SECTION V – ABOUT US

INDUSTRY OVERVIEW

*You should read the following summary together with the section "Risk Factors" on page 16 and the more detailed information about us and our financial results included elsewhere in this Information Memorandum. Unless otherwise indicated, industry and market data used in this section has been derived from the industry report titled "NBFC Report for Piramal Finance Limited" dated May 2025 (the "**Crisil Report**") prepared and issued by Crisil Limited, exclusively commissioned and paid for by us for the purposes of confirming our understanding of the industry, in connection with the Offer. Unless otherwise indicated, financial, operational, industry and other related information derived from the Crisil Report and included herein with respect to any particular year refers to such information for the relevant calendar year. Any reliance on such information for making an investment decision in the Issue is subject to inherent risks. The following summary should be read with the section titled "Certain Conventions, Presentation of Financial Information, Industry and Market Data" on page 6 of this Information Memorandum.*

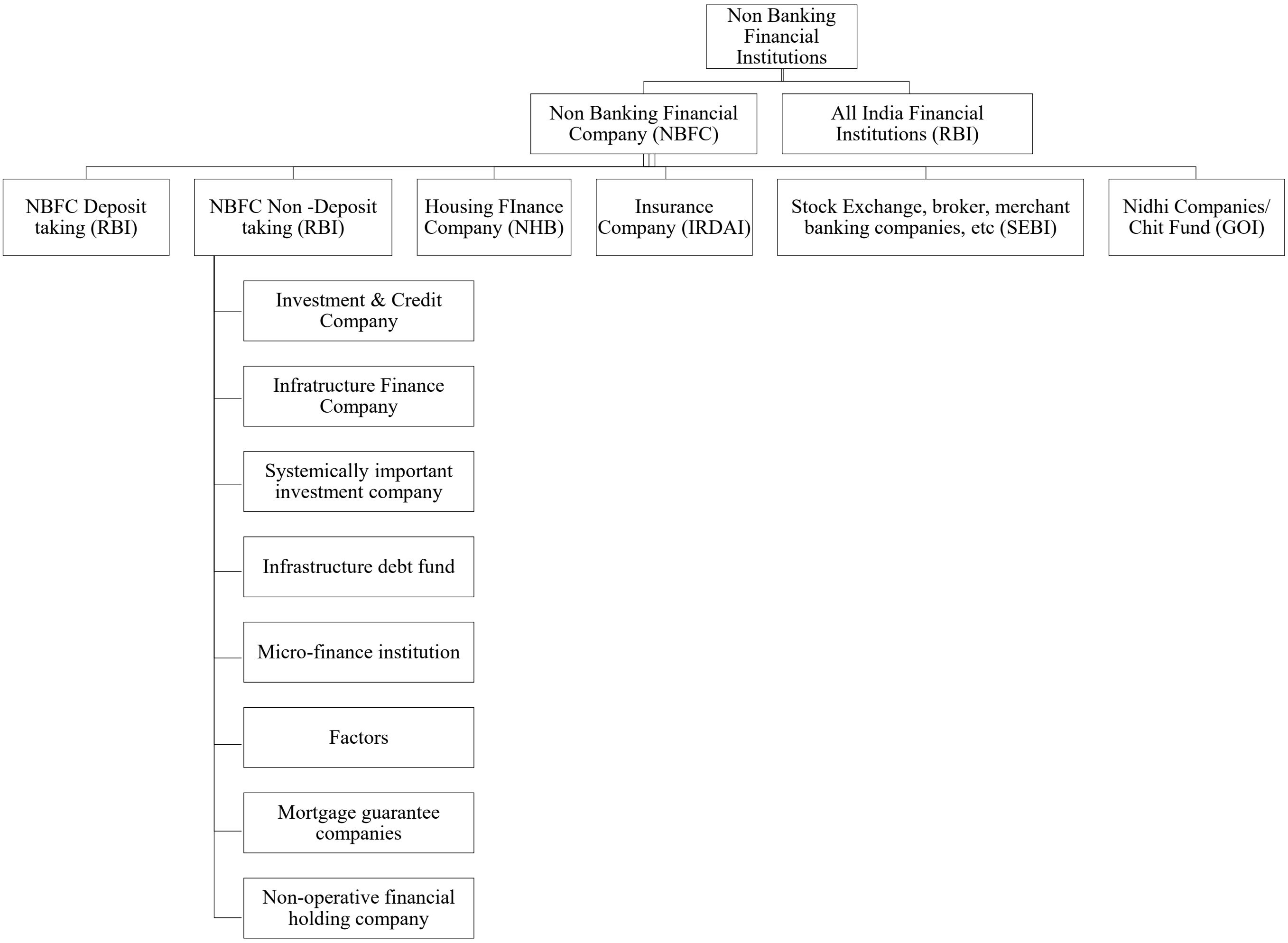
Overall NBFC – Industry overview

NBFCs are important part of the credit system

Financing needs in India have risen in sync with the notable economic growth over the past decade. NBFCs have played a major role in meeting this need, complementing banks and other financial institutions.

NBFCs help fill gaps in the availability of financial services with respect to products as well as customer and geographic segments. A strong linkage at the grassroots level makes them a critical cog in the financial machine. They cater to the unbanked masses in rural and semi-urban reaches and lend to the informal sector and people without credit histories, thereby enabling the government and regulators to realise the mission of financial inclusion.

Structure of non-banking financial institutions in India



Note: The regulatory authority for the respective institution is indicated within the brackets; All-India Financial Institutions include NABARD, SIDBI, EXIM Bank
Source: RBI, Crisil Intelligence

Classification of NBFCs

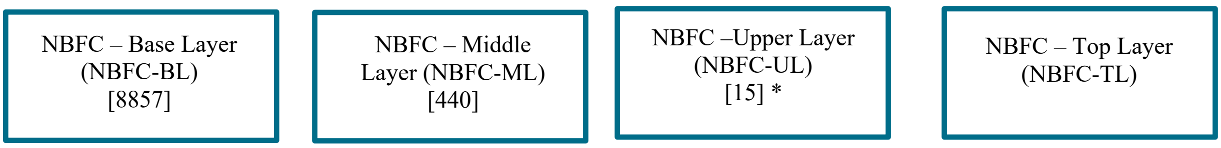
NBFCs until now have been classified on the basis of the kind of liabilities they access, types of activities they pursue and their perceived systemic importance. RBI on October 22, 2021 introduced additional classification of NBFCs vide Scale Based Regulation (SBR) framework into four categories i.e., Base Layer (NBFC – BL), Middle Layer (NBFC – ML), Upper Layer (NBFC – UL) and Top Layer (NBFC – TL)

Scale based classification of NBFCs

As per RBI circular dated October 22, 2021, the central bank introduced Scale Based Regulation (SBR) framework for classification of NBFCs along with the activity-based classification of NBFCs as per earlier regulations. The revised SBR framework shall be effective from October 01, 2022

As per the revised framework NBFCs will be classified into four layers based on their size, activity and perceived riskiness. NBFCs in the lowest layer will be known as NBFC – Base Layer (NBFC BL), NBFCs in middle layer and upper layer shall be known as NBFC - Middle Layer (NBFC-ML) and NBFC - Upper Layer (NBFC-UL) respectively. The Top Layer is expected to be empty and will be known as NBFC - Top Layer (NBFC - TL).

Classification on the basis of scale-based regulation



Note: Data in [bracket] represents the number of NBFCs as of June 2024.
**The data for Upper Layer NBFCs includes HFCs, as per circular dated January 2025.*
Source: RBI, Crisil Intelligence

Base Layer – NBFC – BL shall comprise of (a). Non deposit taking NBFCs below asset size of Rs 1000 crore and (b). Following NBFCs – (i) NBFC P2P, (ii) NBFC – AA, (iii) NOHFC, and (iv) NBFCs not availing public funds and not having any customer interface

Middle Layer – NBFC – ML shall comprise of (a). All deposit taking NBFCs irrespective of asset size, (b). Non-deposit taking with asset size of Rs 1000 crore and above and (c). Following NBFCs – (i) Standalone primary dealer (SPD), (ii) Infrastructure debt fund (IDF), (iii) Core investment companies (CIC), (iv) Housing finance companies (HFCs) and (v) Infrastructure finance companies (IFCs) Government owned NBFCs shall be placed in the Base Layer or Middle Layer, as the case may be. They will not be placed in the Upper Layer till further notice by RBI.

Upper Layer – NBFC – UL shall comprise of NBFCs which are specifically identified by the Reserve Bank as warranting enhanced regulatory requirement based on a set of parameters and scoring methodology. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor.

Top Layer – NBFC – TL shall be populated only if in opinion of RBI there is a substantial increase in the potential systemic risk from specific NBFCs in the Upper Layer. Such NBFCs shall be moved to Top layer from the Upper layer.

Other regulatory changes under Scale Based Regulations

1. Net Owned Fund (NOF) for NBFC-ICC, NBFC-MFI and NBFC-Factors shall be increased to Rs 10 crore.

   Timelines for change in NOF for above mentioned NBFCs is as follows

NBFCs	Current NOF	By March 31, 2025	By March 31, 2027
NBFC – ICC	Rs 2 crore	Rs 5 crore	Rs 10 crore
NBFC - MFI	Rs 5 crore (Rs 2 crore in North-East region)	Rs 7 crore (Rs 5 crore in North-East region)	Rs 10 crore
NBFC - Factors	Rs 5 crore	Rs 7 crore	Rs 10 crore

2. NPA classification: NPA classification norms stands changed to the overdue period of more than 90 days for all categories of NBFCs, timelines to adhere change for NBFC – BL to 90 days NPA norm is as follows:

NPA norms	Timeline
>150 days overdue	By March 31, 2024
>120 days overdue	By March 31, 2025
>90 days overdue	By March 31, 2026

3. Experience of the board - Considering the need for professional experience in managing the affairs of NBFCs, at least one of the directors shall have relevant experience of having worked in a bank/ NBFC. This regulation shall be applicable for all class of NBFCs.

4. Ceiling on IPO Funding – RBI prescribed ceiling of Rs 1 crore per borrower for financing subscriptions to IPO. NBFCs can fix more conservative limits. This regulation shall come into effect from April 01, 2022.

Liabilities-based classification

NBFCs are classified on the basis of liabilities into two broad categories:

a) deposit-taking; and

b) non-deposit taking.

Deposit-taking NBFCs (NBFC – D) are subject to the requirements of stricter capital adequacy, liquid-assets maintenance and exposure norms.

Further, in 2015, non-deposit taking NBFCs with an asset size of Rs 5 billion and above were labelled as 'systemically important non-deposit taking NBFCs' (NBFC – ND – SI), and separate prudential regulations were made applicable to them.

Activity-based classification

As per the RBI circular dated February 22, 2019, the central bank merged three categories of NBFCs, i.e., asset finance companies (AFC), loan companies (LCs) and investment companies (ICs), into a new category called NBFC - Investment and Credit Company (NBFC-ICC)

1. **Investment and credit company – (NBFC-ICC)**: An NBFC-ICC means any company that is a financial institution carrying on as its principal business of providing finance by making loans or advances or otherwise for any activity other than its own and acquisition of securities; and is not any other category of NBFC.

2. **Infrastructure finance company (IFC):** An IFC is an NBFC that deploys at least 75% of its total assets in infrastructure loans and has a minimum net-owned funds of Rs 300 crore, with a minimum credit rating of 'A' or equivalent and a 15% CRAR (Capital to risk-weighted adequacy ratio).

3. **Infrastructure debt fund (IDF-NBFC):** An IDF-NBFC is a company registered as an NBFC to facilitate the flow of long-term debt into infrastructure projects. It raises resources through the issue of rupee or dollar-denominated bonds with a minimum five-year maturity. Only IFCs can sponsor IDF-NBFCs

4. **Micro-finance institution (NBFC-MFI):** An NBFC-MFI is a non-deposit-taking NBFC with not less than 60% (as per June 06, 2025 notification) of its assets in the nature of qualifying assets, which satisfy the following criteria:

    - NBFC MFIs can disburse loans to borrowers with household annual income not exceeding Rs 300,000. The household shall mean an individual family unit, i.e., husband, wife and their unmarried children.

    - All collateral-free loans will be considered as qualifying assets. Such loans will include all non-collateral loans irrespective of end use and mode of application/ processing/ disbursal.

    - The loan shall not be linked with a lien on the deposit account of the borrower.

5. **Factors (NBFC-Factors):** An NBFC-Factor is a non-deposit-taking NBFC engaged in the principal business of factoring. Financial assets in the factoring business should constitute at least 50% of its total assets and income derived from the factoring business should not be less than 50% of its gross income.

6. **Mortgage guarantee companies (MGC):** An MGC is a financial institution for which at least 90% of the business turnover is mortgage guarantees or at least 90% of the gross income is from the mortgage-guarantee business and whose net-owned funds is atleast Rs 100 crore.

7. **Non-operative financial holding company (NOFHC):** An NOFHC is a financial institution through which promoter / promoter groups will be permitted to set up a new bank. A wholly owned NOFHC will hold the bank as well as all other financial services companies regulated by the RBI or other financial sector regulators to the extent permissible under the applicable regulatory prescriptions.

8. **Account Aggregators (NBFC-AA):** NBFC Account Aggregator is a financial entity which functions as the Account Aggregator for the customers of NBFC. NBFC-AA accumulates and provides information concerning multiple accounts which are held by the customers in various NBFC entities.

9. **Peer to Peer Lending (NBFC-P2P):** NBFC –Peer to Peer Lending platform (NBFC-P2P) is a type of Non-Banking Financial Company which carries on the business of providing services of Loan facilitation to willing lenders and borrowers through online platform.

Prompt corrective action framework

NBFCs have been growing in size and now have substantial interconnectedness with other segments of the financial system. Accordingly, in October 2022, the RBI made effective a prompt corrective action (PCA) framework to further strengthen the supervisory tools applicable to NBFCs. The objective of the framework is to enable supervisory intervention at the appropriate time.

It requires the supervised entity to initiate and implement remedial measures in a timely manner to restore its financial health. It does not preclude the central bank from taking any other action as it deems fit at any time, in addition to the corrective actions prescribed in the framework.

The PCA framework applies to all NBFC-Ds and all NBFC-NDs in the middle, upper and top layers, identified under the new SBR. It excludes NBFCs not accepting/ not intending to accept public funds, government companies, primary dealers and HFCs.

The risk thresholds when breached may result in invocation of PCA are:

1. **For NBFC-Ds and NBFC-NDs (excluding CICs):**

Indicator	Risk threshold 1	Risk threshold 2	Risk threshold 3
CRAR	Up to 300 bps below the regulatory minimum CRAR (currently, CRAR <15% but ≥12%)	More than 300 bps, but up to 600 bps below regulatory minimum CRAR (currently, CRAR <12% but ≥9%)	More than 600 bps below regulatory minimum CRAR (currently, CRAR <9%)
Tier 1 capital ratio	Up to 200 bps below the regulatory minimum tier 1 capital ratio (currently, tier 1 capital ratio <10% but ≥8%)	More than 200 bps, but up to 400 bps below the regulatory minimum tier 1 capital ratio (currently, tier 1 capital ratio <8% but ≥6%)	More than 400 bps below the regulatory minimum tier 1 capital ratio (currently, tier 1 capital ratio <6%)
NNPA ratio (including NPIs)	>6% but ≤ 9%	>9% but ≤12%	>12%

Source: RBI

2. **For CICs**

Indicator	Risk threshold 1	Risk threshold 2	Risk threshold 3
Adjusted net worth (ANW) / aggregate risk weighted asset (RWA)	Up to 600 bps below the regulatory minimum ANW/ RWA (currently, ANW/RWA <30% but ≥24%)	More than 600 bps, but up to 1200 bps below regulatory minimum ANW/ RWA (currently, ANW/RWA <24% but ≥18%)	More than 1200 bps below regulatory minimum ANW/ RWA (currently, ANW/RWA <18%)
Leverage ratio	≥2.5 times but <3 times	≥ 3 times but <3.5 times	≥3.5 times
NNPA ratio (including NPIs)	>6% but ≤ 9%	>9% but ≤12%	

Source: RBI

Credit concentration norms

RBI, in its April 19, 2022, guidelines on Large Exposure Framework for Non-Banking Financial Company – Upper Layer (NBFC-UL), permits exposures to the original counterparty to be offset with certain credit risk transfer instruments. These include instruments such as cash margin/caution money/security deposit against which the right to set off is available, held as collateral against the advances, and government guaranteed claims (0% risk weight for central and 20% for state government for CRAR computation) However, this was exclusive to NBFC-UL.

In a move towards standardisation, the RBI has extended this provision to NBFCs in the middle and base layers. This harmonisation levels the playing field for all NBFCs across layers.

Out of 9,306 RBI-registered NBFCs (excluding HFCs), only 9 falls under the NBFC-UL category, while the majority are in the middle and base layers.

Regulatory measures towards consumer credit

In November 2023, the RBI introduced measures to address concerns surrounding consumer loans by increasing the risk weight on such loans by 25% for all lenders and bank loans to NBFCs. This move aimed to strengthen risk management and respond to the RBI's cautious stance on rapid consumer credit growth and NBFCs' increasing reliance on bank borrowings. As part of this initiative, the RBI directed regulatory entities to review sectoral exposure limits for consumer credit and establish board-approved limits for unsecured consumer credit exposures.

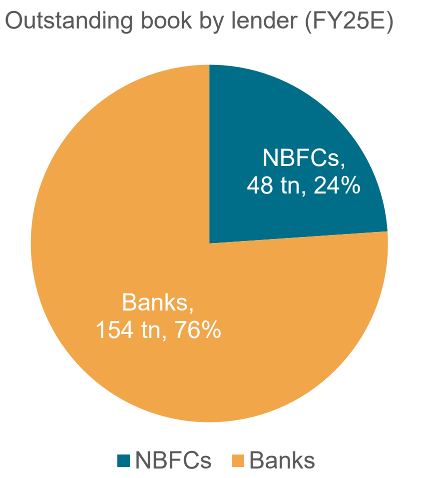
The RBI increased the risk weights on consumer credit exposure of banks and NBFCs from 100% to 125%. This increase applied to commercial banks' consumer credit exposure, including personal loans, but excluding housing loans, education loans, vehicle loans, and loans secured by gold and gold jewellery. Similarly, NBFCs' retail loans, excluding housing loans, education loans, vehicle loans, loans against gold jewellery, and microfinance/SHG loans, also attracted a 125% risk weight. Additionally, credit card receivables of SCBs and NBFCs carried risk weights of 150% and 125%, respectively. However, following a review in February 2025, the RBI decided to exclude microfinance loans from the higher risk weights applied to commercial banks' consumer credit exposure and will subsequently attract 100% risk weight.

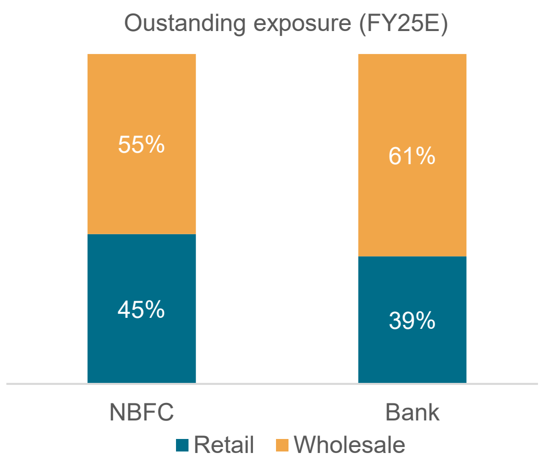
In addition to the changes in consumer credit risk weights, the RBI also increased the risk weights on SCBs' exposures to NBFCs, excluding core investment companies, by 25%, where the existing risk weight was below 100%. Loans to HFCs and priority sector-eligible loans to NBFCs were exempt from this increase. In a later revision, the RBI rolled back the 25% increase in risk weights on bank exposures to NBFCs in February 2025, effectively reinstating the previous levels determined by external credit ratings. This revision, which takes effect from April 1, 2025, is expected to boost credit growth from banks to NBFCs.

Overall NBFC - Review and outlook

Credit growth faces turbulence amid challenges in unsecured credit

Wholesale credit dominates lending





E: Estimate
Note:
1. The above representation of bank credit is exclusive of agriculture credit
2. Bank credit is adjusted for on-lending to non-banks
3. Numbers in the presentation are adjusted for the HDFC merger, with booked moved to banks for like-for-like comparison
Source: Reserve Bank of India (RBI), company reports and Crisil Intelligence

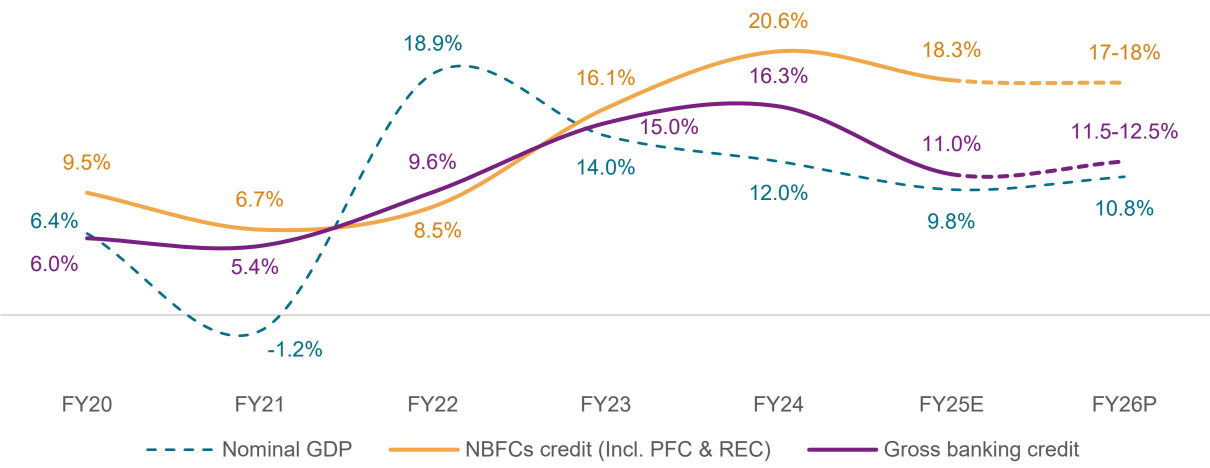
As of the end of fiscal 2025, the financing market, including banks (excluding agriculture credit) and non-banking financial companies (NBFCs)/ housing finance companies (HFCs), was estimated at Rs 202 trillion.

While banks accounted for ~76% of the lending market, with a loan portfolio of Rs 154 trillion, NBFCs/ HFCs constituted ~24%, with Rs 48 trillion. The portfolio of NBFCs/ HFCs, excluding two major government infrastructure finance companies — Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) — is likely to remain skewed towards retail, with a share of 59%.

In fiscal 2025, the credit growth of NBFCs is estimated to have slowed to 18%, compared with 21% in fiscal 2024 due to moderation in unsecured loans, including loans in microfinance, personal and consumer durables. The moderation in unsecured loans can be attributed to its rapid expansion over the past few fiscals and overleveraging concerns, which can impact asset quality. As a result, the Reserve Bank of India (RBI) intervened in November 2023 to slow down the growth of unsecured retail loan by tightening capital norms.

Credit growth picked up momentum in fiscal 2023 after a slow down due to pandemic-related disruptions in fiscals 2021 and 2022. In fiscal 2024, the financing market was valued at Rs 179 trillion, with banks accounting for Rs 138 trillion and NBFCs, Rs 41 trillion. NBFCs recorded a 21% credit growth, driven by auto loans, personal loans, housing finance and microfinance in the retail segment and micro, small and medium enterprises (MSME) and infrastructure financing in the wholesale segment. NBFC credit rebounded, clocking a compound annual growth rate (CAGR) of 14% between fiscals 2020 and 2025.

Retail-driven credit expansion to maintain momentum for NBFCs



E: Estimate, P: Projected
Note: Historical credit growth numbers adjusted for the merger of HDFC Limited with HDFC Bank for fair comparison
Source: RBI, National Housing Bank (NHB), Ministry of Finance, company reports and Crisil Intelligence

India was among the fastest growing economies in the world before the onset of the pandemic. In the years leading up to the global health crisis, which severely disrupted economic activities, the country's economic indicators improved gradually owing to strong domestic consumption and lower reliance on global demand. Today, the economy remains among the fastest growing despite challenges posed by global geopolitical uncertainties. India's real gross domestic product (GDP) exceeded forecasts in fiscal 2024, expanding 9.2%. The National Statistical Office's first provisional estimates indicate real GDP growth of 6.5% in fiscal 2025.

Crisil Intelligence projects India's real GDP growth at 6.5% in fiscal 2026, but with risks on the downside due to external headwinds. The hike in tariff by the US poses a key downside risk to the industrial outlook in fiscal 2026 and while the pause on the same provides temporary relief, the 10% universal increase is in force since April 2025. Slower global growth and reciprocal tariff hikes after June are likely to impact goods exports. Uncertainty regarding tariffs may hinder investments. Nevertheless, healthy agricultural growth, above-normal monsoon, easing inflation and rate cut by the RBI will support domestic consumption, which, in turn, is expected to support industrial activity.

Credit growth to remain rangebound in fiscal 2026

In fiscal 2025, NBFCs, including PFC and REC, recorded a robust credit growth of 18% on-year, albeit slower than 21% recorded in the previous fiscal. The growth rate is projected to remain high and rangebound between 17-18% in fiscal 2026 owing to expected normalisation in the growth rate of gold loans, changes in global scenarios impacting education loans and slowdown in infrastructure loan disbursements due to completion of the Liquidity Infusion Scheme and Late Payment Surcharge rules.

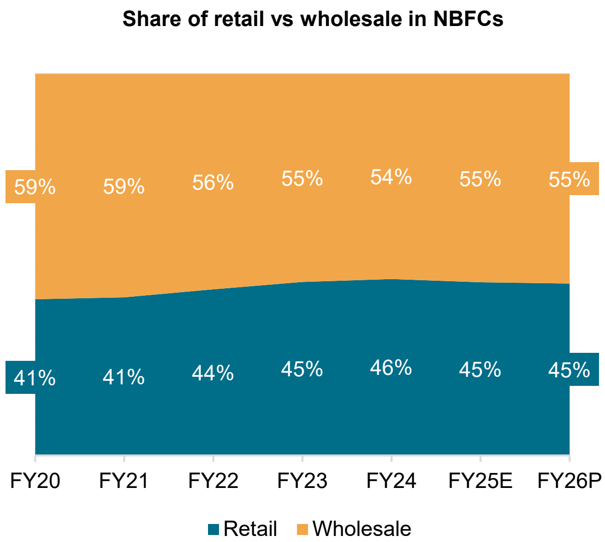
The retail segment will drive credit growth, although growth in the unsecured lending is expected to normalise from a high base. Additionally, the RBI's vigilance and circular on risk weights will temper growth in unsecured portfolios, ensuring a more measured pace of expansion.

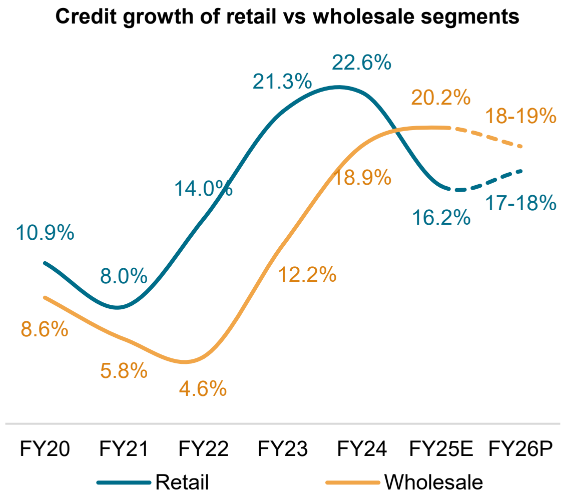
In February 2025, the RBI rolled back the 25% increase in risk weights on bank exposures to NBFCs, effectively reinstating the previous levels determined by external credit ratings. The revision took effect from April 1, 2025 and is expected to boost credit growth from banks to NBFCs, with a positive ripple effect on the overall credit flow to the retail segment in fiscal 2026. Furthermore, upon review, the RBI excluded microfinance loans from the 125% risk weight applied to consumer credit, subsequently restoring it to 100%.

In fiscal 2025, among the retail segment, gold loans recorded robust growth owing to higher prices, which boosted the demand for gold loans. Growth in housing loans remained broadly stable, while auto loan book normalised. Microfinance loans recorded a dip due to overleveraging. On the other hand, real estate and corporate loans, construction equipment and infrastructure financing in the wholesale segment recorded loan growth, while MSME loans continued their double-digit growth rate despite some moderation.

The retail segment witnessed an improvement in the asset quality, except for microfinance, which was impacted by overleveraging by underlying borrowers. Housing, personal loans, vehicle and gold loans also saw an improvement in asset quality, supported by resilient underlying customer base from the impact of high interest rates and tightened monitoring and collection efforts by NBFCs.

Moderation in the unsecured retail segment weighs on credit growth, while wholesale remains resilient





E: Estimate, P: Projected
Note:
1) Retail includes housing, vehicle, gold, microfinance, personal, consumer durables and education loans
2) Wholesale includes MSME, real estate and large corporate, infrastructure and construction equipment loans
Source: Industry and Crisil Intelligence

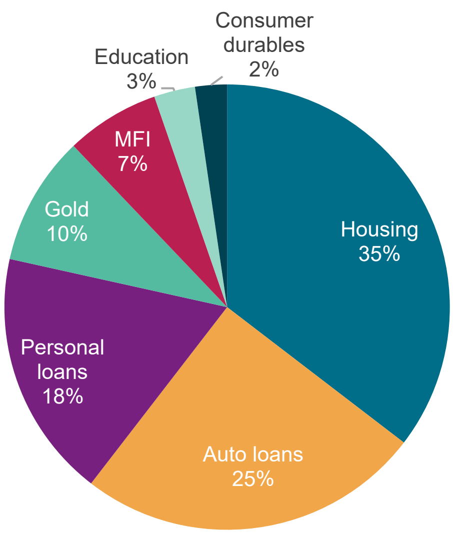
In fiscal 2025, the retail segment's share in the lending mix is estimated to have declined marginally to 45%, while wholesale increased to 55%. The share of both segments is expected to sustain in fiscal 2026 as well.

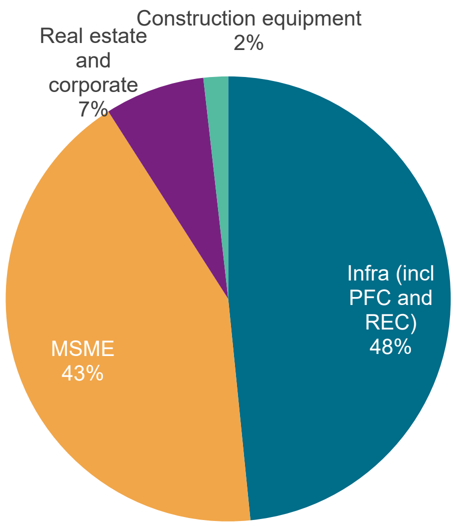
The growth rate in the retail segment is likely to rise moderately to 17-18% in fiscal 2026, driven by growth in housing, vehicle and consumer durable loans. However, NBFCs are expected to maintain a cautious approach to unsecured lending due to visible stress in the microfinance and personal loan segments. The growth of gold loans is expected to normalise following an exceptional growth in fiscal 2025.

In contrast, the wholesale segment's growth rate is projected to decline slightly due to an expected slowdown in infrastructure disbursements. Nevertheless, MSME, and corporate and real estate loans are expected to see an uptick.

In fiscal 2024, the retail segment's share in the lending mix increased to 46%, driven by strong credit growth over the past two years. The wholesale segment also saw a strong credit growth of 19%. The trends were a continuation of the patterns observed in fiscal 2023 when retail and wholesale segments expanded 22% and 12%, respectively. Growth in the wholesale segment was driven by MSME loans in fiscal 2023, which was further aided by a steady rise in infrastructure financing. Historically, the retail segment led the NBFC sector's growth post the fiscal 2018 crisis, while the wholesale segment experienced low single-digit growth between fiscals 2021 and 2022.

Break-up of retail and wholesale NBFC credit (fiscal 2025E)

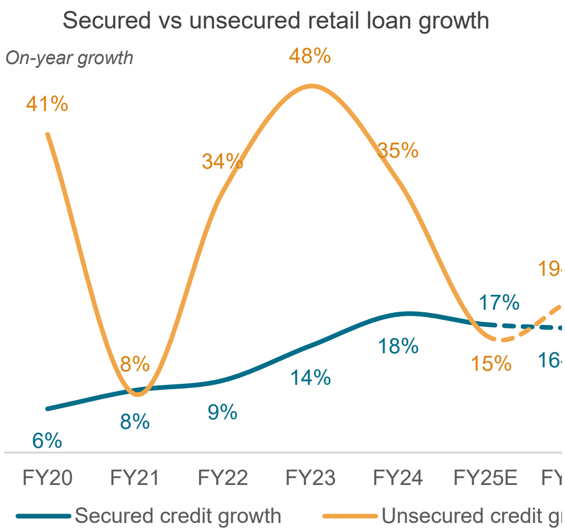


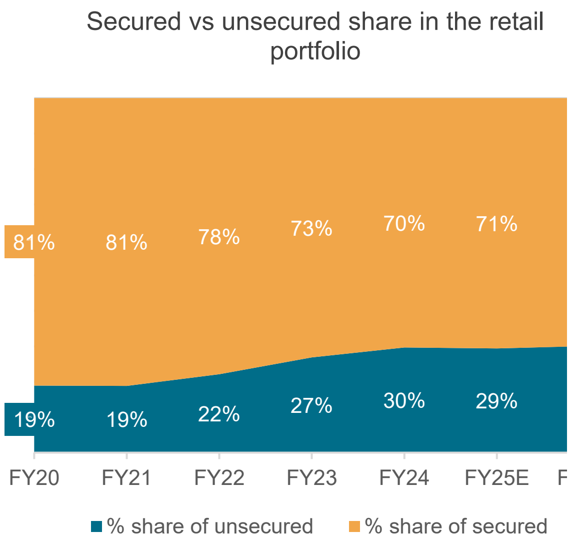


E: Estimate
Source: RBI, company reports and Crisil Intelligence

Secured lending segments aid NBFC credit growth momentum in fiscal 2025

Unsecured loans to grow in fiscal 2026 amid abating asset quality issues





E: Estimate, P: Projected
Note: For calculation of unsecured retail loans given by NBFCs, segments such as personal, microfinance and consumer durables loans and a share of education loans are considered
Source: RBI, NHB, Microfinance Institutions Network (MFIN) and Crisil Intelligence

In fiscal 2025, NBFCs' retail portfolio is estimated to have grown 16% on-year to Rs 22 trillion. Within the portfolio, the unsecured category expanded rapidly in the past five fiscals. The surge raised concerns about underlying risks, prompting the RBI to issue the November 2023 circular requiring lenders to keep higher capital buffers against such exposures. This led to a slowdown in credit in the second half of fiscal 2024, which continued into fiscal 2025. The impact was evident in microfinance and personal loans, driven by overleveraging, higher inflation and stagnant income, which impaired the borrowers' repayment capability.

Overleveraging at the borrower's end augments asset quality vulnerability. This is exacerbated in unsecured lending, where there is no recourse to collateral and hence, the loss, given the default, is high. Hence, NBFCs lowered exposure to unsecured loans in fiscal 2025.

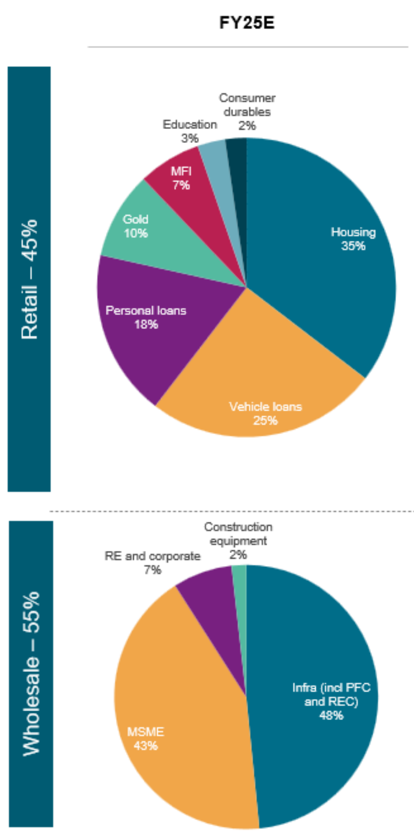
Crisil Intelligence projects the unsecured lending segment's share to increase to 30% in fiscal 2026, supported by partial loan growth recovery in microfinance, following a considerable credit decline in fiscal 2025. To manage overleveraging in microfinance, the MicroFinance Institutions Network (MFIN) announced a cap of three microfinance lenders and maximum retail unsecured loan indebtedness of Rs 0.02 crores per borrower, effective from April 1, 2025. In anticipation of these guidelines, lenders cautiously lowered exposure in fiscal 2025 to fulfil the applicable criteria, leading to a decline in the loan book.

As a result, Crisil Intelligence expects the unsecured segment's growth rate to increase to 19-20% in fiscal 2026, while the secured segment is expected to normalise to 16-17%, driven by moderation in gold loan growth following a blockbuster growth in fiscal 2025.

Between fiscals 2021 and 2024, the secured segment logged a CAGR of 14%, compared with the pre-pandemic growth of 8%. In contrast, the unsecured segment clocked a CAGR of 39% as NBFCs expanded their reach to new-to-credit customers and Tier II and lower-tier cities.

The low savings rate by Indian households of 5.2%, as of fiscal 2024, on account of higher financial liabilities, indicates a debt-driven consumption-led post-pandemic recovery. The emergence of financial technology companies (fintech) has played a key role in the growth of the unsecured segment. Fintechs have been at the forefront of innovative lending practices, often catering to segments that traditional financial institutions might not reach.

Secured lending segments to aid credit growth, with moderation in unsecured loans



	CAGR FY20-25	Change in credit at NBFCs FY24 y-o-y	FY25E y-o-y	FY26P y-o-y
Housing	11%	14%	14%	15-16%
Vehicle (all segments)	14%	24%	16%	16-17%
Personal loan	33%	39%	26%	25-27%
Gold	18%	18%	26%	17-19%
Microfinance	15%	24%	(8-12)%	4-8%
Consumer durables	22%	30%	24%	24-26%
Education	49%	77%	46%	14-16%
MSME	20%	31%	27%	27-29%
Corporate and Real estate	-4%	-5%	5%	6-8%
Infrastructure	11%	15%	17%	12-13%

Scale: <5% | 5-10% | >10%

E: Estimate, P: Projected
Source: Company reports, Crisil Intelligence

Housing finance: In fiscal 2025, the sector recorded 14% credit growth, led by prime housing-focused HFCs, while that in the affordable housing-focused HFCs saw a slight moderation due to the impact of high interest rates on their underlying customer base. The growth in housing credit was supported by rising disposable income, salaried class appetite for home loans being relatively insulated from the impact of high repo rate and sustained demand from Tier II and III cities. Crisil Intelligence expects the housing loan book growth of HFCs/ NBFCs to accelerate to 15-16% in fiscal 2026 as the repo rate cut on lending rates will boost home loan demand. The recent allocation of Rs 30 billion to the Interest Subsidy Scheme under the Pradhan Mantri Awas Yojana for fiscal 2026 will boost growth in the sector.

Vehicle finance: Between fiscals 2020 and 2025E, the NBFC vehicle finance segment logged a CAGR of 13.8%, compared with 14.4% for the overall vehicle finance advances. In fiscal 2025, NBFCs' vehicle finance portfolio expanded 16%, compared with the industry's growth rate of 13.5%. Despite lower volume growth, impacted by delayed government capital expenditure and extreme environmental challenges, the vehicle finance segment remained steady owing to higher demand for used vehicles and premiumisation in the passenger vehicles (PV) category, credit demand for two-wheelers and tractors, driven by rural demand, and the rising penetration of NBFC vehicle finance in Tier II and III cities. Crisil Intelligence forecasts NBFCs' vehicle finance advances to grow 16-17% in fiscal 2026, driven by the RBI's repo rate cut of 100bps between February and June 2025, income tax benefits, pick-up in replacement demand and premiumisation in the PV category.

Gold finance: The NBFC gold loan segment grew ~26% in fiscal 2025, supported by higher prices and strong demand for gold loans from borrowers. As of March 2025, the average gold loan prices increased 25% over the past 12 months. Further, the higher tonnage growth of 7% in fiscal 2025, compared with 3% in fiscal 2024 and 11% rise in active gold loan customers, compared with 6%, indicated strong demand for gold loans. Crisil Intelligence expects growth in the NBFC gold loans segment to moderate in fiscal 2026, with a 17-19% expansion in credit, compared with 26% in fiscal 2025. Moreover, the impact of revised RBI directions on gold loans would be a key monitorable for the segment.

Microfinance: NBFC's microfinance institutions are estimated to have logged a CAGR of 15% between fiscals 2020 and 2025E. The industry's growth momentum was disrupted in fiscal 2025 due to extreme heat wave, general elections, loan waiver campaigns in Punjab, overleveraging and the Karnataka ordinance on prevention of coercive action for recovery of loans. The primary concern underlying the industry's deterioration in asset quality was overleveraging among borrowers. As a result, the industry is estimated to have faced a steep decline in advances by 8-12% in fiscal 2025. It is likely to record a modest growth of 4-8% in fiscal 2026.

MSME finance: MSME lending has undergone a significant transformation in recent years, with both banks and NBFCs intensifying their focus on this segment. The rise of digital lending, government-backed initiatives, a thriving economy and increasing adoption of formal credit channels have propelled this growth. The shift towards cash flow-based underwriting has further boosted lending to MSMEs. Consequently, NBFC credit to MSMEs grew a robust 27% in fiscal 2025. Crisil Intelligence projects that NBFCs will drive the growth of MSME credit, which is projected to grow 27-29% in fiscal 2026 as domestic demand continues to rise and urbanisation accelerates in growing urban centres.

Real estate and corporate finance: NBFCs/HFCs have been reducing their wholesale portfolios and focusing on the retail business because of asset quality issues. However, those continuing to expand their wholesale portfolios have reported steady growth, estimated at 5.2% in fiscal 2025. Crisil Intelligence projects the wholesale book of NBFCs to grow a moderate 6-8% in fiscal 2026 as a few large HFCs have resumed expanding their developer finance portfolio after years of book clean-up. Real estate project launches slowed in fiscal 2025, but the RBI's rate cuts are expected to revive new project launches in fiscal 2026, thereby supporting the growth of the wholesale book.

Infrastructure finance: The infrastructure book of NBFCs grew 16.8% in fiscal 2025 driven by investments in renewable power and transmission and distribution (T&D) sectors, which saw a significant pickup in demand. This growth momentum is expected to persist in fiscal 2026, with a projected 12-13% growth, led by the continued expansion of the power sector and an anticipated pickup in non-power capital expenditure, such as construction. The 11.6% increase in budgetary allocation for infrastructure to Rs 10.7 trillion is expected to provide a boost to infrastructure investment in fiscal 2026. However, the growth rate is expected to be slightly lower than the previous year owing to higher repayments and certain government schemes nearing completion.

Asset quality of secured retail loans improved in fiscal 2025

		GNPA FY24	GNPA FY25E	GNPA FY26P
Retail	Housing	1.3%	1.2%	1.1-1.2%
	Vehicle (all segments)	4.3%	3.8%	3.8-4.0%
	Gold	2.8%	2.6%	2.6-2.8%
	Microfinance	2.4%	6-7%	3.0-5.0%
Wholesale	MSME	3.6%	4.0%	4.0-5.0%
	Real estate & corporate	NM	NM	NM
	Infrastructure (Incl. PFC REC)	2.9%	1.7%	1.4-1.5%

Scale: <2.5% | 2.5-7.5% | >7.5%

Notes:
1) P – Projected, NM – Not meaningful
2) Asset quality of real estate and corporate loans is not meaningful due to the addition of contractual moratoriums, extension of date of commencement of commercial operations, one-time restructuring and player strategy to downsize the wholesale portfolio
Source: Company reports, Crisil Intelligence

Housing finance: The housing portfolio of HFCs has demonstrated a positive trend with a decline in GNPAs since fiscal 2021, indicating an improvement in asset quality. In fiscal 2025, the housing portfolio's GNPA ratio is estimated to have decreased 13 bps to 1.2%, attributable to the resilience of customers of prime HFCs along with intensified efforts to improve collection efficiency by closely monitoring early delinquencies (DPD: +1 day). Crisil Intelligence projects the GNPA ratio of the overall housing portfolio to remain range-bound between 1.1-1.2% in fiscal 2026 on the back of loan book growth and repo rate cuts, which are expected to alleviate the burden of high-interest loans on customers.

Vehicle finance: Asset quality deteriorated in the first half of fiscal 2025 owing to delayed government expenditure and extreme weather conditions. However, it improved to 3.8% towards the end of the fiscal. This was primarily because of a large technical write-off of Rs 2,345.1 crores in the fourth quarter by a key auto finance player, of which 76% pertained to the vehicle finance portfolio. Excluding this write-off, GNPAs for fiscal 2025 would have remained at 4.2%. For fiscal 2026, asset quality is expected to remain at 3.8-4.0%. The expected pickup in government and private capital expenditure is likely to result in better capacity utilisation and realisation. Additionally, above-normal rainfall forecast by the India Meteorological Department is expected to maintain healthy rural cash flows owing to improved agricultural output.

Gold finance: As of March 2025, the GNPA ratio was 2.6%, representing a decrease of 20 bps from the previous year. During the first half of fiscal 2025, asset quality had deteriorated slightly, with the GNPA ratio increasing to 3.1% by the end of September 2024. The deterioration can be attributed, in part, to the customer-centric approach adopted by NBFCs, which involves not auctioning gold in the event of initial loan defaults, resulting in higher delinquency rates. The asset quality improved significantly in the fourth quarter of fiscal 2025 because of the high growth in advances and auctions. The asset quality is expected to remain stable in fiscal 2026 with a projected GNPA ratio of 2.6-2.8%. The tighter underwriting standards proposed in the revised directions are expected to support asset quality in fiscal 2026.

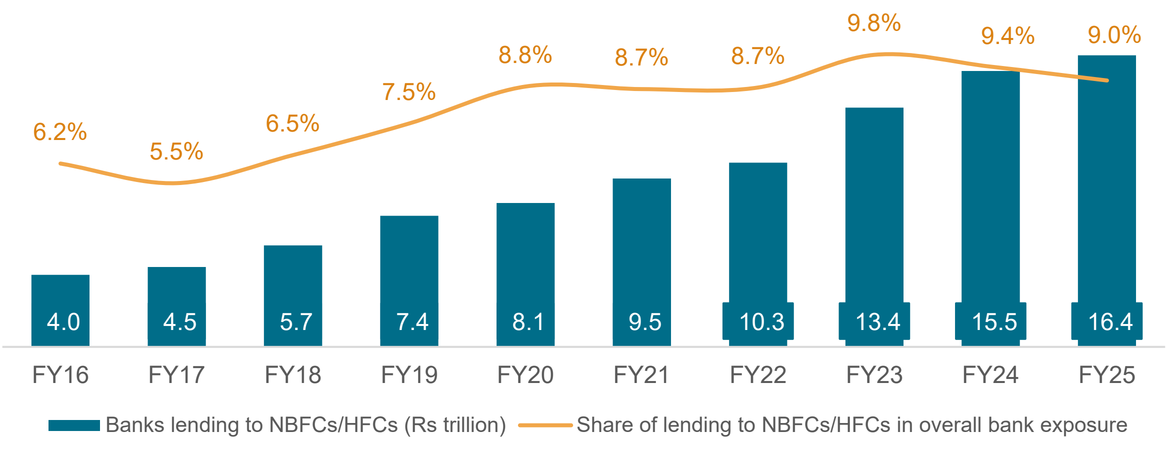
Microfinance: In fiscal 2024, GNPAs of NBFC-MFIs rose 20 bps to 2.4%. By the end of March 2025, PAR 90+ days is estimated to have increased to 6-7%, indicating mounting stress in the segment. Delinquencies are rising because of transitory factors such as the general election, heatwaves and extended rainfall. However, overleveraging has been a deeper issue in the segment, with multiple loans from various institutions being a major cause of slippage. Also, the Karnataka ordinance is expected to have led to a considerable jump in the slippage ratio during the fiscal. To address overleveraging concerns, the Microfinance Institutions Network (MFIN) has proposed additional self-regulatory measures, including limiting lenders per borrower to three, not to lending to defaulting borrowers when the outstanding amount exceeds Rs 3,000 for more than 60 days. Crisil Intelligence expects GNPAs to moderate to 3-5% in fiscal 2026 on account of improved underwriting standards because of MFIN guardrails. Further, sufficient provisions and write-offs might help NBFC-MFIs reduce stress to some extent.

MSME finance: In March 2021, the asset quality of MSME loans deteriorated as the pandemic impacted borrowers' incomes, leading to a rise in GNPAs. However, with continued improvement in economic activity, better collection efficiency and strong credit growth, GNPAs decreased. In fiscal 2025, the GNPA ratio is estimated to be in the range of 4-5% for NBFCs. Private banks, which serve lower-risk customers, have better asset quality than other lenders, including NBFCs, which serve customers with limited or no documented income. Crisil Intelligence projects GNPAs to remain to be in a similar range of 4-5% in fiscal 2026 owing to resilient economic activity, easing inflationary pressures and reduction in interest rates.

Real estate and corporate finance: Stress in the real estate and corporate segments remains higher than in others. Crisil Intelligence anticipates continued high stress in the wholesale book driven by contractual moratoriums and extension of the date of commencement of commercial operations. The wholesale GNPAs of NBFCs/HFCs moderated marginally in fiscal 2025 owing to recoveries and wite-offs. However, for a few players, GNPAs were in the high double digits because of a continued decline in the wholesale book and no new disbursements.

Infrastructure (including PFC and REC) finance: Most of the borrowers of PFC, REC and Indian Renewable Energy Development Agency (IREDA) are state-owned generation and T&D entities covered by state government guarantees. Hence, delinquencies are restricted. GNPAs of PFC, REC and India Infrastructure Finance Company Limited (IIFCL) fell 140 bps, 136 bps and 5 bps, respectively, in fiscal 2025, owing to effective resolution of stressed assets. The industry GNPA dropped 122 bps to 1.66% in fiscal 2025 from 2.88% in fiscal 2024. Looking ahead, the infrastructure loan book of NBFCs is expected to continue its upward trend in terms of asset quality, with GNPAs projected to remain range-bound and stabilise within a range of 1.4-1.5% in fiscal 2026. This optimistic outlook is supported by the consistent resolution of non-performing loans by large infrastructure financing companies (NBFC-IFCs) and the anticipated resolution of additional accounts in the near term.

Impact of risk weight circular and hardening of rates led to a decline in share of banks' lending to NBFCs



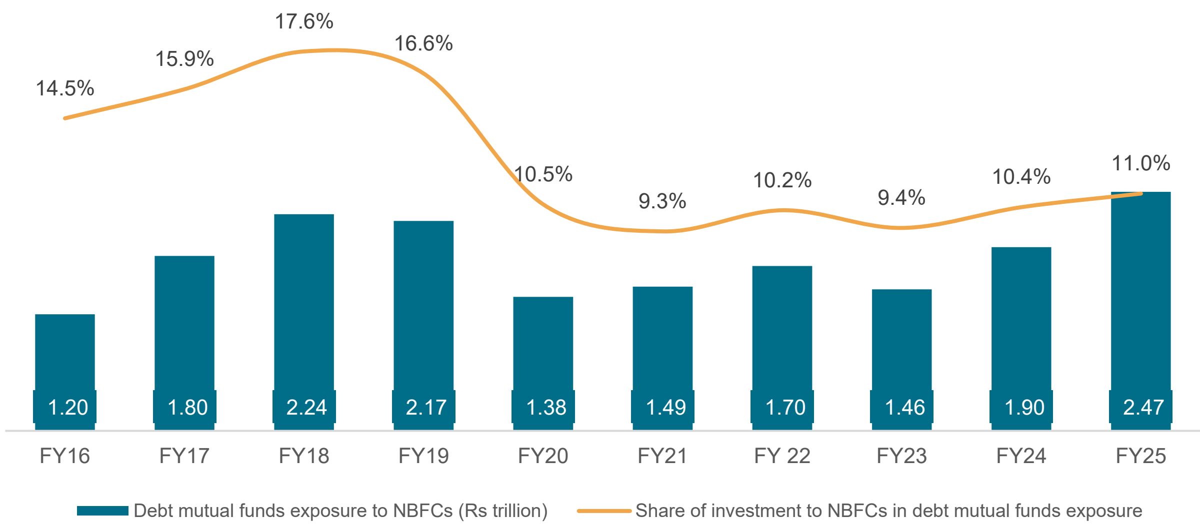
Source: RBI, Crisil Intelligence

In fiscal 2025, bank's credit exposure to NBFCs increased 5.7% on-year to Rs 16.4 trillion, slower than the 15.3% growth in the previous fiscal. The share of NBFCs in bank credit exposure declined from 9.4% in fiscal 2024 to 9.0% in fiscal 2025 driven by dynamic management of banking liquidity, which led to higher lending rates among banks and was further compounded by the RBI's risk weight circular. Many NBFCs, particularly large and highly rated, resorted to overseas and capital market borrowings, which brought down their reliance on funding from banks.

The recent reversal of the 25% increase in risk weights on bank exposure to NBFCs is expected to boost credit growth from banks to NBFCs.

The weighted average lending rates on outstanding rupee loans for banks increased from 8.72% in April 2022 to 9.75% in March 2025. The hardening of bank lending rates in relation to other funding avenues, such as domestic capital markets and ECBs, made funding from banks less appealing to NBFCs in fiscal 2025. However, bank borrowings are likely to rebound next fiscal as the effects of interest rate cuts are passed on to borrowers, making bank lending more competitive.

Debt mutual fund investment in NBFCs surpasses pre-NBFC crisis levels



Note: Exposure refers to debt mutual funds
Source: Securities and Exchange Board of India, Crisil Intelligence

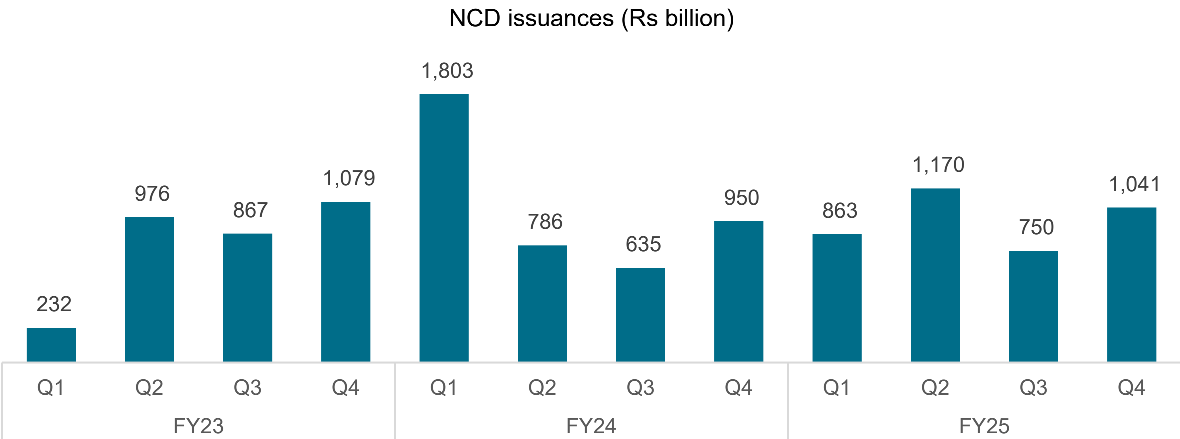
Debt mutual funds' investment in NBFCs reached Rs. 2.47 trillion in fiscal 2025, surpassing the levels prior to the NBFC crisis of 2019. After the crisis, mutual funds have been extremely cautious towards investing in NBFCs, with exposure declining from ~17.6% in fiscal 2018 to 9.4% in fiscal 2023.

In the past two fiscals, investment picked up in both commercial papers and non-convertible debentures (NCDs), supported by healthy balance sheets of non-banks and improvements in asset quality and credit momentum. Also, the RBI's regulatory intervention and continuous monitoring of NBFCs increased confidence in NBFCs. This led to a 60 bps on-year rise in the share of debt mutual fund allocation towards NBFCs to 11.0% in fiscal 2025.

As of March 2025, debt mutual funds' investments in commercial paper stood at Rs 1.34 trillion and in NCDs at Rs 1.12 trillion.

NCD issuances gain traction

Issuances rebound towards the end of fiscal 2025



Note: Above data represents the trend for 160 NBFCs forming more than 95% of loans and advances of the estimated NBFC sector outstanding
Source: F' track, monthly portfolio disclosures by mutual funds, Crisil Intelligence

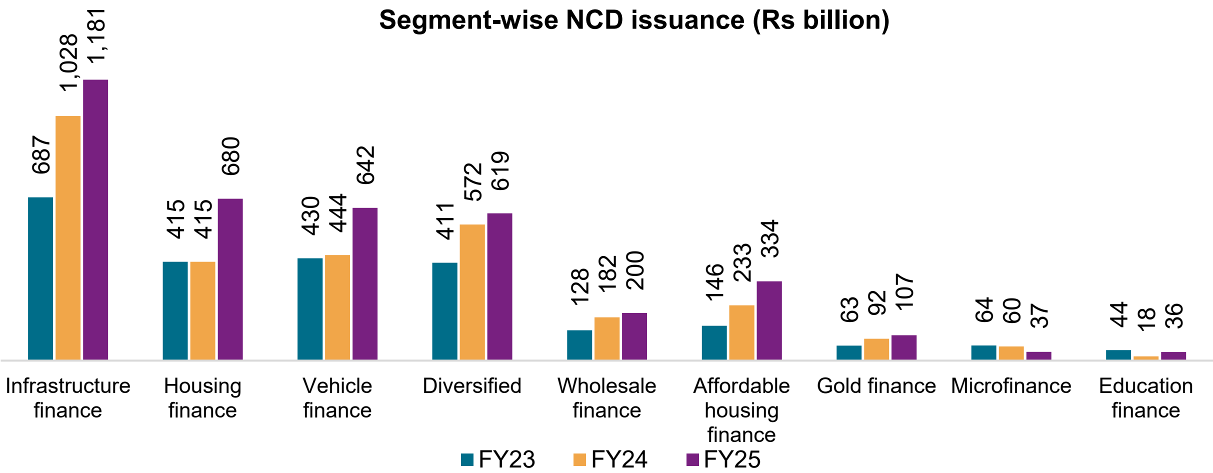
NCD issuance remained buoyant in fiscal 2025, increasing 3% on-year, excluding the Rs 460 billion NCD issued by HDFC Limited in the first quarter of fiscal 2024 prior to its merger with HDFC Bank effective July 2023.

Notably, NCD issuance surged to Rs 1,170 billion in the second quarter of fiscal 2025, which marked a four-quarter high. This was largely attributed to the rising expectations of the RBI pivoting towards rate cuts following similar moves by major central banks, including the European Central Bank and the US Federal Reserve.

However, the issuances slowed to Rs 750 billion in the third quarter as several high-rated NBFCs resorted to overseas borrowing as the RBI continue to hold interest rates with inflation remaining above its target.

In the final quarter of fiscal 2025, NCD issuances rebounded 39% sequentially to Rs. 1,041 billion. This resurgence was largely driven by the RBI's decision to cut rates in February 2025, rendering NCD issuances an attractive funding option.

NBFC-IFCs and HFCs lead in NCD issuances compared with other segments



Note: Above data represents trend for 200+ NBFCs forming more than 95% of loans and advances of estimated NBFC sector outstanding
Source: Crisil Intelligence

In fiscal 2025, NCD issuances exhibited an upward trend across segments, except microfinance, with notable growth in education, housing, vehicle and affordable housing finance. The microfinance segment experienced a significant decline of 37% on-year because of the prevailing asset quality stress in the sector. Infrastructure finance NBFCs maintained their leading position, accounting for 31% of total NCD issuances, followed by HFCs at 18% and vehicle finance companies at 17%. Collectively, these three segments comprised approximately 65% of total issuances during the fiscal year.

Securitisation reaches record high of Rs 2.36 trillion

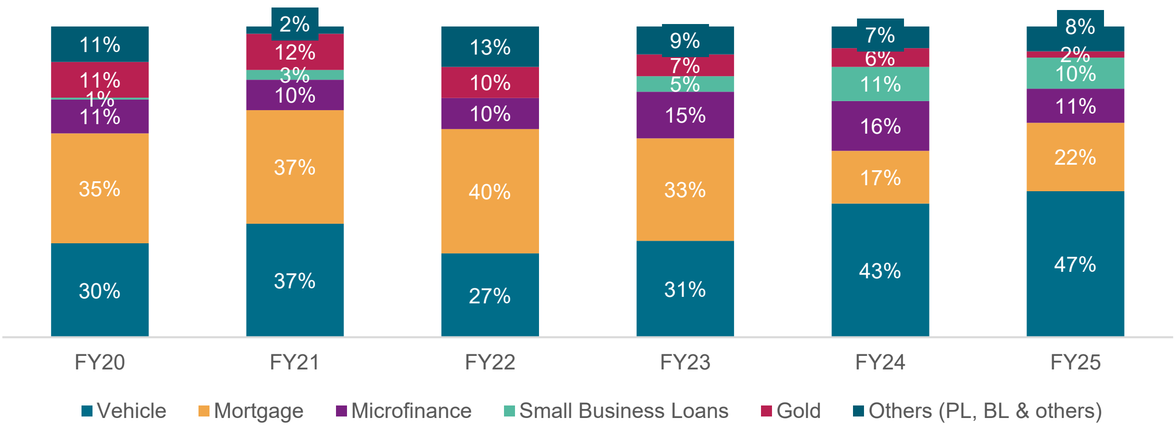
The securitisation market in India reached a record high of Rs 2.36 trillion in fiscal 2025, up 24% from the previous fiscal, driven by large deals from private sector banks and steady fundraising by NBFCs. Despite a slower fourth quarter, the market saw an increase in the diversity of issuances, with 175 originators taking part, compared with 165 in fiscal 2024.

The share of securitisation by banks increased significantly to 26%, which was utilised to manage challenges arising from high credit-deposit ratios. Vehicle and mortgage-backed loans accounted for 47% and 22% of securitisation volume, respectively. The share of gold-loan securitisation volume declined owing to regulatory curbs, while that of microfinance was impacted by asset quality stress.

The market saw a mix of pass-through certificates (PTCs) and direct assignments (DAs), with the former accounting for 54% of the volume. Investors, including mutual funds, insurers and alternative investment funds, are expanding their presence in the market. However, banks remain the dominant investors. While private sector banks invested in both DAs and PTCs, public sector banks preferred to invest in DAs.

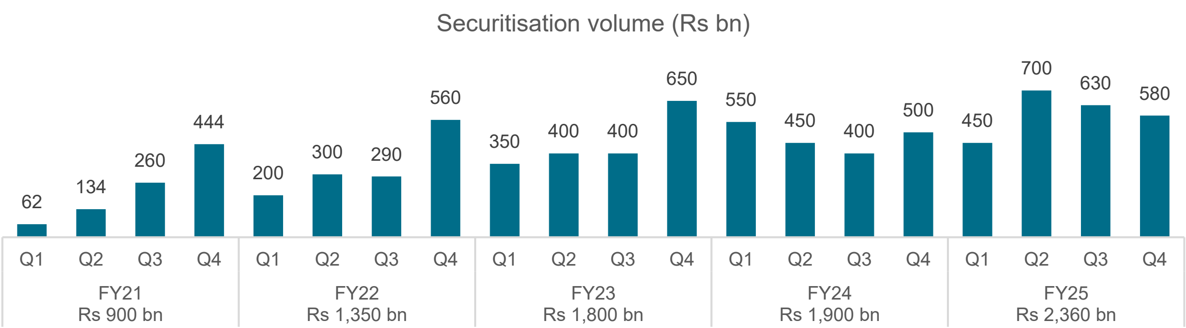
The securitisation market in India has displayed a steady growth trajectory, driven by the increasing use of securitisation as an efficient fundraising tool by banks and NBFCs. With credit growth expected to pick up in fiscal 2026, the market is likely to continue its momentum. The flexibility of PTCs and the ability to tailor cash flows to suit investor requirements and risk profiles are expected to support the growth of the market. Overall, the securitisation market in India is expected to remain a key source of funding for banks and NBFCs in fiscal 2026.

Healthy growth in securitisation volumes led by vehicle loans segment and moderation in microfinance



Source: Crisil Ratings

Securitisation volumes exceed the Rs 2 trillion mark in fiscal 2025



Source: Crisil ratings

The securitisation and assignment of loan portfolios yields substantial benefits for NBFCs. Securitisation deals can effectively unlock liquidity, help manage asset-liability mismatches and liberate capital to pursue new lending opportunities. The assignment of loans to banks or other investors, meanwhile, enables NBFCs to transfer credit risk, reduce provisioning requirements and enhance balance-sheet resilience. Furthermore, securitisation and assignments can provide NBFCs access to a diversified funding base, diminish their reliance on traditional funding sources and bolster their financial stability.

RBI's Co-lending initiative to support affordability and outreach of capital

RBI had issued guidelines on Co-Lending by Banks and NBFCs to Priority Sector vide circular FIDD.CO.Plan. BC.No.8/04.09.01/2020-21 dated November 15, 2020. The primary focus of "Co-Lending Model" (CLM), is to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs.

Under CLM, banks are permitted to co-lend with all RBI registered NBFCs including Housing Finance Companies (HFC) to priority sector based on a prior agreement. The co-lending banks will take their share of the individual loans in their books with NBFCs retaining a minimum of 20 per cent share of the individual loans on their books.

Recognizing the evolving landscape of credit delivery and the growing diverse lending partnership, RBI expanded the scope of co-lending guidelines and issued a broad draft framework for all forms of co-lending arrangements between regulated entities. RBI has separate guidelines/framework to cover some of these arrangements such as digital lending, co-lending by banks with NBFC to priority sector as well as outsourcing of financial services. However, these frameworks do not cover all the possible categories of co-lending arrangements.

Accordingly, RBI prepared a generic draft framework to specify the regulatory norms and guidance for all such co-lending arrangements. Once finalized, these guidelines shall be called "Reserve Bank of India (Co-Lending Arrangements) Directions, 2025" and will override the November 15, 2020 guidelines.

Expansion of co-lending scope to bridge regulatory gaps

The erstwhile co-lending framework "Co-Lending by Banks and NBFCs to Priority Sector" provided framework on co-lending between banks and NBFCs for priority sector lending, however they did not address co-lending between two NBFCs, leading to regulatory gaps.

The main objective of the draft guidelines is to provide a broad framework for both co-lending and loan sourcing. The guidelines expand co-lending to all regulated entities and all loan categories, allowing two banks or two NBFCs to enter co-lending arrangements for any loans product regardless of priority sector lending statute. The broader scope of draft framework bridges the regulatory gaps between different co-lending models and between REs.

Improved scale of credit growth at competitive interest rates, especially benefiting underserved segments

The expansion of the scope of guidelines to all regulated entities will allow more players and capital into the co-lending space, scaling up lending volumes at more competitive interest rates, particularly in underserved categories such as MSME loans. The draft guidelines can enhance flow of credit towards MSME which are the backbone of India's manufacturing economy.

Enhanced transparency and disclosures among lenders, benefiting both borrowers and investors

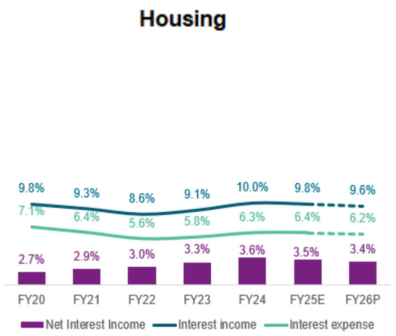
The draft guidelines enforce more transparency as lenders will now need to indicate a range of blended interest rates and fees charged to borrowers on their website. This will curb lenders from charging higher interest rates to borrowers. Due to increased disclosure and transparency, borrowers can avail a competitive interest rate.

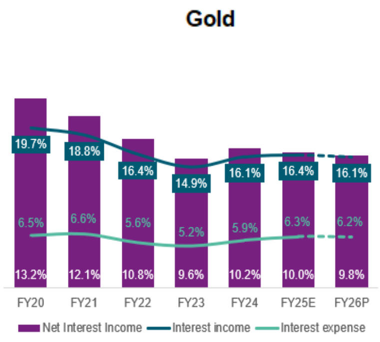
Additionally, the quarterly financial disclosure related to co-lending will increase information availability and investor awareness about transactions.

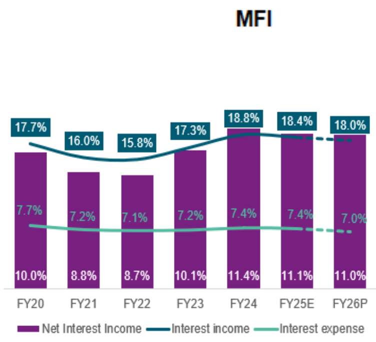
Consistent asset classification

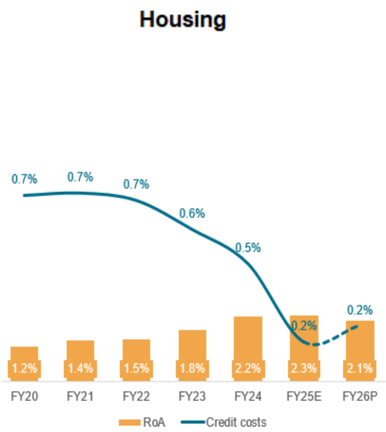
The expansion of Default Loss Guarantee to all co-lending models is positive as it will enhance accountability in co-lending. Furthermore, classification of SMA/NPL across all co-lenders will lead to consistent asset classification across REs, fostering financial discipline of the borrowers.

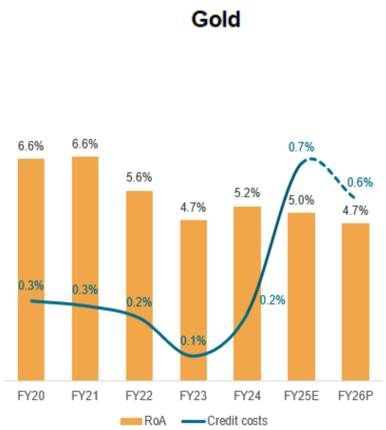
Profitability expected to remain flat with stable margins

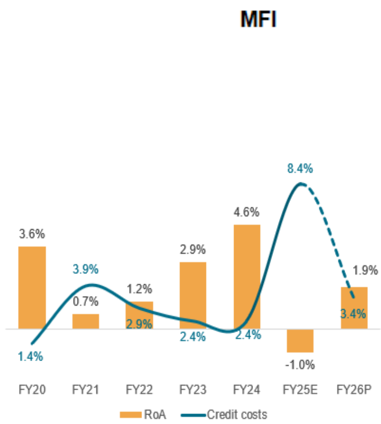












Note: The above ratios are calculated on average total assets
Source: Company reports, Crisil Intelligence

Compression in NIMs due to impact of rate cuts on lending yields is one of the key reasons for the reduction in profitability outlook for fiscal 2026. In fiscal 2025, cost of funds increased for NBFCs due to high repo rates which made term loan funding from banks as well as market funding such as NCD and commercial papers costlier. Despite high repo rates competition from banks and NBFCs deeper market penetration impacted yield on loans. Credit costs declined for housing, while increased for gold and microfinance loans.

Housing: In fiscal 2025, HFC/NBFCs' net interest income is estimated to have compressed by around 15 bps to 3.5% on account of drop in lending yields and rise in borrowing cost. Interest income on average assets declined due to increase in asset base on account of loan growth along with pricing pressures owing to intense competition in the housing space. On the funding side, cost of fund increased by around 3 bps to 6.4% due to elevated interest rates during the fiscal and increased reliance on costlier funding sources such as commercial paper and NCDs. Credit cost declined as many large HFCs reversed their provisions during the fiscal on account of improving asset quality, leading to improvement in asset quality. Crisil Intelligence expects interest income to average asset to decrease by 20-30 bps in fiscal 2026 as lenders reduce the yields due to repo rate cuts. Interest expense is expected to drop moderately due to slower repricing, leading to a decline in net interest income in fiscal 2026. Credit cost is expected to normalise, resulting in decline of RoAs.

Gold finance: The interest income as a percentage of average total assets is estimated to have inched up to 16.4% in fiscal 2025. Crisil Intelligence expects interest income to range between 16.1%-16.2% in the current fiscal, driven by the declining interest rate environment and the focus on high-ticket size loans by a key gold loan finance NBFCs. Yields have improved in the last two fiscals, following a decline in fiscal 2022 and 2023 due to high competition and teaser loans. While interest expenses as a percentage of average total assets increased to 6.3% in fiscal 2025, compared to 5.9% in fiscal 2024, due to the repricing of MCLR-linked borrowings. Interest expenses are expected to moderate to 6.2-6.3% in fiscal 2026. The cost of funds is expected to decline at a slower rate due to a lag in pass on of rates. However, the pass-on of rate benefits to NBFCs by banks will remain be a key monitorable. Further, securitisation and ECB borrowings may help keep the cost of funds at moderate levels. Credit costs as a percentage of average total assets are expected to improve slightly in fiscal 2026 yet elevated at 0.5-0.6% as compared to 0.7% in fiscal 2025. Hence, stable NIM and elevated credit cost may lead to slight moderation on RoAs to 4.7-4.8% as compared to 5.0% in fiscal 2025.

Microfinance NBFCs: The yields in the microfinance segment have been high due to the riskier borrower profiles. The interest income of NBFC-MFIs as a percentage of average total assets is expected to decline in fiscal 2025 and 2026, primarily due to the RBI measures to contain higher pricing to borrowers and the non-recognition and reversal of interest incomes due to increased slippages and RBI's repo rate cut. Also, the higher interest expense is expected to lead to compression in margins. Credit costs are expected to rise as a result of rising slippages and industry wide stress on account of overleveraging which is expected to put pressure on the RoAs of NBFC-MFIs. Additionally, operating expenses are expected to increase due to higher attrition rates, leading to a rise in employee costs and other operational expenses, which, combined with the higher credit cost, will lead to negative RoAs for NBFC-MFIs. Overall, the outlook for NBFC-MFIs profitability is expected to be impacted by declining interest income, rising credit costs, and increasing operating expenses in the current fiscal.

Housing finance – Review and outlook

Growth in housing loan market slowed in FY25, set to bounce back in FY26

The Indian housing finance sector is estimated to have logged a healthy 13.1% compound annual growth rate (CAGR) over fiscals 2020-2025, riding on increasing disposable income, strong demand from smaller cities, the emergence of new players, and government schemes to support the housing sector.

The housing finance sector comprises financial institutions (FIs), scheduled commercial banks, scheduled cooperative banks, regional rural banks, agriculture and rural development banks, housing finance companies (HFCs), state-level apex cooperative housing finance societies, and non-banking financial companies (NBFCs).

In fiscal 2025, the housing credit outstanding of banks and NBFCs/HFCs is estimated to have expanded by around 12.1% to Rs 38 trillion, which is a slight moderation from the 13.1% growth recorded in fiscal 2024.

The slight moderation in housing credit growth can be attributed to the repo rate being on the higher side for a large part of the fiscal year, along with several headwinds in disbursements on account of elections in states such as Maharashtra, Andhra Pradesh, Jharkhand and Haryana.

Disbursements were also impacted due to the amendments in property registration systems in Karnataka (e-Khata) and Madhya Pradesh and the decision of the Hyderabad Disaster Response and Asset Monitoring and Protection Agency (HYDRAA) to demolish certain constructions in Telangana.

That said, factors such as rising disposable income and sustained demand from tier 2 and tier 3 cities supported growth. Also, the home-loan appetite of the salaried class was relatively insulated from the impact of higher interest rates.

In fiscal 2026, Crisil Intelligence expects overall housing finance growth to improve to 13-14%, mainly on account of the pass on of the cumulative 100bps rate cut between February to June 2025 to the end customer, the resumption of loan disbursements in Karnataka and Madhya Pradesh as issues in property registration systems are solved; and the roll out of government initiatives, such as the Rs 30 billion allocation to the Interest Subsidy Scheme (ISS) under the Pradhan Mantri Awas Yojana (PMAY) in the budget for fiscal 2025-26.

Housing credit outstanding

Type	Share in housing loans FY25E	Housing loan book (Rs bn) FY25E	CAGR FY20-25	Growth in FY25E	Growth outlook for FY26P
HFCs/NBFCs	20%	7,766	11.3%	14.3%	15-16%
Banks	80%	30,327	13.6%	11.5%	12-13%
Overall	100%	38,106	13.1%	12.1%	13-14%

E: estimate; P: projection
Note: HDFC Limited and HDFC Bank became a merged entity effective July 1, 2023. Past numbers have been adjusted for HDFC Limited's estimated loan book for the retail housing and commercial real estate segments to arrive at normalised credit growth
Source: Company reports, RBI, Crisil Intelligence

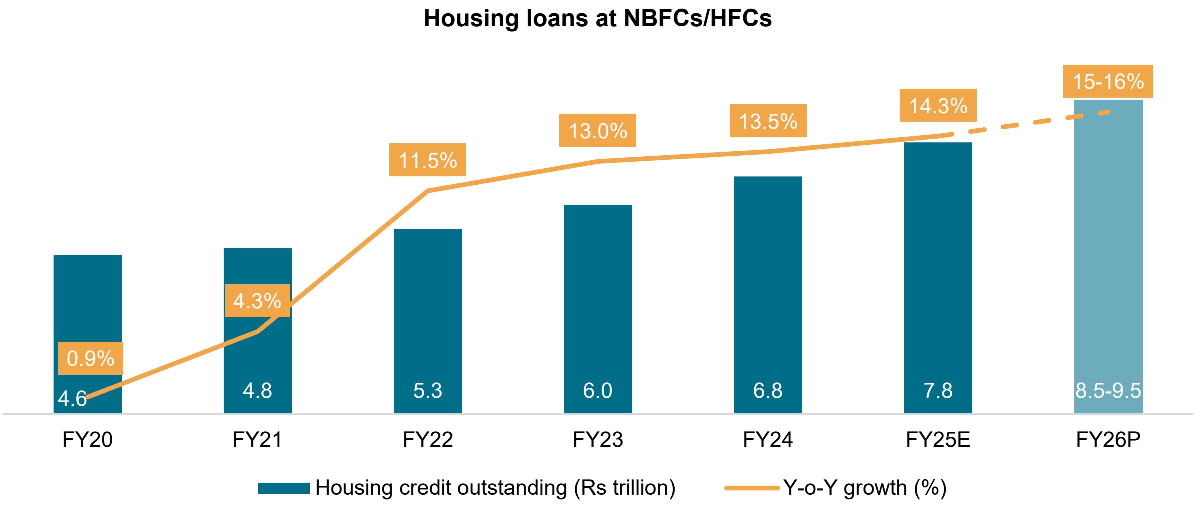
The merger of HDFC Limited with HDFC Bank resulted in a shift in market share, with banks ~80% share of the retail housing credit. Prior to the merger, the share of banks and non-banks stood at 66% and 34%, respectively. Banks have dominated the housing finance market because of their competitive advantages such as higher liquidity and the ability to offer lower interest rates.

Between fiscals 2020 and 2025, HFCs/NBFCs clocked ~11.3% CAGR in housing loans outstanding. This was because of improved affordability, release of pent-up demand, the roll-out of concessions on stamp duties by state governments and the central government's push through the PMAY.

In fiscal 2025, HFCs are estimated to have seen a housing credit growth of 14.3%, 80 bps higher than that seen in the previous fiscal, reaching around Rs 7.8 trillion. As inflation pressures eased, housing credit growth picked up, especially for prime housing focused HFCs, during the second half of the fiscal. Additionally, to alleviate the pressure of high repo rates on margins, some large HFCs established dedicated exposure segments or verticals to expand their affordable housing portfolios. This gave them an additional growth avenue.

Crisil Intelligence expects the housing loan book growth of HFCs/NBFCs to accelerate to 15-16% in fiscal 2026 as repo rate cuts boost demand for home loans. The recent budget allocation of Rs 30 billion to the ISS will provide additional impetus to this growth.

Housing credit expected at HFCs to grow steadily



E: estimate; P: projection
Note: HDFC Limited and HDFC Bank became a merged entity effective July 1, 2023. Past numbers have been adjusted for HDFC Limited's estimated loan book for the retail housing and commercial real estate segments to arrive at normalised credit growth
Source: Company reports, RBI, Crisil Intelligence

According to Crisil Intelligence, housing demand (in million square feet) in the top seven cities was broadly stable in fiscal 2025, while the capital value rose by 14%, supporting growth in the housing finance market. However, slowdown in housing demand led to an inventory build-up (unsold units). The estimated years to sale became 2.9 years in fiscal 2025 against 2.7 years a year ago.

Crisil Intelligence projects around 6% recovery in housing demand in fiscal 2026 and 6-7% rise in capital values, which will support the estimate of 13-14% growth in housing credit of banks and NBFCs/HFCs. As the stock is absorbed and demand starts to rise due to repo rate cuts by the Reserve Bank of India (RBI), developers will launch new projects to meet growing demand, supporting the credit growth.

A-HFCs continues to outpace housing credit growth, albeit at a slight slowdown

Affordable housing finance companies (A-HFCs) recorded a CAGR of ~16% in housing credit between fiscal 2020 and fiscal 2025. Rapid urbanisation and migration to cities resulted in a shortage in urban housing, particularly among the economically weaker sections (EWS). In this milieu, new housing projects mushroomed, leading to a sharp rise in disbursements by A-HFCs. The credit growth of these companies was led by the aggressive expansion of relatively small HFCs aiming for a share of the affordable segment or the tier- and -III cities' markets.

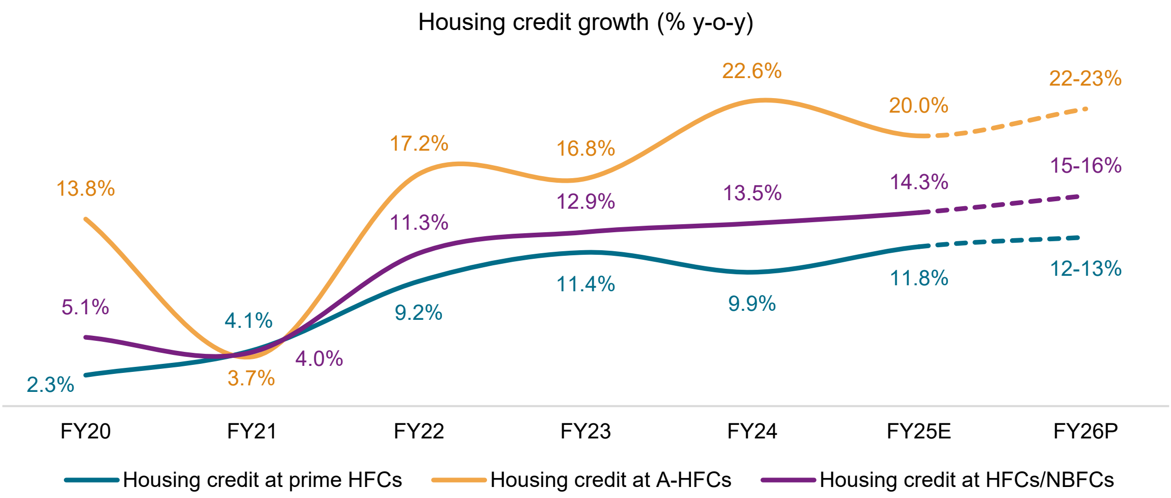
In fiscal 2025, demand for affordable housing credit remained robust. Housing credit at A-HFCs is estimated to have grown at ~20%, about 260 basis points lower than in previous fiscal, reaching Rs 2.3 trillion. The slowdown in credit growth at A-HFCs can be attributed to prolonged period of high interest rates, which impacted affordability. Moreover, few large prime housing focused HFCs ventured into the affordable housing space by setting up dedicated segments or verticals. Hence, A-HFCs faced an increase in competition and a reduction in their share of affordable housing credit.

A push in the form of the Rs 2.2 trillion allocation for PMAY-Urban over the next five years — announced in the budget — is likely to support affordable housing. This would give support to a segment that saw a decline in construction as developers shifted focus towards the premium and luxury segments in metros and tier II and III cities. The pass on of rate cut benefit is also expected to help by providing relief to the customer base.

According to Crisil Intelligence, credit growth of A-HFCs is expected to rebound to 22-23% on account of buyers getting the benefit of the repo rate cuts and traction from the PMAY schemes.

Note: Crisil Intelligence defines A-HFCs with average ticket size of less than Rs 20 lakhs

Housing credit growth of A-HFCs to rebound in fiscal 2026



E: estimate; P: projection
Note: HDFC Limited and HDFC Bank became a merged entity effective July 1, 2023. Past numbers have been adjusted for HDFC Limited's estimated loan book for the retail housing and commercial real estate segments to arrive at normalised credit growth
Prime HFCs — LIC Housing Finance, Sammaan Capital, PNB Housing Finance, Can Fin Homes, Bajaj Housing Finance and Aditya Birla Housing Finance
A-HFCs — Tata Capital Housing Finance, ICICI Home Finance, Repco Home Finance, GIC Housing, Aadhar Housing, Aavas Financiers, Nido Home Finance, Motilal Oswal Home Finance, Home First Finance, Aptus Value Housing Finance, Shriram Housing, Vastu Housing Finance Limited, IIFL Home Finance Limited, Grihum Housing Finance and Mahindra Rural Housing Finance
Source: Company reports, RBI, Crisil Intelligence

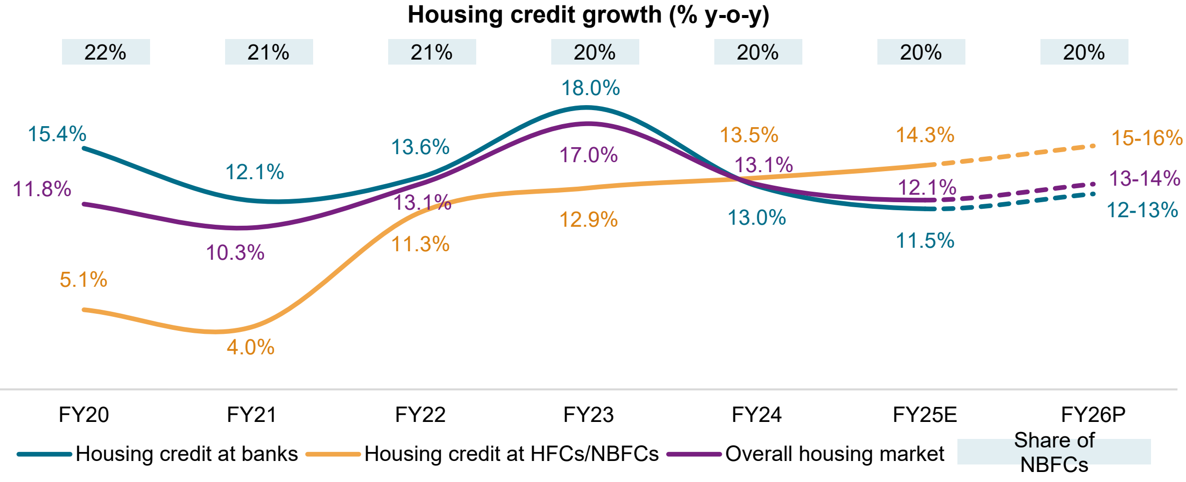
Housing credit growth of banks slowed as focus turned to high-yielding products

The housing finance book of banks recorded a slowdown in fiscal 2025. It is estimated to have grown 150 bps slower than in fiscal 2024 — at 11.5% to Rs 30.3 trillion. The slowdown can be attributed to banks' focus on high-yielding loans. Additionally, sector heavyweight HDFC Bank slowed its loan growth as its credit to deposit ratio jumped to around 110% after the merger with HDFC. As of March 2025, the ratio improved to around 96%. As a result, housing finance book of public sector banks grew at 13.6%, outpacing the private sector banks' growth of 8.1%.*

Crisil Intelligence projects the growth rate of housing credit at banks to grow 13-14% in fiscal 2026, slower than that of HFCs' 15-16%, due to a high base effect. The pick-up in disbursements through the PMAY schemes and pass on of rate cut benefit would support housing credit growth.

Note: *Based on the analysis of 20 private and public sector banks that represent around 90% market share of banks' housing finance book

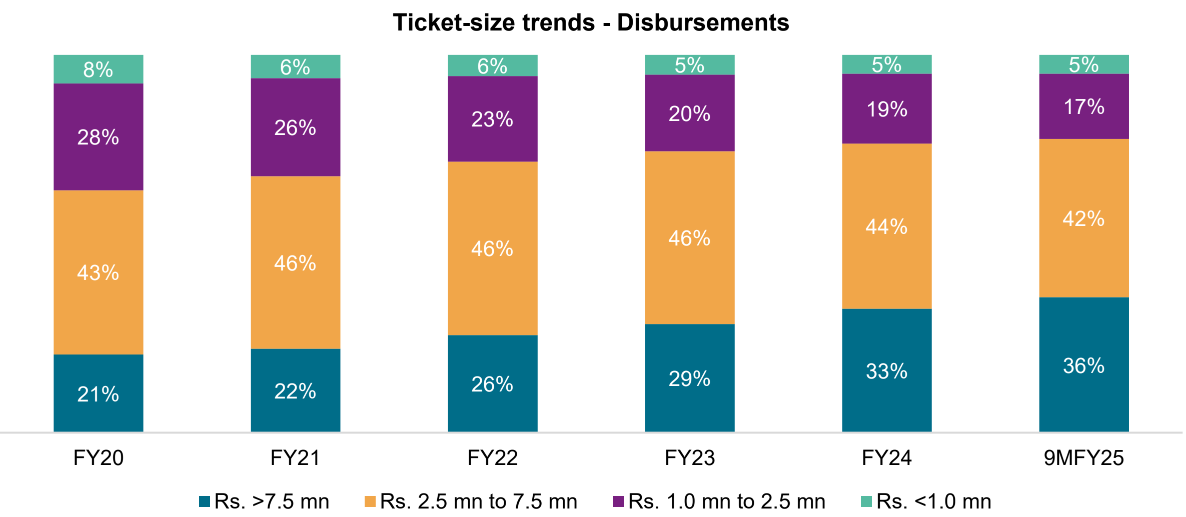
Housing credit growth of banks to recover next fiscal



E: estimate; P: projection
Notes:
1. Banking credit numbers have been revised in line with the changes in sectoral deployment data published by the RBI. Hence, comparable numbers for the previous fiscal have been revised accordingly
2. Note: HDFC Limited and HDFC Bank became a merged entity effective July 1, 2023. Past numbers have been adjusted for HDFC Limited's estimated loan book for the retail housing and commercial real estate segments to arrive at normalised credit growth
Source: Company reports, RBI, Crisil Intelligence

Share of prime housing loans increased in 9MFY25

Share of Rs 75 lakh and above rose approximately 300 bps



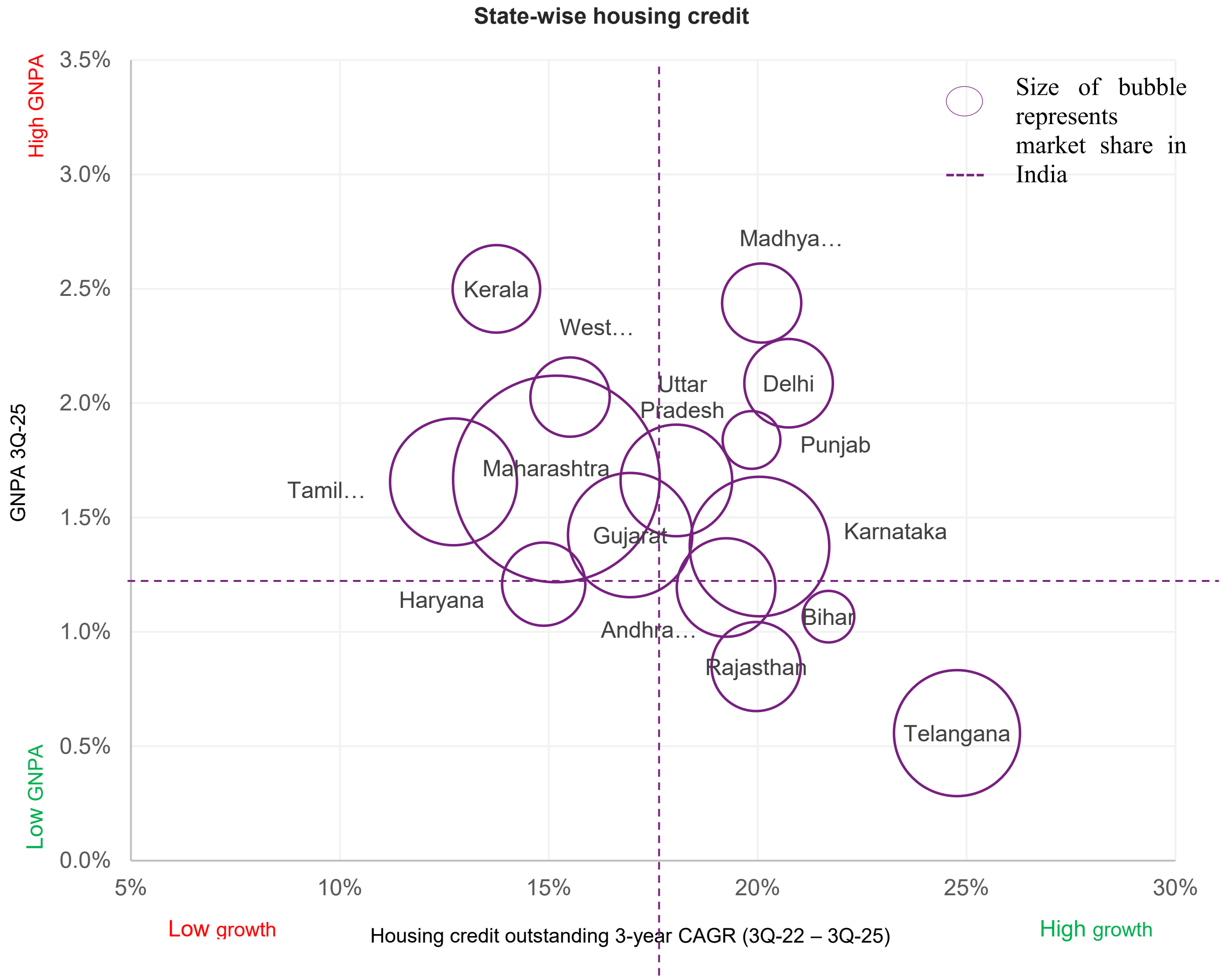
Note: The ticket size-wise share is calculated based on the value of loans disbursed during the coverage period
Source: Credit Bureau, Crisil Intelligence

In fiscal 2026, the housing loan market is expected to see a continued shift towards higher ticket sizes, driven by favourable economic situation, including a decline in repo rates and government support in the form of PMAY subsidies. The share of prime housing loans is likely to increase, supported by stable income levels of customers and sustained demand for housing. Additionally, the pass on of repo rate cuts to the end borrower are expected to improve the affordability of homes priced at Rs 25 lakh and below, while government initiatives such as the PMAY are likely to boost growth in the affordable housing sector.

In fiscal 2025, the share of prime housing loans continued to rise. The segment accounting for 36% of the market in the first half of the year. This was driven by stable income levels of customers and demand for housing, which remained largely unaffected.

In the preceding years, the housing loan market had undergone significant changes. In fiscal 2024, the mid-ticket loan segment (Rs 25-75 lakh) saw its share drop to 44%, while the high-end segment (loans above Rs 75 lakh) gained 400 bps on-year, driven by a 9% surge in property prices. Between fiscals 2021 and 2023, the mid-ticket loan segment had maintained a steady 46% share of the market. However, the proportion of homes priced at Rs 25 lakh and below had been declining since FY20 due to rising property values, while the MIG category had seen improved affordability, leading to a shift towards mid-ticket homes priced Rs 25-75 lakh.

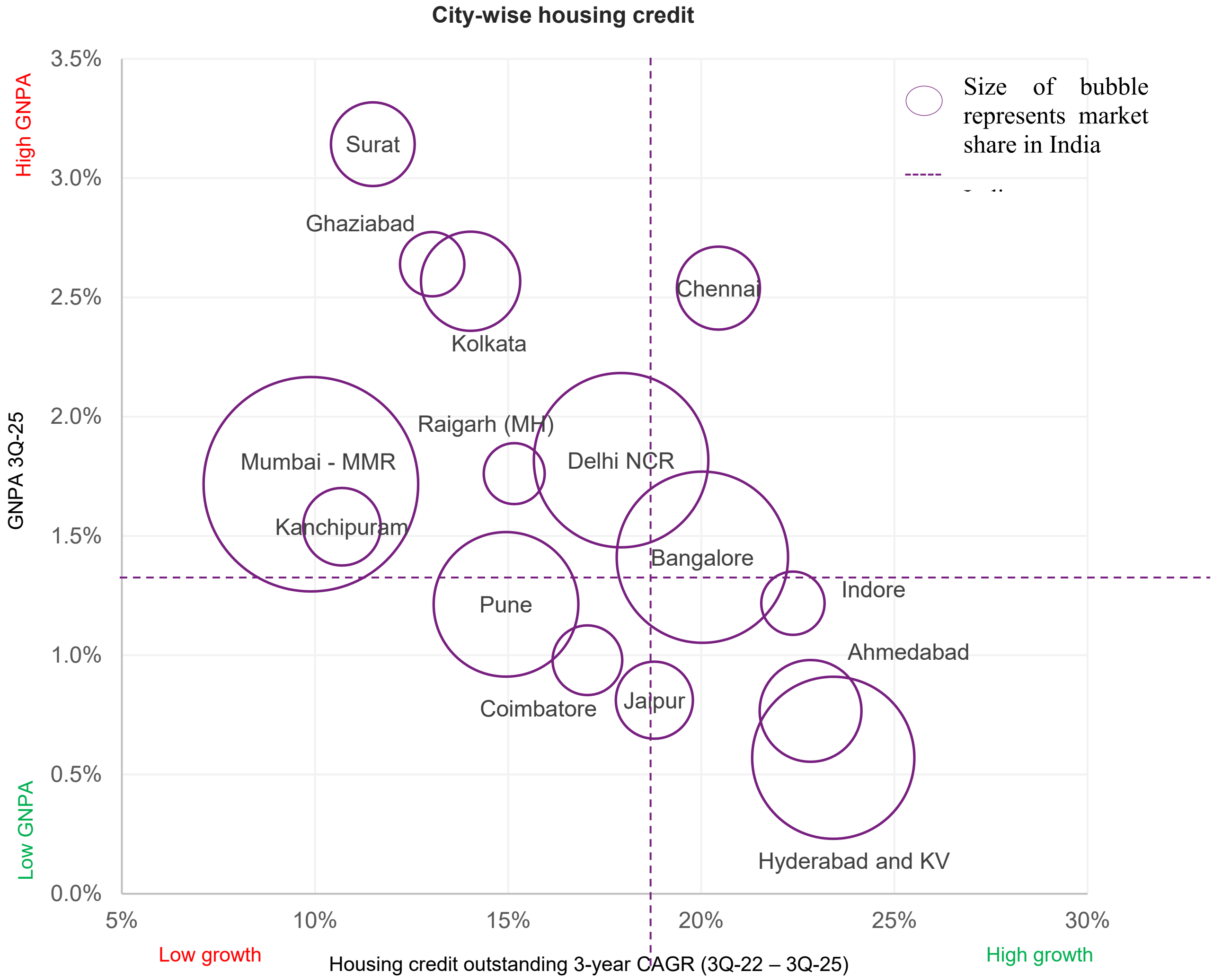
Telangana outpaced all states in growth while maintaining superior asset quality



Note: This analysis includes total housing credit outstanding (including banking credit)
Source: Credit Bureau, Crisil Intelligence

Among the top 15 states with high housing credit outstanding, Telangana and Rajasthan achieved a housing credit CAGR of more than 17% while maintaining high levels of asset quality (GNPA below 1%). The growth in Madhya Pradesh, Delhi and Punjab was higher than the national average of 17% but the stress levels were also higher. Maharashtra, Karnataka, Tamil Nadu, Telangana and Gujarat collectively accounted for more than 55% of overall housing credit in India.

Hyderabad and K.V. Rangareddy drive growth in Telangana

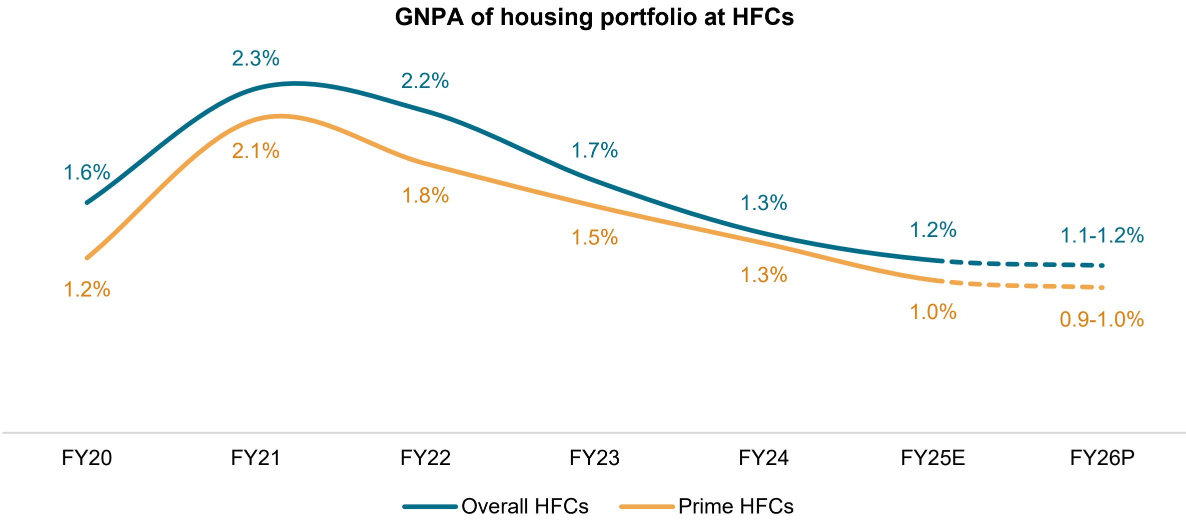


Note: This analysis includes total housing credit outstanding (including banking credit)
Source: Credit Bureau, Crisil Intelligence

Hyderabad, K.V. Rangareddy and Ahmedabad saw healthy credit growth and retained gross non-performing asset (GNPA) levels below 1%. Hyderabad performed well owing to a high salaried information technology (IT) employee base. Ahmedabad and K.V. Rangareddy fared well because of a thriving IT and IT-enabled services sector, large number of government employees and improved infrastructure. Meanwhile, business-oriented regions such as the National Capital Region (Delhi, Gurugram and Noida), Surat and Chennai saw slow credit growth and high GNPA.

Asset quality continues to improve; GNPA expected to remain rangebound

Housing portfolio continues to show resilience

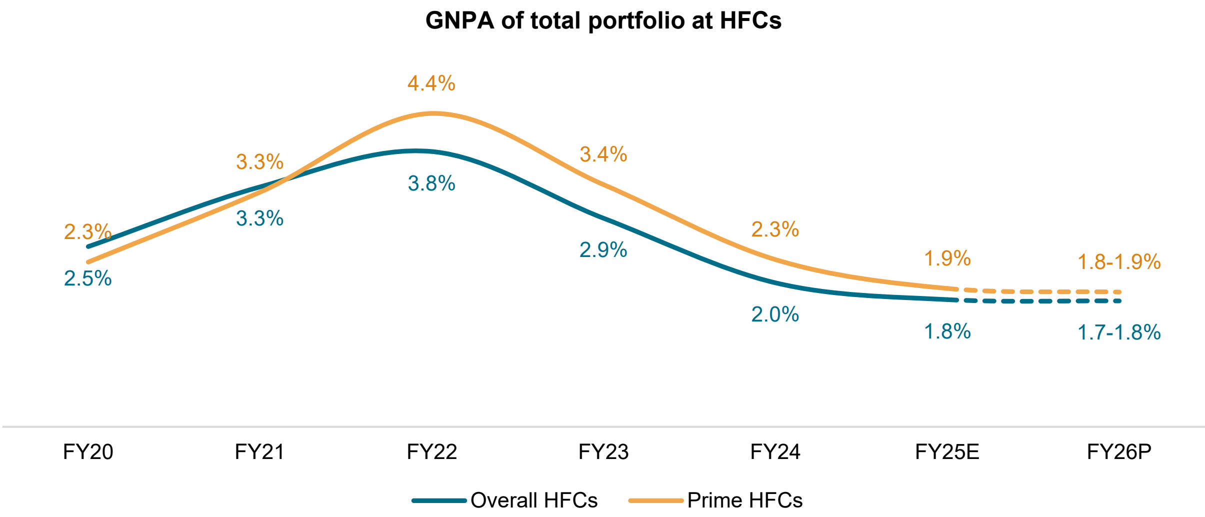


E: estimate; P: projection
Note: HDFC Limited and HDFC Bank became a merged entity effective July 1, 2023. Past numbers have been adjusted for HDFC Limited's estimated loan book for the retail housing and commercial real estate segments to arrive at a normalised credit growth
Source: Company reports, Crisil Intelligence

The housing portfolio of HFCs has seen a positive trend, with GNPAs declining since fiscal 2021, indicating an improvement in asset quality. In fiscal 2025, the GNPA is estimated to have decreased 13 basis points to 1.2% attributable to the resilience of prime HFCs' customers and intensified efforts to enhance collections efficiency by closely monitoring early delinquencies (days past due at +1 day).

We expect GNPA of the overall housing portfolio to remain in the 1.1-1.2% range fiscal 2026 on the back of a growth in loan book and pass on of rate cut benefit which is expected to alleviate the burden of high-interest rate loans on customers.

Asset quality of HFCs' total portfolio to remain rangebound this fiscal

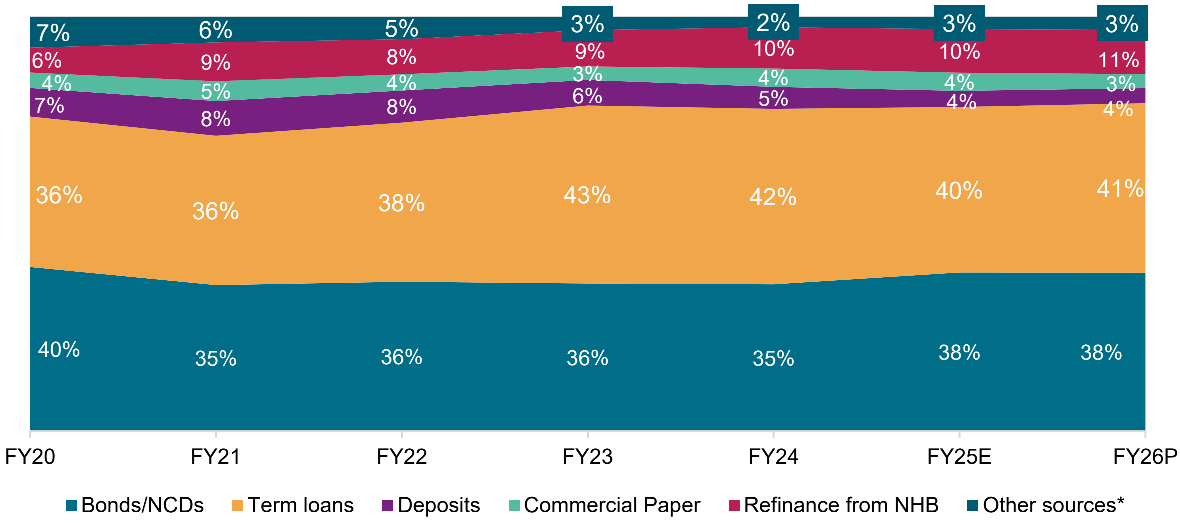


E: estimate; P: projection
HDFC Limited and HDFC Bank became a merged entity effective July 1, 2023. Past numbers have been adjusted for HDFC Limited's estimated loan book for the retail housing and commercial real estate segments to arrive at a normalised credit growth
Source: Company reports, Crisil Intelligence

In fiscal 2025, the GNPA of the overall HFC portfolio decreased 23 bps mainly due to the reduction in stress in non-housing loans, as companies offloaded a significant portion of their wholesale loans to focus on retail lending. In the non-housing portfolios, the retail loan against property and developer finance segments had a considerable share in GNPA and witnessed significant improvement in delinquency rates driven by overall economic growth and improvement in financial position of key borrowers. We project the overall GNPA of HFCs to improve marginally to 1.7-1.8% in fiscal 2026.

Bonds and term loans dominate the borrowing mix of HFCs

Share of term loans to rise in the borrowing mix of HFCs/NBFCs



E: estimate; P: projection
** Other sources include external commercial borrowings, securitisation, working capital loans, cash credit and inter corporate deposits*
Note: HDFC Limited and HDFC Bank became a merged entity effective July 1, 2023. Past numbers have been adjusted for HDFC Limited's estimated loan book for the retail housing and commercial real-estate segments to arrive at a normalised credit growth
Source: Company reports, Crisil Intelligence

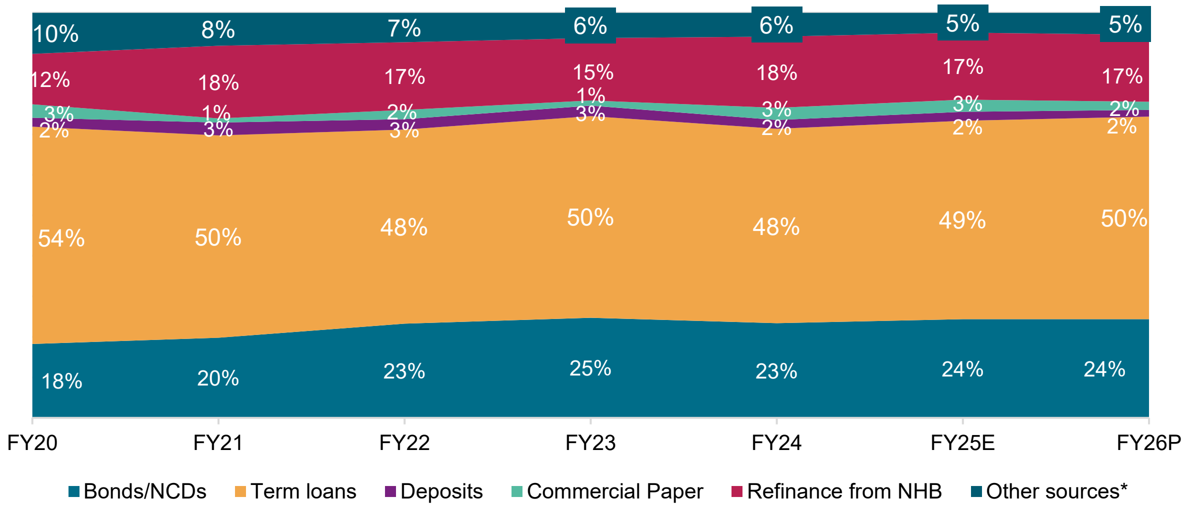
In fiscal 2025, share of bonds/NCDs in the borrowing mix of HFCs is estimated to have risen 300bps to 38% as capital market interest rates eased in anticipation of repo rate cuts, making it cheaper for higher-rated companies to borrow. On the contrary, the share of term loans declined as interest rates remained high for the most part of the fiscal. Refinancing from the National Housing Bank (NHB) stood at 10% of the borrowing mix of HFCs but accounted for a high share in the borrowing mix of A-HFCs.

Over the past few fiscals, non-convertible debentures (NCDs) were the main source of borrowings for HFCs; however, their share declined from 40% as of fiscal 2020 to 35% as of fiscal 2024. In fiscal 2023, repo rate rose a cumulative 250 bps rendering capital market borrowings more expensive. As a result, the share of term loans from banks increased from 38% in fiscal 2022 to 42% in fiscal 2024, due to better cost of funds compared with capital market borrowings, especially for lower rated entities.

We project the share of term loans to rise to 41% of total borrowings in fiscal 2026 while the share of NCDs remains broadly stable as HFCs reduce fixed-cost NCD issuance amid declining interest rate environment.

Term loans from financial institutions and NHB refinancing comprise bulk of A-HFCs' borrowings

Share of term loan borrowings to increase on anticipated repo rate cuts



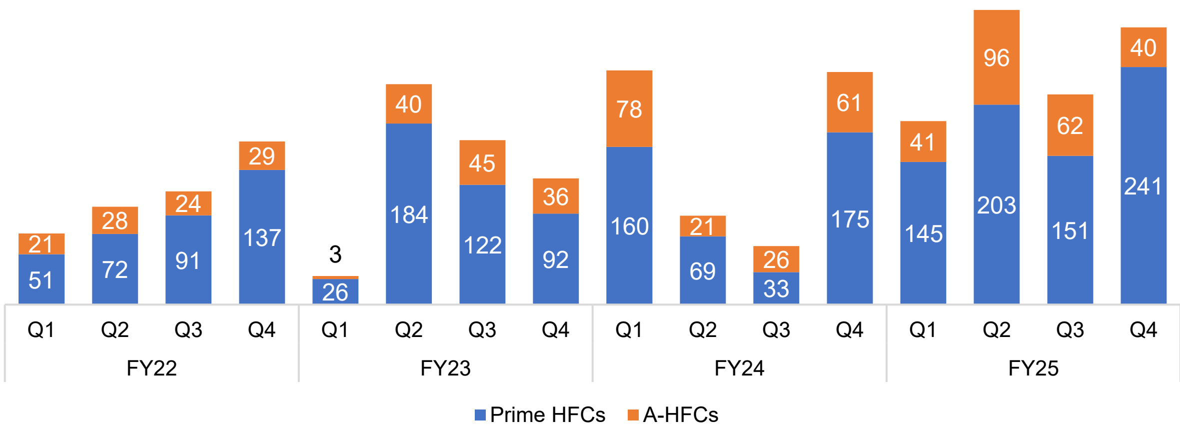
E: estimate; P: projection
** Other sources include external commercial borrowings, securitisation, working capital loans, cash credit and inter corporate deposits*
Source: Company reports, Crisil Intelligence

In fiscal 2025, term borrowings from financial institutions and refinancing from the NHB collectively accounted for ~66% of A-HFCs' total borrowing mix. NHB refinancing continues to be a critical source of funding for smaller HFCs as this provides access to lower cost of funds and helps diversify overall funding mix.

Going ahead, Crisil Intelligence expects the share of term loans in the borrowing mix to increase by 1% as lenders pass on benefits of repo rate cuts to borrowers.

NCD volume remained strong in fiscal 2025

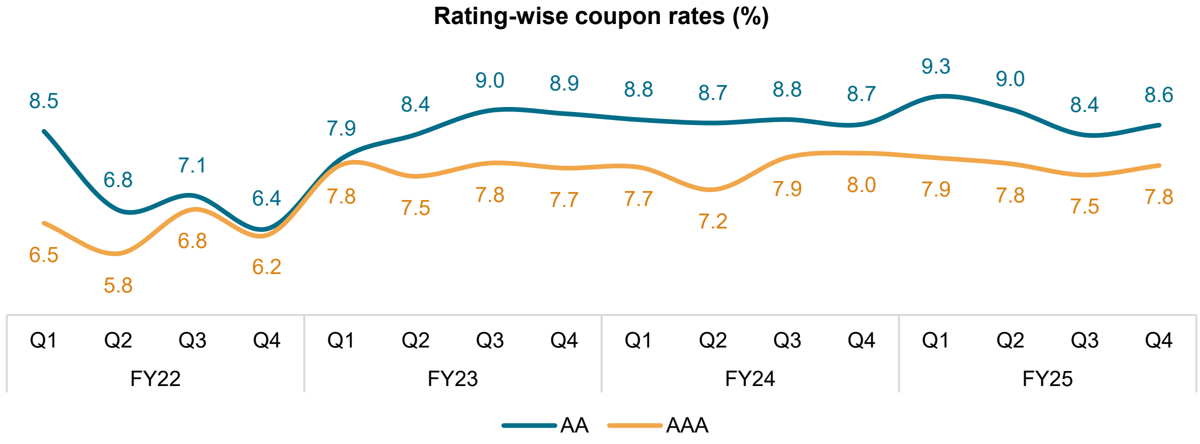
NCD Issuances (Rs bn)



Notes:
Prime HFCs considered are LIC Housing Finance Limited, PNB Housing Finance Limited, Can Fin Homes, Bajaj Housing Finance Limited, Aditya Birla Housing Finance
A-HFCs considered are Tata Capital Housing Finance, ICICI Home Finance, GIC Housing, Aadhar Housing, Aavas Financiers, Edelweiss Housing, Motilal Oswal Home Finance, Shriram Housing, Vastu Housing Finance Limited, JM Financial Home Loans Limited, IIFL Home Finance Limited, Sundaram Home Finance Limited and Home First Finance Company Limited
Source: NSE, Prime Database, Crisil Intelligences

NCD issuances remained strong last fiscal as higher-rated entities were able to borrow funds at a competitive rate. Also, smaller entities resorted to NCDs and commercial papers as funding through term loans from banks remained scarce. As a result, NCD volume last fiscal was 69% higher than the previous fiscal with prime HFCs accounting for 76% of the issuances.

Traded NCD coupon rates fell during fiscal 2025



Notes
Prime HFCs are Bajaj Housing Finance, LIC Housing, PNB Housing and Can Fin Homes.
A-HFCs considered are Tata Capital Housing Finance, ICICI Home Finance, GIC Housing, Aadhar Housing, Aavas Financiers, Edelweiss Housing, Motilal Oswal Home Finance, Shriram Housing, Vastu Housing Finance Limited, JM Financial Home Loans Limited and Home First Finance Company Limited.
The NCD coupon is computed based on the average issuance by the players listed above for a tenure of 3-7 years. NCD coupon rates are considered based on the issuance by listed players.
Source: NSE, Crisil Intelligence

In fiscal 2022, NCD coupon rates dropped due to lower market rates and HFCs benefitted from lower cost of funds. In fiscal 2023, the RBI increased its repo rate by a cumulative 250 bps in response to the rising inflation, resulting in a rise in issuance rates. As inflation neared the RBI's 4% target, market participants anticipated high probability of rate cut (which materialised in February 2025), easing NBFCs' borrowing cost.

Profitability of HFCs improved in fiscal 2025 due to one-off lower credit costs; decline in lending yields on account of rate cuts to impact profitability in fiscal 2026

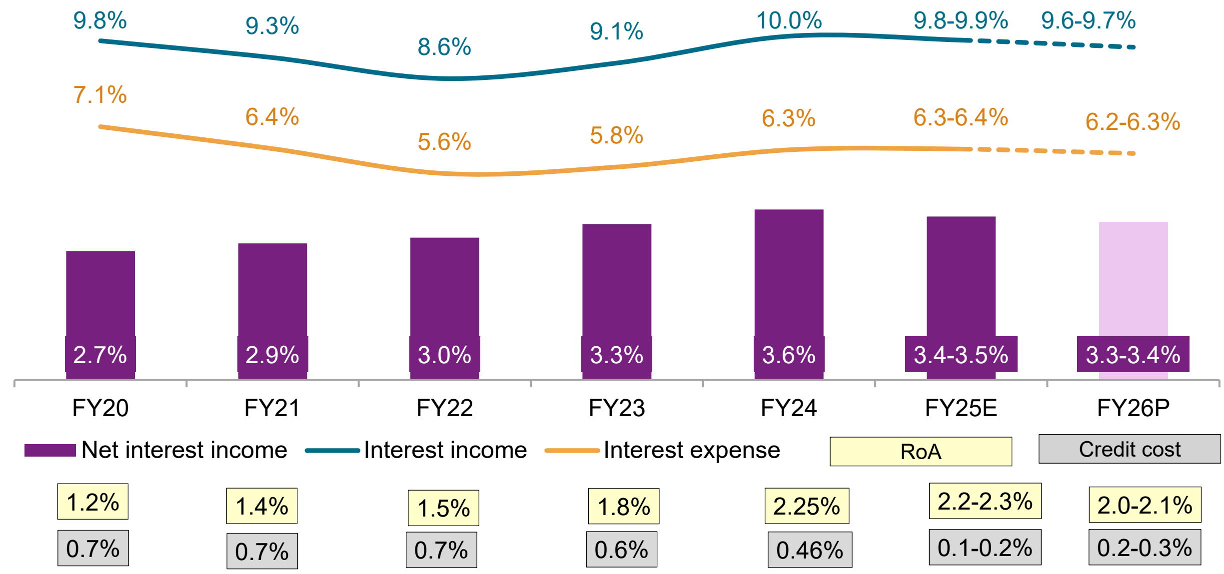
In fiscal 2025, NBFCs/HFCs loan book grew 14.3%. However, the net interest income-to-average assets ratio compressed about 15 bps to 3.4-3.5% owing to lower lending yields and higher borrowing cost. Interest income to average assets declined about 13 bps to 9.8-9.9% due to an increase in the asset base on account of loan growth, as well as pricing pressures stemming from intense competition in the housing space as both banks and non-banks focused on growing secured assets to mitigate asset quality pressures. On the funding side, cost of fund increased about 3 bps to 6.3-6.4% due to elevated interest rates and increased reliance on costlier funding sources such as commercial papers and NCDs.

Operating expenses of a few HFCs increased due to investments in technology, operational upgrades and inflationary pressures. However, these costs were offset by higher fee income.

Credit cost declined materially by about 30 bps to 0.1-0.2%, as many large HFCs reversed their provisions during the fiscal on account of improving asset quality. As a result, return on assets improved about 3 bps to 2.2-2.3%.

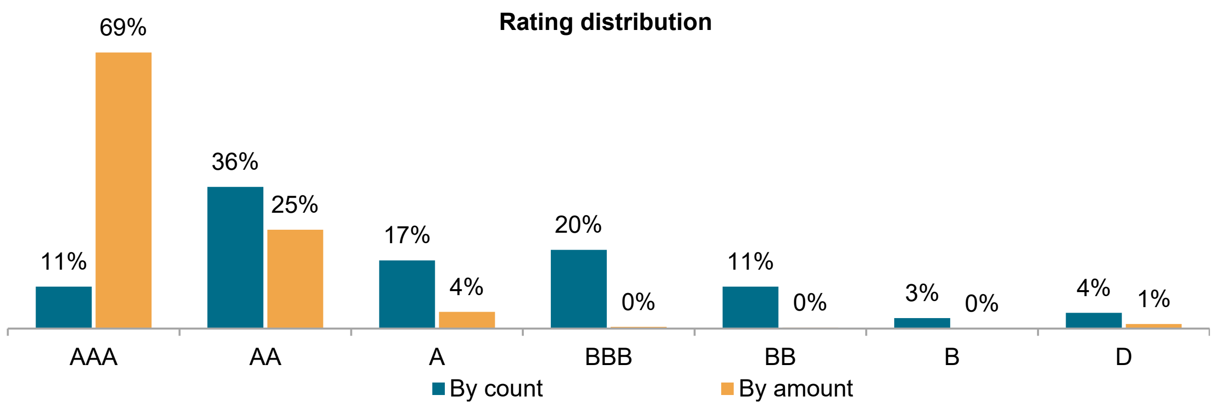
Crisil Intelligence expects interest income to average assets to decrease 20-30 bps to 9.6-9.7% in fiscal 2026, as lenders reduce yields due to repo rate cuts. Interest expense is expected to drop only 10-20 bps to 6.2-6.3% due to slower repricing, leading to a decline of 10-15 bps in net interest income to 3.3-3.4%. Credit cost is expected to increase modestly after large reversals in previous fiscals. Overall, RoA is expected to decline about 20 bps to 2.0-2.1%.

Profitability to weaken in fiscal 2026 on NII compression and higher credit cost



E: estimate; P: projection
Notes: All ratios are based on total assets
HDFC Limited and HDFC Bank became a merged entity effective July 1, 2023. Past numbers have been adjusted for HDFC Limited's estimated loan book for the retail housing and commercial real-estate segments to arrive at normalised credit growth.
Source: Company reports, Crisil Intelligence

Rating analysis of HFCs



Note: Ratings by all rating agencies. Total rated entities: 76; total rated long-term debt: Rs 11,146 billion as of April 2025
Source: Rating agencies, Crisil Intelligence

Ratings of key housing finance players

Large HFCs	Long-term rating	A-HFCs	Long-term rating
LIC Housing	AAA (Crisil)	Tata Capital Housing	AAA (Crisil)
Bajaj Housing Finance	AAA (Crisil)	ICICI Home Finance	AAA (Crisil)
PNB Housing	AA+ (Crisil)	GIC Housing	AA+ (Crisil)
Sammaan Capital	AA (Crisil)	Aadhar Housing	AA (CARE)
Can Fin Homes	AAA (ICRA)	REPCO Home Finance	AA- (ICRA)

Note: As of May 2025
Source: Rating agencies, Crisil Intelligence

Affordable housing finance – Review and outlook

Affordable-housing credit growth poised to gain momentum in fiscal 2026

The affordable housing sector provides lenders substantial opportunities for growth, backed by the government's 'Housing for All' push and largely unmet demand from low- and middle-income segments amid rapid urbanisation. Schemes such as Pradhan Mantri Awas Yojana (PMAY) and the Interest Subsidy Scheme to support development of affordable housing have, for instance, led to considerable growth of the sector in recent years.

In the milieu, credit growth of affordable-housing finance companies (A-HFCs), or companies disbursing loans with average ticket size of less than Rs 20 lakhs, logged a robust 16% compound annual growth rate (CAGR) between fiscals 2020 and 2025 compared with 11.3% CAGR for the overall HFCs/NBFCs.

Alongside rising demand for housing, the double-digit growth of A-HFCs was driven by an improved operating environment, supported by stable incomes, increasing penetration in tier I and II cities, rising disposable incomes, stable economic conditions and various government initiatives.

Housing finance credit outstanding for NBFCs/HFCs and A-HFCs

Type	Share in book FY25E	Book (Rs billion) FY25E	CAGR FY20-25	Growth in FY25E (%)	Growth outlook for FY26P (%)
Affordable HFCs	30%	2,314	15.9%	20.0%	22-23%
Overall HFCs/NBFCs	100%	7,780	11.3%	14.3%	15-16%

E: Estimate, P: Projection
Note: HDFC Limited and HDFC Bank became a merged entity effective 1 July 2023. Past numbers have been adjusted for HDFC Limited's estimated loan book for the retail housing and commercial real estate segments to arrive at normalised credit growth.
Source: Company reports, RBI, Crisil Intelligence

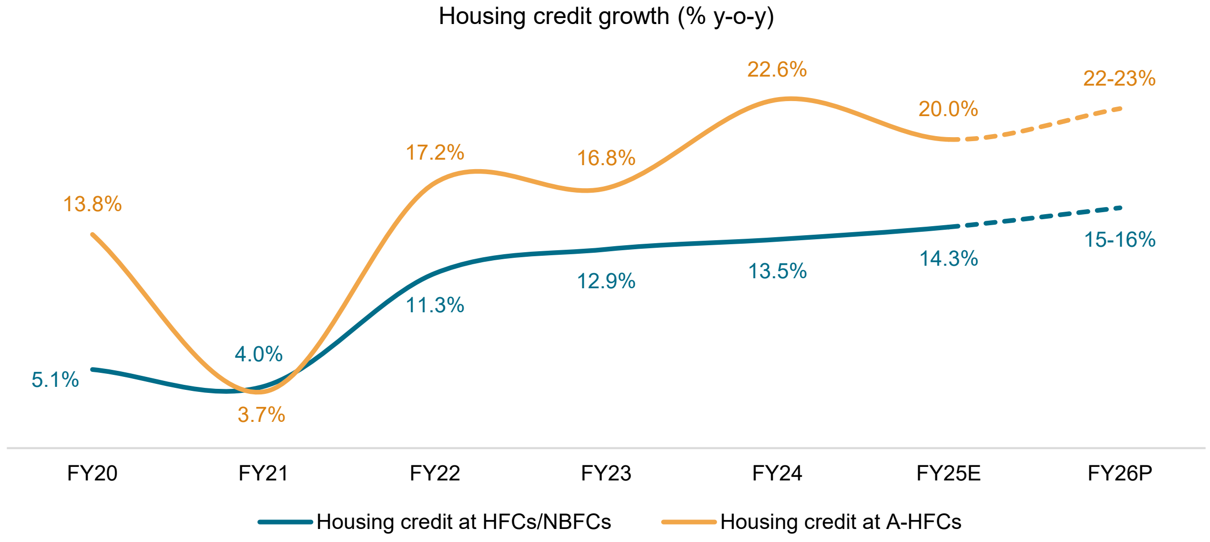
In fiscal 2025, demand for affordable housing credit remained robust, with housing credit at A-HFCs estimated to have grown at ~20% to Rs 2.3 trillion, albeit 260 basis points (bps) lower than the previous fiscal. The slowdown in credit growth at A-HFCs can be attributed to a prolonged period of high interest rates that impacted the affordability of the borrowers in this segment. Moreover, a few large prime-housing-focused HFCs ventured into the affordable housing space by setting up dedicated segments or verticals to grow affordable housing loans to support lending spreads. This increased competition for A-HFCs and reduced their share of affordable housing credit.

Going forward, the Rs 2.2 trillion allocation for PMAY-Urban over the next five years, announced in Union Budget 2024-25, is likely to support affordable housing, which has lately seen a decline in construction activity, with developers increasingly shifting focus to premium and luxury segments in metros and tier II/III cities. Moreover, cumulative rate cut of 100 bps between February to June 2025 should provide relief to the underlying customer base.

According to Crisil Intelligence, A-HFCs' credit growth is expected to gain momentum to 22-23% on account of the passing on of the benefits of the repo rate cut on interest rates and the traction from PMAY schemes.

Note: Crisil Intelligence defines A-HFCs as those companies with an average ticket size of less than Rs 20 lakhs

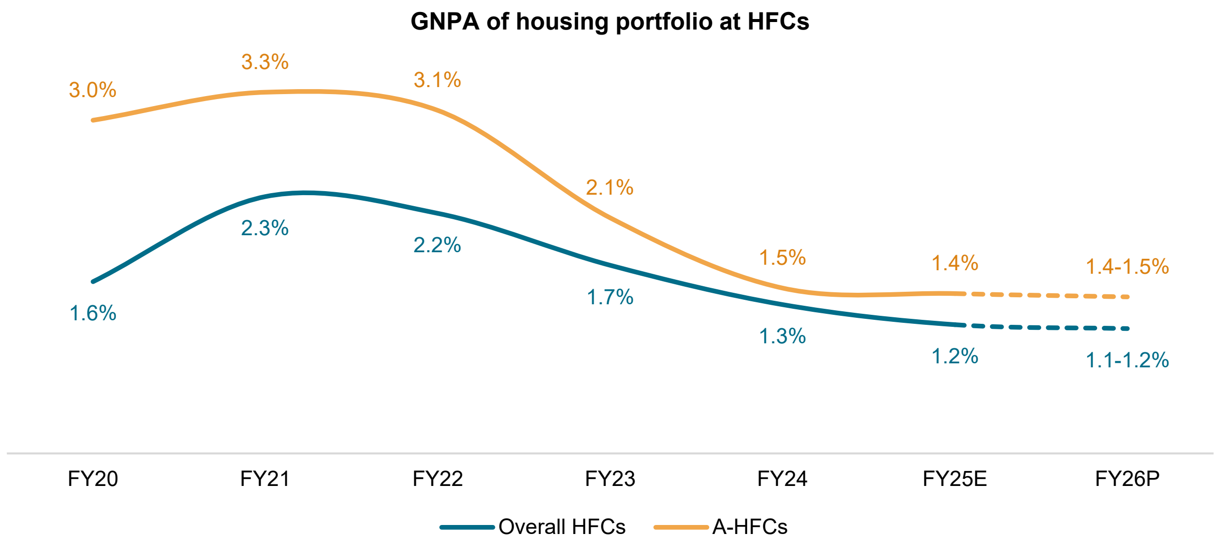
Credit growth of A-HFCs vs the overall segment



E: Estimate, P: Projection
Note: HDFC Limited and HDFC Bank became a merged entity effective 1 July 2023. HDFC Limited's past loan book for the retail housing and commercial real estate segments have been adjusted to arrive at normalised credit growth
Source: Company reports, Reserve Bank of India (RBI), Crisil Intelligence

Asset quality in affordable housing segment to stabilise, supported by falling interest rates, rising availability of information and technology integration for credit assessment

Gross non-performing assets (GNPA) of A-HFCs to remain range-bound in fiscal 2026

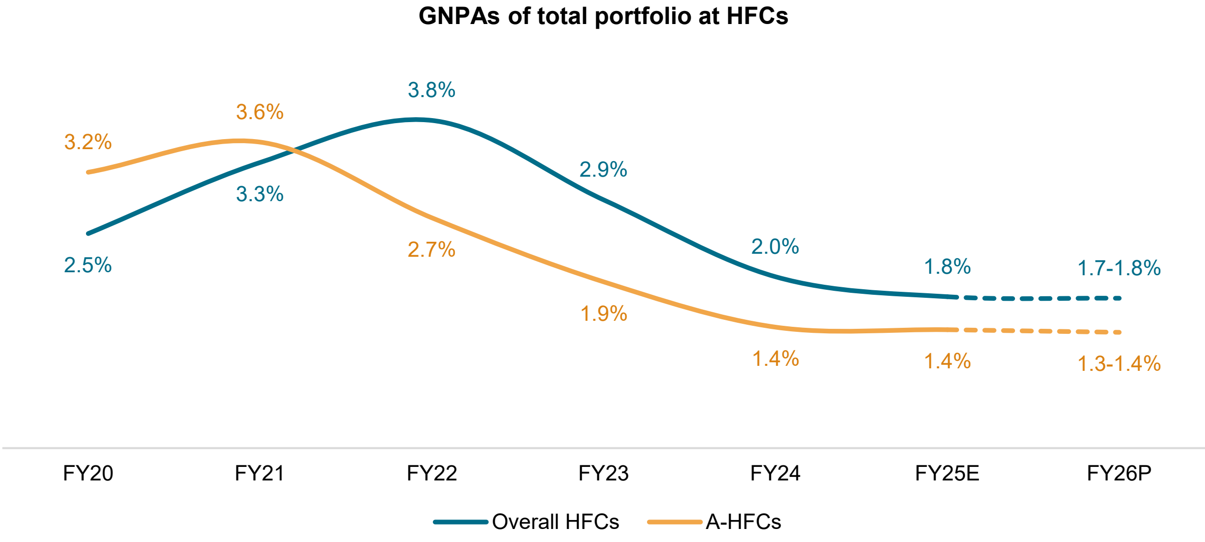


E: Estimate, P: Projection
Note: HDFC Limited and HDFC Bank became a merged entity effective 1 July 2023; historical numbers have been adjusted for the HDFC Limited's book considered under banks and eliminated from HFCs.
Source: Company reports, RBI, Crisil Intelligence

In fiscal 2025, GNPAs of the affordable housing portfolio improved 5 bps owing to enhanced collections, resilient economic conditions and appropriate underwriting controls of the customer base.

According to Crisil Intelligence, the asset quality of A-HFCs is expected to remain range-bound at 1.4-1.5% in fiscal 2025, supported by the passing on of the rate-cut benefits on lending rates to end-borrowers.

GNPA of the total portfolio of A-HFCs to remain broadly stable in fiscal 2026



E: Estimate, P: Projection
Note: HDFC Limited -HDFC Bank became a merged entity effective 1 July 2023; historical numbers have been adjusted for HDFC Limited's book considered under banks and eliminated from HFCs
Source: Company reports, RBI, Crisil Intelligence

Since fiscal 2022, A-HFCs' total portfolio GNPAs has remained lower than that of the total housing market. In fiscal 2022, GNPAs of the total portfolio of HFCs increased 60bps to 3.8% owing to stress in the non-housing portfolio, particularly wholesale loans of the prime HFCs. As a result, prime HFCs offloaded a significant portion of their wholesale loans to focus on retail lending. This improved the overall HFCs GNPAs ratio to 2.9% in fiscal 2023.

On the contrary, A-HFCs were relatively insulated in fiscal 2022, largely due to their cautious approach in limiting exposure to construction finance and wholesale portfolios. Instead, these companies have focused on individual housing loans and loans against property (LAP) portfolios, which safeguarded their asset quality during the period. Similar to the broader industry trend, A-HFCs' total portfolio GNPAs have been on the declining trend since fiscal 2022, reaching around 1.4% in fiscal 2025 from 2.7% in fiscal 2022.

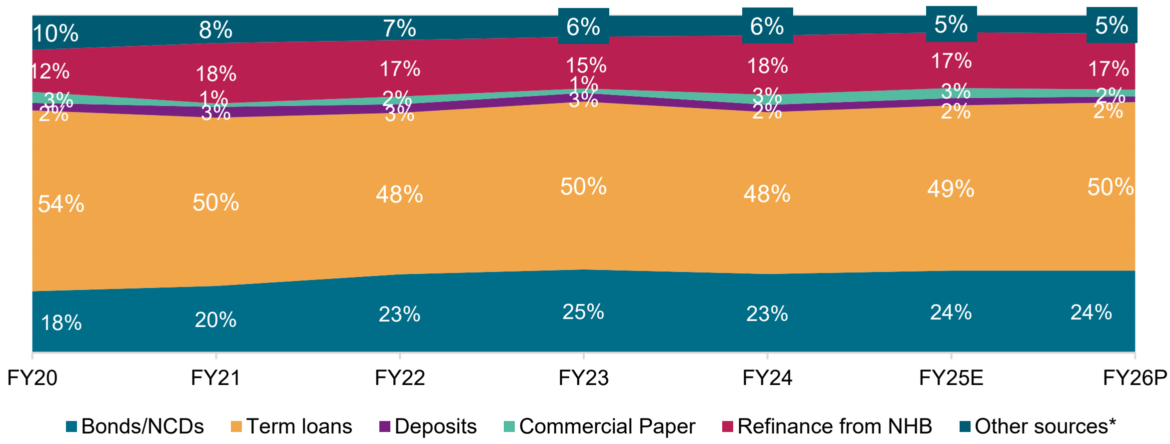
Crisil Intelligence expects A-HFCs' total portfolio GNPAs to remain range-bound at 1.3-1.4% in fiscal 2026, supported by the passing on of the rate-cut benefits on lending rates to end-borrowers, as well as a slight recovery in GDP growth to 6.5%.

Term loans from financial institutions and NHB refinancing comprise the bulk of A-HFCs' borrowings

In fiscal 2025, term borrowings from financial institutions and refinancing from the NHB collectively accounted for ~66% of A-HFCs' total borrowing mix. NHB refinancing continues to be a critical source of funding for smaller housing finance companies as it provides access to lower cost of funds and helps diversify the overall funding mix. The proportion of such borrowings increased to 17% in fiscal 2025 from 15% in fiscal 2023 and is expected to remain range-bound in fiscal 2026.

Crisil Intelligence expects the proportion of term loans to increase 100 bps in fiscal 2026 as lenders pass on the benefits of repo rate cuts to borrowers.

Term borrowings to increase 100 bps each in the next fiscal



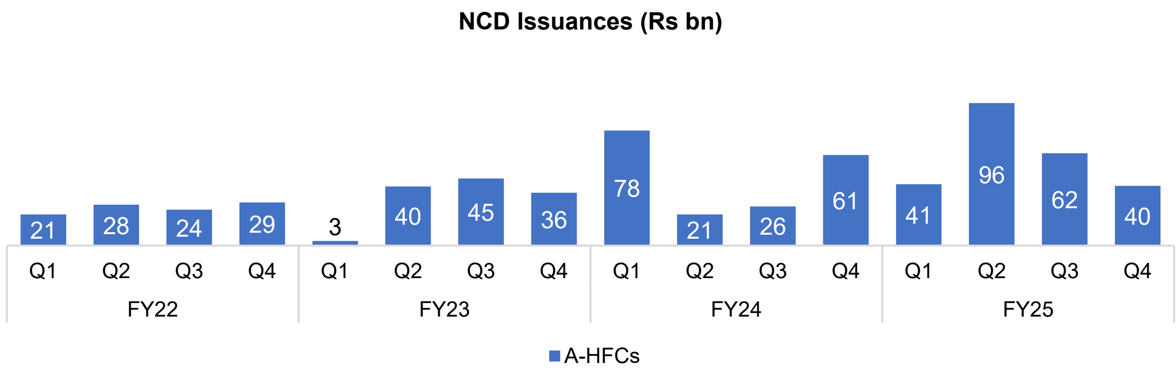
E: Estimate, P: Projection
**Other sources include external commercial borrowings, securitisation, working-capital loans, cash credit and inter-corporate deposits*
Source: Company reports, Crisil Intelligence

NCD issuances rise in fiscal 2025, supported by RBI's pivot to rate cut

In fiscal 2025, NCD issuance picked up as market rates declined in anticipation of RBI's pivot to rate cut, which materialised in February 2025. Additionally, smaller A-HFCs resorted to NCD issuance as term loans from banks remained scarce amid tight liquidity conditions.

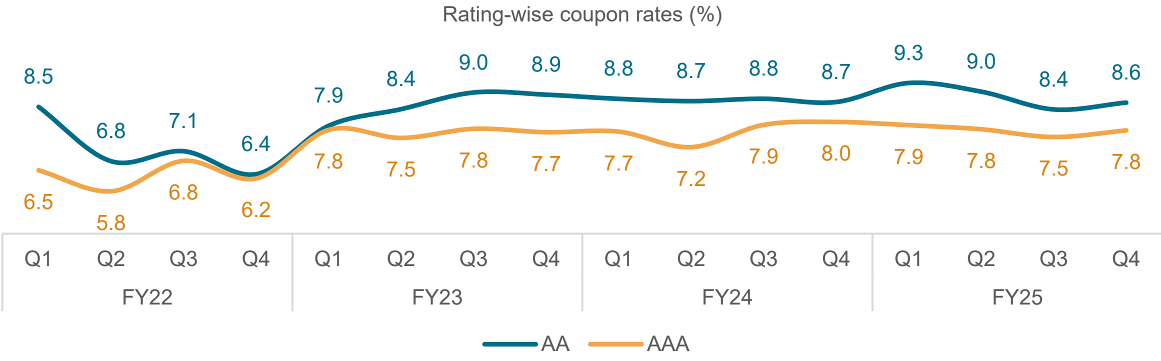
In fiscal 2024, interest rates remained high, leading to an increase in borrowing costs across funding types. Mobilisation of funds via the deposits route continued to be a challenge for both banks and HFCs as investors moved to high-yield investments such as mutual funds and equities, leading to an increase in funding from the capital markets and term borrowings.

Value of NCD issued rose 29% in fiscal 2025



Note: A-HFCs include Tata Capital Housing Finance Limited, ICICI Home Finance, GIC Housing Finance Limited, Aadhar Housing Finance Limited, Aavas Financiers, Edelweiss Housing Finance, Motilal Oswal Home Finance Limited, Shriram Housing Finance Company Limited, Vastu Housing Finance Limited, JM Financial Home Loans Limited, IIFL Home Finance Limited, Sundaram Home Finance Limited and Home First Finance Company Limited.
Source: NSE, PRIME Database, Crisil Intelligence

Traded NCD coupon rates rising



Notes:
Prime HFCs include Bajaj Housing Finance, LIC Housing, PNB Housing and Can Fin Homes.
A-HFCs include Tata Capital Housing Finance Limited, ICICI Home Finance, GIC Housing Finance Limited, Aadhar Housing Finance Limited, Aavas Financiers, Edelweiss Housing Finance, Motilal Oswal Home Finance Limited, Shriram Housing Finance Company Limited, Vastu Housing Finance Limited, JM Financial Home Loans Limited and Home First Finance Company Limited.
The NCD coupon is computed based on average issuance by the players listed above for a tenure of 3-7 years. NCD coupon rates are considered based on the issuance by listed players.
Source: National Stock Exchange, Crisil Intelligence

In fiscal 2022, NCD coupon rates dropped due to lower market rates, and HFCs benefitted from the lower cost of funds. In response to growing inflation, the RBI increased its repo rate by a cumulative 250 bps in fiscal 2023, resulting in a rise in issuance rates. Further, as inflation neared the 4% target, market participants anticipated a high probability of rate cut (which materialised in February 2025), easing NBFCs' borrowing cost.

Controlled credit costs to provide some support to RoA in fiscal 2026

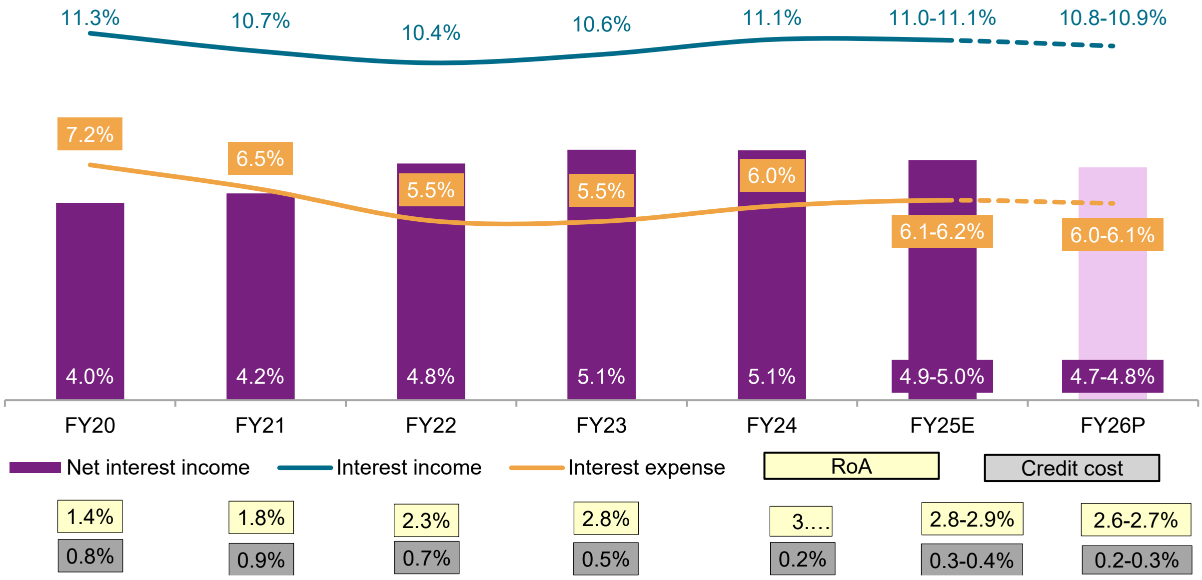
In fiscal 2025, A-HFCs' net interest margin (NIM) declined 20 bps to 4.9-5.0%, mainly on account of rising funding costs. As term loan funding from banks was tight, A-HFCs turned to relatively high-cost funding sources such as NCDs and commercial papers to fund loan growth. As a result, their fund cost increased around 18 bps to 6.1-6.2%. Lending yield declined only 2bps to 11.0-11.1% due to tight competition in the affordable-housing space, though many A-HFCs also raised their prime-lending rate in the second half of fiscal 2025 amidst their rising borrowing cost.

Provisions for A-HFCs increased 16 bps in fiscal 2025 to around 0.3-0.4% due to write-offs. As a result, the return on average assets (RoA) declined ~16 bps to 2.8-2.9%.

For fiscal 2026, Crisil Intelligence projects interest income to decline 18 bps to 10.8-10.9% due to the passing on of rate benefits to end-customers. However, borrowing costs are expected to decline ~10 bps to 6.0-6.1% as the average funding cost of fixed-rate funding sources such as NCDs and commercial papers are slow to reprice. As a result, net interest income to average assets ratio is expected to decline 15 bps to 4.7-4.8%.

Credit costs are expected to decline ~10 bps to 0.2-0.3% due to stable asset quality. Overall, RoA is expected to decline ~18 bps to 2.6-2.7% in fiscal 2026.

NIMs to contract in fiscal 2026 due to slower repricing of fixed-cost borrowings



E: Estimate, P: Projection
Note: All ratios are based on total assets
Source: Company reports, Crisil Intelligence

Housing finance – Industry overview

Crisil Intelligence defines affordable-housing loans as housing loans with an average ticket size of less than Rs 20 lakhs.

A-HFCs are able to garner share owing to:

- Strong origination skills and a focused approach
- Ability to cater to a niche category of customers
- Relatively superior customer service and diverse channels of business sourcing
- Non-salaried profile of ~80% of customers
- Higher presence in smaller cities

These factors have helped A-HFCs capture market share as banks have become risk-averse and are focusing on high-ticket customers with good credit profiles.

By virtue of being largely present in metros and urban areas, ticket sizes of banks and large HFCs have followed rising property prices. Further, focus on the urban salaried segment by banks and large HFCs has enabled A-HFCs to tap credit demand from non-salaried customers, Tier 3 cities and rural markets.

Characteristics of HFCs

Parameters	Large HFCs (average ticket size > Rs 20 lakhs)	A-HFCs (average ticket size < Rs 20 lakhs)
Markets	Metros, urban, semi-urban	Semi-urban, rural
Customers	Salaried customers, high-net-worth individuals	Self-employed customers, small traders, farmers
Average yield	7-9%	9-13%
Average LTV	65-75%	50-60%

Source: Company reports, Crisil Intelligence

Business model

The high cost of serving the affordable-housing category has prompted financiers to adopt innovative models to source business. An HFC targeting the low-income, informal-sector customer employs a hub-and-spoke model, where its retail branches operate as ‘hubs’ in urban areas, while project site kiosks follow up on low-income construction projects to source customers.

Although this model is popular and largely followed by financiers, a developer-based model, where the HFC is present at the low-income housing-project site and business takes place directly alongside developer-partners, is not uncommon. Financiers also spread awareness about their products in rural areas by setting up kiosks at *gram sabhas* and arranging loan *melas*.

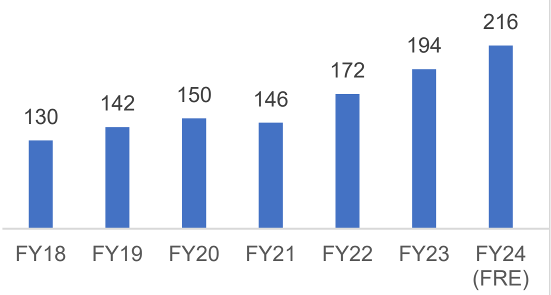
Direct customer contact enables better visibility and reliable customer assessment, thus limiting fraud. Moreover, all critical functions, such as origination, verification and credit appraisal, are undertaken in-house, while certain non-core activities, such as loan documentation and processing, may be outsourced. This allows a start-up HFC to allocate more internal resources towards vital aspects of lending, such as verification and credit appraisal.

Customer risk

HFCs are aware of the challenges of serving low-income customers and the informal sector, in particular. There are fundamental differences compared with traditional housing finance, as this income group rarely has proof of income and expenditure documents that conventional mortgage lenders rely on to assess creditworthiness. Thus, evaluating these customers requires more of a field-based approach to verify cash flow – using surrogates and building up knowledge about customer sub-segments to increase assessment reliability. The person, and not just documents, helps assess credit quality.

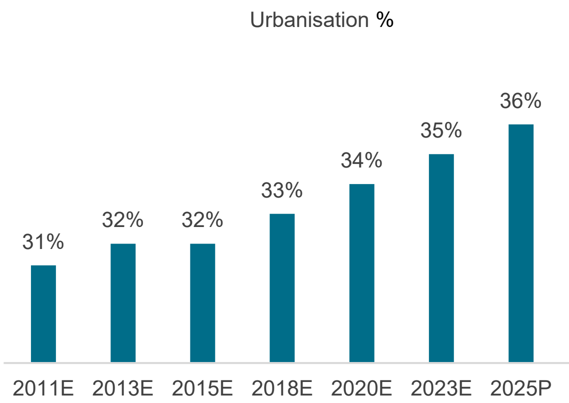
Long-term growth drivers of the housing finance sector

Rising per capita income



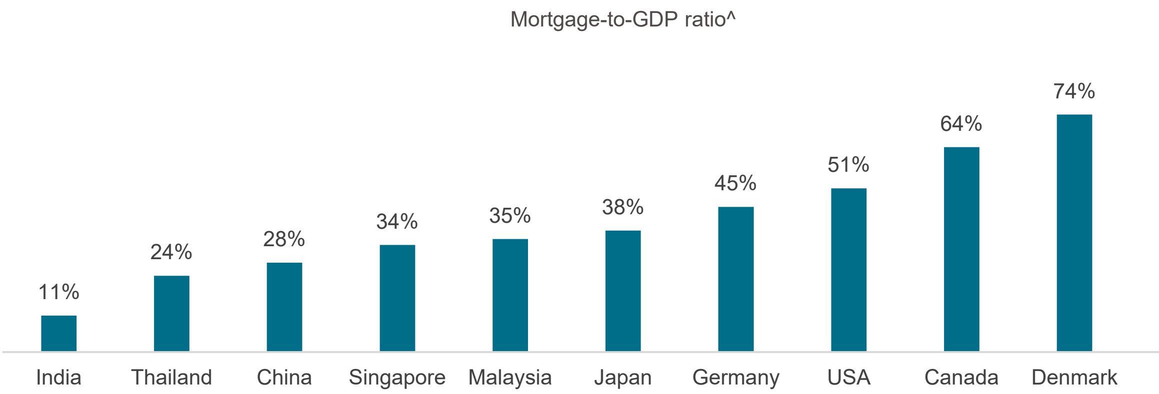
Rising income levels lead to higher disposable income, and therefore increased affordability

Rapid urbanisation



Urbanisation increases the number of nuclear families, leading to the formation of more urban households

Significant opportunity for mortgage penetration



India’s mortgage penetration, though low, is improving owing to ease of financing, tax incentives, and increasing reach of financiers

FRE: First Revise Estimate, PE: Provisional Estimate
^For India as of fiscal 2024
Source: European Mortgage Federation as of calendar year 2023: Singapore, Germany, USA, Canada, Denmark, Japan (as of 2021) and UK; Housing Finance Information Network: China (as of 2017), Thailand (2018) and Malaysia (2018); Ministry of Statistics and Programme Implementation; United Nations Department of Economic and Social Affairs; International Monetary Fund; Crisil Intelligence

Risks and challenges

Competitive advantage of banks vis-à-vis HFCs

- Banks have access to borrowers’ banking behaviour and their repayment history by which they approach their regular customers by offering lower interest rates (than HFCs) and zero processing fee.

Funding disadvantage for lower rated HFCs

- Smaller HFCs have disadvantage due to the mix of funding (mid-size and small HFCs are more bank-funded) and higher costs (as credit ratings are lower)

Delay in project approvals and construction

- HFCs’ cash flows are largely dependent on the timely completion of projects, in which their customers have bought housing.
- If the project gets delayed, the borrower may start defaulting on loans

Lack of proper title; lack of data for credit appraisal

- Credit score availability in India is still at a nascent which makes it difficult to judge the ability of the borrower to repay
- HFCs are trying hard to mitigate this risk by doing more due diligence by their technical team.

Key government schemes for the housing sector

Pradhan Mantri Awas Yojana (PMAY)

For addressing rural housing shortage, the erstwhile Indira Gandhi Awas Yojana was restructured as PMAY – Gramin (PMAY-G; effective April 1, 2016) to fulfil the government’s commitment to providing pucca houses with basic amenities by 2022 to all individuals who did not own a house and those living in kutcha and dilapidated dwellings. The scheme provided financial assistance for constructing/upgrading homes in rural areas. It targeted a total of 49.4 million houses, of which 29.4 million houses were under PMAY 1.0 (2015-24) and 20 million under PMAY 2.0 (2024-29).

For urban housing shortage, the Ministry of Housing and Urban Affairs launched PMAY – Urban (PMAY-U) on June 25, 2015, to address the shortage of urban housing among the Economically Weaker Sections/Lower Income Group (EWS/LIG) and Middle Income Group (MIG) segments, including slum dwellers, and provide pucca houses to all eligible urban households by 2022 (further extended to 2024). The scheme aimed to provide 10 million houses for EWS, LIG and MIG by providing interest subsidies (Credit Linked Subsidy Scheme) on home loans. Credit Linked Subsidy Scheme is a central government component, implemented through nodal agencies such as the National Housing Bank (NHB), Housing and Urban Development Corporation and State Bank of India. The scheme targeted to provide 20 million houses, of which 10 million were under PMAY 1.0 and another 10 million under PMAY 2.0.

PMAY 2.0 was launched in September 2024, with a goal to construct 30 million houses over the next five fiscal years. PMAY 2.0 reinstates the Interest Subsidy Scheme (ISS), previously known as the CLSS, and introduces revisions to the target beneficiary group. The key comparable aspects between the original PMAY scheme and PMAY 2.0 are as follows:

	PMAY 1.0	PMAY 2.0
Launch year	2015	2024
Housing target (million)	49.5	30
of which, urban	*20*	*10*

	PMAY 1.0	PMAY 2.0
of which, rural	*29.5*	*20*
Nature of support		
Urban	Credit Linked Subsidy Scheme	Interest Subsidy Scheme
Rural	Financial assistance	Financial assistance
Eligibility criteria		
Urban	EWS – annual income up to Rs 0.3 million LIG – annual income between Rs 0.3 million and Rs 0.6 million MIG I – annual income between Rs 0.6 million and Rs 1.2 million MIG II – annual income between Rs 1.2 million and Rs 1.8 million	EWS – annual income up to Rs 0.3 million LIG – annual income between Rs 0.3 million and Rs 0.6 million MIG – annual income between Rs 0.6 million and Rs 0.9 million
Rural	Below-poverty-line households	Below-poverty-line households
Interest rate subsidy		
Urban	EWS – 6.5% LIG – 6.5% MIG I – 4% MIG II – 3%	4% across all income groups
Rural	3.00%	3.00%

A key difference between the two schemes is the nature of support of interest subsidy. Under the erstwhile scheme, interest subsidy was credited upfront to the loan account of the beneficiary with primary lending institutions (PLIs), resulting in reduced equated monthly instalment (EMI). However, under PMAY 2.0, interest subsidy will be released in five equal yearly instalments. Further, if the borrower has taken a housing loan from one PLI and later switches to another PLI for balance transfer, such beneficiary will not be eligible to claim the benefit of interest subsidy again. This significantly reduces balance transfer risk among lenders. The government has allocated Rs 35 billion for fiscal 2026, which is split between the EWS/LIG and MIG segments under ISS. Under ISS, the end-borrower is expected to receive a benefit of up to Rs 180,000 with a net present value of approximately Rs 150,000 during the tenure of the loan.

Budgetary allocations under PMAY

Schemes	FY24A (Rs billion)	FY25RE (Rs billion)	FY26BE (Rs billion)	FY26BE over FY25RE
PMAY-U	216.84	136.70	197.94	45%
PMAY-U 2.0	-	15	35	133%

Source: Budget documents, Crisil Intelligence

Higher budgetary allocations to PMAY-U reflect the central government's focus on housing. PMAY-U 2.0 received a separate allocation. This is likely to revive interest in the weakening affordable-housing segment, with developers increasingly shifting focus towards the premium and luxury segments in Tier I and II cities.

PMAY's progress as of June 30, 2025

Progress of PMAY-U	Number of houses / values	Progress of PMAY-G	Number of houses / value
Houses sanctioned	11.93 million	House target	41.23 million
Houses grounded	11.29 million	Houses sanctioned	38.50 million
Houses completed	9.38 million	Houses completed	28.27 million
Central assistance committed	Rs 1,970 billion	Fund allocated	Rs 3,766 billion
Central assistance released	Rs 1,732 billion	Fund released	Rs 3,025 billion
Total investment	Rs 8,160 billion	Fund utilised	Rs 3,785 billion

Source: Crisil Intelligence

Atal Mission for Rejuvenation and Urban Transformation (AMRUT)

The purpose of AMRUT is to provide basic services (e.g., water supply, sewage connections and urban transport) to households, build amenities in cities and improve the quality of life for all, especially the poor and the disadvantaged.

Key components of AMRUT:

- Access to a tap with assured water supply for every household

- Assured sewerage connection in every household
- Better amenities in cities by developing greenery and well-maintained open spaces (such as parks)
- Lower pollution by switching to public transport or constructing facilities for non-motorised transport (e.g., walking and cycling)

Auto finance – Review and outlook

NBFCs vehicle finance growth to be supported by continued demand for used vehicles and premiumisation.

Overall auto finance credit outstanding to grow at modest pace of 14-15% in fiscal 2026

Type	Share in book FY25E	Book (Rs billion) FY25E	CAGR (FY20-25E)	Growth outlook for FY25E	Growth outlook for FY26P
NBFCs	45.6%	5,504	13.8%	15.9%	16-17%
Banks	54.4%	6,572	15.0%	11.5%	12-13%
Overall	100.0%	12,076	14.4%	13.5%	14-15%

Note: E – estimated; P: projected
Source: Reserve Bank of India (RBI), company reports, Crisil Intelligence

The automotive sector comprises four key segments—commercial vehicles (CVs), passenger vehicles (PVs), two-and-three-wheelers and tractors.

Post-pandemic growth in the sector has been robust, riding on a low-base effect, a gradual pickup in replacement demand, resumption of schools and offices, intercity bus transportation, healthy monsoon, and increase in infrastructural activities. Growth remained healthy despite higher fuel prices resulting from geopolitical uncertainties.

The vehicle finance segment of NBFCs saw a CAGR of ~13.8% between fiscals 2020 and 2025E. In contrast, the overall vehicle finance credit growth rate, which included both banks and NBFCs, was 14.4%.

In fiscal 2025, the overall vehicle finance sector grew ~13.5%, compared with 20.3% in fiscal 2024. NBFCs reported a growth rate of ~16% in fiscal 2025, compared with 24% in the previous year. Growth in the vehicle finance segment was affected by delayed government capital expenditure due to the general election, which impacted economic activity. In addition, environmental challenges, such as heatwaves and extended rainfall in certain states, impacted demand and utilisation levels.

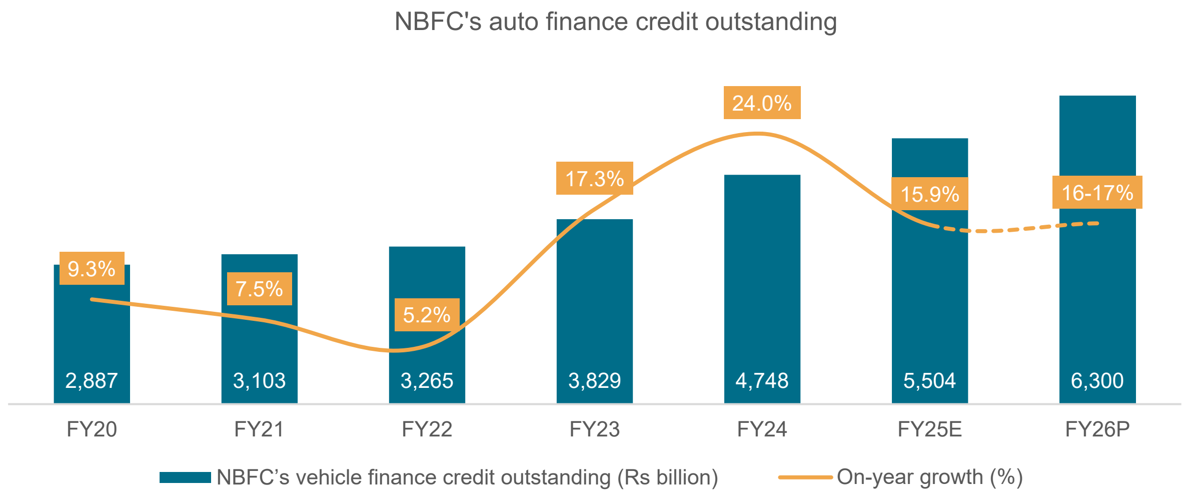
The volume growth of original equipment manufacturers (OEMs) was lower, with CVs experiencing a 0.6% decline in volumes in fiscal 2025 compared with a growth of 0.6% in fiscal 2024. PV sales also grew slower, with a volume expansion of 2.0% compared with 8.4% in fiscal 2024. In contrast, tractor and two-wheeler sales reported volume expansion of 8.3% and 6.7% in fiscal 2025, compared with 13.6% and a decline of 7.3%, respectively, in fiscal 2024.

Despite lower volume growth, the vehicle finance segment remained steady due to increased demand for used vehicles, credit demand for two-wheelers and tractors, driven by rural demand and the rising penetration of vehicle finance NBFCs in tier-II and tier-III cities. The expansion of vehicle finance advances was also driven by NBFCs' focus on secured lending, particularly in the gold and vehicle loan segments.

For fiscal 2026, Crisil Intelligence forecasts a 14-15% increase in overall vehicle finance advances, driven by improved market sentiment following a reduction in the repo rate. The reduction in the repo rate, combined with income tax benefits announced in the Union Budget 2025-26, is expected to drive demand by making equated monthly instalments (EMIs) more affordable. Predictions of above-normal rainfall may drive demand for tractors and two-wheelers (TWs), and the demand for used vehicles is expected to continue growing due to replacement demand.

However, the projected GDP growth of 6.5% in fiscal 2026 may pose a risk to the vehicle finance growth trajectory, as it is lower than the growth rates in fiscal 2024 and 2023.

Vehicle finance credit of NBFCs projected to increase 16-17% in fiscal 2026.



Note: E – estimated; P: projected;
Source: Company reports, RBI, Crisil Intelligence

CV finance sector may face headwinds due to slower economic growth

According to VAHAN data, retail domestic sales of CVs decreased 0.1% on-year in fiscal 2025, compared with a 5.0% growth in the previous year. Domestic OEM sales recorded a decline of 0.6% in fiscal 2025, compared with a growth of 0.6% in fiscal 2024.

CV sales were impacted by various factors in fiscal 2025, including environmental and socio-political reasons. The general elections affected vehicle movement, as investments were delayed due to lower government capital expenditure and subdued private investments. Used vehicle sales were limited due to weaker sales in fiscal 2020 and 2021, but financing remained strong due to rising penetration.

The overall CV (OEM) sales are expected to grow 3-4% in fiscal 2026. Medium and heavy commercial vehicle (MHCV) volumes, which declined 3% in fiscal 2025, are likely to increase 2-4% in fiscal 2026, driven by replacement demand and a pickup in capital expenditure, mining, and commercial activity.

Sales of light commercial vehicles (LCVs), which declined 3% in fiscal 2025, are expected to increase 4-6% in fiscal 2026, driven by increased economic and commercial activities. Replacement demand for LCVs is expected to grow 6-8%.

The outlook for fiscal 2026 is expected to be driven by the resumption of government spending and a pickup in economic activities, leading to a 3-5% growth in the CV segment.

Inventory levels in the PV segment are expected to drive sales growth, while premiumisation will support financing

According to VAHAN data, retail domestic sales of PVs in fiscal 2025 increased 2.0% on-year, compared with a growth of 8.4% in the previous year. Domestic OEM sales recorded a growth of 3.7% in fiscal 2025, compared with 8.3% in fiscal 2024.

The retail PV market experienced a slowdown in fiscal 2025, driven by consumer sentiment and interest rates that impacted purchasing decisions, which resulted in a build-up of inventory with OEMs, reflecting challenging market conditions. Volumes increased in the second half of the fiscal due to discounts offered to clear inventory. However, average inventory days rose to 63-68 days again in the fourth quarter, compared with 60-65 days in the first half of fiscal 2025.

In fiscal 2026, domestic OEM sales are projected to grow 2-4% on-year, due to elevated inventory levels and limited new models in the mass segment. However, growth will be supported by the preference for premium cars and utility vehicles, driven by improved affordability of EMIs due to reductions in the repo rate. The growth will also be supported by the rising penetration and formalisation of the used vehicle financing market.

In addition, electric passenger vehicle (EV) penetration in India is projected to increase to 3.2-3.7% in fiscal 2026, compared with 2.5% in fiscal 2025.

Domestic tractor sales expected to grow at 3-5%, assuming a normal monsoon season and healthy replacement demand

Crisil Intelligence estimates that tractor sales will increase 3-5% in fiscal 2026, assuming a normal monsoon season and healthy replacement demand, compared with a 7% expansion in fiscal 2025 as reported by the Tractor Manufacturers Association (TMA). Tractor sales in fiscal 2025 were affected by extreme weather conditions, including heatwaves and floods, which impacted agricultural activities. However, above-normal rainfall of 8% boosted kharif output, resulting in better volume growth. In addition, 14% higher reservoir storage levels supported rabi output, leading to healthy tractor sales.

The outlook for tractor sales remains positive, driven by replacement demand. The average life of a tractor is between six to nine years, and robust sales between fiscals 2017 and 2018 are expected to generate significant replacement demand, supporting the growth of tractor advances. Crisil Intelligence expects a 17-19% on-year increase in volumes for replacement demand in fiscal 2026. As a result, the tractor industry is expected to experience sustained growth, driven by weather conditions, agricultural output, and replacement demand.

Two-wheeler are set to cross their pre-covid mark in fiscal 2026

According to VAHAN data, retail domestic sales of two-wheelers in fiscal 2025 increased 8.3% on-year, compared with a 9.1% growth in the previous year. Domestic OEM sales recorded an 8.3% growth in fiscal 2025, compared with 13.6% in fiscal 2024. The increase in two-wheeler volumes was driven by improving rural demand, a healthy monsoon, and steady replacement demand.

Crisil Intelligence expects two-wheeler volumes to expand at a similar pace in fiscal 2026, driven by the expected recovery of rural market sales, aided by healthy crop prices and above-normal rainfall. The income tax benefits, and repo rate cuts are expected to improve the affordability of two-wheeler EMIs, supporting two-wheeler credit expansion. In addition, the demand for two-wheelers is expected to be driven by the rising demand for electric two-wheelers and a pent-up replacement demand, driven by the rising average age of vehicles on the road. India's two-wheeler penetration also presents an opportunity for growth, with a current penetration rate of 125-130 per 1,000 population.

Increasing role of non-banks in vehicle finance

The vehicle finance market is almost equitably split between NBFCs and other players, with the former accounting for a ~46% share as of fiscal 2025. Banks lead in the new vehicles segment, while NBFCs specialise in the used vehicles segment. The remaining 55% is held by other players, mainly banks, which constitute a slightly higher share owing to their dominant presence in the PV segment. The dominance is reflected, with ~70% share of PV finance, which, in turn, accounts for nearly half of the overall vehicle finance advances, thereby contributing to their higher market share.

The two-wheeler finance segment is becoming a stronghold of NBFCs owing to their ability to tap rural markets by offering loans at rates much lower than those of its unorganised peers and limited presence of banks in such markets. NBFCs account for 70% share in two-wheeler financing. Similarly, tractors remain a stronghold of NBFCs because of their rural penetration. However, banks' interest in the tractor segments due to benefit of priority sector lending lead the tractor market evenly distributed. However, customised equated monthly instalment (EMI) options give slight benefit to NBFCs.

NBFCs constitute ~45% share in the CV financing market, owing to their strong customer relationships with small fleet operators and first-time buyers, and their deep understanding of local economies. In addition, NBFCs' ease of loan processing, relatively higher loan-to-value ratios and greater risk-taking ability enable them to cater effectively to these customer segments. In contrast, banks tend to focus on financing large fleet operators, which offer superior credit profiles. Banks also prefer to finance bigger ticket items, such as MHCVs, which align with their risk appetite and business strategy.

NBFCs gain traction in the used vehicle market, driven by large unorganised sectors and expanding presence in smaller cities

The Covid-19 pandemic caused an increase in the demand for used cars, which form a huge chunk of CV finance, leading to a shift in demand from new vehicles. As a result, NBFCs are poised to increase their share in used vehicle financing. With prices of new vehicles rising due to the changes in emission norms, technological advancements and higher commodity prices, NBFCs are well-positioned to capitalise on the growing demand for used vehicles, which is expected to continue driving growth in the vehicle financing market.

The depreciation rate of new vehicles is higher in the initial years compared with used vehicles, that have already undergone initial depreciation, making them cost-effective. Technological advances and manufacturing have improved the quality and reliability of used CVs, boosting customer confidence in their performance and durability. Further, the growth of micro, small and medium enterprises in India, driven by favourable government policies and economic conditions, has increased the demand for used CVs as a sustainable and cost-effective option for logistics and transportation requirement.

Though financing for used CVs has gained traction over the years owing to improved affordability and durability, its sales are expected to face pressure owing to weak supply of used vehicles in the market, driven by subdued sales during the pandemic years. On the other hand, replacement demand for PVs, tractors and two-wheelers, is expected to remain strong.

Asset quality

Revival in capital expenditure, improved utilisation and above-normal rainfall to help keep GNPA at a moderate level

Asset quality, as measured by gross non-performing assets (GNPA), has improved since the pandemic, driven by resuming economic activity, improved monsoon, and infrastructure growth. Defaults declined in fiscal 2024 due to better transporter profitability, fuelled by rising diesel prices and freight rates, resulting in healthy cash flows.

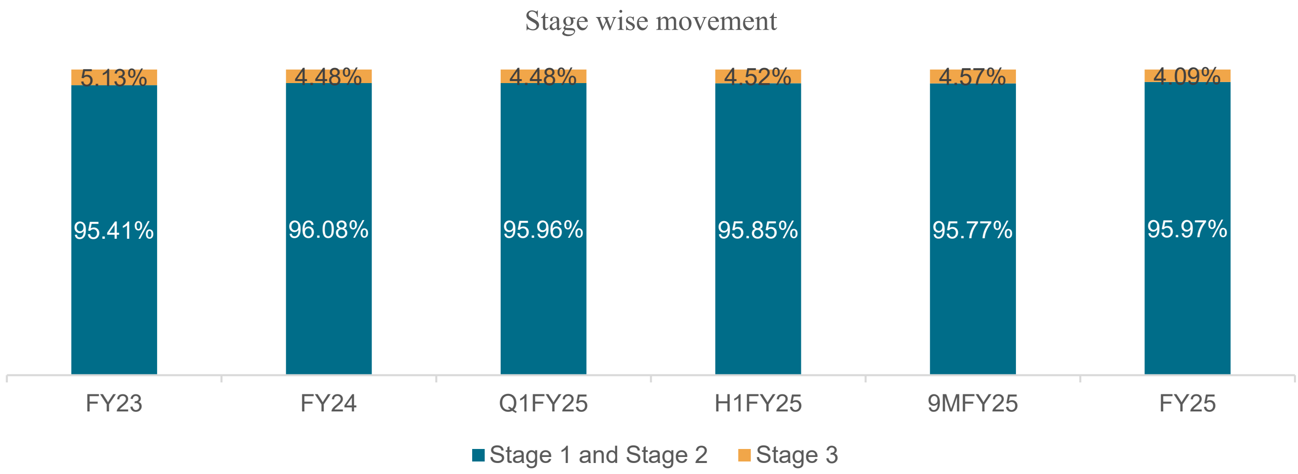
In fiscal 2025, asset quality deteriorated in the first half due to delayed government expenditure and extreme weather conditions. As a result, GNPA increased to 4.2% in September 2024 from 4.0% in March 2024. However, asset quality improved to 3.8% in fiscal 2025 due to a large technical write-off of Rs 23,451.1 million in the fourth quarter by one of the key auto finance players, with 76% pertaining to the vehicle finance portfolio. Excluding this write-off, GNPA for fiscal 2025 would have remained at 4.2%.

For fiscal 2026, asset quality is expected to remain at 3.8-4.0%. The expected pickup in government and private capital expenditure is likely to result in better capacity utilisation and realisation. In addition, above-normal rainfall predicted by the India Meteorological Department (IMD) is expected to maintain healthy rural cash flows due to improved agricultural output.

The tractor and two-wheeler portfolios are expected to benefit from improved profitability of rabi crops, driven by higher minimum support prices and government procurement. Favourable weather conditions, such as the above-normal monsoon predicted by IMD, are expected to boost kharif yield and may lead to higher reservoir storage levels similar to fiscal 2025, which would support rabi yield. However, any adverse environmental changes during the fiscal, would put a strain on cash flows, which might lead to an uptick in delinquencies.

The PV portfolio has historically demonstrated strong asset quality, driven by a favourable customer profile. However, the increasing exposure of retail borrowers to unsecured lending and the rising number of lenders per borrower may potentially introduce new risks to the portfolio. This could have a ripple effect on other secured portfolios, potentially leading to an increase in non-performing assets.

An uptick in slippage could create challenges for asset quality

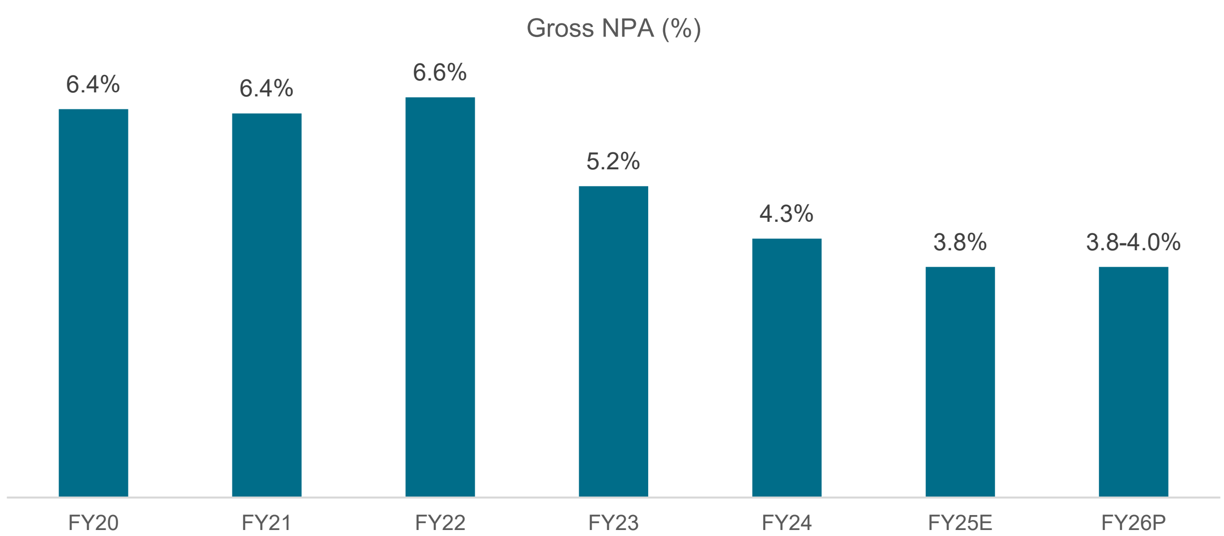


Note:1. Stage-wise analysis includes four vehicle finance NBFCs covering ~81% of overall NBFC vehicle finance credit outstanding as of September 2024, based on the RBI's Trend and Progress of Banking in India report, December 2024.
2. Stage 1 (0-30 days past due), Stage 2 (31-90 days past due), and Stage 3 (over 90 days past due)
Source, Company reports, Crisil Intelligence

The graph above illustrates the migration of loans to higher delinquency buckets, driven by the challenges faced by borrowers in the first half of the year, which resulted in missed payments exceeding three EMIs. As a result, Stage 3 assets had increased ~ 9 basis points (bps) from 4.48% at the end of fiscal 2024 to 4.57% in December 2024. The Stage 3 assets declined to 4.09% marking a 39 bps improvement on-year and 49 bps improvement sequentially.

The capital adequacy of the top four vehicle finance companies (covering ~81% of overall NBFC vehicle finance credit outstanding) remains comfortable at ~20.2% (compared with 19.6% in fiscal 2024) against the regulatory requirement of 15%. This cushion provides a safeguard against potential unforeseen shocks from deteriorating asset quality.

GNPA of auto finance NBFC to range 3.8-4.0% in fiscal 2026

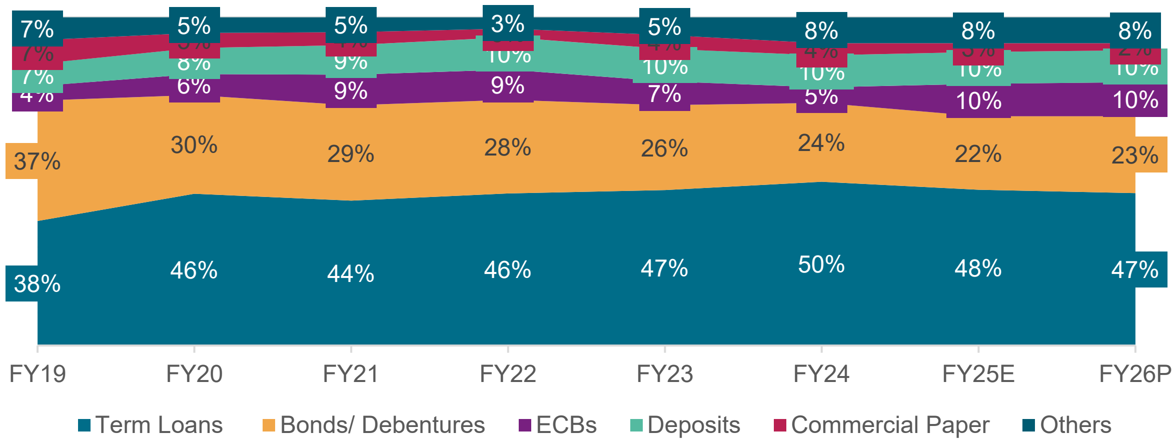


Note: E -estimated; P — projected
Source: Crisil Intelligence

Borrowing mix

NBFCs to maintain diversified borrowing mix with rising share of ECBs and securitisation

Share of vehicle loans in overall securitisation volumes increased to 47% in fiscal 2025 from 43% in fiscal 2024



Note: E – estimated; P — projected
Source: Company reports, Crisil Intelligence

The resource mix of vehicle finance NBFCs in fiscal 2020 comprised a larger share of non-convertible debentures (NCDs) due to low interest rates. However, NCD issuance moderated in the higher interest rate environment after fiscal 2023, making it expensive to borrow from the capital markets. Term loans from banks gained a major share in the funding mix of most vehicle finance NBFCs after the pandemic, before moderating marginally in fiscal 2025. Vehicle finance NBFCs have also increased their reliance on securitisation as a funding source.

The borrowing mix of auto-finance NBFCs has changed in recent years. The share of term loans declined to 48% in fiscal 2025, compared with 50% in fiscal 2024, due to moderate growth in overall banking credit. Term loans are expected to remain a significant component of the borrowing mix.

Securitisation has increased, with its share rising to 47% in fiscal 2025, driven by investor preference for secured assets and banks' efforts to manage their credit-deposit ratio. The share is expected to remain high with a key private bank doing securitisation transaction of vehicle finance portfolio to manage credit deposits ratio, along with other NBFCs players also focusing on securitisation as a source of funding. However, the volume of securitisation will also depend on the appetite and demand from bank partners.

External commercial borrowings (ECBs) accounted for 10% of the borrowing mix in fiscal 2025, driven by declining global interest rates. ECBs are expected to maintain this share in the current fiscal as well.

Overall, the borrowing mix of auto-finance NBFCs is expected to remain diversified, with term loans, securitisation, and ECBs being the primary components.

Profitability

Faster repricing of borrowings relative to loans to help maintain steady NIMs despite the RBI's repo rate cuts

Vehicle financiers (NBFCs) typically borrow at floating interest rates through term loans from banks and financial institutions. In contrast, the assets financed by these NBFCs are largely short-term loans with fixed interest rates. The interest rates on these assets vary by type, with PVs, mainly financed by banks, generally offering lower yields. On the other hand, used CVs, tractors and two-wheelers, often financed by NBFCs, tend to yield higher interest rates.

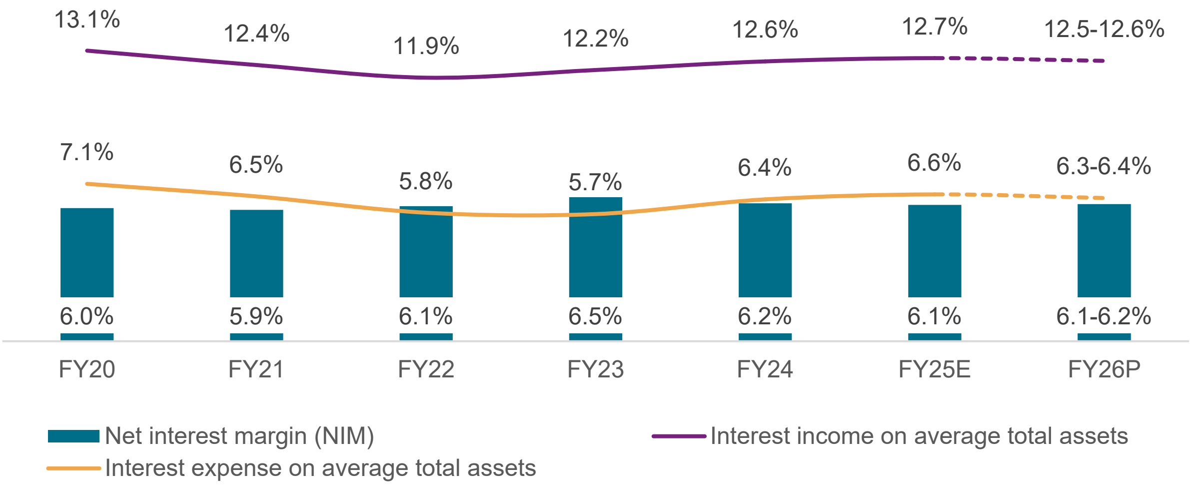
In fiscal 2025, the profitability of auto lenders is estimated to have been affected by an increase in interest expense on average total assets, which rose by 22 bps, outpacing the 15 bps increase in interest income. This resulted in a compression of net interest margin (NIM) by 8 bps. Additionally, credit cost is estimated to have remained elevated in fiscal 2025, while other income increased 9 bps, leading to stable Return on Assets.

For fiscal 2026, interest income as a percentage of total assets is expected to trend downward, primarily due to the decline in the repo rate. Since vehicle loans are at fixed rates, repricing due to the repo rate cut will occur with a lag. However, the diversification strategy adopted by vehicle finance players is expected to support interest income. Crisil Intelligence expects interest income to be in the range of 12.5-12.6% in fiscal 2026.

The cost of funds remained high in fiscal 2025 due to high repo rates, but vehicle finance NBFCs are likely to benefit from the repo rate cut. Most bank borrowings, which are floating rate in nature, are expected to yield benefits in terms of cost of funds; however, the benefit will be with a lag based on the rate reset of existing loans. The increasing share of vehicle-backed loans in securitisation volumes and exploration of foreign funding sources may help keep borrowing costs in check. Crisil Intelligence expects interest expense to be in the range of 6.3-6.4% in fiscal 2026.

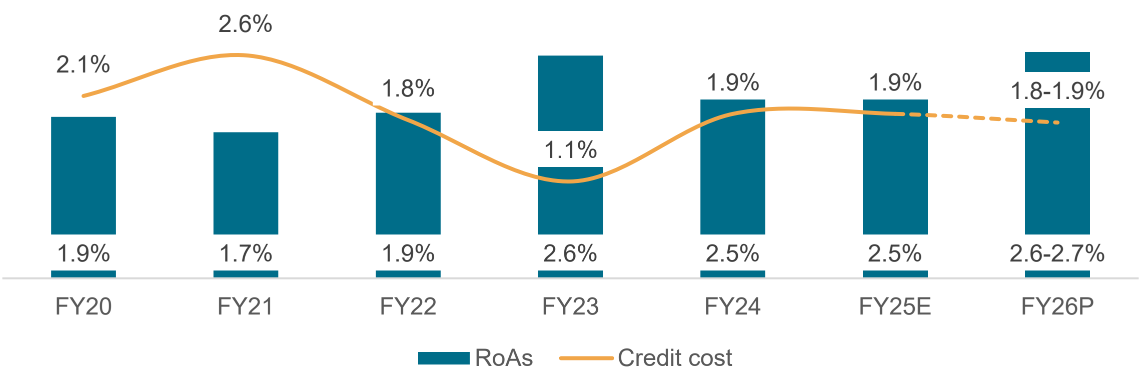
According to Crisil Intelligence, NIMs are expected to be in the range of 6.1-6.2% in fiscal 2026, as the repricing of borrowings at lower interest rates is expected to occur faster than the repricing of advances, which are mostly fixed-rate. Credit costs are expected to remain in the range of 1.8-1.9%. As a result, RoAs are expected to improve slightly and range between 2.6% and 2.7% in fiscal 2026.

Quicker adjustment of borrowing costs relative to lending yields should help keep NIM stable in a low-interest-rate environment



Note: E- estimated; P – projected
Source: Company reports, Crisil Intelligence

Higher credit cost drove down RoA in fiscal 2025, normalcy expected in fiscal 2026



Note: Note: E- estimated; P – projected; Above ratios are on average total assets
Source: Company reports, Crisil Intelligence

Personal Loan – Review and outlook

Growth in personal loans to normalise in the near to medium term

Measured normalisation in growth likely amid RBI caution, asset-quality vulnerability and visible stress in early DPD buckets

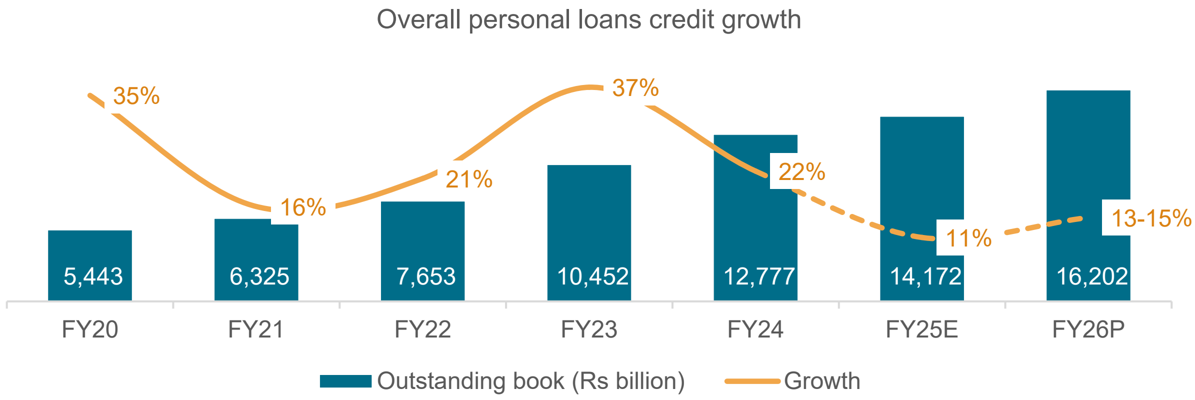
Snapshot of personal loans segment

Outstanding book (Rs bn)	Share (FY25E)	Book FY25E (Rs bn)	CAGR (FY20-25)	FY25E Growth	FY26P Growth
NBFCs	28%	3,958	33%	26%	25-27%
Banks	72%	10,214	18%	6%	10-12%
Overall	100%	14,172	21%	22%	13-15%

Notes: E – estimated; P - projected
Source: Credit bureau, Crisil Intelligence

The personal loans segment logged a compound annual growth rate (CAGR) of 21% between fiscals 2020 and 2025 to reach Rs 14,172 billion. Non-banking financial companies (NBFCs) clocked 33% CAGR in personal loans during the period, outpacing banks' 18%. In fiscal 2025, NBFCs' personal loan portfolio grew 26% on-year to Rs 3,958 billion compared with the 6% growth of banks with an outstanding portfolio of Rs 10.21 trillion.

Credit growth expected to be moderate in the near term, building on the normalisation seen last fiscal



Notes: P – projected; E – estimated
Source: Credit bureau, Crisil Intelligence

The personal loans segment was marked by post-pandemic exuberance in fiscal 2023 and the first half of fiscal 2024, even as lenders — both banks and NBFCs — preferred retail loans to wholesale loans. Multiple factors were at work, including the granularity of the retail loan book against legacy asset quality issues in the wholesale segment, leveraging of technology to achieve scale, changing consumption patterns and alleviation of income-related risks after the pandemic. However, in the second half of fiscal 2024, the Reserve Bank of India's (RBI) decision to increase risk weights on unsecured loans led to a slowdown in personal loans. Since then, NBFCs and banks have been cautious and have recalibrated their strategy for the segment.

Given the evolving situation after the RBI's caution and circular on risk weights, the exuberance is expected to transform into a normalised, though healthy growth. Hence, the overall credit outstanding in personal loans is estimated to have declined 11% at Rs ~14.17 trillion in fiscal 2025. The personal loan segment is poised to sustain its steady growth trajectory into fiscal 2026, with a moderate acceleration anticipated due to the income tax relief under the new tax regime introduced in the Union Budget 2025-26. This relief is expected to boost retail consumption, driving the overall credit growth of the personal loans segment to a projected 13-15% in the next fiscal year.

Fiscal 2025 round-up (until December)

- The average ticket size of the personal loan segment increased to ~Rs 118,000 in December 2024 from ~Rs 89,000 in March 2024 as banks and NBFCs focused on building quality loan book amid slowdown in disbursals since the second half of fiscal 2024

- NBFCs, including fintechs, have emerged as the dominant players in originations, surpassing their peers in volume terms while matching them in value terms. This marks a significant shift from the year-ago period, when public sector banks held the top spot in origination value. However, in fiscal 2025, banks exercised increased caution and scaled back their exposure to the unsecured retail segment, resulting in a substantial slowdown in their disbursements

Personal loan books of NBFCs to grow faster than banks

Banks and NBFCs have different target customers. Banks focus on the salaried, middle-aged borrowers to grow their loan book and retain a higher share in tier 1 cities. NBFCs, on the other hand, build their retail lending book through lower ticket personal loans and maintain focus on growing their base in tier 2 and smaller cities. Banks primarily focus on salaried, higher ticket-size borrowers, while NBFCs and fintechs focus on bridging the financing gap for self-employed, low-income, younger generation and smaller ticket borrowers.

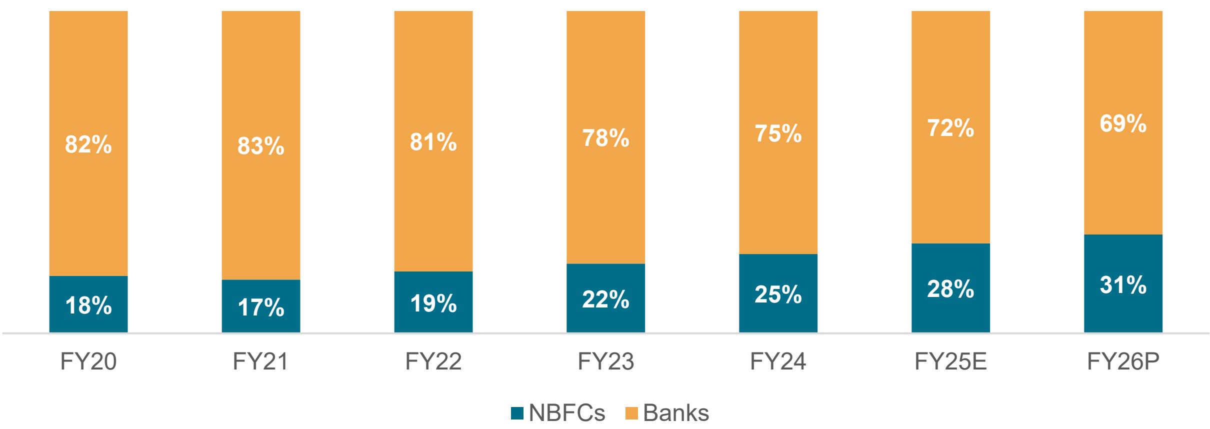
NBFCs' credit outstanding have grown sharper than banks. For banks, personal loans constitute just a portion of the overall portfolio. NBFCs also benefit from their extensive branch network, which is spread across remote areas as well. These factors, along with high contribution from the digital platforms, kept the credit growth of NBFCs healthy, though tapered, leading to a 26% on-year increase in fiscal 2025.

Banks' credit growth was 6% on-year during fiscal 2025, despite a high base, spurred by their aggressive focus on the retail loans segment in of late. In addition, because of their salaried customer base and a higher share of tier 1 cities in the portfolio, the borrower segment faced lower cash-flow disruptions. However, banks saw higher delinquencies in fiscal 2025, amid stress in unsecured portfolio.

In the case of NBFCs, which have a higher share of the self-employed segment and a greater share of tier 2 and smaller cities, asset quality was weaker. However, they saw a declining trend in delinquencies owing to the spike in book write-offs.

However, in fiscal 2025 , amid industry-wide concerns over deteriorating asset quality in the unsecured retail portfolio, NBFCs are strategically focusing on salaried income borrowers to drive growth in their personal loans portfolio. This segment offers superior asset quality, making it an attractive target for NBFCs. Notably, the average ticket size of personal loans disbursed by NBFCs has increased significantly, rising to approximately Rs 54,000 in the nine months of fiscal 2025, up from Rs 39,000 in fiscal 2024. Meanwhile, banks have substantially scaled back their personal loan portfolio expansion, creating an opportunity for NBFCs to gain market share in the near term.

NBFCs to corner more market share in the near term

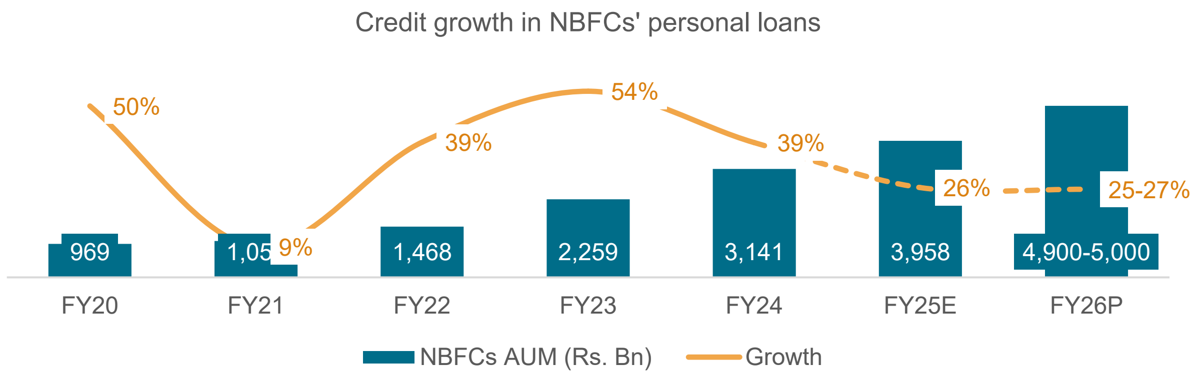


Notes: P – projected; E - estimated
Source: Credit bureau, Crisil Intelligence

The market share of NBFCs has risen sharply on a low base because of their aggressive strategies. We expect them to sustain the pace and capture more share from banks in the near term. Fintechs and NBFCs compete fiercely with banks, even though they cater to different consumer segments.

However, given the rising early-bucket delinquencies and the vulnerable nature of the segment, growth is projected to moderate in the near-to-medium term for both NBFCs and banks.

Normalisation in the NBFC loan book



Note: P – projected; E – estimated
Source: Credit bureau, Crisil Intelligence

Between fiscals 2020 and 2024, disbursement of personal loans by NBFCs logged a CAGR of 41%. In fiscal 2024, the on-year growth was a sharper 47%, with loan outstanding reaching ~Rs 3.1 trillion. The robust growth in fiscal 2023 continued until the first half of fiscal 2024. Since then, following the RBI's move to tighten norms governing unsecured lending, NBFCs have become more vigilant in giving personal loans as they curbed disbursements in the sector. This slowed the momentum in fiscal 2025.

NBFCs have been aggressive with disbursements to riskier borrower segments, although they have a granular portfolio with smaller ticket-size loans. To mitigate asset quality vulnerabilities in the unsecured retail space and sustain healthy credit growth in fiscal 2025, the companies were focusing on salaried customers and their existing borrowers who tend to exhibit better credit behaviour. However, there is a risk that lenders may have rolled over loans that are approaching their repayment tenure, potentially masking the true credit quality. As a result, we estimate the NBFC personal loan portfolio to have expanded 26% to approximately Rs 3.9 trillion in fiscal 2025. With the expected increase in consumption in fiscal 2026, driven by tax relief measures, credit growth in this segment is projected to accelerate further but remain in the 25-27% range.

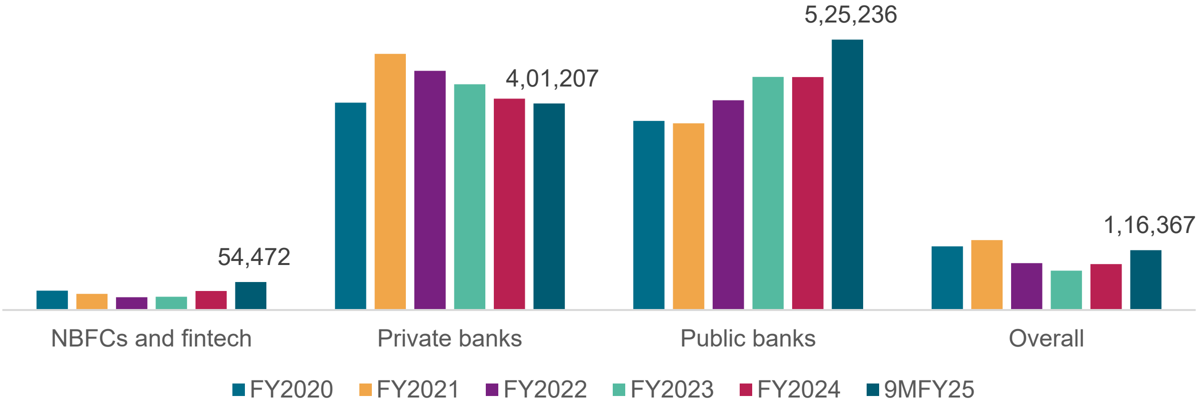
NBFCs, fintechs defy convention with shift to higher-ticket loans

NBFCs and fintechs traditionally focus on small-ticket lending. With both deepening their market penetration, the share of small-ticket personal loans (loans below Rs 100,000 in value) has gradually increased in their portfolio over the past few years.

However, the average ticket size increased sharply from fiscal 2024 since banks and NBFCs employed filters in their personal loan book amid a slowdown in disbursals in the second half. They focused on quality borrowers to curb the stress building on asset quality. Further, the proportion of very low and low-risk borrowers rose. As of December 2024, the average ticket size was ~Rs 52,000 for NBFCs and Rs 480,000 for banks compared with an average of ~Rs 118,000 for overall personal loans segment. However, a potential risk persists, as lenders may be rolling over loans nearing repayment tenure, thereby masking the true credit quality by netting off new disbursements against existing borrower dues. This practice, which was highlighted by the RBI in October 2024, can create an illusion of higher ticket sizes, as new credit facilities are disbursed at higher values, potentially standardising the underlying stress in the portfolio. The central bank has taken notice of this issue, having recently flagged similar practices in the microfinance sector and directed lenders to ensure that outstanding balances are fully paid or closed before extending fresh credit. As a result, the prevalence of loan netting-off in personal loan will remain a key area of concern and monitoring in the near term.

Fintechs have been rapidly expanding their base in the personal loan segment by offering smaller-ticket and short-tenure loans to younger, low-income and digitally savvy customers with insufficient credit history through the scorecard-based lending model. Mirroring the broader industry trend, fintech lenders also upsized their loan tickets to attract higher-quality borrowers, with the average disbursement amount rising approximately 46% to Rs 31,000 in the first nine months of fiscal 2025 from Rs 21,000 in fiscal 2024.

Average ticket size by lender type



Source: Credit bureau, Crisil Intelligence

In fiscal 2025, the share of transactions of NBFCs (including fintechs) declined marginally to 85% of overall transactions by volume from 87% in fiscal 2024. In value terms, transactions grew to 38% of total disbursements from 36% in fiscal 2024, given their low ticket size.

Fintechs provide the advantage of better customer experience and shorter turnaround time (TAT) for disbursements. They focus on the scorecard-based lending model, which is based on a borrower's cash flow, primarily relying on non-conventional and alternative sources of information such as a customer's mobile phone data for underwriting loans. Algorithms are used to track and analyse mobile phone data to gain specific insights on a customer's liquid cash flow and repayment history, along with spending habits. Third-party applications and databases are used for KYC authentication, credit-history checks and fraud detection. This, along with the government's focus on digitalisation through the National Financial Reporting Authority and DigiLocker, has enabled quicker TATs for disbursements and lower operating costs.

Risk-management processes and data analytics capabilities of NBFCs and fintechs have evolved over the years, along with underwriting norms and monitoring mechanisms.

Trend in personal loans trajectory

Rapid growth and accompanying risks: Demand for personal loans was muted during the peak of the pandemic, i.e. fiscals 2021 and 2022. This was because of the savings rate of Indian households reaching a historic peak of 11.5% (net financial assets adjusted for net financial liabilities as a percentage of gross domestic product) in fiscal 2021 from the pre-pandemic fiscal 2020 level of 7.6%.

Post complete lifting of the lockdown, consumption picked up and, consequently, the savings rate declined to 7.2% in fiscal 2022, reaching a decadal low of 5.1% in fiscal 2023. This was largely because of consumers dipping into the savings accumulated during the pandemic years. A portion of the savings was likely to have also been diverted to physical savings. The decline in savings was because of an increase in financial liabilities as well. Hence, the consumption-led recovery after the pandemic was driven in large part by debt.

Ease of borrowing, innovative products, such as 'travel now, pay later', no-cost equated monthly installments and increasing lifestyle expenses contributed significantly to the rise in demand for personal loans. The rise in personal loans was also driven by overleveraging by the borrowers, in addition to tapping new customers. There were broader factors as well, such as demographic shifts, especially with the increasing share of a younger demographic population, formalisation of the economy, increase in the number of fintechs, adoption of digital payment systems, influence of India Stack and broadening of the digital footprint, along with wider coverage of credit bureaus.

On the supply front, banks and NBFCs sharpened their focus on the retail segment, including housing, auto and unsecured personal loans. In the case of personal loans, better technology helped improve the underwriting capabilities of banks and NBFCs, including fintechs. Consequently, unsecured loans (credit cards and other personal loans) at banks rose 21% on-year at end-March 2024, though growth subsequently moderated to 8% on-year at end-March 2025.

To be sure, personal loans are inherently riskier because of the absence of collateral, owing to which the lender's ability to recover the outstanding amount is compromised in case of borrower default. Hence, from an asset quality perspective, higher caution was required for non-bank lenders, as gross non-performing assets (GNPAs) remained elevated at 7.1% in fiscal 2025. Further, loans in the DPD 1-29 and 30-59 buckets increased in fiscal 2025, indicating rising stress in special mention accounts (SMAs) 1 and SMAs 2. To be sure, though, amid the high double-digit growth in unsecured loans, lenders turned cautious while onboarding borrowers with weaker credit profiles to prevent asset quality deterioration or higher write-offs.

In fact, elevated inflation, along with stagnant income, had cramped borrowers' repayment capability. And overleveraging likely augmented asset quality vulnerability.

But while any macroeconomic event impacting the income levels of households could have led to a sharp increase in GNPA across lenders, the granularity of loans provided some comfort.

RBI introduced a circular on risk weights after striking a cautious note

Noting the exuberant growth of unsecured lending against the backdrop of a rising interest rate environment, the RBI started cautioning lenders beginning end-fiscal 2023 regarding potential risks associated with the rapid growth in unsecured lending by NBFCs.

In November 2023, the central bank introduced the circular on risk weights to deter an increase in disbursement of unsecured loans. As per the circular, the risk weights of all consumer loans for banks as well as NBFCs, including credit card receivables, was increased 25%, excluding housing, vehicle, education and gold loans. Also, the risk-weight for exposure by banks to NBFCs where the extant risk-weight of the NBFC was below 100% was also increased by 25%.

Banks faced an ~85 bps impact on capital adequacy owing to the circular, whereas the impact for key NBFCs operating in the consumer lending segment was as high as 200-400 bps. Larger NBFCs rated A- and above operating in the segment also faced an impact on their borrowing cost from bank funding, as the capital cost for banks increased in such cases.

The higher lending rates to NBFCs could spill over to corporate bonds in the form of higher yields through widening of credit spreads.

Such an increase in the cost of funds could drive demand for securitisation and co-lending, accelerating capital-raising by entities for managing their loan book growth while ensuring adequate capital buffers are maintained.

Hence, this could lead to higher capital requirement by lenders and increase the lending rates for borrowers, impacting the growth in loan book to an extent.

Personal loan growth slowed since fiscal 2024 second half to 11% on-year in fiscal 2025 post RBI's circular

After rapid growth in fiscals 2022 and 2023, the personal loan segment was buffeted by significant challenges in the second half of fiscal 2024. The RBI's circular and concerns with regard to unsecured lending led banks and NBFCs to reassess their portfolio strategies, resulting in a slowdown in disbursements. Many lenders subsequently reduced the share of personal loans in their overall portfolio and shifted their focus to borrowers with stronger repayment capabilities, such as salaried customers, to mitigate concerns over deteriorating asset quality due to overleveraging. The run-up to the general elections further disrupted collections, causing a decline in collection efficiency and an increase in non-performing loans.

As a result, the overall personal loan segment is estimated to have grown a modest 11% on-year in fiscal 2025, i.e. a significant deceleration from the 22% and 37% growths in fiscals 2024 and 2023, respectively.

With concerns over unsecured lending still prevalent, this cautious trend is expected to continue in fiscal 2026, with the industry maintaining a measured pace of expansion.

RBI tightens P2P lending norms

The RBI, in a circular dated August 16, 2024, issued guidelines concerning NBFC-peer-to-peer (P2P) lending platforms. P2P lending enables individuals to lend and borrow directly through RBI-regulated NBFC platforms. These platforms act as intermediaries, connecting lenders with borrowers, facilitating transactions and managing repayments, earning a fee for their services.

The new guidelines aim to increase transparency and compliance and prevent irregular practices in the industry:

- An NBFC-P2P cannot assume any credit risk arising from transactions carried out on their platform. Lenders bear the entire loss of the principal or the interest in case of default

- An NBFC-P2P cannot lend on its own nor cross-sell any insurance product that is a credit enhancement or a credit guarantee. Also, the lenders' funds cannot be deployed or utilised for other purposes

- The exposure limit across all P2P platforms is Rs 50 lakh for lenders, Rs 10 lakh for borrowers and Rs 50,000 for a single lender to the same borrower.

Prior to this circular, NBFC-P2P lending platforms were required to maintain two separate escrow accounts: one for lender funds awaiting disbursement and another for borrower repayments. While this structure remains in place:

- The updated regulations introduce stricter guidelines, mandating funds in these accounts be transferred within a tighter timeframe of one business day (T+1) from the date of receipt, ensuring greater efficiency and transparency in transactions

- Additional requirements include: Board-approved policy for matching lenders and borrowers, monthly portfolio performance and NPA disclosures, and revised fee structure (fixed amount or percentage of the principal amount)

These guidelines promote transparency and restrict violations of the 2017 master directions, ensuring a more regulated and secure P2P lending environment.

Asset quality to deteriorate further this fiscal on emerging risks

The GNPA of NBFCs had been improving since fiscal 2021. However, in fiscal 2025, the GNPA ratio, which surged in fiscal 2024 and the first quarter of fiscal 2025, deteriorated to 7.2%. The weakening of the asset quality was because of overleveraging and decline in collection efficiency due to the general elections; however, the deterioration in GNPA over the past three quarters was also because of increase in write-offs by NBFCs.

Despite banks maintaining a relatively stable GNPA level of 2.2-2.6% between fiscals 2019 and 2023 through focus on higher ticket size loans to predominantly salaried customers, they started feeling the impact of industry-wide asset quality concerns, too. In the nine months of fiscal 2025, their GNPA ratio inched up to 3.3% from 2.8% in fiscal 2024.

Over the last fiscal, both banks and NBFCs aggressively wrote off bad loans. For banks, write-offs as a percentage of outstanding portfolio rose to 4.9% in the third quarter of fiscal 2025, up from 4.1% in the third quarter of fiscal 2024. NBFCs saw an even sharper rise, with write-offs jumping to 7.4% from 4.7% over the period. As a result, the GNPA ratio declined to 3.3% for banks and 7.2% for NBFCs in the third quarter of fiscal 2025 vs the previous corresponding quarter.

However, this improvement belies the underlying stress in the system.

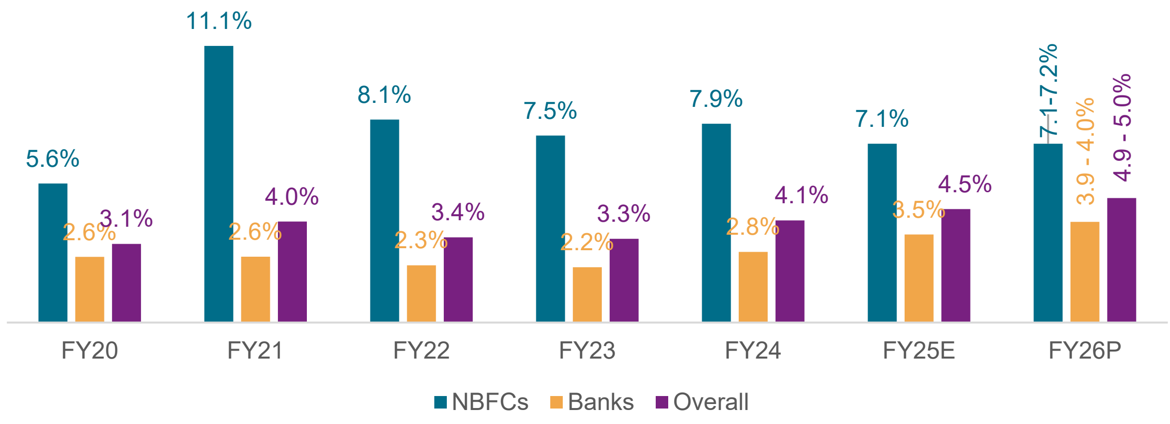
Despite the improvement in the NPA ratios, the aggregate stress – which includes write-offs as well as GNPAs – in fact increased for banks and NBFCs. For NBFCs, the aggregate stress ratio rose to 14.0% as of December 2024, up from 13.2% as of March 2024. Banks also saw an increase, with the ratio climbing to 8.0% from 6.7% over the period. Moreover, there were ominous signs of rising stress in the 1-29 and 60-89 DPD buckets, which could further increase non-performing loans.

Small-ticket loan borrowers were particularly vulnerable, with their asset quality deteriorating at an alarming rate.

Given these trends, Crisil Intelligence estimates the GNPA ratio was 7.1% for NBFCs and 3.5% for banks by end-fiscal 2025, with both ratios likely to remain range bound in fiscal 2026.

In response to the asset quality concerns, lenders have started to tighten their lending standards, restricting disbursements to only salaried customers and existing borrowers with strong credit profiles. This strategy should help contain non-performing loans in the medium term. However, the lenders' practice of netting-off new loans against existing debt will remain a key monitorable.

GNPAs for banks to inch up in fiscal 2025 and 2026 while improving slightly for NBFCs

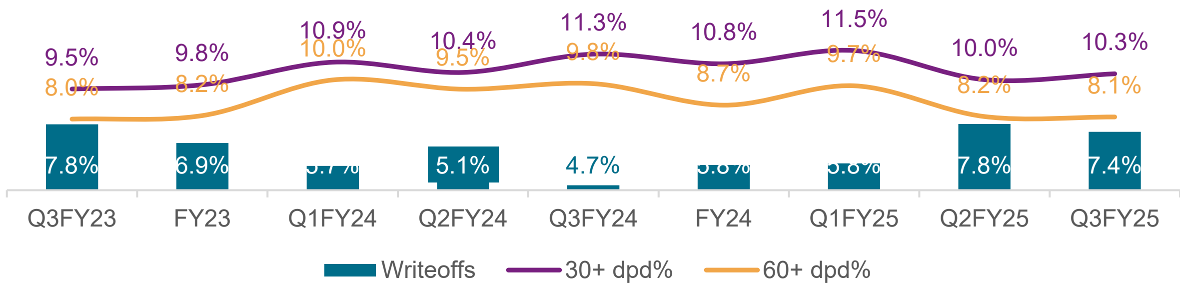


E – estimated; P – projected
Source: Credit bureau, Crisil Intelligence

Delinquencies decline in softer buckets for NBFCs (including fintechs) in third quarter of fiscal 2025 amid aggressive write-offs

While the softer buckets (30+ DPD % and 60+DPD %) for NBFCs cooled after the pandemic, these have been inching upwards since the fourth quarter of fiscal 2023. This is an indication of a stressed borrower profile owing to overleveraging, elevated inflation and uptick in loan pricing because of the pass-on of higher interest rates. The softer buckets, however, posted a pronounced decline in the third quarter of fiscal 2025 as NBFCs stepped up their write-off efforts, resulting in a substantial decrease in delinquencies.

Delinquencies and write-offs trend in NBFCs

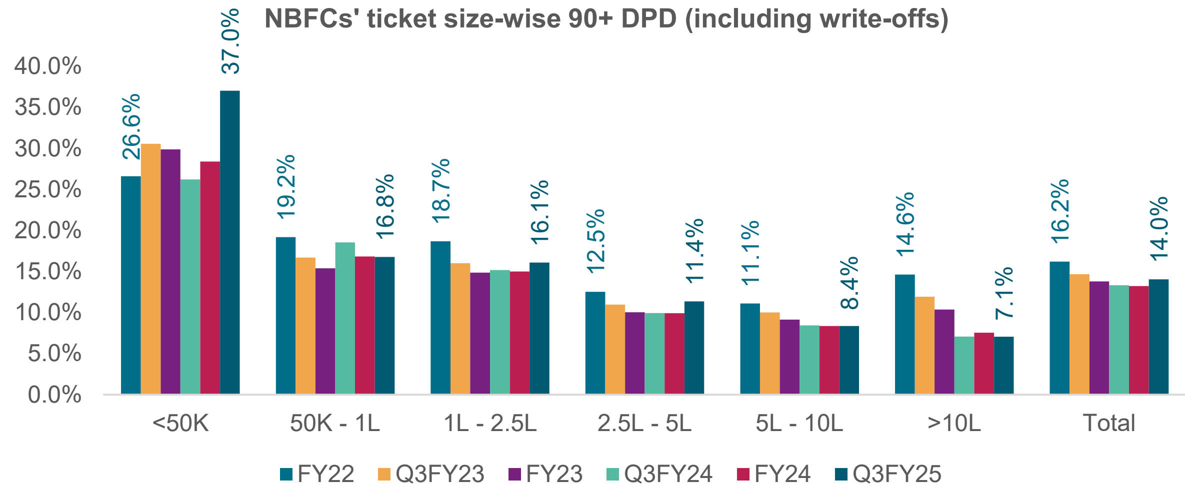


Source: Credit bureau, Crisil Intelligence

Lower ticket-size loans exhibit the weakest asset quality

The small-ticket size loan segment, which has long been a staple of NBFCs and fintechs, is now exhibiting alarming signs of stress. Delinquencies in this category are substantially higher than in other segments, and the industry-wide asset quality decline is most severe in loans with a ticket size of less than Rs 50,000.

As of December 2024, the GNPA ratio for these loans, including write-offs, had surged to 37%. However, the overall impact on the portfolio due to the weaking asset quality of this segment was limited, as these loans accounted for only 6% of the total NBFC personal loan portfolio as of December 2024.



Source: Credit bureau, Crisil Intelligence

MSME finance – Review and outlook

Credit outstanding to micro, small and medium enterprises (MSMEs) is estimated at Rs 42 trillion in fiscal 2025. Of this, banks had a dominant 73% share, while non-banking finance companies (NBFCs) accounted for the balance.

NBFCs are growing faster and gaining market share in MSME lending

Type	Share in book FY25E (%)	Book (Rs billion) FY25E	CAGR (%) FY20-25E	Growth in FY25E (%)	Growth Outlook for FY26P (%)
HFCs/NBFCs	27%	11,236	19.6%	26.9%	27-29%
Banks	73%	31,065	17.8%	15.8%	15-17%
Overall	100%	42,301	18.2%	18.5%	18-20%

Notes:
1. E: Estimate, P: Projected
2. Credit deployment data published by the Reserve Bank of India (RBI) has undergone revision and so were the comparable numbers for the previous fiscals
3. Companies with a turnover of less than Rs 100 million and an investment of less than Rs 250 million are classified as micro; those with a turnover between Rs 100 million and Rs 10 billion and an investment between Rs 250 million and Rs 2.5 billion as small; and those with a turnover between Rs 10 billion and Rs 50 billion and an investment between Rs 2.5 billion and Rs 12.5 billion as medium
Source: Crisil Intelligence

The MSME lending landscape has transformed significantly in recent years, with both banks and NBFCs intensifying their focus on this segment. A combination of digital lending, government-backed initiatives, a thriving economy and increasing adoption of formal credit channels has propelled this growth. Moreover, the shift towards cash flow-based underwriting has boosted lending to MSMEs. This upward trend has been consistent over the past five fiscals, with lenders recognising the vital role MSMEs play in the economy.

The overall lending to MSMEs grew a remarkable 18.5% in fiscal 2025, with NBFCs peaking at 27% and banks following at 16%, albeit on a higher base.

In the Union Budget for fiscal 2026, the government announced several initiatives to boost the MSME sector. Some of them are:

- Credit guarantee limit to MSEs increased to Rs 10 crores from Rs 5 crores under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme
- Credit guarantee cover for start-ups increased to Rs 20 crores from Rs 10 crores, with the guarantee fee moderated to 1% for loans in 27 focus sectors under Atmanirbhar Bharat
- Introduction of a credit guarantee scheme for specified exporter MSMEs on term loans of up to Rs 20 crores.

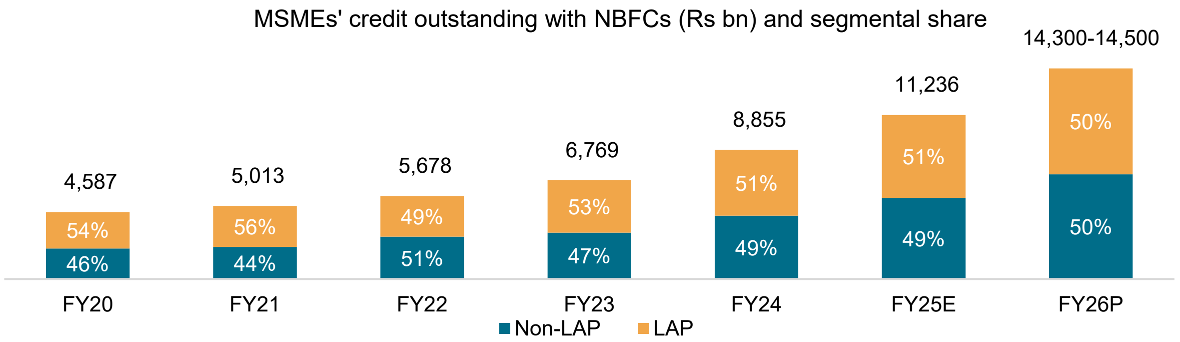
- Introduction of customised credit cards with a limit of Rs 5 lakhs to micro enterprises registered on the Udyam portal, with an expectation of issuance of 10 lakh such cards in the first year

- Extension of the scope of Mudra loans to include homestays

As the above initiatives take shape, the government's efforts to increase funding to the sector are expected to gain momentum. Currently, the sector remains underpenetrated, with only 20% of its potential being utilised.

According to Crisil Intelligence, MSME credit growth is expected to increase 18-20% in fiscal 2026. Credit to MSMEs from banks is likely to grow at a slower rate of 15-17%, while the same from NBFCs is poised to see a robust growth of 27-29%.

Non-LAP share to further increase in fiscal 2026



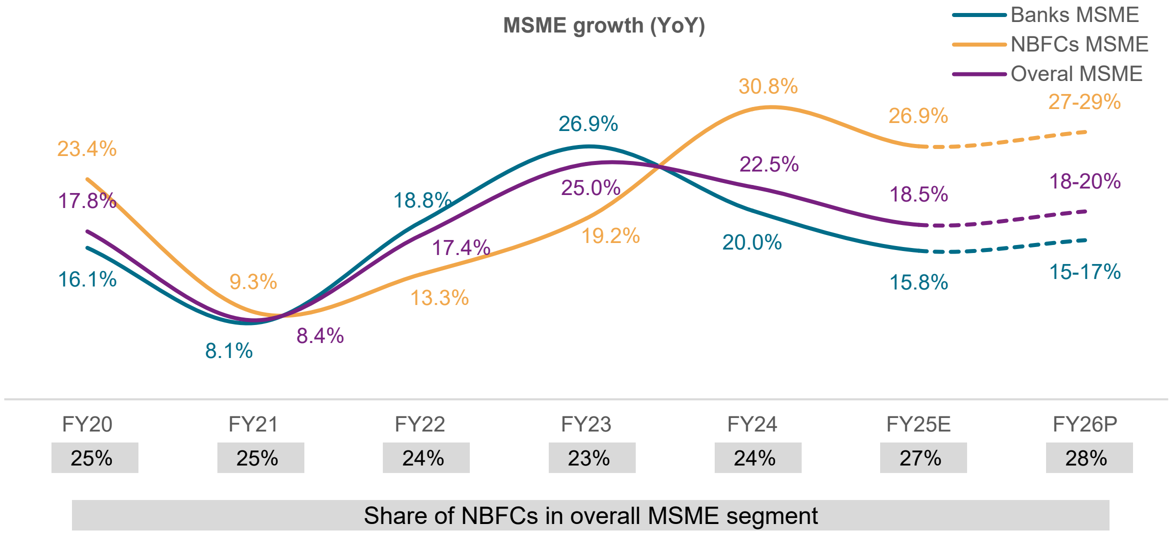
Note:
1. E: Estimate, P: Projected
2. Non-LAP segment includes secured and unsecured loans
Source: Company reports, Crisil Intelligence

During fiscal 2025, the share of non-LAP (Loan Against Property) stood at 49% as cash flow-based assessment, especially on account of increasing digitisation of financial transactions, enabled credit access to MSMEs that were unable to provide collateral due to their business model.

The share of LAP was 51% and remained dominant as lenders focused on secured lending to support asset quality. Additionally, increasing focus of housing finance companies (HFCs) on the higher yielding LAP segment supported its share in MSME credit.

In fiscal 2026, Crisil intelligence expects both LAP and non-LAP segments to account for an almost equal share of MSME credit as unsecured non-LAP lending will help NBFCs earn better margins in a declining interest rate scenario.

Industrialisation, steady economic expansion to propel MSME credit



Notes:
1. E: Estimate, P: Projected
2. Credit deployment data published by the RBI was revised and so were the comparable numbers for the previous fiscals.
Sources: Company reports, Crisil Intelligence

In fiscal 2025, the revenue of SMEs grew at an estimated 5%, similar to the previous fiscal, primarily due to a decline in consumption services, infrastructure/construction and healthcare sector.

The SME sector's revenue is projected to grow 6-7% on-year in fiscal 2026 driven by consumption and healthcare-led sectors. Demand for chronic therapies in the domestic market coupled with improved exports to regulated and semi-regulated markets will aid the healthcare sector. In the consumption services vertical, increasing enrolments and fee hikes will support the growth of coaching classes. In the consumption industrial vertical, demand from the original equipment manufacturer segment followed by replacement and export markets will aid revenue growth in the auto component sector. Export-led sectors are also expected to witness revenue growth, led by information technology-enabled services as demand for knowledge process outsourcing (KPO) and technical process outsourcing (TPO) grows.

According to data from Udyam Udyog, since its launch, most registrations on the portal have been from MSMEs in the services sector, accounting for ~75% of the total registrations. In contrast, manufacturing MSMEs account for only 25% of the total. Furthermore, the data reveals that micro industries dominate registrations, with a staggering 98.5% of total registered entities. Small enterprises account for 1.3% of registrations, while medium-sized enterprises make up a mere 0.1% of the total.

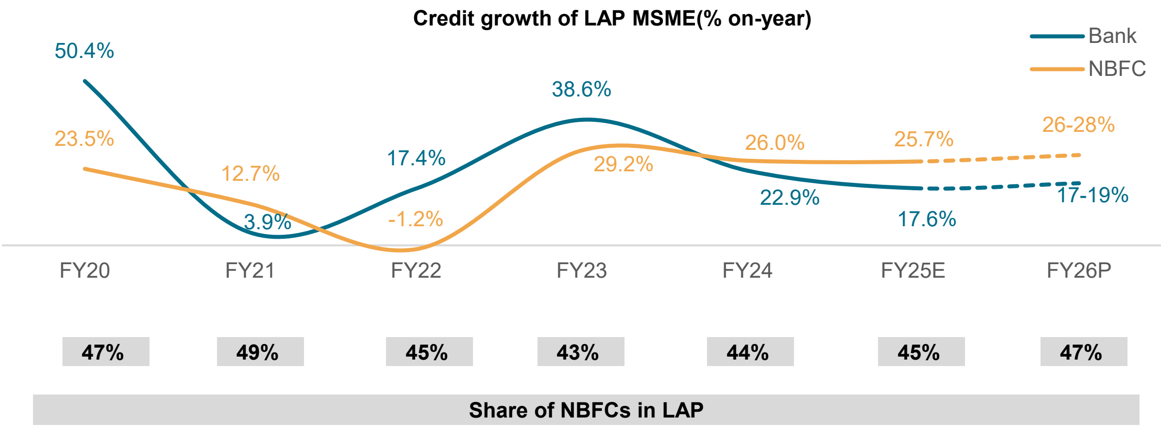
According to the RBI's sectoral deployment data, in fiscal 2025, credit growth among manufacturing MSMEs was significantly slower at 12%, compared with services-related MSMEs, which saw a growth of 18%. Moreover, the share of credit to manufacturing MSMEs was lower at 41%, compared with services MSMEs, which accounted for 50% of the total credit in fiscal 2025.

Crisil Intelligence projects that NBFCs will drive the growth of MSME credit at a rate of 27-29% in fiscal 2026. Banks are expected to clock a growth rate of 15-17% in fiscal 2026. As domestic demand continues to rise and urbanisation accelerates, the overall MSME credit is expected to grow at 18-20% in fiscal 2026, fuelling the growth of SME revenue and corporate India.

LAP portfolio is expected to grow steadily

LAPs can be obtained by mortgaging residential and commercial real estate with a lender. These loans can be used for personal or business purposes by both salaried and self-employed individuals are eligible to apply. The main purpose of the loan is not strictly regulated and as it offers the financier security in the form of real estate. LAP is a secured offering with an interest rate lower than a personal or corporate loan.

NBFCs' LAP portfolio to grow 26-28% in fiscal 2026, outpacing banks



Notes:
1. P: Projected
2. Credit deployment data published by the RBI was revised with effect from January 2021 and so were the comparable numbers for the previous fiscals
Sources: Company reports, Crisil Intelligence

Growth in LAPs at banks slowed to 17.6% in fiscal 2025 as they focused on higher-yielding products to earn better lending margins. LAPs at NBFCs grew at 25.7% as they focused on secured lending to safeguard asset quality. Moreover, few HFCs focused on LAPs to earn a better yield compared to home loans, supporting growth in the LAP book.

The LAP market saw a remarkable rebound in fiscal 2023, with banks and NBFCs posting growth rates of 38.6% and 29.2%, respectively, the highest since the pandemic. However, the growth slowed in fiscal 2024, with banks growing at 22.9% and NBFCs at 26.0%. In fiscal 2023, banks initially took the lead owing to the perceived safety of collateral-backed loans. However, in fiscal 2024, non-banks, particularly HFCs, caught up and even surpassed banks in LAP growth, driven by their focus on maintaining higher yields.

According to Crisil Intelligence, the LAP segment is expected to expand in fiscal 2026 with banks and NBFCs growing at 17-19% and 26-28%, respectively.

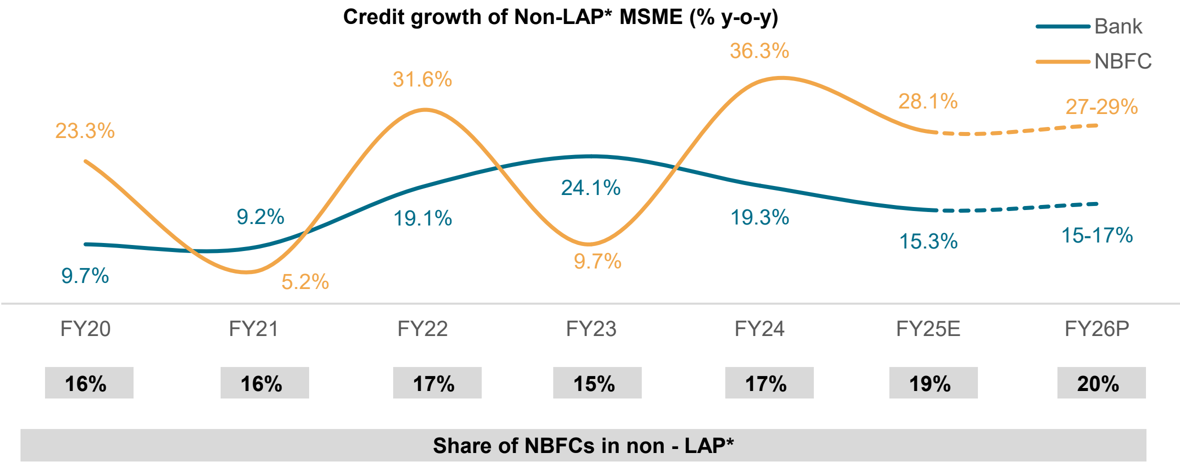
NBFCs to lead non-LAP growth

Loans with security and those without it make up the non-LAP segment. Working capital products such as cash credit, overdraft facilities and bill discounting, as well as other term loan products (asset-backed or hypothecated loans), are examples of non-LAP secured MSME loans. Hypothecated loans are term-based where the offered collateral is a combination of real estate, stock and so on.

Self-employed borrowers are provided unsecured MSME loans in the absence of a collateral. This type of lending is cash flow-based rather than collateral. Unsecured loans are reviewed based on a variety of factors, including scorecards, bureau checks, bank accounts, financial statements and returns from the goods and services tax. When a small business reaches a bank's cash credit and overdraft limits, it opts for an unsecured business loan to expand or sustain operations, take advantage of short-term possibilities or get through a cash flow crisis. Many lenders offer such loans in addition to the secured loans.

Due to the non-availability of collateral, underwriting plays a key role in maintaining asset quality of unsecured business loans. Underwriting these loans requires expertise and is powered by new financial technology and increased availability of data on customers' credit history. Competition in the secured loans market (especially retail loans) has compelled NBFCs and a few private banks to gain expertise in niche lending and build robust digital platforms to cash in on the fresh opportunities in the unsecured business loans space, while maximising profitability.

Banks' non-LAP book moderated in fiscal 2025



Notes:
1. P: Projected
2. Credit deployment data published by the RBI was revised with effect from January 2021 and so were the comparable numbers for the previous fiscals have been revised accordingly.
*3. * The non-LAP segment includes secured and unsecured loans*
Sources: Company reports, Crisil Intelligence

In fiscal 2025, the non-LAP segment slowed down as both banks and NBFCs focused on secured lending by reducing exposure to unsecured MSME, particularly micro entities.

In fiscal 2023, banks outperformed NBFCs in the non-LAP segment, achieving a robust growth rate of 24.1% driven by aggressive strategies, increased market presence, lower funding costs and sufficient liquidity. NBFCs, however, grew at a slower pace of 9.7%. In fiscal 2024, the trend reversed, with bank credit growth slowing to 19.3% due to the high base effect, while NBFCs witnessed significant acceleration in growth to 36.3%, with aggressive expansion in their market share.

Looking ahead, Crisil Intelligence projects non-LAP growth to be marginally higher over fiscal 2025 at both banks and NBFCs as lenders become more cautious about unsecured lending and focus on secured loan against property lending.

Asset quality

Quality of MSME loans remains stable, to remain range bound

In fiscal 2025, the gross non-performing asset (GNPA) ratio remained elevated at 4-5%. Among various lenders, the asset quality of private banks, which serve relatively low-risk customers, is better than other lenders such as NBFCs, which often serve customers with lack of formal documented income.

In fiscal 2024, GNPA ratio decreased due to improvement in economic activity, better collection efficiency and strong credit growth. The asset quality has shown improvement after the deterioration in fiscal 2021, due to the pandemic as income of the borrowers took a hit.

Crisil Intelligence estimates GNPA ratio to be in a similar range of 4-5% during fiscal 2026 on resilience of economic activity, easing inflationary pressures and reduction in interest rates.

MSME finance – Industry overview

The MSME sector is a significant contributor to India's economy, accounting for approximately one-third of the country's gross domestic product. The sector is predominantly comprised of micro-enterprises, which are characterized by investments of up to Rs 25 crores and a turnover of up to Rs 1 billion. Additionally, the sector encompasses small and medium-sized enterprises, with investments and turnover limits of up to Rs 2.5 billion and Rs 10 billion, and up to Rs 12.5 billion and Rs 50 billion, respectively, as per the revised definition introduced in the Union Budget 2025-26.

However, micro-enterprises seldom expand or convert into small or medium-sized enterprises. This is partly because traditional lending processes, which rely on MSMEs showing their creditworthiness through collateral like documentation of digital financial transactions and property, prevent micro-enterprises from accessing financing to expand their businesses. Their inability to obtain affordable formal finance leads to weak working capital reserves, which reduces productivity and prevents their growth.

Government policies towards the revival of the MSME sector have led to cash flow-based lending. The government also launched various initiatives such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), ECLGS, Pradhan Mantri MUDRA Yojana (PMMY) and Open Credit Enablement Network (OCEN). On the other hand, fintechs and traditional lenders have been driving growth by trying to cover the gap between demand and supply of credit to MSMEs. Government agencies such as Small Industries Development Bank of India (SIDBI) and Micro Units Development & Refinance Agency Limited (MUDRA) and the Ministry of MSME have been instrumental in deploying the policies and creating infrastructure future growth.

Government support and regulations

Pradhan Mantri MUDRA Yojana (PMMY)

Launched on April 8, 2015, PMMY offers loans of up to Rs 10 lakhs to non-corporate, non-farm small and micro-enterprises. These loans, categorised as MUDRA loans, are offered by commercial banks, RRBs, small finance banks, MFIs and NBFCs. The loans are categorised into Shishu, (up to Rs 50,000), Kishore (above Rs 50,000 and up to Rs 5 lakhs), and Tarun (above Rs 5 lakhs and up to Rs 10 lakhs), based on the degree of development and funding requirements of the recipient micro unit or entrepreneur and to serve as a benchmark for the subsequent stage of graduation or growth.

Status of PMMY

Financial year	No of loans sanctioned (crore)	Amount sanctioned (Rs trillion)	Amount disbursed (Rs trillion)
2018	4.81	2.54	2.46
2019	5.98	3.22	3.12
2020	6.22	3.37	3.3
2021	5.07	3.22	3.12
2022	5.37	3.39	3.31
2023	6.23	4.57	4.5
2024	6.67	5.41	5.32
2025	5.47	5.52	5.41

Source: MUDRA, Crisil Intelligence

Open Credit Enablement Network (OCEN)

Due to the widespread use of Aadhaar-based digital identity, the country's focus on developing digital public infrastructure has been increasingly intense during the past few fiscals. To facilitate frictionless adoption of technology for digital payments, secure data base construction, and data exchange across organisations for more rapid and effective lending and e-commerce processes, multi-layered public digital infrastructure is being developed. Open networks are being created for this, including the Open Network for Digital Commerce (ONDC; in the beta testing phase) and OCEN. India Stack, a collection of free and open application programming interfaces (APIs) and digital public assets, is the foundation of everything. India Stack has three layers: digital identification, payments, and data storage and validation.

Open networks like OCEN serve as a link between lending institutions and loan service providers (LSPs), which are online marketplaces with a clientele that includes potential borrowers. Financial institutions and LSPs will have a ton of opportunity to partner as a result of this integration. As building specialised, separate infrastructure would require significant expenditure, this will be advantageous for all parties. These alliances will also hasten financial inclusion by bringing in additional clients to the established lending system. This extension of credit to these credit-inexperienced borrowers will also help close the credit gap for MSMEs. Additionally, financial institutions will have access to borrower data like spending habits and average order values, which can help them make wiser judgments. In addition to the layers mentioned above, numerous more data sources created over the past decade serve as crucial input for financial institutions. The data consist of PAN as a common identity, GSTN, Udyam MSME Registration, and Digi Locker for MSMEs.

Growth drivers of MSME finance sector

Digitalisation

Digitalisation reduces supply chain risks and gives MSMEs better access to a wider range of international markets. In the short term, digitalisation can help MSMEs by enabling remote transaction administration, effective product distribution, and simpler access to financial services. MSMEs may see real advantages from it, such as increased client acquisition, operational efficiency, staff development, risk management, innovation, and a need for less workers. MSMEs have been drawn to the digital channel even more as a result of rising internet usage, rising demand for inexpensive smartphones, and the closure of the information asymmetry gap by digital lenders.

Government policy interventions

The Indian government has launched numerous policies under the Atmanirbhar Bharat Abhiyaan and Make in India during the past 10 years to improve and expand the MSME sector. The Self-Reliant India Fund was established to address the MSMEs' ongoing need for equity and cash. The government has launched several other schemes such as the ECLGS, MSME Champions, CGTMSE, ONDC and OCEN, to help the sector grow.

Key challenges

Key risks of the MSME industry	• Financial risk • Natural calamities and pandemics • Supply chain risk. • Operational/business interruption risk • Human capital risk
Key risks while assessing for lending to MSMEs.	• Financial information • Difficulty predicting future cash flow. • Accuracy or relevancy of rating models • Process efficiency and system infrastructure. • Data, reporting, and regulatory compliance

Source: Industry reports, Crisil Intelligence

Wholesale finance – Review and outlook

Wholesale book of NBFCs pivots to growth as legacy book issues subsides

Lending by non-banking financial companies (NBFCs), including housing finance companies (HFCs), to the wholesale sector, which had been on a declining trend over the past few fiscals, marked a reversal in fiscal 2025, growing an estimated 5.2% on-year.

Wholesale finance involves short- and long-term funding provided by banks and other financial institutions to large and medium-sized firms, including real estate developers, and institutional customers. Crisil Intelligence excludes lease-rental discounting and lending to the infrastructure sector from the wholesale book.

Over the past few fiscals, the wholesale loan book of NBFCs has changed considerably in terms of size and complexity. After facing asset quality issues following the NBFC crisis of 2019 and the pandemic, several NBFCs started downsizing their wholesale book, categorising it as legacy assets. At present, only a few NBFCs are expanding their wholesale book.

As of fiscal 2025, the NBFCs that have been cutting back on wholesale lending constitute a very small proportion of the total NBFC wholesale loan book. At the same time, NBFCs/HFCs that continue to expand their wholesale portfolios reported steady loan book growth. Consequently, the wholesale loan book of NBFCs rose an estimated 5.2% in fiscal 2025, marking a reversal from the declining trend of the past five years.

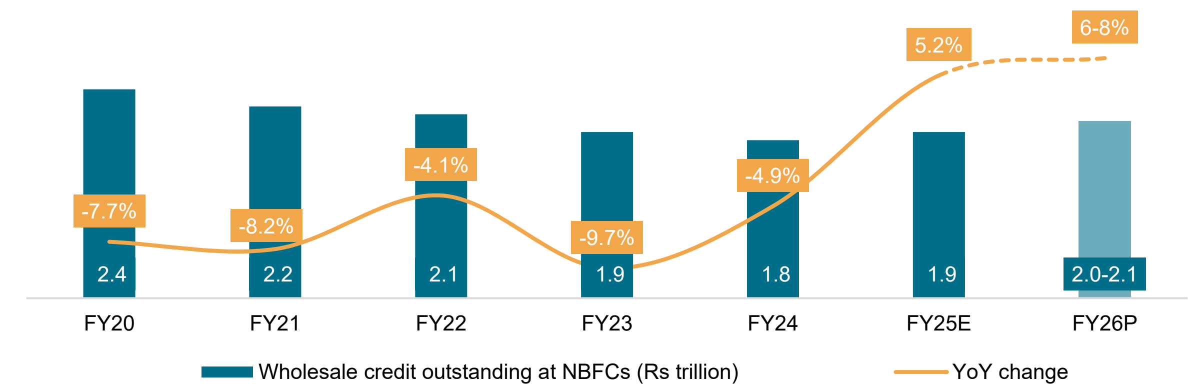
Banks dominate the wholesale lending space

Type	Share in book FY25E (%)	Book (Rs billion) FY25E	CAGR (%) FY20-25	Growth in FY25E (%)	Growth outlook for FY26P (%)
NBFCs	4%	1,920	-4.5%	5.2%	6-8%
Banks	96%	49,338	8.0%	10.2%	10-12%
Overall	100%	51,258	7.3%	10.0%	10-12%

Notes:
1. E: Estimate, P: Projected
2. The merger of HDFC Limited and HDFC Bank became effective July 1, 2023. Past numbers have been adjusted for the estimated loan book of HDFC Limited for the retail housing and commercial real estate segment for normalised credit growth
3. Historical numbers are restated based on changes in reporting by companies
Sources: Company reports, RBI, Crisil Intelligence

Wholesale book of NBFCs clocks mid-single-digit growth in fiscal 2025

Moderate expansion expected next fiscal



Notes:
1. E: Estimate, P: Projected
2. The merger of HDFC Limited and HDFC Bank became effective July 1, 2023. Past numbers have been adjusted for the estimated loan book of HDFC Limited for the retail housing and commercial real estate segment for normalised credit growth.
3. Historical numbers are restated based on changes in reporting by companies
Sources: Company reports, RBI, Crisil Intelligence

Between fiscals 2020 and 2024, the total NBFC wholesale book was on a declining trend. Volatile asset quality of high-ticket-size loans was the primary reason for several NBFCs pruning their wholesale book. Defaults on these loans led to significant deterioration in asset quality and material write-offs, impacting the net interest margins (NIMs) and return on assets (RoAs) of NBFCs. In real estate project finance, viability issues arose because of high gestation periods and adverse market conditions, such as the introduction of goods and services tax for under-construction properties, labour shortage during the pandemic-driven lockdowns and the rising cost of raw materials.

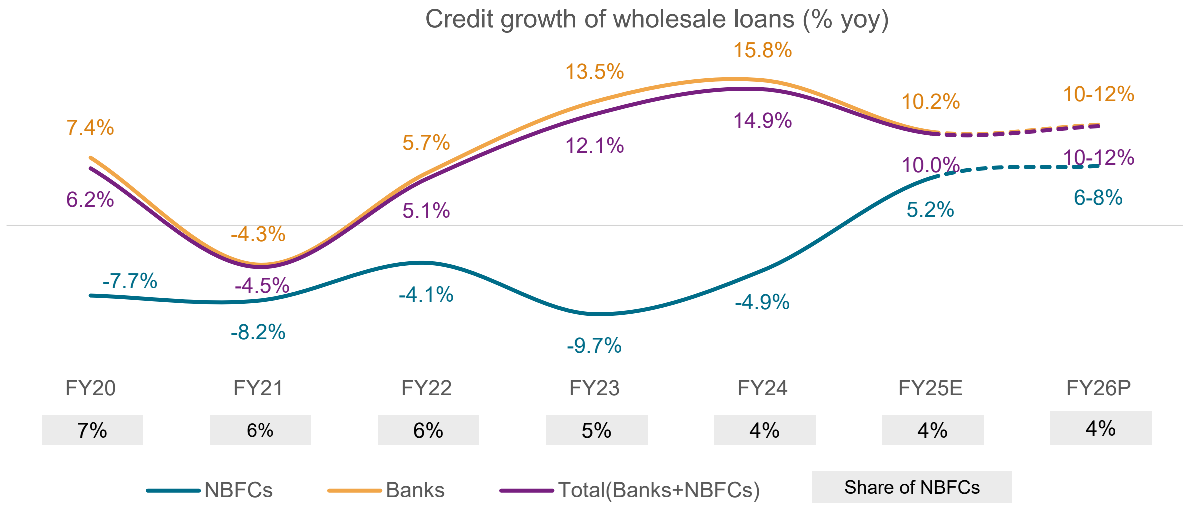
At present, the NBFC wholesale finance sector stands on more stable ground, with large, highly rated NBFCs responding to the challenging environment by exploring alternative avenues of wholesale financing to diversify their portfolios. One such strategy is lending to other NBFCs and offering a range of products to mitigate risk. Additionally, they are venturing into lending to other mid and large corporate segments.

Meanwhile, large HFCs are maintaining their risk-averse approach by partnering only with highly rated real estate developers. This partnership also helps HFCs in sourcing loans from these developers.

Crisil Intelligence projects the wholesale book of NBFCs to grow at a moderate 6-8% in fiscal 2026 as a few large HFCs have resumed expanding their developer finance portfolio after years of book clean-up. Real estate project launches slowed in fiscal 2025, however the pass on Reserve Bank of India's (RBI) cumulative rate cut of 100bps between February to June 2025 is expected to revive new project launches in fiscal 2026, thereby supporting the growth of the wholesale book.

Wholesale books of banks slowed in fiscal 2025

Rate cuts to support growth in fiscal 2026



Notes:
1. E: Estimate, P: Projected
2. The merger of HDFC Limited and HDFC Bank became effective July 1, 2023. Past numbers have been adjusted for estimated loan book of HDFC Limited for the retail housing and commercial real estate segment for normalised credit growth
3. Historical numbers are restated basis change in reporting by companies
Sources: Company reports, RBI, Crisil Intelligence

Banks' wholesale loan book clocked a compound annual growth rate (CAGR) of 8% between fiscals 2020 and 2025 and represented around 11% of their loan book as of fiscal 2025. Given their highly diversified loan book and availability of funding through deposits, banks have been the dominant player in the wholesale loan space with a market share of 96% as of fiscal 2025.

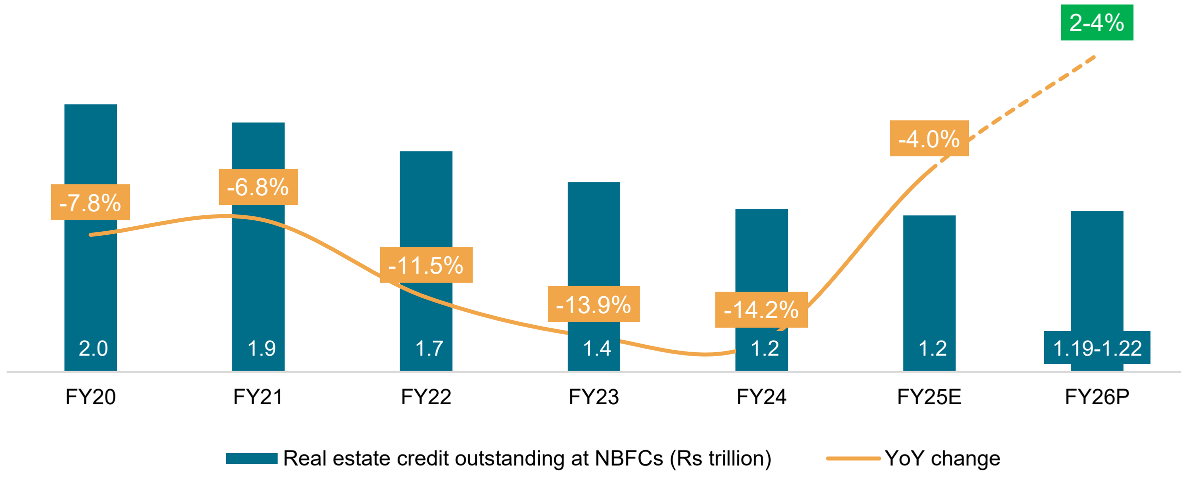
In fiscal 2025, the wholesale loan book of banks rose 10.2% on-year to Rs 49 trillion, slower than the 15.8% growth in the previous fiscal. The slower growth can be attributed to banks rising increasingly focusing on growing their high-yielding retail book to support their interest margins. Moreover, many large corporations trimmed or delayed their capital expansion plans owing to the slowdown in the economy, with real gross domestic product declining from 9.2% in fiscal 2024 to 6.5% in fiscal 2025. Additionally, many companies relied on internal cash generation rather than borrowing because of high interest rates.

Funding to NBFCs was a bright spot in the banks' wholesale loan book in fiscal 2025, growing 6% on-year, and accounting for 9% of their gross loan book and 33% of the wholesale book.

Crisil Intelligence projects banks' wholesale credit growth rate to moderately increase to 10-12% in fiscal 2026 supported by the RBI's repo rate cuts, capital expansion activities by large corporations, demand for NBFC credit and pickup in real estate projects.

Real estate book contracts owing to slowdown in projects

NBFCs' real estate lending expected grow in fiscal 2026



Notes:
1. E: Estimate, P: Projected
2. The merger of HDFC Limited and HDFC Bank became effective July 1, 2023. Past numbers have been adjusted for estimated loan book of HDFC Limited for the retail housing and commercial real estate segment for normalised credit growth
3. Historical numbers are restated basis change in reporting by companies
Sources: Company reports, RBI, Crisil Intelligence

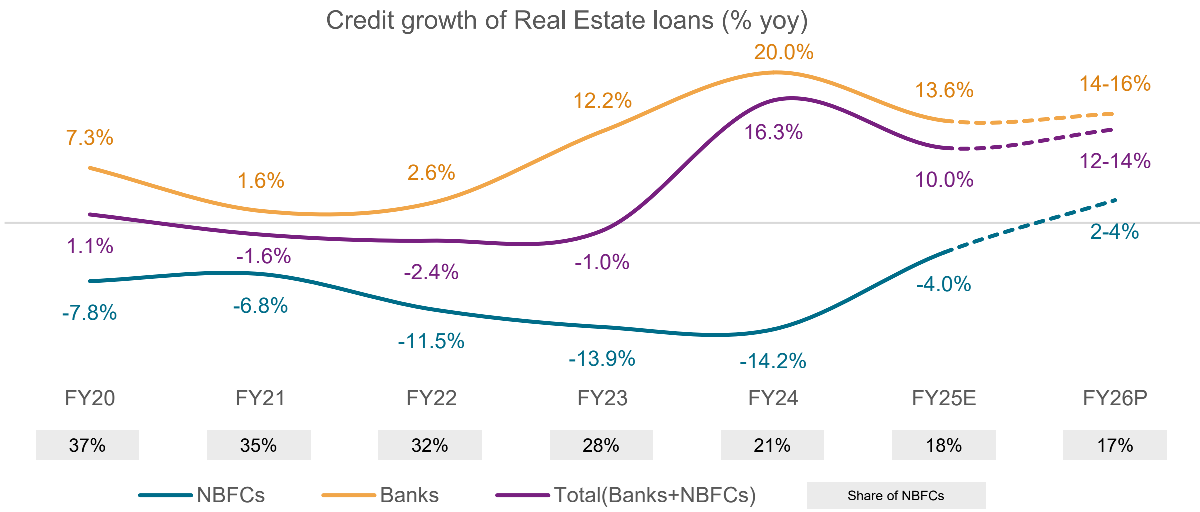
NBFCs' real estate lending declined to ~Rs 1.1 trillion in fiscal 2025 from ~Rs 2.0 trillion in fiscal 2020 as several players downsized their book after facing asset quality concerns and significant bad loan write-offs. The asset quality stress stemmed from pandemic-led lockdowns, which halted construction and also gave rise to labour shortages, leading to extended construction timelines and financing challenges. In the aftermath of pandemic, the RBI raised the repo rate to curb inflation, leading to a slowdown in new real estate projects.

Traditionally, developers were dependent on customer payments at the time of property booking, construction-wise payments from customers or their lenders, their own capital, and bank or NBFC borrowings for funding. But sudden changes in economic and global conditions have made projects volatile, elevating the risk of bankruptcies. To address this, the government has introduced a more diversified alternative financing source for developers in the form of real-estate investment trusts (REITs), through which players can raise capital from markets.

The decline in NBFCs' real estate book slowed to 4% in fiscal 2025 from 14.2%in the previous fiscal, as a few players cautiously resumed lending to real estate projects after cleaning up their loan book. Demand from new project launches remained strong, there were fewer new project launches compared with fiscal 2024.

Crisil Intelligence projects the NBFC real estate book to grow 2-4% in fiscal 2026 supported by a pickup in new real estate project launches on the back of the declining repo rate. Also, the bulk of the real estate portfolio reduction by NBFCs is likely to have been completed.

Banks surpass NBFCs in lending to real estate



Notes:
1. E: Estimate, P: Projected
2. The merger of HDFC Limited and HDFC Bank came into effect on July 1, 2023. Past numbers have been adjusted for estimated loan book of HDFC for the retail housing and commercial real estate segment for normalised credit growth.
3. Historical numbers are restated based on changes in reporting by companies
Sources: Company reports, RBI, Crisil Intelligence

After the pandemic, banks experienced a slowdown in real estate loans due to issue across the underlying sector. However, after fiscal 2022, banks rapidly grew their real estate books relative to NBFCs given their ability to provide funding at competitive rates compared with NBFCs.

As the impact of the pandemic subsided, demand for luxury and prime housing rose, whereas affordable housing demand moderated due to lower affordability within the targeted segment following repo rate increases. Banks capitalised on this trend given their higher liquidity and ability to fund large projects, which supported their real estate loan book growth in fiscals 2023 and 2024.

In fiscal 2025, banks' real estate loan book growth slowed to 13.6% due to an overall slowdown in new project launches.

Crisil Intelligence projects funding to real estate by banks to grow 14-16% in fiscal 2026 supported by a lower repo rate and real estate project launches.

Asset quality

Stress in the real estate and corporate segments has remained higher than other segments. Crisil Intelligence estimates that the overall stress in the wholesale book will be high, including contractual moratorium, book under extension by date for commencement for commercial operations (DCCO) extension.

The wholesale gross non-performing assets (GNPAs) of NBFCs moderated marginally in fiscal 2025 owing to recoveries as well as wite-offs. However, for a few players, GNPAs remained in high double digits as the wholesale book declined further and no new disbursements. Crisil Intelligence estimates the overall GNPAs will remain on a higher side — at 6-9% — in fiscal 2026.

Key Growth Drivers

Rise in urbanization to create demand for residential real estate in urban India

Urbanisation provides an impetus to housing demand in urban areas as migrants from rural areas require dwelling units. In 2030, about 37% of Indian population is expected to live in urban areas of the country. This trend in urbanization has pushed the demand for houses in urban areas.

Infrastructure development across India is driving growth in the real estate sector

The development of infrastructure plays a key role in enhancing the demand for residential estate. Infrastructure development leads to an increase in connectivity through railways, air, and road, reducing commute time. Well planned transportation infrastructure attracts investments and business which further creates demand for commercial and residential real estate. Also, other infrastructure development such medical facilities, educational institutions, entertainment hubs, retail market, business centres, schools, retail outlets etc. promote real estate prices as these infrastructure projects are the most preferred aspect for residential real estate buyers.

Focus on integrated lifestyle especially by millennial buyers

Nowadays, residential real estate buyers, especially millennials, have key preferences for their homes. These residential real estate buyers look for work-life balance and seek residences which offer modern amenities, vibrant communities, and access to leisure and entertainment options. They prefer integrated townships with gated communities which offer a variety of amenities such as fitness centres, swimming pools, and recreational spaces. Due to this, developers today are focusing on offerings to cater these lifestyle-based preferences, resulting in real estate development projects for aspirations and dreams of millennial generation.

Risks and challenges:

Operational risk in project approvals and construction

Operational risks in real estate financing include project delays due to legal issues, funding shortfalls, or logistical challenges, and construction risks such as poor construction quality, labour shortages, and unreliable contractors. Effective project management, regular monitoring, and contingency planning are essential to mitigate these risks and ensure timely project completion.

Increasing preference towards renting rather than buying

The millennial generation is expected to drive a significant shift in the housing market, with a growing preference for renting over buying homes. The rise of the sharing economy, co-living spaces, and online rental platforms is also contributing to this trend, making it easier and more appealing for millennials to rent rather than buy.

Market and regulatory risks

In the real estate financing industry, market risks such as property price volatility and demand-supply mismatches, combined with regulatory and compliance risks like frequent policy changes and legal non-compliance, pose significant challenges. Effective risk management requires market analysis, adaptive strategies, and strict adherence to evolving regulations to ensure project stability and profitability.

Wholesale finance – Industry overview

Wholesale finance represents lending services to medium-sized and large corporate firms, institutional customers and real estate developers by banks and other financial institutions. It encompasses both short- and long-term funding with long term loans accounting for most of the loan book. While long term loans are driven by investment cycles, short term loans are influenced by business revenue and working capital requirement.

Segmentation of wholesale finance offered by NBFCs

Real estate lending	Secured corporate lending (includes structured finance)
• Provides customised and structured loans to real estate developers for pre-approval/land financing and construction of commercial and residential properties • Last stage financing for inventory funding	• Customised financing solutions to meet working capital and growth finance needs of corporate clients • It includes : • Vanilla term loans • Working capital loans • Structured finance

NBFCs compete with Banks through innovative product offerings and strong relationship with corporates

Customised solutions:

NBFCs offer customised loan structures with features such as interest moratorium and bullet repayment schedules, which are generally not offered by banks. In addition, NBFCs also often extend credit to developers for land financing and early-stage project financing. These offerings along with strong customer relationships with corporations help NBFCs to be competitive with Banks

Lower turnaround time:

Corporates often require funds in a timely manner for funding business growth and/or managing liquidity crunch. NBFCs are able to meet the requirement of such clients owing to their faster turnaround time. The quicker turnaround time for NBFCs can be attributed to the use of technology and digital platforms in aspects of loan origination, underwriting and collections, and faster processing of documents. Decision-making cycles in some PSBs are elongated, owing to high ticket size and high-risk segment. This shall contribute to the growth of NBFCs in wholesale segment.

Strategic Credit Diversification and Risk Management:

NBFCs, by analysing past experiences, are recognizing the critical importance of managing and diversifying their wholesale credit portfolios. This strategic shift is aimed at maintaining asset quality while ensuring sustainable returns. Diversification, in this context, involves spreading credit exposure across various sectors and borrower segments to mitigate risks associated with economic downturns or sector-specific disruptions. Moreover, improved risk management techniques, such as enhanced credit assessment processes and continuous monitoring of loan performance, are being implemented to forecast potential defaults and preserve capital. This proactive approach not only helps in stabilizing the asset quality but also positions NBFCs to capitalize on emerging opportunities in the market, thereby driving their growth in a competitive financial landscape.

Government support and regulations

Government support in the form of investment funds will be beneficial to wholesale lenders over the medium term owing to the significant stress in the segment, which has seen a slowdown in fund inflow.

SWAMIH Investment Fund

On September 14, 2019, the Ministry of Finance announced several measures to revive the real estate sector and boost economic growth. Among them was the Special Window for Completion of Affordable and Mid-Income Housing (SWAMIH) Investment Fund. As on March 17, 2023, the fund had delivered over 22,500 homes. Since its inception, the private equity fund managed by SBICAP Ventures Limited has become the largest social impact fund in India. The alternative investment fund, which provides last-mile funding for stalled affordable-housing and mid-level projects, was created to boost real estate investments, primarily in the form of non-convertible debentures. The scheme aims is to trigger last-mile construction of stalled units and ensure delivery to home buyers. The fund offers loans at a rate of 12% per annum without any processing fees.

Criteria for developers to avail SWAMIH Investment Fund

- At least 90% of the available floor space index (FSI)/floor area ratio (FAR) is being developed as affordable housing or mid-income housing and the net worth must be in the positive

- Is a part of Real Estate (Regulation and Development) Act, 2016 (RERA)-registered projects, has incurred at least 30% of project costs and requires last-mile funding, sufficient to complete the project

- The capital provided by the fund shall have a senior charge (except in cases where a regulatory authority holds first charge) over the portion of the project for which the funding shall be used

- Affordable or mid-income housing units have been defined as those that do not exceed 200 sq m RERA carpet area and are priced as follows (as applicable):

    i. Less than Rs 2 crores in the Mumbai Metropolitan Region (MMR)

    ii. Less than Rs 1.5 crores in the National Capital Region (NCR), Chennai, Kolkata, Pune, Hyderabad, Bengaluru and Ahmedabad

iii. Less than Rs 1 crore in the rest of India

Progress under SWAMIH Investment Fund I

As of January 2025, SWAMIH had accorded final approval for about 130 projects, with sanctions worth over Rs 120 billion. Since its inception in 2019, the fund completed 20,557 homes and aimed for completion of over 81,000 homes across 30 tier 1 and 2 cities. The fund has projects in 30 cities, including Amravati, Amritsar, Coimbatore, Dehradun, Jaipur, Jodhpur, Meerut, Mohali, Nagpur, Nasik, Thrissur, Visakhapatnam, MMR, NCR, Pune, Hyderabad, Bengaluru and Chennai.

Launch of SWAMIH Investment Fund II

The Union Budget 2025-26 announced the launch of SWAMIH Investment Fund II with an allocation of Rs 150 billion to help complete an additional 100,000 housing units.

PM Gati Shakti

This programme is aimed at building next-generation infrastructure, which improves ease of living as well as ease of doing business. The multi-modal project will provide integrated and seamless connectivity for the movement of people, goods and services from one mode of transport to another. It aims to facilitate last-mile connectivity of infrastructure and reduce travel time. Developments in infrastructure and connectivity are expected to support the real estate segment in the medium term.

REITs and infrastructure investment

A strong infrastructure is crucial for a country, especially for a developing economy such as India. Real estate and infrastructure investments can accelerate economic expansion. Due to lack of resources, the public sector is unable to fully meet the funding required for infrastructure development. Private sector investments in the sector are constrained due to its capital-intensive nature and sluggish yields.

Infrastructure investment trusts (InvITs) and REITs are cutting-edge pooled investment vehicles that enable the monetisation of real estate and infrastructure assets, while also giving investors the chance to engage in these assets without owning them.

Given the significance of private investment in infrastructure development and the crucial roles that REITs and InvITs may play, the Securities and Exchange Board of India (SEBI) has consistently worked to both enhance and simplify the regulatory framework governing them.

What are REITs?

REITs are investment trusts that own and manage real estate properties, earning regular income and capital growth on their investments, like mutual funds.

They pool money from investors and give them a liquid means to invest in real estate, while also assisting in portfolio diversification, regular income generation and long-term capital growth.

Measures taken to support REITs

- **Shortening of timelines for listing:** To streamline the process of public issue of REITs, the time taken for allotment and listing after the closure of the issue has been reduced to six working days from 12. This will help enhance liquidity in the market and bring about parity with equities as an investment avenue

- **Amendments to guidelines for institutional placement of units:** The mandatory listing period for institutional placement of units by listed REITs has been reduced to six months from 12. Further, sponsors were allowed to be allotted units on institutional placement for the unsubscribed portion, subject to fulfilment of certain conditions

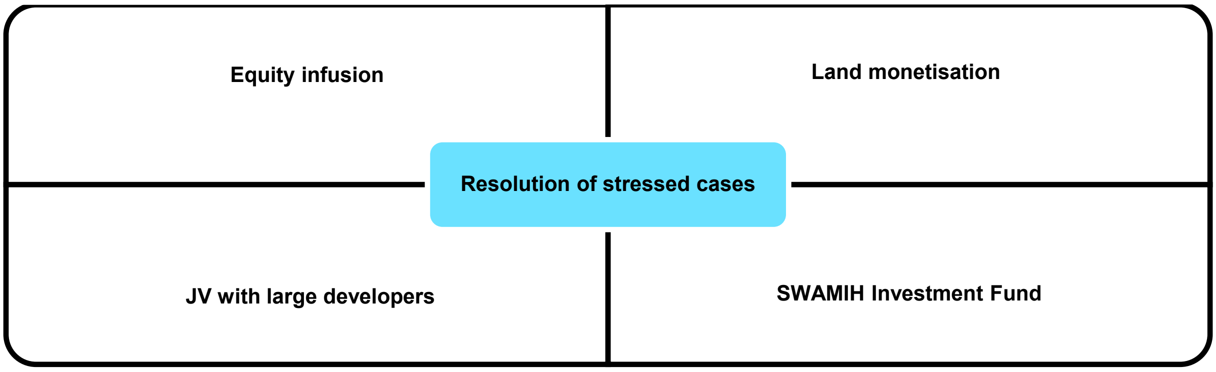
- **Issue and listing of CPs:** To improve the robustness of REITs by allowing them greater flexibility in capital structuring, REITs were allowed to issue and list commercial papers (CPs), provided it is beneficial for stakeholders of REITs

- **Reduction in minimum unitholding requirement:** The minimum holding requirement of units by sponsor(s) and sponsor group(s) of REITs has been reduced to 15% of total outstanding units on a post-initial-offer basis from 25%, in line with the requirements specified for sponsor(s) in the InvIT regulations, 2014

- **UPI mechanism:** To provide additional option for individual investors to apply in public issues of units of REITs, a facility to block funds through Unified Payments Interface (UPI) for application value up to Rs 5 lakhs has been provided

Structural shifts

The stress in the wholesale segment is clearly visible in the higher NPA levels. Over the years, most HFCs and NBFCs have changed their strategies/focus to reduce their wholesale exposure, paving the way investment opportunities for private equity funds.



Source: Crisil Intelligence