

NBFC SECTOR IN INDIA

Assessing growth drivers, asset quality, and regulatory recalibration

JUNE 2026



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Key takeaways

From crisis to catalyst: The structural transformation of India's NBFC sector

The Indian Non-Banking Financial Company (NBFC) sector has emerged as a resilient, digitally empowered catalyst for India's financial inclusion and growth story. NBFCs contribute nearly one-fourth of India's total credit portfolio, complementing banks by serving high-growth, high-risk segments that traditional lenders often avoid. Simultaneously, NBFCs embraced digital transformation and fintech partnerships, leveraging account aggregator frameworks and platform lending to expand reach into underserved segments such as MSMEs, rural borrowers, and informal households. Consolidation in housing finance and infrastructure NBFCs created stronger, better-capitalized entities, while niche players in gold loans, microfinance, and vehicle finance retained their competitive edge.

This landscape reflects a profound structural transformation over the past decade, evolving from a period of crisis. The IL&FS default in 2018 exposed vulnerabilities in over-reliance on short-term wholesale funding, triggering liquidity stress across the sector. This crisis, followed by pandemic-era disruptions, prompted the Reserve Bank of India (RBI) to introduce the Scale-Based Regulation (SBR) framework, stricter liquidity norms, and enhanced governance standards. These reforms compelled NBFCs to strengthen balance sheets, diversify liabilities, and adopt more disciplined risk management practices. While challenges remain, including elevated funding costs, asset quality sensitivities, and tighter regulatory oversight, this foundational restructuring successfully transformed the sector into an engine for long-term credit growth.

INR 61.1 trillion Total assets (FY25) +18.9% YoY	INR 48.4 trillion Loans and advances (FY25) +19.4% YoY	INR 41.8 trillion Total borrowings (FY25) +21.0% YoY
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2.3% Return on Assets (FY25) <i>Supported by declining credit costs</i>	10.1% Return on Equity (FY25) <i>Down from 13.0% in FY24</i>	25.9% CRAR (FY25) <i>Well above 15% regulatory minimum</i>	2.9% Gross non-performing asset (NPA) (FY25) <i>Down from 3.5% in FY24</i>
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Table 1: NBFC Sector Key Indicators Performance — FY19 to FY25

Metric	FY19	FY22	FY24	FY25	FY26E	FY27F	FY28F
Total assets (INR billion)	31,129	39,526	51,395	61,091	70,260	80,800	92,900
Total credit (INR billion)*	23,156	29,524	40,527	48,387	57,180	65,750	75,600
Borrowings (INR billion)	21,108	25,845	34,663	41,812	48,740	56,000	64,400
Total income (INR billion)	3,391	3,910	5,937	6,855	7,880	9,060	10,420
Net profit (INR billion)	171	661	1,410	1,323	1,450	1,670	1,920
Return on assets — RoA (%)	0.8	1.8	2.9	2.3	2.3	2.4	2.5
Return on equity — RoE (%)	2.3	7.4	13	10.1	10.5	11.5	12.5
Net interest margin (%)	5.5	4.1	5.2	5.0	4.9	4.8	4.7
CRAR (%)	23.1	27.2	26.9	25.9	25.5	24.5	24.5
Provision coverage (%)	53.2	60.6	69.1	66.6	66.5	65.5	64.5
Gross NPA (%)	6.4	5.7	3.5	2.9	3.2	3.0	2.8
Net NPA (%)	2.9	2.3	1.1	1.0	1.1	1.0	0.9

* Loans and Advances

Note: E = estimates, F = forecasts

Source: Reserve Bank of India

Key takeaways

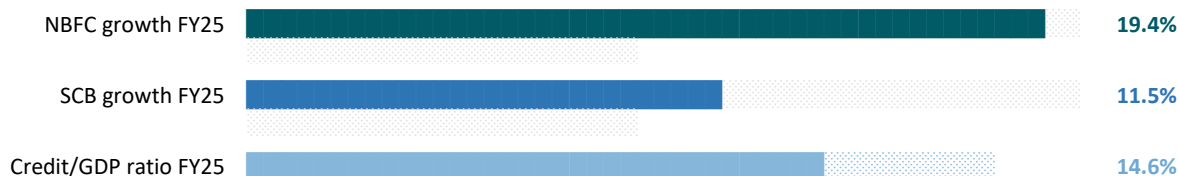
Balance sheet surges 18.9% in FY25; assets projected to hit INR 93 trillion by FY28

Total balance sheet expanded to INR 61.1 trillion in FY25, up from INR 51.4 trillion in FY24, up 18.9% year-on year (YoY). The balance sheet further increased to INR 65.51 trillion by H1 FY26, supported by robust loan demand across retail, micro, small, and medium enterprises (MSME), and services segments. Assets are projected to reach INR 92,900 billion by FY28. From a credit perspective, such rapid expansion enhances financial inclusion but also magnifies interconnectedness with banks and mutual funds, raising contagion risks in stress scenarios.

FY19	FY24	FY25	H1 FY26	FY28 ★
~16% credit/GDP	INR 51.4 trillion assets	INR 61.1trillion assets	INR 65.5 trillion assets	INR 92.9 trillion projected

The structural shift: NBFC credit outpaced GDP and banking sector growth

NBFC credit growth has structurally outpaced GDP growth, with the NBFC credit-to-GDP ratio rising from approximately 12.1% in FY19 to approximately 14.6% in FY25. Since FY22, NBFCs have accelerated credit growth. Credit growth reached 19.4% YoY in FY25, outpacing the scheduled commercial banks' (SCB) growth of 11.5%. This trend signals deeper financial inclusion alongside heightened household/SME leverage. It boosts NBFCs' systemic role and bank/mutual fund linkages, while amplifying credit cycle risks and liquidity vulnerabilities, prompting demands for stricter prudential norms and disclosures.






ROA at 2.5% in H1 FY26 as declining credit costs support earnings; ROE hits 10.1% in FY25

Return on assets (ROA) improved to 2.5% in H1 FY26 from 2.3% in FY25. Return on equity (ROE) stood firm at 10.1% in FY25, although at a slower pace compared to FY24, supported by declining credit costs. Capital to risk (weighted) assets ratio (CRAR) remains healthy at 25.9% in FY25, well above 15% regulatory minimum, ensuring resilience. This ensures a substantial cushion to absorb potential shocks and support future balance sheet expansion. Profitability may face headwinds due to rising costs of funds and potential reluctance from banks to extend wholesale funding further.

Asset quality improves but unsecured risks loom

Asset quality has seen a marked improvement, with gross non-performing assets (GNPAs) declining to 2.9% in FY25 from 3.5% the previous year. This improvement is largely attributed to aggressive write-offs and enhanced underwriting standards facilitated by the Account Aggregator (AA) framework. Net non-performing assets (NNPA) have eased, reflecting effective resolutions and provisioning across most asset categories. However, the Provision Coverage Ratio (PCR) eased slightly to 66.6% from its peak of 69.1%, and a notable rise in slippages has been observed specifically within unsecured retail loan portfolios. The outlook for asset quality is moderately positive but cautious, with unsecured lending performance the key risk as regulatory tightening and stricter Asset-Liability Management (ALM) and Liquidity Coverage Ratio (LCR) norms take effect.

 GNPA FY25 2.9% improved from 3.5%	 Provision coverage 66.6% eased from 69.1%	 Key risk Unsecured retail slippages ↑
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Industry and retail continue to dominate NBFC lending

Credit deployment remains concentrated in industry and retail, which together account for about 81% of total lending. In industry, power is the largest anchor at approximately 56% of industrial credit, reflecting long-tenor, project-linked funding suited to specialised NBFCs. In retail, vehicle and auto loans remain a stable core, while gold loans surged 69.6% over 18 months to INR 2,617 billion by H1 FY26, reflecting a strategic shift toward collateral-backed assets amid the RBI's 2023 tightening of risk weights on unsecured retail lending.

Key takeaways

MSME financing has also gained traction, now making up 9.9% of the total portfolio as NBFCs deploy specialised underwriting for small businesses.

Digital transformation 2.0: reshaping agility and profitability

NBFCs are shifting from conventional credit providers to tech-enabled financial orchestrators, with digital transformation boosting agility and profitability through streamlined MSME financing and digital lending; key growth drivers going forward include urbanisation, the narrowing of the credit gap in rural India, and rising infrastructure-related credit demand. Looking ahead, digital-first NBFCs and those with robust fintech partnerships are poised to gain market share, but the sector must carefully manage risks such as dependence on wholesale funding and the impact of the RBI's tighter regulations on liquidity and asset-liability mismatches.

The funding crunch: borrowings surge 21% to INR 41.8 trillion




Despite strong fundamentals, NBFCs face rising risks from unsecured retail lending, reliance on wholesale funding, and regulatory tightening. Borrowings surged 21% year-on-year in FY25 to INR 41.8 trillion, with heavy dependence on debentures and bank lines. RBI's stricter ALM and LCR norms, coupled with higher funding costs, could pressure liquidity, particularly for smaller NBFCs with concentrated funding sources.

RBI's scale-based regulation reshapes NBFCs

The regulatory environment has undergone a fundamental recalibration through the RBI's Scale-Based Regulation (SBR) framework, which classifies NBFCs into Base, Middle, Upper, and Top layers, curbing systemic risk but raising compliance costs. The sector faces headwinds from heavy reliance on wholesale funding, tighter regulation, and rising household leverage in unsecured segments; NBFCs with diversified funding and strong risk management are best placed to remain key accelerators in India's financial ecosystem.

①	Base layer	Lower regulatory requirements · Smaller NBFCs
②	Middle layer	Enhanced prudential norms · Mid-size NBFCs
③	Upper layer	Bank-like regulations apply · Larger NBFCs
④	Top layer	Systemic importance designation · Strictest oversight

Key risks

 Wholesale funding reliance Borrowings surged to INR 41.8 trillion in FY25, concentrated in debentures and bank credit lines. HIGH RISK	 Unsecured retail exposure Rising slippages in unsecured portfolios; RBI tightening of risk weights further compresses margins. HIGH RISK	 Regulatory tightening Scale-Based Regulation raises compliance costs; stricter ALM & LCR norms pressure smaller NBFCs. MEDIUM RISK
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NBFC outlook

Moderate growth amidst heightened scrutiny

The outlook for NBFCs remains stable with moderating growth. Strong fundamentals, balance sheet resilience, and digital transformation provide growth momentum. However, heightened regulatory scrutiny and asset quality risks temper optimism. The sector's trajectory will hinge on managing unsecured loan exposures, diversifying funding sources, and sustaining profitability amid competitive pressures.

Macroeconomic overview



Macroeconomic overview

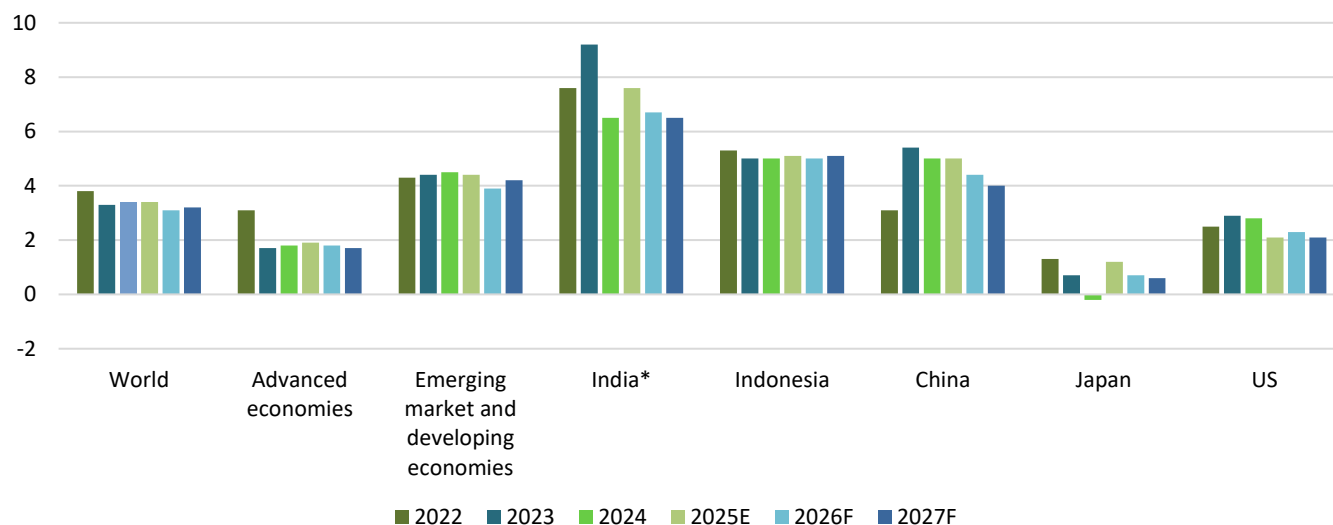
India anchors global growth amid broad global slowdown

Global GDP growth slowed progressively between 2022 and 2025, reflecting tighter financial conditions, elevated uncertainty, and repeated supply-side shocks. According to the IMF WEO April 2026, global activity expanded at roughly 3.4% in 2024-25, below the pre-pandemic average, as economies adjusted to higher trade barriers and volatile commodity markets.

Advanced economies experienced subdued momentum, with growth remaining well below historical norms as tighter monetary policy and weak productivity gains constrained output. In contrast, emerging market and developing economies displayed greater resilience, though with significant cross-country dispersion. Commodity-importing EMDEs (Emerging markets and developing economies), particularly those with pre-existing vulnerabilities, faced sharper slowdowns due to higher energy prices and geopolitical disruptions.

India remains a key driver of global momentum. The NSO's second advance estimates place FY26 GDP growth at 7.6%, supported by resilient consumption, infrastructure investment, and strong services exports. Growth is expected to moderate to 6.7% in FY27 as energy costs, monsoon variability, and softer global demand weigh on activity, though structural drivers - digitalisation, infrastructure expansion, and consumption depth, anchor medium-term prospects. For NBFCs, this backdrop supports sustained credit demand, particularly in retail and infrastructure-linked segments, even as profitability faces pressure from funding costs and regulatory tightening.

Figure 1: Global real GDP growth (%)



*For India, data and projections are presented on a fiscal year (FY) basis, with FY24 (starting in April 2023) shown in the 2023 column.
E = Estimate F= Forecast

Source: International Monetary Fund (IMF); Brickwork Research.

Globally, growth is projected to ease to 3.1-3.4% during 2025–2027, with advanced economies at 1.7-1.9% and emerging markets at 3.9-4.4%. India is expected to maintain 6.5-7.6% growth, while China slows to 4-5% and the US to 2.1-2.3%. From a credit-rating perspective, advanced economies remain stable, emerging markets tilt cautiously positive, and India retains a stable-to-positive outlook.

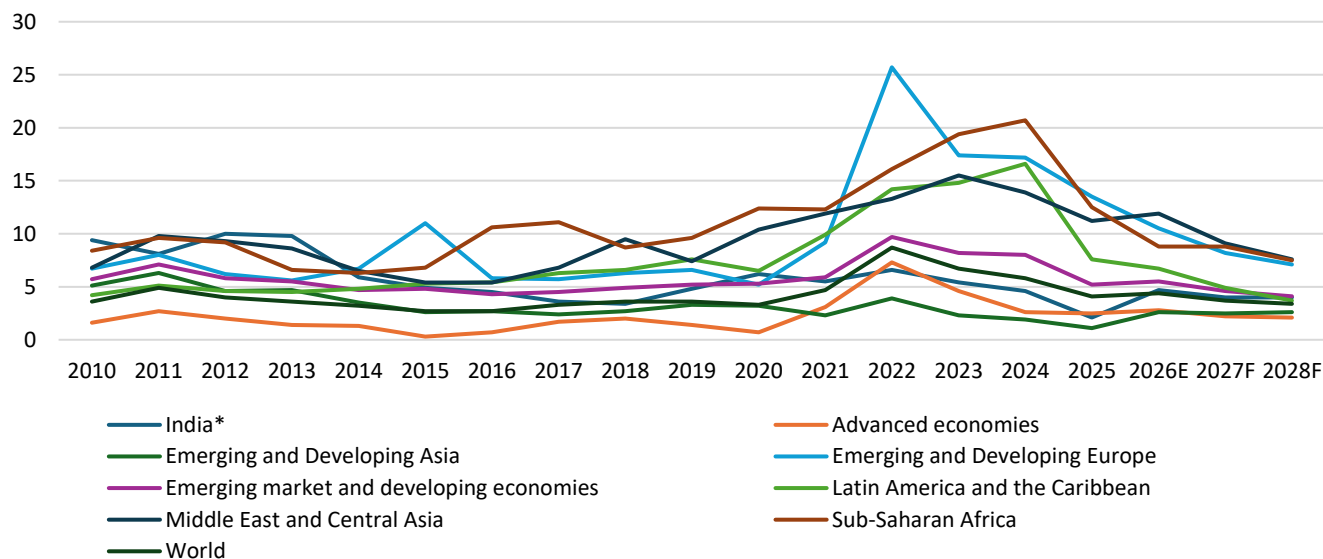
Global inflation set to stabilize near 3.4% by 2028, outlook tied to energy and geopolitics

Global inflation has continued to moderate, declining from 8.7% in 2022 as supply chains normalised and energy-market pressures eased, bringing the global average down to 4.4% in 2026E. Advanced economies have broadly realigned inflation toward 2.8%, though regional disparities persist, with emerging Europe and the Middle East still facing geopolitical-driven price pressures. Latin America and Sub-Saharan Africa remain vulnerable to commodity volatility, while emerging Asia has maintained low inflation near 2.6%, reinforcing its role as a global anchor.

India's inflation trajectory has been more pronounced, easing from 6.6% in 2022 to 2.1% in 2025, before rising to 3.5% in April 2026 amid elevated crude prices, shipping disruptions, and higher LPG costs. Rupee depreciation has added to imported inflation risks. While global disinflation is expected to continue, stabilising near 3.4% by 2028, India's inflation is projected to average around 4% in FY27–28. However, vulnerabilities linked to energy prices, CAD pressures, and currency weakness imply tighter liquidity and emerging asset-quality risks for NBFCs.

Macroeconomic overview

Figure 2: Global inflation rate, average consumer prices (YoY) (%)



*For India, data and projections are presented on a fiscal year (FY) basis, with FY24 (starting in April 2023) shown in the 2023 column.

E = Estimate F= Forecast

Source: International Monetary Fund (IMF); Brickwork Research.

RBI policy pause holds; Neutral stance preserved; rate cut hinge on inflation stability

The Reserve Bank of India (RBI) held the repo rate steady at 5.25% under a neutral stance, projecting FY27 GDP growth at 6.9% and CPI inflation at 4.6% (Q1 FY27: 4.4%) at its policy meet in April 2026. The RBI flagged geopolitical tensions, volatile energy prices, and tightening external financial conditions as spillover risks, underscoring that its 'Neutral' stance is a deliberate hedge against exogenous shocks rather than a passive hold. Going forward, policy hinges on two variables: the durability of disinflation and the sustainability of growth. A clearer alignment of inflation toward the 4% target, particularly with reduced food price volatility, is a precondition for any shift in stance; conversely, renewed price pressures could prolong the pause.

Trade deficit stable; exports moderate, imports rise on energy costs

India's exports moderated while imports rose on energy costs, widening the deficit to approximately USD 20-25 billion monthly average. Q4 FY26 cumulative gap reflects softer global demand. Forex reserves show accumulation despite outflows. The outlook suggests the deficit will remain elevated if crude prices persist above USD 100/barrel, keeping external balances under pressure. A wider deficit, coupled with volatile crude oil prices, increases external vulnerability and pressures the rupee. For NBFCs, this environment heightens refinancing risks, especially for entities dependent on external borrowings or capital market flows. Liability diversification into NCDs and securitization becomes essential to mitigate these pressures.

Rupee weakness persists; bearish bias toward INR 95.85 unless geopolitical tensions ease

The Indian rupee depreciated sharply from approximately INR 89.5-90 per USD in early January 2026 to highs above INR 95 by March 2026, driven by West Asia conflict-induced oil shocks, Foreign Portfolio Investor (FPI) outflows of approximately USD 20 billion, and forex reserves dipping below USD 700 billion. Outlook remains bearish toward INR 95.85 by Q2 FY27 if Hormuz disruptions persist. Volatility is expected to persist, though RBI interventions and higher gold import duties may provide temporary relief. For NBFCs, rupee weakness raises external funding costs and increases refinancing risks. Entities with diversified liability profiles and stronger governance are better positioned to withstand currency volatility.

Brent volatility shapes outlook; Current account deficit (CAD) and inflation path hinge on oil stabilisation

Brent crude surged to USD 115 per barrel in March 2026, driven by Middle East supply disruptions. Prices may stay high in Q2 but are expected to ease below USD 90/bbl by late 2026, contingent on geopolitical stabilization. The US EIA projects an average of USD 94.9/barrel for 2026, but geopolitical risks could push prices back above USD 115-120. Persistently high crude prices will weigh on India's import bill, inflation, and currency stability. For NBFCs, this environment raises systemic funding costs and indirectly impacts asset quality through higher household expenditure burdens. Smaller NBFCs with concentrated funding sources are particularly vulnerable.

An overview of the NBFC sector in India

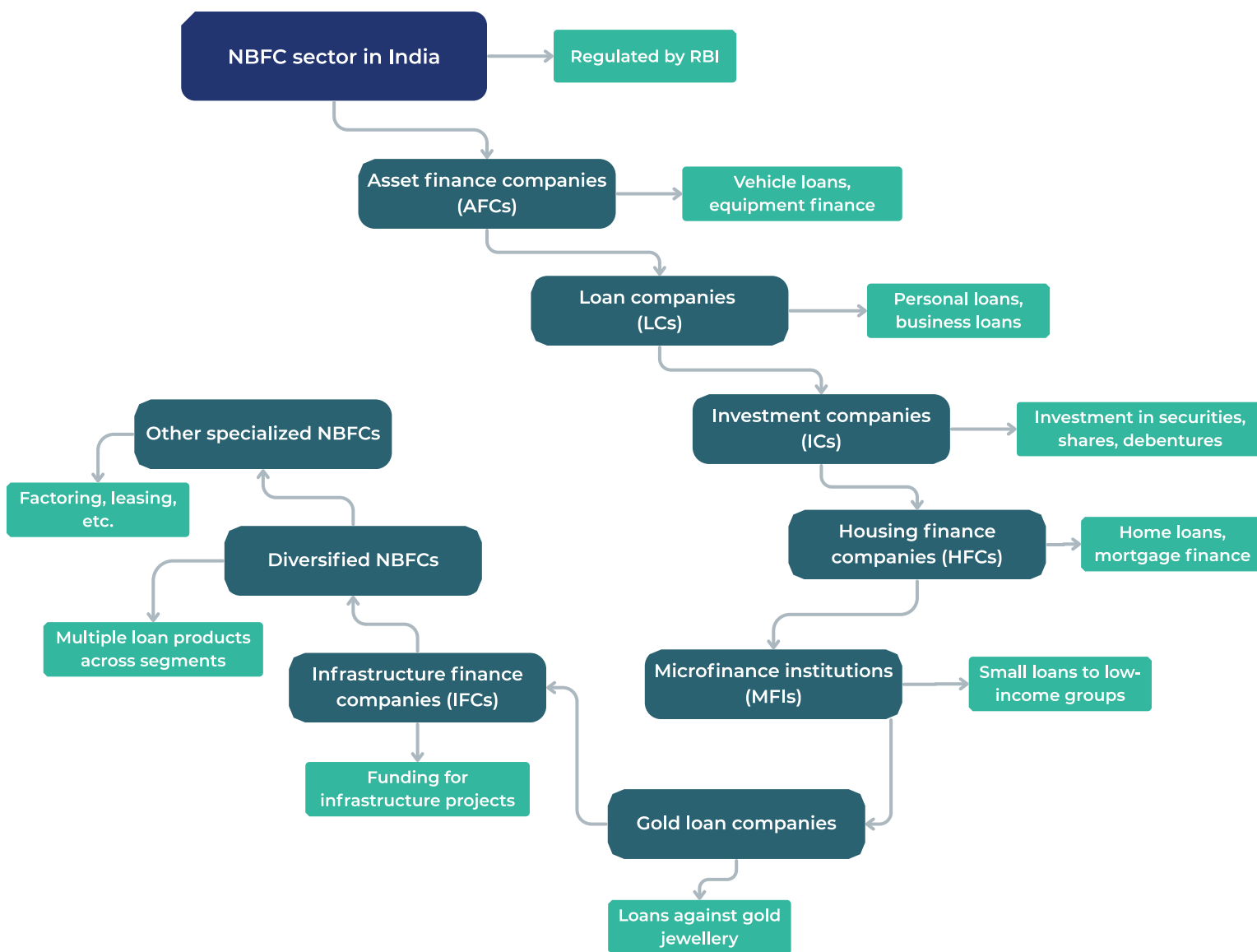


An overview of the NBFC sector in India

NBFCs: India's second pillar of institutional credit, bridging the banking gap

NBFCs are the second largest source of institutional credit after banks in India. NBFCs dominate specialized segments such as vehicle finance, microfinance, consumer durable finance, gold loans and MSME finance. They have emerged as a critical pillar of India's financial intermediation ecosystem, complementing banks by extending credit to underserved segments such as MSMEs, small businesses, informal sector workers and retail borrowers.

Figure 3: Structure of NBFC sector in India



NBFCs expand reach where traditional banking falls short

Unlike traditional banks, NBFCs operate with specialized underwriting models, flexible credit assessment frameworks, and niche sector focus, enabling them to penetrate segments where formal banking channels have limited access. The sector's growing systemic relevance is reflected in its balance sheet size, rising share in total credit, and deeper integration with banks and capital markets. The RBI has progressively strengthened the regulatory framework through scale-based regulations (SBR), tighter prudential norms, and enhanced supervisory oversight to manage systemic risks.

An overview of the NBFC sector in India

“Over the last decade, NBFCs have transitioned from being viewed as alternative financing institutions to becoming an integral part of India’s financial ecosystem, hence it plays a vital role in expanding credit access across underserved and emerging segments. As India moves towards its USD 5 trillion economic vision and broader long-term growth aspirations, the importance of transparent, technology-driven, and governance-led financial institutions will continue to grow significantly.”



Mr. Sunil Purushottam Agarwal







Managing Director and CEO,
Paisalo Digital Limited

NBFC balance sheets expanded strongly in FY25, with assets up 19% to INR 61.1 trillion and credit growth accelerating 19.4% YoY. Loans and advances rose to INR 48.4 trillion by year-end and further to INR 52.1 trillion in H1 FY26, driven by retail and services segments. NBFC credit remains concentrated in industry and retail at 81.1% of lending, but MSME financing has gained traction, rising from 8.9% to 9.9% of the portfolio in a year. With MSME credit expanding 11.2% YoY, the sector is diversifying away from unsecured retail, reflecting a strategic pivot toward productive small-business financing.





Types of NBFCs

The Reserve Bank of India classifies NBFCs into several categories based on their business activities and systemic importance. The Scale-Based Regulation (SBR) framework further classifies them into Base, Middle, Upper, and Top layers with differentiated regulatory requirements proportionate to each entity's size and systemic footprint.

Table 2: Types of NBFCs — RBI classification framework

NBFC Type	Description & Mandate	SBR Layer
 NBFC-Investment & Credit Company NBFC-ICC	Engaged in asset finance, loans, and investments. Consolidates asset finance companies, loan companies, and investment companies into one category.	Any layer, depending on SBR parameters
 NBFC-Micro Finance Institution NBFC-MFI	Provide collateral-free loans to low-income households, typically women, for income-generating activities.	Middle or Upper layer
 NBFC-Factor NBFC-Factor	Specialize in factoring and receivables financing, primarily catering to MSMEs.	Any layer, depending on SBR parameters
 NBFC-Housing Finance Company NBFC-HFC	Specializes in housing loans and finance for residential properties.	Any layer, depending on SBR parameters
 NBFC-Infrastructure Finance Company NBFC-IFC	Focuses on long-term infrastructure financing. Minimum 75% exposure to infrastructure projects required.	Middle or Upper layer
 NBFC-Infrastructure Debt Fund NBFC-IDF	Refinances infrastructure projects by issuing bonds to institutional investors.	Middle layer

An overview of the NBFC sector in India

	Core Investment Company CIC	Primarily holds shares in group companies and does not trade these securities. Group holding structures.	Middle or Upper layer
	NBFC-Account Aggregator NBFC-AA	Collecting and providing specified financial information pertaining to a customer in a consolidated, organised, and retrievable manner.	Base layer
	NBFC-Peer to Peer Lending Platform NBFC-P2P	Providing an online marketplace or platform to facilitate lending between lenders and borrowers.	Base layer
	NBFC-Non-Operative Financial Holding Company NBFC-NOFHC	Facilitation of promoters/promoter groups in setting up new banks. Does not conduct any financial activities itself.	Base layer

Source: Reserve Bank of India — Scale-Based Regulation Framework

SBR framework explanation

From a credit rating perspective, each layer represents a distinct trade-off between regulatory burden, capital cost, profitability, and rating ceiling.

<p>① Base layer</p> <p>Lightest regulation</p> <p>Benefits from lighter compliance and lower capital requirements, supporting higher short-term RoE. Limited systemic importance caps rating potential, often not exceeding 'A' or 'AA' unless backed by strong parentage.</p>	<p>② Middle layer</p> <p>Enhanced prudential norms</p> <p>Stricter prudential norms and governance standards. Raises compliance costs but improves transparency and resilience. Ratings driven from stronger buffers, though profitability compression is a trade-off.</p>	<p>③ Upper layer</p> <p>Bank-like requirements</p> <p>Acts as a dual-edged sword: bank-like capital and disclosure requirements increase funding costs and reduce RoE in the near term, yet structurally lower default probability and enhance systemic perception.</p>	<p>④ Top layer</p> <p>Extreme risk — reserved</p> <p>Empty by default, reserved for NBFCs with extreme risk profiles. Placement signals heightened regulatory scrutiny and potential rating downside, reflecting systemic risk concerns.</p>
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Financial performance of NBFC sector in India



Financial performance of NBFC sector in India

NBFC profitability moderates in FY25 amid funding cost and provisioning pressures

NBFCs' profitability weakened in FY25 as the cost-to-income ratio rose to 55.2% and net profit fell 6.2% to INR 1.32 trillion. Rising expenses and softer NIMs at 5.0% compressed margins, driving RoE down from 13.0% to 10.1% and RoA to 2.3%. Income growth of 15.5% to INR 6.85 trillion was partially offset by a 24.4% rise in expenditure.

Table 3: NBFC total income, net profit, RoA, RoE, and NIM

Period	Total income (INR billion)	Net profit (INR billion)	Return on assets - RoA (%)	Return on equity - RoE (%)	Net interest margin - NIM (%)
FY19	3,391	171	0.8%	2.3%	5.5%
FY20	3,422	392	1.1%	5.4%	6.0%
FY21	3,563	416	1.2%	5.3%	5.7%
FY22	3,910	661	1.8%	7.4%	4.1%
FY23	4,640	1,061	2.6%	12.3%	4.6%
FY24	5,937	1,410	2.9%	13.0%	5.2%
FY25	6,855	1,323	2.3%	10.1%	5.0%
FY26 E	7,880	1,450	2.3%	10.5%	4.9%
FY27 F	9,060	1,670	2.4%	11.5%	4.8%
FY28 F	10,420	1,920	2.5%	12.5%	4.7%

E = Estimate F= Forecast

Source: Reserve Bank of India; Brickwork Research.

Retail, MSME and infrastructure demand anchor strong income growth across NBFCs

NBFC sector income grew strongly, rising from INR 5.94 trillion in FY24 to INR 6.86 trillion in FY25, before moderating to INR 3.88 trillion in H1 FY26. Growth was driven by retail, MSME, and infrastructure demand, deeper penetration into semi-urban/rural markets, and efficiencies among larger NBFCs. Regulatory harmonization bolstered investor confidence, sustaining income momentum despite tighter liquidity.

Higher funding costs, provisioning pressures and microfinance stress weigh on earnings

NBFC profitability eased in FY25 to INR 1.32 trillion (versus INR 1.41 trillion in FY24) amid higher funding costs, provisioning pressures, and stress in microfinance/unsecured retail, though resilience was supported by credit growth and stable margins. Larger NBFCs cushioned impacts via diversified funding, while smaller players faced sharper erosion. H1 FY26 profit stood at INR 799.7 billion, with full year performance hinging on asset quality and cost discipline.

Rising funding costs driven by tighter liquidity and higher bond yields pressure NBFC margins

NBFC profitability in FY25 was impacted by three major headwinds. Rising funding costs, driven by tighter liquidity and higher bond yields, made borrowing more expensive. At the same time, increased provisioning requirements for stressed microfinance and unsecured retail portfolios eroded net profits. Adding to the pressure, aggressive retail lending by scheduled commercial banks intensified competition, forcing NBFCs to keep lending rates competitive despite their own rising costs.

NBFC income growth to remain healthy but more calibrated, anchored by credit demand and digital origination

Going forward, income growth is expected to remain healthy but more calibrated, supported by credit demand, digital origination, and diversified funding.

Financial performance of NBFC sector in India

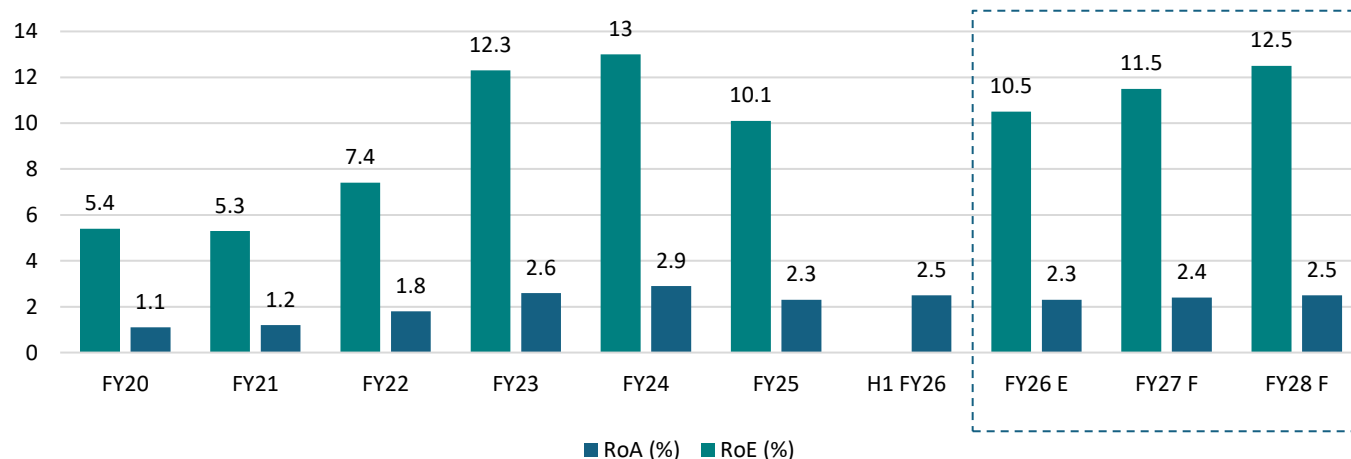
NBFCs enter a cleaner, more stable profitability phase post-IL&FS reset

The NBFC sector's profitability cycle has transitioned from a painful reset in FY20-FY22, rooted in the collapse of Infrastructure Leasing & Financial Services (IL&FS) in late 2018, which triggered a severe liquidity crunch across the shadow banking sector. Wholesale funding markets abruptly shut down, credit spreads widened dramatically, and short-term commercial papers (CPs) could not be rolled over, exposing deep asset-liability mismatches (ALM). The resulting credit contraction, paired with economic slowing, led to a surge in non-performing assets (NPAs). Aggressive provisioning and write-offs caused return on assets (RoA) to hit a cyclical low of 1.1-1.8% and Return on Equity (RoE) to compress to 5.4-7.4%.

This painful reset gave way to a golden era in FY23-FY24, where RoA peaked at 2.9% and RoE hit 13.0%, driven by robust retail demand in vehicles, gold loans, MFIs, and unsecured segments, unwinding provisions, healthy NIMs, and scaling leverage. However, moderation set in during FY25 with RoA compressing to 2.3% and RoE slipping to approximately 10%, holding steady in H1 FY26 at 2.5% amid rising credit costs in unsecured retail/MFI segments, margin compression from elevated funding costs, provisioning pressures, RBI risk-weight tightening, and MFI stress.

Return on Equity (RoE) has displayed sharper volatility compared to RoA. After reaching 13% in FY24, RoE eased to 10.1% in FY25, with FY26E projected at 10.5%. The medium-term trajectory shows gradual recovery, with RoE expected to rise to 11.5% in FY27 and 12.5% in FY28. This path highlights that while NBFCs can regain profitability momentum, structural cost pressures, thinner spreads, and regulatory oversight will cap equity returns below historical peaks. Larger NBFCs with stronger access to bond markets and diversified portfolios are better positioned to sustain RoE above 11-12%, while smaller players may continue to face profitability constraints due to elevated borrowing costs.

Figure 4: NBFC RoA and RoE (%)



E = Estimate F = Forecast

Source: Reserve Bank of India; Brickwork Research.

NBFC profitability set to stabilise and strengthen through FY28

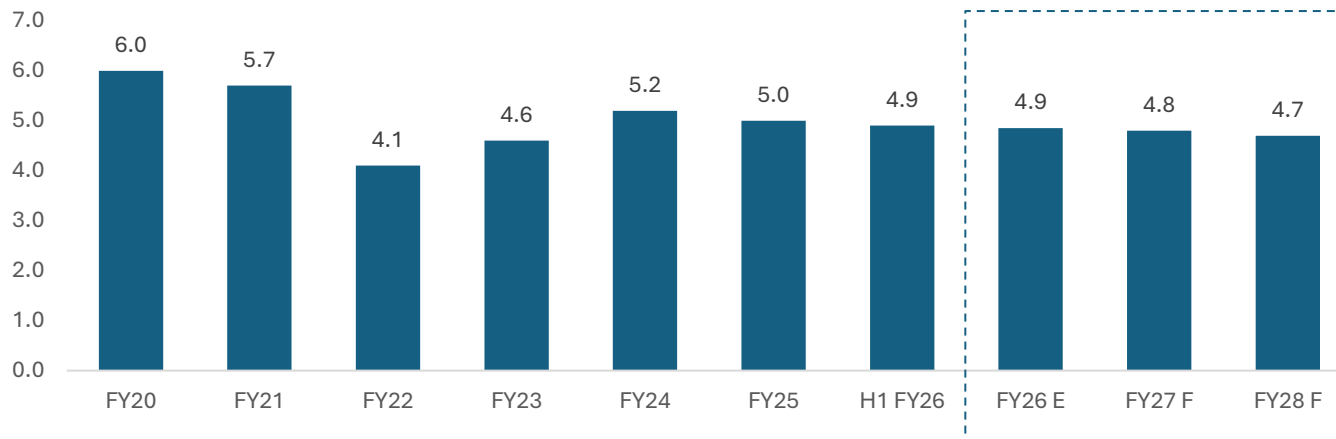
Looking ahead, the NBFC sector's profitability trajectory appears moderately positive, with RoA expected to stabilize in the 2.3-2.5% range and RoE recovering toward 12-13% by FY28, signalling healthy shareholder returns. This recovery path hinges on maintaining credit quality to contain credit costs, leveraging capital efficiently within CRAR norms, and sustaining NIMs despite funding cost pressures, while operational scale continues to reduce expense ratios. Having moved beyond the pandemic recovery phase, NBFCs are now firmly in structural growth mode, with large, diversified players, backed by strong liability franchises, granular retail portfolios, and digital origination capabilities, positioned to outperform smaller peers. Segments such as vehicle finance, affordable housing, gold loans, and MSME lending will remain key beneficiaries of India's structural credit demand, infrastructure push, and financial inclusion initiatives, anchoring resilience in the evolving financial landscape.

Financial performance of NBFC sector in India

NIM moderates as borrowing costs rise; operating leverage to cushion margin pressures in FY26

Net Interest Margin (NIM) for NBFCs moderated to 5.0% in FY25 from 5.2% in FY24, reflecting the impact of rising cost of funds. Despite higher lending yields in niche segments, the increase in borrowing costs, particularly from bank lines and debentures, compressed spreads. Going forward, NIMs are expected to stabilize at 4.7-4.9% in FY26-FY28, assuming gradual easing of the interest rate cycle by the RBI.

Figure 5: NBFC sector net interest margin (%)



E = Estimate F= Forecast

Source: Reserve Bank of India; Brickwork Research.

NBFC NIMs stabilise now, with FY26 marking a turning-point recovery

NBFCs' NIMs have displayed significant volatility over the past decade. Margins peaked at 6.0% in FY20 and 5.7% in FY21, reflecting strong spreads during the pandemic-era liquidity surge. However, NIMs moderated steadily thereafter, falling to 4.1% in FY22 and recovering to 5.2% in FY24. FY25 saw stabilization at 5.0%, with H1 FY26 dipping slightly to 4.9% as funding costs rose.

While FY25 was a year of defending margins against rising borrowing costs and regulatory headwinds, FY26 is poised to be a year of margin recovery. The primary catalyst will be the pivot in the interest rate cycle, allowing NBFCs to benefit from a faster decline in liability costs relative to asset yields. Sector-wide NIMs narrowed across categories, though absolute interest income continued to grow, supported by strong credit expansion.

FY26 marks a turning point for the NBFC sector with gradual NIM expansion of 20-50 bps from the second half of the year as RBI repo rate cuts ease funding costs. Larger players are diversifying liabilities through external commercial borrowings (ECBs) and retail NCDs to reduce reliance on expensive bank borrowings, while credit growth is projected at 13-15%, providing operating leverage to offset marginal cost pressures. Overall, resilient demand and monetary easing should support healthy AUM growth and margin improvement.

Medium-term margin performance hinges on funding diversification, risk-based pricing and fee income growth

Looking ahead, NBFC NIMs are expected to stabilize around 4.8% through FY26-FY28 due to rising funding costs from elevated sovereign yields and tighter liquidity, which narrow spreads. At the same time, competitive pressures in retail and MSME lending limit yield expansion, while RBI's regulatory tightening on unsecured credit further caps margins. Although digital efficiency gains and portfolio diversification provide some cushion, the structural dependence on wholesale borrowings and market funding, resulting in NIMs stabilizing at a lower band of 4.7-4.9% through FY28. This suggests a structurally narrower spread environment compared to the highs of FY20-FY21, but still resilient enough to support profitability. Gold-loan and vehicle-finance NBFCs with short asset durations are set to benefit most. The forecast reflects a balance between rising borrowing costs and improved asset quality, alongside diversification into higher-yield segments such as MSME and retail credit.

Financial performance of NBFC sector in India

NBFC sector balance sheet nearly doubled over five years, reflecting structural credit expansion

The NBFC sector entered a high-growth phase post-FY23, with aggregate balance sheets nearly doubling between FY20 and FY25. Total assets reached INR 61.1 trillion in FY25, supported by strong retail/infrastructure demand, rising housing finance companies (HFCs), diversified funding (debentures, bank borrowings, deposits). RBI scale-based rules boosted resilience. Economic recovery aided consumption and investment. The momentum continued into FY26, rising to INR 65.5 trillion by H1 FY26, a 7.2% half-yearly increase.

Table 4: NBFC balance sheet size (total assets) at end-March (INR billion)

Period	Total assets (INR billion)	Scale indicator
FY19	31,129	
FY20	30,813	
FY21	35,043	
FY22	39,526	
FY23	43,571	
FY24	51,395	
FY25	61,091	
FY26 E	70,260	
FY27 F	80,800	
FY28 F	92,900	

E = Estimate F= Forecast

Source: Reserve Bank of India; Brickwork Research. E = Estimate F= Forecast

ICCs drive NBFC balance-sheet expansion and systemic relevance.

NBFC assets have nearly doubled from INR 29.9 trillion in FY21 to INR 65.5 trillion in H1 FY26, reinforcing NBFCs as India's second-largest source of institutional credit. Investment & Credit Companies (ICCs) have emerged as the primary growth engine of the NBFC sector, with assets nearly tripling over five years on the back of aggressive retail and SME penetration, fintech partnerships, and consumption-driven lending. Their rapid expansion positions ICCs as the systemic anchor of NBFCs, accounting for a dominant share of the sector's balance-sheet growth and reinforcing their role as a key channel for institutional credit to households and small businesses.

Table 5: Major components — Total assets by NBFC categories (INR billion)

Sub-segment	FY21	FY22	FY23	FY24	FY25	H1 FY26
NBFC-ICCs	15,594	24,265	26,676	32,651	39,557	42,110
NBFC-IFCs	12,814	13,753	15,158	16,605	19,460	21,280
NBFC-IDFs	348	426	390	483	577	630
NBFC-MFIs	884	1,051	1,320	1,617	1,447	1,441
NBFC-Factors	39	29	27	39	50	50

Source: Reserve Bank of India

NBFC growth to remain strong, anchored by disciplined risk management

Looking ahead, NBFC balance sheets are projected to reach INR 92.9 trillion by FY28, driven by retail-focused and gold loan NBFCs. The sector is positioned for sustained double-digit expansion, reinforcing its role as a key complement to banks in India's credit landscape. The medium-term outlook remains stable, driven by digitalization and funding diversification. Fintech partnerships are reshaping models, with strong risk management (asset quality, liquidity, governance) key to investor confidence. Resilience ties to consumption, infrastructure, and policy, bolstered by diversification and market penetration.

Credit and borrowing profile of NBFC sector in India



Credit and borrowing profile of NBFC sector in India

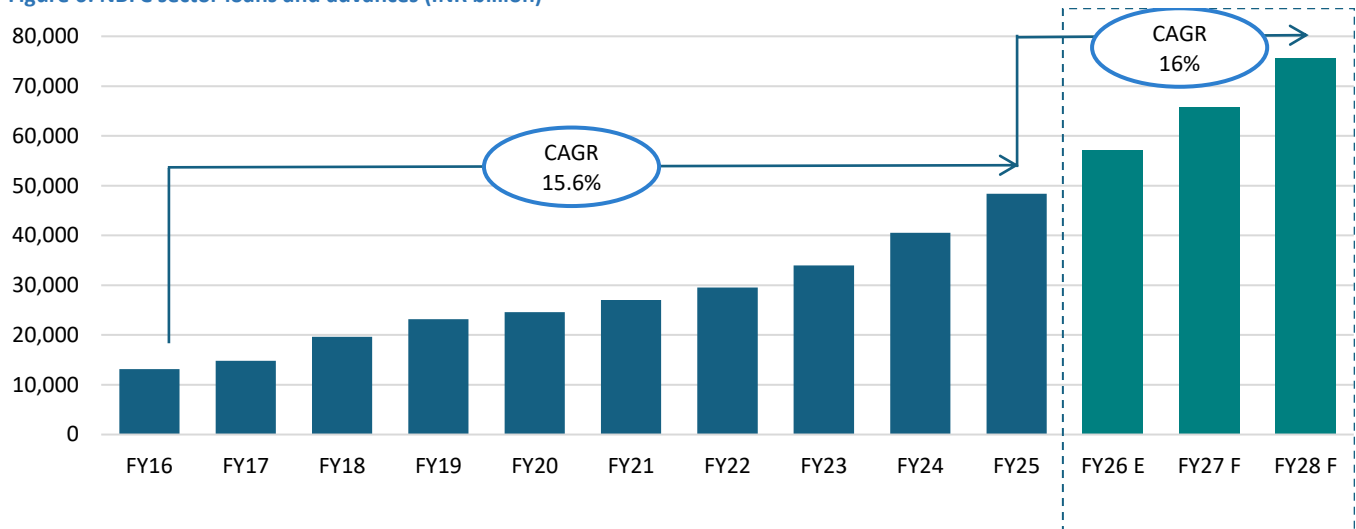
Total credit deployment by the NBFC sector tripled between FY16 and FY25 and projected to cross INR 75 trillion by FY28

India's NBFC sector loans and advances expanded from about INR 15,821 billion in FY16 to INR 48,387 billion by end FY25, implying a 15.6% average annual growth rate over the last decade and confirming NBFCs as a key engine of credit growth in the Indian financial system. Over the same period, NBFC credit growth has outpaced overall bank credit, reflecting structural shifts in distribution, risk appetite, and product mix. Growth has been relatively steady, with acceleration post-FY21 as economic recovery and credit demand picked up

NBFC growth remains strong, but sustainability hinges on disciplined management of asset quality, liquidity buffers, and evolving regulatory requirements

The medium-term outlook (FY26-FY28) indicates a phase of continued strong expansion, with NBFC credit expected to grow at a 15-17% CAGR, pushing loans and advances past INR 75 trillion by FY28. This growth will be supported by strong retail credit demand, rising infrastructure financing, and resilient funding channels. While the momentum remains robust, the sector's sustainability will depend on maintaining asset quality, managing liquidity risks, and navigating evolving regulatory requirements.

Figure 6: NBFC sector loans and advances (INR billion)



E = Estimate F= Forecast

Source: Reserve Bank of India; Brickwork Research.

Credit deployment deepens across industry and services – Diversification into commerce and service-linked financing

NBFC gross advances rose steadily from INR 27,092 billion in FY21 to INR 48,387 billion in FY25, indicating strong balance-sheet expansion over five years. This growth reflects both rising demand for credit and NBFCs' expanding role across retail, industry, services, and trade. The sustained rise in NBFC gross advances indicates that NBFCs have strengthened their role as an important credit intermediary in India. The sharp increase across industry, retail loans, and services shows that NBFCs are not just expanding in size but also deepening their presence in both business and consumption-linked lending. This trend suggests stronger credit demand in segments where speed, flexibility, and customized underwriting matter, and where traditional bank lending may be less responsive.

The portfolio mix suggests that NBFC lending remains concentrated in a few major segments, especially industry and retail loans. Industry was the largest exposure category in FY25 at INR 22,916 billion, followed by retail loans at INR 16,319 billion and services at INR 7,442 billion. Within retail loans, vehicle/auto loans were the largest sub-segment at INR 5,720 billion, showing NBFC strength in asset-backed and high-turnover lending.

Credit and borrowing profile of NBFC sector in India

Table 6: NBFC credit deployment by sectors (INR billion)

Items	FY23	FY24	FY25	H1 FY26
1. Agriculture and allied activities	607	847	821	878
2. Industry, of which:	12,692	19,370	22,916	23,941
Power	9,404	11,266	12,856	13,218
3. Services, of which:	4,680	5,732	7,442	8,015
Transport operators	1,202	1,328	1,619	1,664
Trade	695	951	1,279	1,336
4. Retail loans, of which:	10,452	13,821	16,319	18,389
Vehicle/Auto Loans	3,828	4,771	5,720	6,117
Advances against Gold	1,288	1,543	2,085	2,617
Micro Finance/SHG Loans	1,152	1,508	1,332	1,241
5. Others	5,566	756	890	832
Gross advances (1 to 5)	33,997	40,527	48,387	52,055

Source: Reserve Bank of India

This growth has been led by a combination of structural reforms and supportive policy measures. RBI's liquidity infusions, credit guarantee schemes like ECLGS and CGFMU, and regulatory easing for NBFC registration provided a strong foundation. Post IL&FS reforms, including stricter ALM and LCR norms, pushed NBFCs toward more disciplined funding practices. At the same time, digital transformation, through account aggregator frameworks and fintech partnerships, enabled NBFCs to scale MSME and retail credit efficiently. Rising household consumption demand, particularly in auto, housing, and consumer durables, further accelerated retail loan growth.

The drivers of this expansion are evident across segments. Industry credit nearly doubled, with large corporates remaining the anchor, while micro and small enterprises saw credit nearly triple, underscoring NBFCs' growing role in MSME financing. Services sector lending gained momentum, led by transport operators, trade, and professional services, reflecting diversification into commerce and service-linked financing. Retail lending emerged as the growth engine, with vehicle loans reaching INR 5.7 trillion in FY25, housing finance expanding steadily, and education loans and credit card receivables showing strong momentum. Collateral-backed lending, including gold loans, also attracted NBFCs amid regulatory tightening on unsecured exposures.

Looking ahead, the outlook is cautious to hostile. Geopolitical shocks, particularly Middle East instability, external trade disruptions, and elevated commodity prices, are expected to compress margins and strain asset quality. Rising sovereign yields and inflation have already pushed wholesale funding costs higher, creating sharp cost-of-fund shocks and unavoidable NIM compression. Asset quality risks are likely to intensify in unsecured retail and microfinance portfolios, while regulatory recalibration, stricter conduct norms, risk-weight adjustments, and digital lending rules, will weigh on capital efficiency and ROE. Smaller MFIs and mid-sized NBFCs with concentrated exposures or limited liquidity buffers are especially vulnerable, while larger lenders will face profit pressures unless they accelerate repricing, diversify liabilities, and tighten origination standards.

Industry lending has shown the strongest absolute scale among all major heads, with the category rising from INR 10,669 billion in FY21 to INR 22,916 billion in FY25. Services lending also expanded sharply, especially in other service, transport operators, and professional services, which together indicate NBFC presence in operating-credit and business-service financing. Trade lending more than tripled over the period, from INR 339 billion to INR 1,279 billion, reflecting increasing support to wholesale and retail commerce.

"We are also witnessing an increase in investor confidence in well-managed listed NBFCs that demonstrate resilience, strong asset quality, and long-term value creation. India's consumption growth, MSME expansion, and rural economic participation collectively present a multi-decade opportunity for the sector to make a meaningful contribution to inclusive economic development."



Mr. Sunil Purushottam Agarwal

Managing Director and CEO,
Paisalo Digital Limited

Credit and borrowing profile of NBFC sector in India

NBFC-ICCs lead growth: Retail, SME, and consumption drive scale and risks

NBFC-ICCs - witnessed loans and advances surge from INR 10.1 trillion in FY21 to INR 30.9 trillion in H1 FY26, making them the dominant force in the NBFC sector. Their diversified retail, SME, and consumption finance portfolios underpin this rapid growth, underscoring their systemic importance but also amplifying risks around household leverage and liquidity mismatches.

Infrastructure Finance Companies (NBFC-IFCs) - saw advances rise more gradually from approximately INR 11.6 trillion in FY21 to INR 19.3 trillion in H1 FY26, anchoring long-tenor project finance in power and transport. While large balance sheets and project exposures heighten asset-liability mismatches, government linkages and sectoral expertise provide a degree of resilience.

Infrastructure Debt Funds (NBFC-IDFs) - expanded advances from INR 304.14 billion in FY21 to INR 576.02 billion in H1 FY26 by refinancing completed infrastructure projects, thereby easing banks' ALM pressures, with growth remaining relatively stable and lower-risk compared to IFCs, though still reliant on institutional investor appetite.

Microfinance Institutions (NBFC-MFIs) - grew advances from INR 684.62 billion in FY21 to INR 1.33 trillion in FY24 but subsequently moderated to INR 1.12 trillion in H1 FY26 due to stress in unsecured portfolios and tighter RBI risk-weight norms, leaving the segment vulnerable to rural economic shocks and household leverage, with ratings closely tied to provisioning discipline and funding diversity.

NBFC-Factors - maintaining a small book, have seen advances rise from INR 29.61 billion in FY21 to INR 47.88 billion in H1 FY26 by providing receivables financing to MSMEs, supporting supply-chain liquidity; their niche role caps systemic risk, yet they remain exposed to MSME-cycle volatility.

Table 7: Loans and advances by NBFC category (INR billion)

Sub-segment	FY21	FY22	FY23	FY24	FY25	H1 FY26
NBFC-ICCs	10,071	15,915	18,832	23,717	28,749	30,946
NBFC-IFCs	11,600	12,415	13,685	14,993	17,899	19,359
NBFC-IDFs	304	345	365	446	525	576
NBFC-MFIs	685	827	1,094	1,337	1,169	1,127
NBFC-Factors	30	23	20	34	46	48

Source: Reserve Bank of India

"The sector has covered a lot of distance from earlier when disbursements had collapsed, PAR numbers had tripled, liquidity squeezed. What has happened since is more interesting than a recovery story. Lenders have actually changed behaviour — the three-lender norm, income-based caps, tighter SRO oversight. PAR 30+ has come down from 6.4% to 2.5% in twelve months. Disbursements in Q3 FY26 were a third higher year-on-year. That's not a bounce. That's a reset. I don't see very high growth numbers for the years to come, unlike the past. What I'm watching for is 15-20%, consistently, with clean books underneath. For a sector serving 10 crore women borrowers, that's the only number that actually matters."



Aditi Singh
Chief Strategy Officer,
Satin Creditcare Network Limited

NBFC credit outpaces traditional banks

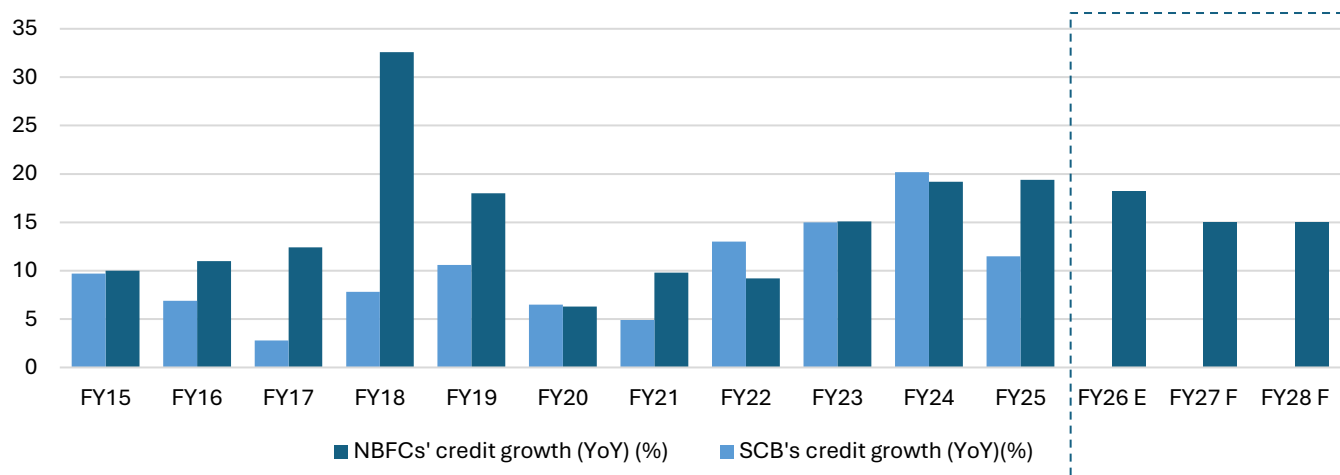
NBFC credit growth has consistently outpaced Scheduled Commercial Banks (SCBs) over the past decade, underscoring their rising systemic importance in India's financial ecosystem. From FY15 to FY26, NBFCs expanded their gross advances at a faster clip, supported by strong demand in retail, MSME, and vehicle finance segments, while SCBs maintained steadier growth anchored in deposits and corporate lending. This divergence reflects NBFCs' agility in customer-centric, high-yield segments where speed and customized

Credit and borrowing profile of NBFC sector in India

underwriting matter, compared to SCBs' more traditional banking model. Growth drivers for NBFCs included policy support post-IL&FS crisis, digital transformation, and rising household consumption, while SCBs benefited from deposit mobilization and regulatory stability

NBFC credit grew 19.4% in FY25 to INR 48.39 trillion, consistently outpacing SCBs (11.5%). Credit to GDP rose from 13.6% in FY24 to 14.6% in FY25, reflecting both balance sheet expansion and NBFCs' increasing systemic role. Over the past decade, NBFCs' share of GDP climbed from approximately 9% (FY16) to 14.6% (FY25), underscoring their growing importance in India's credit ecosystem. With nominal GDP growth at 10-11%, NBFC credit to GDP is expected to edge toward 15-16% by FY28, alongside projected CAGR of 15-16%.

Figure 7: NBFC sector credit growth (%)



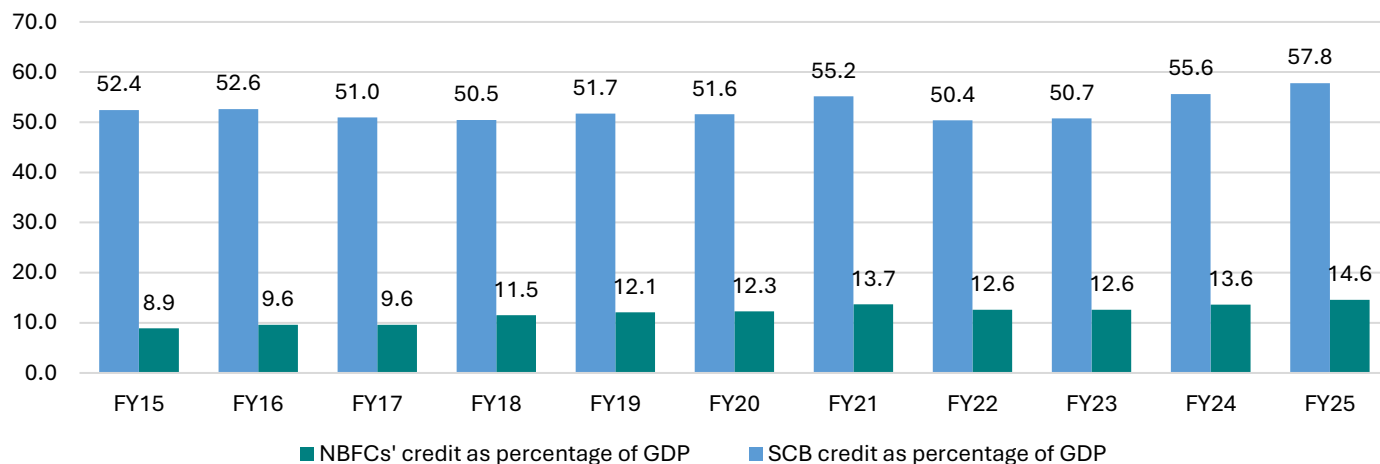
E = Estimate F= Forecast

Source: Reserve Bank of India; Brickwork Research.

NBFC credit-to-GDP rose to 14.6% in FY25, signalling greater financial deepening and intermediation

A rising credit-to-GDP ratio for NBFCs (14.6% in FY25) indicates greater financial deepening and intermediation, channelling credit to underserved retail, MSME, and infrastructure segments often neglected by banks. It reflects economic vibrancy through increased investment and consumption, not over-leveraging, as NBFCs complement SCBs (whose ratio is typically higher at approximately 55-60% of GDP) by filling gaps, total system credit-to-GDP remains moderate at approximately 90% versus advanced economies' 200%. This under-penetration supports growth without immediate distress, though monitoring asset quality is key.¹

Figure 8: Credit as a percentage of GDP - NBFC sector versus scheduled commercial banks



Source: Reserve Bank of India

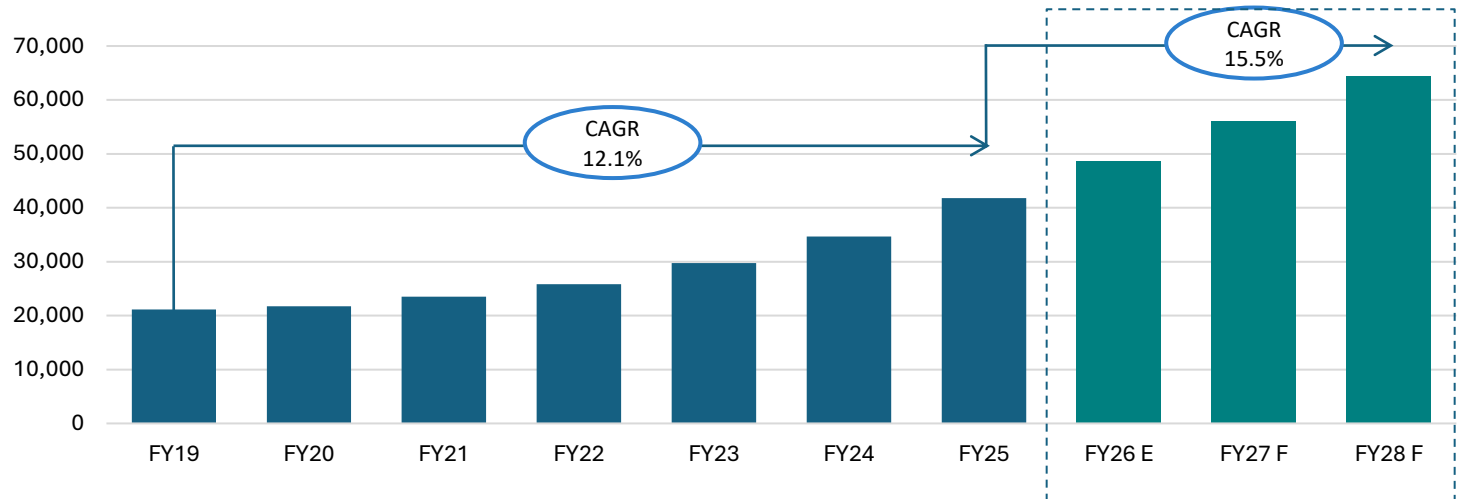
¹ "Trend and Progress of Banking in India 2024-25", Reserve Bank of India

Credit and borrowing profile of NBFC sector in India

NBFC borrowings surge 20.6% YoY to INR 41.8 trillion in FY25, nearly doubling since FY19

NBFC borrowings rose sharply to INR 41.8 trillion in FY25, up 20.6% YoY and nearly double from FY19, led by debentures with rising bank borrowings and deposits reflecting stronger banking integration and retail investor confidence. The surge was driven by robust retail and infrastructure credit demand, housing finance growth, and diversified funding access, while RBI's scale-based regulation and post pandemic recovery reinforced resilience and sustained credit momentum.

Figure 9: NBFC sector total borrowings (INR billion)



E = Estimate F = Forecast

Source: Reserve Bank of India; Brickwork Research.

NBFC borrowings projected to expand 12-15% in FY26, moderating from FY25's sharp growth

NBFC borrowings are projected to expand by 12-15% in FY26, moderating from the sharp growth seen in FY25. While banks remain the largest funding source, their relative share is expected to decline as NBFCs increasingly tap bond markets and commercial paper. Over FY27-FY28, borrowings could grow at a 14-16% CAGR, crossing INR 66 trillion, supported by easing liquidity conditions and stable macroeconomic growth. Funding diversification will be critical to sustaining expansion and mitigating systemic risks.

Market based instruments to constitute 64% of NBFC borrowings by FY27, up from 43% in FY24

Funding mix shift: Market-based instruments such as non-convertible debentures (NCDs), external commercial borrowings (ECBs), and commercial papers (CPs) are anticipated to constitute 64% of total borrowings by FY27, up from 43% in FY24. Bank funding, which currently accounts for roughly 42% of the mix, is expected to see a gradual reduction in share due to NBFCs' strategic diversification into cheaper and more stable market sources like bonds and commercial paper and reduce reliance on banks.

NBFC borrowing profiles shift in H1 FY26: banks remain anchor but marginally decline

Between March and September 2025, NBFC borrowing profiles shifted: bank borrowings remained the largest source but declined marginally, while market borrowings (debt securities, CPs, bonds) gained traction. Deposits and external borrowings stayed small but stable, with diversification easing liquidity pressures in H1 FY26. NBFCs leaned on banks and debt markets, with strong FY25 credit growth driving higher reliance on debt securities, while bank borrowings remained the anchor.

Credit and borrowing profile of NBFC sector in India

Table 8: NBFCs' borrowing profile- Bank borrowings remain dominant but debt securities gain traction

	FY19		FY22		FY24		FY25		H1 FY26	
	INR billion	Share in total borrowings	INR billion	Share in total borrowings	INR billion	Share in total borrowings	INR billion	Share in total borrowings	INR billion	Share in total borrowings
Debentures	9,193	43.6	10,146	39.3	12,330	35.6	14,767	35.3	16,202	36.0
Bank borrowings	6,265	29.7	9,206	35.6	13,381	38.6	15,566	37.2	16,595	36.9
Borrowings from FIs	408	1.9	691	2.7	1,172	3.4	1,402	3.4	1,449	3.2
Inter-corporate borrowings	758	3.6	899	3.5	1,054	3.0	1,375	3.3	1,594	3.5
Commercial papers	1,592	7.5	703	2.7	1,054	3.0	1,352	3.2	1,562	3.5
Borrowings from government			186	0.7	183	0.5	184	0.4	186	0.4
Subordinated debts			723	2.8	754	2.2	930	2.2	975	2.2
Other borrowings	2,893	13.7	3,292	12.7	4,735	13.7	6,234	14.9	6,431	14.3
Total borrowings	21,108		25,845		34,663		41,812		44,994	

Source: Reserve Bank of India

Persistently high borrowing costs in FY26 challenge NBFC margin management

In FY26, persistently high borrowing costs, particularly in debt securities, are expected to challenge NBFC margin management, intensifying the need for diversification and disciplined liability strategies. The premium cost of funds stems from banks' reluctance to extend wholesale credit post-IL&FS, heightened risk perception, stricter ALM/LCR norms introduced since 2023, and elevated interest rates that have pushed funding costs higher, especially for smaller or lower-rated NBFCs. These pressures have created a cost-sensitive environment where NBFCs must balance profitability with resilience.

NBFCs break the bank dependence: Bonds take centre stage; Debt securities power the next NBFC funding era

Against this backdrop, debt securities are taking centre stage in the next NBFC funding era, helping diversify the liability mix away from bank borrowings, expand the investor base to mutual funds, insurers, and pension funds, and provide more stable access for well-rated issuers. RBI's oversight on liquidity and leverage is reinforcing disciplined borrowing practices, ensuring that even as bank dependence moderates, the diversified mix provides stability. Looking ahead, NBFCs' ability to sustain credit growth will hinge on effective funding diversification, strong governance, and prudent risk management, positioning the sector to navigate margin pressures while maintaining systemic resilience in a more regulated environment.

NBFC borrowings by category

The borrowing profile of NBFCs shows concentration in ICCs and IFCs, which together account for over 85% of total borrowings, highlighting systemic importance and liquidity risks. MFIs show volatility, with borrowings peaking in FY24 then declining, reflecting asset-quality stress. IDFs and Factors remain small but play strategic roles in infrastructure refinancing and MSME liquidity.

Credit and borrowing profile of NBFC sector in India

Table 9: Major components of liabilities — Borrowings by NBFC category (INR billion)

Sub-segment	FY21	FY22	FY23	FY24	FY25	H1 FY26
NBFC-ICCs	9,307	13,617	16,118	19,638	24,555	26,432
NBFC-IFCs	10,419	11,108	12,299	13,404	15,734	16,992
NBFC-IDFs	284	346	385	466	479	532
NBFC-MFIs	626	759	991	1,194	1,003	1,001
NBFC-Factors	18	15	13	26	36	38

Source: Reserve Bank of India

NBFC ICCs: Borrowings surge to INR 26.4 trillion, cementing dominance; IFCs as steady infrastructure financiers, and IDFs as specialized refiners

Investment & Credit Companies (NBFC-ICCs) have seen borrowings surge from INR 9.3 trillion in FY21 to INR 26.4 trillion in H1 FY26, cementing their dominance. Their diversified retail and SME lending portfolios underpin this expansion, but also amplify liquidity and rollover risks, especially as RBI tightens ALM and LCR norms.

Infrastructure Finance Companies (NBFC-IFCs) have grown more steadily, with borrowings rising from INR 10.4 trillion in FY21 to INR 17 trillion in H1 FY26, largely funding long-tenor power, transport, and urban infrastructure projects. Large, project-linked balance sheets create asset-liability mismatches, partially offset by government-linked cash flows and sectoral expertise.

Infrastructure Debt Funds (NBFC-IDFs), with borrowings increasing from INR 284.3 billion to INR 531.5 billion over the same period, play a more specialized role by refinancing completed infrastructure projects via bonds and NCDs, easing banks' ALM pressures and delivering relatively stable growth, albeit dependent on institutional investor appetite.

NBFC MFIs expand borrowings to INR 1.2 trillion by FY24, moderating to INR 1 trillion in FY25-H1 FY26

Microfinance Institutions (NBFC-MFIs) expanded borrowings from INR 625.9 billion in FY21 to INR 1.2 trillion in FY24 but have since moderated to INR 1 trillion in FY25-H1 FY26 amid stress in unsecured portfolios and stricter RBI risk-weight norms. This segment remains highly sensitive to rural economic shocks and household leverage, with credit ratings closely tied to provisioning discipline and funding diversification.

NBFC-Factors, in contrast, maintain a niche footprint with borrowings rising only from INR 18.4 billion in FY21 to INR 38.2 billion in H1 FY26, focusing on receivables financing for MSMEs and thereby supporting supply-chain liquidity. Their limited scale keeps systemic risk low, but they remain exposed to cyclical swings in MSME credit quality and working-capital demand.

Share of market instruments projected to rise in the NBFCs borrowing portfolio

Bank borrowings remain dominant but debt securities gain traction. Larger NBFCs are shifting towards capital market instruments (NCDs, commercial papers, securitization) to reduce refinancing risk. Going forward, the share of market instruments is projected to rise, reducing dependence on bank borrowings.

Asset quality of NBFC sector in India

A close-up photograph of a person's hand, wearing a white shirt and a blue tie, holding five wooden blocks that spell out the word "ASSET". The blocks are arranged in a row on a light-colored surface. The background is a blurred white wall.

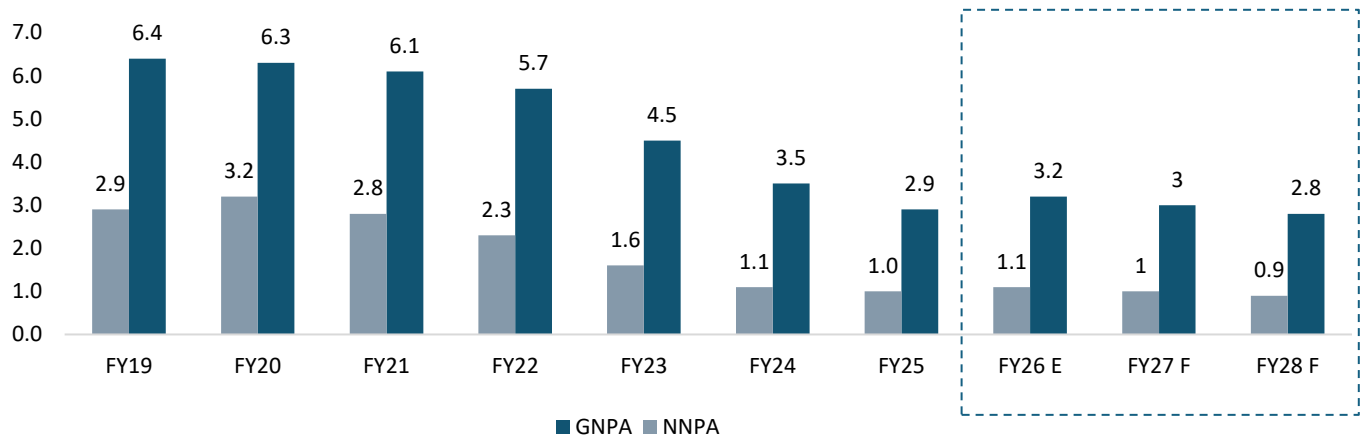
A S S E T

Asset quality of NBFC sector in India

NBFC sector asset quality expected to remain stable in the near-term

NBFC asset quality improved markedly in FY25, with gross non-performing assets (GNPA) falling from 3.5% to 2.9% and net non-performing assets (NNPA) steady at 1.0%, supported by broad-based gains and lower slippages. While unsecured retail loans still drove over half of slippages, impairments in that segment have begun to ease. The GNPA decline was aided by technical write-offs, though the provision coverage ratio slipped to 66.6%.

Figure 10: Asset quality of NBFC sector in India (%)



E = Estimate F= Forecast

Source: Reserve Bank of India

Aggregate GNPA ratios remain at multi-year lows in FY25

The sector-wide GNPA improved to 2.9% in FY25, the lowest since 2012. Net NPA ratios have remained well below 1% for top-tier NBFCs, supported by healthy provisioning and a conservative write-off strategy. The improvement underscores NBFCs' strengthened credit appraisal, recovery mechanisms, and provisioning discipline.

While the aggregate GNPA ratios for NBFCs remain at multi-year lows, FY25 has been a year of "divergent asset quality" where secured portfolios flourished while unsecured and microfinance (MFI) segments faced their first major test since the pandemic. RBI's scale-based regulation, analytics-driven underwriting, portfolio rebalancing, and conservative provisioning have reinforced stability, though divergence persists in microfinance and unsecured lending.

Near-term asset quality stability anchored by household cash flows and MSME earnings

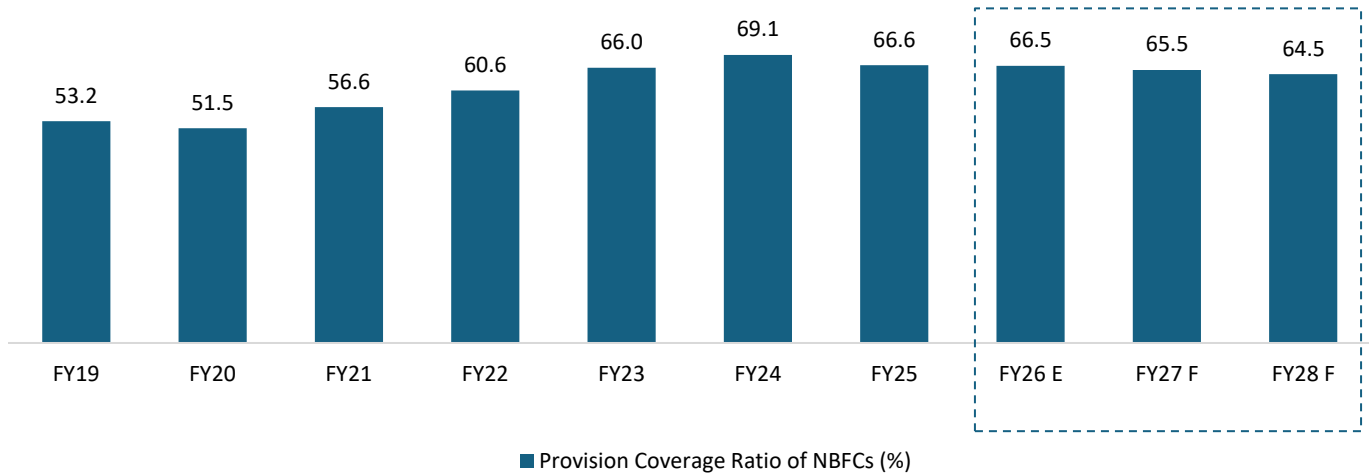
Near-term, asset quality should remain broadly stable, influenced by household cash flows, MSME earnings, and leverage trends, with slippages contained by capital buffers and prudent provisioning. Medium-term, NPA trends will hinge on disciplined credit expansion, stronger governance, secured lending, and robust monitoring systems. Larger, diversified NBFCs with strong capital and conservative underwriting are better positioned to sustain superior asset quality.

Asset quality of NBFC sector in India

Provision coverage ratio (PCR) eases to 66.6% in FY25 after FY24 peak

The NBFC sector's provision coverage ratio (PCR) has seen a slight easing in FY25 after reaching a historic peak in FY24. The industry-wide PCR is estimated to have eased to approximately 66.6% in FY25, a decline from 69.1% in FY24, reflecting rapid credit expansion, provisioning in microfinance, and normalization as asset quality improved. This decline is not necessarily indicative of weakening credit health but rather a normalization as many NBFCs have already built substantial contingent buffers over the last two fiscal years. PCR remains comfortable, supported by stabilizing GNPA ratios, stronger earnings, portfolio shifts, and disciplined provisioning under RBI's framework.

Figure 11: Provision coverage ratio of NBFC sector in India (%)



E = Estimate F= Forecast

Source: Reserve Bank of India

Provisioning outlook stable with strong stage 1 and 2 coverage buffers; PCR expected to remain in mid-60% range across sector

NBFC provisioning outlook for FY26 remains stable, with strong Stage 1 and 2 coverage buffers providing adequate protection against segmental stress. The transition to the Expected Credit Loss (ECL) framework will keep PCRs elevated, particularly for Stage 2 assets, as lifetime losses must be provisioned. While coverage ratios are expected to hold steady, credit costs are projected to rise from 1.3% to 1.7%, driven mainly by vulnerabilities in MFI and unsecured portfolios.

PCR is expected to remain in the mid-60% range, with larger NBFCs maintaining stronger buffers than smaller peers. Medium-term trends will hinge on credit expansion quality, borrower leverage, interest rate movements, and profitability, though disciplined underwriting should keep PCR levels adequate and range-bound.

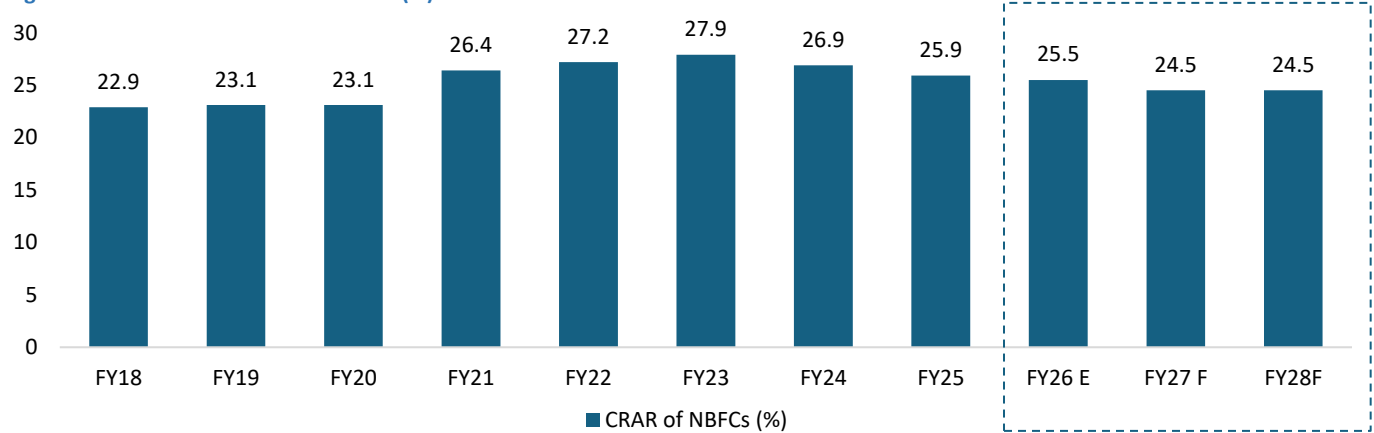
Asset quality of NBFC sector in India

CRAR moderates in FY25 but remains above regulatory minimum; expected to remain healthy through FY27, ensuring resilience despite moderation

India's NBFC sector has maintained a strong capital to risk (weighted) assets ratio (CRAR) above 25%, well above the 15% regulatory minimum, reflecting robust capitalization despite growth pressures and microfinance stress. CRAR improved from approximately 23% in FY20 to the 25-28% range in recent years, supported by capital infusions, retained earnings, and asset quality gains.

CRAR eased slightly to around 26% in FY25, but remains comfortably above regulatory thresholds, mainly driven by sector's rapid loan growth which expanded risk-weighted assets faster than capital accretion. The RBI's late-2023 move to increase risk weights on unsecured retail loans (by 25 percentage points) continued to reflect in FY25 capital calculations. This effectively increased the "denominator" (risk-weighted assets), causing a slight technical compression in CRAR for NBFCs with high unsecured exposure. However, a strong internal capital generation, driven by stable return on assets (RoA), helped replenish capital bases without frequent equity dilution.

Figure 12: CRAR of NBFC sector in India (%)



E = Estimate F= Forecast

Source: Reserve Bank of India

CRAR projected to hold in 25-26% band through FY28

Looking ahead, CRAR is projected to hold in around 25% through FY28, aided by profitability and AUM growth in retail, MSME, and infrastructure segments. Risks from microfinance stress and slowing unsecured lending may temper gains, but strong buffers, regulatory vigilance, and continued credit expansion underpin resilience and systemic stability.

Housing Finance Companies (HFCs)



Housing Finance Companies

Regulatory reset reshapes Housing Finance Companies (HFCs) into a more resilient segment

Housing Finance Companies (HFCs) experienced a steady expansion in both balance sheets and loan portfolios from FY20 to FY23. Total assets rose from INR 13.9 trillion in FY20 to a peak of INR 16.9 trillion in FY23, while loans and advances grew from INR 11.8 trillion to INR 14.6 trillion over the same period. Bank borrowings also increased, reaching INR 4.19 trillion in FY23, reflecting strong reliance on bank funding alongside diversification into bonds and securitization. This growth phase was supported by resilient housing demand, government incentives, and improving liquidity conditions, positioning HFCs as a key driver of retail credit expansion.

However, FY24 marked a sharp structural correction, with assets contracting by approximately 36% to INR 10.7 trillion and credit dropping to INR 9.6 trillion, while borrowings fell to INR 3.6 trillion. This decline was not demand-driven but stemmed from regulatory reclassification under RBI's Scale-Based Regulation, consolidation of smaller HFCs, and tighter liquidity conditions. RBI's reclassification of certain Housing Finance Companies (HFCs) into the broader NBFC category under the Scale-Based Regulation framework reduced the reported size of the HFC segment even though the underlying credit flows continued elsewhere in the system. Further, funding constraints in FY24, driven by higher borrowing costs and tighter liquidity, forced many HFCs to curtail lending. Smaller players, particularly those dependent on bank borrowings, were disproportionately affected.

By FY25, the sector stabilized at similar levels, with assets and loans holding steady and borrowings easing further to INR 3.4 trillion. The trend thus reflects a growth trajectory until FY23, followed by a regulatory-induced reset in FY24 and consolidation-led stabilization in FY25, underscoring the sector's transition toward a leaner, more resilient structure.

Table 10: HFCs Balance sheet and borrowings (INR billion)

Period	Bank borrowings (INR billion)	Total assets (INR billion)	Loans and advances (INR billion)
FY20	3,532	13,939	11,836
FY21	3,298	14,829	12,777
FY22	3,748	15,270	13,281
FY23	4,185	16,873	14,578
FY24	3,636	10,744	9,615
FY25	3,374	10,583	9,599

Source: Reserve Bank of India

HFCs stabilise after volatility, delivering steadier profitability

The trend in HFCs' income and profitability shows a clear three-phase cycle. In FY20-FY21, the sector was under stress, with income above INR 1.2-1.4 trillion but profitability either negative or negligible, reflected in a net loss in FY20 and flat RoA in FY21. A sharp recovery followed in FY22-FY23, as net profit surged from INR 204 billion to INR 287 billion, with RoA improving to 1.7%, supported by unwinding provisions, resilient housing demand, and margin stability. However, FY24 brought moderation, with income falling sharply to INR 1.08 trillion and profit easing to INR 181 billion, though RoA held steady supported by disciplined provisioning and improved asset quality. By FY25, the sector stabilized, with income flat at INR 1.07 trillion and profit slightly higher at INR 196 billion, lifting RoA to 1.9%, reflecting consolidation under tighter regulation, greater funding diversification, and leaner balance sheet.

Table 11: Income stability versus profit volatility (INR billion)

Period	Total income (INR billion)	Net profit (INR billion)	RoA (%)
FY20	1,417	-27	-0.2%
FY21	1,295	2	0.0%
FY22	1,254	204	1.3%
FY23	1,552	287	1.7%
FY24	1,076	181	1.7%
FY25	1,074	196	1.9%

Source: Reserve Bank of India

Income growth expected to remain healthy at 10-12% CAGR

Looking ahead, income growth is expected to remain healthy at 10-12% CAGR, aided by continued housing demand and policy support, while net profit should improve as funding costs ease with RBI's rate cycle moderation. At the same time, greater reliance on market instruments such as NCDs, securitization, and ECBs is likely to reduce dependence on bank borrowings, though intense competition in retail home loans may keep pressure on margins, creating an interlinked narrative of asset growth, profitability cycles, and funding diversification shaping the resilience and trajectory of HFCs.

Housing Finance Companies

HFCs maintain steady RoA of 1.5-2%

Housing Finance Companies (HFCs) have maintained a steady RoA of 1.5-2% over the past five years, supported by stable housing demand, collateralized lending, and economies of scale among larger players. However, in FY25-FY26, margins compressed as higher borrowing costs and competitive pricing from banks weighed on profitability, leading to moderation in RoA.

Looking ahead, RoA is expected to stabilize at 1.5-2% by FY26–FY28, aided by easing funding costs with RBI’s rate cycle moderation and enhanced digital efficiencies, creating an interlinked narrative where demand drivers, profitability pressures, and future resilience collectively define the trajectory of HFCs.

HFC hold firm on asset quality

GNPA ratios have remained relatively low compared to other NBFC sub segments, typically below 2% while NNPA consistently contained at approximately 1% or lower, reflecting conservative provisioning. GNPA improved marginally in FY25 due to better underwriting, recovery mechanisms, and government housing push. Looking ahead, GNPA is expected to remain contained at 1.5-2%, supported by a continued focus on secured lending and conservative provisioning, while NNPA is projected to stay below 1%, reinforcing the sector’s underlying resilience.

Table 12: HFCs: GNPA and NNPA ratios (%)

Period	GNPA ratio (%)	NNPA ratio (%)
FY20	6.7%	4.7%
FY21	7.7%	2.8%
FY22	4.0%	1.8%
FY23	2.3%	1.2%
FY24	2.3%	1.2%
FY25	1.8%	1.0%

Source: Reserve Bank of India

All India Financial Institutions (AIFIs)



All India Financial Institutions

All India Financial Institutions (AIFIs)

All-India Financial Institutions (AIFIs) serve as the government's strategic policy arms, leveraging sovereign backing and statutory status to provide low-cost, long-tenor financing for national developmental priorities like infrastructure and agriculture. Unlike private NBFCs, which operate as profit-driven commercial entities dependent on market rates, AIFIs benefit from direct capital infusions and concessional funding, allowing them to anchor critical sectors like MSMEs and green energy where commercial risk appetite is often limited. This structural resilience enables them to prioritize India's long-term development agenda over immediate market-driven profitability. All-India Financial Institutions (AIFIs) include NABARD, SIDBI, EXIM Bank, NHB, and the newly operational NaBFID.

Assets and advances projected to grow at 10-12% CAGR FY26-FY28

Total assets expanded steadily, supported by sovereign backing and capital infusions. Going ahead, both assets and advances are projected to grow at a healthy 10-12% CAGR over FY26-FY28, anchored by infrastructure expansion, MSME financing, and housing demand, creating an interlinked narrative of sovereign support, lending diversification, and developmental financing that defines their future trajectory.

Table 13: AIFIs balance sheet (INR billion)

Period	Borrowings (INR billion)	Total assets (INR billion)	Loans and advances (INR billion)
FY20	1,386	9,403	8,256
FY21	1,879	10,755	9,443
FY22	2,594	12,464	10,691
FY23	4,111	14,931	13,177
FY24	5,506	17,926	15,392
FY25	6,518	19,731	16,809

Source: Reserve Bank of India

AIFIs income and profit trend

Income grew from INR 585 billion in FY20 to INR 1,288 billion in FY25, reflecting a CAGR of approximately 17%, supported by sovereign backing, concessional lending programs, and diversification into new financing avenues. Profits expanded from INR 65 billion in FY20 to INR 198 billion in FY25, a CAGR of approximately 24%, outpacing income growth, driven by scale efficiencies, improved provisioning discipline, and diversification of funding sources.

Table 14: AIFIs — Income and profit trend (INR billion)

Period	Total income (INR billion)	Net profit (INR billion)
FY20	585	65
FY21	593	76
FY22	591	98
FY23	754	126
FY24	1,054	159
FY25	1,288	198

Source: Reserve Bank of India

Income growth projected at 12-14% CAGR FY26-FY28

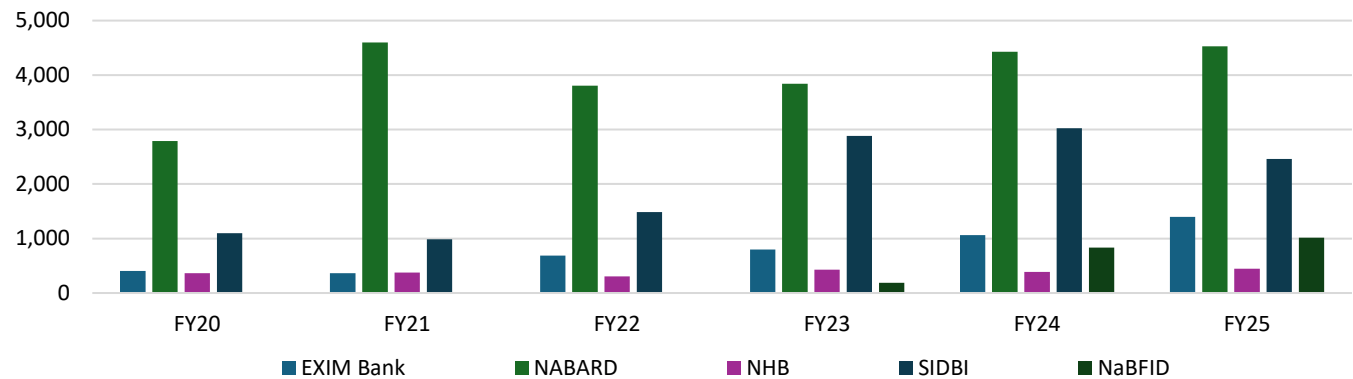
Going ahead, income growth expected to remain healthy at 12-14% CAGR over FY26-FY28, driven by infrastructure financing, MSME credit, and housing sector support. Net profit likely to remain modest, expected to grow at 15-17% CAGR. The introduction of the Infrastructure Risk Guarantee Fund in the FY26 budget provides a safety net that will likely keep AIFI credit costs at historic lows for the next decade.

Aggregate sanctions surge from INR 4.66 trillion in FY20 to INR 9.84 trillion in FY25

Aggregate sanctions by All India Financial Institutions (AIFIs) expanded strongly from INR 4.66 trillion in FY20 to INR 9.84 trillion in FY25, reflecting a robust approximately 16% CAGR, with NABARD emerging as the largest contributor at INR 4.5 trillion and NaBFID establishing its presence with INR 1 trillion in infrastructure financing.

All India Financial Institutions

Figure 13: Financial assistance sanctioned by AIFIs (Institution wise)



Source: Reserve Bank of India

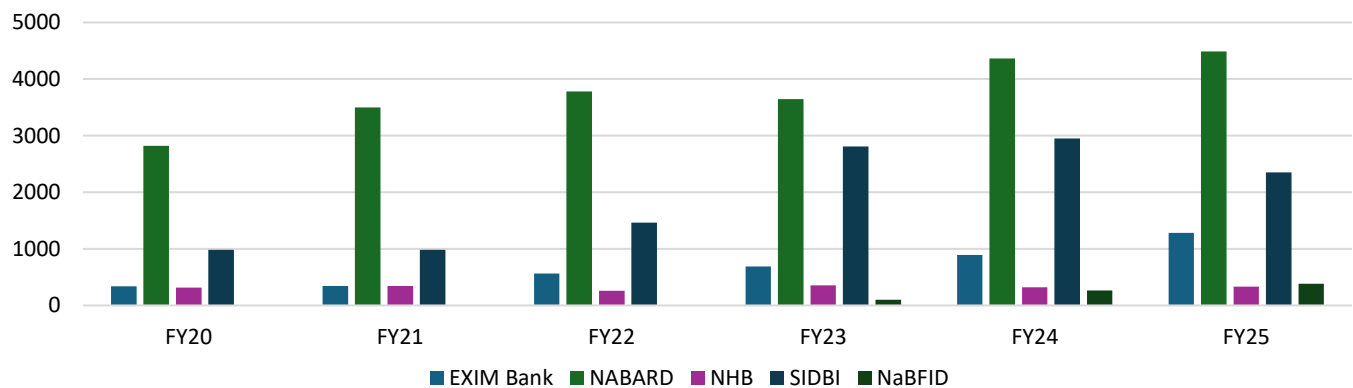
Aggregate sanctions to grow at 12-14% CAGR, crossing INR 13 trillion by FY28

Looking ahead, aggregate sanctions are projected to grow at 12-14% CAGR, crossing INR 13 trillion by FY28, supported by broad based credit expansion. Within this trajectory, EXIM Bank and NaBFID are expected to lead with 20%+ growth amid global trade recovery and infrastructure push, though moderating deposit rates may exert pressure on margins, creating an interlinked narrative of institutional leadership, sectoral diversification, and evolving profitability dynamics.

AIFI disbursements trend: A massive surge in funding - NABARD dominates rural funding while EXIM bank tripling disbursements on trade upswing

NaBFID: Since its operational start in 2022, NaBFID has seen sharp growth. Disbursements grew 161.2% in a single year, rising from INR 100.45 billion in FY23 to INR 262.43 billion in FY24. Aggregate disbursements are expected to grow at 12-14% CAGR, crossing INR 12 trillion by FY28.

Figure 14: Financial assistance disbursed by AIFIs (Institutions-wise) (INR billion)



Source: Reserve Bank of India

Aggregate disbursements nearly double from INR 4.45 trillion in FY20 to INR 8.84 trillion in FY25

Aggregate disbursements by All India Financial Institutions (AIFIs) nearly doubled over FY20-FY25, rising from INR 4.45 trillion to INR 8.84 trillion, reflecting a strong approximately 14.7% CAGR. NABARD remained the largest disbursing institution, expanding from INR 2.82 trillion to INR 4.49 trillion and anchoring rural and agricultural financing, while EXIM Bank tripled its disbursements to INR 1.28 trillion, riding the export recovery. SIDBI saw a strong MSME push, peaking at INR 2.95 trillion in FY24 before moderating to INR 2.35 trillion in FY25, and NaBFID, since its operational start in 2022, recorded strong growth with disbursements rising 161% in a single year.

Aggregate disbursements to grow at 12-14% CAGR, crossing INR 12 trillion by FY28

Looking ahead, aggregate disbursements are expected to grow at 12-14% CAGR, crossing INR 12 trillion by FY28, driven by policy led infrastructure financing, MSME momentum, and expanding export credit, creating an interlinked narrative of institutional leadership, sectoral diversification, and developmental resilience.

NBFC growth drivers and emerging trends



NBFC growth drivers and emerging trends

Key growth drivers

Several structural and cyclical factors are driving NBFC growth in India. These range from fundamental credit gap-filling to digital innovation and government policy support.

Table 15: Growth drivers

Drivers	Underlying dynamics
Credit gap filling	The biggest driver - NBFCs grow by filling credit gaps that banks do not fully serve, especially in MSMEs, vehicle finance, consumer finance, gold loans, and semi-urban/rural borrowers.
Rapid urbanization and rising consumption	India's rapid urbanization and rising income levels have increased demand for credit in retail and personal finance, leading NBFCs to capitalize through niche loan products and faster disbursement processes.
Policy push and regulatory support	Government initiatives like MUDRA loans, PMAY, and Digital India have bolstered NBFC lending in priority sectors, while RBI guidelines' co-lending frameworks have allowed NBFCs to access cheaper capital.
Digital transformation and fintech integration	NBFCs are leveraging AI, ML, and data analytics to enhance credit assessment, streamline processes, and improve customer experience — driving efficiency, reach, and growth.
Credit demand from underserved segments	NBFCs are addressing credit needs of underserved segments like MSMEs, self-employed individuals, and rural populations through flexible underwriting models and alternative data sources.
Focus on specialized lending	NBFCs offer specialized lending — gold loans, affordable housing finance, used vehicle finance, education loans — thanks to domain expertise, local presence, and operational agility.
Resource mobilization	NBFCs effectively mobilize resources, generating employment, wealth creation, and providing bank credit in rural areas, supporting financially weaker sections and inclusive economic development.
Green finance and EV financing	India's environmental goals and increasing adoption of EVs are driving growth in sustainability-focused lending, with NBFCs specializing in green finance poised for significant expansion.
Agility and specialization	NBFCs can underwrite faster, tailor products, and focus on niches such as gold loans, vehicle loans, microfinance, and infrastructure lending — a structural competitive advantage over generalist lenders.

NBFC growth drivers and emerging trends

Emerging trends and credit rating implications

The NBFC sector in India is undergoing a structural transformation, shaped by rapid digital adoption, evolving partnerships, and regulatory recalibration. Emerging trends such as fintech-driven digital lending, co-lending with banks, and securitization growth are expanding reach and diversifying funding channels, while innovations like embedded finance and Buy Now, Pay Later (BNPL) models are reshaping retail credit delivery. At the same time, ESG financing and consolidation among mid-sized players are redefining long-term sustainability and competitive positioning.

Table 16: Key emerging trends and credit rating implications

Structural trend	Key developments	Credit rating implications
Digital lending and fintech partnerships	Rapid adoption of AI/ML-driven credit underwriting; expansion of embedded finance and BNPL models; fintech partnerships for customer acquisition.	Enhances reach and efficiency but raises data security risks. Need to assess asset quality stability under new underwriting models.
Co-Lending model with banks	Increasing NBFC-bank tie-ups for priority sector lending. Risk-sharing structures evolving. RBI guidelines tightening operational norms.	Improves funding access and diversification. Ratings hinge on risk-sharing clarity and portfolio performance consistency.
Securitization and direct assignment	Steady growth in retail loan securitization; shift towards granular asset pools; greater investor appetite for Direct Assignment (DA) transactions.	Enhances liquidity and capital recycling. Rating focus on pool quality, credit enhancement structures, and counterparty risks.
ESG and green financing	Rising issuance of green bonds (e.g., REC and PFC for renewable energy and EV charging). Alignment with global ESG frameworks gaining momentum.	Positive for long-term sustainability. Ratings incorporate ESG disclosures, governance standards, and sectoral exposure risks.
Consolidation trends	M&A activity among mid-sized NBFCs (e.g., merger of Shriram Transport Finance and Shriram City Union Finance). Smaller NBFCs facing compliance and funding challenges.	Consolidation strengthens scale and resilience. Ratings reflect integration risks, capital adequacy, and competitive positioning.
Embedded finance	NBFCs partnering with e-commerce and digital platforms to offer credit at point-of-sale. API integrations enabling instant loan approvals on third-party platforms.	Positive: Diversified origination channels. Watch: Dependence on partner platforms may create concentration risk.
Buy now, pay later (BNPL)	Rapid adoption among millennials; short-tenure, small-ticket loans gaining traction. RBI tightening norms on disclosure and credit bureau reporting.	Positive: Expands retail credit penetration. Negative: Higher delinquency risk in unsecured, small-ticket loan portfolios.
AI-driven underwriting	Use of alternative data (payments, GST, telecom) for precision risk scoring. AI reducing turnaround time and improving fraud detection in digital lending.	Positive: Better risk differentiation, lower NPAs. Watch: Model risk and regulatory scrutiny on fairness and transparency.

Challenges and Opportunities



Challenges and opportunities

Key risks and challenges

The NBFC sector remains inherently exposed to structural vulnerabilities due to borrow-to-lend model, reliance on wholesale funding, and cyclical borrower segments.

Table 17: Key risks and challenges — NBFC sector

Risk category	Nature of risk	Rating implications	Mitigating factors
Asset quality volatility	High exposure to retail, MSMEs, and unsecured segments; sensitive to economic slowdowns.	Rising GNPA/NNPA ratios and lower recovery rates increase downgrade risks.	Diversified portfolio, secured lending focus, and strong provisioning buffers.
Funding concentration risk	High reliance on bank borrowings, NCDs, and CPs with limited retail deposit access.	High refinancing risks and potential liquidity stress during market disruptions.	Diversified funding bases, strong bank relationships, and adequate liquidity buffers.
Regulatory tightening	Stricter capital norms, liquidity requirements, and higher risk weights on unsecured lending.	Pressure on capital adequacy, growth moderation, and margin compression.	Maintaining capital well above regulatory minimums; proactive compliance culture.
Interest rate risk	Rising cost of funds and ALM mismatches (fixed-rate loans vs. floating liabilities).	NIM compression and increased profitability volatility across the lending book.	Dynamic loan repricing, duration gap management, and diversified liability mixes.
Geographic and sectoral concentration	Concentration in specific states or borrower segments (e.g., vehicle finance, MSME, rural lending).	Correlated delinquencies during regional/sector downturns; elevated credit cost volatility.	Geographic diversification; exposure caps; strong collateral coverage; monitoring.
Technology and cyber risk	Digital lending expansion; cybersecurity threats; third-party/vendor risks; data breaches.	Operational losses; reputational damage; regulatory penalties; delinquency spikes.	Robust cybersecurity framework; strong IT governance; vendor risk management.
Margin pressure	Rising funding costs and competition from banks limiting profitability in NBFCs' key segments.	Weaker-funded NBFCs may see sharp margin compression and profitability deterioration.	Diversification into high-yield segments; dynamic loan repricing; liability management.
External shocks	Elevated crude prices (USD 100-125/bbl) are inflating India's import bill, widening CAD, and tightening liquidity, raising NBFC funding costs.	NBFCs with high reliance on wholesale borrowings or concentrated exposure to transport and energy-linked borrowers may face downward pressure in ratings	Diversified liability mix (NCDs, securitization, deposits), strong parent support, and access to co-lending partnerships can cushion liquidity stress.
Rupee weakness	The rupee's depreciation, among the steepest in Asia in 2026, compounds refinancing risks for NBFCs, particularly those reliant on external borrowings and foreign currency liabilities. A weaker rupee raises hedging costs and amplifies the burden of dollar-denominated debt, making liability diversification and domestic funding channels more critical for resilience.	Hedging costs rise, potentially weakening profitability and liquidity metrics.	Shift toward domestic funding sources, proactive hedging strategies, and diversified borrowing channels (bank lines, retail NCDs, securitization) reduce vulnerability.

Challenges and opportunities

Asset quality risk	Household budgets are under pressure from rising fuel and LPG prices, which erode disposable income and heighten repayment stress. This is particularly acute in unsecured retail lending and microfinance portfolios, where borrowers have limited buffers.	Ratings may be sensitive to rising GNPA ratios and provisioning adequacy.	Conservative underwriting, geographic diversification, collateral-backed lending, and disciplined provisioning policies help contain credit costs.
Sectoral margin pressure	Airlines, refiners, and fertilizer firms face cost shocks, raising credit risks for NBFC exposures.	Concentrated sectoral portfolios may see rating downgrades if stress persists.	Diversification across sectors, shorter tenor lending, and collateralized exposures reduce risk.
Regulatory tightening	Household budgets are under pressure from rising fuel and LPG prices, which erode disposable income and heighten repayment stress. This is particularly acute in unsecured retail lending and microfinance portfolios, where borrowers have limited buffers.	Ratings may reflect weaker profitability and flexibility.	Strong governance, capital adequacy, and compliance readiness support rating stability.

Systemic risk and contagion analysis

NBFCs pose elevated systemic risks due to their deep interlinkages with banks, mutual funds, and capital markets. Although regulatory tightening has bolstered capital buffers and resilience, spillover risks remain significant, as evidenced by the IL&FS and DHFL crises.

Table 18: Systemic risk

Contagion channel	Key risk factors and dynamics
Interlinkages with banks	Banks provide direct funding via loans and debenture holdings. Co-lending partnerships make NBFC health critical for banks' retail/MSME exposure. Stress in NBFCs can impair bank asset quality; bank liquidity tightening destabilizes NBFC funding.
Interlinkages with mutual funds	NBFCs issue CPs and debentures widely subscribed by debt mutual funds. Redemption pressures can trigger NBFC liquidity crises (as seen in 2018). Bond market volatility directly impacts NBFC funding costs and investor confidence.
Spillover risks	Liquidity shocks can cascade across banks, mutual funds, and capital markets simultaneously. Asset quality deterioration in real estate/MSME sectors spills into NBFC balance sheets, then into banks. Past crises (IL&FS, DHFL) highlight contagion potential.
Systemic importance	NBFCs account for approximately 25% of total credit and dominate niche segments (housing, auto, gold loans). The RBI has tightened norms (LCR, capital adequacy, governance), but vulnerabilities persist. NBFC health directly influences GDP growth.

Source: Reserve Bank of India, Brickwork Research

Challenges and opportunities

Potential ahead — Strategic growth opportunities

NBFCs in India are positioned as growth engines for financial inclusion and sectoral credit expansion. The sector's potential lies in diversification and digital adoption, while resilience will depend on asset quality discipline and risk management.

Table 19: Growth opportunities

Strategic growth opportunities	Drivers/Enablers
The tech-credit synergy	The integration of Agentic AI and real-time GST data allows NBFCs to lend to the "N-th" borrower who lacks a traditional credit score. By 2027, the transition to the Expected Credit Loss (ECL) framework will further institutionalize risk-based pricing.
Green financing	A massive opportunity exists in EV ecosystems and renewable energy (Solar/Wind). Dedicated "Green NBFCs" are emerging to fund the government's 500 GW non-fossil fuel capacity target by 2030.
Co-lending model (CLM)	The partnership between low-cost funding (Banks) and last-mile reach (NBFCs) is becoming the standard. This allows NBFCs to maintain an "asset-light" model while earning fee income, improving Return on Equity (RoE).
India's credit gap	India's credit-to-GDP ratio remains significantly lower than advanced economies. NBFCs will play a major in closing the MSME credit gap and expanding consumer credit
MSME financing opportunity	India has millions of MSMEs requiring formal credit access. NBFC are well positioned to serve these borrowers due to flexible underwriting models and local market knowledge.
Consumption-led economic growth	India's rising middle class will drive demand for vehicle loans, consumer durable financing and housing loans. NBFCs are expected to remain key players in these segments
Digital lending revolution	Fintech partnerships are transforming NBFC operations. Key developments include digital onboarding, AI-based credit scoring and embedded finance. This will enable faster scalability and lower operating costs

Regulatory landscape



Regulatory landscape

Regulatory landscape and supervisory developments

The RBI has progressively strengthened the regulatory framework governing NBFCs. The scale-based regulation (SBR) framework, introduced in 2021, represents the most significant structural overhaul, creating a tiered regulatory architecture aligned with systemic importance.

Table 20: RBI regulatory framework and credit rating implications

Regulatory area	Key regulatory provisions	Credit rating perspective
RBI regulatory framework	Regulated under RBI Act, 1934; governed through Master Directions, prudential norms, reporting and compliance requirements. Covers registration, supervision, disclosure, risk management, and governance.	Regulatory compliance is a core rating input. Strong adherence reduces regulatory risk. Supervisory history and compliance track record influence credit assessment.
Scale-based regulation (SBR)	NBFCs classified into Base Layer (BL), Middle Layer (ML), Upper Layer (UL), and potential Top Layer (TL) based on size, complexity, and systemic importance. Higher layers face stricter capital, liquidity, and governance norms.	Layer classification acts as a risk indicator. Upper Layer entities require deeper scrutiny due to systemic importance but also benefit from stronger regulatory oversight.
Capital adequacy requirements	Minimum CRAR generally 15% for regulated layers; capital comprises Tier-I and Tier-II instruments. Risk-weighted asset framework applies. Net Owned Fund (NOF) requirements applicable to certain categories.	Capital strength is a key rating driver. Higher capital buffers improve loss absorption capacity. Quality of capital and leverage metrics directly influence rating levels and outlook.
Liquidity risk management	Mandatory Liquidity Coverage Ratio (LCR) for larger/deposit-taking NBFCs. Requirements for liquidity gap analysis, maturity profiling, stress testing, contingency funding plans, and HQLA buffers.	Liquidity risk is critical for NBFCs due to market-based funding dependence. Strong liquidity buffers reduce rollover risk and support higher ratings.
Asset classification and provisioning	Asset classification based on 90+ days overdue criteria. Standard, sub-standard, doubtful, and loss asset categories defined. Mandatory provisioning requirements and NPA recognition norms.	Asset quality transparency and provisioning adequacy are central to credit evaluation. Higher provision coverage ratio improves resilience.
Corporate governance	Board oversight, risk management committees, audit committees, fit-and-proper norms for directors/management, internal controls, disclosure standards, and related-party transaction monitoring.	Governance quality significantly impacts credit profile. Weak governance increases operational and fraud risk. Strong board oversight and risk controls are positive rating factors.
Recent regulatory developments	Co-lending framework, AIF investment caps, consolidation of regulations, exemption for small NBFCs without public funds, tightening of risk weights on unsecured lending, and supervisory focus on consumer credit.	Regulatory evolution impacts growth strategy and risk appetite. New norms may constrain certain business models but improve systemic stability. Rating outlooks factor in regulatory adaptability.

Source: Reserve Bank of India — Master Directions and Scale-Based Regulatory Framework

Credit outlook of the NBFC sector in India



Credit outlook of the NBFC sector in India

NBFC sector outlook: Stability anchored by asset quality, liquidity, and digital transformation

India's NBFC sector maintains a stable outlook, supported by moderated but resilient credit growth, improving asset quality, and ongoing digital integration. Near-term profitability may soften due to regulatory tightening, higher funding costs, and stress in unsecured and microfinance portfolios. Even so, structural drivers such as financial inclusion, digital lending, and strong consumption demand continue to underpin medium-term sector strength.

Table 21: NBFC growth outlook - Stable trajectory with moderating profitability

Theme	Overall outlook
Growth: Stable but moderating	India's NBFC sector outlook is stable, with moderated credit growth and ratings closely tied to asset quality, funding access, and capital buffers. While regulatory tightening, funding cost pressures, selective stress in unsecured and microfinance portfolios and intensifying competition from banks may moderate profitability in the near-term, structural drivers such as financial inclusion, digital lending, and strong consumption demand are expected to support sustained growth.
Asset quality as key sensitivity	Unsecured retail loans and microfinance exposures continue to pose risks, with delinquencies closely monitored by rating agencies. At the same time, a pivot toward collateral-backed lending, particularly in vehicle finance and gold loans, has strengthened resilience and reduced vulnerability. Provisioning discipline and portfolio diversification will remain essential to safeguard stability, especially in a macro environment marked by inflationary pressures and currency volatility.
Funding: Refinancing risks elevated	The funding profile of NBFCs is under increasing stress. Liability costs have risen sharply, with NBFC deposits offering higher than banks, reflecting costlier liabilities. Refinancing risks are shaped by evolving RBI risk-weighting norms, rupee weakness, and crude oil volatility. To mitigate these pressures, NBFCs are diversifying into non-convertible debentures (NCDs), securitization, and capital market borrowings, which will be critical for sustaining long-term resilience and rating stability.
Digital transformation: structural upside	Digital integration is emerging as a structural positive for the sector. Fintech partnerships, platform lending, and the Account Aggregator framework are expanding reach, efficiency, and scalability. Beyond growth, digital transformation is also a risk mitigant, lowering operating costs and strengthening credit underwriting standards. This dual role of technology, as both a growth driver and a stabilizer, positions NBFCs well for long-term sustainability.
Ratings watchpoints	Asset quality reflected through improved collections rather than write offs/ sale to asset reconstruction companies, healthy capitalization, liability diversification, and stable macro conditions. Conversely, factors such as liquidity tightening, regulatory shocks, rupee depreciation, and crude oil price volatility will be monitorables.
Consolidation: Scale and niche strength	Consolidation, particularly in housing finance, is creating larger, better-capitalized NBFCs capable of absorbing shocks and competing effectively with banks. At the same time, NBFCs retain niche strength in retail, MSME, rural credit, and affordable housing, the segments where banks face structural limitations. This combination of scale and specialization ensures that NBFCs remain vital contributors to India's credit ecosystem, even as profitability moderates.

Credit outlook of the NBFC sector in India

Emerging stress points and performance divergence in FY27

India's NBFC sector enters FY27 with widening performance gaps as strong headline growth contrasts with rising stress in unsecured and rural credit. Elevated funding costs, geopolitical spillovers, and tighter regulations are reshaping risk profiles. NBFCs with stronger digital risk systems and regulatory alignment are better positioned to sustain resilience and credit stability through the year.

Table 22: Key themes shaping the NBFC credit landscape

Key themes	Description
NBFC sector ends FY26 on continued growth, but microfinance weakness deepens	The NBFC sector closed FY26 with strong headline numbers, driven by high-gear credit growth and seasonal asset-quality improvements in Q4. Some of the leading NBFC companies reported AUM expansion of 22-24% YoY, while a few optimized asset quality despite weaker topline growth. Yet beneath this strength, the microfinance industry entered a “warning” phase, with GNPA's doubling, growth reversing, and profitability turning negative, highlighting fragility in unsecured and rural credit segments.
NBFCs face a tough FY27 as middle east tensions and funding costs rise	Looking ahead to FY27, the macroeconomic environment is expected to be hostile for NBFCs. Geopolitical instability in the Middle East is transmitting systemic risks through three vectors: trade and remittance disruptions that weaken SME and household cash flows, cost of funds escalation driven by rising sovereign yields and crude prices compressing NIMs, and credit cost deterioration as slower growth impairs repayment capacity. Some of the vehicle financiers have already faced equity repricing, reflecting investor concerns over cyclical exposure.
NBFCs with strong digital risk systems to outperform in FY27	Despite these headwinds, NBFCs that invest in digital risk management, governance, and compliance automation are likely to outperform. Adoption of AI-driven fraud detection and credit monitoring will become essential to sustain resilience. The co-lending model under Scale-Based Regulation is expected to gain traction, with banks more willing to partner with compliant NBFCs for MSME and priority sector lending.
Regulatory alignment emerges as a key driver of NBFC performance	Importantly, risk weights, conduct rules, and digital lending directions are no longer mere compliance items, they now directly shape ROE and growth velocity. Regulatory alignment has become a strategic determinant of sectoral performance, meaning NBFCs that proactively strengthen buffers, diversify liabilities, and embed digital compliance will be better positioned to sustain growth and ratings stability in FY27-FY28.

Appendix



Appendix

Top players: Financial ratios and performance

India's NBFC landscape in FY25 reflected strong AUM expansion but widening divergence in profitability and asset quality across segments. Bajaj Finance led the sector with INR 4.17 trillion in AUM and best-in-class NPAs below 0.5%, while Cholamandalam remained dominant in vehicle finance. Gold-loan NBFCs such as Muthoot and Manappuram delivered the highest ROA (2.5–4%) due to high-yield collateralised lending, though rising NPAs signalled emerging stress.

Housing finance players, including LIC Housing and PNB Housing, managed large loan books but faced margin compression, even as PNB Housing improved asset quality. Vehicle financiers like Shriram Finance and Cholamandalam sustained scale but saw NPAs around 2.6%, with Mahindra Finance affected by rural stress. Mid-tier NBFCs such as L&T Finance showed resilience with sub-1% NPAs.

Table 23: Performance of Leading NBFC Players in India (FY25)

Company	Assets under management (INR billion)	Core segment	Total income (INR billion)	PAT (INR billion)	ROE	ROA	Net NPA
Bajaj Finance	4,167	Consumer & SME	697	168	19.2%	4.6%	0.44%
LIC Housing Finance	3,077	Housing loans	281	54	16.0%	1.8%	1.22%
Shriram Finance	2,632	Commercial vehicles	419	96	18.6%	3.5%	2.60%
Tata Capital	2,220	Consumer & corporate	284	37	13.0%	1.5%	1.00%
Cholamandalam Finance	1,999	Vehicle finance	262	43	19.8%	2.4%	2.60%
Aditya Birla Finance	1,264	Corporate lending	150	30	14.1%	2.3%	3.40%
Muthoot Finance	1,220	Gold loans	203	54	18.2%	4.02%	2.80%
Mahindra Finance	1,197	Rural vehicles	~185	23	10.0%	1.6%	1.30%
L&T Finance	978	Retail lending	159	26	10.9%	2.4%	0.97%
PNB Housing Finance	804	Housing loans	77	19	12.2%	2.55%	0.70%
IIFL Finance	783	Digital & housing	102	6	3.4%	0.9%	1.00%
Tata Capital Housing	664	Housing loans	70	15	NA	2.4%	0.32%
Sundaram Finance	603	Vehicle finance	86	19	15.0%	2.5%	1.40%
Manappuram Finance	430	Gold & microfinance	~100	12	10.0%	2.5%	2.50%

Source: Annual Reports. Note: Figures are rounded off to the nearest decimal.

Looking ahead, strong credit demand and digital origination will continue to drive AUM growth. However, sustainability will depend on segment-specific risk management—vehicle financiers' asset quality, housing NBFCs' margin pressures, and gold-loan NBFCs' sensitivity to NPA spikes. Bajaj Finance remains best positioned, while others must balance growth with disciplined risk controls.

Appendix

Comparative analysis — NBFCs versus Banks (SCBs)

Banks dominate the financial landscape with nearly five times the size and greater systemic stability, yet NBFCs demonstrate faster proportional growth in lending and income, delivering stronger topline expansion and higher profitability per asset. This advantage, however, comes with greater earnings volatility compared to banks' steadier returns, reflecting their structural dependence on banks and markets for funding, while banks benefit from stable deposit bases. The retail focused lending push has been sharper in NBFCs, though weaker asset quality buffers contrast with banks' stronger provisioning discipline. At the same time, NBFCs maintain higher capital cushions, partly regulatory, yet banks' lower residual risk and conservative provisioning reinforce their systemic stability, creating a consistent narrative of growth versus resilience across the two segments.

Table 24: Comparative Analysis: NBFCs vs. Banks (SCBs) — FY23 to FY25

Metric	NBFCs			Banks (SCBs)			Key insight
	FY23	FY24	FY25	FY23	FY24	FY25	
Income (INR billion)	4,640	5,937	6,855	18,098	23,369	26,437	Banks generate approximately 4× higher income due to scale and deposit base.
Expenditure (INR billion)	3,326	4,144	5,154	15,466	19,873	22,425	Banks enjoy lower cost-to-income ratios, reflecting deposit funding efficiency. NBFCs face higher funding costs due to reliance on wholesale borrowings.
Net profit (INR billion)	1,061	1,410	1,323	2,632	3,496	4,012	NBFC net profit declined 6.2% in FY25 while banks grew 14.8%.
Loans and advances (INR billion)	34,138	40,527	48,387	1,43,194	1,71,423	1,91,196	Banks dominate (approximately 4× NBFCs), but NBFCs expand faster in niche retail.
Deposits (INR billion)	NA	NA	NA	1,90,682	2,17,416	2,41,472	Banks' deposit base provides stable, low-cost funding. NBFCs cannot accept deposits.
Borrowings (INR billion)	29,793	34,663	41,812	19,572	25,405	27,176	NBFCs rely heavily on borrowings (INR 41.8 trillion (tn) vs banks' INR 27.1 tn), raising refinancing risk.
NIM (%)	4.6	5.2	5.0	3.7	3.3	3.1	NBFCs earn higher yields (5.0% vs 3.1%) due to retail focus, but with higher risk.
Total assets (INR billion)	43,571	51,395	61,091	2,43,184	2,80,805	3,12,183	Banks are approximately 5× larger. NBFCs are growing faster but remain smaller in scale.
CRAR (%)	26.6	26.9	25.9	17.2	16.9	17.4	NBFCs maintain higher capital adequacy (25.9% vs 17.4%), partly regulatory.
Gross NPA (%)	4.5	3.5	2.9	3.9	2.7	2.2	Banks have lower GNPA (2.2% vs 2.9%), supported by stronger provisioning.
Net NPA (%)	1.6	1.1	1.0	0.9	0.6	0.5	NNPA gap persists: banks at 0.5% vs NBFCs at 1.0%.
ROA (%)	2.6	2.9	2.3	1.2	1.3	1.4	NBFCs deliver higher profitability per asset (2.3% vs 1.4%), reflecting niche margins.
ROE (%)	12.3	13.0	10.1	12.3	13.6	13.5	Banks achieved superior ROE (13.5% vs 10.1%) through effective leverage utilization.
Provision Coverage Ratio (%)	66.0	69.1	66.6	74.9	76.2	76.3	Banks maintain stronger buffers (76.3% vs 66.6%), reducing credit risk volatility.

Source: Reserve Bank of India. Figures are at end of period.

Appendix

Company-wise credit ratings

Table 25: Credit ratings of leading NBFCs

Company	Rating	Instrument	Rating Agency
Bajaj Finance	AAA(SO)	Pass through certificates	ICRA
Shriram Finance	AA+(SO)	Pass through certificates	IND-RA
Tata Capital Housing Finance	AAA	Debentures / Bonds / Notes / Bills	IND-RA
Cholamandalam Investment and Finance	AAA(SO)	Pass through certificates	CARE
Mahindra & Mahindra Financial Services	AAA(SO)	Pass through certificates	CARE
Aditya Birla Housing Finance	AAA	Fixed rate unsecured NCDs	ICRA
L&T Housing Finance [Merged]	AAA	Non-convertible unsecured debentures/bonds	CRISIL
Muthoot Finance	AA+/A1+	Non-government debt	ICRA
IIFL Home Finance	AA	Long term Loans	ICRA
Sundaram Finance	AAA(SO)	Pass through certificates	CRISIL
LIC Housing Finance	AAA	Non-convertible unsecured debentures/bonds	CARE
PNB Housing Finance	AAA(SO)	Pass through certificates	CARE
Manappuram Finance	AA	Term loans	CARE
Piramal Capital & Housing Finance Ltd. [Merged]	C(SO)	Pass through certificates	BRICKWORK
Aadhar Housing Finance Ltd.	AA	Fixed rate unsecured non-convertible debentures	BRICKWORK
Sammaan Capital Ltd.	A 1+	Commercial paper	CRISIL
I C I C I Home Finance Co. Ltd.	AAA	Fixed deposits (including intercorporate deposits)	CRISIL
L I C Housing Finance Ltd.	AAA	Fixed rate unsecured non-convertible debentures	CRISIL
Bajaj Housing Finance Ltd.	AAA	Term loans	IND-RA
Vastu Housing Finance Corpn. Ltd.	AA-	Fund based financial facility/instrument	ICRA
Indian Renewable Energy Devp. Agency Ltd.	AAA	Long term Loans	ICRA
I F C I Ltd.	B+	Non convertible unsecured debentures/bonds/notes/bills	BRICKWORK
Indian Railway Finance Corpn. Ltd.	AAA	Long term Loans	CARE

Source: B2k Analytics

Appendix

NBFC sanctions (credit) by product category

Property loans remained the largest category, consistently above INR 1 trillion, while personal loans and commercial vehicle loans also recorded strong volumes, reflecting sustained retail and transport demand. Gold loans showed volatility, peaked at INR 946 billion in Q1 FY25 before moderating, while housing loans steadily expanded, crossing INR 579 billion in Q2 FY25. Growth was also visible in medium-term loans and demand loans, which surged compared to FY24 levels, indicating rising credit appetite across consumer and SME segments. Overall, the data reflects NBFCs' diversified sanction portfolio, with property, personal, and vehicle loans anchoring volumes, while gold and housing loans add cyclical strength.

Table 26: NBFC sanctions — Product-wise (INR billion)

Product	Q2 FY25	Q1 FY25	Q4 FY24	Q3 FY24	Q2 FY24	Q1 FY24	Q3 FY23
Auto loan (Personal)	251	245	255	279	247	217	189
Commercial vehicle loan	781	803	970	886	857	783	677
Consumer loan	285	345	257	303	264	297	206
Demand loan	218	190	201	181	134	82	47
Education loan	116	56	45	46	129	47	73
Gold loan	609	946	726	629	576	746	552
Housing loan	579	515	667	548	531	455	468
Long term loan (>3 years)	369	498	931	693	734	556	741
Medium-term loan (1-3 yrs)	555	311	480	463	531	341	469
Personal loan	770	714	716	734	721	661	509
Property loan	1,254	1,111	1,418	1,134	1,045	876	723
Secured business loan	92	86	120	95	88	71	62
Short term loan (<1 year)	271	199	177	113	93	97	106
Two-wheeler loan	153	176	162	214	149	145	111
Unsecured business loan	777	725	890	758	709	574	488
Used car loan	64	61	68	56	50	44	30
Used tractor loan	74	82	66	84	68	79	62

Source: FIDC India

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