but **where will it surface first** and how it will behave under Ind AS 109.

2.1 Segment Overview

Below is a consolidated view of the key NBFC portfolios most exposed to the current regime shift.

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Personal Loans & Consumer Finance

Primary Stress Channel(s)

Household affordability squeeze from fuel and essentials; informal income volatility.

Behavioural Signals

Higher EMI bounce rates, partial payments, increased use of short-term liquidity.

ECL Implications (PD / LGD / EAD / SICR / Overlays)

Elevated PIT PDs for self-employed/variable-income borrowers; earlier Stage 1 to 2 migration; behaviour-based PD uplifts and overlays.

MSME & Small-Business Borrowers

Primary Stress Channel(s)

Longer cash-conversion cycles, higher input and freight costs, war-risk insurance.

Behavioural Signals

Rising utilisation of WC lines, frequent rollovers, restructuring requests.

ECL Implications (PD / LGD / EAD / SICR / Overlays)

PD pressure from cash-flow stress; higher EAD from stressed utilisation; segment-specific overlays for exposed sectors.

Two-Wheeler & Consumer- Durable Financing

Primary Stress Channel(s)

Sensitivity to discretionary income and entry-level affordability.

Behavioural Signals

Slower originations, weaker post-war vintages, higher early delinquencies.

ECL Implications (PD / LGD / EAD / SICR / Overlays)

Moderate PD migration; LGD sensitivity to stressed resale markets; need to review collateral haircuts and recovery timelines.

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Microfinance & Low-Income Borrowers

Primary Stress Channel(s)

Higher LPG/transport costs; informal-sector slowdown; group-behaviour contagion.

Behavioural Signals

Group-level payment slippages, increased partial payments, cluster-level stress.

ECL Implications (PD / LGD / EAD / SICR / Overlays)

Rapid PD escalation; synchronised delinquencies; portfolio-level overlays by geography/cluster; earlier qualitative SICR flags.

Supply-Chain Finance (SCF)

Primary Stress Channel(s)

Anchor- and sector-driven disruptions, delayed invoice realisation, liquidity tightness.

Behavioural Signals

Extended invoice tenors, anchor stretching payables, higher SCF utilisation.

ECL Implications (PD / LGD / EAD / SICR / Overlays)

EAD spikes under stress, higher PD linked to anchor quality; earlier Stage 1 to 2 migration for vulnerable anchors; targeted overlays.

2.2

Case Study 1 – Retail NBFC Under Fuel-Led Inflation Shock

Set-up

An Indian retail-focused NBFC holds a large portfolio of unsecured personal loans and small-ticket consumer finance, concentrated in urban and semi-urban borrowers.

Shock transmission

- Escalating disruptions in West Asia drive a sharp rise in global oil prices.
- Domestic fuel, transport and logistics costs increase meaningfully, compounded by INR depreciation.
- Household expenditure on essentials rises on a sustained basis.

Behavioural impact

- While reported delinquency metrics initially appear stable, early stress indicators emerge:
 - higher EMI bounce rates,
 - increased partial payments,
 - greater reliance on short-term liquidity buffers.
- Stress is most pronounced among self-employed and variable-income borrowers with limited savings.

ECL consequence

- Point-in-time PDs for affected cohorts increase materially relative to origination, triggering Stage 1 to Stage 2 migration **even without sustained arrears**.
- Given lags in historical data, management applies **targeted overlays** to capture affordability-led stress not yet fully reflected in models.

Key takeaway

Fuel-led inflation shocks transmit into retail NBFC portfolios primarily through **gradual affordability erosion**. Behavioural indicators and early SICR migration are more informative for ECL than backward-looking delinquency trends.



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Case Study 2 – MSME-Focused NBFC Under Logistics and Input-Cost Disruption

Set-up

An Indian NBFC has significant exposure to small traders, distributors and micro-manufacturers through short-tenor working-capital and term-loan products.

Shock transmission

- Disruptions to key maritime corridors in West Asia increase freight costs, extend delivery times and raise war-risk insurance.
- Petroleum-linked inputs and imported components become more expensive and less predictable.

Behavioural impact

- Inventories remain unsold for longer; receivables are delayed.
- MSME borrowers experience elongated cash-conversion cycles and thinning liquidity buffers.
- Borrowers rely more on revolving facilities and short-term refinancing to bridge gaps.

ECL consequence

- Higher EAD utilisation is observed alongside weaker forward-looking cash-flow visibility.
- Even though headline delinquencies remain contained initially, utilisation and refinancing patterns justify **higher PD assumptions** and selective Stage 1 to Stage 2 migration.
- In segments with limited collateral or inventory-backed security, **LGD assumptions** require reassessment.

Key takeaway

Logistics-driven disruptions show up in MSME portfolios **well before defaults**, via liquidity stress and EAD build-up. Early SICR assessment and, where needed, targeted overlays are critical.



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Case Study 3 – Market-Funded NBFC Under Rapid Repricing and Funding Stress

Set-up

A mid-sized Indian NBFC is predominantly funded by market borrowings (NCDs, commercial paper) and runs a largely fixed-rate retail and MSME book.

Shock transmission

- Following West Asia escalation, benchmark government bond yields rise sharply, and credit spreads widen for NBFC issuers.
- Incremental borrowing costs rise by 60–80 bps for the NBFC over a short period.

Behavioural and ECL impact

- Competitive dynamics and contractual lags prevent immediate full pass-through to lending rates.
- At the same time, borrowers face pressure from higher inflation and essential expenses, which:
 - lift EMI bounce rates and partial payments,
 - increase utilisation of available credit lines.
- Funding stress originating on the liability side **transmits into borrower-level credit risk**, raising PIT PDs and accelerating Stage 1 to Stage 2 migration in cash-flow-sensitive segments.
- Management overlays are applied to capture this **indirect, but material** risk channel not fully captured in baseline models.

Key takeaway

Under Ind AS 109, **higher NBFC funding costs affect ECL indirectly**, through PD, EAD and SICR, rather than via the liability structure itself.



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For NBFCs, the critical ECL question is not whether credit risk will rise, but **how quickly Stage migration and provisioning begin to reflect it.**

3.1

SICR Assessment: The Stage 1 to Stage 2 question

SICR assessment remains the most critical judgement under Ind AS 109. In the current environment, credit risk can increase **without a corresponding immediate rise in arrears**, leading to earlier Stage 1 to Stage 2 migration. As more exposures migrate to Stage 2, provisioning accelerates as lifetime ECL replaces the lighter 12-month charge.

Key SICR dimensions:

Qualitative triggers

- Ind AS 109 recognises adverse changes in economic conditions affecting borrower repayment capacity as a SICR indicator.
- Rising fuel and essential costs, and increased input prices for small businesses, are clear examples of **system-wide affordability stress**.

Quantitative triggers

- PD models calibrated to prior, more benign periods will likely **understate risk if left unchanged**.
- NBFCs should assess whether PIT PD adjustments truly capture the current shock and whether **relative PD increases since origination** justify Stage 1 to Stage 2 migration even without 30+ DPD.

Segment-level SICR differentiation

- Risk may evolve unevenly across borrower types:
 - self-employed and cash-flow-volatile profiles,
 - microfinance borrowers,
 - MSMEs in transport/logistics/import-linked sectors.
- These segments may warrant **earlier SICR thresholds** than salaried and collateral-rich borrowers.

Three-Tier DPD Framework for NBFCs (RBI-Specific)

SICR assessment under Ind AS 109 requires assessment of relative credit risk changes since origination and not absolute delinquency thresholds.

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DPD Trigger	Ind AS 109 / RBI Basis	Action
>30 DPD	Ind AS 109 requirement, rebuttable presumption of SICR	Stage 1 to Stage 2 unless NBFC can demonstrate no significant increase in credit risk
>60 DPD	Common NBFC operational SICR threshold (must be disclosed)	Many listed NBFCs use 60 DPD as primary SICR trigger. This is acceptable if justified and disclosed
>90 DPD	RBI IRACP - NPA classification; Ind AS 109 Stage 3	Sub-standard classification under IRACP; Lifetime ECL on credit-impaired basis; IRACP provisions apply

Note: The rebuttal of the 30-day presumption requires well-documented evidence that the >30 DPD status does not represent genuine credit deterioration (e.g., administrative delay, system error). In the current stress environment, the burden of rebuttal is higher, and regulator and auditor scrutiny will be more intensive.

Implication

Traditional reliance on past-due metrics alone is insufficient. **Forward-looking, behaviour-based indicators must take a more prominent role** in staging decisions.

3.2

Scenario Design & Forward-Looking Information

Ind AS 109 requires ECL to reflect **probability-weighted, forward-looking scenarios** based on reasonable and supportable information. Pre-stress scenario sets anchored on **stable inflation, benign oil price paths and neutral funding conditions** are no longer an appropriate baseline for Indian NBFCs.

For NBFC portfolios, scenario design must explicitly capture:

- **Inflation-led affordability stress** on households and micro-businesses.
- **Liquidity and working-capital stress** in MSMEs.
- **Funding-side amplification** for market-dependent NBFCs.

Scenarios cannot be anchored exclusively on external forecasts, NBFC-specific portfolio data and management judgement must be integrated. For upper-layer NBFCs, the Board Risk Committee must formally approve and periodically review scenario weights and macro assumptions.



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3.2.1 A Conflict-Aware Scenario Architecture

A fit-for-purpose scenario architecture for NBFCs should anchor around three macro drivers:

1 Oil prices, Inflation and Household disposable income

Sustained elevation in fuel and energy costs feeds directly into inflation, compressing household cash flows and weakening repayment capacity in retail and microfinance portfolios.

2 Logistics disruption, MSME cash flows and Working-capital stress

Higher freight costs, longer transit times and higher insurance premia lengthen cash-conversion cycles and raise input costs for MSMEs.

3 Rising yields, NBFC funding costs and Repricing lag

Tightening liquidity and risk premia raise NBFC borrowing costs, while lending-rate repricing remains partial and delayed.

Scenario	Oil Price (Brent)	CPI India	INR/USD	10Y G-Sec	NBFC Funding Cost Delta	ECL Weight
Upside	<USD 80/bbl	<3%	~88-90	~6.5-6.8%	Flat to -20 bps	5-10%
Base Case	USD 90-100/bbl	3-4.5%	90-93	~6.9-7.2%	+0 to +15 bps	45-50%
Downside	USD 100-115/bbl	4.5-6%	93-96	~7.2-7.6%	+15 to +40 bps	25-30%
Severe Downside	>USD 115/bbl	6-8%	>96	>7.6%	+40 to +80 bps	10-15%

These scenarios

- Should be **refreshed regularly** with new macro and market data.
- Require **clear governance** over probability weights.
- Will primarily affect ECL via **borrower affordability, utilisation behaviour and funding-driven stress**, not only through immediate delinquency spikes.

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3.2.2 Macro Inputs for Scenario Design

Several downside risk drivers are already observable in India and serve as anchors for scenario calibration:

- **Energy and crude oil prices**
 - Indian crude basket has spiked above **USD 100/bbl** due to shipping constraints and geopolitical risk.
 - Domestic fuel, transport and logistics costs are already rising.
- **Inflation momentum**
 - Headline CPI has moved from around **2.7% to above 3%**; WPI is projected at a multi-month high.
 - Current readings reflect only **partial pass-through**, implying further inflation risk even if global prices stabilise.
- **INR depreciation & imported inflation**
 - The INR has weakened into the **Rs.92–94/USD** range.
 - Landed costs of imported energy, fertilisers and intermediates have increased, adding to domestic inflation and compressing household/MSME cash flows.
- **Domestic yields & funding conditions**
 - **10-year G-sec yields** have risen by ~30–50 bps since late Feb-26; liquidity remains available, but spreads are widening for lower-rated, market-dependent NBFCs.
 - Funding conditions are **differentiated across issuers**, not uniformly tight.

In this context, NBFCs should calibrate at least one downside scenario that assumes:

- Brent crude sustained above **USD 110–120/bbl** for multiple quarters.
- INR in the **mid-90s per USD** range.
- Incremental NBFC funding costs **40–80 bps higher** than pre-crisis levels for market-funded entities.

For each key portfolio (unsecured retail, MSME, MFI, vehicle/CV, supply-chain finance), these macro paths should be translated into segment-specific PD uplifts, LGD haircuts and EAD-utilisation assumptions, with clear links to SICR triggers and overlays.

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Management Overlays: Bridging Model Gaps

Under Ind AS 109, models are only as good as the data and assumptions embedded in them. Models calibrated during relatively stable periods may **not capture the speed and shape** of current risk transmission.

When overlays are needed:

- Affordability stress is building but **not yet fully visible** in historical data.
- Risk is diverging across segments (e.g., self-employed vs salaried, Gulf-linked geographies).
- Macroeconomic transmission is **uneven** across products/sectors.

How overlays should be designed:

- **Segment-specific, not broad-brush**, aligned to portfolios, geographies or borrower cohorts.
- **Data-informed**, even if not fully model-driven (e.g., based on EWIs, macro indicators, sector data).
- **Dynamic**, with:
 - entry triggers (e.g., CPI and crude thresholds, spread moves, EWI levels), and
 - explicit **exit/unwinding criteria** (e.g., inflation stabilisation, normalisation of collections/ utilisation).

RBI Governance Oversight

Under Ind AS 109, overlays are a recognised way to bridge gaps between models and current reality. For Indian NBFCs, however, the RBI holds overlay governance to a high standard, rationale, sizing and exit criteria must be clearly documented and defensible.

Overlay Governance Requirement

Board/Committee approval

Ind AS 109 Basis

Management judgement must be documented

RBI Supervisory Expectation

Upper-layer NBFCs: Board Risk Committee or Audit Committee sign-off required

Quantification methodology

Board/Committee approval

Ind AS 109 Basis

Must be reasonable and supportable

RBI Supervisory Expectation

RBI may require external validation of overlay methodology for material amounts

Entry and exit triggers

Board/Committee approval

Ind AS 109 Basis

Overlays must not be permanent, must have defined release criteria

RBI Supervisory Expectation

Exit triggers must be pre-defined, observable and linked to macro indicators (e.g., CPI < 4%, fuel prices normalising)

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Disclosure	Board/Committee approval
Ind AS 109 Basis Ind AS 107.35G requires disclosure of estimation techniques and inputs	RBI Supervisory Expectation Disclose overlay amount, rationale, affected portfolio segments and release criteria in financial statement notes

Back-testing	Board/Committee approval
Ind AS 109 Basis Good practice; increasingly expected by auditors and RBI	RBI Supervisory Expectation Annually: compare prior overlay outcomes to actual credit losses; document and remediate differences

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Any changes to the ECL policy, overlay methodology, calibration approach, or trigger framework arising from West Asia tensions shall require formal approval in accordance with the established Governance structure.

Principle
The risk is not in using overlays; it is in applying them too late, too broadly or without clear governance.

3.4

Early-Warning Indicators (EWIs) for ECL Monitoring

Waiting for defaults is a **lagging strategy**. Effective ECL monitoring in this environment begins with **behavioural and utilisation-based signals**:

- **EMI bounce rates and partial payments**: Early signs of affordability stress, particularly in unsecured retail and microfinance.
- **Utilisation trends in revolving / short-term credit**: Rising utilisation and overdraft reliance indicate growing liquidity dependence among borrowers.
- **Rollovers, restructuring and forbearance requests**: Evidence of pressure on MSME cash flows and working-capital cycles.
- **Segment-level stress divergence**: Disproportionate deterioration in certain borrower cohorts (self-employed, transport-linked incomes, Gulf-linked communities) should trigger differentiated SICR thresholds and overlays.

These EWIs often **precede Stage 1 to Stage 2 migration** and provide early evidence of SICR even where accounts remain current. They should be:

- Integrated into **SICR frameworks**,
- Linked explicitly to **overlay build-up / release triggers**, and
- Reflected in **Board-level dashboards**.

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IRACP vs. Ind AS 109 Provisioning: The Dual-Framework Reality for Indian NBFCs

For Indian NBFCs, ECL is not the only provisioning number that matters, IRACP sets the floor and where ECL falls short, the difference comes directly out of Tier 1.

- **The dual-framework structure**: Indian NBFCs are uniquely subject to two parallel provisioning regimes: Ind AS 109 ECL (P&L-driven, forward-looking, probability-weighted) and RBI's IRACP (regulatory, NPA-classification-based, minimum floor).
- **The IRACP mechanics**: Under IRACP, NPA classification is triggered at >90 DPD, with fixed provisioning rates across sub-standard, doubtful, and loss categories (15% to 100%). There is no room for recovery assumptions or probability weighting, the rates are prescribed.
- **The RPR (Regulatory Provisioning Reserve)**: When IRACP-required provisions exceed ECL, the shortfall must be set aside in a Regulatory Provisioning Reserve (RPR), non-distributable and funded from retained earnings. This directly reduces Tier 1 capital, affects CRAR, and limits dividend payouts.
- **The stress-environment dynamic**: In a macro shock like the West Asia scenario, Stage 2 ECL can still fall below IRACP floors on Stage 3/NPA accounts, especially where ECL models apply high recoveries or collateral offsets. The RPR builds when the ECL is optimistic relative to regulatory floors.

The table below highlights the key structural differences between Ind AS 109 and IRACP:

Dimension	Ind AS 109 ECL	IRACP
Trigger	SICR / credit deterioration	DPD-based NPA classification
Methodology	Probability-weighted, forward-looking	Rule-based, prescribed rates
Stage/Classification	Stage 1/2/3	Standard/Sub-standard/Doubtful/Loss
Provision floor	No absolute floor (model-driven)	Prescribed % (15% → 100%)
P&L vs. reserves	P&L charge	RPR from retained earnings if ECL < IRACP
Capital impact	Via P&L and retained earnings	Direct Tier 1 reduction via RPR

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Implications for Ind AS 109 ECL Models

The regime shift has implications across all key ECL model dimensions. A structured view is set out below.

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Forward-Looking Macroeconomic Adjustments (NBFC sensitivity to inflation/funding)

ECL Dimension

Shift in Risk Dynamics

Faster transmission of inflation and funding costs into borrower cash flows; less stable macro relationships.

Model Implication

Recalibrate models to emphasise inflation and cost-of-funds sensitivity; increase frequency of macro updates; use portfolio-specific overlays.

Scenario Design Under Energy & Inflation Shocks (short-cycle stress dynamics)

ECL Dimension

Shift in Risk Dynamics

Stress scenarios more non-linear; base case under-states near-term risk; downside scenarios more probable.

Model Implication

Anchor scenarios around inflation and funding shocks; raise weights on downside scenarios; strengthen scenario governance.

PD Sensitivity to Household Income Stress (income vs balance sheet)

ECL Dimension

Shift in Risk Dynamics

Disposable income compression drives behaviour changes before delinquency.

Model Implication

Enhance PD models to capture behavioural stress and EWIs; reduce reliance on lagging DPD metrics; incorporate income-linked drivers.

LGD in Retail Portfolios (recovery under stress)

ECL Dimension

Shift in Risk Dynamics

Recovery timelines extend; secondary-market realisations soften; higher enforcement costs.

Model Implication

Apply higher collateral haircuts; incorporate time-to-recovery adjustments; consider collateral and market-liquidity scenarios in LGD.

EAD in Flexible / Revolving Structures (top-ups, limits)

ECL Dimension

Shift in Risk Dynamics

Stress-driven utilisation of available lines and top-ups; hidden exposure build-up.

Model Implication

Model dynamic utilisation behaviour under stress; move beyond static limits and historical averages; build scenario-driven EAD assumptions.

Regulatory and Disclosure Expectations (Ind AS 107/109)

5.1 Supervisory Focus Areas

In the current environment, supervisors are likely to focus on whether NBFCs' ECL frameworks **reflect emerging stress early, consistently and with well-evidenced judgement**.

- Re anchor ECL frameworks to current conditions**
Show timely updates to scenarios, SICR thresholds and overlays that reflect current inflation, FX and funding stress, rather than legacy macro views.
- Demonstrate SICR discipline beyond arrears**
Evidence forward looking SICR based on behavioural and macro indicators (especially in retail and microfinance), not just DPD backstops.
- Strengthen overlay governance**
Document rationale, quantification logic, data inputs, triggers and exit criteria for overlays; ensure clear ownership and Board/Committee sign off.
- Prepare for tougher audits**
Be ready to defend forward looking assumptions, overlay usage and staging decisions, and to show consistency across reporting periods.
- Show capital and earnings resilience**
Link higher ECL provisions to profitability, capital buffers, and leverage, and explain how the institution will manage volatility while sustaining growth. This narrative will be as important as the numbers themselves.
- Improve transparency and comparability**
Provide enough detail on scenario weights, overlay size/rationale and sector/geography concentrations for regulators and markets to understand and compare judgement calls.

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Ind AS 107 – Disclosure Uplift

The West Asia-driven regime shift activates extensive Ind AS 107 credit-risk disclosure requirements, especially regarding **uncertainty** and **forward-looking information**. NBFCs should consider enhancements along the following lines:

- Map and disclose key concentrations**
Clearly present credit risk exposures by product, sector, and geography, highlighting portfolios most sensitive to energy, logistics and funding shocks. Aggregated disclosure will no longer be sufficient.
- Explain ECL movements**
Provide narrative and quantitative bridges for period on period ECL changes, separating the impact of stage migration, scenario updates and overlay adjustments. Blended explanations obscure the drivers which regulators and investors are looking for.
- Show scenario sensitivity**
Disclose ECL by individual scenario (base, downside, severe downside, upside) and the associated probability weights. This is the primary mechanism through which the quality and differentiation of scenario design is assessed externally.
- Clarify forward looking assumptions**
Explain how inflation, borrowing costs, FX and macro linkages have been incorporated into ECL estimates, and how these differ from prior periods. Changes in methodology are as important to disclose as changes in outcomes.
- Make overlays transparent**
Describe the nature, rationale, size, duration, and review cadence of geopolitically driven and segment specific overlays. Undisclosed or vaguely described overlays are a red flag for auditors and supervisors alike.
- Update collateral and recovery assumptions**
Set out changes to collateral valuation approaches, haircuts, and time to recovery assumptions in stressed markets, and how these feed into LGD estimates.

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Heightened Supervisory Scrutiny: Key Questions for NBFCs

Drawing on the supervisory posture of the Reserve Bank of India, including learnings from the April 2020 COVID-19 provisioning guidance and the IRACP Master Circular, NBFCs should be prepared for sharper supervisory interrogation along the following lines:

Model recalibration vs overlay reliance

Has the ECL framework been formally recalibrated to reflect the current macro-financial regime, or is management relying on overlays to compensate for legacy model parameters? The distinction matters: overlays are a governance tool, not a substitute for model integrity.

SICR robustness

Do SICR triggers extend meaningfully beyond 30/60 DPD backstops to incorporate behavioural, sectoral, and forward-looking indicators? A SICR framework anchored solely to arrears will be seen as reactive rather than anticipatory.

Regulatory Provisioning Reserve (RPR) dynamics

What is the composition of the RPR, and how has it evolved quarter-on-quarter in light of divergence between Ind AS ECL and IRACP provisions? The RPR trajectory is a direct signal of the adequacy of the underlying ECL model.

Board oversight

Has the Board Risk Committee reviewed and approved revised scenarios, probability weights, SICR thresholds and overlay methodology?

Coverage sufficiency

What are the Stage 2 and Stage 3 provisioning coverage ratios, and how do these compare with IRACP-mandated levels? Gaps between ECL coverage and regulatory provisioning minima are an immediate focus area.

Model validation discipline

Has the ECL model undergone independent validation within the last 12 months, and have findings been remediated in a timely and evidenced manner? Validation that has not resulted in documented remediation actions will be treated as incomplete.

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90-DAY ECL RESPONSE PLAYBOOK FOR INDIAN NBFCs

A practical roadmap for CFOs and CROs to align Ind AS 109 ECL with the 2026 disruptions before Q2 closes.

Days 1–30: Stabilize the View of Risk

Stand up an ECL war room

Create a cross functional task force (Risk, Finance, Treasury, Business, Credit Ops, IT, Compliance) with a clear mandate, weekly cadence and direct reporting to the CFO/CRO and Board Risk/Audit Committee. Compliance representation is not peripheral; in the current regulatory environment, RBI interaction readiness must be built into the war-room from day one.

Perform an IRACP ECL reconciliation

Map current Ind AS 109 ECL provisions against IRACP-required provisions by portfolio segment. Quantify any Regulatory Provisioning Reserve shortfall and ensure it is properly disclosed. This reconciliation establishes the baseline from which all subsequent model and governance workflows.

Build a rapid SICR & staging heatmap

Generate a Stage 1/2/3 view by product, sector, geography and segment. Flag all pools showing early behavioural stress (bounce/partial pay, utilisation spikes, collection slippage) for potential Stage 1 to 2 migration, cross-referenced against IRACP NPA classification dates. The 30-day SICR presumption, the operationally common 60-DPD threshold and the 90-DPD IRACP NPA trigger are distinct constructs and must be tracked and disclosed consistently.

Reset macro scenarios with India specific, RBI observable variables

Refresh high level macro and sector scenarios with India specific drivers (CPI, G-Sec, yields, INR/USD, fuel prices, and funding costs). Simultaneously identify pockets where existing PD/LGD/EAD and SICR triggers miss affordability and utilisation stress, and design first cut overlays for the most material portfolios.

Engage your external auditor early

Given the materiality of the macro shock, early engagement with auditors on SICR trigger frameworks, overlay governance and disclosure approach is strongly recommended. In a high-scrutiny environment, auditors will challenge these areas more rigorously than in prior periods, surprises at the reporting date are avoidable.

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Days 30–60: Re Tool Models and Quantify Impact

Re calibrate core ECL parameters

Re estimate PIT PD term structures using revised scenarios and segment stress; extending to Lifetime PD for Stage 2 pools using transition matrix or proportional hazard approaches. Update LGD assumptions for stressed collateral values, extended recovery timelines and higher enforcement costs under current market conditions. Refresh EAD for revolving usage, top ups, embedded lines vulnerable segments.

Translate macro narratives into product level shocks

For each key portfolio (unsecured retail, MSME, MFI, vehicle/CV, SCF), define PD uplift bands, LGD adjustments and stressed EAD assumptions, implemented via model changes and/or structured overlays. Stress must be portfolio-specific; uniform assumptions will not withstand regulatory or audit scrutiny.

Stress test P&L and CRAR impact

As exposures migrate to Stage 2, provisioning shifts from a 12-month to a lifetime ECL basis, the P&L impact can be material. Sensitise your books to a 5%, 10% or 20% Stage 2 migration under stressed transition matrices. Quantify the ECL build-up under downside and severe downside scenarios, explicitly incorporating the Regulatory Provisioning Reserve effect on Tier 1 capital. CRAR headroom must be tested before finalising the ECL playbook, not after.

Run deep dives and impact analysis

Industrialise ECL reviews of high risk books and quantify the impact of revised scenarios, SICR and overlays on ECL, profitability, capital and funding; socialise draft approaches early with auditors and, where relevant, the RBI. Quantify Ind AS 107 disclosure uplift requirements and identify data and systems gaps that must be resolved before the next reporting date.

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Days 60–90: Lock in Governance, Disclosure and Monitoring

Formalise IRACP-ECL dual provisioning governance

Establish a quarterly reconciliation process covering RPR calculation, CRAR impact and Board Audit Committee review. This is an ongoing regulatory obligation, not a one-time exercise, and must be embedded into the BAU governance calendar alongside ECL model back-testing.

Finalise Ind AS 107 disclosures

Complete paragraph-level mapping across paragraphs 35A, 35F, 35G, 35H, 36 and 30A. Incorporate scenario sensitivity tables, overlay rationale and exit criteria, and concentration maps. Ind AS 107 disclosure is a regulatory deliverable; it must be treated with the same rigour as model outputs, not as a downstream reporting task.

Define observable overlay exit triggers

Link exit criteria to RBI observable data: CPI stabilisation below threshold, fuel prices declining, G-sec yields normalising and collection efficiency. Embed these triggers into BAU dashboards, approve them at Board/Committee level with documented rationales and materiality thresholds, and set clear escalation paths.

Back test early SICR decisions and embed into governance

As data develops, back-test early-stress outcomes to refine scenarios, SICR thresholds and overlays. Document outcomes and embed back-testing into the BAU ECL governance calendar. This is the evidence base that will be required by auditors and regulators in subsequent periods.

Brief your Board with full linkage

Provide a clear, conflict-aware narrative connecting revised ECL outcomes to credit cost, capital (CRAR including RPR impact), liquidity and growth capacity. Boards and ExCos must be able to use Ind AS 107/109 disclosure packs (covering scenarios, concentrations, stage migration drivers, overlays) and make informed strategic decisions.

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Regime shift, not a blip: Macro-financial and geopolitical developments have fundamentally shifted the risk regime for Indian NBFCs; pre-stress ECL calibrations anchored to stable affordability and funding conditions are no longer sufficient; institutions must treat this as a structural reset, not a transient deviation.

Re-anchoring ECL to India specific drivers: Forward-looking scenarios, SICR thresholds and overlays must be re-anchored to India-specific drivers such as CPI, interest rates, fuel prices and borrower affordability, under robust board approved governance. Generic macro proxies calibrated to prior cycles are inadequate.

Model risk is elevated: Framework built during stable periods are likely to understate risk unless supplemented with timely recalibration and well-governed overlays. External model validation and RBI-engagement-readiness are not optional; they are baseline governance obligations equivalent to those expected of banks.

Stress will be uneven across portfolios: Credit stress is likely to emerge first in unsecured retail, MSME, microfinance and vehicle finance portfolios, with second-order effects via consumption slowdown, utilisation build-up and behaviour shifts. Provisioning strategies must reflect this heterogeneity rather than apply uniform assumptions.

Funding conditions matter as much as asset quality: Rising borrowing costs and repricing lags can amplify ECL impact through both margin compression and borrower stress. Institutions should stress test their Cost of Funds assumptions as an integral part of the ECL scenario framework, not in isolation.

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Look beyond arrears: Early-warning signals in collection efficiency, utilisation patterns and borrower behaviour will often precede visible delinquency trends. Behaviour EWIs must be embedded into SICR frameworks now. The 30-day SICR presumption, the operationally common 60-DPD SICR threshold and the 90-DPD IRACP NPA trigger are distinct constructs. They must be clearly distinguished, consistently applied and rigorously disclosed.

IRACP ECL dual provisioning is the most operationally material constraint. NBFCs must reconcile Ind AS 109 ECL against IRACP provisions quarterly. Where ECL falls short, the Regulatory Provisioning Reserve must be maintained; and its build up directly reduces Tier 1 capital. CRAR headroom should be stress-tested under downside scenarios before finalising the ECL playbook, not after.

Regulatory and audit scrutiny will intensify: Regulators, auditors and investors will focus on consistency, transparency and discipline in connecting macro signals to borrower behaviour, ECL outcomes, capital and disclosures. Ind AS 107 disclosure is a regulatory deliverable, not merely a financial reporting formality; paragraph-level mapping and actionable disclosure checklists are required. Early auditor engagement is strongly recommended; in a high-scrutiny environment, SICR thresholds, overlay governance and scenario weights will face more rigorous challenges than in prior periods.

Action in the next 90 days is critical: Institutions that move decisively to recalibrate models, strengthen governance and upgrade disclosures can demonstrate control, protect credibility and reduce the risk of earnings volatility, capital strain and funding pressure. The window to act ahead of regulatory and market scrutiny is narrow and closing.

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Glossary

- BAU – Business as Usual
- BBL – Barrels (of Oil)
- CFO – Chief Financial Officer
- CPI – Consumer Price Index
- CRO – Chief Risk Officer
- DPD – Days Past Due
- EAD – Exposure at Default
- ECL – Expected Credit Loss
- EWI – Early Warning Indicator
- GDP – Gross Domestic Product
- Ind AS – Indian Accounting Standards
- Ind AS 107 – Financial Instruments: Disclosures (India)
- Ind AS 109 – Financial Instruments (Recognition and Measurement)
- IRACP – Income Recognition, Asset Classification, and Provisioning
- LAP – Loan Against Property
- LGD – Loss Given Default
- LNG – Liquefied Natural Gas
- MFI – Microfinance Institution / Microfinance segment
- MSME – Micro, Small and Medium Enterprises
- NBFC – Non-Banking Financial Company
- NPL – Non-Performing Loan
- PD – Probability of Default
- PIT – Point-in-Time
- RPR – Regulatory Provisioning Reserve
- TTC – Through-the-Cycle
- USD – United States Dollar

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Uniquis Consultech is a global tech-enabled consulting company that specializes in Accounting & Reporting, Governance, Risk & Compliance, Sustainability & Climate, Tech Consulting, and Valuations. The Company is co-founded by consulting veterans Jamil Khatri and Sandip Khetan and backed by marquee investors such as Nexus Venture Partners, Sorin Investments, and UST.

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Uniquis is committed to leveraging technology and an integrated global delivery model to provide best-in-class consulting services to its clients.

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In today's dynamic business environment, organizations are continuously required to adapt to the dynamic shifts in accounting & reporting standards and regulations. Enhanced management reporting requirements and accelerated reporting timelines necessitate increased automation within the finance function. Special events, such as preparing for an IPO/capital market transaction or fulfilling the reporting requirements arising from an M&A transaction, introduce additional complexities and challenges for the finance function.

As a result, organizations need to transform their finance functions from time to time with a focus on people, processes, and technology. Our Accounting & Reporting Consulting (ARC) practice is designed to partner with the finance function through these challenges. Our teams function as an extension of your finance teams to execute your plans seamlessly.

We bring the necessary technical expertise, skills, technology, and bandwidth, enabling you to navigate your plans in real time without adding additional manpower costs within the organization.

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