Crisil Intelligence

Analysis of NBFC Sector in India

September 2025

Contents

1. Macroeconomic Scenario in India

1.1 As per IMF, Global economy is witnessing downside risks as major policy shifts take control

As per the International Monetary Fund (IMF) (World Economic Outlook – July 2025 outlook), global GDP growth is projected at 3.0% in CY2025 and 3.1% in CY2026 as compared to 2.9% projected in April 2025 for CY2025 and 3.0% projected for CY2026. Global growth numbers have been revised upwards on account of stronger-than-expected front-loading in anticipation of higher tariffs, lower average effective US tariff rates than announced in April, an improvement in financial conditions, including due to a weaker US dollar; and fiscal expansion in some major jurisdictions. Global inflation is projected at 4.2% in CY2025 and 3.6% in CY2026. With global financial conditions easing, the US economy saw an upturn with real GDP growing at an annualised rate of 3.3% for Q2 2025, after decline of 0.5% in Q1 2025. Consumer spending grew modestly by 1.6%, following a weak 0.5% rise in the previous quarter. A surge in imports and business investment, particularly in information processing equipment, suggests firms and households front-loaded purchases in anticipation of tariff-driven price increases. Furthermore, inflationary risks remain significant going forward, with tariffs being imposed by US on imports.

India is expected to remain one of the fastest-growing economies in the world despite challenges posed by geopolitical instability. In May 2025, the National Statistical Office (NSO), in its first revised estimates of national income, estimated the country's real gross domestic product (GDP) to have expanded 6.5% on-year in Fiscal 2025.

The Trump Administration in the United States (US) announced a host of tariffs on products such as automobile, automobile parts, steel and aluminium in the first three months of CY2025. Alongside the primary tariffs, the Trump administration is planning to charge India with additional 25% tariff to penalise the oil imports from Russia. This can hit the Indian exports to USA which currently constitutes approximately 18-20% of total exports.

1.2 India expected to remain one of the fastest growing economies in the world

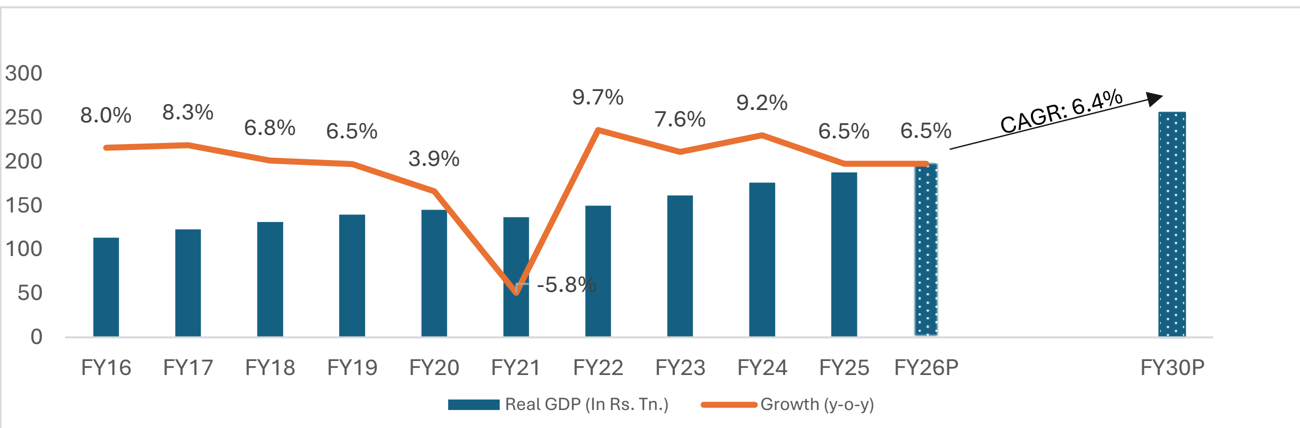
Going forward, the expectation of slower global growth, along with anticipated reciprocal tariffs on India after three months, is likely to exert downside risks to Crisil's 6.5% growth forecast for fiscal 2026. Uncertainty about the duration and frequent changes in tariffs could also hinder domestic investments. Interest rate cuts, income tax relief and easing inflation are expected to provide tailwinds to domestic consumption in Fiscal 2026, while the expected normal monsoon will support agricultural incomes. Moreover, the anticipated decline in global crude oil prices, resulting from a potential global slowdown, is expected to provide additional support to domestic growth.

We expect India's GDP to grow at 6.5%, with one of the key risks being the downside from tariff hikes by the US. The tariff impact may get more pronounced in the second half of this fiscal as the rates get finalised.

However, domestic demand is expected to offset external headwinds. RBI's rate cuts in this calendar year combined with the expected GST slab rationalisation effectively reducing tax on goods and services, will be pivotal in improving domestic demand, especially in urban areas.

Private consumption is expected to improve further on expectations of healthy agricultural production and cooling food inflation. Softer food inflation should create space in household budgets for discretionary spending. Secondly, the tax benefits announced in Union Budget 2025-2026 and increased allocations towards key asset- and employment generating schemes are expected to support consumption. Easing monetary policy by the Reserve Bank of India (RBI) is expected to support discretionary consumption. Crisil Intelligence expects one more repo rate cut in Fiscal 2026, and a pause after that. The central bank's recent liquidity-easing measures including 100 bps rate cut since February 2025 and easier regulations for non-banking financial companies are expected to transmit the benefits from an easier monetary policy to the broader economy. Geopolitics will continue to be the key monitorable, given the wide-ranging changes that the Donald Trump administration is expected to bring about. Exports will have to navigate heightened uncertainties given United States (US) tariffs.

Indian economy expected to grow at 6.5% in Fiscal 2026

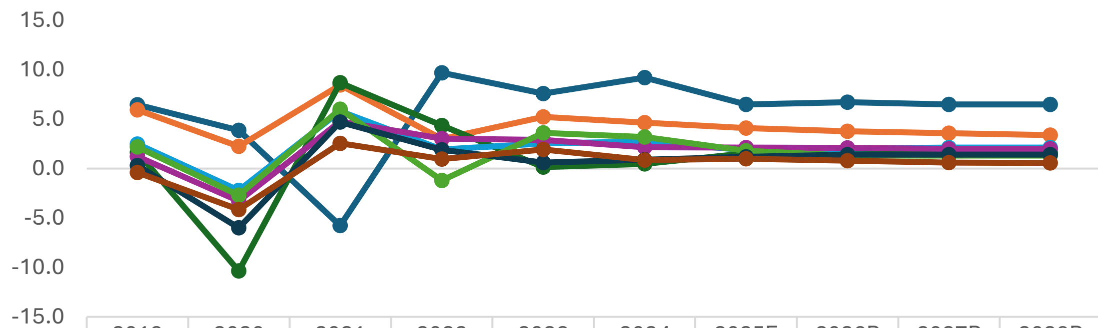


Note: E – estimated, P – projected. GDP growth until Fiscal 2024 is actual. GDP estimate for Fiscal 2025 is based on the NSO's second advance estimates. GDP projection for Fiscal 2026 is based on Crisil Intelligence estimates and that for Fiscals 2026-2029 is based on International Monetary Fund (IMF) estimates

Source: NSO, Crisil Intelligence, IMF (World Economic Outlook – July 2025)

Over Fiscals 2022-2025, the Indian economy grew at a faster pace than its global counterparts.

India is one of the fastest-growing major economies (real GDP growth, % on-year)



	2019	2020	2021	2022	2023	2024	2025E	2026P	2027P	2028P
India	6.5	3.9	-5.8	9.7	7.6	9.2	6.5	6.7	6.5	6.5
China	6.0	2.2	8.5	3.0	5.2	4.6	4.1	3.8	3.6	3.4
United Kingdom	1.6	-10.4	8.7	4.3	0.1	0.5	1.5	1.7	1.7	1.6
United States	2.5	-2.2	5.8	1.9	2.5	2.7	1.9	2.0	2.1	2.1
Brazil	1.2	-3.3	4.8	3.0	2.9	2.2	2.1	2.1	2.0	2.0
Russia	2.2	-2.7	6.0	-1.2	3.6	3.2	1.8	1.3	1.3	1.3
South Africa	0.3	-6.0	4.7	1.9	0.6	0.9	1.2	1.4	1.4	1.4
Japan	-0.4	-4.1	2.6	1.0	1.9	0.9	1.0	0.8	0.6	0.6

India China United Kingdom United States Brazil Russia South Africa Japan

Note: All forecasts refer to IMF forecasts. GDP growth is based on constant prices. Data represented is for calendar years. Growth numbers for India until 2026 are for financial year, 2025 is as per the NSO's second advance estimates for Fiscal 2025. Post Fiscal 2025, all estimates for India are as per the IMF and for calendar years. Data represented for other countries is for calendar years
Source: IMF (World Economic Outlook – July 2025), Crisil Intelligence

India secured the 3rd position in terms of GDP based on purchasing power parity, accounting for a share of 8.2% of the world total, projected to increase to 9.7% in CY 2029.

Country	CY 2024		CY 2029P	
	Gross domestic product based on purchasing-power-parity (PPP) share of world total (%)	Ranking	Gross domestic product based on purchasing-power-parity (PPP) share of world total (%)	Ranking
China	19.1	1	19.6	1
United States	15.0	2	14.3	2
India	8.2	3	9.7	3
Russia	3.6	4	3.2	4
Japan	3.4	5	3.0	5
Germany	3.1	6	2.8	6
Brazil	2.4	7	2.3	8
Indonesia	2.4	8	2.6	7
France	2.2	9	2.1	9
United Kingdom	2.2	10	2.0	10

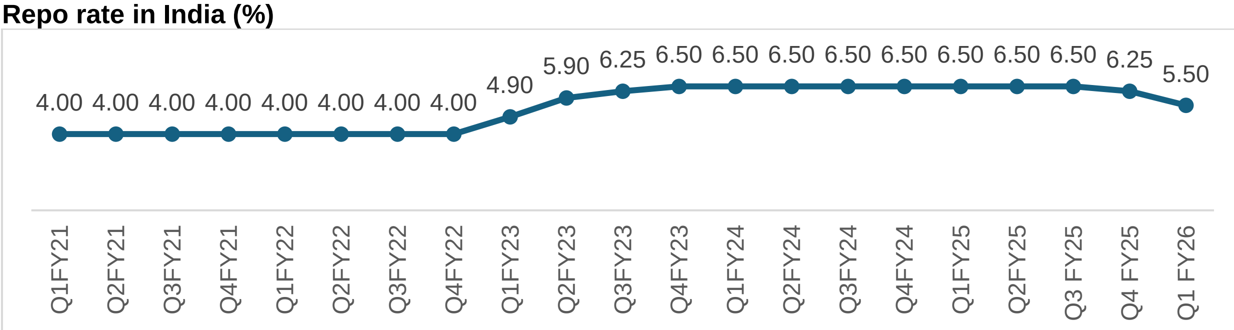
Note: P- Projected, Source: IMF World Economic Outlook- July 2025, Oct Database, Crisil Intelligence

1.3 RBI kept repo rate at 550 bps and maintained ‘neutral’ policy stance in the August 2025 Meeting

The Reserve Bank of India’s (RBI) Monetary Policy Committee (MPC) had cut key policy rates by 25 basis points (bps) in the policy meeting in April 2025, and by 50 bps in the June 2025 meeting. With inflation softening over the last six months, the MPC is shifting its focus to supporting domestic growth, which faces heightened downside risks following geopolitical tensions and weather-related uncertainties. In India, the repo rate is now 5.50%, standing deposit facility (SDF) rate is 5.25% and marginal standing facility (MSF) rate is 5.75%. Systemic liquidity has been in surplus since the start of this fiscal until July. A 100- bps cut in cash reserve ratio (CRR) between September and December 2025 will further help maintain adequate liquidity.

Other central banks are also acting to support economic growth. The US Federal Reserve (Fed) reduced the interest rate by 25 bps each in November and December 2024 to 4.25% - 4.50% and is expected to cut rate in upcoming September 2025 FOMC meeting. The Bank of England (BoE) in August 2025 eased the UK interest rate by 25 bps to 4.0% making it fifth consecutive cut since August 2024.

Repo rate in India (%)

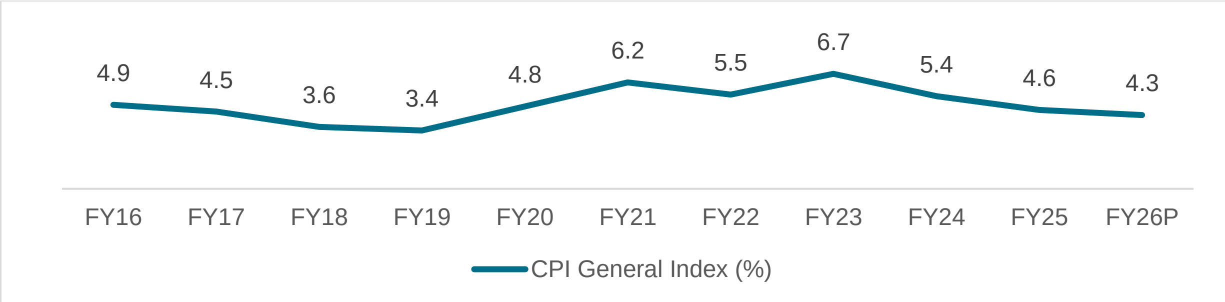


Source: RBI, Crisil Intelligence

1.4 Consumer Price Index (“CPI”) inflation to average at 4.3% in FY26

The Consumer Price Index (CPI)-based inflation eased to 3.2% in April 2025, the lowest reading since July 2019. The decline was driven by food inflation, which fell to 1.8%, the lowest since October 2021. A record rabi harvest and robust pulses output indicated by the Union Ministry of Agriculture’s Second Advance Estimates, and the forecast of a favourable monsoon for the upcoming kharif season to keep food inflation in check in Fiscal 2026. Crisil Intelligence expects headline retail inflation to average 4.3% in Fiscal 2026. Additionally, the increasing occurrence of heatwaves poses a growing threat to agricultural productivity and, by extension, food inflation thus warranting close monitoring.

Inflation to moderate to 4.3% in Fiscal 2026



Note: P = Projected, Source: Crisil Intelligence

Macroeconomic outlook for India (Fiscal 2026)

Macro variables	FY24	FY25	FY26P	Rationale for outlook
Real GDP (y-o-y)	9.2%	6.5%	6.5%	Crisil Intelligence forecasts India's GDP growth to be steady at 6.5% in fiscal 2026. We assume the upcoming monsoon season to be normal and commodity prices to remain soft. Private consumption is expected to recover further, while investment growth hinges on private capex. The pickup in growth will be mild because of overall lower fiscal impulse. Emerging global risks from potential US tariff hikes are a downside risk for domestic growth.
Consumer Price Index (CPI) inflation (y-o-y)	5.4%	4.6%	4.3%	Inflation is expected to move closer to the RBI's target of 4% on expectations of a normal monsoon, high base effect in food inflation and softer global commodity prices. Some uptick is expected in non-food inflation due to low base effect
10-year Government security yield (Fiscal end)	7.1%	6.7%	6.3%	Crisil expects yields to ease this fiscal, driven by rate cuts, softer inflation and lower crude oil prices. That said, a mild rise in gross market borrowings will keep some pressure on yields.
Fiscal Deficit (% of GDP) *	5.6%	4.8%	4.4%	Fiscal consolidation is expected to be made possible via moderating revenue expenditure thrust even as capex focus is broadly maintained but expected GST slab revision may led to miss deficit target by 0.1% to 0.2% due to shortfall in GST collection.
CAD (Current Account Deficit as % of GDP)	-0.7%	-0.6%	-1.3%	Current account deficit (CAD) is expected to increase owing to headwinds to exports from US tariffs. Lower crude oil prices, healthy services trade balance and robust remittances growth will prevent CAD from widening too much.
Rs/$ (March average)	83.0	86.0	88.0	A manageable CAD would mean not much pressure on the rupee but geopolitical shocks could keep the rupee volatile

*P – Projected, # As per NSO estimates *FY24 and FY25 numbers are government's revised and budget estimates; Source: Reserve Bank of India (RBI), National Statistics Office (NSO),* Crisil Intelligence

1.5 Key structural reforms: Long-term positives for the Indian economy

- PMAY was introduced in 2015 to provide affordable housing for all by the end of 2022. The timelines were revised to FY24 and FY25 for PMAY-Gramin and PMAY-Urban respectively due to delays in completion. Execution under the scheme has been encouraging with ~2.60 crores houses being completed as of May 2024, out of the targeted 2.95 crore houses. The target for the next five years has been further increased by ~2 crore houses in the FY25 budget estimate; a 68% addition to the current target of ~3 crore houses. The move provides an impetus to the real estate sector as well its stakeholders including – developers, engineering, procurement and construction contractors, allied industries such as steel, cement etc.
- The government has also launched the JAM trinity (Jan Dhan, Aadhar and Mobile) which aims to link Jan Dhan accounts, mobile numbers and Aadhar cards of all Indian nationals to transfer cash benefits directly to the bank account of the intended beneficiary and avoid leakage of government subsidies.
- India Stack, set of digital infrastructure including Aadhar, UPI, Digi locker, e-KYC and e-Sign has enabled many unbanked citizens to access formal financial services, promoting financial inclusion.
- The GST regime has been stabilizing fast and is expected to bring more transparency and formalization, eventually leading to higher economic growth.
- Government launched the Digital India program, on 1st July 2015 with the vision of transforming India into a digitally empowered society and a knowledge-based economy, by ensuring digital access, digital inclusion, digital empowerment and bridging the digital divide. Some of the key initiatives and related progress under Digital India are as follows-
    - Unified Mobile Application for New-age Governance (UMANG) – for providing government services to citizens through mobile. More than 2339 e-Services as of July 2025 and over 621.96 crore worth of transactions have taken place on UMANG as of July 2025.
    - Unified Payment Interface (UPI) is the leading digital payment mechanism; it has 675 banks live on UPI and has facilitated more than 18,395.01 million transactions (by volume) worth Rs 24.0 trillion in July 2025.
    - Cyber Security: The Government has taken necessary measures to tackle challenges about data privacy and data security through introducing the Information Technology (IT) Act, 2000 which has necessary provisions for data privacy and data security.
    - Common Services Centers – CSCs are offering government and business services in digital mode in rural areas through Village Level Entrepreneurs (VLEs). Over 400 digital services are being offered by these CSCs. As of June 2025, 0.59 million CSCs are functional (including urban & rural areas) across the country, out of which, 0.47 million CSCs are

functional at Gram Panchayat level.

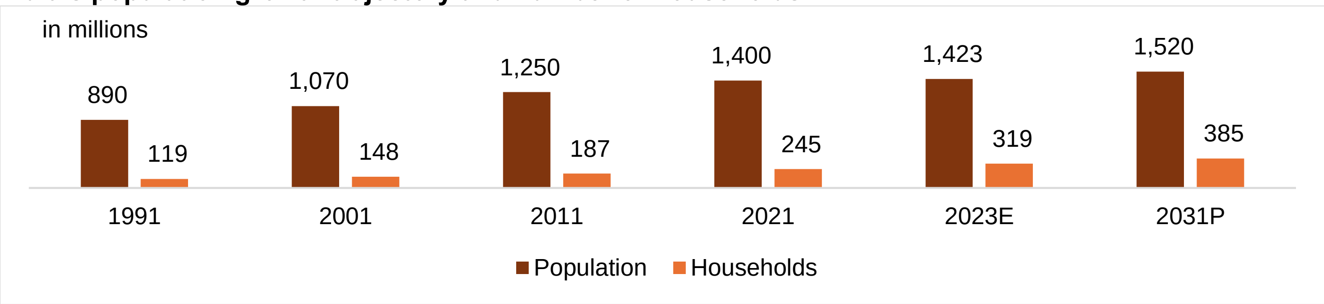
Overall, these initiatives will improve the digital connectivity of Indians along with boosting business sentiment, thereby creating new opportunities.

1.6 Key growth drivers

India has the world's largest population

As per Census 2011, India's population was ~1.3 billion and comprised nearly 187 million households. The population, which grew at nearly 1.5% CAGR between 2001 and 2011, is expected by Crisil Intelligence to have increased at 1.1% CAGR between 2011 and 2021 and reached 1.4 billion. The population is expected to reach 1.5 billion by 2031 from 1.4 billion in 2021, and the number of households are expected to reach to ~385 million in 2031 from 245 million in 2021, reporting a CAGR of 4.6% from FY21 to FY31.

India's population growth trajectory and number of households

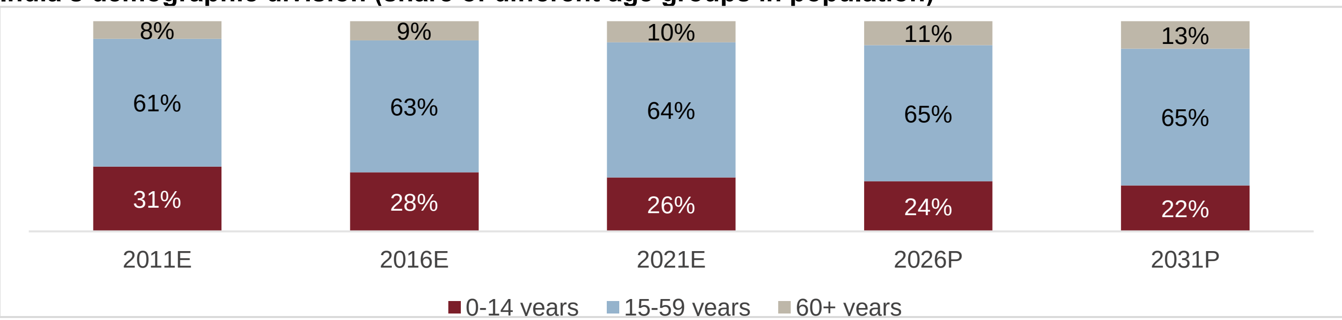


Note: As at the end of each Fiscal. P: Projected, Source: United Nations Department of Economic and Social Affairs, (https://population.un.org/wpp/), Census India, Crisil Intelligence

Favourable demographics

India has one of the world's largest youth populations, with a median age of 28 years. About 90% of Indians are below 60 years of age. In 2023, it was estimated that India had the highest share of young working population (15-30 years) compared to major developed and developing countries with the share of 26%. Crisil Intelligence expects that the large share of working population, coupled with rapid urbanisation and rising affluence, will propel growth in the economy.

India's demographic division (share of different age groups in population)



Note: P – Projected, E – Estimates
Source: Census of India 2011, Ministry of Health and Family Welfare, Crisil Intelligence

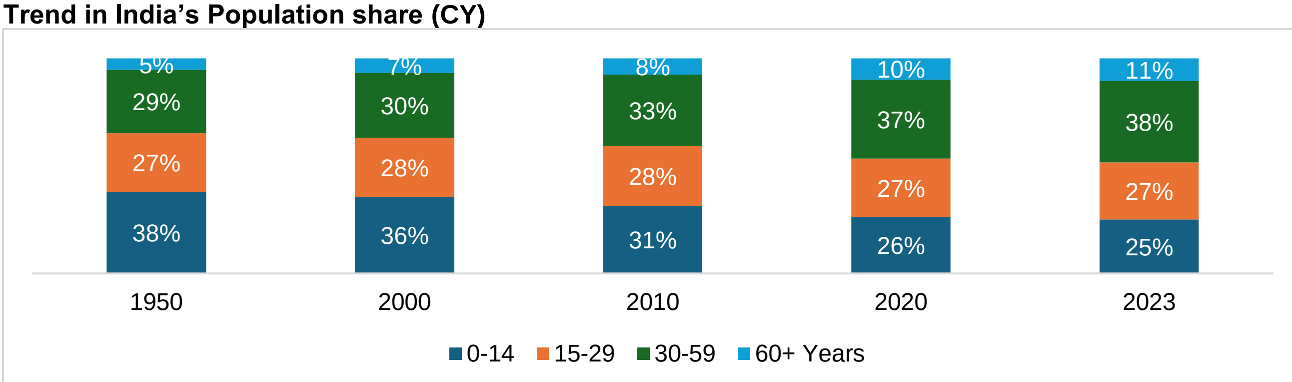
India has the highest young population (15-29 years) with 381.5 million individuals, among the major economies (CY2023)

Country	0-14	15-29	30-59	60+ Years
India	360.3	381.5	545.0	151.2
South Africa	16.5	16.0	24.4	6.3
China	236.0	248.4	659.9	278.4
Brazil	42.1	47.5	88.6	32.9
Russian Federation	25.5	22.4	63.3	34.2
United Kingdom	12.0	12.5	27.0	17.3
United States of America	60.4	67.7	133.8	81.6

Note: Values in millions. Source: World Urbanization Prospects: 2024

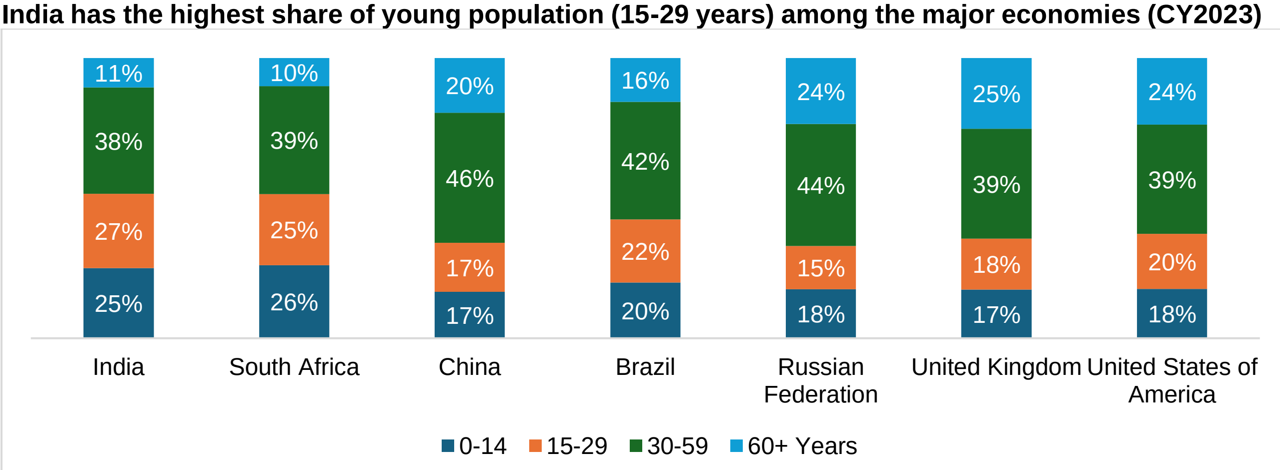
India stands as the nation with the largest population globally, comprising a substantial segment of 381.5 million individuals aged between 15 and 29 years. This demographic presents immense potential for various sectors, including the insurance industry, to tap into a significant market and address the evolving needs of this dynamic age group. As the young population in India increases, the insurable population within the country is also estimated to expand.

Trend in India's Population share (CY)



Source: World Urbanization Prospects 2024

India has the highest share of young population (15-29 years) among the major economies (CY2023)

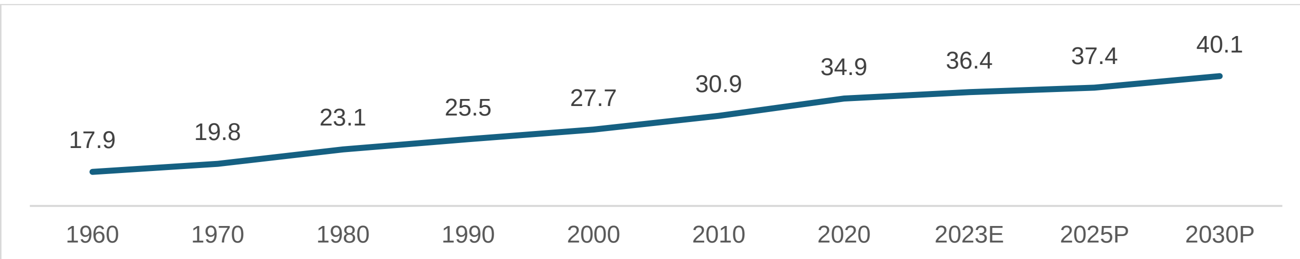


Source: World Urbanization Prospects: 2024

Rising Urbanization

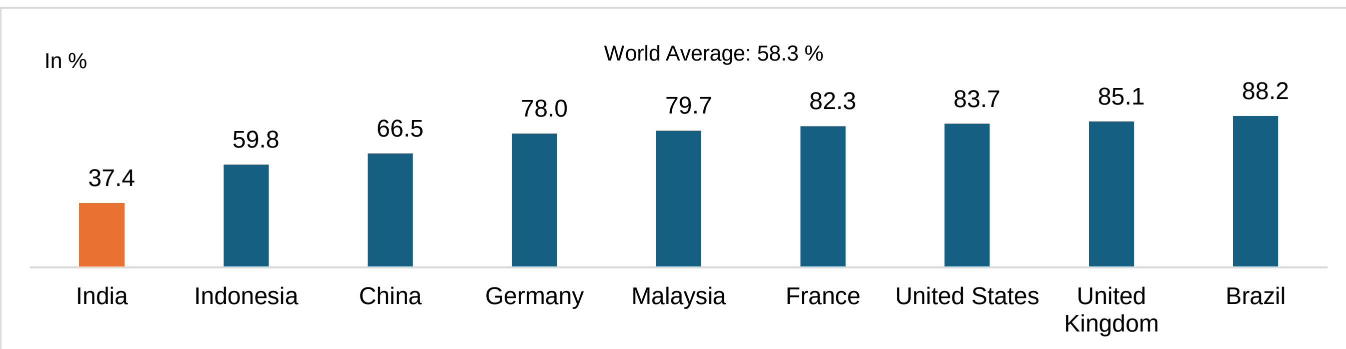
Urbanization is one of India's most important economic growth drivers. It is expected to drive substantial investments in infrastructure development, which in turn is expected to create jobs, develop modern consumer services, and increase the ability to mobilize savings. India's urban population has been rising consistently over the decades. As per the 2018 revision of World Urbanization Prospects, the urban population was estimated at 36% of India's total population in 2023. According to the World Urbanization Prospects, the percentage of the population residing in urban areas in India is expected to increase to 40% by 2030.

Urban population as a percentage of total population (%)



Note: E- Estimated, P – Projected, Figures in percentage, Source: Census 2011, World Urbanization Prospects: The 2018 Revision (UN)

Urban population as a percentage of total population in % (CY 2025P)



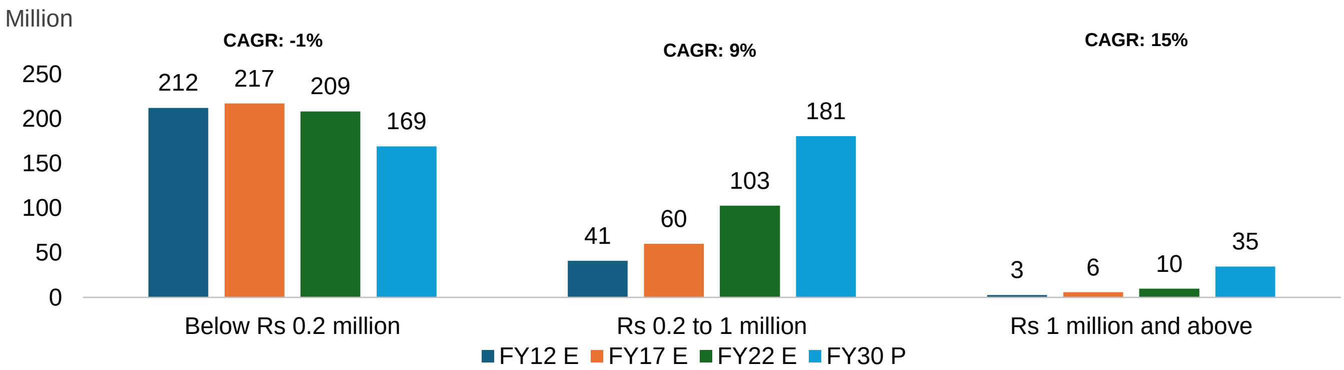
Source: United Nations World Urbanization Prospects: The 2018 Revision (UN)

Rising Middle India population to help sustain economic growth

The proportion of "Middle India" (defined as households with annual income of Rs 0.2-1.0 million) has been on the rise over the past decade and is expected to continue increasing with rising GDP and household incomes. Crisil Intelligence estimates there were 103 million middle-income households in India in FY22 and by FY2030, expects it to increase to 181 million households. A large number of households that have entered the middle-income bracket in the past few years are likely to be from semi-urban and rural areas. As per NSS 76th round (2018), 83.3% of households were living in pucca dwelling units compared to 74.6% as per 69th NSS round (2012).

The backbone of India's economy, MSMEs significantly contribute to the country's growth, accounting for approximately 29% of the GDP, 45% of manufacturing output, and providing employment opportunities to a substantial 11 crore people. The growth of MSMEs is crucial in generating employment opportunities for the Indian population. Crisil Intelligence believes that improvement in literacy levels, increasing access to information and awareness, increase in the availability of necessities and improvement in road infrastructure have increased the aspirations of Middle India, which is likely to translate into increased demand for financial products and opportunities for providers of financial services providers.

Middle India households projected to witness CAGR of 9% between FY12 to FY2030



Note: E: Estimated, P: Projected; Source: Crisil Intelligence

Rural sector supporting India growth story

India's rural segment has been a key driver of the country's consumption growth story in recent years. In the past decade, the rural segment in India has expanded at a rapid pace, driven by factors, such as rising disposable income, urbanisation, and the proliferation of e-commerce.

According to the Economic Survey (2023-24), the government strategy has been that of an integrated and sustainable development of rural India. The government aims to fuel rural growth through decentralised planning, better access to credit, skilling of youth, enhanced livelihood opportunities, empowerment of women, social security net provision, basic housing, education, health and sanitation facilities, etc. The survey notes that a multi-pronged approach has helped raise rural incomes and improve the quality of life through different schemes, such as:

1. **Livelihood and skill development**

    1. The Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM), which aims to enable economically weak households to access gainful self-employment and skilled wage employment opportunities, resulting in sustainable and diversified livelihood options for them.

    2. Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), under which cumulative no. of registered workers was 25.68 crore in FY24 and as of 29th November 2024 it stands at 25.17 crore. In FY25 a total of 290.5 crore person-days have been generated under the Scheme.

2. **Women empowerment**

The transformative potential of Self-Help Groups (SHGs), exemplified through their key role in the on-ground response to Covid-19, has served as the fulcrum of rural development through women empowerment. India has around 1.2 crore SHGs, 88% being all-women SHGs. Also, there has been a steady rise in Rural Female Labour Force Participation Rate (FLFPR) from 24.6% in FY2018 to 36.6% in FY2022 (Female Labour Utilization in India). The Worker Population Ratio (WPR) for women aged 15 years and above has risen from 22.0% in 2017-18 to 40.3% in 2023-24, while the Labour Force Participation Rate (LFPR) for women has increased from 23.3% to 41.7% in the same period

3. **Housing for all**

The Pradhan Mantri Awas Yojana – Gramin (PMAY-G) was launched in November 2016 with the aim of providing around 3 crore pucca houses with basic amenities to all eligible houseless households living in kutcha and dilapidated houses in rural areas by 2024. The target further increased by ~68% or Rs. 2 Cr. Under the scheme, landless beneficiaries are accorded the highest priority in the allotment of houses. A total of 3.21 crore houses have been sanctioned and 2.67 crore houses have been completed by as of November 19th, 2024, under the scheme.

Other initiatives of the government are towards promoting smoke-free rural homes and rural infrastructure.

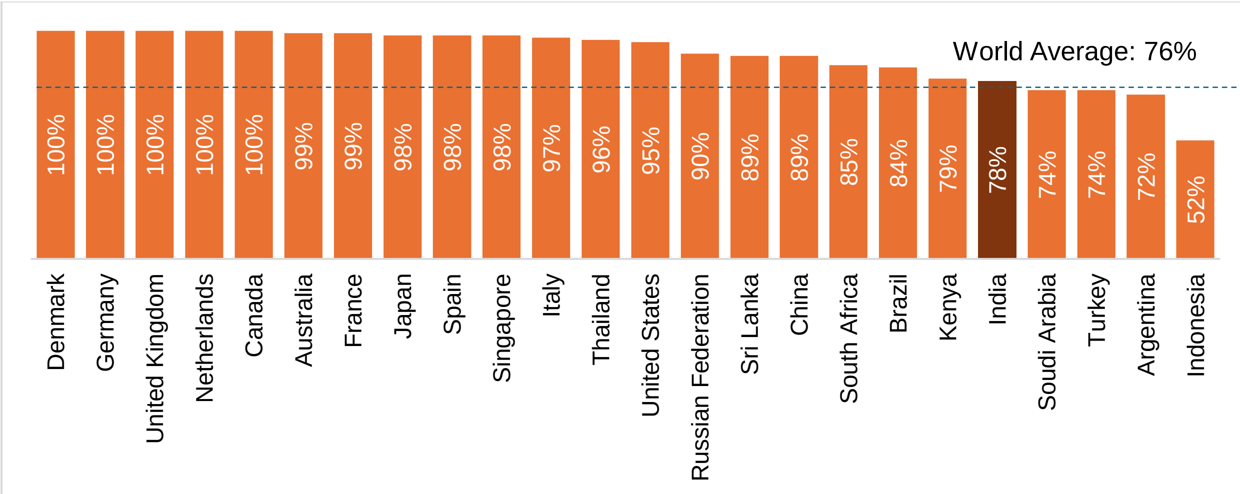
Additionally, rural areas have significantly contributed in growth of e-commerce industry in India along with increased internet penetration, the proliferation of smartphones, and the convenience offered by online shopping.

2. Financial inclusion

2.1 Financial Inclusion on a fast path in India

According to the World Bank's Global Findex Database 2021, the global average percentage of adult population with an account opened with a bank, financial institution or mobile money provider, was approximately 76% in calendar year 2021. India's financial inclusion has improved significantly over calendar years 2014 to 2021 as adult population with bank accounts increased from 53% to 78% (Source: Global Findex Database) This remarkable progress can be attributed to the Indian government's concerted efforts to promote financial inclusion through a range of initiatives, including the launch of Jan Dhan Yojana, the proliferation of mobile banking and digital payments, and the implementation of government subsidies and benefits such as the Direct Benefit Transfer (DBT) scheme. Moreover, advancements in financial technology have also contributed to this significant improvement in financial inclusion.

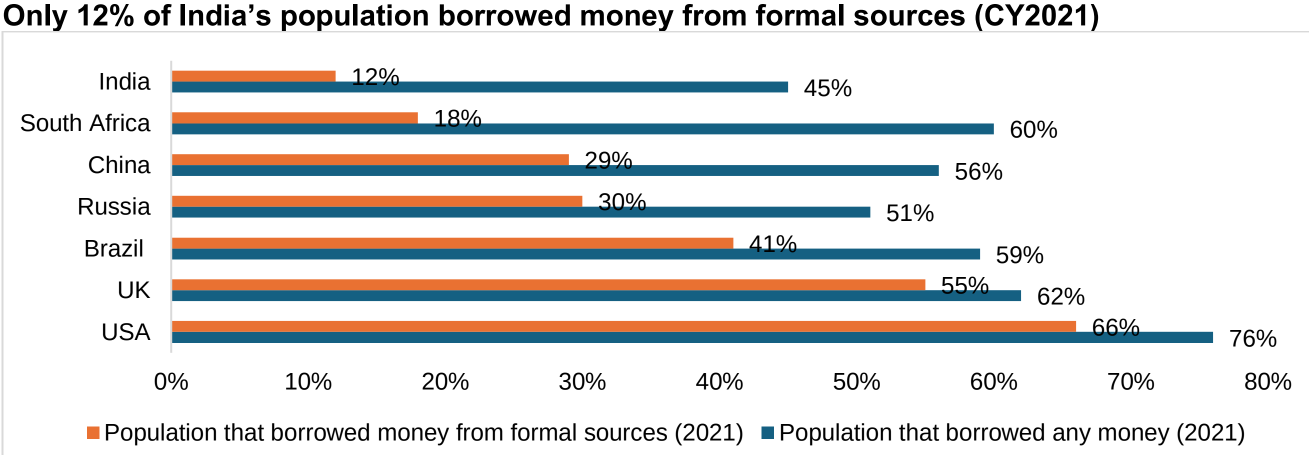
Adult population with a bank account (%) as of CY2021: India vis-à-vis other countries



Notes: 1. Global Findex data for India excludes northeast states, remote islands and selected districts. 2. Account penetration is for the population within the age group of 15+, Source: World Bank – The Global Findex Database 2021, Crisil Intelligence

As per the Global Findex Database 2021, ~54% of the world's 740 million unbanked adults live in only seven countries (India, Bangladesh, China, Indonesia, Egypt, Nigeria and Pakistan), of which almost 31% (230 million) are in India. This shows an immense opportunity for furtherance of financial inclusion.

Only 12% of India's population borrowed money from formal sources (CY2021)

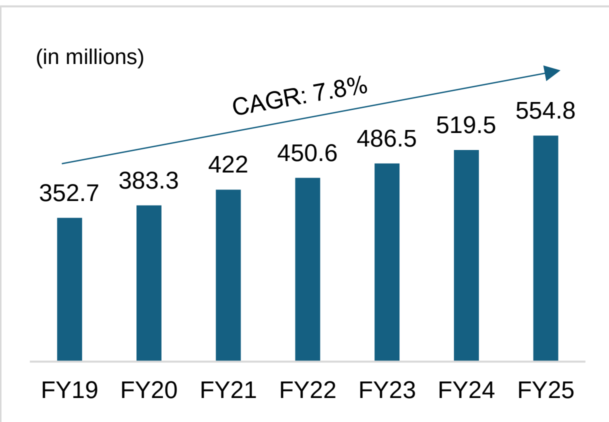


Note: Global Findex data for India excludes northeast states, remote islands and selected districts. 2. Data is for the population within the age group of 15+
Money borrowed from formal sources includes money borrowed from Banks, NBFCs and usage of credit card.
Source: World Bank – The Global Findex Database 2021, Crisil Intelligence

The two key initiatives launched by the Government to promote financial inclusion are the Pradhan Mantri Jan Dhan Yojana (PMJDY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY). Under the PMJDY, the Government's aim is to ensure that every household in India has a bank account which they can access from anywhere and avail all financial services such as savings and deposit accounts, remittances, credit and insurance affordably. PMJJBY is a one-year life insurance scheme that offers a life cover of ₹ 0.2 million at a premium of ₹ 436 per annum per member, which can be renewed every year. The Government has also launched the Pradhan Mantri Suraksha Bima Yojana (PMSBY), an accident insurance policy that offers an accidental death and full disability cover of ₹ 0.2 million at a premium of ₹ 20 annually. As per the Government, more than 100 million people have registered for these two social security schemes.

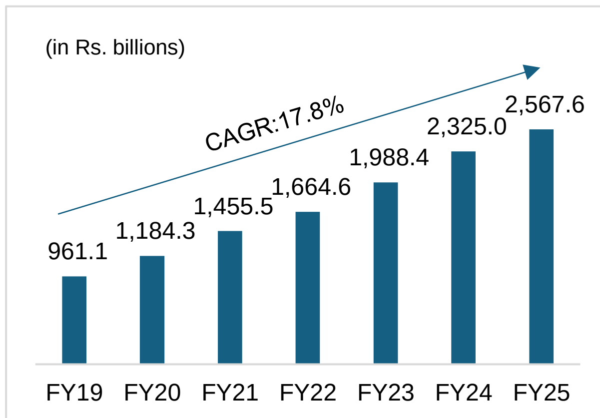
As of 28th May 2025, 554.8 million PMJDY accounts had been opened, of which ~ 66.7% were in rural and semi-urban areas, and total deposits of Rs. 2,5676. billion. (*Source: Pradhan Mantri Jan-Dhan Yojana: Progress Report*)

Number of PMJDY accounts



Note: FY25 data is till May 2025;
Source: PMJDY; Crisil Intelligence

Total balance in PMJDY accounts



Note: FY25 data is till May 2025;
Source: PMJDY; Crisil Intelligence

Financial penetration to rise with increase in awareness and access of financial products

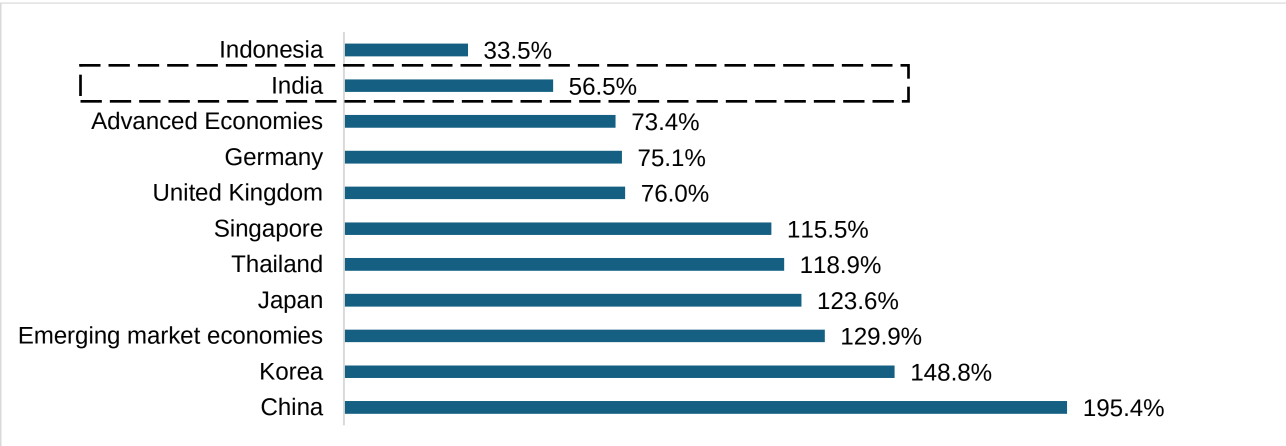
Overall literacy in India was at 77.7% as per the results of NSO survey conducted from July 2017 to June 2018, which is still below the world literacy rate of 86.5%. However, according to the National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019, only 27% of Indian population is financially literate indicating huge gap and potential for financial services industry. The survey defines financial literacy as a combination of awareness, knowledge, skill, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.

Government initiatives like Pradhan Mantri Jan Dhan Yojana, financial literacy programs, and continuous focus on financial inclusion have increased financial literacy, resulting in significant uptick in demand for financial products, particularly in smaller cities over the past few years. Going forward, Crisil Intelligence expects financial penetration to increase on account of increasing financial literacy.

Under-penetration of the Indian banking sector provides opportunities for growth

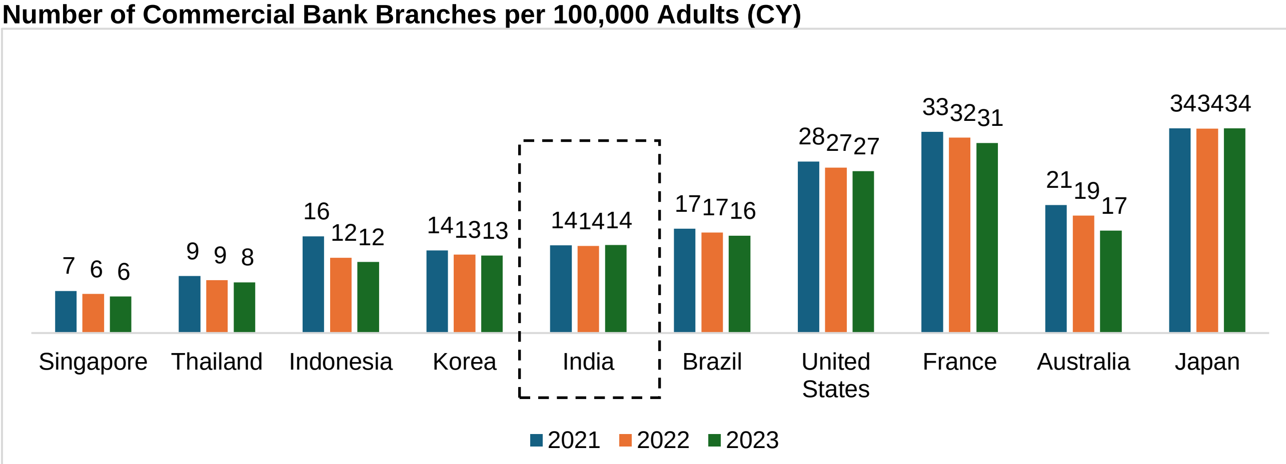
The Indian banking sector is significantly under-penetrated as observed in the current bank credit-to-GDP ratio of 56.5% for India as of the third quarter of CY2024. The number of commercial bank branches as well as ATMs in India per 100,000 people, contrast in comparison to other countries. This provides immense opportunities for banks and other financial institutions over the long term.

Bank credit to private non-financial sector as a % of GDP ratio for major economies (as of Q3 CY24)



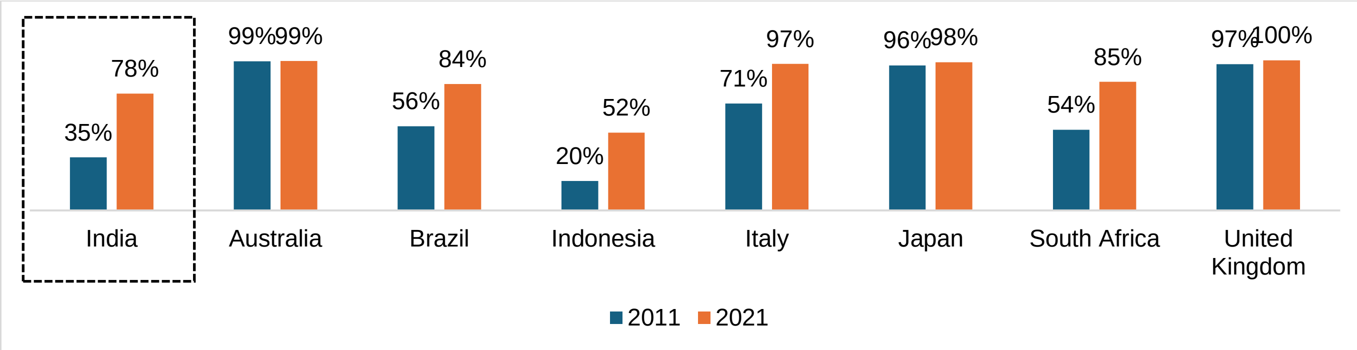
Note: Emerging market economies comprise Argentina, Brazil, Chile, China, Colombia, Czechia, Hong Kong SAR, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, Thailand, and Turkey; Advanced economies comprise Australia, Canada, Denmark, the euro area, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States. Source: BIS Data, Crisil Intelligence

Number of Commercial Bank Branches per 100,000 Adults (CY)



Source: IMF Financial Access Survey, Crisil Intelligence

Percentage of population above 15 years having an account at bank or another type of financial institutions

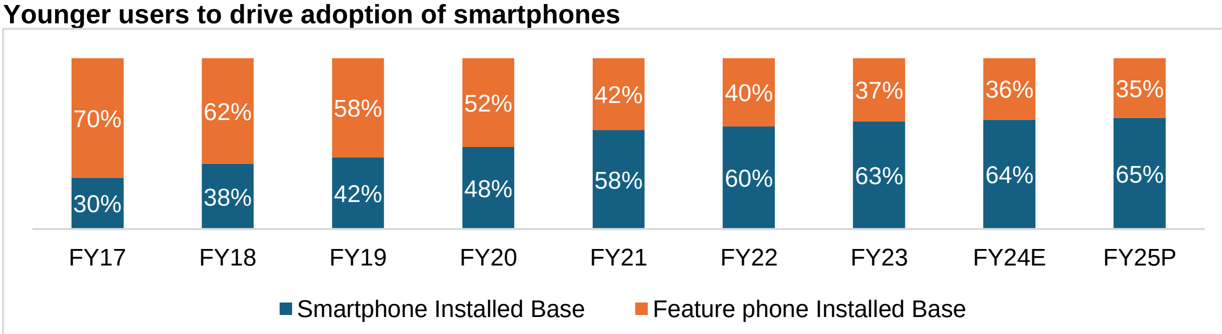


Note: percentage of population above 15 yrs having an account at bank or another type of financial institutions, Source: Global Findex; Crisil Intelligence

2.2 Digitization aided by technology to play pivotal role in growth of economy

Technology is expected to play an important role by progressively reducing the cost of reaching out to smaller markets. India has seen a tremendous rise in fintech adoption in the past few years. Among many initiatives by the government, the Unified Payments Interface (UPI) is playing a pivotal role towards financial inclusion. It provides a single-click digital interface across all systems for smartphones linked to bank accounts and facilitates easy transactions using a simple authentication method. The volume of digital transactions has also seen a surge in the past few years, driven by increased adoption of UPI. Apart from financial services industry, digitization in other industries like retail will also play an important role in the growth of economy.

Younger users to drive adoption of smartphones



Note: E: Estimated, P: Projected; Source: Crisil Intelligence

Rise in 4G and 5G penetration and smartphone usage

India had 1,151 million wireless subscribers at the end of FY25. The reach of mobile network, internet and electricity is continuously expanding the subscriber footprint to remote areas leading to rising smartphone and internet penetration in India. In FY23, 5G was launched which led to conversion of 25 million subscribers to 5G. This shift was facilitated by offering 5G services at the price of 4G data plans, coupled with a surge in data demand and the accessibility of affordable handsets. In FY26, Crisil Intelligence expects 5G subscribers to reach 314 million since data consumption will increase due to high usage on OTT platforms, in education services, banking services, healthcare, and the gaming industry.

All-India mobile and data subscriber base

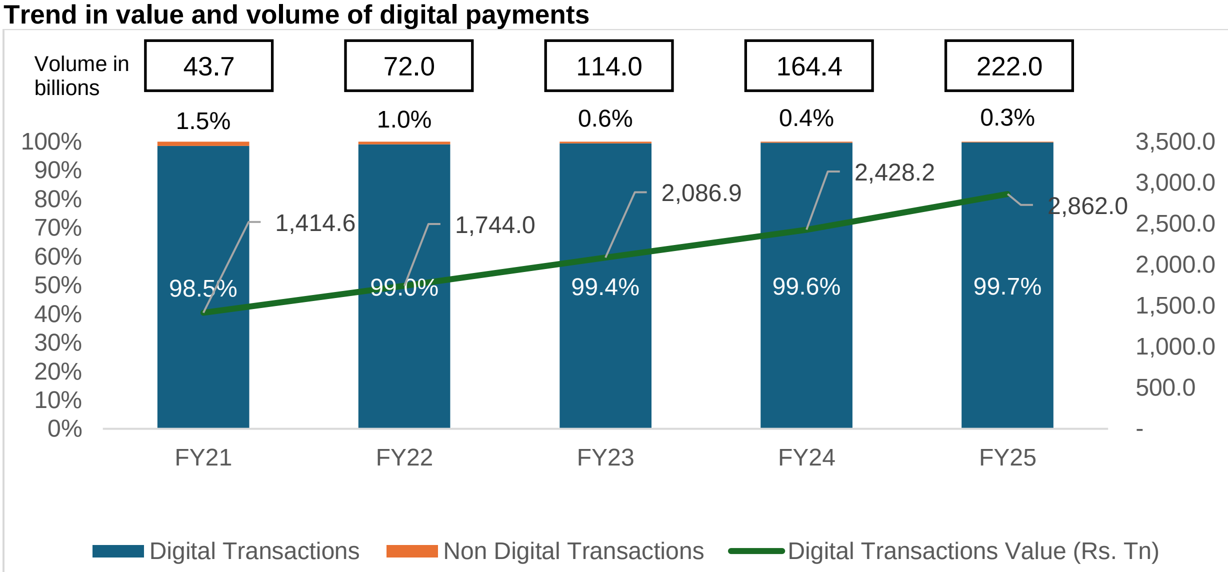
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26P	FY27P
Wireless subscribers (million)	1,170	1,183	1,162	1,157	1,181	1,142	1,144	1,165	1,151	1,162	1,174
Data subscribers (million)	401	473	615	720	799	814	883	956	942	982	1,035
Data subscribers as a proportion of wireless subscribers	34%	40%	53%	62%	68%	71%	77%	80%	82%	85%	88%
4G data subscribers (million)	131	287	478	635	719	734	786	710	665	630	580
4G data subscribers' proportion	33%	61%	78%	88%	90%	90%	89%	74%	~58%	~54%	~49%
5G data subscribers (million)	-	-	-	-	-	-	25	175	235	314	421

Note: P: Projected, Source: TRAI, Crisil Intelligence

Digital payments have witnessed substantial growth

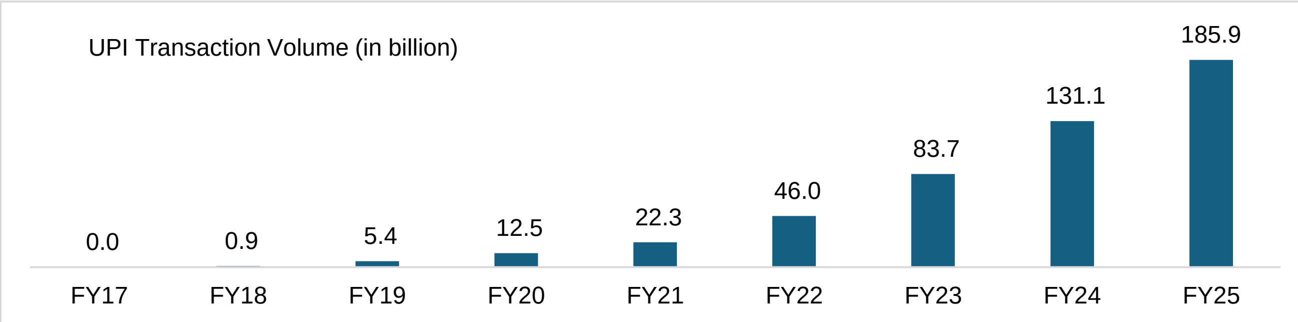
Higher mobile penetration, improved connectivity, and faster and cheaper data supported by Aadhaar, and bank account penetration have led India to shift from being a cash-dominated economy to a digital one. Total digital payments in India have witnessed significant growth over the past few years. Between FY21 and FY25, the volume of digital payments transactions increased from 43.7 billion to 222.0 billion, growing at a CAGR of ~50%. During the same period, the value of digital transactions has increased from Rs. 1,414.6 trillion in FY21 to Rs 2,862.0 trillion in FY25 at a CAGR of 19.3% between the same period. Consumers are increasingly finding transacting through mobile convenient. Crisil Intelligence expects the share of mobile banking to increase dramatically over the coming years. In addition, Crisil Intelligence expects improved data connectivity, low digital payment penetration and proactive government measures to drive digitalization in the country.

Trend in value and volume of digital payments



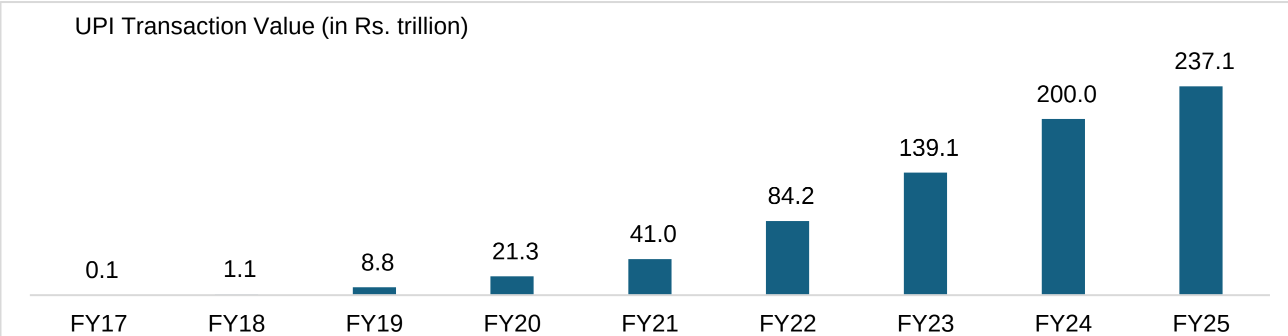
Note: Digital Payments includes RTGS payments, Credit transfers (AePS, APBS, ECS Cr, IMPS, NACH, NEFT, UPI), Debit Transfers (BHIM, ECS Dr, NACH Dr, NETC), Card Payments (Debit and Credit Cards) and Prepaid Payments Instruments; % basis total transactions volume Source: RBI, Crisil Intelligence

UPI transactions volumes zoomed between FY17 and FY25



Source: RBI, Crisil Intelligence

UPI transactions value continues to rise with surge in volumes



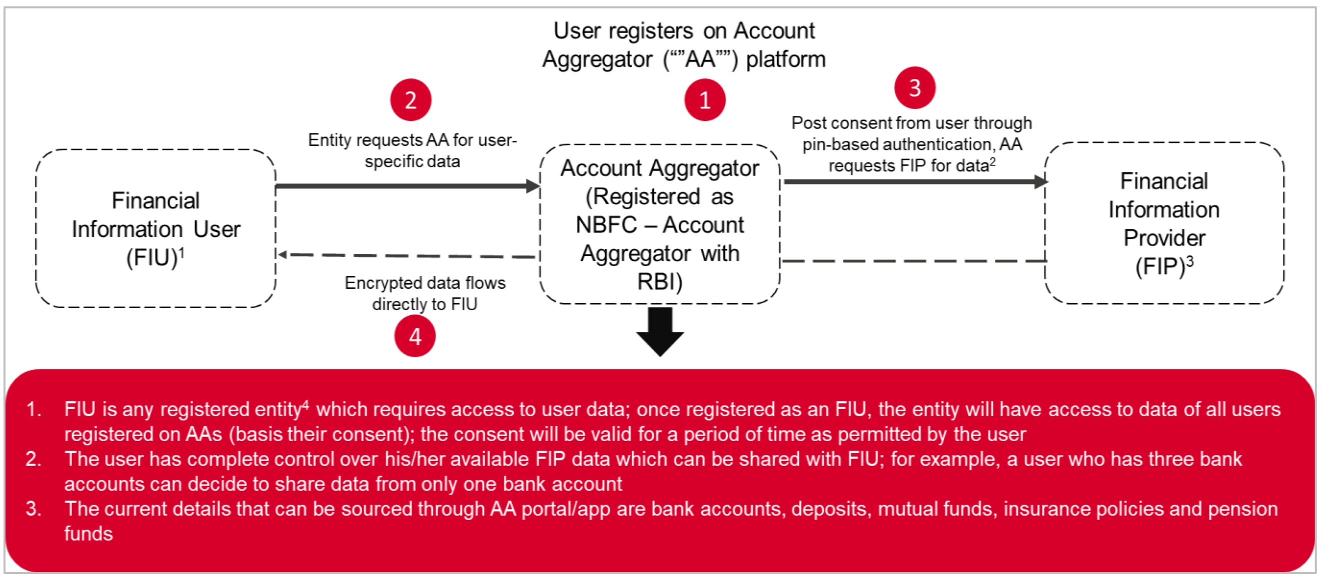
Source: RBI, NPCI, Crisil Intelligence

Digital Public infrastructure reforms by Government of India

- Digitization improves the transparency and efficiency of government processes, and widespread digital transformations help governments and institutions with policy implementation and broad policy outreach. The key idea for Digital Public Infrastructure (DPI) is not the complete digitization of narrow public services but the establishment of a building block of digital modularity, which can be used modularly by both government and private players to create the specific digital infrastructure required. The India Stack is a collective name for a set of open APIs and public goods in digital form like DigiLocker, UPI, e-sign and etc.
- **Open Credit Enablement Network (OCEN)**
  Open Credit Enablement Network (OCEN) was introduced as a step for promoting financial inclusion and democratization of credit in India. OCEN is set of open standards which facilitates interactions and collaborations among borrowers, lenders, lending service providers, and technology service providers. This will help various digital platforms in leveraging their position in delivery of credit and value addition in lending value chain. Moreover, OCEN will also promote innovation in distribution of credit, making loans accessible to MSMEs, small vendors and individuals, leading to financial inclusion.
- **Account Aggregators**

The RBI launched the account aggregator system on September 2, 2021, which has the potential to transform the retail as well as MSME finance space once there is widespread adoption amongst the lending community. These account aggregators would provide granular insights to lenders into customers' financial assets and their borrowing history centrally, based on customer consent. Inclusion of additional data such as electricity bill payments and mobile recharges/bill payment data under the purview of account aggregators would further enhance its utility.

Account aggregator flow



Source: Crisil Intelligence

Credit Through UPI

The RBI recently announced a proposal to broaden the United Payments Interface (UPI) scope by allowing transfer to and from pre-sanctioned credit lines with banks. Previously to this announcement, only amounts held in bank deposits could be transferred through the UPI, this will allow overdraft accounts, credit cards and prepaid wallets to be eligible for linking to UPI. As per the announcement, this step enables the inclusion of credit lines as a funding account. Recently, RBI in its monetary policy meet held in December 2024 announced that it has allowed even Small Finance Banks to offer the credit line on UPI. This move is expected to further enhance the financial inclusion and access to formal credit by new to credit customers.

TReDS Platform

The TReDS platform has facilitated a seamless connection between Micro, Small, and Medium Enterprises (MSMEs) and financial institutions, including banks, Non-Banking Financial Companies (NBFCs), and other financiers, enabling them to access financing at competitive interest rates. This platform ensures transparency and efficiency in the discounting process, thereby providing MSMEs with the opportunity to receive prompt payments against their outstanding invoices. As a result, MSMEs have experienced improved cash flows and a significant reduction in their working capital requirements, ultimately enhancing their overall financial stability and operational efficiency.

Digital Lending

Financial Institutions (FIs) have been innovating by incorporating digital technologies into the lending value chain, expanding their reach to underserved borrowers who lacked documentation, limited credit history, or faced geographical constraints. This has enabled FIs to cater to a broader range of customers, including MSMEs and individuals, by leveraging alternative data sources and digital channels.

Customer acquisition/Sourcing: Lenders are using big data analytics, social media campaigns, partner with various stakeholders such as e-commerce platforms, provide multilingual chatbots, mobile apps, etc. to generate leads, and acquire customers. This makes the application process convenient and quick and increases the success rate of customer onboarding.

Underwriting: Lenders are leveraging on alternative data points (direct and derived variables) to assess creditworthiness of borrowers. Usage of advanced algorithms to identify risk profiles and repayment ability of borrowers is leading to sanctioning of loans to underserved and new-to-credit customers within minutes.

Collection: Flexible repayments are being provided with initiatives such as e-NACH, UPI and other digital payment options which is making the collection process easier and improved collection efficiency.

With all these changes in the lending process, penetration of digital lending has been increasing in the past few years with lenders trying to provide all the services digitally to customers.

The lenders have been increasingly leveraging technological solutions and alternative data to source and underwrite customers digitally, majorly driven by:

Digital/technological changes:

- **E-commerce platforms (B2C and B2B):** Connecting buyers and sellers
- **Introduction of digital lending focused NBFCs**: Use of technology to provide lending digitally
- **Low-cost internet data availability:** Facilitating increase in internet penetration

Government led initiatives:

- **Introduction of UPI:** Simplified real-time digital payments
- **GST implementation:** Simplified business taxes, improved formalization of businesses
- **Aadhaar based e-KYC:** Reduced documents requirements, faster TAT, Aadhaar-PAN linkage facilitating lenders to verify information
- **ONDC:** Facilitated adoption of e-commerce through open protocol

RBI-led initiatives:

- **TReDS:** TReDS is an electronic platform for facilitating the financing/discounting of trade receivables of MSMEs through multiple financiers
- **Account aggregators**: Act as a common platform which enable sharing and consumption of data from various entities with user consent

Additionally, such technological changes have led to innovative, simple, and cost-effective processes.

Use of generative AI and new technologies increasing productivity

The integration of Generative AI (Gen AI) in the Banking, Financial Services, and Insurance (BFSI) sector is revolutionizing the way financial institutions interact with customers and conduct operations. By harnessing the power of advanced machine learning models and vast datasets, Gen AI generates content in multiple formats, including text, audio, images, and video, in response to user prompts. This technology is transforming the BFSI sector by enabling intelligent, conversational banking, streamlining customer interactions, and improving service quality while reducing costs and response times.

One of the key applications of Gen AI in BFSI is detecting fraudulent activities. By analyzing patterns in customer behavior and transaction data, Gen AI can quickly identify suspicious transactions and alert institutions to take proactive measures to prevent financial losses. Additionally, Gen AI plays a crucial role in risk analysis and synthetic data generation, providing valuable insights and supporting predictive modeling to inform decision-making. The use of synthetic data also allows institutions to simulate risk scenarios without compromising sensitive customer information.

While the current applications of Gen AI in BFSI are already showing significant benefits, they only scratch the surface of its potential to transform the sector. As the technology continues to evolve, it is expected to drive innovation, enhance compliance, and create more personalized, secure, and data-driven financial services, ultimately reshaping the future of the BFSI industry.

2.3 Key Drivers for Growth of Digital Lending in India

Efficiency in Catering to Credit Pan-India in Remote / Tier-2+ Regions via Digital Lending

Digital lending has transformed the way credit is accessed in remote and tier-2+ regions of India, bringing remarkable efficiency in meeting the credit requirements of underserved populations. Through digital channels, lenders can now reach borrowers in even the most remote areas, without requiring physical branches leading to reduced operational expenses. Digital lending platforms make use of sophisticated data analytics, artificial intelligence, and machine learning algorithms to evaluate creditworthiness, streamline loan processing, and swiftly disburse funds. This empowers lenders to provide customized loan products to borrowers in remote regions who were previously excluded from the formal credit sector. Additionally, digital lending platforms offer a smooth and user-friendly experience, enabling borrowers to apply for loans and monitor their applications remotely, thereby advancing financial inclusion and narrowing the credit disparity in India's remote and tier-2+ regions.

Higher ability to cross sell as 360-degree view in customer lifecycle

Digital lending, with its sophisticated data analytics and technology-driven approach, has a higher ability to cross-sell other financial products to its existing customer. This is made possible by the platform's capacity to maintain a comprehensive 360-degree view of the customer throughout their lifecycle This comprehensive view allows lenders to understand customer behavior, preferences, and financial needs more accurately, enabling them to identify cross-selling opportunities tailored to individual customers. With insights gained from this holistic view, lenders can offer relevant financial products or services at the right time, enhancing customer satisfaction and increasing the likelihood of successful cross-selling.

Phygital Network Key for Distribution + Underwriting

By combining the benefits of physical and digital channels, phygital networks enable lenders to reach a wider audience, increase operational efficiency, and reduce costs. Physical touchpoints, such as branches, provide a human interface for customers who require guidance and support, while digital channels facilitate seamless onboarding, loan processing, and disbursal. This hybrid approach allows lenders to leverage the strengths of each, ensuring a more efficient and effective distribution of loan products. Moreover, phygital networks enable lenders to gather richer data and insights, which can be used to refine underwriting models, improve risk assessment, and make more informed lending decisions.

Types of Different Digital / Hybrid Lending Models

Several lenders have adopted innovative digital lending models, some of which are outlined below:

Buy Now Pay Later is a short-term financing solution which enables customers to make purchases and pay for them later. It's being offered through virtual/Physical credit cards, and in embedded form. BNPL providers partner with merchants to offer financing options at the point of sale, enabling customers to buy products or services immediately and pay for them later.

Peer-to-Peer (P2P) Lending: In a P2P lending model, individuals can lend and borrow money directly, without the need for traditional financial intermediaries like banks. Online platforms connect borrowers with investors, who provide loans at competitive interest rates. P2P lending platforms handle loan servicing, credit checks, and risk assessment, making it easier for individuals to lend and borrow money. This model is popular for personal loans, small business loans, and education loans.

Revenue/Cash Flow-based Lending: This type of lending focuses on a business's revenue or cash flow as the primary criteria for loan approval. Digital lenders use advanced data analytics and machine learning algorithms to analyse a company's financial data, such as bank statements, invoices, and payment records, to assess its creditworthiness. Loans are then disbursed based on the business's revenue or cash flow projections, rather than traditional credit scores or collateral. This model is ideal for small businesses, startups, and entrepreneurs who may not have a strong credit history.

Invoice Discounting: Invoice discounting is a type of digital lending that allows businesses to receive immediate payment on outstanding invoices. In this model, a digital lender purchases a business's outstanding invoices at a discounted rate, providing immediate access to working capital. This model is popular among businesses with long payment cycles, such as those in the manufacturing, logistics, or construction industries.

POS-based Lending: POS (Point of Sale) based lending involves providing loans to merchants or small businesses at the point of sale, often through a digital platform or mobile app. This model is commonly used in the retail industry, where merchants can apply for loans to purchase inventory, equipment, or other business necessities. The loan is then repaid through a percentage of the merchant's daily sales, making it a convenient and flexible financing option.

Key Customer Types and Segments Catered to by Digital Lending Models

Digital lending models are designed to meet the financial needs of a wide range of customer demographics, including those who have been historically underserved or excluded from traditional banking systems. Among the primary target segments are MSMEs (Micro, Small, and Medium Enterprises) that have struggled to access formal credit avenues in the past. Digital lenders also focus on salaried individuals, self-employed professionals, and small business owners seeking fast and hassle-free credit solutions for purposes like operational expenses, business expansion, or personal financial requirements. Additionally, these models extend their services to rural and semi-urban communities where traditional banking services may be scarce. They also cater to gig economy workers, freelancers, and entrepreneurs who demand flexible loan options tailored to their specific business demands. Moreover, digital lenders reach out to individuals with limited credit histories or those rejected by conventional lenders, offering them a chance to establish and enhance their credit profiles. By addressing the diverse needs of these customer segments, digital lending models play a vital role in enhancing financial inclusivity, fostering economic development, and enhancing the overall well-being of countless individuals and enterprises.

The government has taken various steps to improve overall financial inclusion:

- **Direct-benefit transfer (DBT):** DBT has been instrumental in the acceleration of financial inclusion since it has helped eliminate human interface and leakages in the system, ensuring timely, accurate and quality services and fund transfers to the beneficiaries. This tool has helped in the disbursal of benefits to a wide population spread geographically through 312 government schemes, such as the Pradhan Mantri Matru Vandana Yojana (PMMVY) for women, Pradhan Mantri Ujjwala Yojana (PMUY), Krishi Unnati Yojana (KUY) or Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) for beneficiary bank accounts held by any gender.
- **Financial literacy programmes:** The government has launched various financial literacy programmes to educate people about the benefits of financial planning and management. These programmes aim to improve financial literacy among the marginalised sections of the society and empower them to make informed financial decisions. The government and financial institutions have launched various financial literacy programmes (National Centre for Financial Education, Swabhimaan, etc.) to improve financial literacy among the general public, especially in rural areas.
- **Kisan Credit Card (KCC):** The KCC scheme aims at providing adequate and timely credit support to farmers for their agricultural activities at various stages of farming. As a result of government's efforts, the number of operational KCC accounts increased to 7.75 crores with outstanding credit in these accounts inching up to Rs. 9.81 lakh crores in 2024.
- **National Pension Scheme (NPS):** Regulated by the Pension Fund Regulatory and Development Authority (PFRDA), NPS is mandatory for Central government employees and voluntary for corporates and all citizens (aged 18-65 years) with matching contributions by the employer. As on 31st May 2025, National Pension System Trust reported AUM of Rs. 14.7 trillion and subscriber base of 20.1 Million.
- **Priority-sector lending:** The PSL requirement mandates banks allocate a specified percentage of their lending portfolio to priority sectors, such as agriculture; micro, small and medium-sized enterprises (MSMEs); education; housing; and other weaker sections of the society. Lending to such priority sectors not only increases the credit access to underserved sectors but also lead to higher economic growth and promotes inclusive development. It also encourages banks to develop innovative products and services specifically for priority sectors. As of FY2024, bank credit to PSL stood at Rs 59.1 lakh crore, up from Rs 50.2 lakh crore from FY2023 (provisional amounts from the RBI's annual report).
- **Small Saving Schemes:** Sukanya Samridhi Yojana is a savings scheme designed by the government especially for girl children. Parents of a girl child can save for their education and marriage purposes through this investment scheme. The scheme was launched as a part of the Beti Bachao, Beti Padhao campaign. Mahila Samman Savings Certificate was launched as a part of Union Budget 2023-24 through which women of any age could open an account with a minimum deposit of Rs. 1,000 and maximum deposit of Rs. 2,00,000 provided with a facility of partial withdrawal. The interest rate for the accounts

was declared at 7.5% p.a. which will be compounded quarterly. Other small saving schemes available include Kisan Vikas Patra.

RBI released guidelines on digital lending vide its circular dated September 2, 2022, to ensure transparency & fair dealing, disclosure to borrowers about all credit offers in the market from loan aggregators to take priority

Lending Service Providers (LSPs) are agents of a Regulated Entity who carry out one or more of lender's functions or part thereof in customer acquisition, underwriting support, pricing support, servicing, monitoring, recovery of specific loan or loan portfolio on behalf of Regulated Entities (Res) in conformity with extant outsourcing guidelines issued by the Reserve Bank. RBI has proposed a regulatory framework with a focus on customer centricity through the promotion of transparency and has advised LSPs/REs to follow practices to ensure that borrowers have prior knowledge about the lenders. REs & LSPs are required to conform to guidelines concerning fair dealing on digital platforms.

- LSPs must ensure they provide borrowers with a digital view of all available loan offers including – name of the lender, loan amount, duration, annual percentage rate (APR), Key Fact Statement (KFS) and other key information
- The digital view must allow the borrower to compare different loan offers
- LSPs are required to maintain consistency in displaying loan offers; the content needs to be unbiased without favouring any lender in particular

LSPs also cannot use any deceptive practices or patterns, such as dark patterns that mislead the customer into choosing a particular product.

Implementation of data privacy law set to strengthen the financing sector

The Ministry of Electronics and Information Technology has released the Draft Digital Personal Data Protection Rules, 2025 (Draft Rules) to facilitate the implementation of the Digital Personal Data Protection Act, 2023 (DPDP Act). The draft Rules provide a comprehensive framework for implementation, covering key aspects such as the framework for notice to obtain consent from the Data Principal, Consent Manager registration and obligations, and State processing of personal data for subsidies, benefits, and services. Additionally, the Draft Rules address reasonable security safeguards, personal data breach notifications, and individual rights, including how to exercise them. Special provisions are also outlined for processing the data of children or individuals with disabilities.

The finance industry, having a long history of adhering to stringent privacy and data protection regulations set by regulatory bodies, is well-equipped to navigate the complexities of compliance. Risk management is a fundamental aspect of financial services firms, and the use of diverse customer-related data sources, including alternative data, is crucial for calculating risk associated with a particular individual. The personal data of data principals is leveraged to determine an entity's risk appetite, conduct overall risk assessment, identify potential impacts, and ensure adequate management of associated risks. The draft Digital Personal Data Protection rules requiring explicit customer consent for using data are set to define data governance practice within the financing sector. FIs are required to ensure that consent is obtained before processing or conducting any analytics on the personal data submitted by data principals. The Digital Personal Data Protection Act (DPDPA) 2023 has a strong focus on personal data protection, which will reshape IT and data safeguarding practices in the finance industry. Financial institutions hold significant amounts of personally identifiable and sensitive information, including financial data, making them attractive targets for cybercriminals. The DPDPA mandates strict compliance checks on data privacy and protection, requiring organizations to invest in advanced threat detection, strong encryption, and regular audits. Implementing these measures will help create an environment that safeguards customer data, prevents unauthorized access, and minimizes breach risks.

The Indian Fintech industry has been rapidly transforming the financial services landscape by partnering with regulated entities (RE) and leveraging customer data to deliver customized products at affordable prices, digitally. Under DPDPA 2023, Fintechs will be classified as data fiduciaries or data processors depending upon whether they are directly processing consumer data or are involved in any operations/ activities to be performed on the data on behalf of the data fiduciary and will have to comply with regulations set under DPDA Act. This will lead to a reset of the RE-Fintech partnership model, where REs will exercise increased oversight into data governance practices of Fintechs. Those Fintechs with superior data governance processes will be sought-after partners for REs and will thrive under the new data regime.

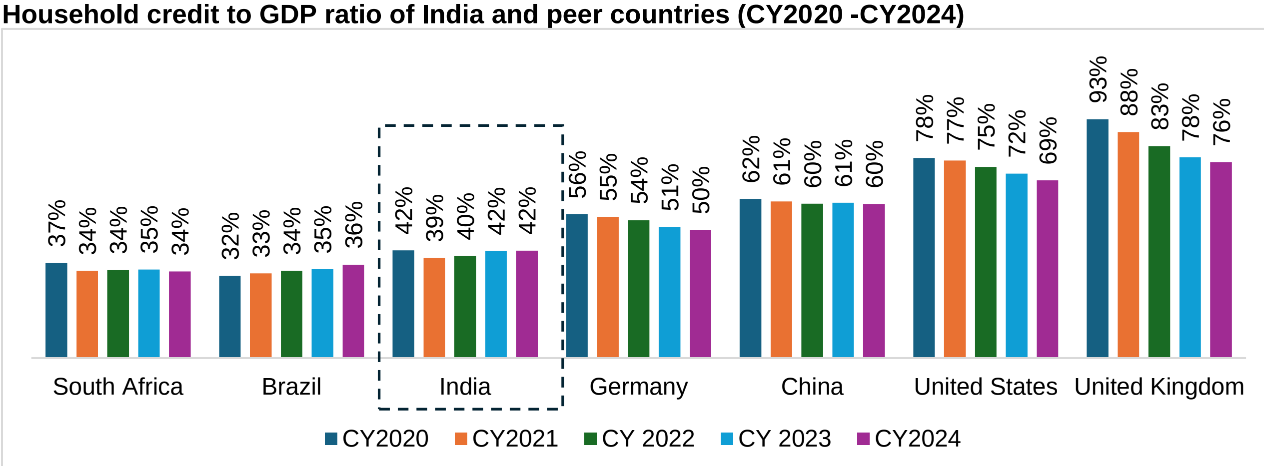
The DPDPA 2023 requires financial institutions to be more transparent about their data collection and processing practices, making them more accountable for the security of personal data. The Act also gives customers greater control over their personal data, enabling them to access, manage and restrict the processing of their data. While the Act will impose new compliance costs on financial institutions, requiring them to invest in technological infrastructure and processes to ensure compliance, it is a positive development for the financial sector in India. The implementation of the DPDPA 2023 will help protect the privacy of customers and build trust in the financial system. It will also create a more level playing field for financial institutions, promoting a culture of data protection and compliance resulting in a trustworthy environment for customers, driving growth and innovation in the sector.

3. Overview of Credit Scenario in India

3.1 Significant retail credit gap exists in India, as compared to other nations

Significant retail credit gap exists in India, as evident by India's household credit to GDP ratio of 42% as of CY2024, as compared to 60%, 69% and 76% for China, United States and United Kingdom respectively. With rising financial awareness, government's continuous efforts for financial inclusion and rising credit accessibility to the underserved population, credit penetration in India is expected to rise. The surge in credit penetration would be led by growth in retail credit.

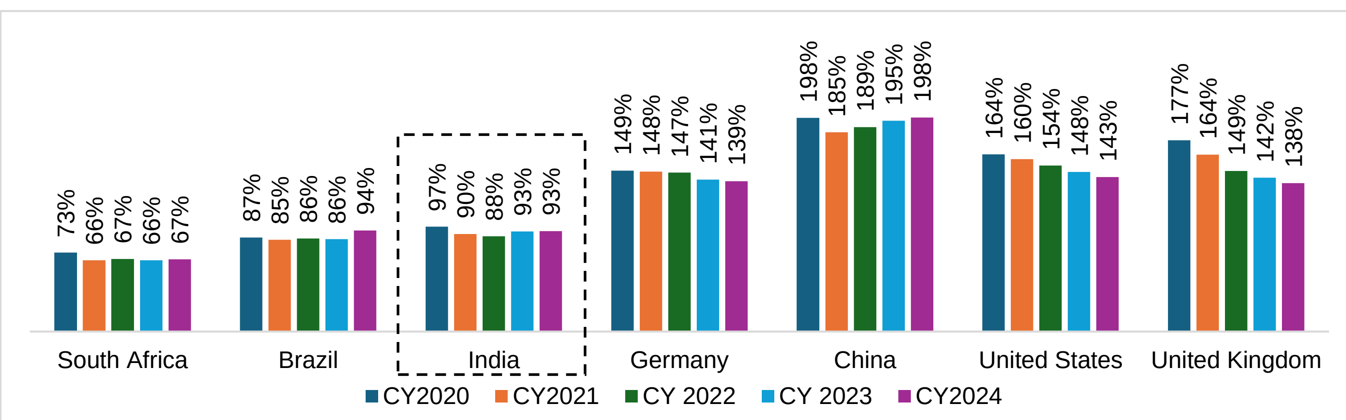
Household credit to GDP ratio of India and peer countries (CY2020 -CY2024)



Note: Ratios as of December each year. Source: Bank of International Settlements, Crisil Intelligence

Overall credit to GDP ratio in India stood at 93% as of CY2024, which was significantly lower as compared to 138% for United Kingdom, 143% for United States and 198% for China, signalling significant room for credit penetration in the nation.

Credit to GDP ratio from (CY2020 -CY2024)

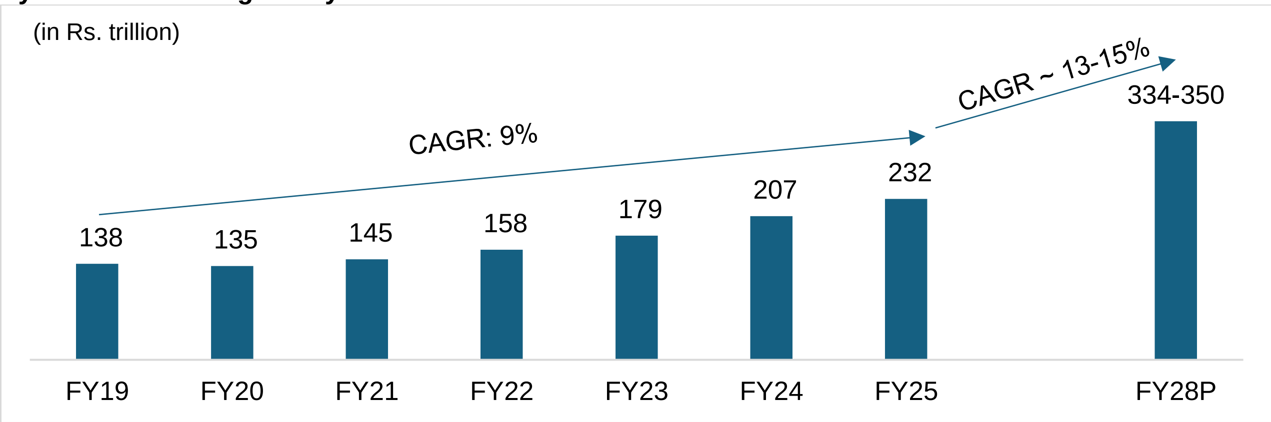


Note: Ratios as of December each year. Source: Bank of International Settlements, Crisil Intelligence

3.2 Overall Systemic credit

Corporate credit determines the growth in overall credit as it accounts for nearly two-third of systemic credit. Systemic credit in India grew at a 6-year CAGR of 9% over fiscals 2019 and 2025. Retail credit continues to lead the systemic credit growth in fiscal 2024, supported by the focused approach of banks and NBFCs in increasing the retail portfolio. Going ahead, Crisil Intelligence projects systemic credit to grow at 13%-15% CAGR between FY25 and FY28.

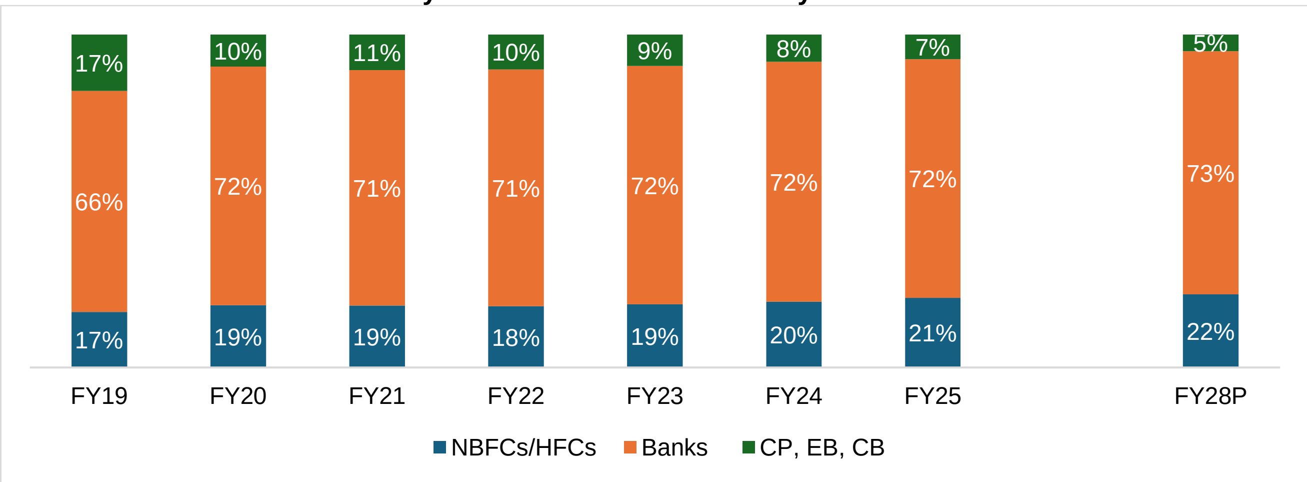
Systemic credit to grow by 13-15% between FY2025 and FY2028



Note: E: Estimated, P: Projected; systemic credit includes domestic banking credit (after deduction of bank lending to NBFC), NBFC credit, commercial papers, external borrowings, corporate bonds excluding those issued by banks and NBFCs; Source: RBI, company reports, Crisil Intelligence

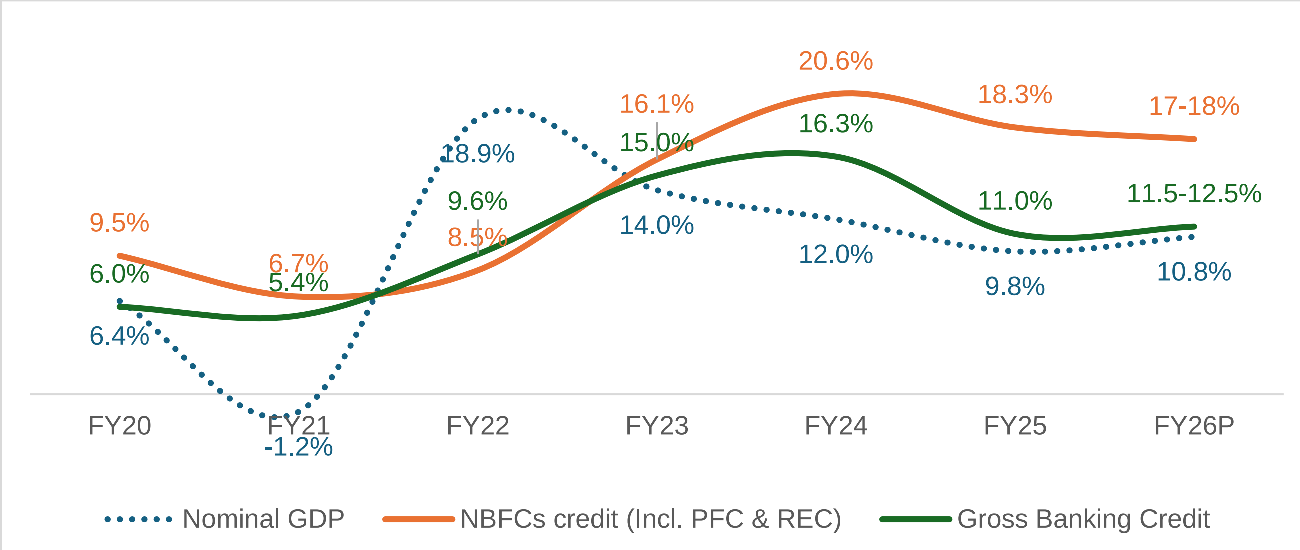
In terms of market share, as of FY25 NBFCs hold market share of ~21% whereas banks hold market share of ~72% and it is expected that NBFCs share in overall systemic credit to increase to 22% by FY28.

Share of NBFC Credit in overall Systemic credit to reach 22% by FY28P



Note: E: Estimated, P: Projected; Systemic credit includes domestic banking credit, NBFC credit, commercial papers, external borrowings, corporate bonds excluding those issued by Banks and NBFC; Source: RBI, Company Reports, Crisil Intelligence

Credit growth: Banks to trail NBFCs as deposit growth remains sluggish



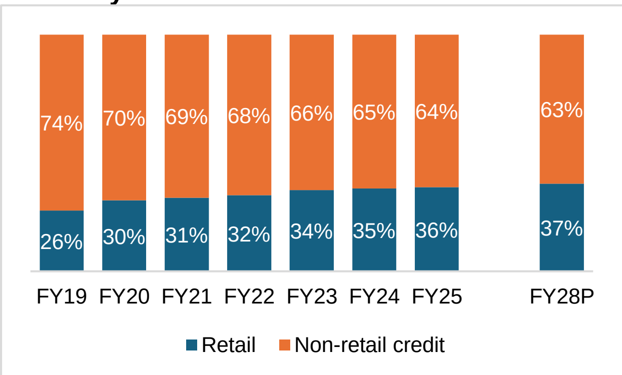
Note: P: Projected; 1. Past numbers are adjusted for estimated loans book of HDFC Ltd for retail housing and commercial real estate segment for normalised credit growth 2. Bank credit outstanding includes international and food credit for the coverage period; Source: RBI, National Housing Bank (NHB), Microfinance Institutions Network (MFIN), Company Reports, Crisil Intelligence

Over the past six fiscal years, banks have trailed NBFCs in terms of credit growth, except for fiscal 2022, when banks showed a steeper recovery post-pandemic disruptions, growing at 9.6% compared to NBFCs' 8.5% growth. This slower recovery for NBFCs was attributed to funding challenges due to higher gross NPAs. Despite this, NBFCs gained market share over banks, with a CAGR growth of ~13.9% between fiscal 2020-25, compared to banks' credit growth of ~11.4% during the same period.

Retail credit growth is projected to grow on a strong footing, expected to witness a CAGR of 14-16% between FY25 and FY28

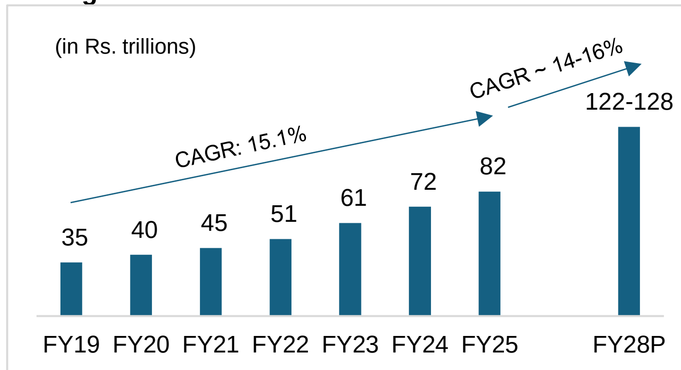
The retail credit including small ticket loans for asset classes such as Housing finance, Vehicle Financing, Gold Loans, Education Loans, Consumer Durables, Personal loans, credit cards and microfinance, in India stood at Rs. 82 trillion, as of FY25 which rapidly grew at a CAGR of 15.1% between FY19 and FY25. Retail credit grew at 14% in FY25 supported by steady demand in underlying assets like housing, auto and growth in credit card and personal loans growth driven by consumption. The Indian retail credit market has grown at a strong pace over the last few years and is expected to grow further at 14-16% between FY25 and FY28. Moreover, the increasing demand and positive sentiments in the Indian retail credit market, presents an opportunity for both banks and NBFCs to broaden their investor base

Retail segment is projected to account for 37% of overall systemic credit as of FY28



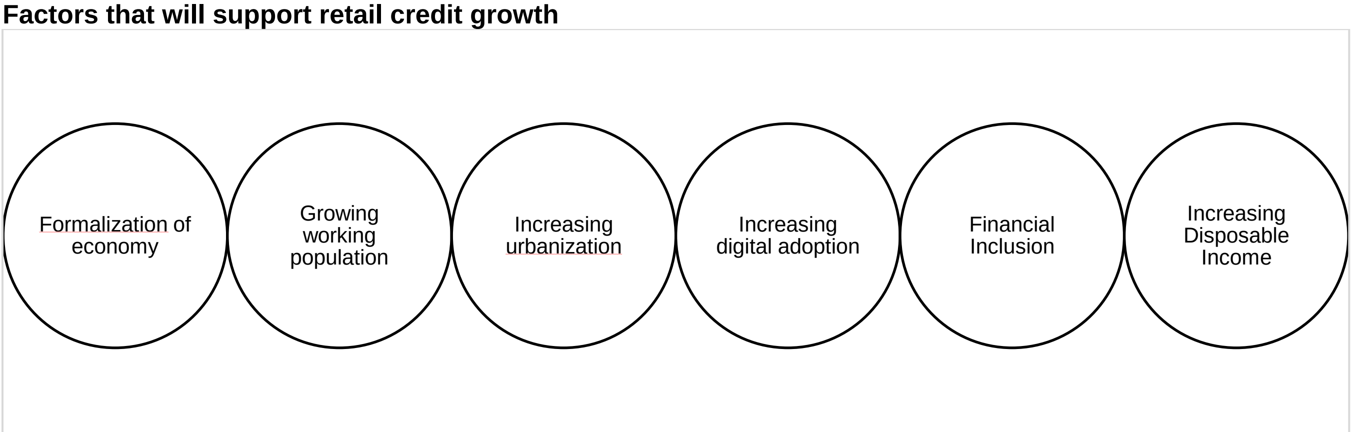
Note: E: Estimated, P: Projected. The above percentages are calculated on total systemic credit
Source: RBI, Crisil Intelligence

Retail credit growth is projected to grow on a strong footing from FY2025 to FY2028



Note: E: Estimated, P: Projected
Source: RBI, Crisil Intelligence

Factors that will support retail credit growth



Source: *Crisil Intelligence*

Impact of digitization on retail credit

Higher mobile penetration, improved connectivity, and faster and cheaper data, supported by Aadhaar and bank account penetration have led India to shift from being a cash-dominated economy to a digital one. Technology has played an important role in taking the financial sector to the next level of growth, by helping to surmount challenges stemming from India's vast geography, which makes physical footprints in smaller locations commercially unviable.

In the financial space, the underwriting process can be improved leveraging all available data efficiently. Lenders are increasingly using their web platforms and creating apps to register, score, approve and disburse loans to their customers. For lenders, digitization has enabled them to make informed decision making through business insight generation and data visualization. Moreover, it has improved lead generation for lenders with faster onboarding of customers, comprehensive loan servicing, and fraud detection. For customers, it has become easier to gather information about different lenders with the help of digitization and compare them.

Furthermore, the India Stack, a set of APIs and tools that enable the building of digital platforms for various services, has been a game-changer in the retail credit sector. The India Stack includes BBPS (Bharat Bill Payment System), AA (Account Aggregators), AePS (Aadhaar Enabled Payment System), Aadhaar (for identity verification), e-KYC (for paperless Know Your Customer processes), eSign (for digitally signing documents), and the Unified Payments Interface (UPI) for seamless and instant fund transfers. All of these components have been seamlessly integrated into the lending ecosystem; traditional lending players have also integrated these components in their loan processes which had made it easier for lenders to streamline their operations and offer a seamless experience to borrowers. Looking ahead, the digitization of retail credit in India is expected to continue evolving.

4. NBFC Credit Landscape in India

4.1 Classification of NBFCs

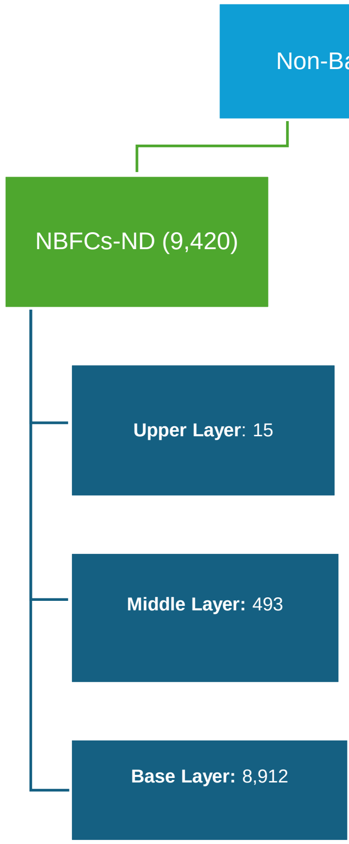
NBFCs are classified based on liabilities into two broad categories: a) deposit-taking; and b) non-deposit-taking. Further, in 2015, non-deposit-taking NBFCs with an asset size of Rs 5 billion and above were labelled as ‘systemically important non-deposit taking NBFCs’ (“NBFC–ND–SI”) and separate prudential regulations were made applicable to them.

Scale based approach for NBFCs

In January 2021, the RBI had proposed a tighter regulatory framework for NBFCs by creating a four-tier structure with a progressive increase in regulation intensity in a discussion paper titled ‘**Revised Regulatory Framework for NBFCs - A Scale-based Approach**’. Based on the inputs received, on October 22, 2021, the RBI put in place a revised regulatory framework for NBFCs, which became effective from October 1, 2022.

As per the RBI’s Scale-Based Regulation for NBFCs framework, the regulatory framework of NBFCs should be based on a four-layered structure depending on their size, activity, and perceived riskiness: base, middle, upper, and top layers.

Classification of NBFCs based on scale-based approach (as of 31st March 2024):



Note: Figures in brackets represent the number of entities registered with RBI as on March 2024.

Source: Report on trend and progress of Banking in India 2023-24, Crisil Intelligence

Net owned fund

The RBI has specified Rs. 100 million as net owned fund required for below mentioned categories of NBFCs to commence or carry on the business of non-banking financial institution from October 01, 2022. Provided that the mentioned NBFCs having net owned fund of less than hundred million rupees, shall achieve the NOF of Rs.100 million as per the following.

Net Owned Fund Requirement		
NBFCs	**By 31st March2025**	**By 31st March2027**
NBFC- Investment & Credit Company	Rs. 50 million	Rs. 100 million
NBFC-Micro Finance Institution (MFI)	Rs. 70 million	Rs. 100 million
NBFC-MFI in Northeastern region	Rs. 50 million	Rs. 100 million
NBFC-Factor	Rs. 70 million	Rs. 100 million

Source: RBI, Crisil Intelligence

RBI's Master Direction on Scale Based Regulation of NBFCs, 2023

The RBI published the Master Direction on Scale Based regulation (SBR) of NBFCs to bring an end to the basic categorization of systemically important and non-systemically important NBFCs, while the classification based on acceptance of public deposits and specialization continues to be in force. In addition, considering the systemic importance, the SBR Master Directions has enhanced the corporate governance in middle layer and upper layer NBFCs. For instance, NBFCs that are part of a common Group or are floated by a common set of promoters shall not be viewed on a standalone basis. The total assets of all the NBFCs in a Group shall be consolidated to determine the threshold for their classification in the Middle Layer.

RBI tightens provisioning norms on Standard assets for NBFC Upper Layer

On June 6, 2022, the RBI released a circular aligning provisioning for standard assets by NBFCs in the upper layer as per RBIs scale-based regulations with that prevalent with the banks, which was effective from October 1, 2022. (now part of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023). The impact of the norms is unlikely to be material as most large NBFCs already maintain Stage 1 and Stage 2 provisioning, which is comfortably higher than the required levels. The below table shows the provisioning that NBFC-ULs are required to maintain in respect of standard assets for the funded amount outstanding:

Provisioning norms for standard assets for NBFC-ULs

Category of Assets	Rate of Provision
Individual housing loans and Small and Micro Enterprises	0.25%
Housing loans extended at teaser rates	2.00%, which will decrease to 0.40% after 1 year from the date on which the rates are reset at higher rates (if account remains standard)
Advances to Commercial Real Estate – Residential Housing (CRE - RH) sector	0.75%
Advances to Commercial Real Estate (other than CRE -RH) sector	1.00%
Restructured Advances	As stipulated in the applicable prudential norms for restructuring of advances
All other loans and advances not included above, including loans to Medium Enterprises	0.40%

Note: NBFC-UL includes non-banking financial companies and housing finance companies; Source: RBI, Crisil Intelligence

4.2 Activity-based classification

As per the RBI circular dated February 22, 2019 on "Harmonisation of different categories of NBFCs", the RBI has merged the three categories of NBFCs viz. asset finance companies (AFC), loan companies (LCs) and investment companies (ICs) into a new category called NBFC - Investment and Credit Company (NBFC-ICC):

- Investment and credit company – (NBFC-ICC): ICC): An NBFC-ICC means any company which is a financial institution carrying on as its principal business – asset finance, the providing of finance whether by making loans or advances or otherwise for any activity other than its own and the acquisition of securities; and is not any other category of NBFCs as defined by the Reserve Bank in any of its Master Directions.

The other types of NBFCs are mentioned below:

- Infrastructure finance company (IFC): An NBFC-IFC means a non-deposit taking NBFC which has a minimum of 75 percent of its total assets deployed towards infrastructure lending.

- Core investment Company (CIC): A CIC means a core investment company having total assets of not less than Rs. 100 crore either individually or in aggregate along with other CICs in the Group and which raises or holds public funds.
  Further, CIC is an NBFC that satisfies the following conditions:
    - Holds not less than 90% of its total assets in the form of investments in equity shares, preference shares, bonds, debentures, debt, or loans in group companies.
    - Investments in equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies and units of Infrastructure Investment Trusts (InvITs) only as sponsor constitute not less than 60% of its net assets.
    - Provided that the exposure of such CICs towards InvITs shall be limited to their holdings as sponsors and shall not, at any point in time, exceed the minimum holding of units and tenor prescribed in this regard by SEBI (Infrastructure Investment Trusts) Regulations, 2014, as amended from time to time. It does not trade in its investments in shares, bonds, debentures, debt, or loans in group companies except through block sales for dilution or disinvestment
    - Does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the RBI Act, 1934, except investments in bank deposits; money-market instruments, including money market mutual funds that make investments in debt/money market instruments with a maturity of up to 1 year; government securities; bonds or debentures issued by group companies; granting of loans to group companies and issuing guarantees on behalf of group companies.

- Infrastructure debt fund (IDF-NBFC): means a non-deposit taking NBFC which is permitted to
  (i) refinance post commencement operations date (COD) infrastructure projects that have completed at least one year of satisfactory commercial operations; and
  (ii) finance toll operate transfer (TOT) projects as the direct lender

- Micro-finance institution (NBFC-MFI): An NBFC-MFI is a non-deposit-taking NBFC with not less than 75% of its assets in qualifying assets, which satisfy the following criteria:

- The NBFC-MFI can disburse loans to borrowers with a household annual income not exceeding Rs 3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.
- The outflows capped at 50 per cent of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.
- Loan to be extended without collateral i.e., the loan shall not be linked with a lien on the deposit account of the borrower.

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

- Mortgage guarantee companies (MGC): A MGC means a company registered with the Bank as mortgage guarantee company which primarily transacts the business of providing mortgage guarantee;
  In addition to the above, at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business (which includes the income derived from reinvesting the income generated from mortgage guarantee business). A MGC should have minimum net owned fund of Rs.100 crore at the time of commencement of business, which shall be reviewed for enhancement after 3 years.

- Account Aggregators (NBFC-AA): Account Aggregator (AA) is a Non-Bank Finance Company (NBFC) engaged in the business of providing the service of retrieving or collecting financial information pertaining to the customer and consolidating, organizing and presenting such information to the customer or any other financial information user as may be specified by RBI. No financial information of the customer is retrieved, shared or transferred by AA framework without the explicit consent of the customer. AA transfers data from one financial institution to another based on an individual's instruction and consent.

- NBFC Peer to Peer (P2P) Lending Platforms: A non-banking institution which provides the services of loan facilitation via online medium or otherwise, to a person who has entered into an arrangement with an NBFC-P2P. Every company seeking registration with the RBI as NBFC P2P shall have a net owned fund of not less than rupees two crore or such higher amount as the RBI may specify. NBFC P2P shall always remain in the base layer of the regulatory structure.

- HFC: It is an NBFC whose financial assets, in the business of providing finance for housing, constitute at least 60% of its total assets (netted off by intangible assets). Out of the total assets (netted off by intangible assets), not less than 50% should be by way of housing financing for individuals.

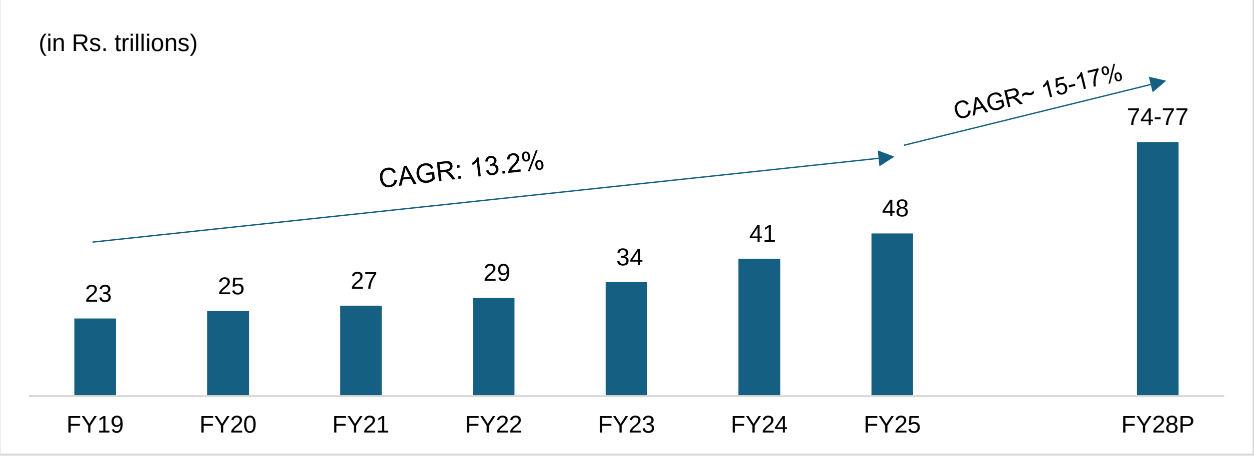
- Non-operative financial holding company (NOFHC):
  - Eligible Promoters: Entities / groups in the private sector, entities in public sector and NBFCs shall be eligible to set up a bank through a wholly-owned NOFHC.
  - Corporate structure of the NOFHC: The NOFHC shall be wholly owned by the Promoter / Promoter Group and shall hold the bank as well as all the other financial services entities of the group.

The Indian financial system includes banks and NBFCs. Though the banking system dominates financial services, NBFCs have grown in importance by carving a niche for themselves by catering to customers in various regions and segments.

4.3 NBFC Credit to grow faster than systemic credit

The credit growth of NBFCs which has trended above India's GDP growth historically, is expected to continue to rise at a faster pace. NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, growing from less than Rs 2 trillion AUM at the turn of the century to Rs. 48 trillion at the end of FY25. During FY19 to FY25, NBFC credit is estimated to have witnessed a growth at CAGR of 13.2%. NBFCs AUM as of FY19 was approximately Rs. 23 trillion which has grown at a 6 year CAGR of 13.2% to Rs. 48 trillion as of FY25. Rapid revival in the economy is expected to drive consumer demand in FY26, leading to healthy growth in NBFCs.

NBFC credit to grow at 15-17% between FY25 and FY28



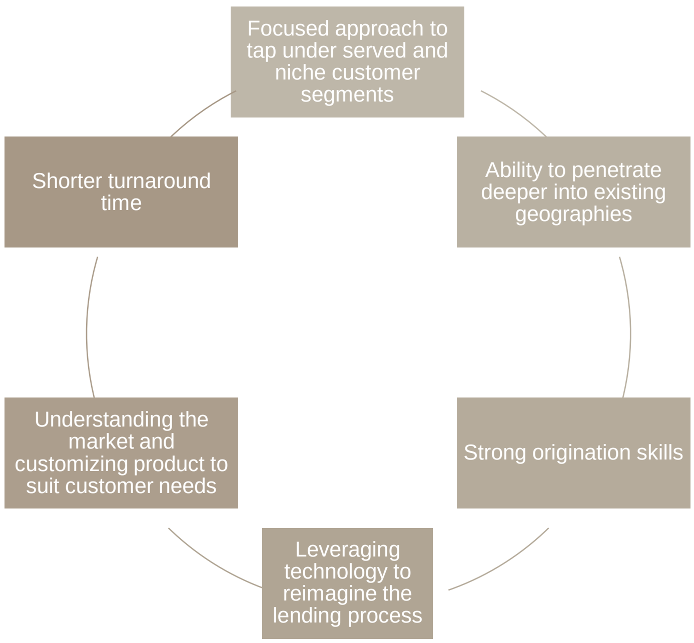
Note: P = Projected, E: Estimated; HDFC is not considered while calculating overall NBFC Credit, Source: RBI, Company reports, Crisil Intelligence

Going forward, Crisil Intelligence expects NBFC credit to grow at 15-17% between FY25 and FY28 driven by growth across retail, MSME and corporate segments continuing to be the primary drivers.

NBFC's share in systemic credit is estimated to have increased from 12% in FY08 to 13% in FY14 to 21% in FY25. Overall, consolidation in certain corporate groups and other corporate activities indicate buoyancy in the NBFC space and expectations of healthy credit growth.

Crisil Intelligence believes that NBFCs will remain a force to reckon within the Indian credit landscape, given their inherent strength of providing last-mile funding and catering to customer segments that are less in focus by the Banks. Going forward, NBFCs are expected to continue to gain market share over other lenders due to their ability to provide flexible lending solutions and tailored services, focused approach to tap under-served and niche customer segments, ability to penetrate deeper into geographies, leveraging technology to reimagine the lending process, strong origination skills and shorter turnaround time.

Growth of NBFCs reflects the customer value proposition offered by them



Source: Crisil Intelligence

With high focus on retail loans, NBFCs are driving financial inclusion

While banks are the primary institutions for banking in India, retail loan portfolio forms only 36% of the overall banking credit as of FY25. Other focus areas for banks are wholesale lending to large corporates, credit to services sector and agriculture sector. Lower presence of banks in the retail space has created an opportunity for NBFCs to penetrate the segment which has also led to greater financial inclusion as NBFCs also cater to riskier customer profiles with lower income. Compared to that of banks, NBFC credit to retail segment forms 47% of its portfolio as of FY25 indicating larger focus on retail customers. Rural areas, presents vast market opportunity for NBFCs. NBFCs have played a major role in meeting this need, complementing banks and other financial institutions. NBFCs help fill gaps in the availability of financial services with respect to products as well as customer and geographic segments. A strong linkage at the grassroots level makes them a critical cog in the financial machine. They cater to the unbanked and underbanked masses in rural and semi-urban India and lend to the informal sector and people without credit histories, thereby enabling the government and regulators to realize the mission of financial inclusion.

The NBFC sector has, over the years, evolved considerably in terms of size, operations, technological sophistication, and entry into newer areas of financial services and products. The number of NBFCs as well as the size of the sector have grown significantly, with several players with heterogeneous business models starting operations. The increasing penetration of neo-banking, digital authentication, and mobile phone usage as well as mobile internet has resulted in the modularization of financial services, particularly credit. Overall NBFC credit during FY19 to FY25, is estimated to have witnessed a CAGR of ~13.2% which was majorly led by retail segment which is estimated to have witnessed a CAGR of ~15.4%, while NBFC non-retail credit is estimated to have witnessed a growth of ~11.5% during the same time period.

MSME, Housing and Auto Financing contributed ~51% to overall NBFC credit in Fiscal 2025

In fiscal 2025, the credit growth of NBFCs is estimated to have slowed to 18%, compared to 21% recorded in previous fiscal, mainly due to slowdown in unsecured loans, including microfinance, personal loans and consumer durables. The slowdown in unsecured loans can be attributed to its rapid expansion over the past few fiscals and overleveraging concerns which can impact asset quality. RBI intervened in November 2023 to slow down unsecured retail loan growth by tightening capital norms.

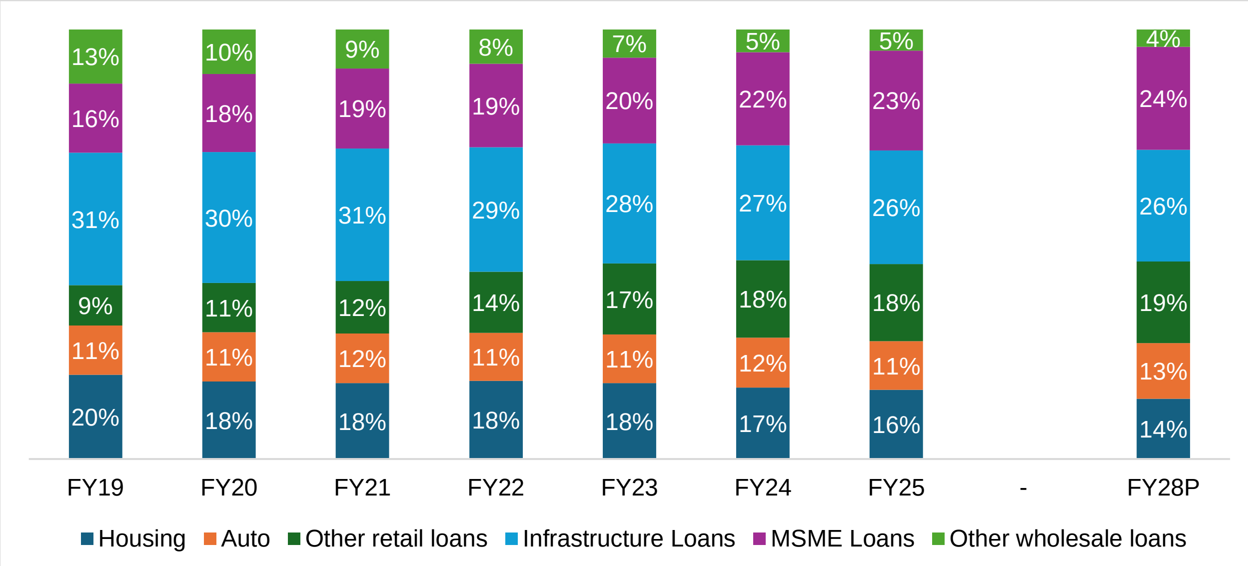
Though infrastructure accounts for the highest share in NBFC credit (26%) as of FY2025, its share in the overall NBFC credit outstanding has come down over the past years from 31% in FY2019. Retail and MSME segments are expected to experience higher growth in the upcoming fiscals. MSME credit accounted for 23% share as of FY2025, witnessing a rise in its market share from 16% in FY2019. Housing and auto segment constitute ~16% and ~11% share in overall NBFC credit as of FY2025.

In fiscal 2025, the retail segment's share in the lending mix is estimated to decline marginally, while the wholesale segment's share is expected to increase. This trend is likely to continue into fiscal 2026, with the share of both segments remaining steady.

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

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

Distribution of NBFC Credit across asset classes



Note: Other retail loans include gold loans, microfinance loans, personal loans, consumer durable loans, education loans, Other wholesale loans include wholesale loan and construction equipment loan;
Source: Company reports, Crisil Intelligence

Growth of asset classes

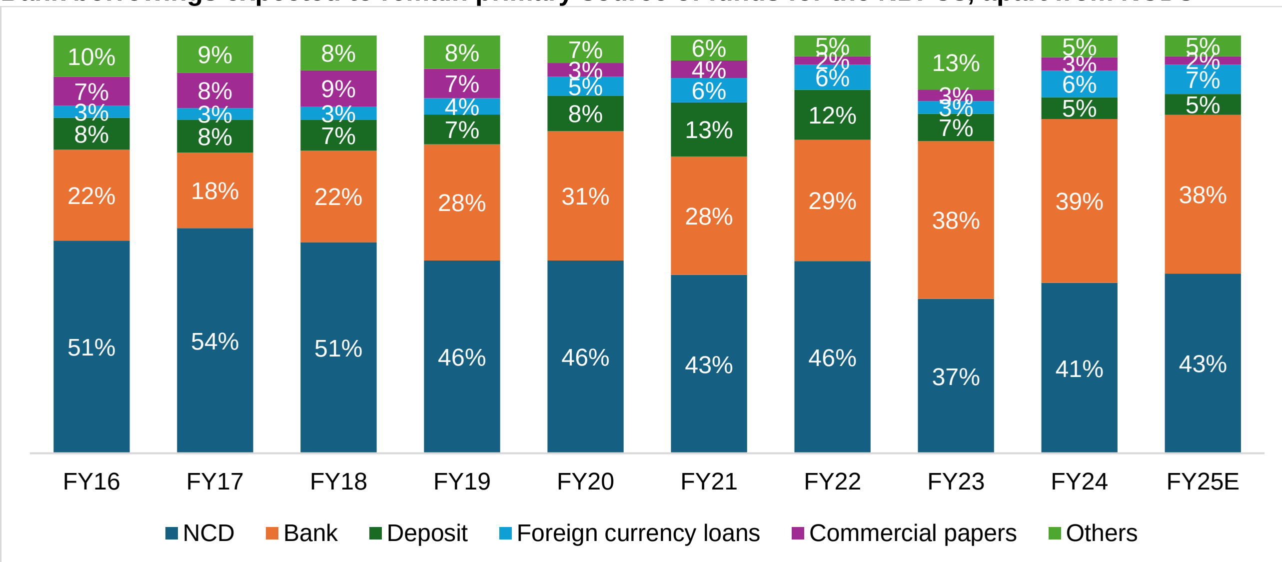
Asset class (Rs trillion)	FY25 portfolio outstanding (Rs. trillion)	Share of NBFCs/HFCs/ NBFC-MFIs as of FY25	Overall portfolio CAGR (FY20-FY25)	NBFCs/HFCs portfolio CAGR (FY20-FY25)
MSME Loans	42.3	27.0%	18.2%	19.6%
Housing loans	40.6	21.5%	13.7%	32.7%
LAP	14.4	40.5%	16.3%	19.7%
Two-wheeler	1.6	68.5%	17.5%	17.9%
Used Car	1.1	40.8%	22.2%	40.7%
Commercial Vehicle	6.0	58.7%	13.9%	12.0%
Personal loans	14.6	24.4%	21.3%	30.1%
Microfinance loans	3.8	50.7%	9.6%	13.5%
Education loans	2.2	28.2%	18.2%	46.8%

Note: MSME loans as per Crisil Estimates, Source: CRIF Highmark and Crisil Intelligence

Banks exposure to NBFCs to gain momentum in medium term post reversal of risk weights

Share of bank's lending to NBFCs have almost doubled during last 10 years. Going forward, Crisil Intelligence believes that funding access would gradually improve for NBFCs who are able to demonstrate strong performance. Reliance on bank funding is estimated to remain at 38% as of FY2025. Crisil Intelligence expects the bank exposure to NBFCs to gain momentum in medium term as RBI has restored the risk weights on bank loans to NBFCs to 100% from 125%, effective from April 1, 2025.

Bank borrowings expected to remain primary source of funds for the NBFCs, apart from NCDs

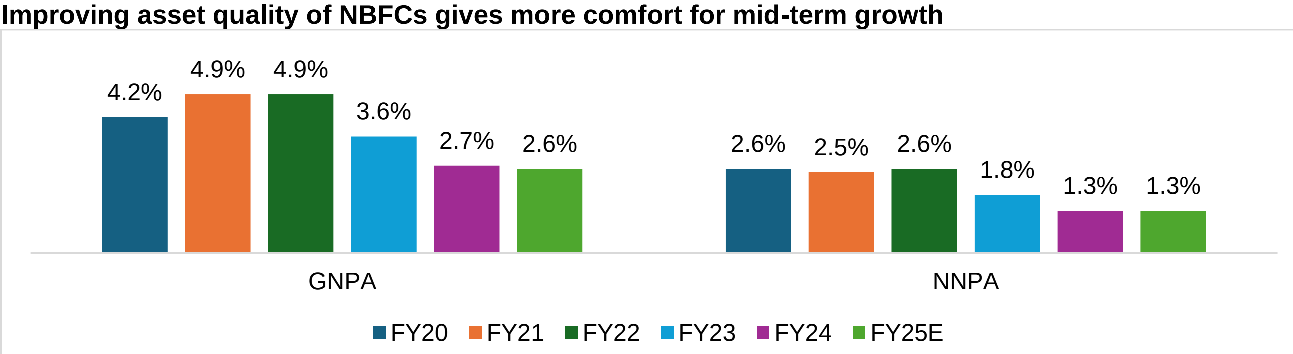


Note: E: Estimated, Based on sample set of NBFCs accounting for more than 80% of overall borrowings of NBFCs as of March 2025; NCD includes Debt Securities and NCDs, Bank includes Banks and National Housing Bank, and Others include Related Parties, Foreign Institutions, External Commercial Borrowings, and other sources
Source: Company reports, Crisil Intelligence

Asset Quality

Asset quality for NBFCs is influenced by various factors such as economic cycle, target customer segment, geographical exposure, and local events. Within the NBFC universe itself, it is observed that various asset classes tend to exhibit heterogeneous behaviour. For example, the asset quality in small business loans and personal loans tends to be highly correlated with the macroeconomic environment. This is because asset quality is more influenced by domestic factors, events that have wide ranging repercussions such as demonetisation and COVID-19 and relative leverage levels amongst borrowers.

Improving asset quality of NBFCs gives more comfort for mid-term growth



Note: For calculating GNPA and NNPA, 100 NBFCs are considered that collectively account for loans and advances of Rs 23,000 billion as on March 31, 2024, The above set excludes PFC and REC Limited. Source: RBI, Crisil Intelligence

Asset quality metrics improved in FY2023 for two reasons. Firstly, the RBI decision to defer the implementation of the NPA upgradation norm until September 30, 2022, as announced in its circular dated February 15, 2022, provided a crucial breathing space for NBFCs. This circular, which built upon the earlier guidelines issued on November 12, 2021, regarding prudential norms for income recognition, asset classification, and provisioning, had introduced stricter criteria for upgrading loan accounts from NPAs to standard assets. The deferment allowed NBFCs a reasonable transition time to recalibrate processes, revamp their collection infrastructure and teams, and persuade borrowers to align with the new dispensation. Second is the improvement in macro-economic activity, which acted as a tailwind.

Asset Quality for NBFCs improved in FY2024 on account of normalisation of economic activity and improved collection efficiency across segments with the gold segment being an exception. The asset quality of NBFCs continued the improvement trend till March 2024. In FY2025, asset quality improved for all retail segments except for microfinance where overleveraging of underlying borrowers was the key reason for deterioration. Housing, personal loans, vehicle and gold loans recorded improvement in asset quality supported by resilient underlying customer base from the impact of high interest rates as well as tightened monitoring and collection efforts by NBFCs.

Credit cost for NBFCs

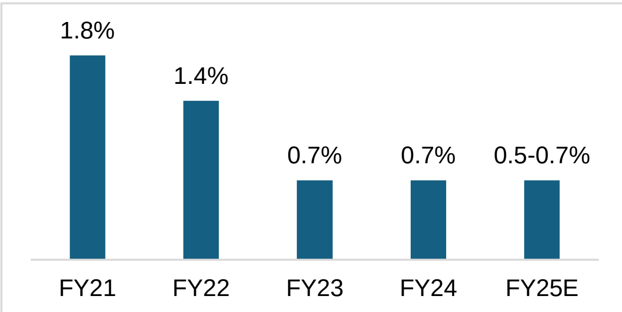
Overall yield for the retail segments increased in FY2023 due to the interest rates hikes. However, the amount of pass-on has been distinct across all segments on account of level of competition, nature of asset class and segmental credit demand. Accordingly, a stable or modest increase in RoA was seen across all segments in FY2024.

In FY2023, decline in credit costs due to improved collections and lower slippages supported improvement in profitability aided by higher yields. The MFI segment, which typically has more pricing power, was able to improve its NIM. Similarly, the housing segment also improved its NIM owing to the floating nature of its loan book where it was able to pass on the increase in rates to its customers faster.

In FY2024 and FY2025, credit cost moderately declined on account of improved collections and lower asset quality stress translating to moderate increase in RoA.

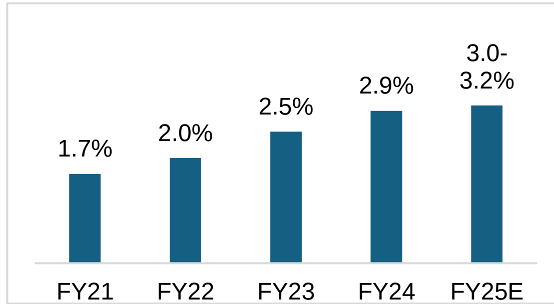
Profitability ratios of NBFCs

Credit costs for NBFCs



Note: Credit Costs calculated on average total assets
Source: Crisil Intelligence

Profitability (RoA) moderately increased in FY2025 for NBFCs



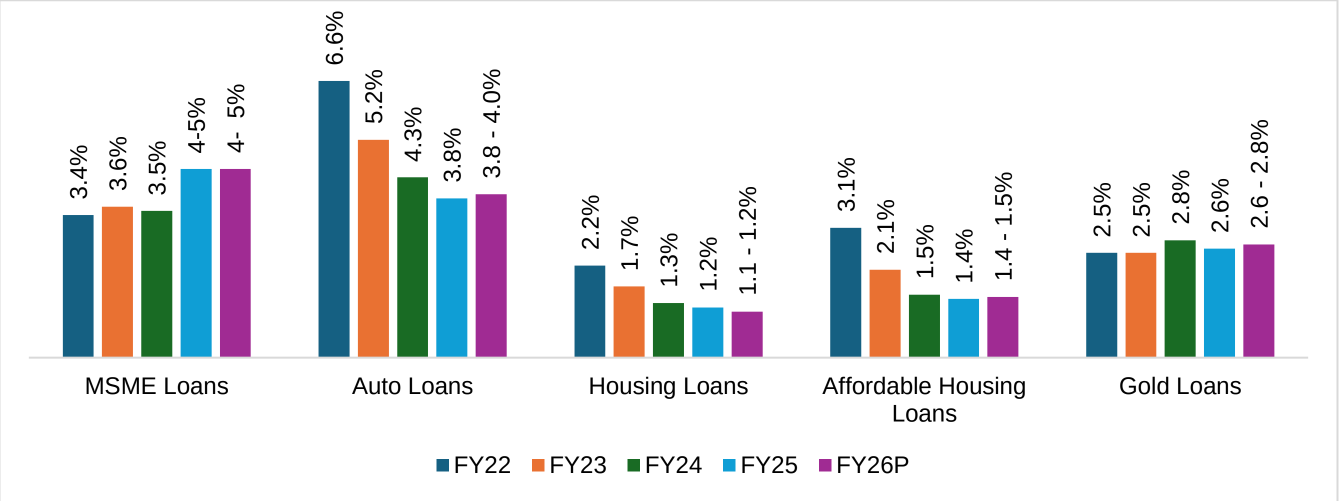
Note: Return on assets calculated on average total assets
Source: Crisil Intelligence

ROA Tree for NBFCs across asset classes

Asset Class	Financial Metric	FY22	FY23	FY24	FY25E	FY26P
MSME Loans	Interest income	14.5%	15.5%	16.0%	16.1%	~15-16%
	Interest expense	5.6%	5.7%	6.3%	6.0%	~5-6%
	Credit Cost	1.2%	1.3%	1.7%	1.5%	~1.7-2.1%
	ROA	3.3%	3.7%	3.5%	3.4%	~3.4-3.6%
Auto Loans	Interest income	11.9%	12.2%	12.6%	12.7%	~12.5-12.6%
	Interest expense	5.8%	5.7%	6.4%	6.6%	~6.3-6.4%
	Credit Cost	1.8%	1.1%	1.9%	1.9%	~1.8-1.9%
	ROA	1.9%	2.6%	2.5%	2.5%	~2.6-2.7%
Housing Loans	Interest income	8.6%	9.1%	10.0%	9.8-9.9%	~9.6-9.7%
	Interest expense	5.6%	5.8%	6.3%	6.3-6.4%	~6.2-6.3%
	Credit Cost	0.7%	0.6%	0.5%	0.1-0.2%	~0.2-0.3%
	ROA	1.5%	1.8%	2.3%	2.2-2.3%	~2.0-2.1%
Gold Loans	Interest income	16.4%	14.9%	16.1%	16.4%	~16.1-16.2%
	Interest expense	5.6%	5.2%	5.9%	6.3%	~6.2-6.3%
	Credit Cost	0.2%	0.1%	0.2%	0.7%	~0.5-0.6%
	ROA	5.6%	4.7%	5.2%	5.0%	~4.8-5.0%
Education Loans	Interest income	10.2%	10.6%	10.9%	10.4%	~9.9-10.0%
	Interest expense	5.7%	6.6%	7.2%	6.9%	~6.7-6.8%
	Credit Cost	0.2%	0.2%	0.2%	0.2%	~0.3-0.4%
	ROA	2.2%	2.2%	2.4%	2.5%	~2.1-2.2%
Microfinance	Interest income	15.8%	17.3%	18.8%	18.2-18.4%	~17.8-18.0%
	Interest expense	7.1%	7.2%	7.4%	7.4-7.6%	~7-7.2%
	Credit Cost	2.9%	2.4%	2.4%	8.4-8.6%	~3.4-3.6%
	ROA	1.2%	2.9%	4.6%	-1.0%	~1.9%

Note The ratios are calculated on total average assets. Source: Company Documents, Crisil Intelligence

GNPAs for NBFCs across asset classes

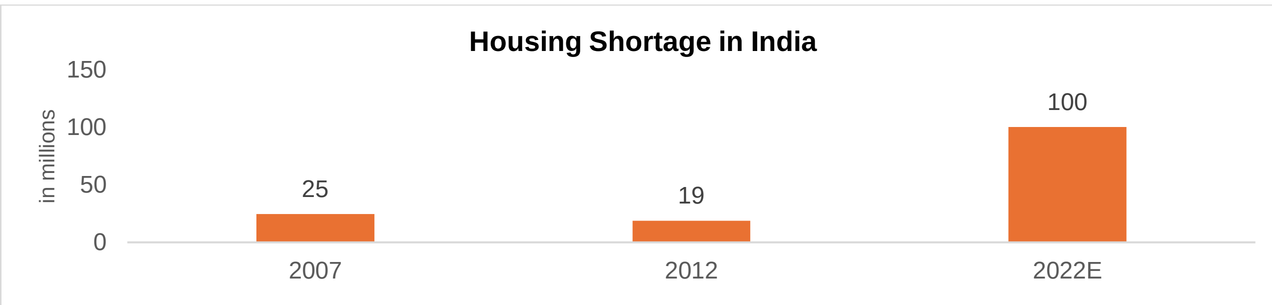


Note: As per Crisil estimates for NBFCs. Auto Loan portfolio includes CVs, PVs, two-and-three-wheelers and tractor loan portfolio.
Source: Crisil Intelligence, Company Documents, Note: Ratios on average total assets

5. Home Loans Market of India

Estimated shortage and requirement of ~100 million houses in 2022

The housing shortage in India has only increased since the estimates at the time of the Twelfth Five-year plan. As per the report of RBI-appointed Committee on the Development of home loans securitisation market (September 2019), the housing shortage in India was estimated to increase to 100 million units by 2022. Majority of the household shortage is for Lower income group (LIG) and Economic weaker section (EWS) with a small proportion (5-7%) of the shortage coming from middle income group or above. Total incremental housing loans demand, if this entire shortage is to be addressed, is estimated to be in the region of Rs 50 trillion to Rs 60 trillion, as per the Committee report, indicating the immense latent potential of the market.

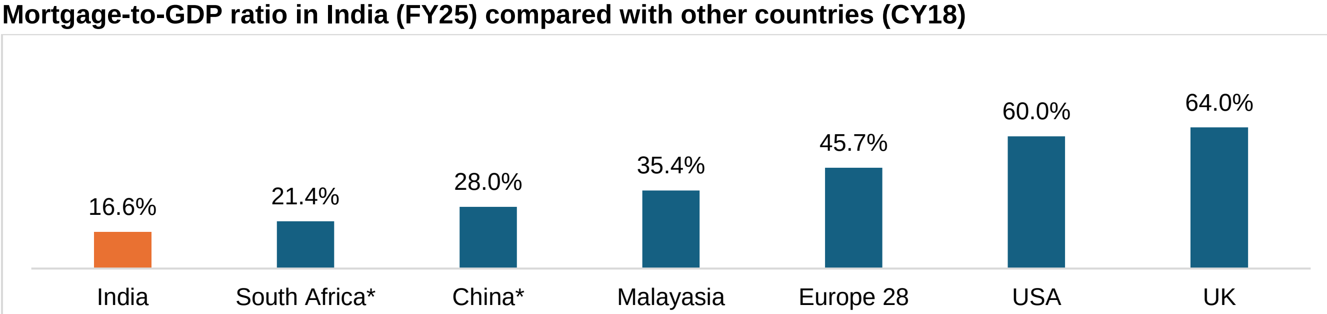


Note: E: Estimated; Source: RBI, Planning Commission, Crisil Intelligence

5.1 India's mortgage penetration is lower than other economies

India has very low penetration in terms of home loans as compared to its rising peers which shows a high potential for expansion of Indian home loans companies. The home loans market continues to face supply constraints from Banks and NBFCs, particularly for the lower income.

Mortgage-to-GDP ratio in India (FY25) compared with other countries (CY18)

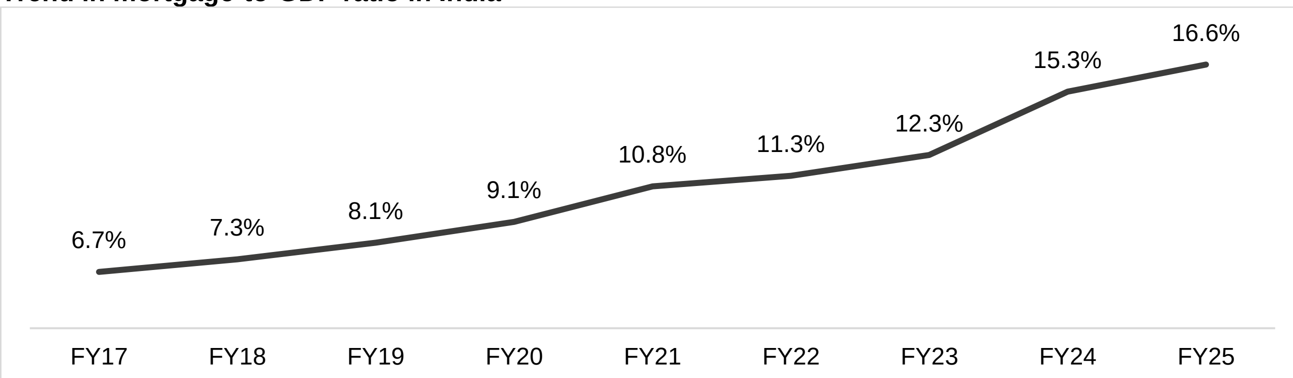


Note: (*) – As of CY17, Indian mortgage to GDP is for FY2025 – 16.6%; Europe 28 includes the 28 European Union Member states as of December 2018; Source: HOFINET, European Mortgage Federation, NHB, Crisil Intelligence

Mortgage-to-GDP ratio in India grew to 16.6% as of FY2025

In FY2025, India's mortgage-to-GDP ratio stood at 16.6%. Though low compared with other developing countries, it has significantly improved from 6.5% in FY2009. The factors that contributed to the improvement are rising incomes, improving affordability, growing urbanisation and nuclearization of families, emergence of tier-II and tier-III cities, ease of financing, tax incentives, and widening reach of financiers.

Trend in mortgage-to-GDP ratio in India

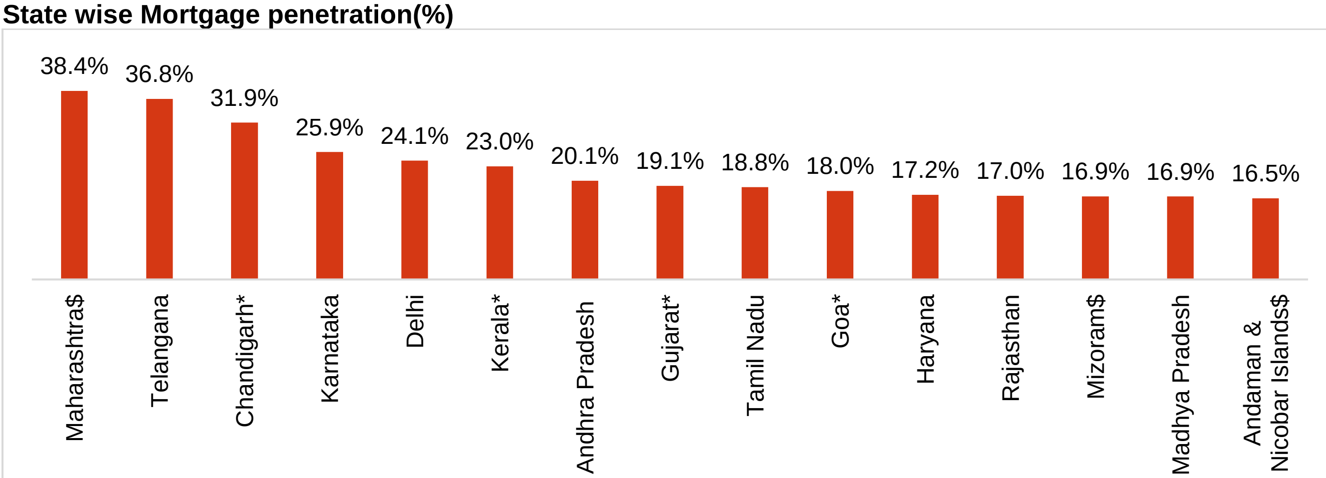


Note: P – Projected, Data for mortgage to GDP for India includes both Housing loans and Loans against property outstanding over constant GDP for India; Source – NHB, World Bank, Crisil Intelligence

State-wise mortgage penetration in India

The mortgage-to-GDP ratio varies widely based on home loan market size, ranges between ~3% and ~38% in FY2024. Maharashtra has the highest housing loan penetration with ~38% of GDP followed by Telangana (~37%) and Chandigarh (~32%) at second and third position respectively as of FY2024.

State wise Mortgage penetration(%)



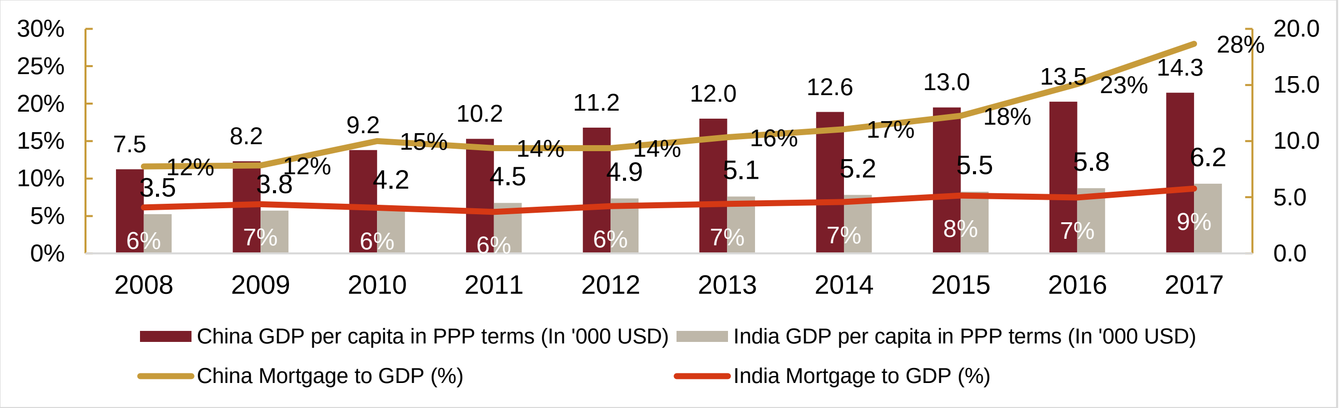
*Note: Housing loan penetration calculated as Housing loan outstanding over state GSDP (at constant prices) as of FY2024; GDP taken as GSDP at constant prices, Base Year: 2011-12., * GDSP taken for FY2022, $GDSP taken for FY2023, Source: CIBIL, RBI, MOSPI, Crisil Intelligence*

Factors affecting mortgage-to-GDP ratio in India

Mortgage penetration in India is far lower than other emerging economies (South Africa, China, Malaysia etc.) owing to lower per capita income and higher proportion of informal employment in the country. However, Crisil Intelligence believes rising urbanisation, growing disposable income, favourable demographics and government measures will lead to higher mortgage penetration going forward. Following are the growth drivers to boost mortgage penetration in India:

Rise in per capita income to drive the growth of mortgage penetration in India

The mortgage penetration in China is correlated to the GDP per capita of the country and the mortgage to GDP ratio of China has grown from 12% in 2008 to 28% in 2017. The per capita income of the country has increased from USD 7,500 in 2008 to USD 14,300 in 2017. India has gone through a similar trajectory with mortgage penetration in the country increasing from 6% in 2008 to 9% in 2017 which is correlated to the increase in per capita income of the country from USD 3,500 in 2008 to USD 6,200 in 2017. India's GDP per capita income stood at USD 2,480.8 in 2023 witnessing significant growth in the past five fiscals.

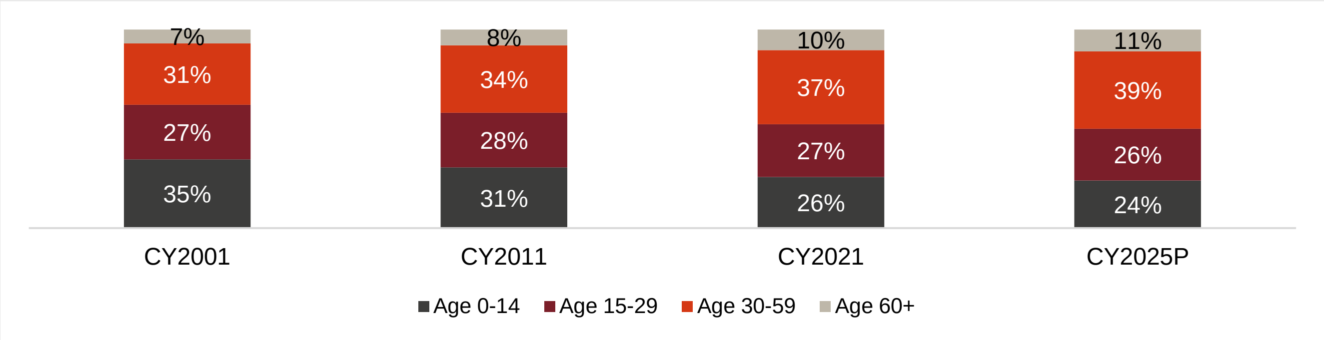


Source – HOFINET, Peoples Bank of China, World Bank, Crisil Intelligence

India's demographic dividend: India has one of the largest young populations in the world

As per United Nations DESA estimates, as of July 2023, India has one of the largest young populations in the world, with a median age of 28.2 years. As of CY2021, 64% of India's population was between 15 and 59 years, with 26% of the nation's population under the age of 14. In comparison, in 2020, the United States (US), China and Brazil had 74%, 62% and 78%, respectively, of their population below the age of 60.

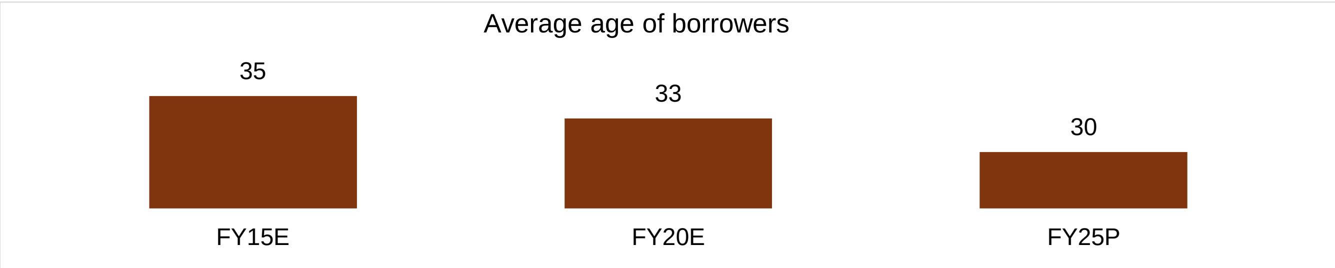
Indian demographic dividend



Note: E: Estimated, P: Projected; Source: United Nations Department of Economic and Social affairs, Crisil Intelligence

Shift towards younger age profile for home loan borrowings

Average age of borrowers has been declining over the years and was estimated at 33 years in FY2020. We expect this figure to decline further with growth in salaries and people's strengthening preference for accumulating assets, both for investment purpose, tax benefits and social security coupled with increased access to formal credit India's demographic profile is expected to favour the Housing industry, leading to growth in the home loans market.



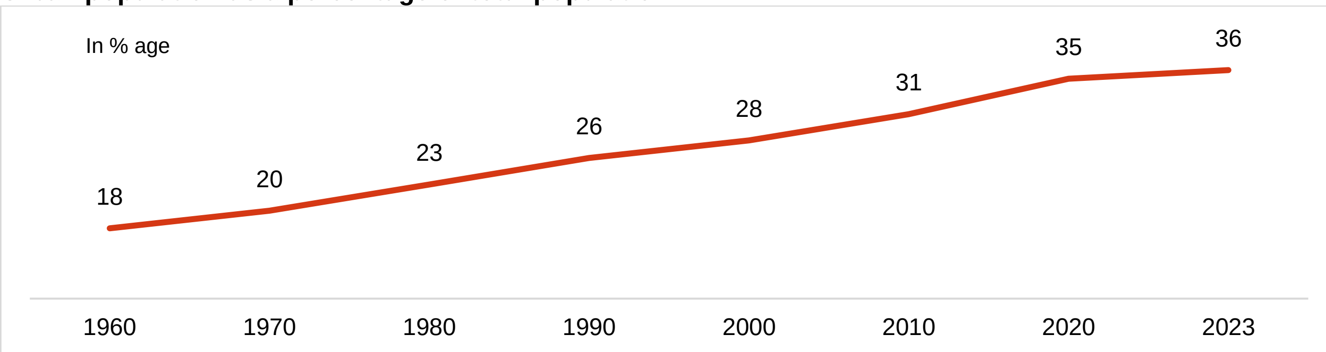
Note: E – Estimated, P – Projected, Source: Crisil Intelligence

Continuous increase in share of urban population to boost demand for housing in urban areas

The share of urban population in relation to the total population has been consistently rising over the years. People from rural areas move to cities for better job opportunities, education, better life, etc. Entire families or only a few people (generally earning member or students) may migrate, while a part of the family continues to hold on to the native house. Urbanisation levels estimated to have rose from 31% in 2010 to 36% in 2023

This percentage is expected to increase further in the years to come, thereby translating into higher demand for housing and related amenities in the urban areas.

Urban population as a percentage of total population

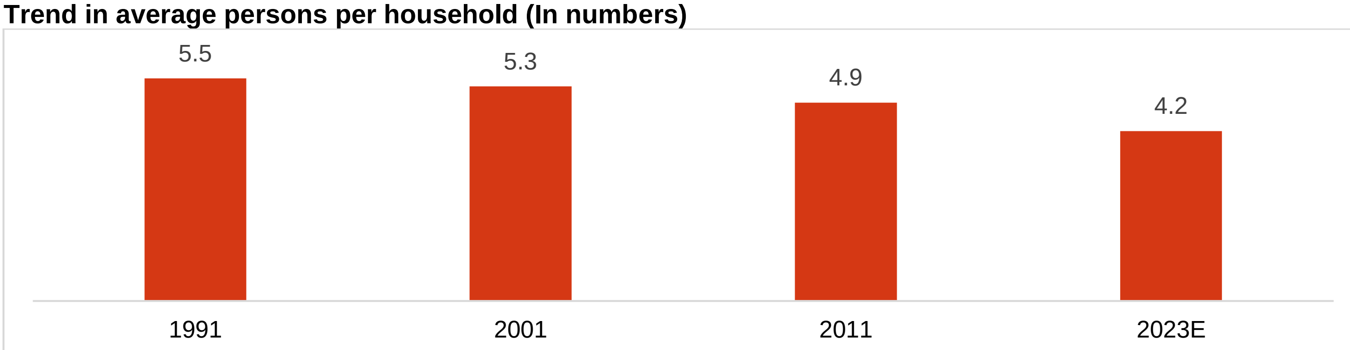


Source: United Nations Population Division's world urbanization prospects, World Bank, Crisil Intelligence

Rise in number of nuclear families leads to formation of new houses

Nuclearization refers to formation of multiple single families out of one large joint family. Each family lives in a separate house, while the ancestral house may be retained or partitioned to buy new houses. Nuclearization in urban areas is primarily driven by changing lifestyle of people, individualism, changing social/cultural attitudes, and increased mobility of labour in search of better employment opportunities. These trends are expected to continue in future.

Trend in average persons per household (In numbers)



Note: 2023E data is as per Periodic Labour Survey Report, Source: Census 2011, MOSPI, Crisil Intelligence

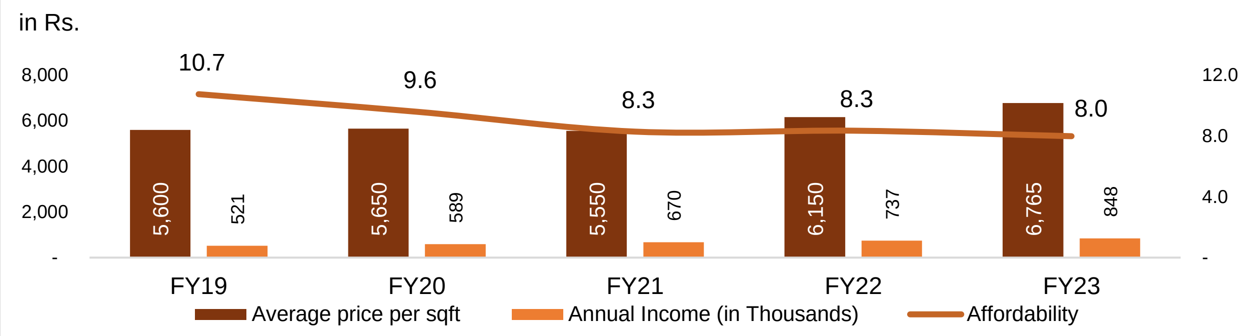
Rising demand for independent houses

According to the 2011 Census Data, Indians show a preference for residing in independent housing. The rise in population density, particularly in urban regions, has resulted in a higher need for apartments. This trend is anticipated to persist, fuelling the demand for self-constructed homes, particularly in smaller cities.

Higher affordability

Crisil Intelligence forecasts that the per capita income will gradually improve with a pick-up in GDP growth and sustained low inflation. This is expected to be an enabler for domestic consumption leading to rise in demand for housing. Further, increase in household savings over the last decade coupled with availability of underwriting and providing credit to the vulnerable or informal segment owing to advancement in technology has also led to higher demand for housing.

Real estate prices are relatively higher though affordability has only improved historically



Note: The charts indicate the price per sqft based on top 10 markets -Delhi NCR, Mumbai, Pune, Ahmedabad, Chennai, Kolkata, Bangalore, Chandigarh, Hyderabad, and Kochi, at a Pan India level, the overall prices could be way lower than estimates, Affordability is computed as average price per sqft / annual income; Source: Crisil Intelligence

5.2 Government and Regulatory Initiatives in the Home loans segment

- **Pradhan Mantri Aawas Yojana -Urban:**

The Ministry of Housing and Urban Affairs launched PMAY Urban (PMAY-U) on June 25, 2015 to address urban housing shortage among the EWS/LIG and MIG categories, including slum dwellers, and provide a pucca house to all eligible urban households by 2022. The scheme aims to fill the supply-demand gap in the housing sector. On supply side, the scheme offers incentives for beneficiary-led housing, public private partnerships (PPP) in building homes for economically weaker sections (EWS) and low income group (LIG) by offering incentives such as allowing higher floor space index and announcing grants and subsidies for slum redevelopment. On the demand side, PMAY provides credit-linked subsidies to stimulate demand. 10 million additional houses with planned allocation of Rs. 2.2 lakh crore to be taken up over the next five fiscals.

- **Pradhan Mantri Aawas Yojana -Grameen:**

The erstwhile Indra Gandhi Awas Yojana was restructured into the PMAY Gramin (PMAY-G) from April 1, 2016 to address gaps in the rural housing programme and fulfil the government's commitment to provide a pucca house with basic amenities by 2022 to all houseless individuals and those households living in kutcha and dilapidated dwellings. The scheme is for the rural population who don't have their own houses. It provides financial assistance and interest rate subsidy. Under PMAY, 20 million more projects are to be taken up in the next 5 years to meet the requirements arising from the increase in no. of families.

To expedite the completion of 1 lakh more dwelling units, the government has established the second tranche of the Special Window for Affordable and Mid – Income Housing (SWAMIH II) Investment fund of Rs. 15,000 crores.

Government, in its recent budget for FY25-26, allowed to claim a nil tax benefit on up to two self-occupied properties without any pre conditions. This move is expected to spur investments in residential real estate.

- **Reintroduction of Credit-Linked Subsidy Scheme-** The re-introduction of Credit-Linked Subsidy Scheme after a gap of two years is expected to support housing loan growth as well. The scheme provides subsidised home loans to buyers of affordable homes under PMAY and support to housing loan growth as well.

- **Relaxation of ECB guidelines:** The relaxed external commercial borrowing (ECB) guidelines will enable easier access to overseas funds and stimulate the sector
- **EPF corpus withdrawal:** Permission to withdraw 90% of employee's provident fund (EPF) corpus enables prospective home buyers to make the down payment and pay their home loan EMIs. The recent amendment will enable employees with less than six months of service to avail withdrawal benefits.
- **PSL eligibility increased in Housing**

  The RBI has increased (under the notification released in June 2018) eligibility for priority sector lending (PSL) in housing loans with a view to converge PSL guidelines with Pradhan Mantri Awas Yojana (PMAY). The eligibility has increased from Rs 2.8 million to Rs 3.5 million for metropolitan centers and from Rs 2 million to Rs 2.5 million for other centers. The cost of dwelling units has been capped at Rs 4.5 million in metropolitan centers and at Rs 3 million in other centers. The on-lending limits given to NBFC/HFCs from Banks were also raised from Rs. 1 million to Rs. 2 million.

  Under the eligibility criteria prescribed by the National Housing Bank under The Refinance Scheme under Affordable Housing Fund for the Financial Year 2021-22 ("Refinance Scheme") read with paragraph 12.1(i) of the Master Directions – Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2020 ("PSL Master Directions"), individual housing loans with a ticket size lower than Rs.2.5 million in non-metropolitan areas are considered as affordable housing loans. Furthermore, paragraph 12.1(i) of the PSL Master Directions sets out that loans up to Rs. 3.5 million to individuals in metropolitan centers (with population of one million and above); and up to Rs. 2.5 million to individuals in other centers, for the purchase or construction of a dwelling unit, per family, will be eligible for priority sector classification, provided the overall cost of the dwelling unit in the metropolitan center and at other centers does not exceed Rs. 4.5 million and Rs. 3.0 million, respectively.
- **Implementation of the Real Estate (Regulation and Development) Act (RERA)**

  Implementation of the Real Estate (Regulation and Development) Act (RERA) in 2017 had a direct impact on the supply-demand dynamics in the sector. RERA is expected to improve transparency, timely delivery, and organized operations over time. It does not permit developers to launch new projects before registering them with the real estate authority.

  This is a major shift from the practices followed earlier by developers, wherein they managed to sell part of the project through soft/pre-launch activities. RERA puts an end to fund diversion across projects as it mandates 70% of the funds collected from customers for a specific project should be maintained in a separate escrow account and used only for the same project. Besides, developers have to disclose project-related information, such as project plan, layout, government approvals, carpet area of units, construction status and delivery schedule.

5.3 Home loans market in India to log a CAGR of 14-16% from fiscal 2025 to 2028

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

The Indian home loans market clocked a healthy 13.7% CAGR (growth in credit outstanding) during fiscals 2020- 2025, on account of rise in disposable incomes, healthy demand, and greater number of players entering the segment. Over the past three fiscals, home loans segment has seen favourable affordability on account of stable property rates and improved annual income of individual borrowers.

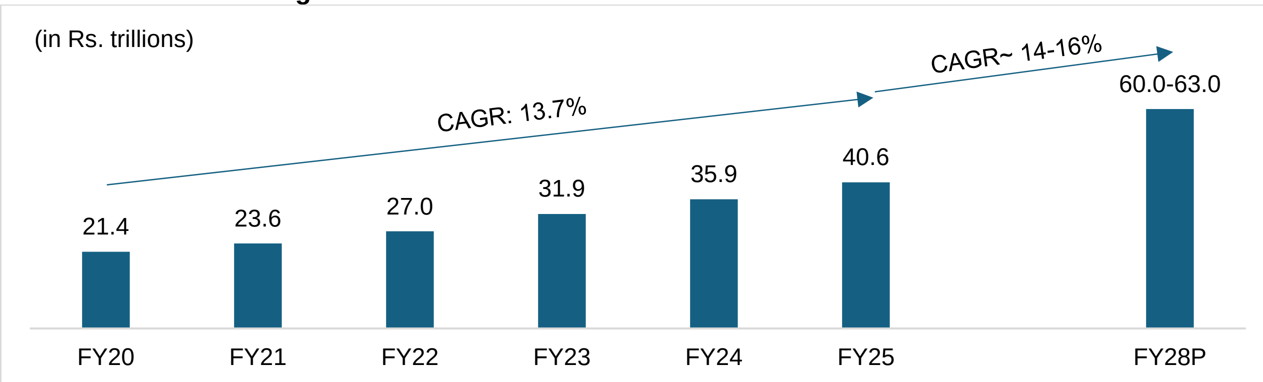
The sector's outstanding credit stood at ~Rs 35.9 trillion as of March 2024. The overall housing market grew 12.8% on-year in fiscal 2024, driven by the rising aspirations of a young population with growing disposable incomes. Increased demand in smaller cities (tier 2 and 3) facilitated by government initiatives and innovative digital tools, which enabled lenders to assess cash flow-based incomes more effectively and broaden market reach, also helped.

The overall home loans segment credit outstanding was ~Rs. 40.6 trillion as of FY25, up 13.1% on year. Home loan market grew in Fiscal 2025 on account of rate cuts and government initiatives such as Rs 30 billion allocation to the Interest Subsidy Scheme (ISS) under Pradhan Mantri Awas Yojana in Union Budget for fiscal 2025-26.

In recent Budget for fiscal 2025-26, a higher direct tax exemption limit- no income payable on annual income of up to Rs. 12 lakhs for salaried individuals under the new tax regime as well as recent cut in interest rate by 75 basis point are expected to leave more disposable income in the hands of home buyers, potentially boosting affordability.

Going forward, Crisil Intelligence expects overall housing segment to grow at a CAGR of 14-16% from FY25-28. The Government of India has been pursuing various social welfare schemes and initiatives to enhance the flow of credit to the housing sector and increase home ownership in India.

Home loans outstanding witnessed a CAGR of 13.7% from Fiscal 2020 to Fiscal 2025



Note: P- Projected, Source: CRIF Highmark, Crisil Intelligence

Home loans outstanding (Rs. 10 million to Rs. 20 million) witnessed a CAGR of 23.8% growth between Fiscal 2020 to Fiscal 2025

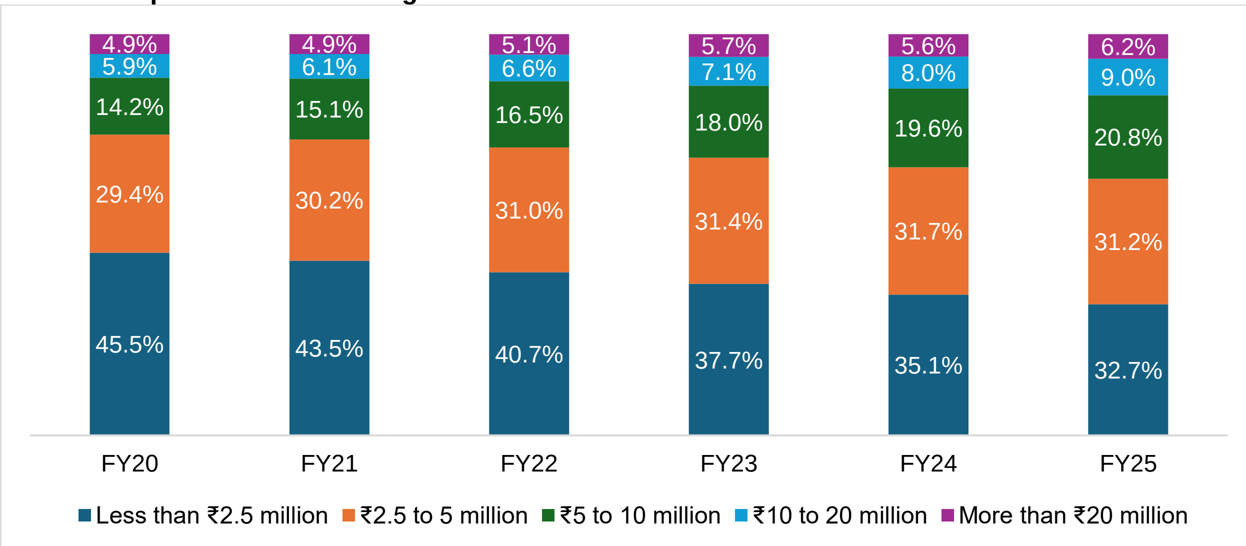
Real estate is India’s second largest employment generator after agriculture, providing jobs to millions across construction, infrastructure, and related industries. With rapid urbanization and government initiatives in place, the sector is primed for significant expansion in the forthcoming years. This growth will not only generate job opportunities but also drive the demand for home loans, opening avenues for financiers.

The housing loan market grew at ~13.7% CAGR between fiscals 2020 and 2025. This growth was primarily fuelled by an uptick in demand for higher-ticket size loans, exceeding ₹5 million, due to the impact of COVID-19 pandemic. The pandemic's disproportionate impact on lower-income segments, coupled with a surge in construction costs, led to an increased requirement for larger loan amounts, resulting in a shift towards higher ticket size brackets.

Among major ticket-size brackets, ticket size of housing loan outstanding of Rs. 10 million to Rs. 20 million witnessed the fastest growth from FY20-25, growing at a CAGR of 23.8 % which was followed by loans of ticket size more than Rs. 5 million and less than Rs. 10 million which grew at a CAGR of 22.8% during the same period.

Ticket size (Less than ₹2.5 million) account for highest market share (32.7%) in terms of value, in FY25, followed by loans of ticket size from Rs.2.5 million to Rs.5 million (31.2%).

Ticket wise portfolio outstanding



Source: CRIF Highmark, Crisil Intelligence

Public sector banks account for highest share (%) among lenders in overall home loans credit as of FY25

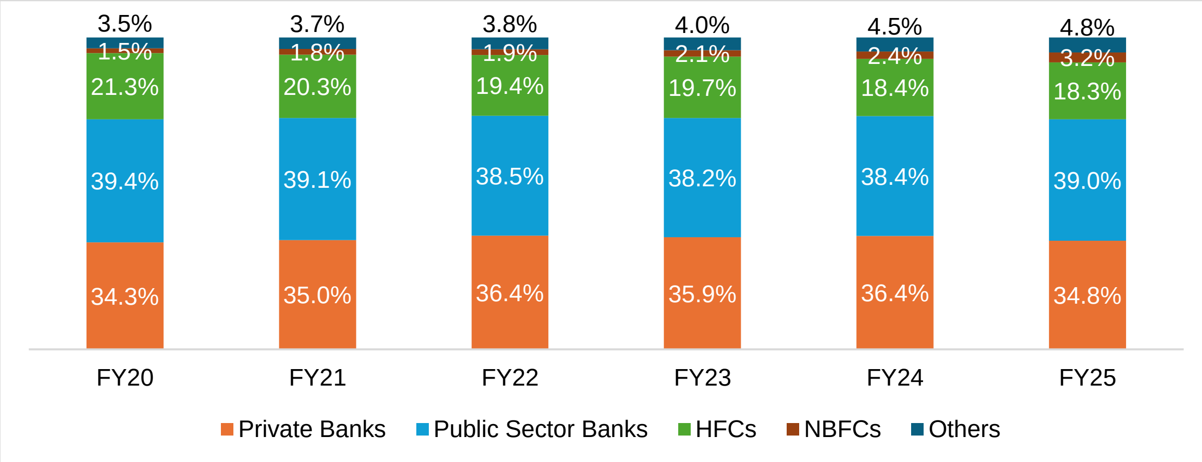
As of FY25, public sector banks account for the highest share in overall housing credit (39.0%), which was followed by Private Sector banks with 34.8% share and Home loans companies with 18.3% share. During fiscals 2020-25, among major lenders private sector banks witnessed the fastest growth in home loans credit with a CAGR of 14.0%, followed by public sector bank with 13.5% CAGR and home loans companies with 10.3% CAGR during the same period.

Lender-wise outstanding credit across fiscals 2020 to 2025

Lender (Rs. Bn.)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Private Sector Banks	7,329.0	8,276.1	9,822.6	11,453.3	13,075.2	14,137.1	14.0%
Public Sector Banks	8,421.9	9,248.9	10,382.6	12,168.5	13,801.5	15,845.5	13.5%
Home loans Companies (HFCs)	4,549.3	4,806.5	5,242.1	6,272.6	6,596.2	7,423.3	10.3%
NBFCs	315.3	431.6	506.4	678.2	854.1	1,297.1	32.7%
Others	746.6	868.1	1,017.4	1,287.7	1,600.4	1,942.4	21.1%
Total	21,362.2	23,631.3	26,971.2	31,860.4	35,927.5	40,645.4	13.7%

Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

Lender wise market share



Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

Urban regions account for highest share (~64.1%) in Home loans outstanding as of FY25

As of Fiscal 2025, urban regions accounted for the highest share in overall home loans credit with 64.1% share which was followed by rural regions which accounted for 20.5% share, semi-urban regions accounted for 9.5% share in credit outstanding. Among tier's fastest credit growth during FY20-25 was witnessed in rural regions which grew at a CAGR of 16.4%, followed by semi-urban regions with a CAGR of 15.9%. Urban regions witnessed a CAGR of 12.4% during the same time period.

Tier (Rs. Tn.)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)	Share (FY25)
Urban Regions	14.5	15.9	18.0	21.0	23.3	26.0	12.4%	64.1%
Semi-Urban Regions	1.8	2.1	2.4	2.9	3.4	3.9	15.9%	9.5%
Rural Regions	3.9	4.4	5.1	6.2	7.2	8.3	16.4%	20.5%
Others	1.1	1.3	1.5	1.8	2.1	2.4	16.4%	5.9%

Note: Others constitute portfolio not categorized as rural, semi-urban or urban by bureau. Source: CRIF Highmark, Crisil Intelligence

Top 10 states account for ~81% share in overall Home loans outstanding as of Fiscal 2025, with top 5 states accounting for ~57% share

As of Fiscal 2025, Maharashtra accounted for the highest share in overall home loans outstanding with ~22.3% share, which was followed by Karnataka, Tamil Nadu, Gujarat and Telangana in top 5 states by credit outstanding with 10.4%, 8.2%, 8.2%, 8.0% share respectively. Bihar had the highest CAGR amongst the top 20 states between FY20-25 at 19.0%, followed by Telangana at 17.7% and Rajasthan at 16.2% during the same period.

Maharashtra accounted for the highest share in home loans credit as of FY25, with ~22.3% share

State (Rs. Bn.)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)	Share (FY25)
Maharashtra	4,902.9	5,437.3	6,181.9	7,291.1	8,040.5	9,056.5	13.1%	22.3%
Karnataka	2,232.5	2,439.9	2,741.2	3,243.5	3,741.4	4,236.1	13.7%	10.4%
Tamil Nadu	1,979.2	2,146.3	2,382.0	2,732.5	3,007.6	3,316.7	10.9%	8.2%
Gujarat	1,757.1	1,970.1	2,279.2	2,656.2	2,964.8	3,317.4	13.6%	8.2%
Telangana	1,439.3	1,651.2	1,984.8	2,435.8	2,867.3	3,253.7	17.7%	8.0%

State (Rs. Bn.)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)	Share (FY25)
Uttar Pradesh	1,287.1	1,411.5	1,600.5	1,899.3	2,150.4	2,456.4	13.8%	6.0%
Andhra Pradesh	916.5	1,034.4	1,204.2	1,445.5	1,682.7	1,939.6	16.2%	4.8%
Delhi	1,068.4	1,153.6	1,298.1	1,525.4	1,647.8	1,900.5	12.2%	4.7%
Rajasthan	798.4	897.4	1,050.5	1,265.6	1,477.7	1,694.3	16.2%	4.2%
Kerala	945.3	1,031.4	1,146.3	1,297.4	1,432.4	1,559.6	10.5%	3.8%
West Bengal	710.7	783.5	908.5	1,075.0	1,197.0	1,343.7	13.6%	3.3%
Madhya Pradesh	676.7	748.7	843.1	1,003.9	1,155.4	1,345.0	14.7%	3.3%
Haryana	644.5	703.9	812.1	970.0	1,113.9	1,293.0	14.9%	3.2%
Punjab	375.7	409.0	468.0	553.2	619.2	700.8	13.3%	1.7%
Bihar	237.3	271.1	321.8	403.4	485.0	565.9	19.0%	1.4%
Odisha	213.7	237.2	277.6	336.3	387.5	450.5	16.1%	1.1%
Chhattisgarh	215.7	241.0	269.6	317.6	359.8	402.5	13.3%	1.0%
Uttarakhand	219.5	244.8	273.5	320.2	358.9	395.1	12.5%	1.0%
Jharkhand	133.7	146.8	170.0	201.4	224.9	252.5	13.6%	0.6%
Assam	143.5	157.2	174.8	201.0	221.1	248.8	11.6%	0.6%
Others	464.5	515.0	583.6	686.1	792.1	917.0	14.6%	2.3%

Source: CRIF Highmark, Crisil Intelligence

Private Sector Banks had the best asset quality among major lenders with 90+ DPD at 1.1% as of FY25

In FY21, GNPAs of the overall housing loan portfolio increased sharply from 2.4% to 2.6% due to slippages as consumer perception of the general economic situation, employment scenario, and household income had plunged. Continuing consumer pessimism and lockdowns further impacted self-employed customers and micro, small, and medium enterprises. In FY25, the NPA level improved to 2.1% from 2.4% in FY20. Private sector banks had the highest asset quality, with 90+ DPD at ~1.1%, followed by public sector banks at ~1.4%. 90+ DPD for NBFCs stood at ~2.4% as of FY25.

Private Banks had the best asset quality among lenders as of Fiscal 2025

Lender Wise NPA	FY20	FY21	FY22	FY23	FY24	FY25
Private Sector Banks	1.2%	1.8%	1.4%	1.3%	1.1%	1.1%
Public Sector Banks	2.5%	2.1%	2.1%	2.0%	1.6%	1.4%
HFCs	3.1%	3.7%	4.1%	4.6%	5.0%	3.3%
NBFCs	5.6%	3.9%	5.2%	3.8%	2.0%	2.4%
Others	7.9%	8.9%	7.5%	6.5%	7.0%	10.3%
Industry	2.4%	2.6%	2.5%	2.5%	2.3%	2.1%

Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

5.4 Competitive Scenario

Trend in Housing loans AUM for key home loans companies

Tata Capital Housing Finance Limited is one of the largest housing finance company in India as of March 31, 2025. Tata Capital Housing Finance has the highest return on equity as of Fiscal 2025 as compared to its housing finance peers.

	Gross Home Loans (in Rs. billions)					Return on Equity
	FY22	FY23	FY24	FY25	CAGR (FY22-25)	FY25
LIC Housing Finance Limited	2,042	2,288	2,441	2,616	8.6%	16.0%
Bajaj Housing Finance Limited	345	427	528	644	23.1%	13.4%
PNB Housing Finance Limited	348	396	456	535	15.4%	12.2%
Tata Capital Housing Finance Limited	200	271	365	462	32.2%	19.3%
Can Fin Homes Limited	239	281	311	336	12.0%	18.2%
Aditya Birla Housing Finance Limited	80	94	117	173	29.3%	10.7%

Note: Housing portfolio of companies, Return on Equity calculated as profit after tax divided by average of total equity. Return on equity calculated for overall company. Source: Company Reports, Crisil Intelligence

Highest Net Interest Income in 5 years reported in FY25 at 3.4%

In fiscal 2025, some housing-finance companies' operating expenses increased due to investments in technology, operational upgrades and inflationary pressures. However, these costs were offset by higher fee income.

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

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

Ratios	FY20	FY21	FY22	FY23	FY24	FY25	FY26P
Interest Income	9.6%	9.3%	8.6%	9.0%	9.7%	9.6%	9.6-9.7%
Interest Expense	7.1%	6.5%	5.8%	6.0%	6.4%	6.3%	6.2-6.3%
Net Interest Income	2.5%	2.8%	2.8%	3.0%	3.3%	3.4%	3.3-3.4%
Credit Cost	0.6%	0.6%	0.6%	0.5%	0.5%	0.2%	0.2-0.3%
ROA	1.4%	1.4%	1.4%	1.7%	2.1%	2.3%	2.0-2.1%

Note: All ratios are based on total assets, Source: Crisil Intelligence

5.5 Threats and Challenges in the Home loans Industry

Economic Scenario: A decline in the interest rate with strong growth in the economy will boost the purchasing power of people, thus boosting demand for houses and housing loans. When the government introduces rules and regulations such as the Benami Transactions Act, establishes bodies such as the Real Estate Regulatory Authority, or takes decisions such as demonetisation, all to control illegal activities and curb cash transactions, demand for housing and housing loans takes a hit.

Digitization of Land Records for Clear Property Titles

Efficient digitization of land records is crucial as it simplifies the process of establishing undisputed property titles. By leveraging technology to ensure accurate and up-to-date land records, stakeholders can mitigate legal risks associated with property transactions and enhance overall market confidence.

Access to Home loans for MSMEs and Salaried Employees Facilitating access to home loans for micro, small, and medium enterprises (MSMEs) and salaried employees without formal employment contracts is pivotal for fostering inclusive growth in the real estate sector. Tailored financial products and innovative lending mechanisms can cater to the unique needs of these underserved segments, promoting homeownership and economic stability.

Challenges in Accessing Construction Finance for Small Developers

Small developers encounter challenges in securing adequate construction finance, limiting their capacity to undertake new projects and contribute to housing supply. Addressing these financing constraints through targeted support programs, simplified lending criteria, and strategic partnerships can empower small developers to drive innovation and diversity in the construction landscape.

Delays in SARFAESI and Recovery Processes

The protracted timelines associated with SARFAESI proceedings and asset recovery processes impede the timely resolution of non-performing assets, prolonging financial distress for lenders and borrowers alike. Enhancing the efficiency of enforcement mechanisms, promoting creditor rights awareness, and harmonizing legal frameworks across states are essential steps to expedite recovery and strengthen the overall credit ecosystem.

Insufficiency of data for credit appraisal: Credit-score availability in India is still at a nascent stage despite the presence of credit bureaus. In several cases, borrowers lack a formal proof of income documents. This makes it difficult to judge the ability of the borrower to repay.

Liquidity Risk: The apartment culture has still not developed in many of the semi-urban and rural areas, leading to financing of individual properties. This makes it harder to sell a property that is built according to the needs of the borrower. Also, in rural areas, it may become difficult to find a buyer for a repossessed property due to cultural issues. All this leads to liquidity risk.

Delay in project approvals and construction: The cash flows of HFCs are largely dependent on the timely completion of projects in which their customers have bought housing. If the project gets delayed, the borrower may start defaulting on loans. Additionally, project delays also tend to impact growth in the loan book.

Thin spreads in Home loans: HFCs face a risk of thin net interest margins due to lower interest rates in the segment as compared to other asset classes like MSME loans, vehicle financing etc. This is further aggravated due to intense competition in the segment among HFCs, banks and NBFCs.

Asset Liability Mismatch: Home loans faces significant ALM challenges, arising due to inherent mismatch between the long-term nature of housing loans and the shorter-term funding sources used by home loans companies (HFCs). This creates a maturity mismatch, where assets have longer durations than liabilities.

6. Affordable Home loans Market of India (<Rs.2.5 million)

6.1 Encouraging and favourable trends in affordable home loans market

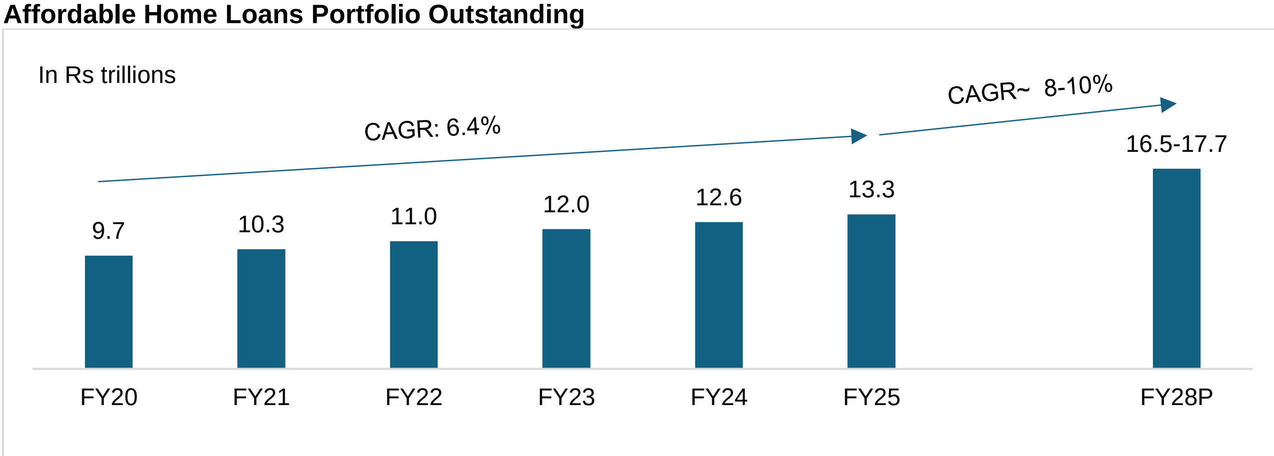
As per Refinance Scheme under Affordable Housing Fund for the Financial Year 2021-22 issued by the National Housing Bank, read with the Master Directions–Reserve Bank of India (Priority Sector Lending–Targets and Classification) Directions, 2020, housing loans with a ticket size of less than Rs.2.5 million are considered as Affordable Housing Loans.

The overall size of the affordable home loans market in terms of loan outstanding was Rs. 13.3 trillion as of Fiscal 2025, constituting around 33% of the overall home loans market. Between FY19 and FY25, the growth in the affordable housing loans has remained subdued, with the segment having witnessed a CAGR of 6.4% as compared to overall housing loans, which has grown by ~13.7% during the same time.

This can be primarily attributed to a slowdown in economic activity, funding challenges due to NBFC crisis and the Covid-19 pandemic. Further, rise of hybrid work model and working from home along with rising propensity to spend merged with rising standard of living due to rising incomes of individuals has led to an increase in demand for bigger residential homes. As a result, the sale in affordable housing took a beating whereas high-end and mid-segment housing gained the maximum in the last couple of years.

Going forward, the Rs 2.2 trillion allocation for PMAY-Urban over the next five years, announced in Union Budget 2024-25, is likely to support affordable housing, which has lately seen a decline in construction activity, with developers increasingly shifting focus to premium and luxury segments in metros and tier II/III cities. Moreover, cumulative rate cut of 100 bps between February to June 2025 should provide relief to the underlying customer base. Crisil Intelligence expects the industry to pick up steam gradually and the affordable housing segment to touch Rs. 16.5 - 17.7 trillion by FY28, translating into an 8-10% CAGR between FY2025-2028.

Affordable Home Loans Portfolio Outstanding



Note: P- Projected, Source: CRIF Highmark, Crisil Intelligence

Public sector banks account for highest share in the Affordable Home loans Segment with ~36.6% share as of Fiscal 2025

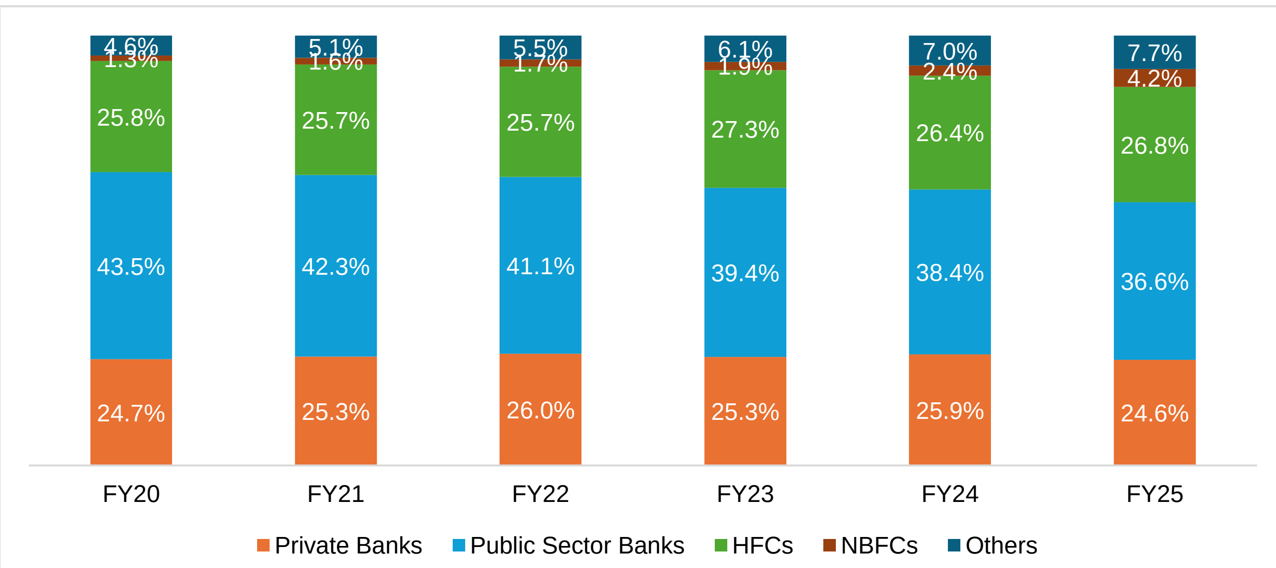
Public sector banks account for highest share in in credit outstanding with 36.6% as of FY25, followed by HFCs with 26.8% share. Private sector banks account for the third highest share among lenders with 24.6% share. During fiscals 2020-25, among major lenders, NBFCs witnessed the fastest growth in affordable home loans credit with a CAGR of 34.9%, followed by HFCs with 7.2% CAGR and private sector banks with 6.3% CAGR during the same period.

Lender-wise outstanding credit across fiscals 2020 to 2025

Lender (Rs. Bn.)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Private Sector Banks	2,403.2	2,602.9	2,855.2	3,037.8	3,260.8	3,268.7	6.3%
Public Sector Banks	4,228.2	4,348.5	4,504.4	4,732.2	4,838.6	4,866.8	2.9%
Housing Finance Companies (HFCs)	2,512.5	2,643.4	2,817.9	3,288.1	3,334.2	3,557.5	7.2%
NBFCs	125.7	161.7	183.6	232.7	301.0	562.5	34.9%
Others	451.4	528.4	606.9	733.1	876.9	1,027.3	17.9%
Total	9,721.1	10,284.8	10,968.1	12,023.8	12,611.4	13,282.8	6.4%

Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

Lender-wise outstanding credit



Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

Urban Regions account for ~53.6% of the total affordable home loans credit as of FY25

As of FY25, urban regions accounted for the highest share in affordable home loans credit with 53.6% share which was followed by rural regions which accounted for 29.3% share. Semi-urban regions accounted for 12.0% share in credit outstanding. Among tier's, fastest credit growth during FY20-25 was witnessed in rural regions which grew at a CAGR of 10.0%, followed by semi-urban regions with a CAGR of 8.0%. Urban regions witnessed a CAGR of 4.5% during the fiscals.

Tier (in Rs. billions)	FY20	FY21	FY22	FY23	FY24	FY25	Share (FY25)
Urban Regions	5,701.1	5,946.8	6,247.2	6,710.8	6,876.7	7,117.7	53.6%
Semi-Urban Regions	1,089.4	1,170.7	1,270.4	1,415.4	1,509.9	1,597.1	12.0%
Rural Regions	2,422.3	2,636.6	2,893.4	3,292.2	3,599.2	3,895.1	29.3%
Others	508.3	530.7	557.0	605.4	625.6	672.8	5.1%

Note: Others constitute portfolio not categorized as rural, semi-urban or urban by bureau. Source: CRIF Highmark, Crisil Intelligence

Top 10 states account for ~78.4% of Total Affordable Home loans credit outstanding as of FY25; top 5 states constitute for ~51.9% share

As of FY25, Maharashtra accounted for the highest share in affordable home loans credit outstanding with 18.5% share, which was followed by Gujarat, Tamil Nadu, Uttar Pradesh and Rajasthan in top 5 states by credit outstanding with 11.5%, 8.6%, 7.0%, 6.2% share respectively. Rajasthan had the highest CAGR amongst the top 15 states between FY20-25 at 11.4%, followed by Bihar and Madhya Pradesh at 10.1% during the same period.

Maharashtra accounted for the highest share in affordable home loans credit as of FY25

State (Rs. Bn.)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)	Share (FY25)
Maharashtra	1,860.1	1,956.4	2,067.6	2,277.2	2,342.0	2,457.9	5.7%	18.5%
Gujarat	1,056.0	1,156.4	1,273.7	1,384.2	1,456.7	1,527.9	7.7%	11.5%
Tamil Nadu	915.0	966.5	1,013.0	1,086.3	1,111.0	1,148.1	4.6%	8.6%
Uttar Pradesh	659.4	698.4	749.8	837.0	873.8	930.2	7.1%	7.0%
Rajasthan	480.1	524.9	592.6	679.4	763.1	823.8	11.4%	6.2%
Karnataka	647.6	656.1	675.2	744.3	782.9	805.2	4.5%	6.1%
Madhya Pradesh	459.2	496.9	538.0	608.1	671.0	744.3	10.1%	5.6%
Kerala	557.7	591.1	621.6	653.2	677.2	694.9	4.5%	5.2%
Andhra Pradesh	487.7	507.1	533.6	581.5	619.2	665.8	6.4%	5.0%
Telangana	512.9	527.9	548.9	587.6	606.2	612.4	3.6%	4.6%
West Bengal	408.5	432.8	472.0	524.8	554.3	594.8	7.8%	4.5%
Delhi	272.9	283.7	294.5	316.6	319.1	349.6	5.1%	2.6%
Punjab	223.8	236.5	256.0	284.9	298.3	318.4	7.3%	2.4%
Haryana	218.6	229.0	242.2	266.1	272.7	276.8	4.8%	2.1%
Bihar	137.4	147.3	161.5	184.2	204.3	222.0	10.1%	1.7%
Others	824.3	873.8	927.9	1,008.4	1,059.7	1,110.7	6.1%	8.4%

Source: CRIF Highmark, Crisil Intelligence

Among major lenders in affordable home loans segment, Private sector banks had the best asset quality (~1.8%) among lenders as of FY25.

As of FY25, private sector banks led the affordable home loans segment with the lowest GNPA ratio of 1.8%. Public sector banks followed with a GNPA ratio of 2.1%. In contrast, non-banking finance companies

(NBFCs) and housing finance companies (HFCs) reported significantly higher GNPAs of 2.8% and 3.8% respectively. The overall affordable home loans industry GNPA stood at 3.3% as of FY25.

Lender Wise NPA	FY20	FY21	FY22	FY23	FY24	FY25
Private Sector Banks	1.4%	2.1%	1.8%	1.8%	1.6%	1.8%
Public Sector Banks	2.9%	2.5%	2.6%	2.6%	2.3%	2.1%
HFCs	2.7%	3.3%	3.7%	4.3%	5.8%	3.8%
NBFCs	4.5%	3.6%	4.3%	3.5%	2.4%	2.8%
Others	9.5%	10.6%	9.0%	8.1%	8.6%	12.4%
Industry	2.8%	3.0%	3.1%	3.2%	3.5%	3.3%

Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

6.2 Profitability trend of HFCs in the Affordable Home loans Segment

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

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

Profitability of Affordable HFCs

Parameters	FY20	FY21	FY22	FY23	FY24	FY25E
Interest Income	11.3%	10.7%	10.4%	10.6%	11.1%	11.0-11.1%
Interest Expense	7.2%	6.5%	5.5%	5.5%	6.0%	6.1-6.2%
Net Interest Income	4.0%	4.2%	4.8%	5.1%	5.1%	4.9-5.0%
Credit Cost	0.8%	0.9%	0.7%	0.5%	0.2%	0.3-0.4%
Return on Assets (RoA)	1.4%	1.8%	2.3%	2.8%	3.0%	2.8-2.9%

Note: The above ratios are based on total assets. Source: Company Reports, Crisil Intelligence

6.3 Key growth drivers for affordable home loans

Government Initiatives

- **Pradhan Mantri Aawas Yojana -Urban:** The scheme aims to fill the supply-demand gap in the housing sector. On supply side, the scheme offers incentives for beneficiary-led housing, public private partnerships (PPP) in building homes for economicaly weaker sections (EWS) and low income group (LIG) by offering incentives such as allowing higher floor space index and announcing grants and subsidies for slum redevelopment. On the demand side, the PMAY provides credit-linked subsidies to stimulate demand
- **Pradhan Mantri Aawas Yojana -Grameen:** The scheme is for the rural population who don't have their own houses. It provides financial assistance and interest rate subsidy
- **Relaxation of ECB guidelines:** The relaxed external commercial borrowing (ECB) guidelines will enable easier access to overseas funds and stimulate the sector
- **EPF corpous withdrawal:** Permission to withdraw 90% of employees provident fund (EPF) corpus enables prospective home buyers to make the down payment and pay their home loan EMIs

Regulator initiatives

- **Regulatory authority of HFCs shifted from NHB to RBI:** The Budget 2020 proposed a change in regulatory oversight and supervision of HFCs from the NHB to the Reserve Bank of India (RBI).
- **NHB refinance:** The NHB refinancing schemes help HFCs lower their borrowing costs
- **PSL guidelines revised:** The F increased the threshold limit for home loans to be classified as PSL in order to promote Pradhan Mantri AawasYojana

Other factors

- **Low mortgage penetration**
- **Rising urbanisation and nuclearisation:** Decreasing average household size and rising level of urban population create more housing demand.
- **Rising income levels:** Rising income levels help improve the affordability of houses
- **Rising independent housing demand:** Increase in share of independent houses helps housing finance market grow in the long term

Source: Crisil Intelligence

7. Loans Against Property (LAP)

7.1 Loans against property (LAP) financing market

Loans against property (LAP) is availed by mortgaging a property (residential or commercial) with the lender. LAP is a secured loan, as it provides collateral to the financier in the form of the property. Its interest rate is lower than personal or business loans. It could be used for either business or personal purposes. It can be availed by both salaried and self-employed individuals. For all these reasons, LAP has become popular among borrowers in recent years. The financiers offering housing loans, also provide LAP loans primarily due to synergies between the two products, higher yields offered by LAP, while continuing to cater to similar customer profile, collateral requirement, and ticket size.

Key factors that contributed to high LAP growth are:

- **Quick turnaround time, lower interest rate, less documentation**: LAP loans are disbursed in about half the time taken for a secured MSME loan. It is also offered at a lower interest rate than unsecured MSME loans, personal and business loans. LAPs require less documentation than other secured SME products, leading to fewer hassles for customers.
- **Greater transparency in the system**: Demonetization, GST, and the government's strong push for digitization have led to higher transparency in the system. This will keep pushing up loan amount eligibility of borrowers. Formalization will also help many new borrowers come under the ambit of formal lending channels.
- **Rising penetration of formal channels:** Increase in financial penetration and availability of formal credit in Tier 2 and Tier 3 cities will reduce the share of informal credit.
- **Higher comfort for lenders**: Lenders are comfortable disbursing LAP loans, as they offer favorable risk-return characteristics, compared with MSMEs and unsecured loans. They also offer higher recovery in case of default (supported by the Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002) and better asset quality

The overall Loans against property segment market size has expanded from Rs. 6.8 trillion as of fiscal 2020 to Rs. 14.4 trillion as of Fiscal 2025. The growth in this segment is attributed to increasing financial penetration and an increase in the number of players in the targeted market. Overall LAP portfolio witnessed a growth of 10% year-on-year in fiscal 2021, owing to slowdown in the economic activity and pandemic induced lockdown imposed by the government. From fiscal 2022 to fiscal 2023, the overall LAP portfolio grew by 19% year-on-year on account of improved economic conditions and normalization of business activities.

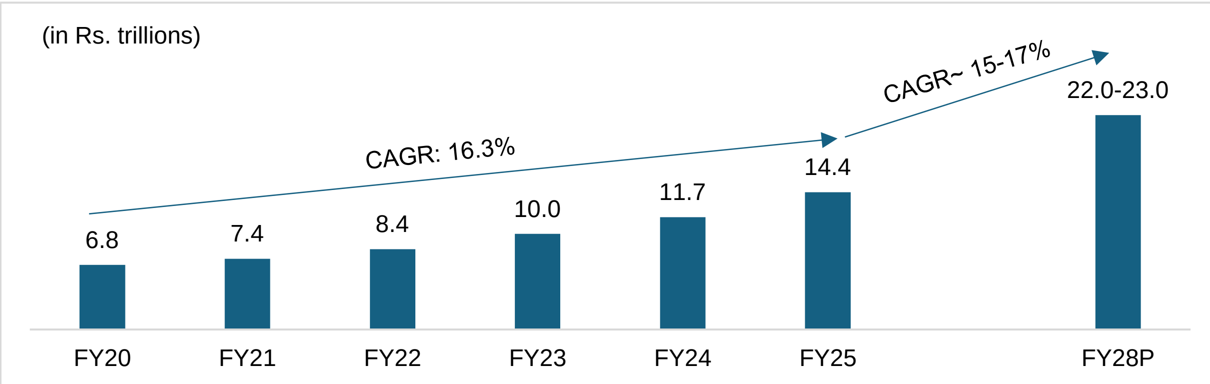
The LAP loans growth at banks (public and private) slowed to 17.2% in fiscal 2025 as they focused on higher yielding products to earn better lending margins. On the contrary, LAP portfolio for NBFCs and HFCs grew at 36.0% and 29.3% year on year respectively as they focused on secured lending to safeguard asset quality.

Crisil Intelligence

Moreover, few HFCs focused on LAP loans to earn better yields compared to home loans, supporting the LAP loan book growth.

Going forward, Crisil Intelligence expects overall LAP portfolio to grow at 15-17% CAGR between fiscal 2025 and fiscal 2028 aided by increasing lender focus and penetration of such loans, enhanced availability of data increasing lender comfort while underwriting such loans, enhanced use of technology, newer players entering the segment, and continued government support.

Overall LAP portfolio to grow at 15 - 17% CAGR between fiscal 2025 and fiscal 2028



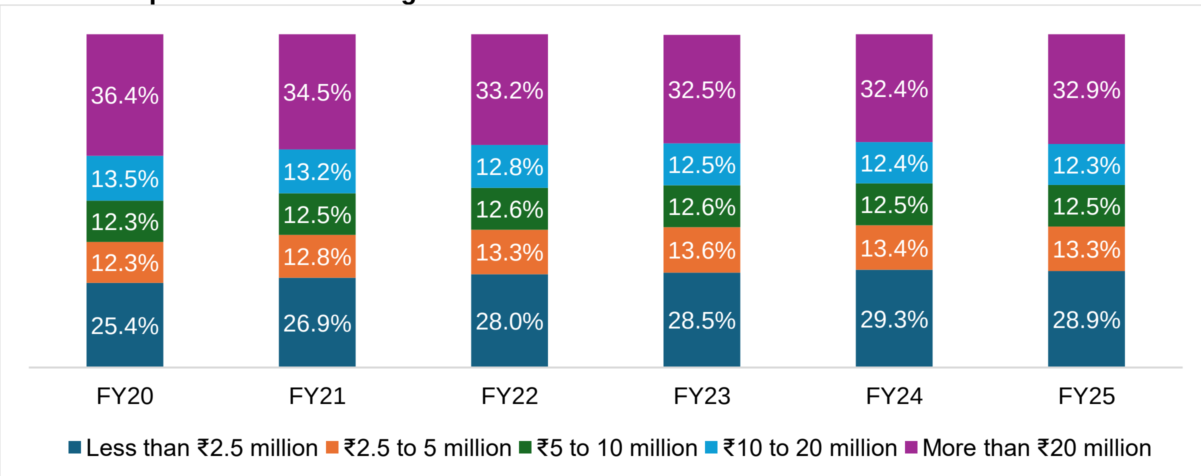
Note: P- Projected, Source: CRIF Highmark, Crisil Intelligence

LAP portfolio (< Rs.2.5 million) witnessed a CAGR of 19.4% growth between fiscal FY20-25

Among major ticket-size brackets, LAP portfolio outstanding (< Rs.2.5 million) witnessed the fastest growth from FY20-25, growing at a CAGR of 19.4% which was followed by loans in the more than Rs. 2.5 million and less than Rs. 5 million ticket size segments outstanding which grew at a CAGR of 18.2% and loans in the more than Rs. 5 million and less than Rs. 10 million ticket size segment outstanding which grew at a CAGR of 16.6% during the fiscals.

LAP portfolio (more than Rs. 20 million) in terms of value, account for highest market share (32.9%) in FY25, followed by loans in less than Rs. 2.5 million ticket size segment (28.9%) and loans in the more than Rs. 2.5 million and less than Rs. 5.0 million ticket size segment accounting for 13.3% market share**.**

Ticket wise portfolio outstanding



Source: CRIF Highmark, Crisil Intelligence

Private sector banks account for highest share (40.9%) among lenders in overall LAP outstanding credit in FY25

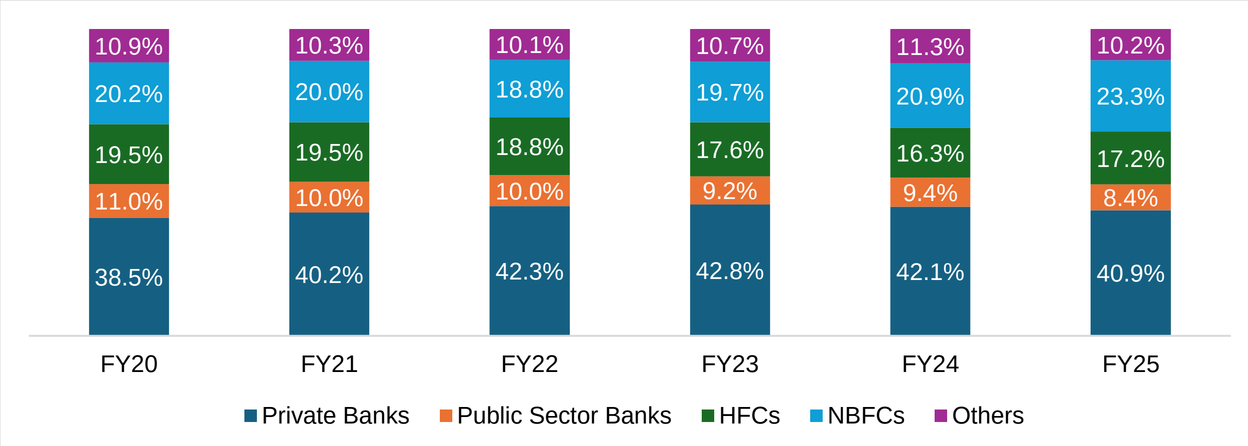
As of Fiscal 2025, Private sector banks account for the highest share (40.9%) in overall LAP outstanding credit, followed by NBFCs with 23.3% share and housing finance companies (HFCs) with 17.2% share. During fiscals 2020-25, NBFCs witnessed the fastest growth in this sector with a CAGR of 19.7%, followed by private sector banks with 17.8% CAGR. Public sector banks and HFCs saw 10.3% CAGR and 13.4% CAGR respectively, during the same period.

Lender-wise outstanding credit across fiscals 2020 to 2025

Lender (Rs. Bn.)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Private Sector Banks	2,597.8	2,982.0	3,561.6	4,286.0	4,946.5	5,886.8	17.8%
Public Sector Banks	740.9	739.4	845.3	917.4	1,105.8	1,207.2	10.3%
Housing Finance Companies (HFCs)	1,320.2	1,442.4	1,582.0	1,765.5	1,911.2	2,470.3	13.4%
NBFCs	1,362.0	1,486.1	1,582.2	1,969.0	2,459.6	3,344.5	19.7%
Others	733.1	765.7	848.2	1,071.6	1,322.1	1,467.1	14.9%
Total	6,753.9	7,415.6	8,419.3	10,009.5	11,745.2	14,375.9	16.3%

Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

Lender-wise outstanding credit



Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

Urban regions account for highest share (~67.6%) in LAP outstanding credit as of FY25

As of Fiscal 2025, urban regions accounted for the highest share in LAP credit with 67.6% share which was followed by rural regions which accounted for 18.1% share, semi-urban regions accounted for 8.3% share in credit outstanding. Among tier's fastest credit growth during FY20-25 was witnessed in rural regions which grew at a CAGR of 23.5%, closely followed by semi-urban regions with a CAGR of 22.8%. Urban regions witnessed a CAGR of 13.3% during the fiscals.

Tier (Rs. Bn.)	FY20	FY21	FY22	FY23	FY24	FY25	Share (FY25)
Urban Regions	5,198.9	5,634.3	6,290.4	7,269.0	8,234.3	8,234.3	67.6%
Semi-Urban Regions	427.6	483.9	582.1	744.3	947.3	947.3	8.3%
Rural Regions	905.1	1,032.0	1,224.6	1,580.5	2,037.8	2,037.8	18.1%
Others	222.4	265.3	322.2	415.8	525.8	525.8	6.0%

Note: Others constitute portfolio not categorized as rural, semi-urban or urban by bureau. Source: CRIF Highmark, Crisil Intelligence

Top 10 states account for ~81.3% share in overall LAP credit outstanding as of FY25, with top 5 states accounting for ~54.7% share

As of March 2025, Maharashtra accounted for the highest share in overall LAP credit outstanding with ~18.2% share, which was followed by Tamil Nadu, Karnataka, Gujarat and Telangana in top 5 states by credit outstanding with 10.4%, 9.9%, 8.8% and 7.3% share respectively. Assam had the highest CAGR amongst the top 20 states between FY20-25 at 26.92%, followed by Bihar at 26.85%.

Maharashtra accounted for the highest share in LAP credit as of FY25, with ~18.2% share

State (Rs. Bn.)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)	Share (FY25)
Maharashtra	1,401.4	1,524.0	1,715.4	1,962.1	2,201.3	2,612.2	13.3%	18.2%
Tamil Nadu	705.3	772.6	857.5	1,030.5	1,233.3	1,500.9	16.3%	10.4%
Karnataka	688.7	773.3	877.7	1,049.4	1,194.3	1,428.6	15.7%	9.9%
Gujarat	612.1	672.6	763.3	894.2	1,074.4	1,262.6	15.6%	8.8%

Telangana	322.9	390.1	481.8	622.2	821.0	1,055.9	26.7%	7.3%
Delhi	582.7	613.5	655.0	732.4	781.6	925.5	9.7%	6.4%
Rajasthan	367.8	406.0	476.1	581.2	693.2	852.9	18.3%	5.9%
Uttar Pradesh	341.9	368.9	423.4	525.8	620.4	795.3	18.4%	5.5%
Haryana	287.2	293.4	336.1	415.5	500.8	634.7	17.2%	4.4%
Andhra Pradesh	223.7	249.9	296.8	376.0	484.3	615.4	22.4%	4.3%
Madhya Pradesh	198.4	226.9	269.8	336.9	406.8	512.2	20.9%	3.6%
Kerala	246.7	275.9	297.1	329.2	402.9	448.9	12.7%	3.1%
West Bengal	212.1	225.5	246.6	279.2	318.3	360.0	11.2%	2.5%
Punjab	204.5	222.1	250.2	295.6	332.7	375.3	12.9%	2.6%
Chhattisgarh	81.0	89.1	99.0	114.6	126.6	151.1	13.3%	1.1%
Bihar	38.9	44.8	58.9	78.8	101.5	127.7	26.9%	0.9%
Uttarakhand	54.0	60.3	73.4	87.0	93.9	113.3	16.0%	0.8%
Odisha	41.7	49.1	57.6	74.6	89.4	109.5	21.3%	0.8%
Assam	21.2	25.4	31.2	44.1	58.4	69.9	26.9%	0.5%
Jharkhand	17.7	21.4	27.4	35.8	44.4	53.9	25.0%	0.4%
Others	104.1	110.7	124.7	144.3	165.7	369.9	28.8%	2.6%

Source: CRIF Highmark, Crisil Intelligence

Among lenders in the overall LAP finance market, Private sector banks had the best asset quality (0.9%) as of FY25

In the past, intense competition in the LAP segment led to aggressive lending by non-banks. They sourced major proportion of the book through balance transfer; whereby additional top-up loans were given leading to higher loan-to-value (LTV) ratios and thus higher risks in the LAP book. In Fiscal 2021, GNPAs of the LAP portfolio increased a sharp ~100 bps to 5.6% due to slippages as consumer perception of the general economic situation, employment scenario, and household income had plunged. Continuing consumer pessimism and lockdowns in FY21 further impacted self-employed customers and micro, small, and medium enterprises.

Among lenders, private banks had the best asset quality (0.9%) as of FY25, which was followed by NBFCs with 2.7%.

Private banks had the highest asset quality among lenders in LAP Finance segment as of FY25

Lender-wise GNPA (90+DPD) in %age						
Lender wise share (%)	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**

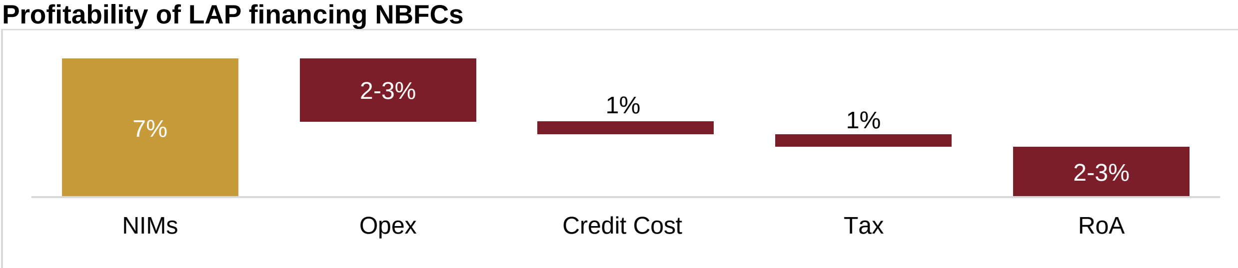
Private Banks	1.4%	2.1%	1.5%	1.2%	1.0%	0.9%
Public Sector Banks	8.4%	8.3%	7.9%	6.0%	3.9%	3.4%
HFCs	4.9%	5.8%	7.9%	8.3%	6.2%	4.1%
NBFCs	5.4%	6.5%	6.7%	5.1%	3.3%	2.7%
Others	10.3%	14.4%	13.5%	10.8%	9.4%	13.1%
Industry	**4.6%**	**5.6%**	**5.5%**	**4.7%**	**3.5%**	**3.3%**

Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

7.2 NBFC/HFCs Profitability in LAP

NBFCs in LAP segment operate with yield in the range of 13-15%, on an average. With average cost of funds being in the range of 9-10%, net interest margins (NIMs) for this segment are in the range of 5-7%. Crisil Intelligence estimates the profitability in this segment to have furthur improved in Fiscal 2025 owing to improving credit costs and improved asset quality.

Profitability of LAP financing NBFCs



Source: Crisil Intelligence; Profitability estimated for FY25.

7.3 Key Growth Drivers

Quick turnaround time, lower interest rate, lesser documentation: LAP loans are disbursed in about half the time taken for unsecured MSME loan. It is also offered at a lower interest rate than unsecured MSME loans, personal and business loans. LAPs require lesser documentation than other secured SME products, leading to fewer hassles for customers.

Greater transparency in the system: Demonetization, GST, and the government’s strong push for digitization have led to higher transparency in the system. This will keep pushing up loan amount eligibility of borrowers. Formalization will also help many new borrowers come under the ambit of formal lending channels.

Higher comfort for lenders: Lenders are comfortable disbursing LAP loans, as they offer favorable risk-return characteristics, compared with MSMEs and unsecured loans. They also offer higher recovery in case of default (supported by the Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002) and better asset quality, which is partly offset by lower yields.

7.4 Threats and Challenges

Insufficiency of data for credit appraisal and Collateral Fraud: In the LAP loan industry, lenders face significant challenges in assessing borrowers' creditworthiness in few cases due to the lack of formal income documentation. This increases the risk of lending to individuals who may not be able to repay their loans. Key risks in this sector include the borrower's ability to repay, potential errors in documentation and processing, and fraudulent activities, slow process of legal recovery through SARFAESI /NCLT and etc. Furthermore, borrowers may face individual challenges, such as business setbacks, that can impact their repayment capacity. To mitigate these risks, lenders must implement effective risk management strategies, including rigorous credit evaluations, robust operational controls, and comprehensive assessments of borrowers' financial situations. There is a need of centralized and digitized system related to document verification, property documentation by the government to fasten the credit sanctioning process for borrowers, enabling them to access funds more quickly and efficiently.

Economic, Interest rate and Property-related risks: In the LAP loan industry, significant risks encompass property-related issues such as overvaluation, legal disputes related to unclear titles or ownership issues complicating loan recoveries, and market value fluctuations affecting the collateral's value, impactive the loan to value (LTV) ratio, along with interest rate variability affecting repayment capacity. Economic factors like downturns and sluggish real estate markets also pose threats. Effective risk management requires accurate property valuation, legal due diligence, monitoring interest rates, and staying attuned to economic conditions.

8. Personal loans

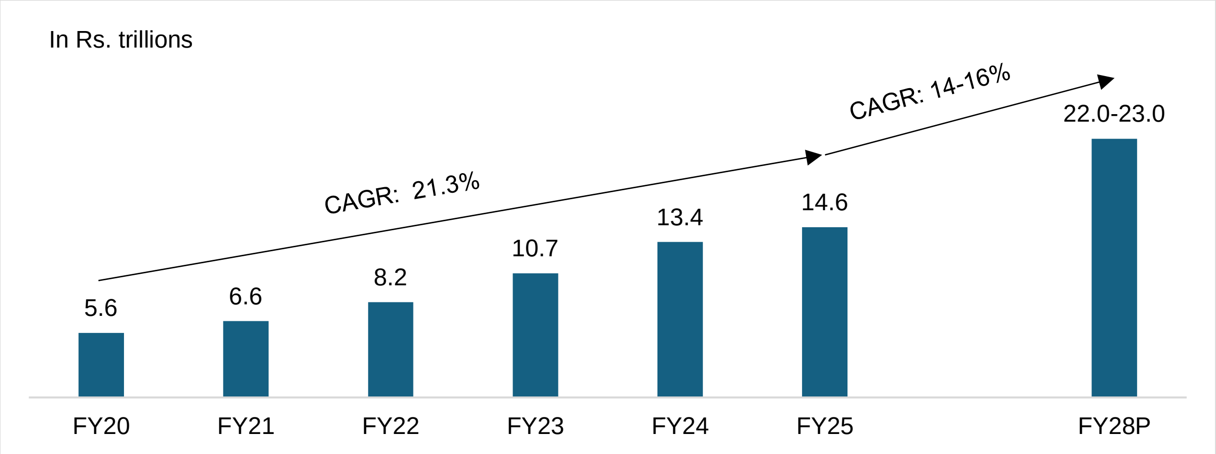
8.1 Personal loans financing market

The amount of personal loans outstanding has increased from Rs 5.6 trillion in FY20 to Rs 14.6 trillion in FY25 at a CAGR of ~21.3%, driven by the rise in new age lenders, increasing lender focus on Tier 1 customers and beyond and a structural shift to a consumption driven economy.

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

Given the evolving situation after the RBI's caution and circular on risk weights, the exuberance is expected to taper into a normalised, albeit healthy growth. Hence, the overall credit outstanding grew at 9% to Rs ~ Rs.14.6 trillion in fiscal 2025. The personal loan industry is poised to sustain its steady growth trajectory into fiscal 2026, with a moderate acceleration anticipated due to the income tax relief under the new tax regime introduced in the Union Budget 2025-26. This relief is expected to boost retail consumption, driving the overall credit growth of the industry to a projected 13-15% in the fiscal year 2026.

Personal loans Outstanding stood at Rs 14.6 trillion as of Fiscal 2025



Note: P – Projected, Source: CRIF Highmark, Crisil Intelligence

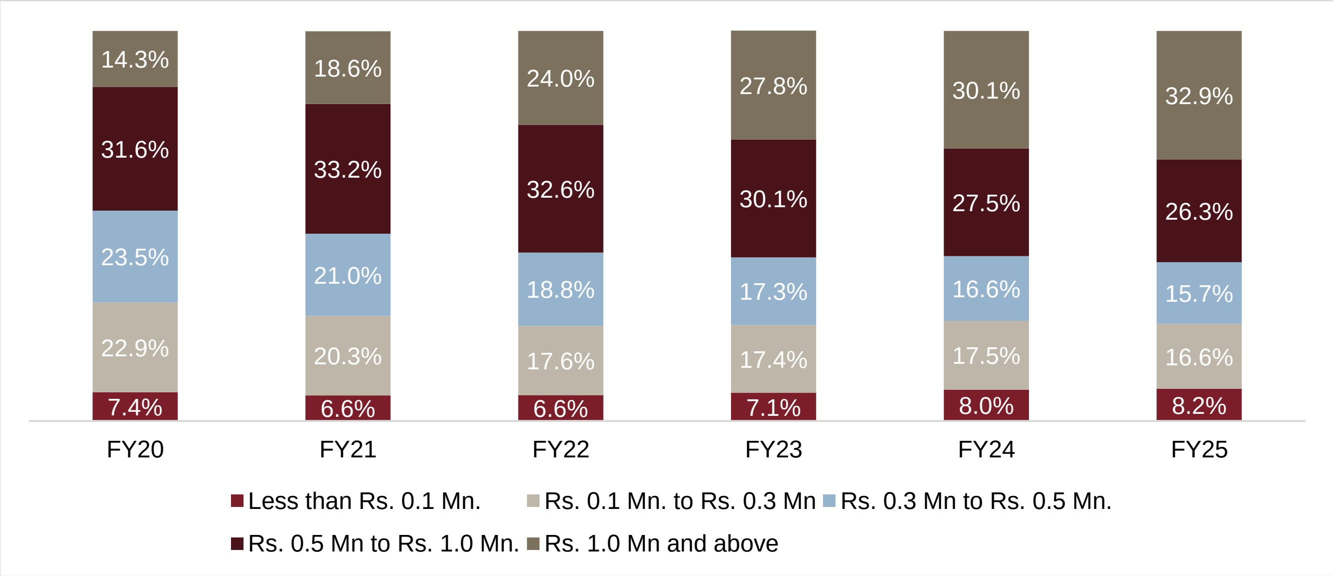
This growth is likely to be driven by healthy momentum in banks supported by their higher customer base in tier 1 cities. Parallelly, NBFCs would also continue to display aggressive growth in their personal loans book. NBFCs build their retail book through lower-ticket-size personal loans and focus on growth in tier 2 and below cities. Banks focus on the salaried middle-age group borrowers and have a higher share in tier-1 cities as compared with NBFCs. End use of the personal loans can range from education loans, medical loan, travel loan, marriage loan, loan for self-employed and other categories as personal loans are unsecured in nature with minimal or no end-use monitoring.

With NBFCs and Fintechs deepening their market penetration, Ticket size less than 0.1 Mn witnessed CAGR of 23.9 % from FY20 to FY25. In terms of value ticket size of more than 1.0 million witnessed the robust growth of CAGR of 43.4% from FY20 to FY25. Lenders are now focusing on quality borrowers to curb the building stress on asset quality.

Ticket Size (Rs. Bn.)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Less than Rs. 0.1 Mn.	410.59	432.02	543.64	764.61	1,075.33	1,201.2	23.9%
Rs. 0.1 Mn. to Rs. 0.3 Mn	1,276.45	1,334.94	1,445.01	1,858.10	2,349.46	2,429.5	13.7%
Rs. 0.3 Mn to Rs. 0.5 Mn.	1,310.24	1,385.51	1,538.52	1,851.77	2,220.79	2,298.7	11.9%
Rs. 0.5 Mn to Rs. 1.0 Mn.	1,763.54	2,184.22	2,671.57	3,216.21	3,682.84	3,839.7	16.8%
Rs. 1.0 Mn and above	795.96	1,222.12	1,961.84	2,979.21	4,027.60	4,806.0	43.3%
Unclassified/Others	20.63	27.54	28.99	28.58	39.25	43.6	16.1%

Source: CRIF Highmark, Crisil Intelligence

Ticket size more than Rs. 1.0 Mn witnesses CAGR of 43.4% between FY20 and FY25



Note: Loans not classified under any ticket size have not been represented in the table but considered in the calculation of market share, Source: CRIF Highmark, Crisil Intelligence

Player-wise Market Share

The personal loans segment, with its attractive risk-reward potential, has become highly competitive over the past few years with aggressive competition from both banks and NBFCs. The market is dominated by banks on account of their wide presence, large customer base which helps with cross selling and lower interest rates as compared to NBFCs.

There are many small NBFCs and fintech companies that extend small ticket sized personal loans to customers with lower or no credit score and charge relatively higher interest rates to compensate for the risk. Small and mid-sized NBFCs have also been innovative with products such as pay as you go, check out financing, tie-up with card companies, and very short tenure loans (3-6 months). This has helped them stay relevant despite higher interest rates, even among salaried customers. A number of NBFCs also cross sell personal loans to existing customers who have taken other loans from them and have a good repayment track record.

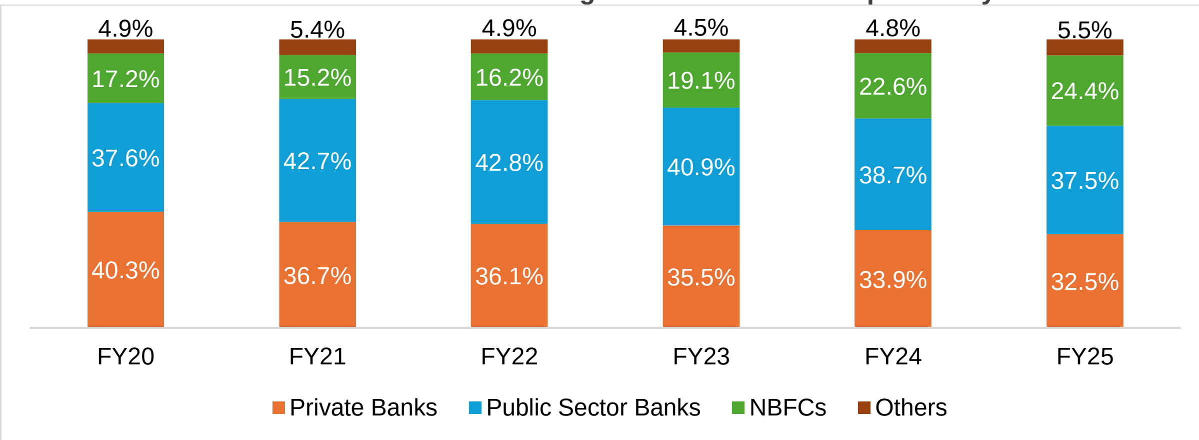
NBFCs have outpaced banks in terms of growth in credit outstanding, leveraging their specialized focus and extensive branch network to reach remote areas. This coupled with high contribution from the digital platforms, drove year on year growth to a significant 48% leap in fiscal 2024. The credit growth of banks on a higher base was healthy around 19% in fiscal 2024 spurred by credit demand and aggressive focus on retail portfolio. Additionally, with a salaried customer base coupled with relatively higher share of tier-1 cities in the portfolio, the banks' borrower segment faced lower cashflow disruptions, thereby realizing a relatively better asset quality performance compared to NBFCs. In the case of NBFCs, with a higher share of tier 2 and lower cities and lower ticket sizes in the portfolio, the typical interest rates are relatively higher as compared to banks and the asset quality is relatively weaker compared to banks. Plethora of industry players have invested in digital infrastructure for wider penetration, low cost acquisition, quick TAT, ensuring enhanced customer convenience.

With NBFCs growing faster than banks, Crisil Intelligence expects NBFCs to increase their market share further in coming years. NBFCs have seen a sharp rise on account of an aggressive strategy and a low base. Crisil Intelligence expects NBFCs to sustain the pace of growth and capture share from banks.

Lender Wise Share	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Private Banks	2,246.5	2,419.1	2,956.3	3,795.4	4,538.3	4,756.9	16.2%
Public Sector Banks	2,098.7	2,809.4	3,505.2	4,374.3	5,186.0	5,485.8	21.2%
NBFCs	957.8	1,001.8	1,330.1	2,043.1	3,028.4	3,565.3	30.1%
Others	274.3	356.1	397.9	485.7	642.6	810.7	24.2%

Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

Share of NBFCs in Personal loans Outstanding has increased in the past few years



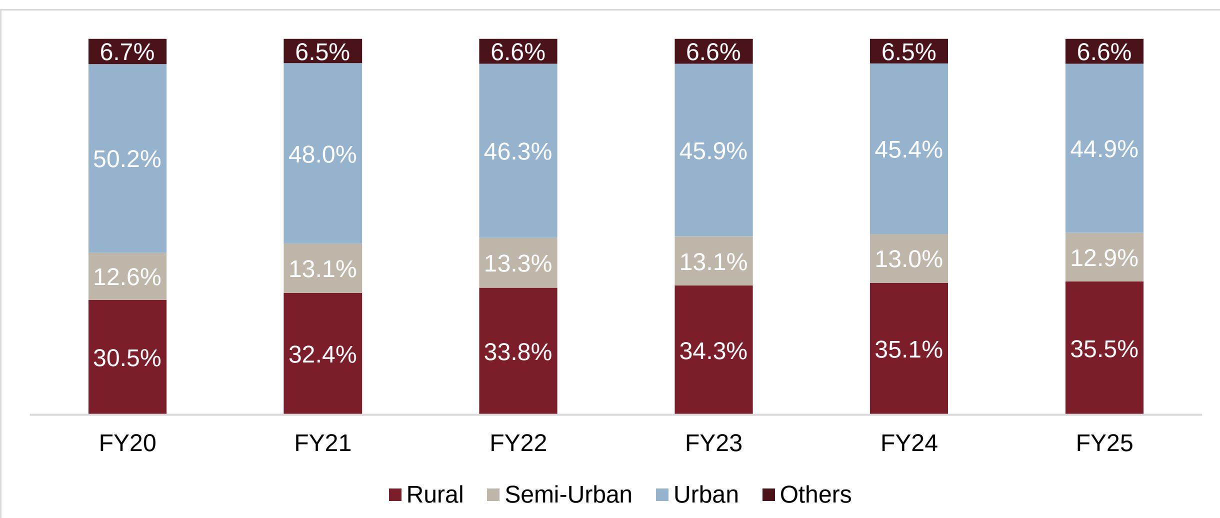
Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

Rural region witnessed highest growth at 25.0% CAGR between FY20 and FY25, followed by semi urban regions at 21.9% during the same period. Urban regions hold the highest market share at 44.9% as of FY25 however rural regions have improved its market share from 30.5% in FY20 to 35.5% in FY 25.

Rural regions witnessed the highest CAGR at 25.0% during FY20 and FY25

Regions (Rs Bn.)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Rural	1,702.2	2,136.6	2,767.6	3,674.0	4,700.8	5,190.9	25.0%
Semi-Urban	701.8	862.5	1,085.2	1,404.6	1,741.7	1,889.7	21.9%
Urban	2,801.1	3,159.2	3,795.1	4,912.2	6,077.0	6,570.4	18.6%
Others	372.4	428.1	541.8	707.7	875.8	967.7	21.0%

Note: 'Others' constitute portfolio not categorized as rural, semi-urban or urban by bureau. Source: CRIF Highmark, Crisil Intelligence



Note: Others constitute portfolio not categorized as rural, semi-urban or urban by bureau. Source: CRIF Highmark, Crisil Intelligence

8.2 Key Growth Drivers

Changing lifestyles and spending habits

Favorable consumer demographics, rising incomes, and higher aspirations, coupled with increasing comfort in availing loans to meet funding needs augur well for the personal loans market. This has been one of the prominent factors in personal loans growth. With the rise in disposable incomes and favorable consumer demographics, this trend is expected to continue going forward.

Reduction in turnaround time (TAT)

Customer preference for financial institutions is driven by TAT. Tech-savvy salaried individuals prefer digital interfaces for quick and paperless experiences. The advanced technologies enables instant loan approvals, but disbursements may take 2-3 days for necessary checks. NBFCs offer faster TAT compared to banks.

Increasing usage of non-traditional data in credit decision-making, enhancing the comfort level of lenders

Digital lending has significantly reduced the document collection time, streamlining the entire lending process. The introduction of paperless procedures in India has revolutionized loan applications. Credit assessments can now be conducted without the need for physical documentation. Moreover, there is a growing trend of utilizing alternative data, such as mobile phone usage, payment behavior, and social interactions, for credit decision-making.

NBFCs and fintechs are at the forefront of leveraging mobile phone data as a valuable source of customer information. This data provides valuable insights into customer location, travel habits, income and expenditure patterns, available cash flow, and repayment history.

Customised offerings

NBFCs offer customized personal loans to cater to individual needs. These loans can be customized to fit individual financial situations, including income, expenses, and credit history. With customized personal loans, borrowers can enjoy competitive interest rates and repayment terms that suit their needs.

8.3 Threats and challenges

Unsecured nature of loans may lead to asset quality concerns

Personal loans, being unsecured, pose significant risk for lenders with high default rates, leading to difficulties in loan recovery and elevated NPAs. This impacts lenders' profitability, necessitating caution for non-bank lenders due to elevated GNPAs. With rapid growth in unsecured loans, lenders must be careful in approving loans for weaker credit profiles to avoid deteriorating asset quality. Additionally, inflation and stagnant income levels may hinder borrowers' repayment capacity.

RBI increases risk weight on assets for unsecured lending – encompassing personal loans and credit card loans

The RBI has increased the risk weight for unsecured consumer loans to 125%, aiming to moderate growth in consumer credit and monitor NBFCs' reliance on bank borrowings. This adjustment will significantly affect banks, NBFCs, and FinTech companies. While banks are well-capitalized and may not see a material impact on their Capital Adequacy Ratio (CAR), they could potentially raise lending rates for personal loans and experience a slight impact on loan growth. Fintech players are urged to enhance underwriting models, which could result in increased operating expenses, reduced loan origination in unsecured personal loans segments, and the need to raise capital to maintain CAR levels. RBI has restored the risk weights on bank loans to NBFCs to 100% from 125%, effective from April 1, 2025.

The exuberant growth and entailing risks

The surge in demand for personal loans is fueled by factors such as easy borrowing, innovative products like travel now, pay later (TNPL), and no-cost EMIs, as well as increasing lifestyle expenses. Enhanced underwriting capabilities of banks, NBFCs, and fintechs, driven by improved access to information and technology, have been key growth enablers for personal loans. However, the absence of collateral makes personal loans inherently risky for lenders, impacting their ability to recover funds in case of borrower default. The rise in personal loans is also attributed to borrowers overleveraging and targeting new customer segments, further increasing asset quality risks.

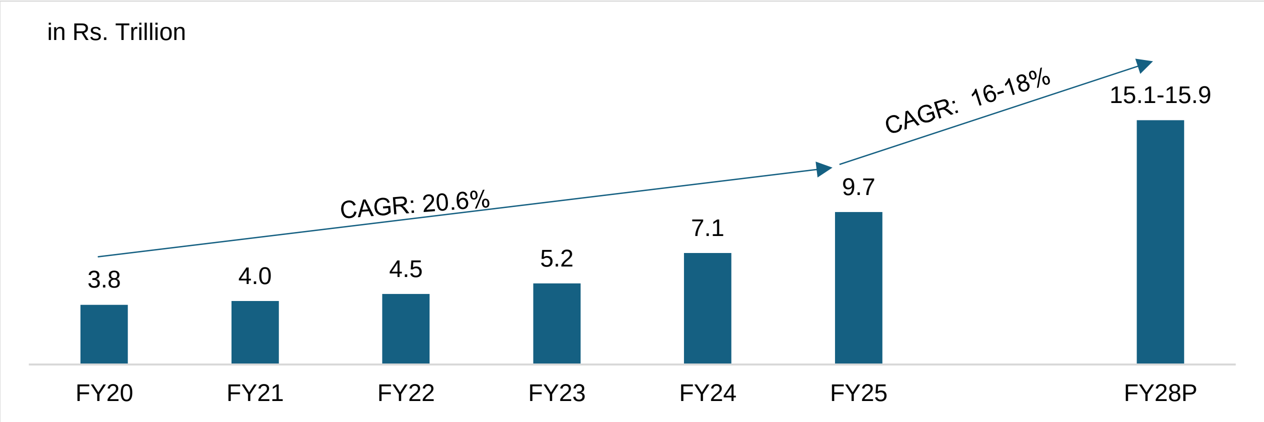
Crisil Intelligence

9. Business Loans

9.1 Business loans financing market

In this section, Crisil Intelligence has considered unsecured business loans as reported in the consumer bureau for analysis.

Business Loans witnessed a CAGR of 20.6% from FY20-25

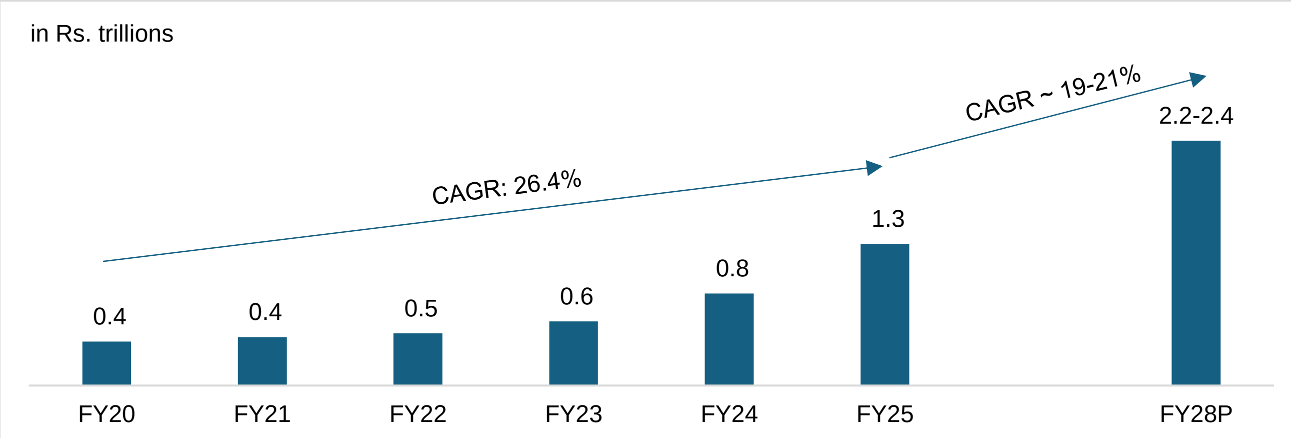


Note: Business loans portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau.
Source: CRIF Highmark, Crisil Intelligence

Overall Business Loans segment, types of loan undertaken for business related purposes without any security and collateral, which included general business loans, Business Loans and loans to professional, in India, stood at Rs. 9.7 trillion as of FY25, witnessing a CAGR of ~20.6% from FY20. The segment has witnessed continuous growth across fiscals, with the fastest year-on-year growth in outstanding witnessed in FY23 and FY24, growing at 14.8% and 37.5% year-on-year respectively. In Fiscal 2025, the growth momentum continued with portfolio growing at 36.9% year on year.

Going forward, as per Crisil Intelligence estimates, it is expected that the segment will grow at a CAGR of 16-18% till FY28 primarily due to rising number of business enterprises in India and increasing financial penetration in both rural and urban areas aided by multiple government initiatives in the segment. In the upcoming fiscals, as financiers are moving to more advance methods of customer underwriting and not just taking credit bureau scores in consideration, lenders would be able to lend more, significantly helping the segment to grow at a faster pace.

Business Loans (less than Rs. 0.5 million) witnessed a CAGR of ~26.4% from FY20-25



Note: Business Loans portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau.
Source: CRIF Highmark, Crisil Intelligence

Business Loans (less than Rs. 0.5 million) segment in India, stood at Rs. 1.3 trillion as of FY25 witnessing a CAGR of ~26.4% from FY20-25, with continuous growth across fiscals. The segment witnessed a decline in growth in FY22, growing year-on-year at 8%, while in FY24 and FY25 strong growth was witnessed in the segment at 43.2% and 54.1% year on year respectively.

Going forward, as per Crisil Intelligence estimates Unsecured Business Credit financing in the less than Rs. 0.5 million segment is expected to grow at a faster pace than overall business loans and would witness a CAGR of 19-21% till fiscal 2028. The faster growth will be supported by increasing number of micro businesses and enterprises in rural and semi-urban regions requiring credit facilities for working capital etc. with the advent of technology, players can digitally underwrite customers and disburse funds to them.

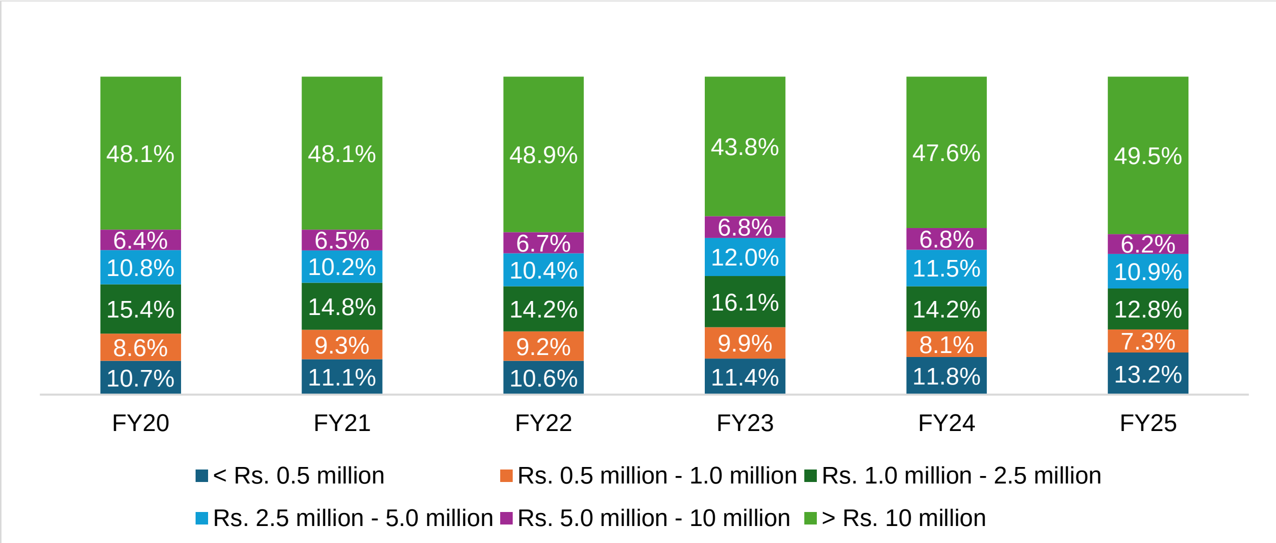
Loans less than Rs. 0.5 Mn. witnessed the fastest growth in Business Loans Segment

Among ticket brackets, loans less than Rs. 0.5 Mn. witnessed the fastest growth among ticket brackets growing at a CAGR of 26.4%, while it accounts for ~13.2% share in overall business loans segment in FY25. Loans more than Rs. 10 million accounted for the highest share in unsecured business portfolio outstanding, with a share of ~49.5% growing at a CAGR of ~21.8%.

Loans less than Rs. 0.5 Mn. witnessed the fastest growth in Business Loans from FY20-25

Ticket Bracket (in Rs. billions)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
< Rs. 0.5 million	392.1	434.2	467.0	573.1	820.7	1,264.9	26.4%
Rs. 0.5 million - 1.0 million	314.6	363.1	404.1	498.1	558.5	700.6	17.4%
Rs. 1.0 million - 2.5 million	566.9	579.2	623.5	811.2	985.8	1,227.2	16.7%
Rs. 2.5 million - 5.0 million	396.8	400.4	455.5	607.8	796.4	1,044.0	21.3%
Rs. 5.0 million - 10 million	235.7	253.0	292.7	345.5	473.2	595.6	20.4%
> Rs. 10 million	1,767.1	1,883.3	2,143.7	2,213.2	3,300.9	4,732.9	21.8%
Unallocated	125.8	119.6	105.1	106.5	154.4	137.6	1.8%
Overall	3,799.1	4,032.8	4,491.6	5,155.4	7,090.0	9,702.9	20.6%

Note: Business Loans portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau.
Source: CRIF Highmark, Crisil Intelligence



Note: Business Loans portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau.
Source: CRIF Highmark, Crisil Intelligence

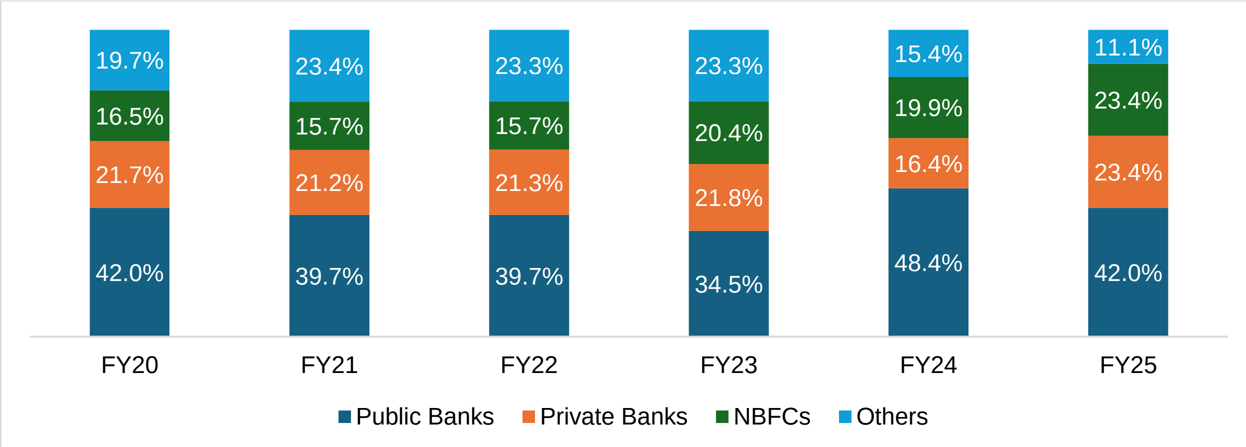
NBFCs witnessed the fastest growth among lenders from FY20-25, while Public Banks accounted for the highest share in overall Business Loans Segment

Among lenders, NBFCs witnessed the fasted growth during fiscals 2020-25, growing at a CAGR of ~29.3% in the business loans segment which was followed by public banks witnessing a CAGR of ~20.6%. Among lenders, Public Sector banks accounted for the highest share in credit outstanding with a share of ~42.0% followed by NBFCs and private banks accounting for ~23.4% share in fiscal 2025.

NBFCs witnessed the fastest growth among lenders from FY20-25

Portfolio Outstanding (in Rs. billion)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Public Banks	1,596.8	1,600.9	1,781.7	1,778.6	3,428.3	4,078.5	20.6%
Private Banks	824.8	855.2	957.9	1,124.4	1,162.4	2,274.5	22.5%
NBFCs	628.4	632.4	706.0	1,052.9	1,408.9	2,269.6	29.3%
Others	749.1	944.3	1,046.1	1,199.5	1,090.4	1,080.3	7.6%
Overall	3,799.1	4,032.8	4,491.6	5,155.4	7,090.0	9,720.9	20.6%

Note: Business Loans portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau. Others includes SFBs, foreign banks and other small players
Source: CRIF Highmark, Crisil Intelligence



Note: Business Loans portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau. Others includes SFBs, foreign banks and other small players

Source: CRIF Highmark, Crisil Intelligence

Among lenders private banks had the highest asset quality as of Fiscal 2025

Among lenders, private banks had the highest asset quality in the business loans segment with 90+ DPD at 6.1% as of Fiscal 2025, this was followed by NBFCs with 90+ DPD at 6.6%.

Among lenders, Private Banks had the highest asset quality in Business Loans Segment as of Fiscal 2025

Lender (NPA %)	FY20	FY21	FY22	FY23	FY24	FY25
Public Banks	37.3%	38.2%	39.5%	37.2%	19.6%	16.4%
Private Banks	4.5%	6.6%	8.2%	7.1%	7.3%	6.1%
NBFCs	8.2%	10.9%	12.3%	9.8%	7.3%	6.6%
Others	10.2%	12.7%	12.3%	12.1%	14.8%	17.1%
Overall	20.0%	21.3%	22.2%	19.2%	14.4%	11.8%

Note: Business Loans portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau. Others includes SFBs, foreign banks and other small players

Source: CRIF Highmark, Crisil Intelligence

Urban Regions accounted for the highest share in Business Loans Segment as of Fiscal 2025

As of Fiscal 2025, urban regions accounted for the highest share in business loans segment, accounting for ~63.4% market share followed by rural regions accounting for ~23.1% share and semi-urban regions accounting for ~9.5% market share. While the fastest growth was witnessed in rural regions during the fiscals growing at a CAGR of ~26.5% followed by semi-urban regions which grew at ~25.2% CAGR during FY20-FY25.

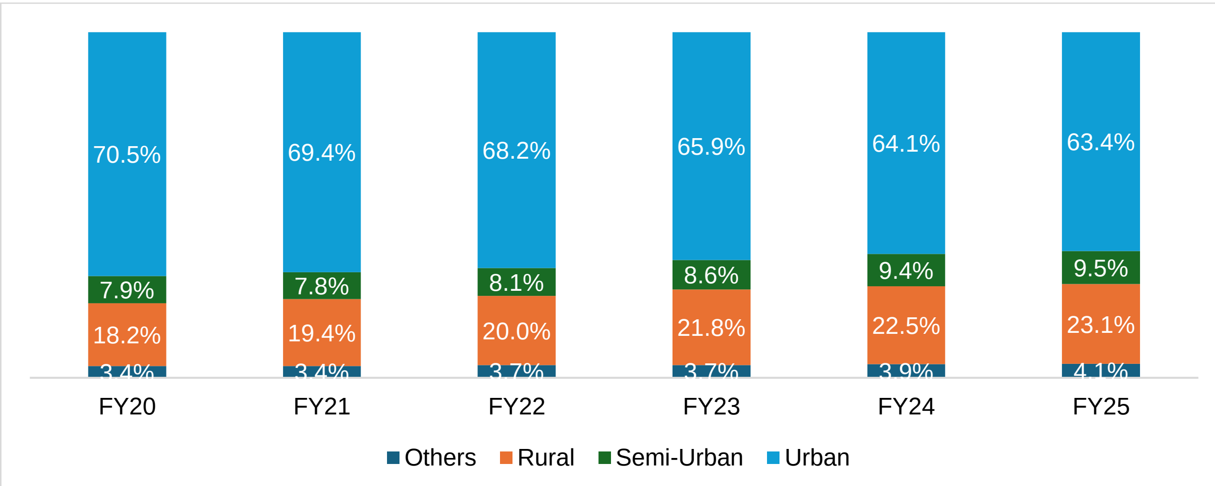
Urban Regions accounted for the highest share in Business Loans Segment, accounting for ~63% share as of Fiscal 2025

Tier (Rs. Billion)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Rural	691.2	780.9	899.0	1,126.1	1,595.7	2,237.1	26.5%
Semi-Urban	300.2	315.2	363.1	441.9	668.3	924.5	25.2%

Urban	2,680.0	2,799.9	3,063.8	3,396.7	4,547.1	6,146.9	18.1%
Others	127.6	136.8	165.8	190.7	278.9	394.4	25.3%
Overall	3,799.1	4,032.8	4,491.6	5,155.4	7,090.0	9,702.9	20.6%

Note: Business Loans portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau. 'Others' constitute portfolio not categorized as rural, semi-urban or urban by bureau.

Source: CRIF Highmark, Crisil Intelligence



Note: Business Loans portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau. Others constitute portfolio not categorized as rural, semi-urban or urban by bureau. Source: CRIF Highmark, Crisil Intelligence

9.2 Key Growth Drivers

Higher Interest Rate Margins: Business Loans typically carry higher interest rates compared to secured loans. The higher yield on unsecured loans compensates for the additional risk involved, making it an attractive option for lenders seeking higher returns.

Technology Adoption: Leveraging technology in credit assessment, loan processing, and monitoring can streamline operations, reduce costs, and enhance efficiency in Business Loans lending. Automated credit scoring models and digital platforms enable lenders to make faster decisions and serve a larger number of borrowers.

Regulatory Support: Government initiatives such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) provide support to lenders to offer unsecured credit to MSMEs. These schemes help mitigate risks for lenders and promote increased lending to small businesses.

Promoting Financial Inclusion: Providing Unsecured credit to micro and small enterprises plays a crucial role in promoting financial inclusion. Many small businesses lack requisite collateral to avail formal credit. By offering unsecured credit lenders can reach underserved businesses and support their growth and development.

Customised solutions: By understanding the challenges and aspirations of small businesses, lenders can provide tailored solutions, Lenders can customize financial products to suit the unique needs and cash flow patterns of Business loan borrowers, fostering long-term relationships and loyalty.

9.3 Threats and challenges

The unsecured business lending segment is expected to witness a rapid growth in the upcoming fiscals, however, there are a few risks associated with lending to this segment.

Inadequate credit history of borrowers: Generally, small borrowers often lack credit history which is necessary for underwriting. Additionally, they do not have the financial capabilities to invest in maintaining proper accounts due to which it becomes difficult for lenders to assess their creditworthiness.

Borrowers lack liquidity and are vulnerable to cash flow challenges: SMEs/MSMEs often face delays in payments which significantly impact their cash flow cycle and in-turn impact their repayment behavior.

Borrowers are unable or unwilling to share all information: Borrowers usually do not have all the required information available because of which lenders cannot assess the borrowers in a better manner.

10. Auto Finance Industry

10.1 Auto loans financing market

The Indian automobile sector comprises four key segments - two-wheelers, three-wheelers, passenger vehicles (PV), and commercial vehicles (CV). India is fourth largest PV manufacturer, second largest two-wheeler manufacturer, fifth largest CV manufacturer and largest three-wheeler manufacturer. Indian automotive industry is a crucial component of the country's economy, playing a significant role in driving growth through its strong connections to other sectors. Government policies and liberalization efforts have fostered a thriving and competitive market, attracted new players and led to industry expansion. As a vital contributor to global economic growth, the auto industry supports a vast network of suppliers. and creates a substantial number of jobs. Its contribution to India's GDP has also seen a significant increase, rising from 2.8% in fiscal 1993 to approximately 6.8% in 2024.

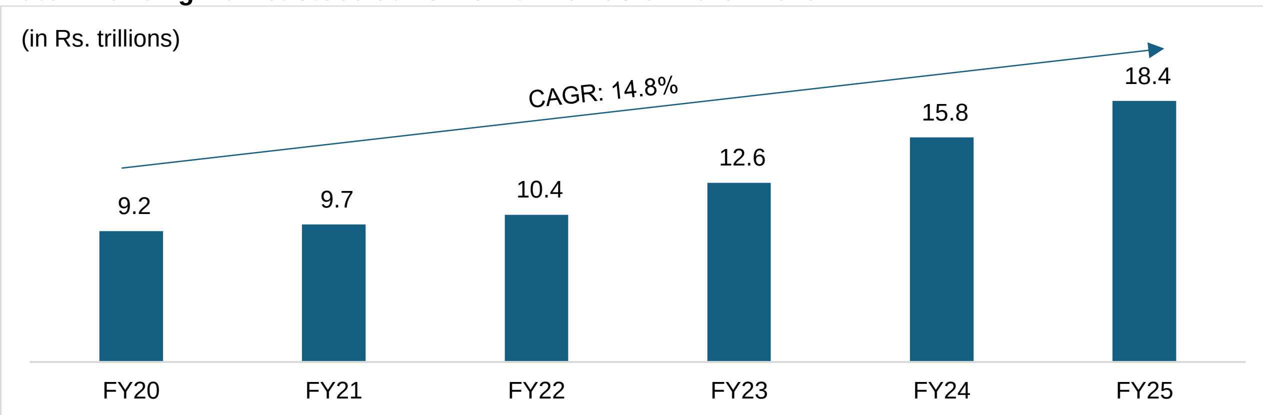
The auto segment experienced a muted performance during fiscal 2021 and fiscal 2022 due to pandemic-induced disruptions and a shortage of semi-conductors. In fiscal 2023, the easing of the semiconductor shortage and pent-up demand supported an uptick in car and utility vehicle (UV) volumes. As demand recovered, the financing aspect also witnessed a recovery, with NBFCs and banks growing at 20% and 21%, respectively, during fiscal 2023.

However, growth in fiscal 2024 remained muted due to the high base of growth in the previous fiscal, high interest rates, and the pass-through of interest rates to the ultimate borrower, which increased the cost of affording a vehicle. Furthermore, signs of an economic slowdown, attributed to weak government expenditure ahead of general elections, extreme heat waves, and torrential rains in parts of the country, lowered vehicle utilization and, consequently, affecting the vehicle finance business.

The first half of fiscal 2025 saw a weak demand for commercial vehicles due to slow economic growth owing to weak government expenditures owing to the general election. Similarly, rising inventory with dealers indicated weak demand for passenger vehicles. However, inventory overhang appears to have moderated by the end of December 2024 due to discounts being offered to clear excess inventories. On the other hand, the demand for two-wheeler and three-wheeler vehicles remained resilient due to robust rural demand though it was affected in initial months due to disruptions caused by heavy rains and heat waves in some parts.

The auto finance industry has grown at a 14.8% CAGR between fiscal 2020 and 2025. NBFCs face fierce competition from banks, particularly in the new car loan category of utility vehicles, as the lending rates offered by banks are lower compared to those of NBFCs. However, NBFCs have established a distinct position in the commercial vehicle market over time, which stands them in good stead. While banks use the advantage of lending at lower interest rates due to their ability to borrow at lower rates compared to NBFCs, due to the priority sector advantage, NBFCs leverage their advantage of reach to the lower strata of the country, where they can cater to customers with no formal income proofs and are able to take on higher risk.

Auto Financing Market stood at Rs. 18.4 trillion as of March 2025



Note: The above portfolio includes new and used passenger vehicle, commercial vehicle, construction equipment and two-wheeler loan portfolio
Source: CRIF Highmark, Crisil Intelligence

10.2 NBFCs in the Passenger and Commercial Vehicle Financing Market

Many NBFCs have entered the auto financing space, capitalizing on the rising demand of vehicle sales and need for flexible financing options. NBFCs, with their presence in tier 2, 3 cities offered quicker loan approvals with minimal documentation and attractive offers. NBFC presence is particularly strong in the used cars, two-wheelers and commercial vehicle space.

Tata Motors Finance Limited is one of the leading commercial and passenger vehicle loan providers in India. As of March 2025, Tata Motors Finance operates under the brand of "Tata Group", as a wholly owned subsidiary of Tata Motors Limited, which is one of India's largest automobile companies as of March 31, 2025.

Players	Passenger and Commercial Vehicle Financing AUM as of March 2025 (In Rs. Billion)
Shriram Finance Limited	1,726.6
Cholamandalam Investment and Finance Company Limited	849.8
Mahindra and Mahindra Financial Services Limited	742.0
Tata Motors Finance Limited	328.6^
Hinduja Leyland Finance Limited	175.7*
Sundaram Finance Limited	348.5
Bajaj Finance Limited	118.8

Note: For Tata Motors Finance the number includes commercial and passenger vehicle loan portfolio, For Mahindra and Mahindra Financial includes passenger Vehicle, commercial vehicle and construction equipment loan portfolio, For Hinduja Leyland the number includes commercial vehicle and car loan portfolio, For Cholamandalam Investment the number includes used Vehicle, mini LCV, Car, MUV, LCV, HCV loan portfolio, For Sundaram Finance the number includes MHCV, Retail CV, cars loan portfolio, For Bajaj Finance

the number includes car loan portfolio, For Shriram Finance the number includes commercial and passenger vehicle loan portfolio, (*) As of September 2024, (^) As of December 2024
Source: Company Reports, Crisil Intelligence

11. Passenger Vehicle Loans

11.1 Passenger vehicle domestic sales grew by 2% in Fiscal 2025, reaching 4.3 million units

Indian passenger vehicle (New cars and Utility Vehicles) industry has been witnessing a paradigm shift in consumer sentiments away from the traditional fuel-efficient budget friendly hatchback segment towards higher priced feature laden UVs which offer much more space, taller ride height and improved performance.

Between fiscal years 2019 and 2025, the PV market witnessed a significant shift in consumer preferences, leading to a change in segment-wise market share. The share of small cars halved during this period, dropping from 60% in FY19 to just 30% in FY25. This decline was primarily driven by the rising popularity of compact utility vehicles (UVs), which offered enhanced features, a more commanding road presence, and competitive pricing. Compounding this trend was the reduced focus by OEMs on introducing new models in the small car segment, which further accelerated the decline.

In contrast, the UV segment experienced a healthy surge, with its market share rising from 28% in FY19 to 64% in FY25. A key driver of this growth was the proliferation of compact UVs—vehicles that are essentially hatchbacks with SUV-like styling and features. These models directly competed with small cars in terms of pricing while offering superior value in terms of design, features, and perceived safety. The share of compact UVs alone rose from 10% in FY19 to 28% in FY25, underscoring their growing dominance.

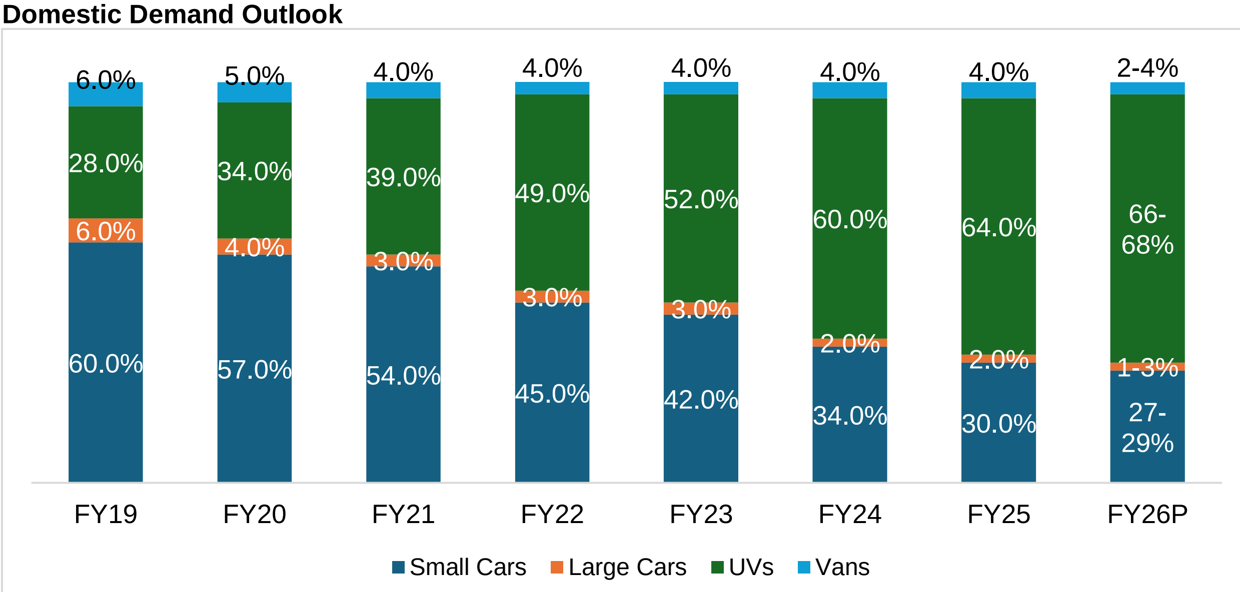
This shift was also influenced by the K-shaped recovery post-pandemic, where higher-income consumers gravitated toward premium UVs. The segment benefited from a steady stream of new launches, timely facelifts, and a wide range of variants across price points. Additionally, higher finance penetration made these vehicles more accessible to a broader customer base.

According to Crisil Intelligence, the UV segment's share is expected to rise further by 100–300 basis points in fiscal 2026, reaching 66–68%, while the share of small cars is projected to decline further to 27–29%. Despite the challenges in the entry-level segment, the continued momentum in UVs is likely to prevent a broader slowdown in overall PV sales.

Passenger vehicles (Cars, Utility vehicles and Vans) sales witnessed a decline for two consecutive years due to the pandemic, decreasing by 18% and 2% in Fiscal 2020 and Fiscal 2021 respectively. In Fiscal 2022, lifting of lockdown restrictions and normalization of activities resurrected the demand, however supply side issue of semi-conductor shortages for OEMs restricted the sales. Overall passenger vehicles sales grew at a restricted growth rate of 13% in Fiscal 2022. In Fiscal 2023, passenger vehicle sales improved on account of easing supply of semiconductors and higher production of vehicle variants with lower chip requirement. Passenger Vehicle sales grew by 27% in Fiscal 2023. Passenger Vehicle sales grew by 8% in Fiscal 2024 over a high base of Fiscal 2023. The segment recorded a modest 2% on-year growth in fiscal 2025, reaching approximately 4.3 million units. This slowdown in growth was primarily driven by subdued retail sentiment and an aggressive sales push by original equipment manufacturers (OEMs), which resulted in significant inventory buildup at the dealership level. Wholesale volumes remained largely flat in the first half of fiscal 2025, weighed down by high inventory and tepid retail demand. However, market conditions witnessed a notable improvement in H2 Fiscal 2025.

In fiscal 2026, Crisil Intelligence projects domestic passenger vehicle (PV) sales to register a 2–4% on-year growth, supported by rising disposable incomes, anticipated reductions in interest rates, and the sustained popularity of utility vehicles (UVs), which continue to dominate consumer preferences. However, several headwinds are expected to weigh on wholesale sales growth. Elevated inventory levels across dealerships remain a key concern, as the industry continues to correct the stock overhang from previous fiscals. While new product launches are expected, many are likely to be in niche segments, which is not expected to boost overall volumes significantly. Furthermore, the absence of major new-generation model launches in the mass-market segment could restrict incremental demand, thereby moderating the pace of growth in wholesale dispatches.

Domestic Demand Outlook



Source: SIAM, Crisil Intelligence

11.2 Growth Factors

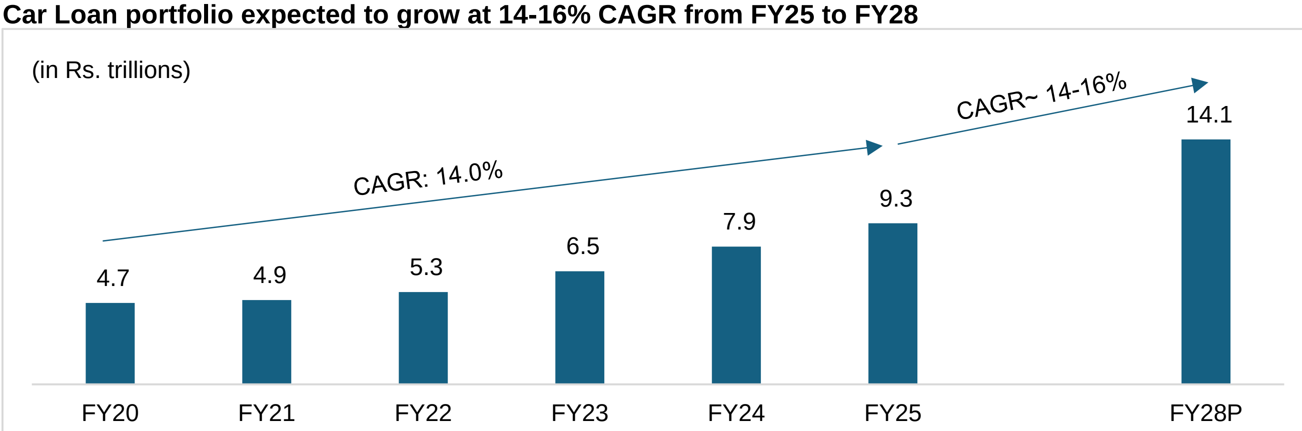
- **Increase in domestic sales:** Passenger vehicles grew at a CAGR of 9% in last 5 years (FY20-FY25) and is expected to grow at a pace of 7-9% CAGR in the next 5 years (FY25-FY30) supported by rising incomes, increase in the number of car buyers and rising penetration supported by rising incomes, increase in the number of car buyers and rising finance penetration.
- **Domestic Changes and growing affluence:** The population of 20 to 40-year-olds is projected to reach ~483 million by 2031, though their share of the total population is expected to slightly decrease to 32.6%. This indicates a continued expansion in the number of potential first-time PV buyers, which could support PV market growth. With the demographic trend suggesting a positive

outlook for the PV market, achieving significant growth will depend on favourable economic conditions and targeted policies to support consumer purchasing power.

- **Shift to Utility Vehicles:** The UV segment is expected to exert pressure on the small-car and large-car segments, limiting growth prospects. UV and van sales are projected to grow at a CAGR of 10–12% between fiscals 2025 and 2030, following a 22% CAGR during fiscals 2020 to 2025 driven by a continued shift in consumer preferences, multiple model launches, and availability of superior features at affordable prices.
- **Underpenetrated Market:** India's car market is underpenetrated compared with most developed economies and some developing nations. As of fiscal 2024, India had ~26 cars per 1,000 people. This number is expected to increase to 40.0 by fiscal 2030, which is lower than the developed nations and even Brazil, Russia, and China (all three, along with India, are a part of the BRIC block) based on per-capita GDP. Thus, India offers tremendous growth potential for automobile manufacturers.
- **Regulatory Initiatives:** The implementation of the National Electric Mobility Mission Plan 2020 and other policy initiatives by the government to address infrastructure-related issues are key monitorable for the sector over the next five years.

11.3 Car Loan financing market

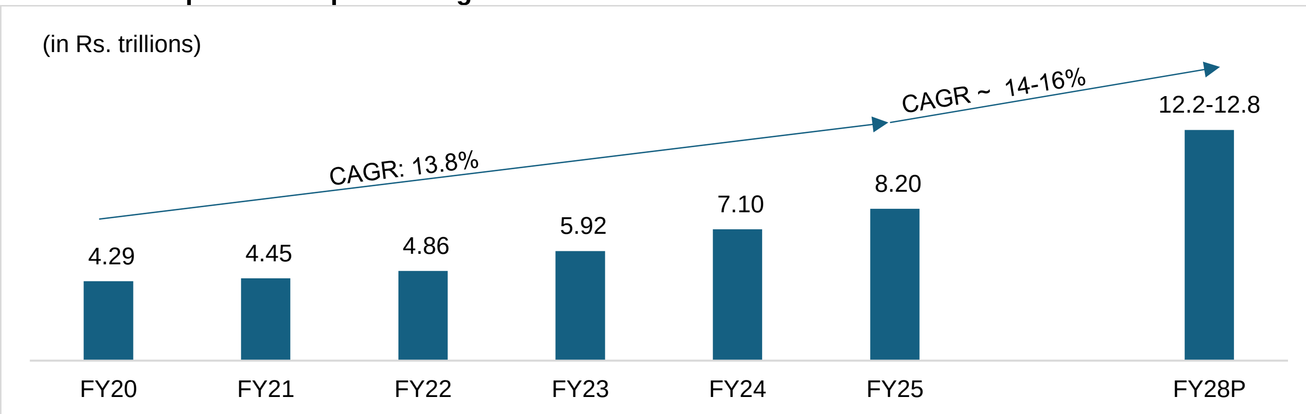
Car Loan portfolio expected to grow at 14-16% CAGR from FY25 to FY28



Note: The above data includes lending portfolio of new car loans and used car loans
Source: CRIF Highmark, Crisil Intelligence

11.4 New Car Loan financing market

New Car Loan portfolio expected to grow at 14-16% CAGR from FY25 to FY28



Source: CRIF Highmark, Crisil Intelligence

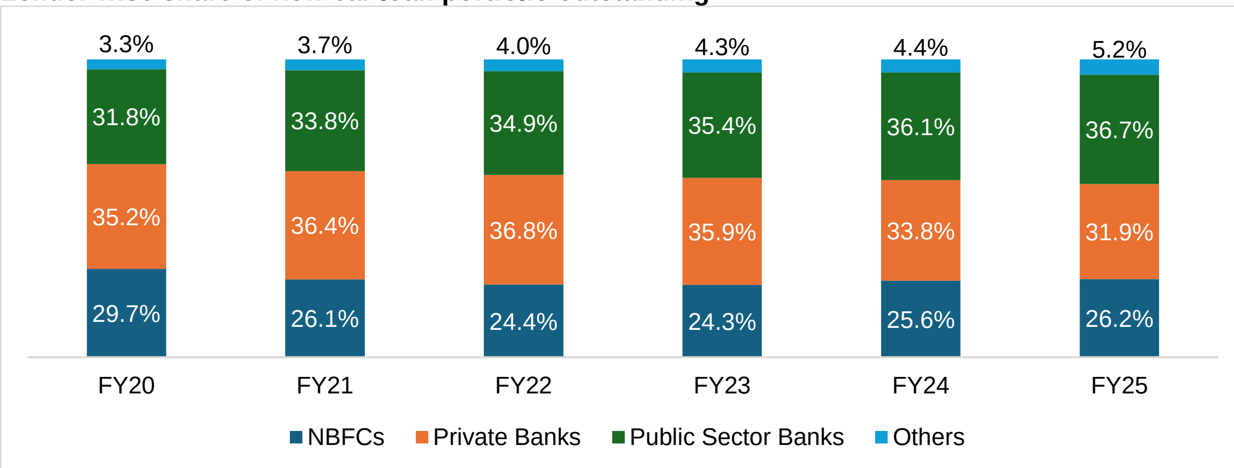
New car loan portfolio witnessed 13.8% CAGR between Fiscal 2020 to Fiscal 2025. In Fiscal 2023, new car loan segment grew by 21.9% year on year due to improvement in economic activities post covid period. In Fiscal 2024, the new car loan portfolio grew by 19.8% due to increasing finance penetration. In Fiscal 2025, the new car loan portfolio grew by 15.6%.

New passenger vehicle sales faced challenges in fiscal 2024 and fiscal 2025 due to a combination of factors. These included weaker consumer sentiment, record-high inventory buildup of 71-76 days at the start of Q3 FY2025, extreme heatwaves in the first quarter and extended rains in September 2024, high interest rates since February 2023, and the exhaustion of pent-up demand. Additionally, uneven rainfall patterns affected rural cash flows and demand. However, the second half of FY 2025 saw a notable improvement in sales, driven by festive demand and discounts that helped clear inventories. The improved sales performance in the second half of the fiscal year on account of festivities and discount offered to clear the older inventory has provided stimulus to the segment. Crisil Intelligence estimates finance penetration for auto loans to be between 75% to 80%, which is expected to improve in the upcoming years.

NBFC's ability to tap markets not serviced by Banks is expected to help them gain an edge

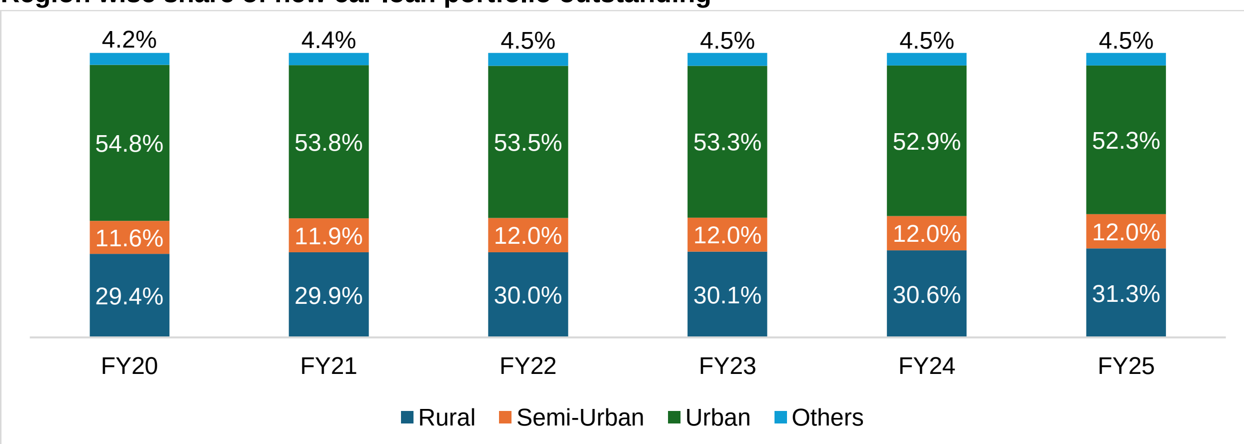
Over the years, banks have gained further inroads into the new-auto financing market, grabbing significantly greater share from non-captive NBFCs as captives have been able to maintain share with their superior connect to customers through their dealerships. New and used car loan will be a favoured option for NBFCs with the consideration that PVs carry low risk, can penetrate Tier 2 and 3 markets better and also serve unserved segment. Banks have higher share due to their better ability to cross-sell and offer lower financing costs compared with NBFCs on account of higher repo rates translating into higher cost of funds for non-banks. Also, delinquencies in this segment are low considering a better consumer profile, leading to banks becoming more aggressive in this segment. NBFCs have more penetration in the rural and semi-urban parts of the country. Thus, they can tap markets, which otherwise will not be accessible through banking channels.

Lender wise share of new car loan portfolio outstanding



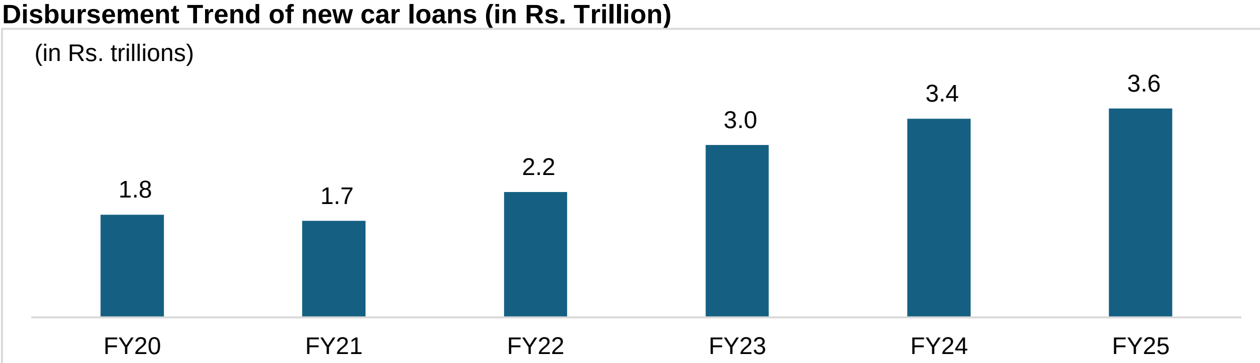
Note: Others includes other financial institutions, Small Finance Banks and foreign banks
Source: CRIF Highmark, Crisil Intelligence

Region wise share of new car loan portfolio outstanding



Note: Others constitute portfolio not categorized as rural, semi-urban or urban by bureau. Source: CRIF Highmark, Crisil Intelligence

Disbursement Trend of new car loans (in Rs. Trillion)



Source: CRIF Highmark, Crisil Intelligence

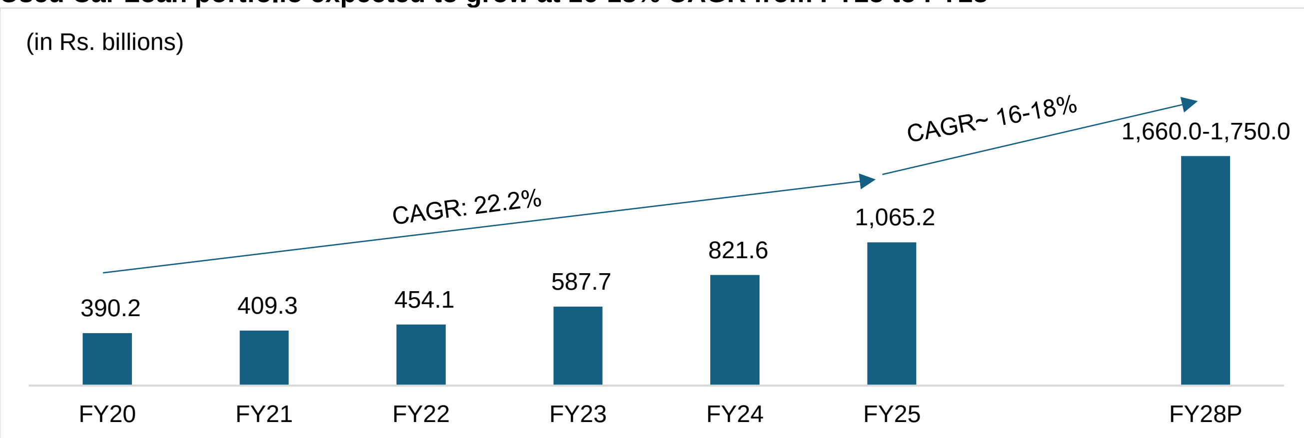
NBFCs have a lower ticket size as compared to overall industry

Average Ticket Size (in Rs. Millions)	FY20	FY21	FY22	FY23	FY24	FY25
NBFCs	0.4	0.4	0.5	0.5	0.6	0.6
Private Banks	0.8	0.8	0.9	1.0	1.1	1.1
PSU Banks	0.6	0.7	0.8	0.8	0.9	0.9
Others	0.6	0.4	0.5	0.6	0.7	0.7
Industry	**0.5**	**0.6**	**0.7**	**0.8**	**0.8**	**0.8**

Note: Others includes other financial institutions, Small Finance Banks and foreign banks
Source: CRIF Highmark, Crisil Intelligence

11.5 Used Car Loan financing market

Used Car Loan portfolio expected to grow at 16-18% CAGR from FY25 to FY28

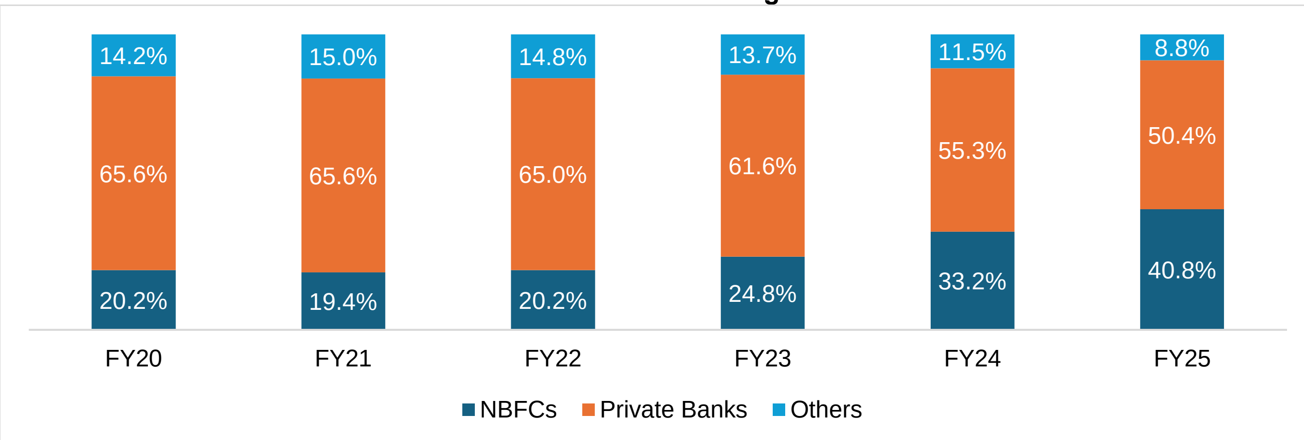


Source: CRIF Highmark, Crisil Intelligence

Private Banks account for ~50% of total used car financing market

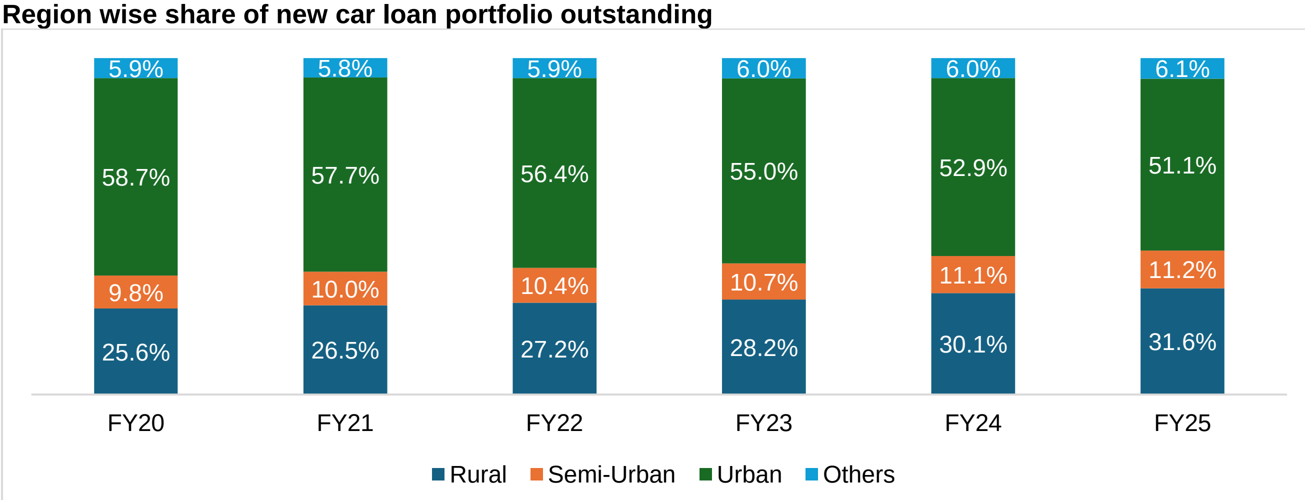
As of FY25, private banks accounted for 50.4% of total used car financing market, followed by NBFCs accounting for 40.8% share. Banks have witnessed a significant contraction in market share with share falling from 65.6% in FY20 to 50.4% in FY25, this share has been primarily taken over by NBFCs operating in the segment.

Private Banks account for 50.4% of overall used car financing as of March 2025



Note: Others includes other financial institutions, Small Finance Banks and foreign banks
Source: CRIF Highmark, Crisil Intelligence

Region wise share of new car loan portfolio outstanding



Note: Others constitute portfolio not categorized as rural, semi-urban or urban by bureau. Source: CRIF Highmark, Crisil Intelligence

Organized lenders increasing their presence in used car financing

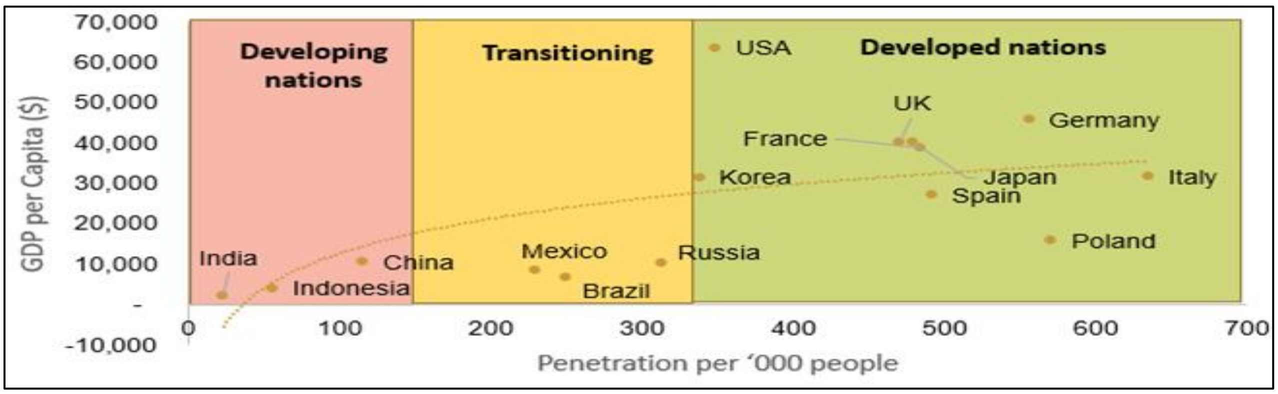
The used car market primarily serves new buyers looking for cost-effective entry-level vehicles. Over the past few years, the used car market in India has witnessed an unprecedented surge with the luxury segment emerging the major contributor of growth. This has led to the rise of the thriving luxury used car market, which is expected to continue to grow in coming years. The increase in demand for used cars is expected to be primarily driven by the sale of new cars, which perpetuates more used vehicles to be available, to cater to the needs of the customer.

Due to this shift, the unorganized used car market in India is also evolving into a more formalized one with more small dealers or brokers, semi-organised dealers and direct customer to customer sales, getting involved in the ecosystem. Further, market consolidation and entry of OEMs and new car dealership in the organised used car market has resulted in an increase in awareness and preference of certified used cars in India. These certified used cars undergo a thorough inspection, thereby ensuring reliability and quality, and hence giving the end customer the feel of a first car. The sector remains a mix of fragmented and consolidated approaches, encompassing independent dealers, institutional players, and manufacturer-backed entities. This transformation provides customers with structured processes, including financing and insurance.

11.6 Growth Drivers for New and Used Car Loans

Market for passenger vehicles underpenetrated, offer healthy potential in the long run

India's car market is extremely underpenetrated compared with most developed economies and some developing nations. As of fiscal 2021, India had ~24 passenger vehicles per 1,000 people, which is significantly lower than the developed nations and even Brazil, Russia, and China. Thus, India offers tremendous growth potential for automobile manufacturers. Even while comparing the penetration of cars and UVs across countries based on per-capita GDP, India lags most others. It is expected that this gap shall reduce gradually in the long run.



Source: Industry, Crisil Intelligence

Regulatory roadmap key for electric mobility to pick up in India

The implementation of the National Electric Mobility Mission Plan 2020 and other policy initiatives by the government to address infrastructure-related issues are key monitorable for the sector over the next five years. The government has announced Rs 10,000 crore for phase-II of Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME). The scheme offers a subsidy of Rs 10,000 per KWh for four-wheelers (BEV, PHEV, strong hybrid) for commercial purpose and public transport. It also mandates a minimum range of ~140 km and maximum ex-factory price of ~Rs 15 lakh. Many state governments have come forward and are providing incentives on purchase of an electric vehicles, wherein the benefit provided is in addition to FAME-2 policy benefits, thus boosting EV vehicles.

Utilizing Digital Platforms for Lead Generation in the Growing E-commerce Landscape

The digital revolution has played a vital role in transforming how businesses operate across industries; the automobile industry is no exception. New-age platforms have emerged that help new car dealerships run efficient used car programs not just in Tier 1 markets, but also in Tier 2 and 3 markets where potential lies largely untapped. This has caused OEMs like Mahindra First Choice, Maruti Suzuki True Value, Hyundai Promise, Toyota Trust, Honda Auto Terrace, and others to foray into the used car market. Further, Digital platforms such as Spinny, Cars24 among others are gaining traction in the organized segment, and with the integration of digital technology, this growth is poised for further acceleration.

Elevated Replacement Rates and Shifting Consumer Preferences Post-Covid

The accelerated replacement cycle of cars has amplified both the demand and supply for used cars. New vehicles are now being replaced approximately every 4-5 years, broadening the options available to customers seeking used cars. In the wake of the COVID-19 pandemic, there has been a notable shift in consumer preferences towards passenger vehicles, reflecting a desire for reduced contact with public transport. The heightened need for individual mobility, increased consumer aspirations, augmented disposable income, shortened replacement cycles, and improved financial accessibility has caused a surge in used car sales.

11.7 Threats and challenges

- **Market Competition and Interest Rate Pressure:** Intense competition among banks, NBFCs, and fintechs drives down interest rates, squeezing profit margins. Lenders must offer competitive terms to attract customers, affecting revenue growth.
- **Vehicle Depreciation and Resale Risk:** The rapid depreciation of vehicle value reduces the collateral strength, especially in the case of defaults. Poor resale values can lead to significant losses for lenders in repossession cases
- **Credit Risk and Loan Default:** Economic uncertainty and job instability increase the likelihood of loan defaults, impacting lenders' profitability. Borrowers with lower creditworthiness pose higher risks, requiring stringent credit assessments.

12. Construction Equipment Loans

12.1 Construction equipment sales

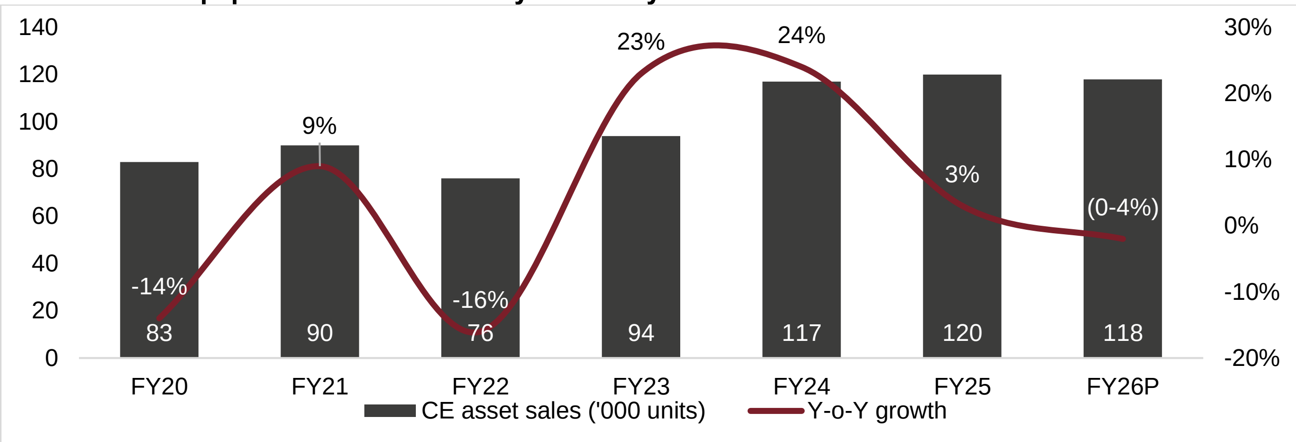
Sales in the new construction equipment (CE) sector comprising earth moving, material handling and road equipment, normalised during fiscal 2025, with 3% growth in volume and 5% in value on a high base. The sector had recorded 24% growth in volume and 26% in value in fiscal 2024. This surge was driven by significant growth in key end-user segments such as roads, railways, power and irrigation. As a result, demand for construction equipment is estimated to have remained robust, surpassing 120,000 units in fiscal 2025. However, construction activity likely normalised in fiscal 2025 and is expected to remain at similar levels in 2026, with a decline of 1-4% in volume and an increase of 6-8% in value on account of passing higher raw material costs on to consumers.

Growth in the infrastructure sector is led by a healthy rise — on a high base — in state and central government capital expenditure budgets and central government initiatives such as the National Infrastructure Pipeline (NIP), National Monetisation Pipeline (NMP), and the Gati Shakti programme. The central government's emphasis will provide a significant boost to infrastructure investments, with roads, railways, irrigation and power sectors accounting for most of these investments.

The credit growth in CE financing moderated in the first half of fiscal 2025 due to normalisation in the central government’s capital allocation for key infrastructure industries, along with a slowdown in construction activity and CE sales. However, CE sales rebounded in the third quarter of the fiscal on increased investments following the general election, which stimulated demand, as well as the resumption of construction activity after the end of the southwest monsoon season. The introduction of new and sustainable CE variants by manufacturers also contributed to the rise. Furthermore, the government, in the Union Budget 2025-26 allocated a significant Rs 10.7 trillion for infrastructure ministries, representing an 11.6% increase from the revised estimate for fiscal 2025. This substantial investment is likely to aid the CE sector, supporting sustained growth and finance penetration. As a result, Crisil Intelligence expects the new CE loan book of NBFCs to grow 16-18% in fiscal 2026 on a high base.

Average loan to values (LTVs) offered by players in the CE finance segment are 80-90%, which has been consistent for the past 3-4 years.

Construction Equipment volumes rose by 3.0% on-year in fiscal 2025

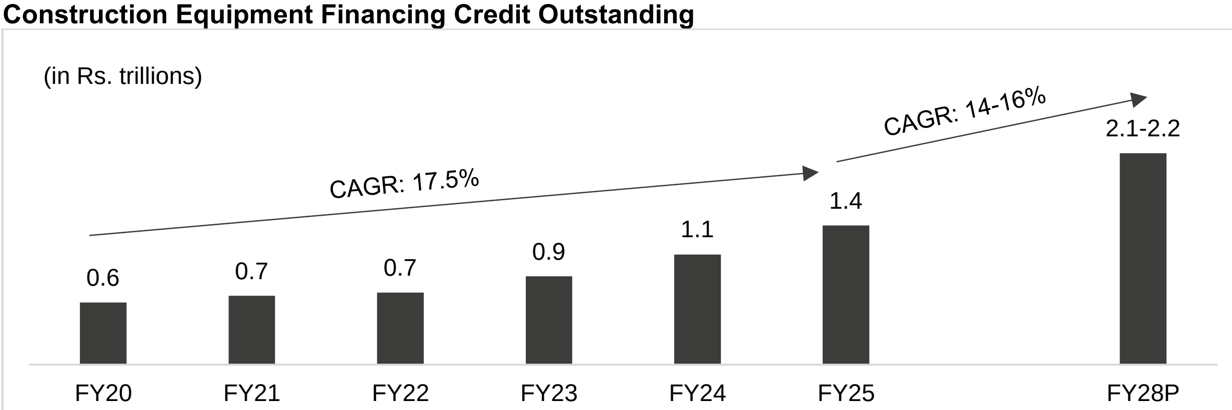


Source: Industry, Crisil Intelligence

12.2 Construction Equipment Financing

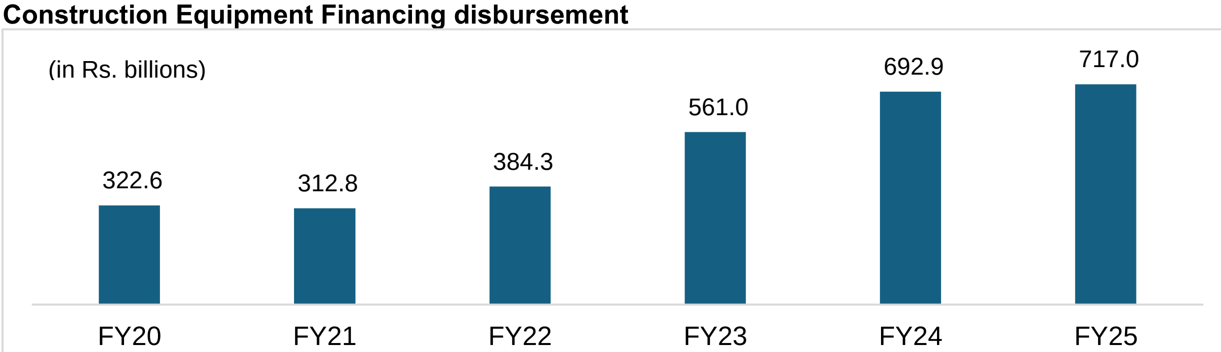
The CE finance industry grew 26.1% on-year in fiscal 2025, reaching a market size of ~Rs 1.4 trillion. CE financing segment is expected to grow at a CAGR of 14-16% till Fiscal 2028. The segment witnessed a growth of 17.5% CAGR from Fiscals 2020 to Fiscal 2025. This growth was driven by an increase in the sales value of new Construction Equipment.

Construction Equipment Financing Credit Outstanding



Source: CRIF Highmark, Crisil Intelligence

Construction Equipment Financing disbursement

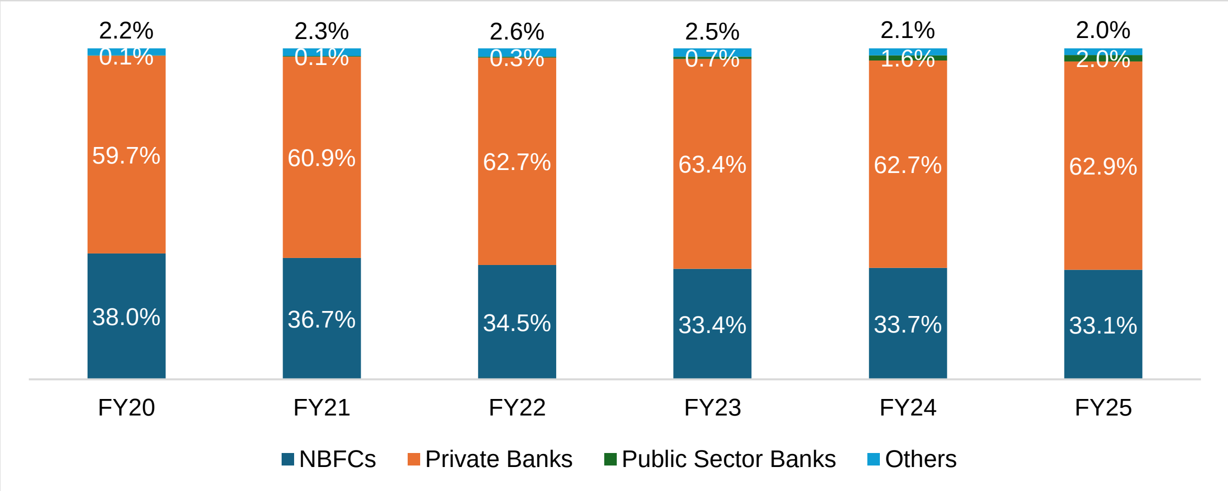


Source: CRIF Highmark, Crisil Intelligence

Private Banks account for majority share in Construction Equipment Finance Outstanding across fiscals

Among lenders, Private Banks accounted for the highest share in CE finance outstanding (~62.9%) as of Fiscal 2025, which was followed by NBFCs with ~33.1% market share.

Private Banks account for majority share in CE Finance Outstanding across fiscals



Note: Others includes other financial institutions, Small Finance Banks and foreign banks, Source: CRIF Highmark, Crisil Intelligence

Lender (Rs. Billion)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR FY20-FY25
NBFCs	241.0	257.1	254.1	300.6	378.7	469.5	14.3%
Private Banks	378.6	426.8	461.4	570.4	705.1	892.5	18.7%
PSU Banks	0.4	1.0	2.1	6.4	17.6	28.1	136.2%
Others	13.7	16.3	18.8	22.7	23.6	28.5	15.7%
Overall	**633.7**	**701.2**	**736.5**	**900.1**	**1,125.0**	**1,418.5**	**17.5%**

Note: Others includes other financial institutions, Small Finance Banks and foreign banks, Source: CRIF Highmark, Crisil Intelligence

Maharashtra, Gujarat, and Rajasthan had the highest share in construction equipment financing as of FY25

In construction equipment financing market, top 10 states accounts for 75.1% share as of Fiscal 2025.

State	FY20	FY21	FY22	FY23	FY24	FY25	CAGR FY20-FY25
Maharashtra	90.6	95.2	102.1	131.2	177.8	235.4	21.0%
Gujarat	52.1	58.5	62.6	85.1	110.4	144.4	22.6%
Rajasthan	51.8	59.9	64.4	80.3	98.7	125.3	19.3%
Tamil Nadu	57.4	64.6	65.5	77.0	92.7	114.6	14.8%
Uttar Pradesh	34.4	39.9	42.2	54.1	69.5	87.3	20.5%
Telangana	40.9	42.9	45.3	53.2	62.2	78.4	13.9%
Karnataka	38.9	41.6	41.0	50.7	63.4	77.0	14.6%
Madhya Pradesh	34.3	37.3	39.1	45.1	58.4	70.0	15.3%
Odisha	24.6	28.9	32.1	38.3	52.1	67.2	22.2%

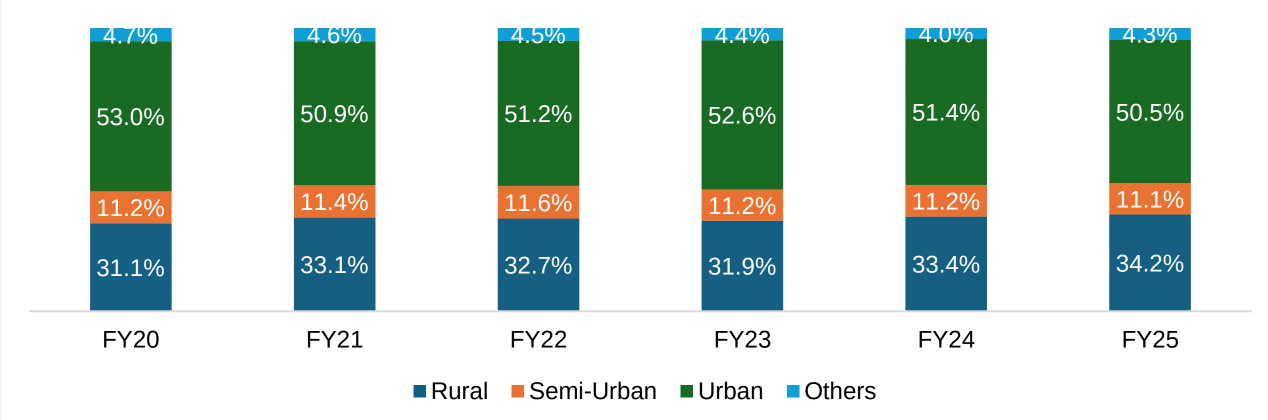
State	FY20	FY21	FY22	FY23	FY24	FY25	CAGR FY20-FY25
Haryana	27.3	29.3	32.1	39.0	50.2	62.6	18.1%
Andhra Pradesh	30.5	31.2	31.5	38.5	44.5	56.0	12.9%
West Bengal	30.9	32.2	30.4	35.1	40.5	50.3	10.2%
Chattisgarh	13.9	18.2	20.0	24.8	31.9	42.9	25.3%
Delhi	22.3	22.6	22.9	27.2	30.3	40.1	12.5%
Jharkhand	14.7	17.0	17.3	20.2	25.6	34.7	18.8%
Kerala	20.2	23.2	23.7	26.1	28.3	27.3	6.3%
Punjab	10.2	12.0	13.1	15.5	19.9	23.4	18.1%
Assam	10.4	12.7	14.0	16.5	19.1	20.5	14.5%
Bihar	9.4	11.5	11.7	12.7	14.7	17.2	12.9%
Jammu & Kashmir	3.7	4.7	5.4	6.4	8.4	9.4	20.1%
Uttarakhand	3.7	4.4	4.8	5.6	6.8	7.9	16.1%
Himachal Pradesh	2.9	3.3	3.4	3.9	5.1	6.7	18.1%
Goa	2.6	2.6	2.6	2.2	2.7	3.6	7.1%
Chandigarh	1.2	1.5	1.9	2.5	2.5	3.3	22.5%
Arunachal Pradesh	0.6	1.1	1.2	1.3	1.6	2.0	26.1%
Meghalaya	0.7	0.9	1.3	1.8	1.9	1.8	21.7%
Tripura	0.4	0.6	0.9	1.2	1.6	1.7	31.5%
Pondicherry	0.3	0.4	0.4	0.5	0.7	0.9	25.4%
Nagaland	0.3	0.6	0.7	0.8	0.8	0.9	23.3%
Sikkim	0.5	0.5	0.6	0.6	0.7	0.8	8.6%
Manipur	0.4	0.7	0.7	0.5	0.5	0.4	-1.5%
Mizoram	0.6	0.6	0.5	0.4	0.3	0.4	-9.2%
Dadra & Nagar Haveli	0.1	0.2	0.1	0.1	0.2	0.3	12.9%
Daman & Diu	0.0	0.0	0.0	0.1	0.1	0.1	21.5%
Andaman and Nicobar	0.0	0.0	0.0	0.0	0.0	0.0	14.7%
Lakshadweep	0.0	0.0	0.0	0.0	-	0.0	65.1%

Source: CRIF Highmark, Crisil Intelligence

Urban areas account for the highest share among tiers across fiscals 2020-25

Urban regions account for the highest share as of FY25, accounting for ~50.5% share in overall CE financing, this was followed by rural regions accounting for ~34.2% share and semi-urban regions accounting for ~11.1% market share. From fiscals 2020-25, rural regions witnessed a growth in market share of 3%, while urban regions witnessed a 3% fall in market share.

Urban areas account for the highest share among tiers across fiscals 2020-25



Note: Others constitute portfolio not categorized as rural, semi-urban or urban by bureau. Source: CRIF Highmark, Crisil Intelligence

Among lenders with major share, Private Banks had the lowest GNPAs across fiscals with 90+ DPD for FY25 at 2.4%. From FY22-25, NBFCs have witnessed an improvement in their NPA levels falling from 19.7% in FY22 to 11.8% in FY25.

12.3 Growth Drivers:

- **Building Customer Relationships:** The construction equipment financing industry is highly dependent on client relationship. Therefore, customer relationship is one of the major success factors in the industry. The importance is highlighted from the fact that financing schemes are often customised depending upon client relationship. NBFCs with their last mile connectivity, have formed better customer relationships than other lenders.
- **Value-added services:** Since players in the construction equipment financing industry depend substantially on customer relationship to generate business, besides offering customised finance schemes, construction equipment finance players also offer various value-added-services (VAS) to their customers. One major VAS offered by financiers is general insurance for the equipment that is being financed. It is compulsory to buy insurance while purchasing construction equipment.

  Therefore, offering insurance is beneficial for both, financier and customer, because the customer is able to save time by opting for the insurance offered by the financier instead of going to another insurance company. Besides this, banks also offer VAS such as bank guarantee, working capital facility, letter of credit, cash management system, life insurance to the applicant, etc.

12.4 Threats and challenges

- **NBFCs serve riskier customer segment** : In terms of customer mix, banks mainly focus on large customers (contractors). In comparison, NBFCs focus mainly on retail customers, including first-time buyers (FTBs), a riskier segment.

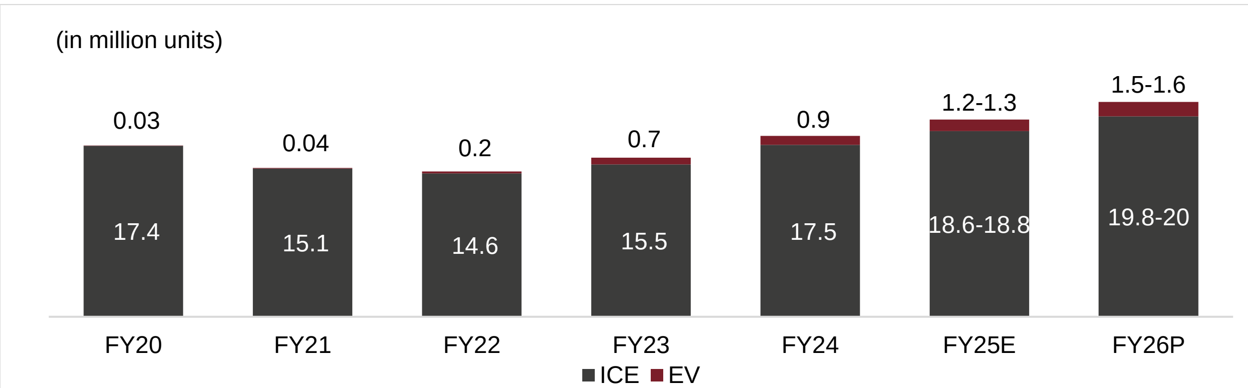
- **Cyclical nature of Construction equipement finance Industry**: The CEF industry is inherently cyclical. A challenging macroeconomic environment and delays in execution of infrastructure projects adversely affect cash flows of borrowers. The cyclicality leads to high volatility in asset quality of financiers, impacting their profitability.
- **Repossession and resale of assets**: Loan recovery can be challenging for NBFCs in the case of a default as the asset may be required to be repossessed One of the major issues faced by NBFCs in the construction equipment financing space is the storage of repossessed equipment from loans that have turned NPAs.. Furthermore, the secondary market for repossessed/used construction equipment is underdeveloped in India. Thus, resale of used equipment is a challenge for construction equipment sellers.

13.Two-wheeler Loans

13.1 Two-wheeler sales

Two-wheeler domestic sales grew by 14% to reach sales volume of 18.4 million units in Fiscal 2024. Two-wheeler volumes are expected to improve by ~7-9% in fiscal 2025 and further by 7-9% in fiscal 2026 on account of recovery of rural market sales aided by healthy crop prices and incomes finally catching up with the hike in vehicle prices and pent-up replacement demand. Scooter sales are to be supported by robust urban incomes and rising demand for scooters in rural market. Furthermore, premiumization to also aid volumes across both scooters and motorcycles.

Two-wheeler volumes sales



Source: SIAM, Crisil Intelligence

In the medium to long term, Crisil Intelligence expects manufacturers to focus on expansion in distribution network in semi-urban and rural areas, new model launches in the 125cc segment for scooters and premium segment for motorcycles.

- Improving rural productivity, diversification towards horticultural crops, government income support schemes and structural measures taken by the government such as PMKISAN, eNAM, Pradhan Mantri Fasal Bima Yojna (PMFBY) to name a few, will aid rural income in the long run. This is expected to drive sales of motorcycle segment, which will be a primary beneficiary of the rural growth.

- Scooters are expected to witness higher penetration in the rural market which will drive growth. The consumer preference shifting towards higher 'cc' scooters (125cc) is also likely to aid demand. This is due to a ramp up seen in road construction over the last few years. However, EV penetration is going to increase their market share in the long run.

- Mopeds, which account for 3-5% of domestic two-wheeler sales, are expected to decline the long run. Shift in consumer preference towards other vehicle segments and EV penetration will act as key reasons impacting moped sales.

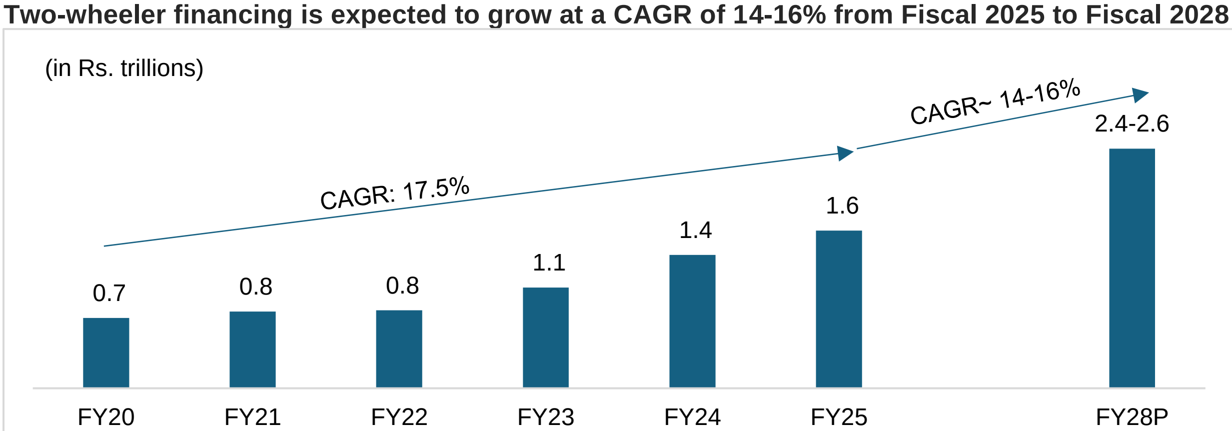
13.2 Two-wheeler Financing Market

Two-wheeler financing witnessed a CAGR of 17.5% from Fiscal 2020 to Fiscal 2025, reaching Rs 1.6 trillion in Fiscal 2025. During the fiscals, growth in two-wheeler financing was robust in FY21, witnessing a year-on-year growth of ~8.9%, while growth completely slowed down in FY22 primarily due to Covid-19 pandemic and lockdowns across the nation, with outstanding growing at 1.7% in FY22. Post FY22 financing again picked up pace with outstanding growing at ~29.2% in FY23 from the past fiscal. By Fiscal 2025, outstanding touched Rs. 1.6 trillion growing by 18.2% year on year. Going forward, two-wheeler financing is expected to grow at a CAGR of 14-16% from Fiscal 2025 to Fiscal 2028 and is expected to reach Rs. 2.4-2.6 trillion by Fiscal 2028.

There has been an increase in penetration of finance, especially in rural areas. With digital inclusion and fintech, the financial footprint of the customer can be tracked right from the beginning and hence default rates have gone down as the vehicles have also become easily traceable. Crisil Intelligence estimates Finance Penetration of overall two-wheelers at 60-65% as of Fiscal 2025.

The industry has seen strong competition with new players in the form of non-banking financial companies (NBFCs) targeting those markets exited by banks, and captive NBFCs (operated by two-wheeler manufacturers) largely focusing on non-metros and rural markets, while delinquencies remain key monitorable. Subdued demand owing to high cost increase led to financiers offering a wide range of schemes and promotions like low down payment, attractive EMI options, no charge on processing fees, etc., in order to attract more customers for small ticket size purchases. These schemes are provided to both existing and new to credit customers by lenders. Additionally, OEMs started offering discounts across various models in order to push sales. Going ahead, we expect lending in two wheeler space to be better on account of addition of support from various captive NBFCs that are aggressively trying to capture market in the rural space in order to aid sales.

Two-wheeler financing is expected to grow at a CAGR of 14-16% from Fiscal 2025 to Fiscal 2028



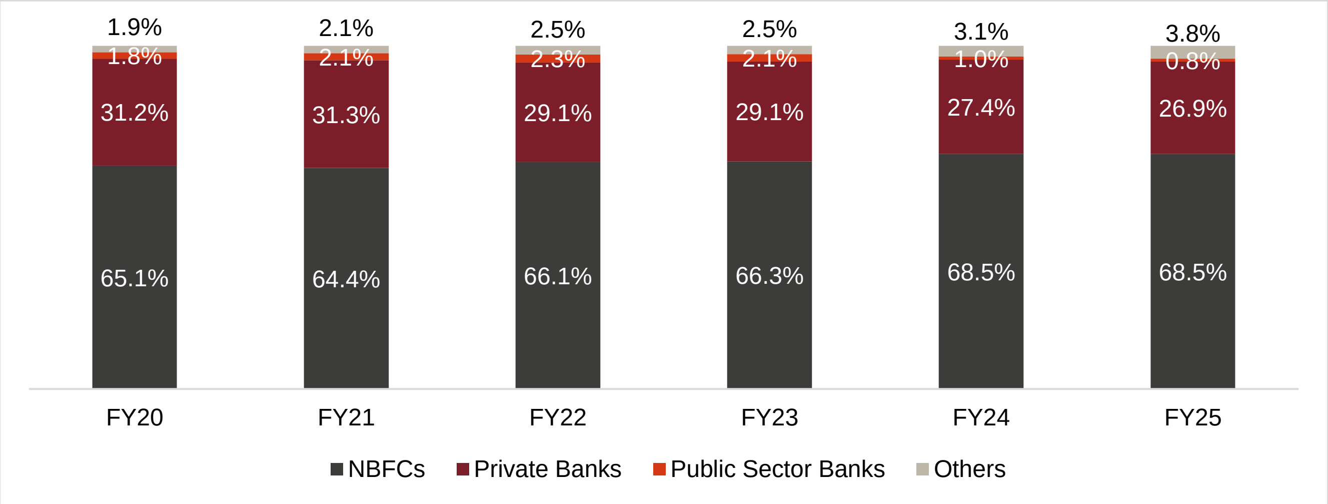
Note: P: Projected, Source: CRIF Highmark, Crisil Intelligence

NBFCs account for the highest share in two-wheeler financing across Fiscals 2019 – FY2025

The two-wheeler financing segment is increasingly becoming a stronghold of NBFCs due to their greater ability to tap rural markets by offering loans at rates much lower than those of unorganized peers. Limited presence of banks in rural markets also helps them. Though weaker demand sentiments have delayed their expansion, NBFCs remain poised to dominate the two-wheeler financing segment this fiscal as well as banks are likely to tread the space carefully.

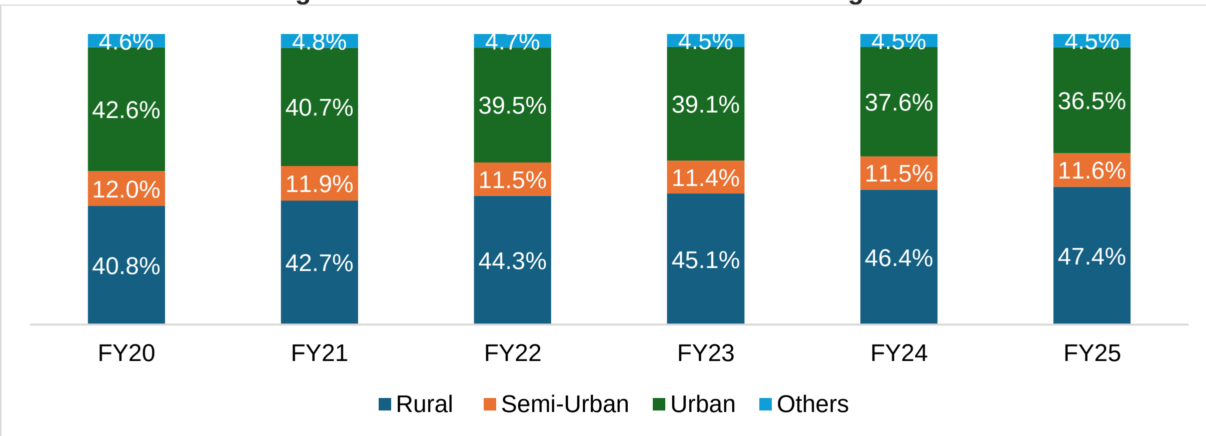
NBFCs accounted for highest share in credit outstanding among lenders, accounting for 68.5% as of Fiscal 2025, rising from 65.1% market share in Fiscal 2020, followed by private sector banks accounting for second highest share (26.9%) as of Fiscal 2025, declining from 31.2% in FY20. The under-penetrated rural market will be the key growth segment for NBFCs. Rising income will be further aided by better rural connectivity and rising participation of women in both, urban and rural areas.

NBFCs share in two-wheeler financing market stands at 68.9% as of Fiscal 2025



Note: Others includes other financial institutions, Small Finance Banks and foreign banks.
Source: CRIF Highmark, Crisil Intelligence

Rural areas have the highest market share in two-wheeler financing market as of Fiscal 2025

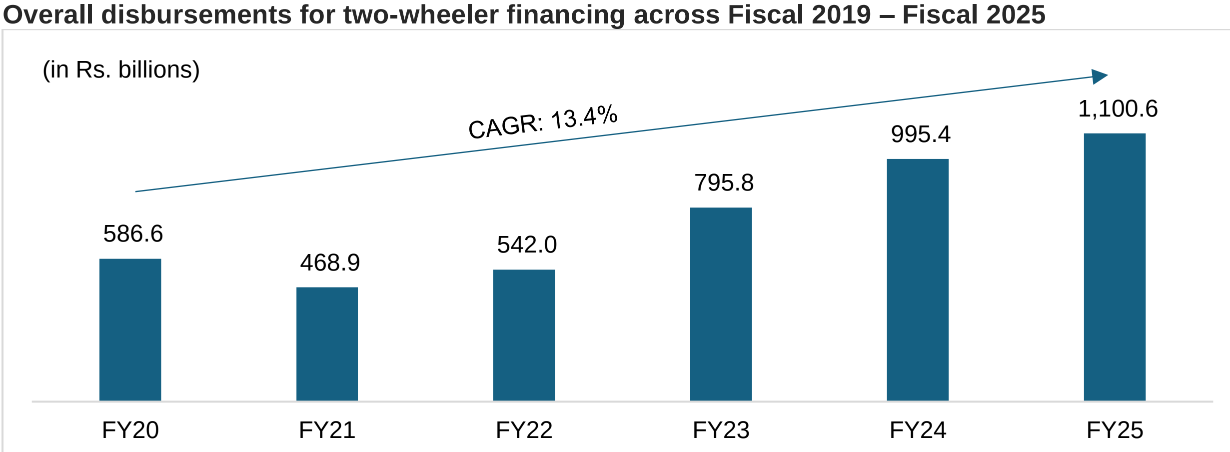


Note: Others constitute portfolio not categorized as rural, semi-urban or urban by bureau. Source: CRIF Highmark, Crisil Intelligence

Overall two-wheeler disbursements increased by 10.6% in Fiscal 2025

In Fiscal 2025, overall disbursements grew at a growth of 10.6% on account of strong growth of two-wheeler sales.

Overall disbursements for two-wheeler financing across Fiscal 2019 – Fiscal 2025



Source: CRIF Highmark, Crisil Intelligence

NBFCs have a lower ticket size as compared to other lenders as of Fiscal 2025

Average Ticket Size (in Rs. Thousands)	FY20	FY21	FY22	FY23	FY24	FY25
NBFCs	59.7	65.3	70.5	79.0	85.7	89.2
Private Banks	65.7	73.5	80.1	88.1	94.9	97.5
PSU Banks	83.5	98.5	106.8	113.6	116.0	125.8
Others	83.9	93.4	95.2	109.1	109.3	100.2
Industry	**61.9**	**68.4**	**73.8**	**82.4**	**88.8**	**91.9**

Note: Others includes other financial institutions, Small Finance Banks and foreign banks
Source: CRIF Highmark, Crisil Intelligence

13.3 Growth Drivers

Apart from underlying macro-economic factors which are discussed in earlier section, some of the growth drivers are as follows:

Road infrastructure spends by the government

Overall road sector capex, comprising of National Highways, State Highways & rural roads has been growing. State roads, which include highways, major district roads and rural roads along with roads that come under the purview of the Pradhan Mantri Gram Sadak Yojana, play an important role in the economic development of mid-sized towns and rural areas and therefore act as a driving factor for growth of two-wheeler sales.

Increasing demand from rural and semi-urban areas

Two-wheelers are more popular in the rural and semi-urban areas and are preferred mode of transport for people due to limited public transportation facilities. Two-wheeler provides an efficient and affordable means of last-mile connectivity, driving up demand. Rural demand is expected to aid two-wheeler growth in the long term, and this will likely be backed by rising farm incomes, improving rural infrastructure, moderating inflation, especially as the government continues to invest in developing rural roadways.

Evolution of electric two-wheelers

Globally, electric vehicles are gaining popularity since they are considered as environmentally friendly. In India as well, electric vehicles are gaining popularity as the government is extending support via Faster Adoption and Manufacturing of Hybrid and Electric (FAME)-2 vehicles and tax rate cuts to give a boost to EV adoption.

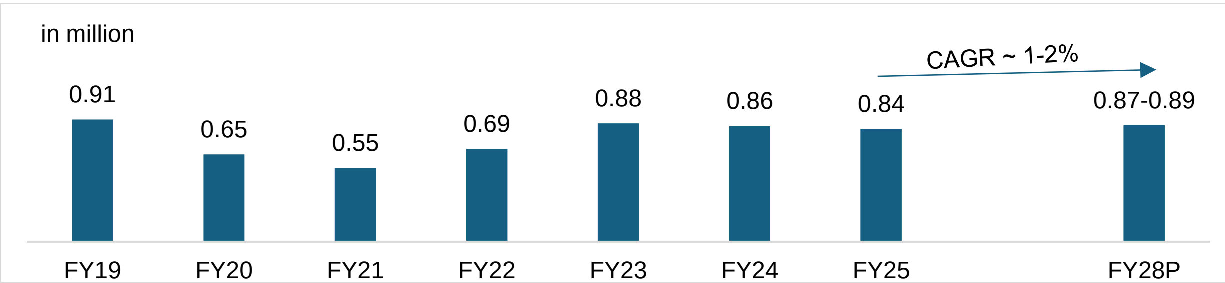
13.4 Threats and challenges

- **High Default Risk:** Two-wheeler loans often target low-income or first-time borrowers, leading to a higher risk of defaults. Economic fluctuations can worsen repayment challenges, impacting the overall loan portfolio quality.
- **Intense Market Competition:** Heavy competition from banks, NBFCs, and fintechs results in lower interest rates and thin profit margins. Lenders face pressure to provide favorable terms and flexible options to attract borrowers.
- **Vehicle Depreciation and Limited Resale Value**: Two-wheelers depreciate quickly, reducing their value as collateral. This creates challenges in recovering loan amounts through repossession and resale in case of defaults.

14. Commercial Vehicle Loans

14.1 Commercial Vehicle sales

Robust recovery witnessed in commercial vehicle sales driven by government spending and sustained-user demand

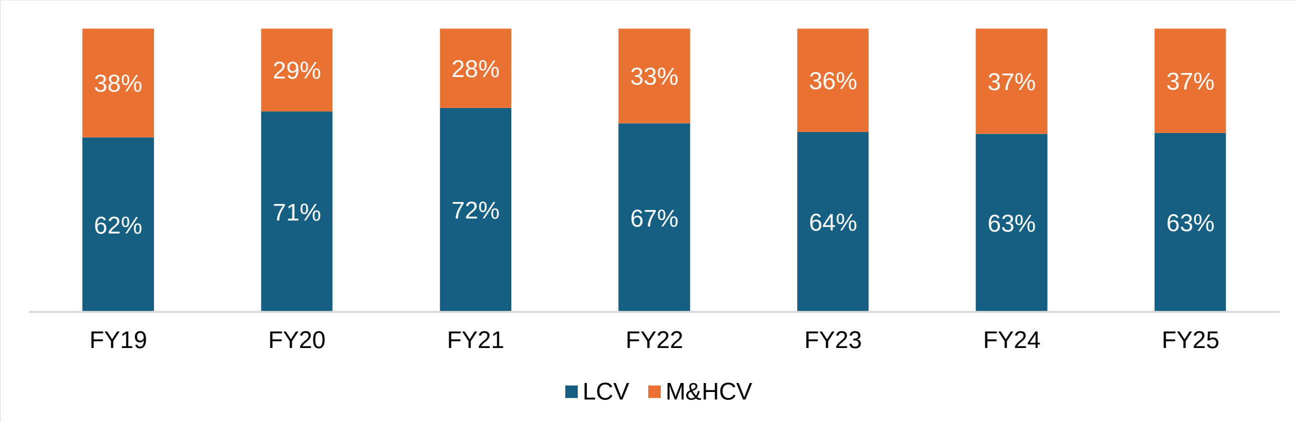


Note: CV sales include LCV & MHCV goods carrying vehicles, Source: SIAM, Crisil Intelligence

The commercial vehicle (CV) industry, which consists of Light Commercial Vehicles (LCV), Medium and Heavy Commercial Vehicles (MHCV) exhibited muted growth in Fiscal 2024. In Fiscal 2025, the overall CV volumes declined by 2%, with the slowdown primarily led by the MHCV segment, which saw a decline of 3%. This was due to the healthy tonnage growth of the past years leading to a buildup of excess supply in the system, thereby weakening new sales demand. Additionally, lower government spending (which were down by 12% in first 8 months of fiscal 2025) owing to general elections led to delayed awarding of roads and other infrastructure projects, further hindering CV growth. The LCV segment also recorded a decline of 2%, with sales being dragged down by the sub-one-tonne segment, which faced stiff competition from electric three-wheelers (e-3Ws) in last-mile delivery and from healthy sales in previous years.

In fiscal 2026, the overall commercial vehicle (CV) segment is expected to grow with the Light Commercial Vehicles (LCV) segment leading the growth. This growth is driven by replacement volumes from healthy sales over fiscals 2017-19, the resumption of government spending to usual levels, and increased construction and mining activity supported by a 9-11% higher budgeted construction capex. Additionally, the lowering of repo rates and higher loan disbursements are expected to contribute to this growth.

Light commercial vehicles account for around 63% of total commercial vehicle sales as of Fiscal 2025



Note: CV sales include LCV & MHCV goods carrying vehicles, Source: SIAM, Crisil Intelligence

The Light Commercial Vehicle (LCV) sales declined by 2% in fiscal year 2025. Despite an increase in volume up for replacement compared to past years, the general slowdown in economic activity put downward pressure on LCV sales. Reduction in construction activity, along with subdued demand for last-mile delivery and e-commerce activity due to declining urban spending and extended rainfall, impacted sales. In fiscal 2026, the LCV segment is projected to grow by 4-6%, driven by increased economic and commercial activities. LCV segment is also considered to be less cyclical than the MHCV segment due to its usage in e-commerce delivery fleets and other essential economic activities, providing better last mile connectivity.

The Medium and Heavy Commercial Vehicle (MHCV) segment declined by 3% in fiscal year 2025. The decline in the volume up for replacement and the oversupply of tonnage in the system hindered volume growth. In fiscal 2026, the MHCV segment is projected to grow by 2-4%, supported by postponed purchases from Fiscal 2025 and healthy end-use segments. Despite the mild increase in freight rates and stable fuel prices providing only weak support, the overall growth is expected due to postponed purchases from Fiscal 2025 and healthy end-use segments.

Top 10 states account for around 71% of total commercial vehicle sales as of Fiscal 2025

Top 10 states account for around 71% of total commercial vehicle sales as of Fiscal 2025, with top five states accounting for 47% of total commercial vehicle sales. Among states Maharashtra had the highest share in CV sales as of Fiscal 2025 at nearly 15% followed by Gujarat (nearly 9%) and Uttar Pradesh (nearly 9%).

State (in 000's)	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025
Maharashtra	83.7	68.0	89.7	116.0	110.3	122.2
Gujarat	52.4	38.5	58.9	72.7	73.9	77.1
Uttar Pradesh	57.0	47.9	58.7	81.2	83.0	75.3
Karnataka	40.8	36.3	46.6	64.0	62.4	58.0

Tamil Nadu	48.9	46.9	54.5	70.8	67.6	57.5
Rajasthan	36.7	28.3	41.6	58.6	57.8	56.9
Haryana	31.9	28.6	41.7	53.2	52.4	54.0
Madhya Pradesh	24.0	19.9	22.0	31.9	33.6	32.6
West Bengal	33.5	28.1	31.3	34.2	32.0	31.9
Andhra Pradesh	26.9	32.7	29.1	35.5	33.2	29.2
Delhi	18.8	17.7	26.4	31.4	25.4	27.2
Telangana	17.8	19.3	22.6	27.7	26.6	26.6
Orissa	21.9	18.3	17.5	25.5	30.9	26.2
Chhattisgarh	13.8	11.3	14.6	24.1	25.7	23.6
Assam	27.2	25.0	29.1	35.0	31.9	21.6
Kerala	18.5	20.4	20.8	22.7	22.6	21.5
Others	76.7	61.6	78.8	94.2	94.6	93.4

Note: CV sales include LCV & MHCV goods carrying vehicles, Source: SIAM, Crisil Intelligence

14.2 Growth drivers

Healthy industrial growth in Fiscal 2025

The Indian industry's gross value added (GVA) continued to grow steadily, in line with the GDP, averaging around 6% between fiscals 2020 and 2025. After consecutive weak fiscals of 2020 and 2021 due to the COVID-19 outbreak, industrial GVA is estimated to have grown by approximately 6.4% on-year in fiscal 2025. Over the next five-year period (fiscal 2025-2030), industry GVA is expected to be robust driven by the government's focus on 'Make in India' with the stated aim of the government to push up the share of Manufacturing in India’s GDP from 17% to 25%.

Moreover, improvement in infrastructure and higher expected corporate expenditure is likely to support the capex cycle going forward post-fiscal 2024. India's ambitious infrastructure development plans, including the Bharatmala Pariyojana and Sagarmala programs, are expected to drive commercial vehicle demand during fiscal 2025 to fiscal 2030, as the resulting increase in construction and logistics activities boosts demand for heavy and medium commercial vehicles.

Scrappage policy

In August 2018, MoRTH (Ministry of Road, Transport and Highways) considered incentivising the scrapping of vehicles sold before April 2005 (15 years old). After deliberations on the modalities of implementation of the norm, the government aims to promote vehicle scrapping by exempting registration charges for truck purchases made after scrapping older trucks. To incentivise scrappage of older vehicles, the government has increased the registration charges for older vehicles and increased stringency of fitness tests. Crisil

Intelligence expects the impact of the norms to be limited on additional scrappage (apart from vehicles scrapped in the normal course of business).

Increasing freight rates to aid in materialization of deferred demand

In fiscal year 2026, transporter profitability is expected to remain stable at 7-8%. A mild increase in freight rates and stable fuel prices are anticipated to keep profitability at similar levels. In fiscal year 2025, fuel prices constituted approximately 55% of transport costs, exerting a considerable influence on overall profitability. During this period, diesel prices remained stable. Concurrently, freight rates increased by 12%, signalling improved transporter profitability and heightened demand for freight services. These favourable factors supported the shift to higher tonnage vehicles as the industry capitalized on the increased demand in the transportation sector.

Capacity utilisation and profitability of transporters: Rising capacity utilization and profitability of transporters in India are boosting demand for commercial vehicles. Higher fleet efficiency and profits enable transporters to invest in new vehicles, supporting growth in the commercial vehicle industry.

Utilisation of transporters depends on

- Availability of freight, driven by growth in industrial and agricultural production and port traffic,
- Regulations on vehicle age, weight, permit and tax norms,
- Improvements in road infrastructure, which improves the turnaround time.

Some of the factors influencing transporter profitability are

- Freight rates and capacity utilisation,
- Bargaining power,
- Fuel cost and efficiency,
- Capital cost,
- Agency commission along with wage cost and operating and maintenance costs, such as tyre prices and toll rates.

Rise in Private Final Consumption Expenditure (PFCE)

LCVs are primarily used for last-mile transport and redistribution of commodities. PFCE is a good indicator of domestic consumption demand, and accounts for over 90% of LCV goods tonnage capacity. Apart from the usual freight demand, an increase in rural consumption and a rise in urban expenditure boosts demand for smaller vehicles to transport consumer goods. Moreover, a rise in consumption of non-food items, consumer durables and FMCG products fuels demand for LCVs.

Increasing adoption of hub-and-spoke network

The road transport industry is gradually moving towards the hub-and-spoke distribution model, wherein industries have large hubs in major regions. Goods are consolidated at these hubs and sent to several touch points (spokes) in the hinterland. Freight is distributed over the last mile via LCVs, such as sub-one-tonne CVs and pick-ups. With rising adoption of the network, sales for LCVs is expected to rise.

Substitution of three wheelers

Small commercial vehicles (SCVs), especially sub-one-tonne models (0.75-tonne payload), can substitute large three-wheelers of similar payload capacity, given the SCVs' ability to carry loads beyond payload capacity, run on longer routes, maintain better balance, and be more cost-efficient. The pace of substitution, which is tapering off, remains a key parameter that impacts LCV sales.

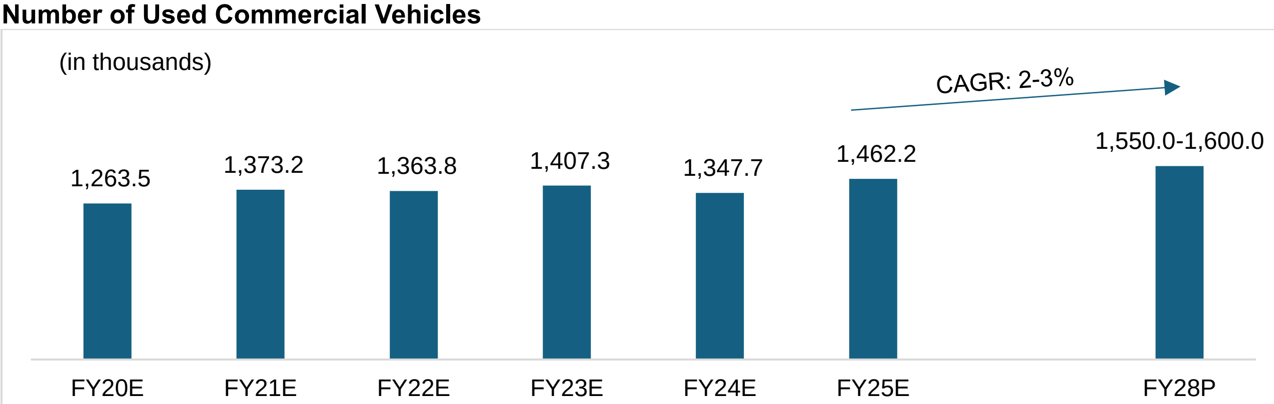
Air conditioned driver Cabins

The Indian government's approval of mandatory air-conditioning (AC) systems in truck cabins for categories N2 and N3, effective from January 2025, is set to improve working conditions for truck drivers and address driver fatigue concerns, ultimately enhancing road safety. The new regulation will require truck manufacturers to sell vehicles with pre-fitted AC cabins, incurring an extra cost. Despite the initial financial impact, the long-term advantages in terms of driver well-being and overall efficiency are likely to outweigh the costs.

Used commercial vehicles on road are estimated at ~1.46 million as of FY25

As per Crisil Intelligence estimates, there are approximately 1.46 million used commercial vehicles on road currently with the ratio of used to new commercial vehicles at 1.75 times. Sales of used commercial vehicles in India has witnessed a CAGR of ~3.0% from FY20 to FY25. Sale of used commercial vehicles has witnessed continuous growth due to the rising prices of new commercial vehicles, making purchasing of used commercial vehicles a viable choice for Small and Medium sized fleet operators due to their lower acquisition costs.

Number of Used Commercial Vehicles



Source: SIAM, Crisil Intelligence estimates

14.3 Key Growth drivers of Used Commercial Vehicle Sales in India

Higher affordability as compared to new vehicles

Used commercial vehicles are generally more affordable as compared to new vehicles, making them accessible to FTB small and medium sized businesses. The lower upfront cost of used vehicles makes them accessible to a wider range of customers who may not have the financial capacity to invest in a brand-new commercial vehicle.

Cost effectiveness

Depreciation rate of new commercial vehicles is usually higher, resulting in a more significant loss in value over time. Used commercial vehicles on the other hand, have already undergone their initial depreciation making them a more cost-effective solution to businesses.

Improved quality and reliability

Advancement in technology and manufacturing processes has led to improvement in quality and reliability of used commercial vehicles, customers now have a higher confidence in the performance and durability of used commercial vehicles.

Rise in micro, small and medium enterprises in India

There has been a significant rise in micro, small and medium enterprises in India due to favourable government policies and economic scenario, used commercial vehicles act as a sustainable option to fulfil their logistics and transportation needs due to their lower cost of acquisition and cost effectiveness.

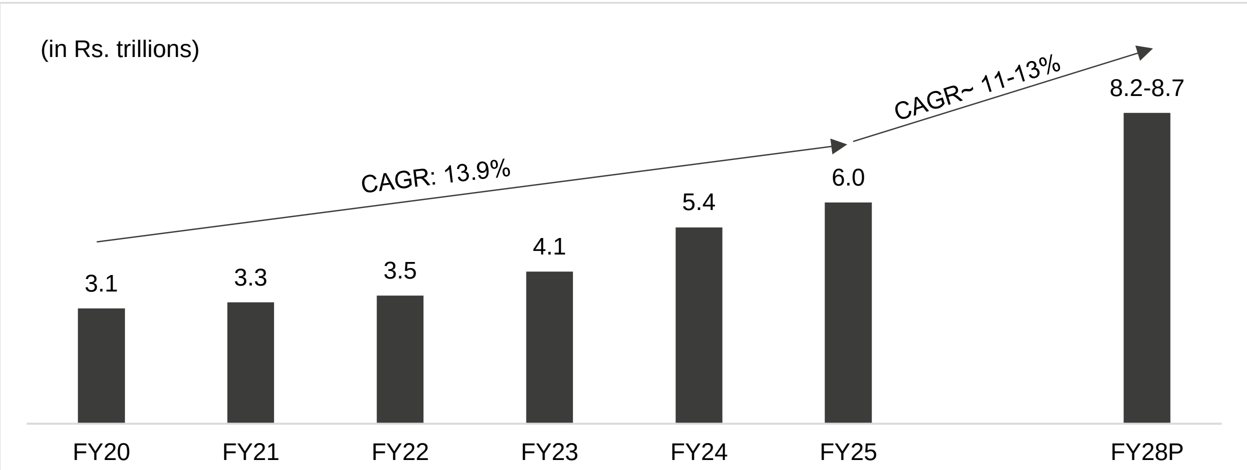
Right to win for NBFCs

NBFCs held lion's share in overall commercial vehicle financing on account of relatively superior customer connect in small fleet operators ("SFOs") and first-time buyers customer segment, strong and deep understanding of local economy, Ease of loan processing, relatively higher loan-to-value ("LTV"), and higher risk-taking ability of NBFCs. Banks primarily have more focus on financing large fleet operators ("LFOs") based on their superior credit profiles. They also prefer big ticket financing, like that for MHCVs. While the sector has been under stress and delinquencies over past two years, the quality of the portfolio improved in Fiscal 2023 as economic activity picked up thus increasing repayment capabilities. This has enabled banks to capture and expand market share in both LFOs and SFOs as they can offer better loan rates and higher ticket size than NBFCs. However, as banks are more cautious in lending to riskier CV asset classes, NBFCs can maintain their strong hold and build better customer profiles that will support them going forward.

14.4 Commercial Vehicle Financing

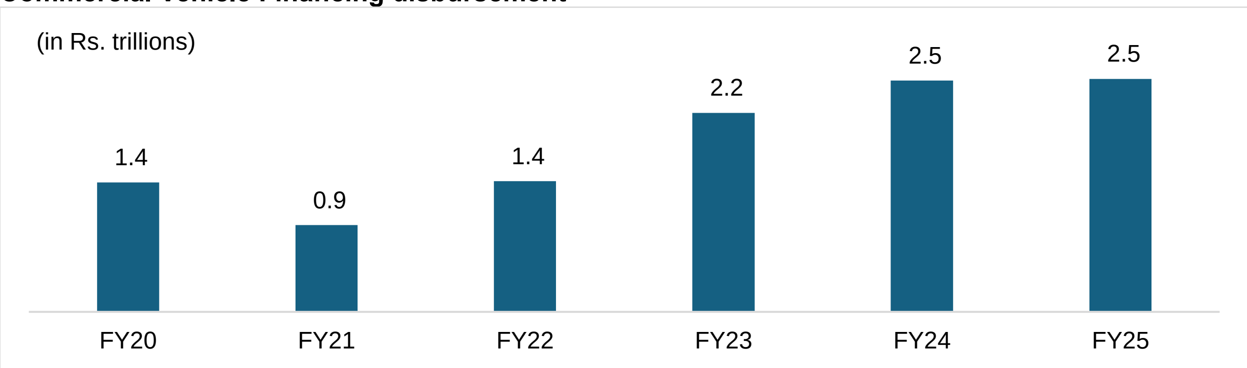
New Commercial vehicle financing segment is expected to grow at a CAGR of 11-13% from Fiscal 2025 to Fiscal 2028. The segment witnessed a growth of ~13.9% CAGR from Fiscals 2020 to 2025. The segment witnessed slower growth during Fiscal 2021 and Fiscal 2022, primarily due to Covid-19 pandemic and nation-wide lockdowns. Post that, the growth has been higher at ~18.6% in Fiscal 2023, ~29.2% in Fiscal 2024 and ~12.6% in Fiscal 2025. The growth was primarily due to increase in private consumption and freight demand. Going forward, growth in the segment is expected to be supported by rising demand for LCVs due to increased private consumption, greater availability of redistribution freight and improved finance while demand for M&HCVs is expected to grow due to improvement in economic activity across the country, along with steady agricultural output and government's focus on infrastructural development.

Commercial Vehicle Financing is expected to witness a CAGR of 11-13% from Fiscal 2025 to Fiscal 2028



Source: CRIF Highmark, Crisil Intelligence

Commercial Vehicle Financing disbursement

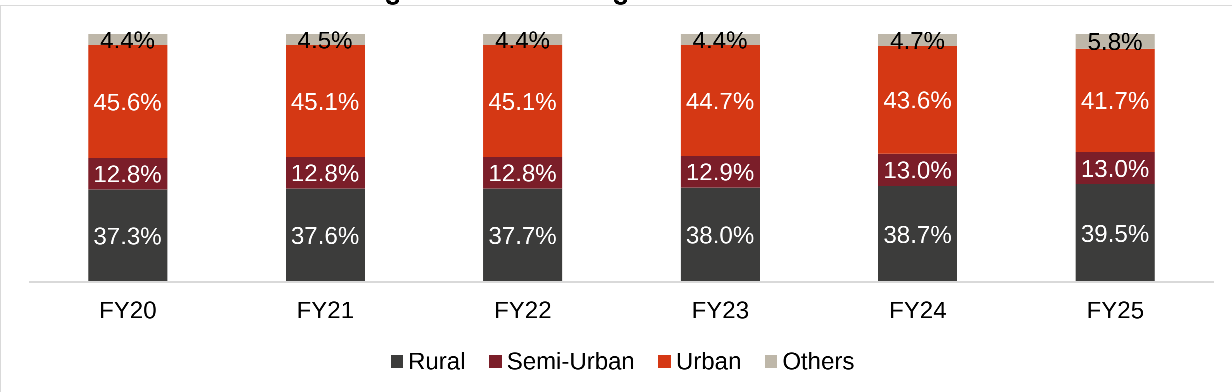


Source: CRIF Highmark, Crisil Intelligence

Urban areas account for the highest share among tiers across fiscals 2020-25

As of Fiscal 2025, urban regions account for the highest share accounting for ~41.7% share in overall commercial vehicle financing, followed by rural regions accounting for ~39.5% share and semi-urban regions accounting for ~13.0% market share.

Urban areas account for the highest share among tiers across fiscals 2020-25

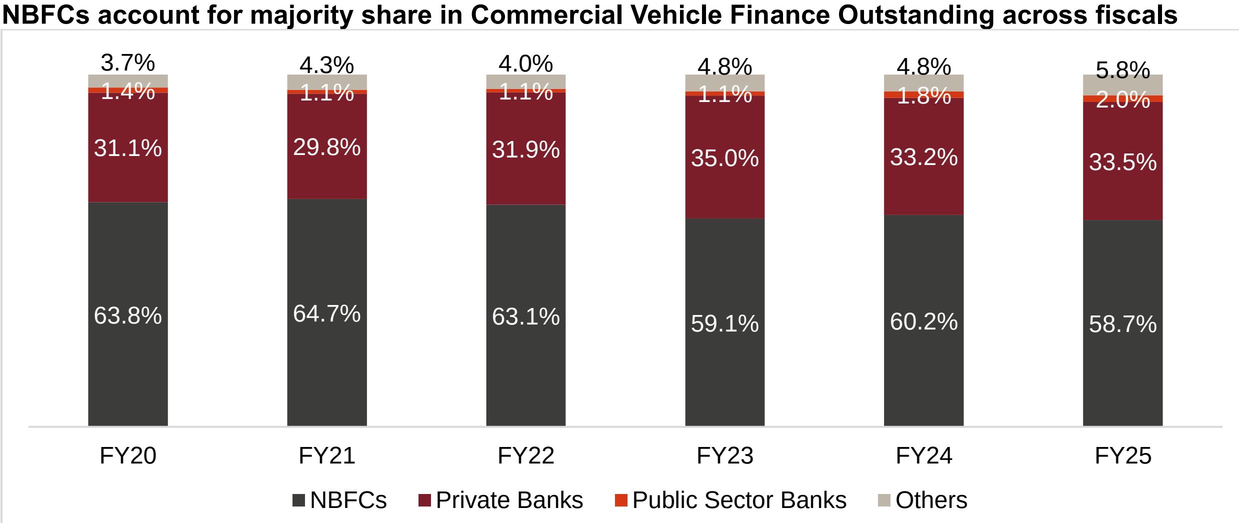


Note: Others constitute portfolio not categorized as rural, semi-urban or urban by bureau. Source: CRIF Highmark, Crisil Intelligence

NBFCs account for majority share in Commercial Vehicle Finance Outstanding across fiscals

Among lenders, NBFCs accounted for the highest share in commercial vehicle finance outstanding (~58.7%) as of Fiscal 2025, which was followed by private banks with ~33.5% market share and public sector banks accounting for 2.0% market share.

NBFCs account for majority share in Commercial Vehicle Finance Outstanding across fiscals



Note: Others includes other financial institutions, Small Finance Banks and foreign banks.
Source: CRIF Highmark, Crisil Intelligence

Lender (Rs. Billion)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-FY25)
NBFCs	2,004.8	2,142.0	2,204.5	2,450.7	3,222.4	3,540.9	12.0%
Private Banks	976.3	987.4	1,113.6	1,449.1	1,780.8	2,020.5	15.7%
PSU Banks	43.7	37.6	36.7	47.2	97.3	118.0	22.0%
Others	117.0	142.9	140.0	198.2	255.8	352.8	24.7%

Note: Others includes other financial institutions, Small Finance Banks and foreign banks.
Source: CRIF Highmark, Crisil Intelligence

14.5 Growth Drivers

- **Increasing demand for construction and infrastructure development:** Indian government's focus on infra projects such as road construction and urban development will lead to higher uptake of commercial vehicle demand. This surge in commercial vehcile will lead to need of accessible financing options for fleet expansion and modernization.
- **E-commerce and Logistics Expansion:** The rapid growth of e-commerce and logistics industry will boost demand for light commercial vehicle thereby prompting buisnesses to seek financing solutions for the necessary fleet.
- **Replacement Demand:** An outdated fleet with implementation of stricter emmission norms will prompt operators to seek additional financing to replace their aging fleet with more efficient vehicles.
- **Technological Advancement in Financing:** Streamlining of the financing process, makes it more efficiecnt and accessibke for borrowers to get a ommercial vehcile loan.

14.6 Threats and challenges

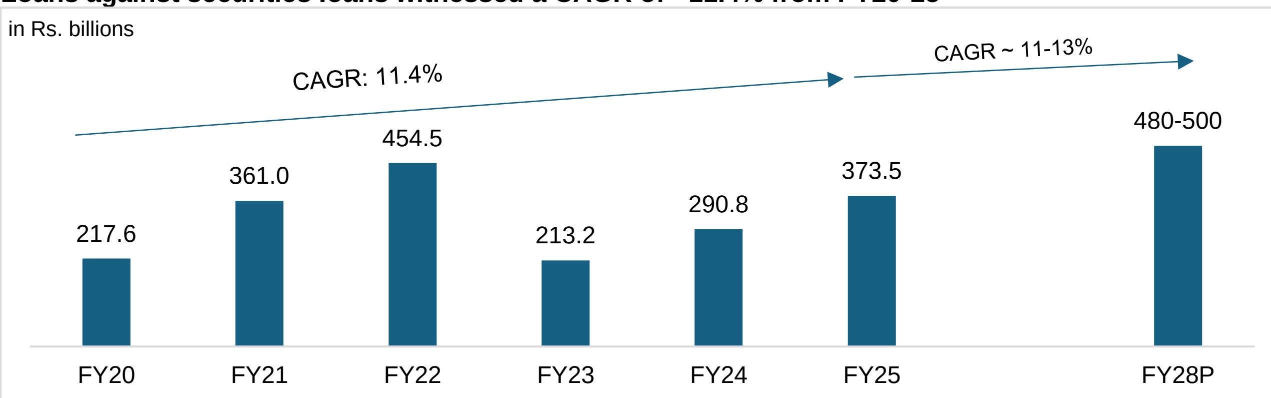
- **Economic Scenario:** The financial performance of auto-finance companies depends on the offtake of vehicles, which depends on the overall macroeconomic factors, such as GDP growth and the economic cycle. The commercial vehicles (CV) industry transports over half of the total freight handled in the country. As transportation is linked to all sectors, demand for CVs is closely linked to overall economic growth. CV demand is also driven by growth in industrial and agricultural production, freight movement, rising share of roadways in freight movement, and changes in freight rates. Any economic slowdown directly impacts CV sales.
- **Regulatory Environment:** Changing regulatory framework for auto-finance companies has been crucial in determining growth path of NBFCs. Over years, regulations of NBFCs have been converging with those of banks; this could lead to keener competition in the future. Also, higher provisioning requirements will impact the profitability of these companies.
- **Insufficiency of data for credit appraisal:** Credit-score availability in India is still at a nascent stage, despite the presence of credit bureaus. In several cases, borrowers lack formal income-proof documents. This makes it difficult to judge the ability of borrowers to repay.
- **Asset Quality and Recovery Risk:** The absence of an established and transparent secondary market makes it difficult to recover the value in many cases.

15. Loans against Securities (LAS)

15.1 Loans against securities financing market

Under LAS, a loan is disbursed against the security of listed or unlisted equity shares, debentures, bonds or mutual funds to individuals, promoters, stock and share brokers and market makers. Loans are extended against only those securities that are a part of the approved list maintained by the company. LAS offers an opportunity to leverage on investments in shares for loans to meet unforeseen expenses. LAS can be availed for any personal and/or business purposes and this has to be declared at the time of origination.

Loans against securities loans witnessed a CAGR of ~11.4% from FY20-25



Note: P: Projected. Source: CRIF Highmark, Crisil Intelligence

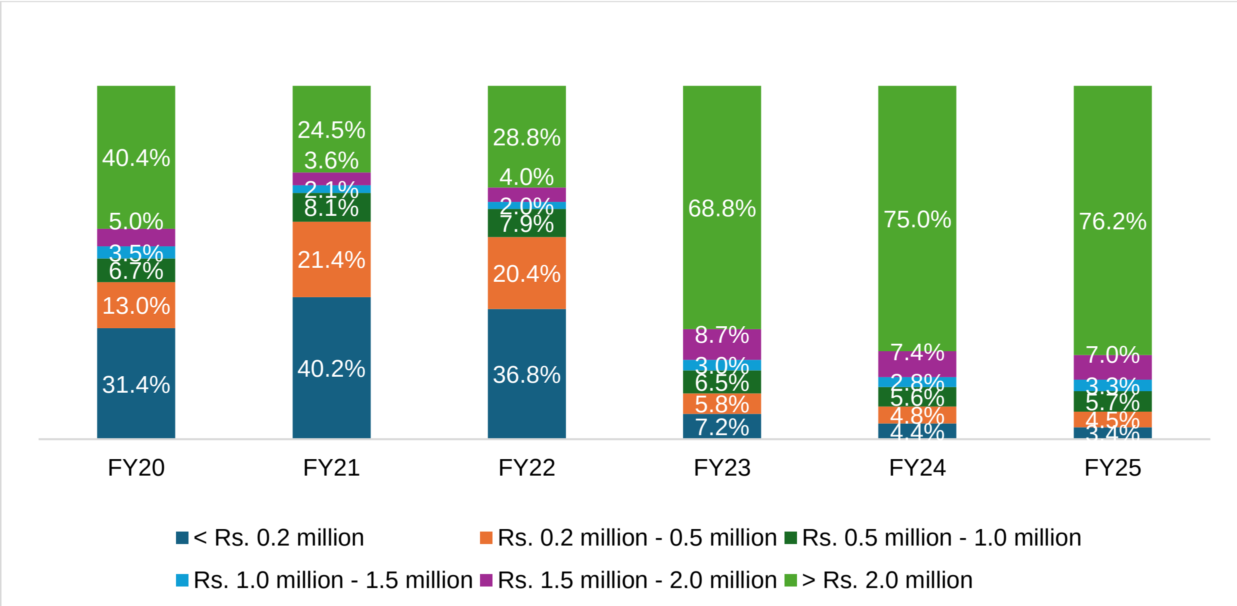
As of FY25, overall LAS loan segment stands at Rs. 373.5 billion. Going forward, as per Crisil Intelligence estimates, it is expected that the segment will grow at a CAGR of 11-13% till FY28.

Loans more than Rs. 2.0 Mn. witnessed the fastest growth in Loans against securities Segment
Among ticket brackets, loans more than Rs. 2.0 Mn. witnessed the fastest growth among ticket brackets growing at a CAGR of 26.2%, while it accounts for ~76.2% share in overall Loans against securities segment as of Fiscal 2025.

Loans more than Rs. 2.0 Mn. witnessed the fastest growth in loans against securities segment from FY20-25

Ticket Bracket (in Rs. billions)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
< Rs. 0.2 million	67.9	144.5	166.8	15.0	12.7	12.5	-28.8%
Rs. 0.2 million - 0.5 million	28.2	76.8	92.4	12.1	13.9	16.4	-10.3%
Rs. 0.5 million - 1.0 million	14.5	29.2	35.9	13.6	16.1	21.0	7.6%
Rs. 1.0 million - 1.5 million	7.5	7.6	9.0	6.2	8.1	12.1	10.1%
Rs. 1.5 million - 2.0 million	10.7	13.1	18.3	18.3	21.2	25.6	19.0%
> Rs. 2.0 million	87.5	88.1	130.4	144.3	216.3	280.2	26.2%
Overall	216.4	359.3	452.8	209.7	288.3	367.8	11.4%

Source: CRIF Highmark, Crisil Intelligence



Source: CRIF Highmark, Crisil Intelligence

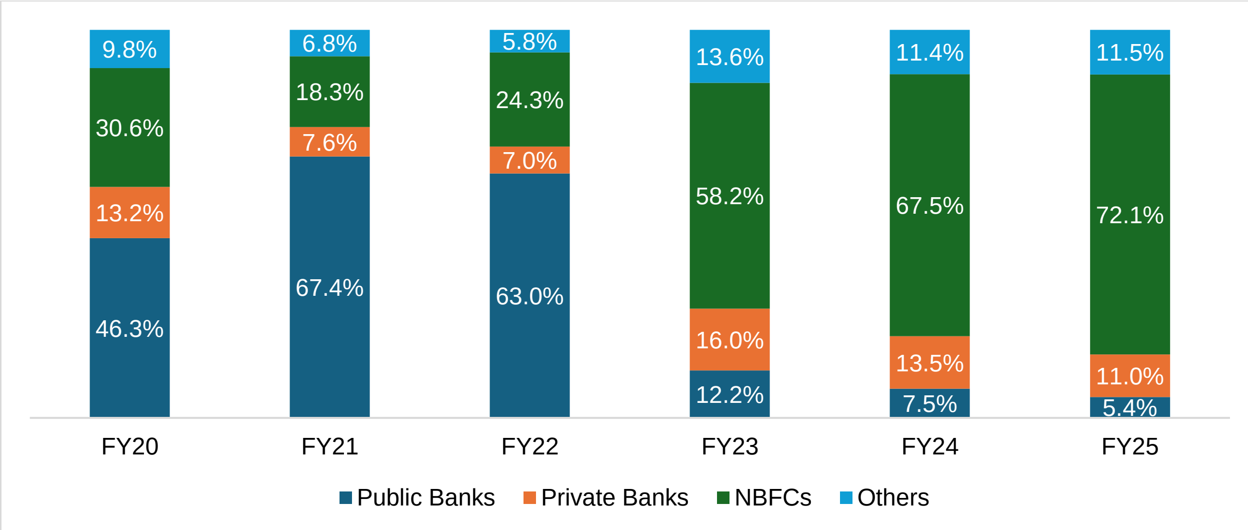
NBFCs witnessed the fastest growth among lenders from FY20-25

Among lenders, NBFCs witnessed the fasted growth during fiscals 2020-25, growing at a CAGR of ~32.2% in the loans against securities segment which was followed by private banks witnessing a CAGR of ~7.3%. Among lenders, NBFCs accounted for the highest share in credit outstanding with a share of ~72.1% as of fiscal 2025.

NBFCs witnessed the fastest growth among lenders from FY20-25

Portfolio Outstanding (in Rs. billion)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Public Banks	100.8	243.2	286.2	26.0	21.9	20.1	-27.5%
Private Banks	28.8	27.4	31.7	34.0	39.3	41.1	7.3%
NBFCs	66.6	66.0	110.4	124.1	196.4	269.4	32.2%
Others	21.4	24.4	26.3	29.1	33.2	42.9	14.9%
Overall	217.6	361.0	454.5	213.2	290.8	373.5	11.4%

Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence



Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

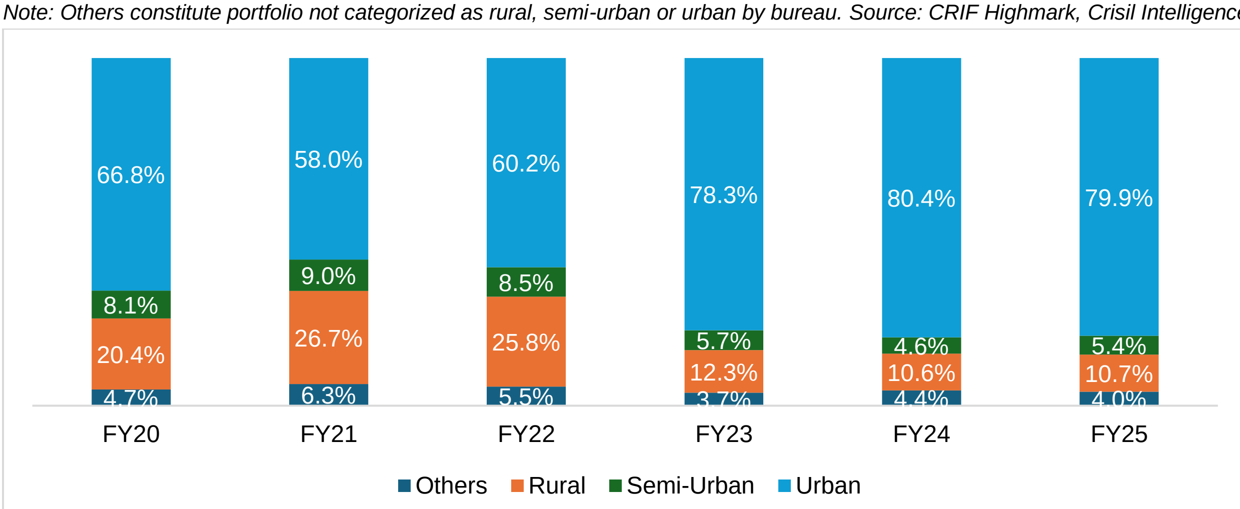
Urban Regions accounted for the highest share in Loans against securities Segment as of Fiscal 2025

As of Fiscal 2025, urban regions accounted for the highest share in loans against securities segment, accounting for ~79.9% market share followed by rural regions accounting for ~10.7% share.

Urban Regions accounted for the highest share in Loans against securities Segment, accounting for ~80% share

Tier (Rs. Billion)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Rural	44.4	96.4	117.5	26.2	30.8	40.1	-2.0%
Semi-Urban	17.6	32.5	38.6	12.0	13.5	20.1	2.7%
Urban	145.5	209.4	273.5	167.0	233.7	298.5	15.5%
Others	10.2	22.6	24.9	7.9	12.8	14.9	7.8%
Overall	217.6	361.0	454.5	213.2	290.8	373.5	11.4%

Note: Others constitute portfolio not categorized as rural, semi-urban or urban by bureau. Source: CRIF Highmark, Crisil Intelligence



Note: Others constitute portfolio not categorized as rural, semi-urban or urban by bureau. Source: CRIF Highmark, Crisil Intelligence

15.2 Key success factors for loans against securities segment

- **Regulatory Compliance & Market Conditions**: Adherence to RBI norms, stable financial markets, and clear loan-to-value (LTV) guidelines ensure risk management and loan viability.
- **Collateral Quality & Liquidity:** High-value, liquid securities like blue-chip stocks and government bonds enhance loan security, reducing default risk and ensuring easy liquidation.
- **Interest Rates & Borrower Profile:** Competitive interest rates, strong borrower creditworthiness, and transparent terms drive demand, minimizing defaults and maximizing lender profitability.

15.3 Threats and challenges

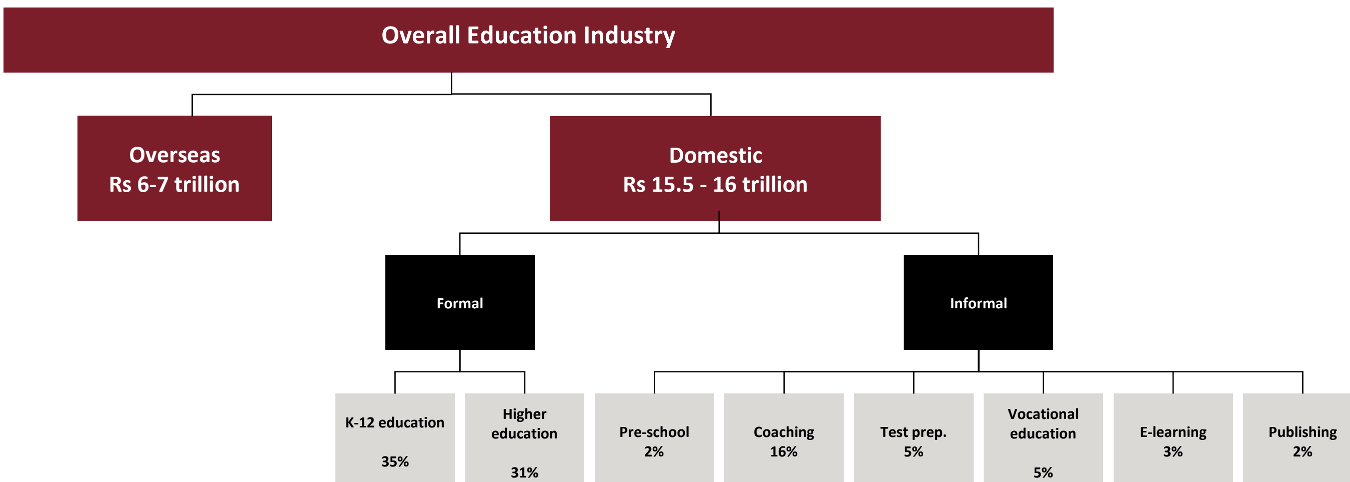
- **Market Volatility & Collateral Depreciation**: Fluctuating stock markets and declining asset values can reduce collateral worth, increasing margin calls and risk of loan defaults.
- **Regulatory Changes & Compliance Risks:** Frequent RBI policy shifts, stricter lending norms, and taxation policies can impact loan structuring, affecting lender profitability and borrower accessibility.
- **Liquidity Risks & Forced Liquidation:** Sudden market downturns may force lenders to sell pledged securities at lower values, leading to financial losses and borrower distress.

16. Education loans

16.1 Domestic Education Market in India

In India, the overall education market in fiscal 2025 is estimated at Rs. 21.5- 23 trillion, which includes both the overseas education market and the domestic education market. The overseas education market involves students pursuing education in a foreign country, while the domestic education market encompasses comprises education within one's own country.

Domestic Education accounts for a larger share in Overall Education Industry (fiscal 2025 estimates)



*Note: * Sum of Total Addressable Market of Overseas Education for CY2025 & Domestic Education for FY2025; Source: UDISE+ reports, AISHE reports/data, AICTE, Crisil Intelligence*

Domestic Education	FY2025	FY2029	CAGR during the period
Total Addressable Market	~Rs 15.5 -16 trillion	~Rs. 25-25.5 trillion	~12-13%

Source: Company reports, Crisil Intelligence

16.2 Education loan financing market

Growth in overall education loans accelerated with increased demand for higher education

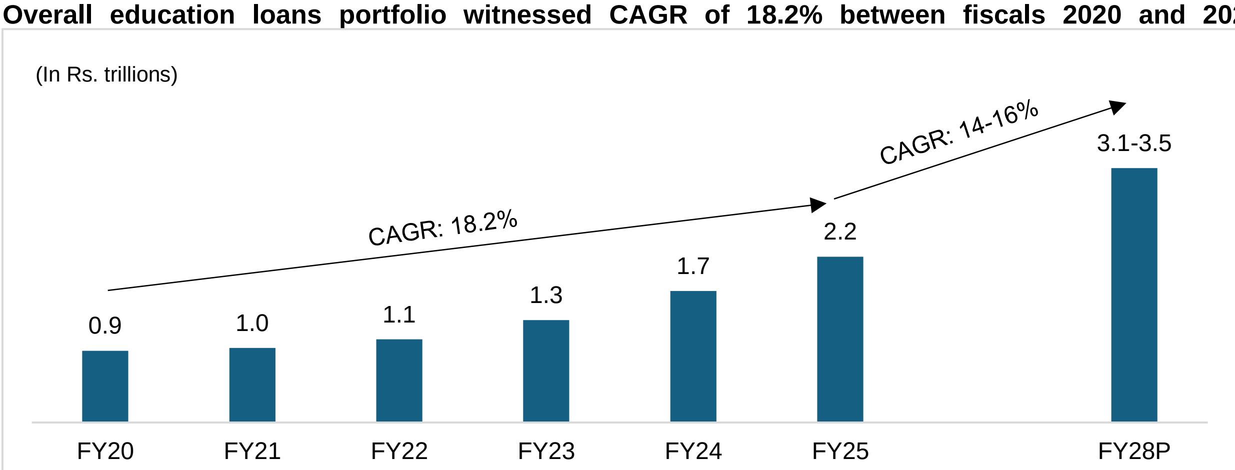
Higher education has been gaining importance in India over the years with a visible increase in students opting for courses - both at home and overseas - and with it, an explosion in demand for student loans. This offers a huge opportunity to the domestic education loans industry, as recent trends bear out. The education loans market in India witnessed tepid growth at 4% on-year in fiscal 2021, because of the Covid-19-induced lockdowns worldwide. The easing of restrictions in the second half of fiscal 2022 led to double-digit credit growth of 12% on a lower base. In fiscal 2023, the outstanding loan portfolio grew at a robust 23%, driven by a significant jump in NBFC credit, coupled with meaningful growth in banks. Growth momentum continued in fiscal 2024 as the overall educational loan portfolio reached Rs 1.7 trillion as of 31st March 2024 from Rs 1.3 trillion as of 31st March 2023, recording a strong on-year growth of 28%. Expansion in education loans in fiscals 2023 and 2024 can be attributed to factors, such as opening of overseas borders for on-campus education, increase in applications for higher education, strong demand from tier 1 and 2 cities and pent-up post-pandemic demand. With a steep rise in spending on education and more students opting for overseas education, the education loans market has expanded.

In fiscal 2025, the overall portfolio of loans outstanding grew by 26.1% on-year to cross the 2 trillion mark at Rs 2.2 trillion, with NBFCs an increasingly popular source of credit, clocking a 38% rise in their loan book to Rs 610.0 billion. This was in moderation of the robust growth seen in previous two fiscals driven by a significant jump in both NBFC and bank education loans.

Going forward, the momentum is expected to slow down in the coming fiscals by several counterbalancing factors, including rising geopolitical uncertainty, shifts in intake policies by key countries, a challenging employment landscape, escalating immigration tensions, and the impeding expiration of moratorium periods for portfolios generated post pandemic. Global headwinds are likely to discourage Indian students from studying abroad, resulting in a forecasted decline in international student mobility from India in the near future.

Crisil Intelligence projects the moderation of growth to continue for fiscal 2026, especially in overseas education loans, and foresees the overall book growing at a moderate pace of 15-17%.

Overall education loans portfolio witnessed CAGR of 18.2% between fiscals 2020 and 2025



Note: P- Projected, Source: CRIF Highmark, Crisil Intelligence

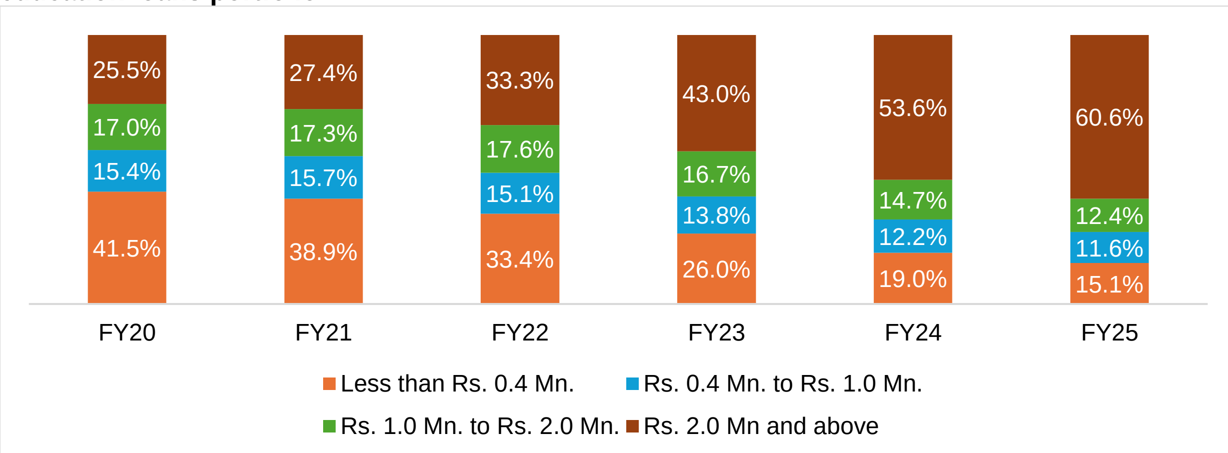
Growth led by education loans of ticket size greater than Rs 2.0 million

The education loans market of India is being driven by a surge in loans with ticket size greater than Rs 2.0 million. Rising demand of education loans for admission in foreign universities and rise in overall cost of studying abroad, led education loans of ticket size greater than Rs 2.0 million to acquire the majority share of the overall education loans market of India as of FY25. Market share of ticket sizes below Rs. 2.0 million have been decreasing from FY20 to FY25.

Ticket Size (Rs. Bn.)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-FY25)
Less than Rs. 0.4 Mn.	388.8	378.1	362.0	347.5	326.6	327.6	-3.4%
Rs. 0.4 Mn. to Rs. 1.0 Mn.	144.7	153.0	163.5	184.3	210.2	250.4	11.6%
Rs. 1.0 Mn. to Rs. 2.0 Mn.	159.6	168.4	191.2	222.9	252.6	268.1	10.9%
Rs. 2.0 Mn and above	238.8	266.5	360.9	574.2	920.9	1,312.7	40.6%
Unclassified/Others	5.9	6.3	7.3	7.6	6.6	6.2	1.0%

Source: CRIF Highmark, Crisil Intelligence

Share of education loans of ticket size greater than Rs. 2.0 million contributing the growth in overall education loans portfolio



Note: Loans not classified under any ticket size have not been represented in the table but considered in the calculation of market share, Source: CRIF Highmark, Crisil Intelligence

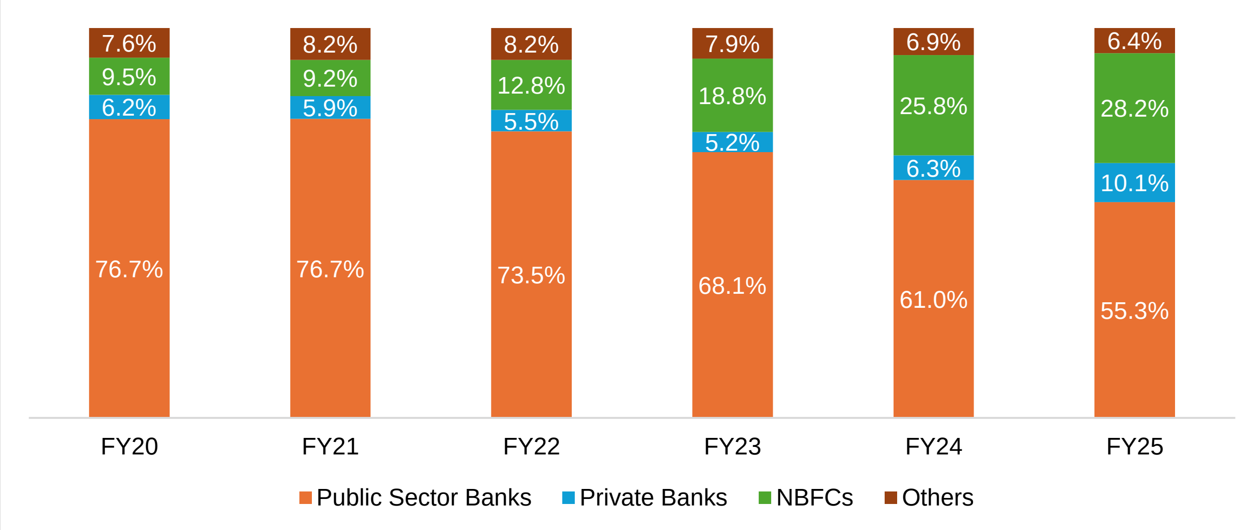
Share of NBFCs in overall educational loans in India on the rise

In India, Public sector banks lead the education loans segment with market share of 55.3% of the total outstanding education loans portfolio as of FY25, while non-banking financial companies (NBFCs) held market share of 28.2% during the same period.

Lender Wise (Rs. Bn.)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Public Sector Banks	718.8	745.8	797.0	910.7	1,047.7	1,198.0	10.8%
Private Banks	58.0	56.9	59.9	70.0	108.0	218.1	30.3%
NBFCs	89.5	89.8	138.9	250.8	442.6	610.0	46.8%
Others	71.5	79.8	89.0	105.1	118.6	138.9	14.2%

Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

NBFCs' share in overall education loans market increased from 9.5% in FY20 to 28.2% as of FY25



Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

16.3 Growth Drivers

Rising middle-income household category

Crisil Intelligence forecasts India's middle-income households (also known as the Middle India category), with an annual income of Rs 0.2-1 million, will increase to 181 million by fiscal 2030 from 41 million in fiscal 2012, led by sustained growth in GDP and household income. Crisil Intelligence believes that access to information and basic necessities and internet penetration will fuel the aspirations of Middle India and will translate into increased spending on education.

Increasing demand for overseas higher education in India

The number of Indian students opting for overseas education is growing due to the ambitions of students and parents for degrees from esteemed foreign universities, which offer diverse courses, international exposure, global perspective, access to better lifestyle and higher earning capability. Crisil Intelligence expects demand for overseas higher education to continue to rise.

Differentiated distribution approach

Education loans require a differentiated distribution approach as compared to traditional loans, which are typically reliant on a physical branch network. Hence, lenders resort to distribution of education loans through educational counsellors, aggregators, DSAs, education institutions, digital marketing, and other educational forums. This differentiated approach followed by the lenders enable them to increase their reach and cater to a wider population even with limited branch footprint.

Government expenditure on education to drive further growth in Indian education market

The education sector is a good proxy for a country's economic growth as well as its social transformation. Expenditure for education is seen more as an investment for the future. India's expenditure on education as a percentage of GDP was 3.9-4.6% between CY2014 and CY2021, above the world average of 4.2 in CY21%.

16.4 Key threats and challenges

Employment and Income Uncertainty

Fluctuations in the job market can hinder students' ability to secure lucrative employment, thereby increasing the likelihood of delayed or defaulted loan payments. This, in turn, elevates credit risk. As a result, co-borrower dependency is often created, where parents or guardians become responsible for repayment, underscoring the potential for repayment to be contingent upon their financial stability rather than the student's.

Lack of collateral and long tenured loans

Many education loans are unsecured in nature, making recovery difficult in case of default. Often these loans are offered long repayment periods exposing lenders to inflation, interest rate fluctuations and economic downturns

Rising global instability

The rising geopolitical instability, economic slowdown in developed countries, coupled with weak job prospects and stringent visa application processes in the US, UK, Australia, and Canada, may deter Indian students from pursuing higher education abroad.

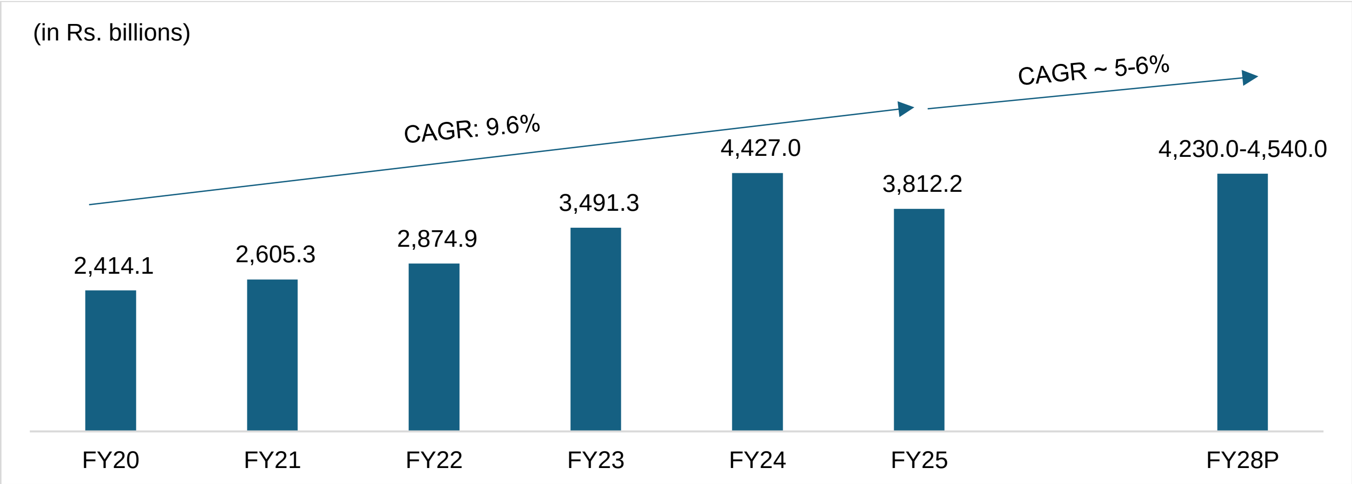
17. Microfinance Loans

17.1 Microfinance loan financing market

Portfolio Outstanding grew at 9.6% CAGR between Fiscal 2020 and Fiscal 2025

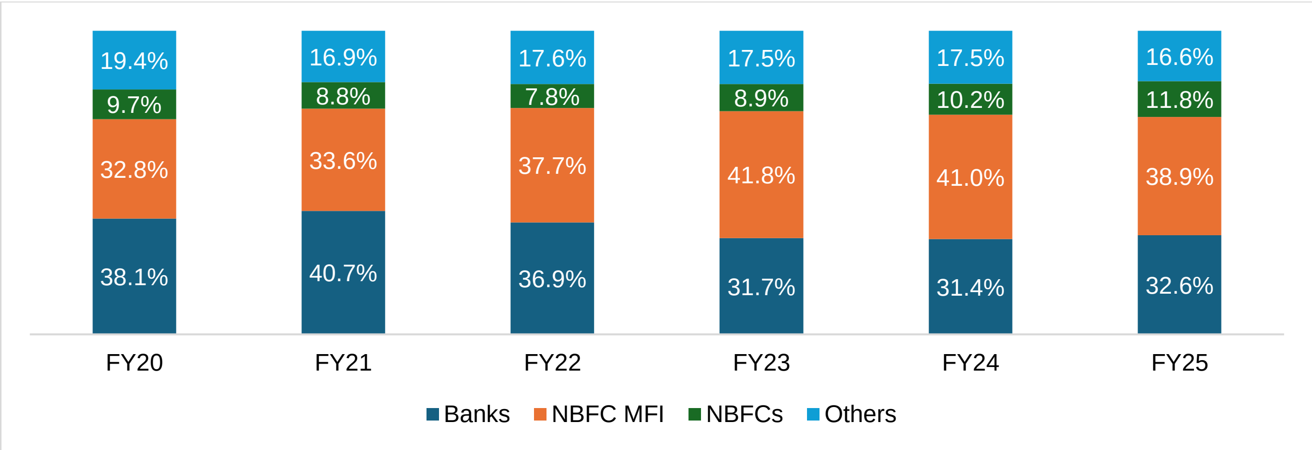
In Fiscal 2025, the overall microfinance industry portfolio outstanding de-grew 13.9% year-on-year to Rs. 3,812.2 billion. This decrease can be attributed to a decline in disbursements and an increase in the write-offs of delinquent contracts. Additionally, regulatory developments in Karnataka, specifically the ordinance related to the prevention of coercive recovery action, have impacted the growth of NBFC-MFIs in the state. The sharp contraction in disbursements can also be attributed to a combination of factors such as environmental and socio-political challenges, borrower over-indebtedness and the implementation of MFIN's guardrails.

Microfinance Loans portfolio clocked 9.6% CAGR between March 2020 and March 2025



Source: CRIF Highmark, Crisil Intelligence

NBFCs account for 11.8% of the portfolio outstanding as of March 2025



Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

State wise share of microfinance loan portfolio

	FY20	FY21	FY22	FY23	FY24	FY25	CAGR FY20-FY25
Bihar	262.5	288.8	357.4	491.8	654.9	577.1	17.1%
Tamil Nadu	334.2	328.0	368.0	464.0	582.4	468.3	7.0%
Uttar Pradesh	157.2	179.2	236.1	338.4	463.0	417.7	21.6%
West Bengal	321.6	359.6	332.1	309.6	403.3	367.3	2.7%
Karnataka	197.2	213.0	241.9	315.9	425.6	353.5	12.4%
Maharashtra	183.9	195.4	219.8	274.5	333.0	296.0	10.0%
Madhya Pradesh	140.2	157.5	173.7	208.8	248.7	216.5	9.1%
Odisha	134.4	152.1	172.6	204.4	256.1	207.2	9.0%
Rajasthan	93.6	110.4	125.2	156.1	181.4	149.3	9.8%
Kerala	90.1	94.2	104.4	127.5	141.6	112.7	4.6%
Jharkhand	53.7	65.1	80.5	106.8	131.2	111.5	15.7%
Gujarat	69.5	71.1	79.7	101.4	131.1	109.1	9.4%
Andhra Pradesh	41.7	45.6	48.0	59.0	83.5	73.2	11.9%
Assam	117.6	116.9	88.7	59.7	74.1	70.8	-9.6%
Chattisgarh	43.9	48.3	52.8	62.0	73.9	65.5	8.4%
Telangana	22.9	25.6	28.7	34.3	50.2	57.2	20.0%
Haryana	39.5	42.7	51.2	58.0	62.4	51.4	5.4%
Punjab	44.0	44.5	50.1	58.9	56.8	43.7	-0.1%
Tripura	26.0	27.8	24.6	19.0	23.1	21.7	-3.6%
Uttarakhand	12.3	13.9	15.3	16.9	20.8	17.5	7.3%
Pondicherry	5.6	5.5	5.9	6.8	8.4	6.7	3.7%
Delhi	6.4	6.1	5.9	6.5	8.0	6.2	-0.9%
Himachal Pradesh	0.7	0.9	1.3	1.7	1.8	1.6	17.5%
Goa	1.2	1.3	1.1	1.3	2.0	1.5	5.1%
Meghalaya	1.6	1.5	1.1	1.0	1.3	1.4	-3.1%
Sikkim	1.4	1.4	1.1	1.0	1.3	1.3	-1.4%
Mizoram	0.8	0.8	0.7	0.9	1.2	1.1	7.7%
Arunachal Pradesh	0.2	0.2	0.3	0.4	0.8	1.0	37.6%
Jammu & Kashmir	0.2	0.2	0.4	0.8	0.8	0.8	37.1%
Manipur	1.3	1.3	1.3	1.3	1.0	0.8	-9.8%
Nagaland	0.6	0.8	0.7	0.5	0.6	0.7	2.5%
Chandigarh	0.3	0.3	0.4	0.5	0.5	0.5	7.8%
Andaman and Nicobar	0.0	0.1	0.1	0.1	0.2	0.2	48.4%
Dadra & Nagar Haveli	0.2	0.2	0.1	0.1	0.2	0.1	-2.9%
Daman & Diu	0.1	0.1	0.1	0.1	0.1	0.1	5.4%
Lakshadweep	0.0	0.0	0.0	0.0	0.0	0.0	47.0%

Source: CRIF Highmark, Crisil Intelligence

Key government steps that supported MFIs during the Covid-19 crisis

- **Reducing the debt servicing burden through a moratorium period:** The RBI initially permitted lending institutions to allow a moratorium of three months on repayment of instalments for term loans outstanding as on March 1, 2020, and defer interest payments due on working capital facilities outstanding. The moratorium was further extended by another three months until August 31.
- **Refinance support from RBI**: In April 2020, the RBI announced refinancing support of Rs 250 billion to the National Bank for Agriculture and Rural Development (NABARD), which provides support to NBFC-MFIs, rural regional banks and co-operative banks.
- **PSL status for SFB lending to NBFC-MFIs**: On May 5, 2021, the RBI announced that fresh lending by the SFBs to the NBFC-MFIs with asset size less than Rs 5 billion for on-lending to individual borrowers will be classified under priority sector lending (PSL). This encouraged the flow of credit to smaller MFIs, which were facing relatively bigger funding-access challenges. The facility to the SFBs was made available up to March 31, 2022.
- **Credit Guarantee Scheme**: On June 28, 2021, the Minister of Finance announced the Credit Guarantee Scheme through the MFIs for the first 2.5 million customers for a maximum tenure of three years. Three-fourths of the guarantee was provided to scheduled commercial banks for a ticket size up to Rs 1.25 lakh to new or existing NBFC-MFIs. This addressed the severe cash flow distress the second wave inflicted on individuals and small businesses.

17.2 Key success factors

Credit risk mitigation by credit bureaus

Credit bureaus such as Equifax and CRIF Highmark collect data from several MFIs and build a comprehensive database that captures the credit history of borrowers. The presence of credit bureaus ensures that MFIs have access to more data on their borrowers, helping them make informed lending decisions over the long run.

Ability to attract funds/raise capital and maintain healthy capital position

The microfinance industry has seen rapid growth over the past few years owing to small ticket sizes and doorstep disbursement. Despite this, a large portion of the market remains underpenetrated, making it necessary for MFIs to raise funds at regular intervals to sustain growth. This remains a challenge for several MFIs owing to perceived risk of the borrower segment, their susceptibility to socio-political issues, and volatility in asset quality. The ability of MFIs to raise funding from diverse sources and maintain a capital position much higher than the prescribed regulatory minimum is vital for long-term sustainability.

Digitalisation to bring down costs, improve collection efficiency and profitability for NBFCs

Digitalisation has impacted almost all aspects of the financial services industry. However, it is far more critical to the MFI industry as lower operating cost can result in higher financial inclusion and increased benefits for customers. The use of technology has helped NBFCs grow at a fast pace, improve efficiency, reduce cash usage and turnaround time, develop new products, provide better services to customers, and use analytics for portfolio monitoring and credit appraisal. According to the MFIN report, about 42 out of 48 NBFC-MFIs have reported 100% of their disbursement through cashless mode in the third quarter of fiscal 2024.

Crisil Intelligence expects that the lower cost of servicing customers, better productivity, and lower credit costs through the use of technology will help MFIs improve their profitability.

Gradual development of other support systems

Role of Self-Regulatory Organizations (SROs)

Micro Finance Institutions Network (MFIN) was recognised as a self-regulatory organisation (SRO) for NBFC-MFIs in India in June 2014. As an SRO, MFIN has been authorised by the RBI to exercise control and regulation on its behalf, to ensure compliance with regulatory instructions and industry code of conduct. With this, MFIN became the first network to attain such recognition not only in India, but also in Asia.

MFIN's role as an SRO also includes research and training responsibilities, and submission of MFI financials to the RBI. MFIN's current membership consists of over 50 NBFC–MFIs in the country.

Sa-Dhan is the second association in the business of microfinance to be given SRO status by the central bank. It has the mandate to engage with policymakers and regulators to provide a favourable policy environment for the promotion and growth of microfinance and financial inclusion in India. Its responsibility includes surveillance of the microfinance sector and submission of its annual report to the RBI. It is also entrusted with having a grievance and dispute redressal mechanism for clients of NBFC-MFIs, ensuring borrower protection and monitoring compliance of NBFC-MFIs with the regulatory framework put in place by the RBI.

Post demonetization, MFIN and Sa-Dhan took a proactive role in spreading awareness on MFIs and their operations in various parts of the country, particularly in the event of a socio-political disturbance, where timely intervention with local and state authorities and awareness workshops helped dissipate disturbances before they scaled up.

In March 2024, RBI issued an omnibus framework for recognizing Self-Regulatory Organizations (SROs) for the Regulated Entities of the Reserve Bank which prescribes broad objectives, eligibility norms, functions and standards of governance which will be common to all SROs, regardless of the sector.

Asset quality

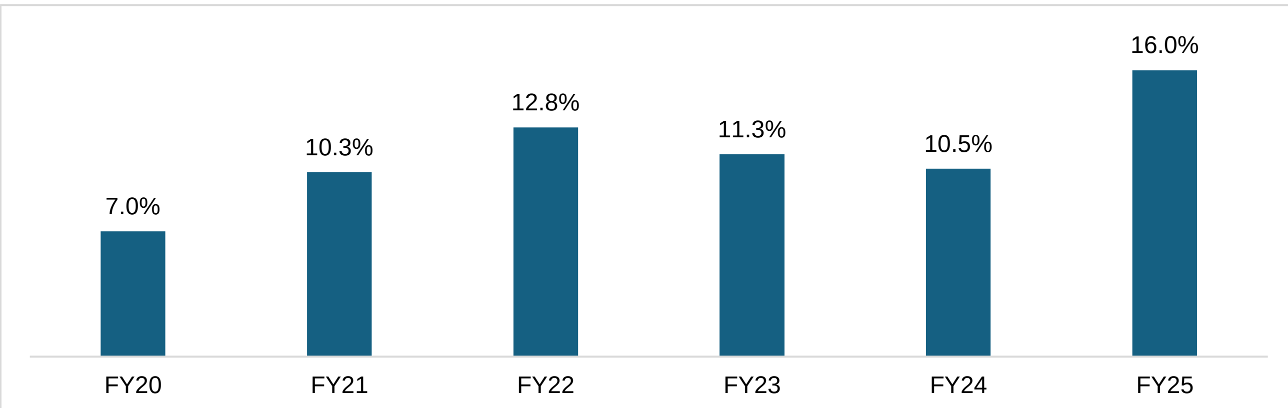
In fiscal 2021 and fiscal 2022, the asset quality deteriorated sharply, reflecting the adverse impact of Covid-19 on the industry. The asset quality of MFI industry started deteriorating in fiscal 2021 and PAR>90 shot up to 10.3% in fiscal 2021 and 12.8% in fiscal 2022. This could be attributed to slippages from the restructured book for various MFI players. The situation improved marginally in fiscal 2023 and fiscal 2024.

The microfinance industry's stress escalated in fiscal 2025 as evident from the sharp rise in PAR 90+ to 16.0% in March 2025. Delinquencies have been on the rise because of various reasons. In fiscal 2025, the general election made it difficult for field officers to carry bulk cash, thereby affecting cash transaction. The movement of field officers was also affected because of extreme heatwaves in parts of the country. Extended rainfall in a few states disrupted operations of borrowers as well, leading to slippages.

However, over-leveraging is a deeper issue as it has been the reason for much of the delinquencies, with slippages mostly among individuals who have taken multiple loans from various financial institutions.

The increase in DPD loans indicates the segment is likely to experience continued stress over the next few quarters before normalising by the end of fiscal 2026.

Asset quality (PAR> 90) trend over the years



Note: The above percentage indicates Portfolio at risk > 90 MFINdays divided by total portfolio oustanding as disclosed by bureau.
Source: CRIF Highmark, Crisil Intelligence

17.3 Growth drivers

Players tapping newer states and districts to widen client base

Crisil Intelligence finds a significant jump in the number of players operating in Uttar Pradesh, Bihar and Karnataka in recent years. The availability of borrower credit related data from credit information companies has also ensured that lenders have access to more data on borrowers, helping them make informed lending decisions.

Crisil Intelligence expects penetration to deepen going forward, which will further drive growth. Madhya Pradesh, Bihar and Tamil Nadu are states with large unserved populations and hence, provide an opportunity for existing players to improve their penetration and market share.

Product diversification through Microfinance Plus products

By introducing Microfinance Plus or Credit Plus products, several microfinance players have expanded into diversifying their products/services by helping the target customers gain access to other necessities such as education, healthcare, power, better infrastructure, insurance, etc. that help in their standard of living and overall economic development.

Rural segment continues to drive MFI business

Crisil Intelligence expects the rural segment to drive MFIs' business, with burgeoning demand expected from this segment. With fewer branches and outlets in rural and semi-urban areas as compared with urban areas, the rural market (comprising of rural and semi-urban) in India is still under-penetrated, thereby opening up a huge opportunity for savings and loan products. Crisil Intelligence believes that establishing a good rapport with rural customers leads to longer and more loyal customer relationship, which can be further leveraged to cross-sell other products.

With higher focus on rural areas, over the past few fiscals, NBFCs have been able to maintain better asset quality in rural areas compared to that in urban areas. Such a trend in asset quality forms a strong base for NBFCs to penetrate more into rural areas.

Implications of rural centred MFI business

The penetration of digital infrastructure and internet connectivity in rural areas are still improving. Lack of access is accentuated by low literacy levels among microfinance borrowers, who are generally daily wage earners and tend to transact in cash. The focus of NBFCs is to add more and more population under formal mode of financing and increase financial literacy along with continued credit growth. The main objective of microfinance lending is to support capital formation in agriculture and allied sectors. With disbursements being more focused on the rural parts of the country, NBFCs promote alternative employment opportunities by supporting farm and manufacturing sectors.

17.4 Threats and Challenges

Financial literacy: People in rural areas often lack financial knowledge and therefore having transaction with them and making them understand terms and conditions of loan products becomes challenging. Further, due to lack of financial literacy, most of the borrowers fail to manage their debt properly which leads to default in repayment.

Cost of outreach: Reaching rural areas and servicing small loan amounts involve high cost of operations. Setting-up branches and/or having partnership with agents, high disbursement and collection cost involved (employees need to visit remote villages for sourcing and collection of small loan amounts which increase the transportation cost) increase the overall cost of MFIs focusing in rural areas.

Technological challenges: People in rural areas are not so tech savvy to understand and carry out banking transactions and therefore requirement of manual involvement is more which is time consuming and also increases the cost.

Over-indebtedness – Due to lack of financial literacy, most of the borrowers in rural areas fail to manage their debt properly which leads to over-indebtedness and lack of repayment capabilities.

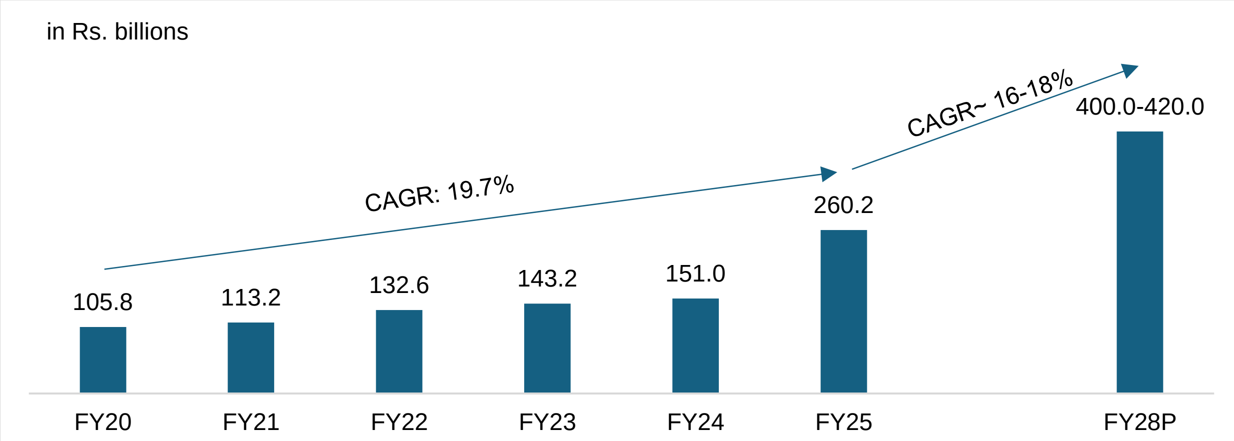
Higher NPAs – Since micro loans are unsecured, risk of credit loss increases. Moreover, NPAs are higher in microfinance owing to customer profile in rural areas.

Prone to external shocks – Micro borrowers are prone to economic and environmental disturbances which significantly impact their repayment capabilities.

18. Leasing Solutions

18.1 Leasing Solutions market

Leasing Solutions segment witnessed a CAGR of ~19.7% from FY20-25



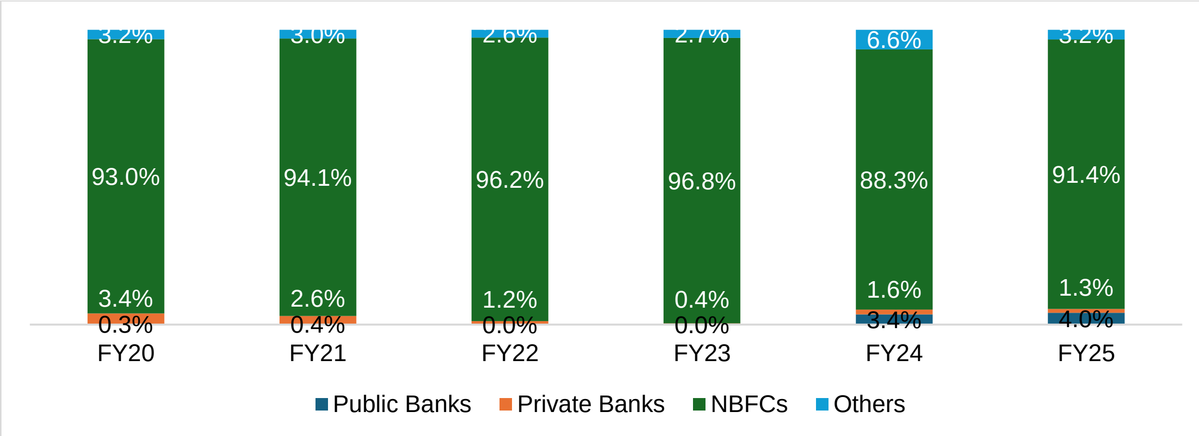
Note: Outstanding portfolio for Lease finance basis the commercial bureau, CRISL Estimates
Source: CRIF Highmark, Crisil Intelligence

The Leasing Solutions industry in India is expanding rapidly, driven by evolving financial needs, regulatory support, and technological advancements. Overall Leasing Solutions segment in India, stood at Rs. 260.2 billion as of fiscal 2025, witnessing a CAGR of ~19.7% from FY20. Going forward, as per Crisil Intelligence estimates, it is expected that the segment will grow at a CAGR of 16-18% till FY28.

Among lenders, NBFCs accounted for the highest share in credit outstanding with a share of ~91.4 as of fiscal 2025.

Portfolio Outstanding (in Rs. billion)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Public Banks	0.4	0.4	-	-	5.1	10.4	96.0%
Private Banks	3.6	2.9	1.6	0.6	2.5	3.4	-1.5%
NBFCs	98.4	106.5	127.6	138.7	133.4	238.0	19.3%
Others	3.4	3.4	3.4	3.9	10.0	8.5	20.0%
Overall	105.8	113.2	132.6	143.2	151.0	260.2	19.7%

Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence



Note: Others includes other financial institutions, Small Finance Banks and foreign banks. Source: CRIF Highmark, Crisil Intelligence

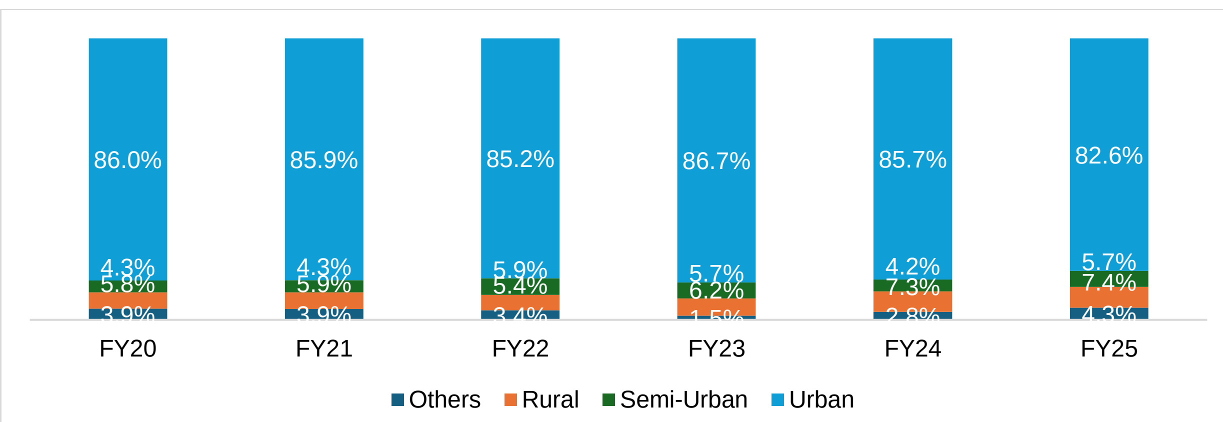
Urban Regions accounted for the highest share in the Segment as of Fiscal 2025

Urban regions accounted for the highest share in lease solution segment, accounting for ~82.6% market share followed by rural regions accounting for ~7.4% share as of Fiscal 2025. While the fastest growth was witnessed in semi urban regions during the fiscals growing at a CAGR of ~26.6% followed by rural regions which grew at ~25.7% CAGR.

Urban Regions accounted for the highest share accounting for ~82.6% share as of Fiscal 2025

Tier (Rs. Billion)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Rural	6.1	6.7	7.2	8.9	11.1	19.3	25.7%
Semi-Urban	4.5	4.8	7.9	8.1	6.3	14.7	26.6%
Urban	90.9	97.3	113.1	124.1	129.4	215.0	18.8%
Others	4.1	4.4	4.5	2.1	4.3	11.2	22.0%
Overall	105.8	113.2	132.6	143.2	151.0	260.2	19.7%

Note: Outstanding portfolio for Lease solutions basis the commercial bureau. Others constitute portfolio not categorized as rural, semi-urban or urban by bureau.
Source: CRIF Highmark, Crisil Intelligence



Note: Outstanding portfolio for Lease finance basis the commercial bureau. Others constitute portfolio not categorized as rural, semi-urban or urban by bureau.

Source: CRIF Highmark, Crisil Intelligence

18.2 Key success factors for Leasing Solutions segment

Strong Regulatory and Legal Framework: Clear leasing laws, RBI guidelines, and tax benefits ensure transparency, investor confidence, and a stable lease financing environment in India.

Competitive Interest Rates and Financial Structuring: Attractive lease terms, flexible repayment options, and cost-effective interest rates enhance affordability, boosting demand for lease financing solutions.

Expanding Market Demand and Digital Transformation: Growing SME sector, infrastructure development, and fintech-driven leasing platforms drive accessibility, efficiency, and wider adoption of leasing solutions.

18.3 Threats and challenges

Regulatory & Taxation Uncertainty: Frequent policy changes, complex tax structures, and evolving RBI regulations create compliance challenges, affecting lease financing growth and investor confidence.

Asset Depreciation & Residual Value Risk: Uncertain resale values, rapid technological obsolescence, and market fluctuations reduce asset worth, increasing risks for leasing companies and lessors.

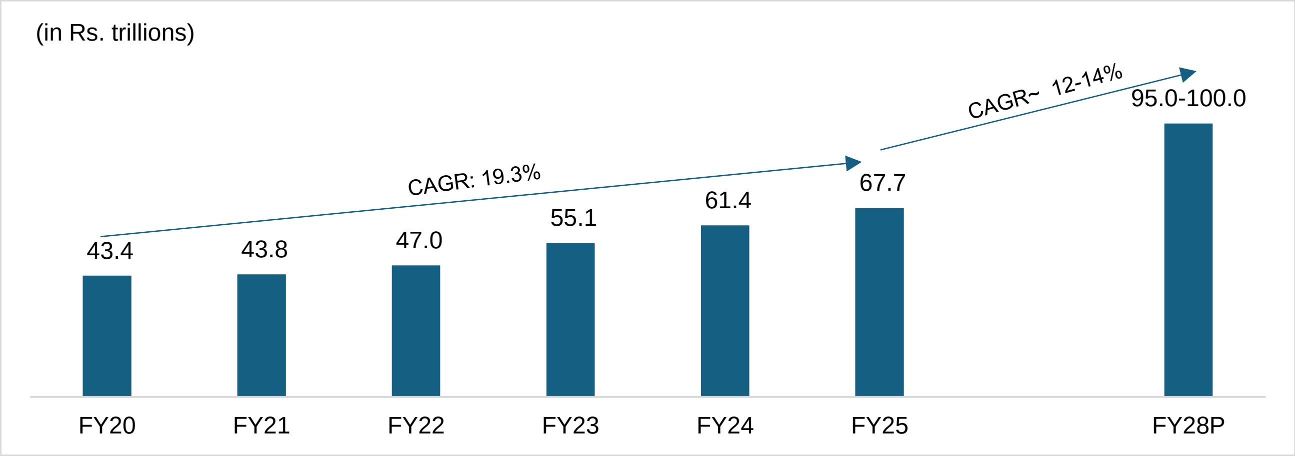
Credit Risk & Default Concerns: Weaker credit profiles, delayed payments, and economic downturns elevate default risks, impacting cash flows and financial stability for leasing firms.

19. Term Loans

19.1 Term Loans market

In this section, Crisil Intelligence has considered as SME Term Loans and Corporate Term Loans for analysis.

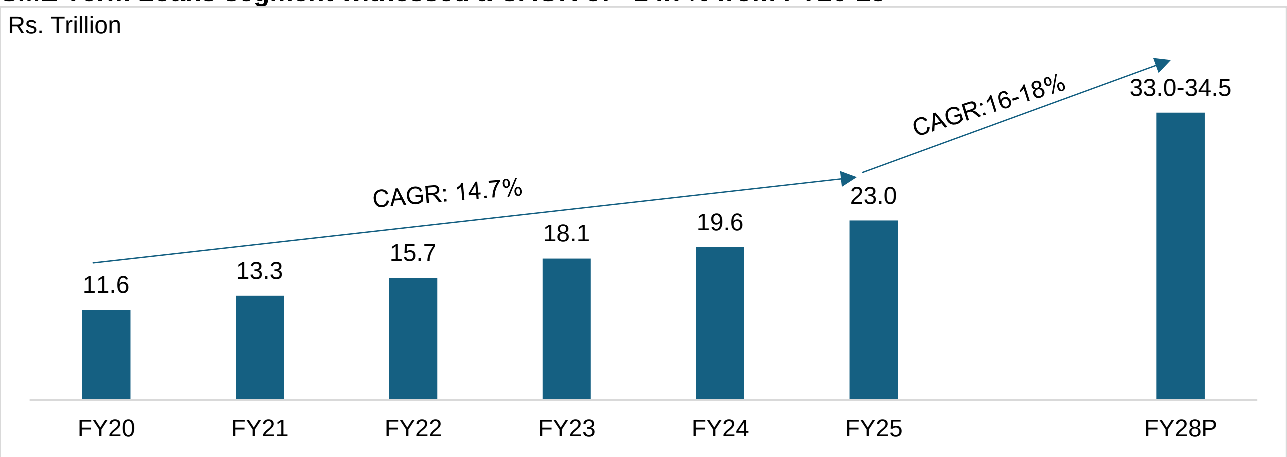
Term Loans portfolio outstanding



Note: The above portfolio contains SME Term Loans and Corporate Term Loans
Source: Crif Highmark, Crisil Intelligence

19.2 SME Term Loans

SME Term Loans segment witnessed a CAGR of ~14.7% from FY20-25



Note: SME Term Loans include Working capital and Term loan financing portfolio outstanding as reported in the commercial bureau for Medium small, Mudra and SME borrower.
Source: CRIF Highmark, Crisil Intelligence

Overall SME Term Loans segment in India, stood at Rs. 23.0 trillion as of FY25, witnessing a CAGR of ~14.7% from FY20. The segment has witnessed continuous growth across fiscals, with the fastest year-on-year growth in outstanding credit witnessed in FY21, FY22 and FY23. Going forward, as per Crisil Intelligence estimates, it is expected that the segment will grow at a CAGR of 16-18% till FY28.

Loans between Rs. 1.0 Mn. and 2.5 Mn. witnessed the fastest growth in the Segment

Among ticket brackets, loans between Rs. 1 Mn. and Rs. 2.5 Mn. witnessed the fastest growth among ticket brackets growing at a CAGR of 17.4%, while it accounts for ~7.3% share in the overall segment as of Fiscal 2025.

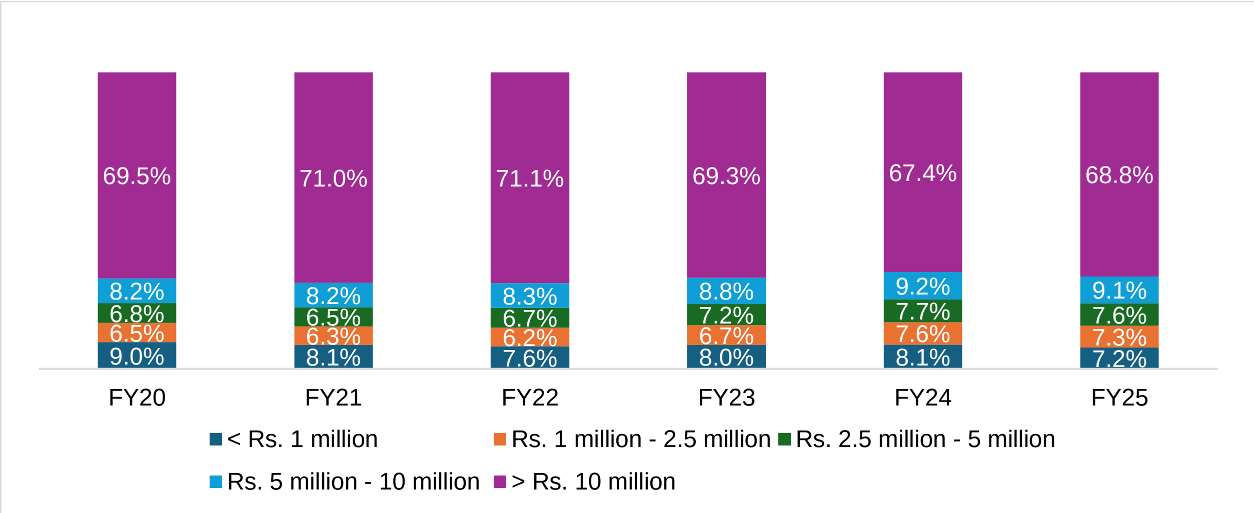
Loans between Rs. 1.0 Mn. and Rs. 2.5 Mn. witnessed the fastest growth in the Segment from FY20-25

Ticket Bracket (in Rs. Billion)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR FY20-25
< Rs. 1 million	1,038	1,075	1,195	1,453	1,590	1,660	9.8%
Rs. 1 million - 2.5 million	749	836	977	1,208	1,489	1,669	17.4%
Rs. 2.5 million - 5 million	780	866	1,054	1,305	1,509	1,735	17.3%
Rs. 5 million - 10 million	950	1,090	1,295	1,603	1,792	2,092	17.1%
> Rs. 10 million	8,034	9,483	11,133	12,557	13,194	15,812	14.5%
Overall	11,551	13,349	15,654	18,126	19,575	22,968	14.7%

Note: SME Term Loans include Working capital and Term loan financing portfolio outstanding as reported in the commercial bureau for Medium small, Mudra and SME borrower.

Source: CRIF Highmark, Crisil Intelligence

Ticket wise outstanding portfolio



Note: SME Term Loans include Working capital and Term loan financing portfolio outstanding as reported in the commercial bureau for Medium small, Mudra and SME borrower.

Source: CRIF Highmark, Crisil Intelligence

NBFCs witnessed the fastest growth among lenders from FY20-25

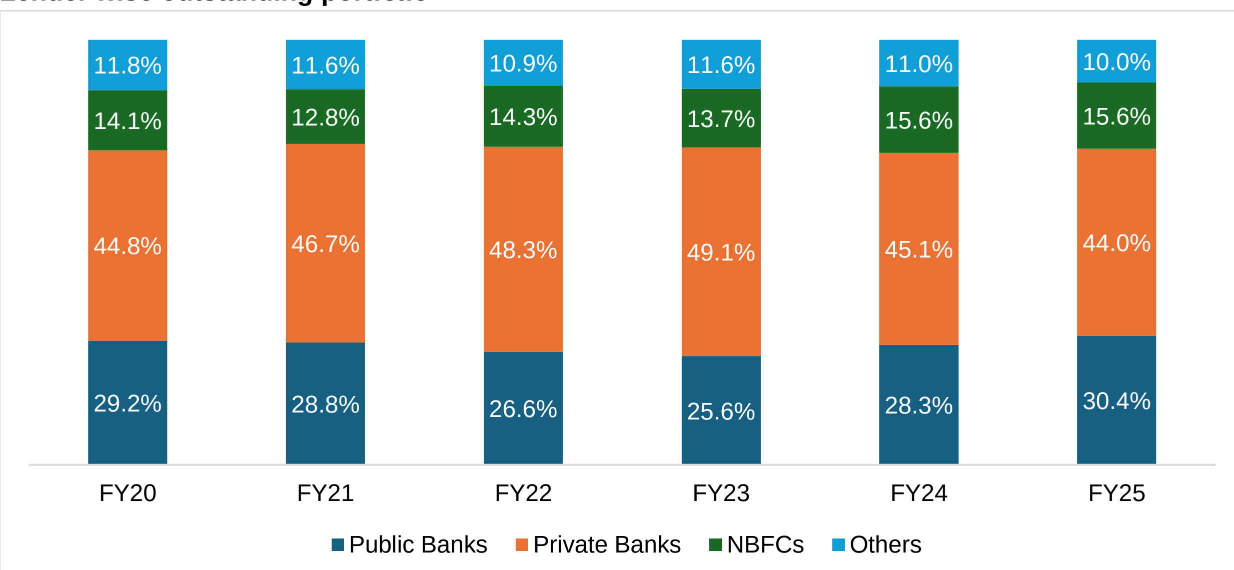
Among lenders, NBFCs witnessed the fastest growth during fiscals 2020-25, growing at a CAGR of ~17.0% which was followed by private banks growing at a CAGR of ~14.3% from FY20-25. Among lenders, private sector banks accounted for the highest share in credit outstanding with a share of ~44.0% as of fiscal 2025.

NBFCs witnessed the fastest growth among lenders from FY20-25, while accounting for the 15.6% share

Portfolio Outstanding (in Rs. billion)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)
Public Banks	3,377	3,847	4,158	4,639	5,531	6,974	15.6%
Private Banks	5,173	6,236	7,561	8,903	8,837	10,108	14.3%
NBFCs	1,633	1,715	2,234	2,487	3,063	3,585	17.0%
Others	1,368	1,552	1,701	2,097	2,144	2,301	10.9%
Overall	11,551	13,349	15,654	18,126	19,575	22,968	14.7%

Note: SME Term Loans include Working capital and Term loan financing portfolio outstanding as reported in the commercial bureau for Medium small, Mudra and SME borrower. Others includes other financial institutions, Small Finance Banks and foreign banks.
Source: CRIF Highmark, Crisil Intelligence

Lender wise outstanding portfolio



Note: SME Term Loans include Working capital and Term loan financing portfolio outstanding as reported in the commercial bureau for Medium small, Mudra and SME borrower. Others includes other financial institutions, Small Finance Banks and foreign banks.
Source: CRIF Highmark, Crisil Intelligence

Urban Regions accounted for the highest share in the Segment as of Fiscal 2025

Urban regions accounted for the highest share in working capital loan and term loan segment, accounting for ~60.4% market share followed by rural regions accounting for ~20.5% share and semi-urban regions accounting for ~10.2% market share. While the fastest growth was witnessed in rural regions during the fiscals growing at a CAGR of ~20.8% followed by semi-urban regions which grew at ~18.2% CAGR.

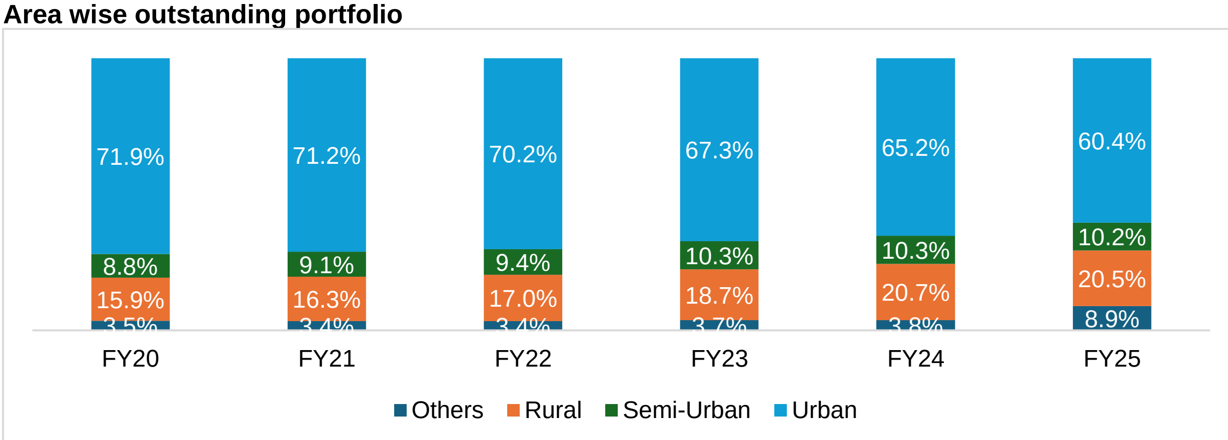
Urban Regions accounted for the highest share accounting for ~60.4% share as of FY25

Tier (Rs. Billion)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR (FY20-25)

Rural	1,832	2,175	2,660	3,390	4,048	4,704	20.8%
Semi-Urban	1,013	1,215	1,468	1,869	2,017	2,338	18.2%
Urban	8,306	9,501	10,991	12,198	12,771	13,883	10.8%
Others	401	458	535	670	738	2,042	38.5%
Overall	11,551	13,349	15,654	18,126	19,575	22,968	14.7%

Note: SME Term Loans include Working capital and Term loan financing portfolio outstanding as reported in the commercial bureau for Medium small, Mudra and SME borrower. Others constitute portfolio not categorized as rural, semi-urban or urban by bureau.
Source: CRIF Highmark, Crisil Intelligence

Area wise outstanding portfolio



Note: SME Term Loans include Working capital and Term loan financing portfolio outstanding as reported in the commercial bureau for Medium small, Mudra and SME borrower. Others constitute portfolio not categorized as rural, semi-urban or urban by bureau.
Source: CRIF Highmark, Crisil Intelligence

19.3 Key factors to contribute to SME Term Loans growth

- **Overall GDP growth and formalization of the economy:** overall economic growth plays a crucial role in shaping the demand for working capital and term loan requirements on the accounts of increased production and long-term capital expenditures for expansions. Increase in digitization has created a digital footprint of customers, which can be potentially used for credit decision making, along with other relevant parameters such as customer demographics, business details, credit score, and personal situation of the borrower. Demonetisation and GST have further accelerated formalization of the Indian economy

- **Enhanced reach through digitization:** The lenders are adopting technologies to facilitate supply chain financing for MSMEs. Lenders are leveraging technology solutions to prepare their own underwriting models for borrowers whose credit history is not available. Such credit assessment processes are proving to be more efficient and cost-effective.

- **Government led initiatives:** Various government led initiatives and policies such as UPI (simplified real-time digital payment system), Aadhaar based e-KYC (facilitating reduced documents requirements, simplifying documents verification), GST implementation (simplified business taxes, improving formalization), introduction of account aggregators, etc. are aimed at promoting financial inclusion and digitization to support MSMEs.

- **Expansion of MSMEs:** MSMEs keep expanding their business as and when it is feasible for them. To expand and scale their operations, they need additional funds to procure raw materials and/or store more inventory.

- **Export opportunities:** MSMEs contribute major share in export market. MSMEs engaging in export activities. As of FY2024, MSMEs contributed 45.73% share of India's exports.

19.4 Threats and challenges

- **Rising Interest Rates & Inflation:** Higher borrowing costs and inflation reduce credit affordability, increasing financial stress on businesses seeking working capital and term loans.

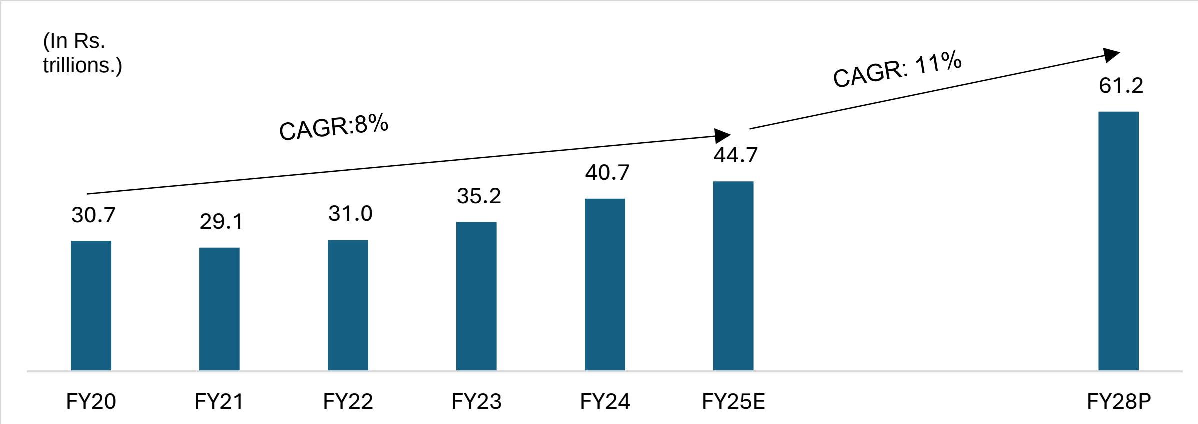
- **Non-Performing Assets (NPAs) & Credit Risks**: Rising bad loans weaken banks' lending capacity, leading to stricter credit approvals and reduced availability of business financing.

- **Economic Slowdown & Policy Uncertainty**: GDP fluctuations, regulatory changes, and global instability impact liquidity, discouraging investment and reducing access to term loans and working capital.

19.4 Corporate term loans

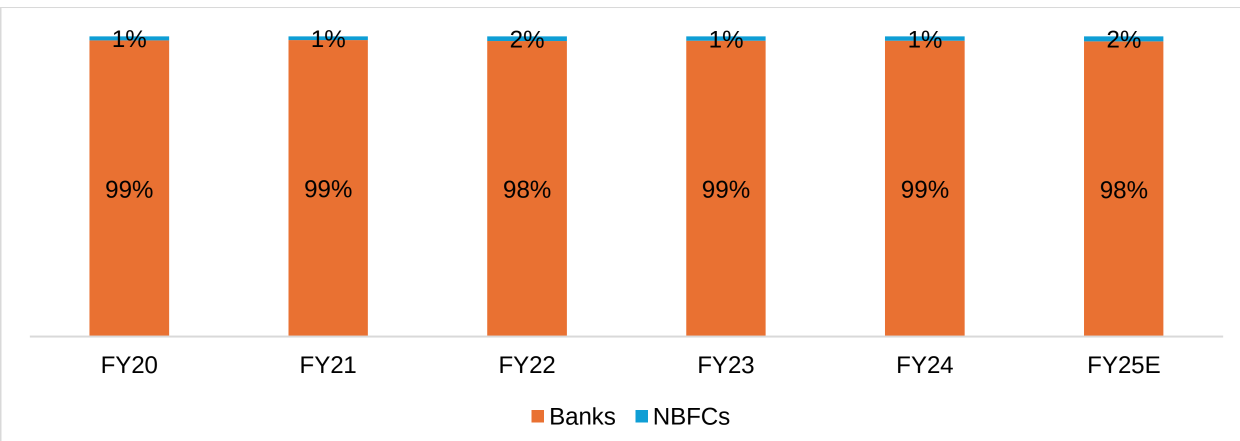
Corporate term loans represent lending services to medium-sized and large corporate firms, institutional customers by banks and other financial institutions. It encompasses both short- and long-term funding with long term loans accounting for most of the loan book. While long term loans are driven by investment cycles, short term loans are influenced by business revenue and working capital requirement. They provide comprehensive financing solutions to businesses for a variety of purposes such as working capital, expansion, and other business needs customized to fit a company's financial well-being and growth strategies. Unlike traditional term loans that are fixed-term borrowings for particular projects, corporate term loans offer more flexibility, including short-term, revolving, or customized credit options to address evolving business needs.

Crisil Intelligence expects the corporate term loans book to increase at a CAGR of ~11% till FY28, driven by an anticipated increase in consumption, which is expected to lift capex and with recent cut in interest rates, borrowing is expected to pick up, leading to an increase in loan demand with banks taking the lead in driving growth in the segment.



Note: E- Estimated, P- Projected, Source: RBI, Crisil Intelligence

For the overall corporate credit industry, bank have the lions share (~98%) of the market share. The emergence of alternate investment funds (AIFs) and private credit in this space is helping corporations and mid-market companies with their financing requirements, and they are experiencing a strong demand from companies for bespoke or tailored financing options. These institutions are strategically competitive with NBFCs, who have been cautious in lending to this segment. It is estimated that NBFCs constitute around 2% of the market share of the corporate loan book.



Source: Crisil Estimates

Volatile asset quality driven by high ticket sizes is the primary reason why these NBFCs have been gradually shedding their corporate term loans portfolios. Defaults in these loans result in elevated delinquencies, causing overall GNPAs to deteriorate. Another reason is the risky nature of certain real estate projects with high gestation periods. Consequently, product- or segment-focused NBFCs face higher borrowing costs, leading to contracted net interest margins (NIMs) and return on assets (ROAs).

Interest income for NBFCs for this segment reduced from 16.7% to 12-14% from FY24 to FY25. Opex for this segment is comparatively lower compared to other retail asset classes and credit costs have been unchanged to 1.5% in FY24 and FY25. Due to reduction in interest income, return on asset decreased from 3.2% to 1.4% from fiscal 2024 to fiscal 2025.

Ratios	FY21	FY22	FY23	FY24	FY25E
Interest Income	10.4%	9.6%	14.1%	16.7%	12.0-14.0%
Interest Expense	6.6%	6.7%	7.7%	9.7%	6.0-7.0%
Net Interest Income	3.8%	3.0%	6.3%	7.0%	6.0-7.0%
Operating Expense	2.0%	1.8%	2.9%	3.3%	2.5-3.0%
Credit Cost	1.0%	1.9%	1.1%	1.5%	~1.5-2.0%
ROA	1.1%	1.1%	2.0%	3.2%	1.5-2.0%

Note: E is estimated, All ratios calculated on total assets, Source: Company Reports, Crisil Intelligence

19.5 Growth Drivers

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

- **Customised solutions:** NBFCs offer customised loan structures that include features such as interest moratorium and bullet repayment schedules, setting them apart from conventional banks. Additionally, NBFCs build strong customer relationships with corporations, giving them a competitive advantage over banks.
- **Quick response time to customer requirements:** Corporates often require funds in a timely manner for funding business growth and/or managing liquidity crunch. NBFCs are able to meet the requirement of such clients owing to their faster turnaround time. The quicker turnaround time for NBFCs can be attributed to the use of technology and digital platforms in aspects of loan origination, underwriting and collections, and faster processing of documents. Decision-making cycles in some PSBs are elongated, owing to high ticket size and high-risk segment. This shall contribute to the growth of NBFCs in wholesale segment.
- **Revival in Capex Cycle:** Substantial opportunities arising from revival of capex cycles may have a positive impact and prove to be beneficial to both lenders and borrowers. The resurgence driven by central government and state government capital expenditure could lead to enhanced financial fluidity and growth prospects in the economy especially in the Corporate term loans market. Over the fiscal 2023 and 2025, the central government has spent 5.4% less than what was budgeted. Grants in aid (GIA) for creation of capital assets were 15.6% lower than budgeted during these three fiscals. Following the capex miss this fiscal and the growth slowdown, the central government has

pushed the pedal on capex next fiscal, which is budgeted at Rs. 11.2 trillion, up 10% from Rs. 10.2 trillion in Fiscal 2025 RE.

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

20. Supply Chain Finance

20.1 Supply Chain Market

With globalization and interconnected trade, businesses have resorted to financing methods such as supply chain financing to meet their end-to-end business goals. Supply Chain Finance is inherent to help meet the credit gap between big and small. Sales Invoice Discounting, Inventory (Channel) Funding, Factoring, Invoice/Bill Discounting are different means for businesses to raise cash for efficiently managing their working capital requirements.

MSMEs face delays in vendor payments which limits their ability to scale and fund their working capital. Banks provide supply chain financing to major corporates but deter while providing supply chain financing to MSMEs as the risk is higher on account of insufficient collateral or information for credit underwriting. Assessment of credit risk becomes difficult as the size of operations of MSMEs decreases. Supply Chain Finance consists of financing MSMEs

a. against invoices and receivables as intermittent collaterals through Sales Invoice Discounting. It includes providing cash to MSME suppliers against receivables from buyers. Financial Solutions in supply chain financing include technology-based solutions to help lower financing costs for MSMEs and in the process increase efficiency for buyers and sellers in a sales transaction.

b. For purchase of Inventory (Finished Goods/Raw Material) through Inventory Funding (Channel Finance). Inventory financing facilitate MSMEs to buy adequate inventories/stocks which could act as collateral for the loan. It helps MSMEs in maintaining optimal stock levels without impacting their cash flows

Need for Supply Chain Finance Solutions

Supply Chain Finance Solutions are cheaper as compared to traditional working capital loans or any short-term credit. Working capital loans are disbursed by banks/NBFCs post evaluating credit history, availability of collateral and default payment status of the business. Supply Chain Finance assesses the risk between two parties reducing the customer onboarding costs and credit costs.

Supply Chain Finance involves three parties including the supplier/seller, buyer and the Bank/NBFC offering to finance the transactions.

In the case of Sales Invoice Discounting, the MSME Seller generates an invoice and sells its high-value invoices to the financier to obtain short term credit for its working capital needs. On the date of payment, the bank/NBFC gets payment from the buyer and gains from the difference between the discounted price paid to the seller and the total price received by the buyer. Supply Chain Finance through Sales Invoice

Discounting also aims to strengthen the buyer-seller relationship by helping sellers improve their cash flow and buyers by ensuring adequate supply of goods/services.

In the case of Inventory Funding (Channel Finance), the MSME borrower, buys raw material/Stocks from a Seller and pays the Seller upfront using Inventory Funding from the Bank/NBFC. The Inventory funding is a short term credit and on the due date the MSME Borrower pays the Bank/NBFC. The Bank/NBFC earns interest from the MSME as per agreed terms and the MSME gets cash flows from the transaction to be able to service its buyers without any disruption.

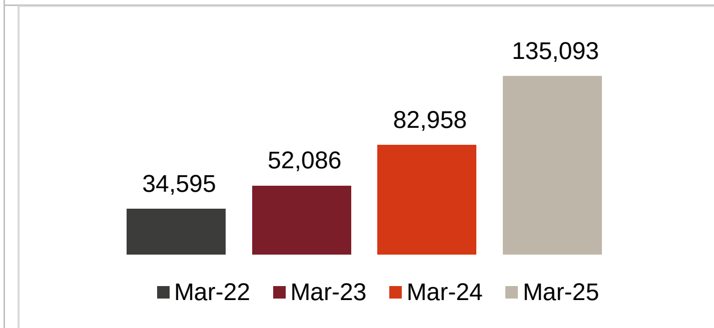
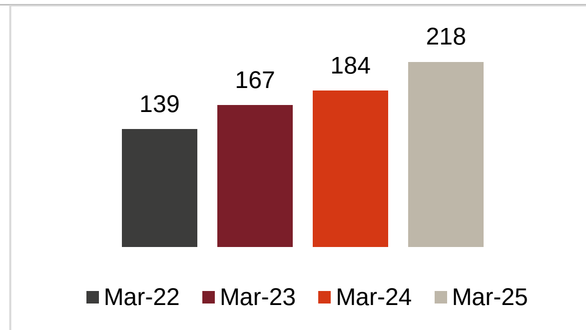
Models in Supply Chain Finance

The Supply Chain Finance industry is growing primarily through three models:

- **Through Banks:** Traditional banks provide supply chain solutions to large corporates through products such as factoring, bills discounting and inventory financing etc.
- **Through NBFCs/FinTech:** NBFCs and FinTechs cater to MSMEs through technological innovation and faster disbursal of credit through products such as Sales Invoice Discounting, Inventory Funding, Factoring etc.
- **Anchor led:** Large buyers arrange the required Sales Invoice Discounting for their suppliers by leveraging their strong credit profile into better financing rates and lower default risk. Large Sellers also arrange or recommend required funding lines for their buyers through Inventory Funding arrangements through bank/NBFC's.

Trade Receivables Discounting System (TReDS):

TReDS was set up by RBI to facilitate financing of trade receivables of MSMEs from corporates and other buyers through multiple financiers. TReDS is an electronic platform which facilitates the financing/discounting of trade receivables of MSMEs through multiple financiers. This platform is used by MSMEs for invoice discounting and getting early payments at competitive interest rates. The platform provides a transparent exchange system with minimal paperwork and lower operational costs.

Number of MSME sellers registered on TReDS as at the end of the month	Number of financiers registered at the end of month
	
Source: RBI, Crisil Intelligence	*Source: RBI, Crisil Intelligence*

Factoring:

Factoring is an ongoing business agreement between a financial intermediary (the factor) and a business entity (the client). Under the arrangement, the factor buys the client's outstanding accounts receivable or book debts. The association grants the authority to manage the client’s credit extended to customers and oversee the sales ledger.

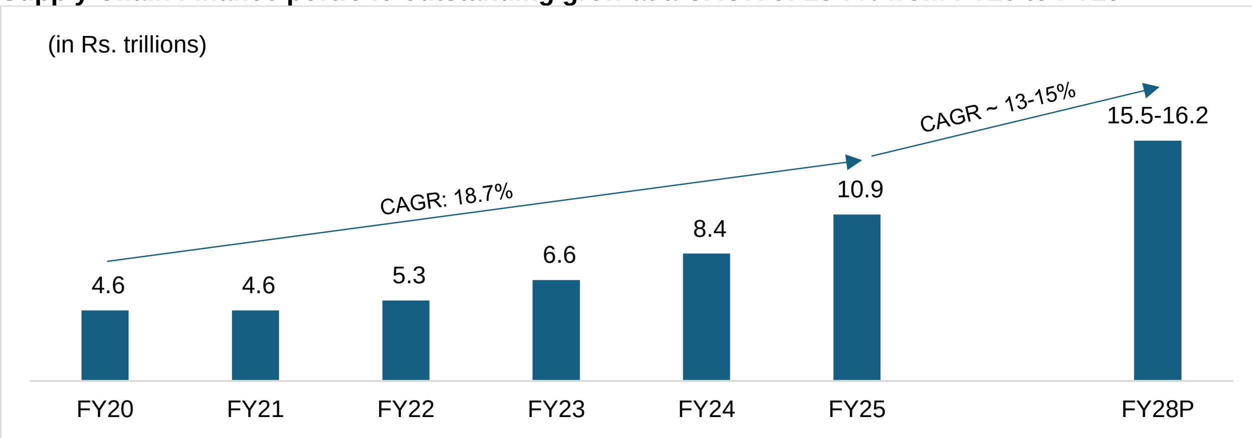
In a factoring transaction, the seller begins by providing goods or services to the buyer on credit, subsequently issuing an invoice with the delivered goods or services. The seller generates an invoice immediately upon sale, establishing payment terms agreed upon mutually by the seller and the buyer. In need of immediate funds, the seller then approaches a factory or the factor to secure immediate liquidity against all or part of the receivables from the buyer depending on the requirement. Upon assignment of the receivables, the factor discounts their value and provides the seller with the discounted amount upfront.

Following the transfer of receivables' ownership, the factor assumes responsibility for managing the receivables. Consequently, on the due date, the buyer pays the entire invoice amount directly to the factor.

20.2 Supply Chain Finance portfolio outstanding

Supply Chain Finance portfolio outstanding stood at Rs. 10.9 trillion as of March 2025. Portfolio Outstanding grew at a strong CAGR of 18.7% from Fiscal 2020 to Fiscal 2025 on account of increase in supply chain financing adoption by MSMEs, wide range of products offered by various banks, NBFCs and fintechs and integration of digital platforms and technological solutions thereby increasing accessibility and efficiency. With increasing number of sellers and buyers in the Indian MSME segment, supply chain financing is poised to grow strongly over the next few years.

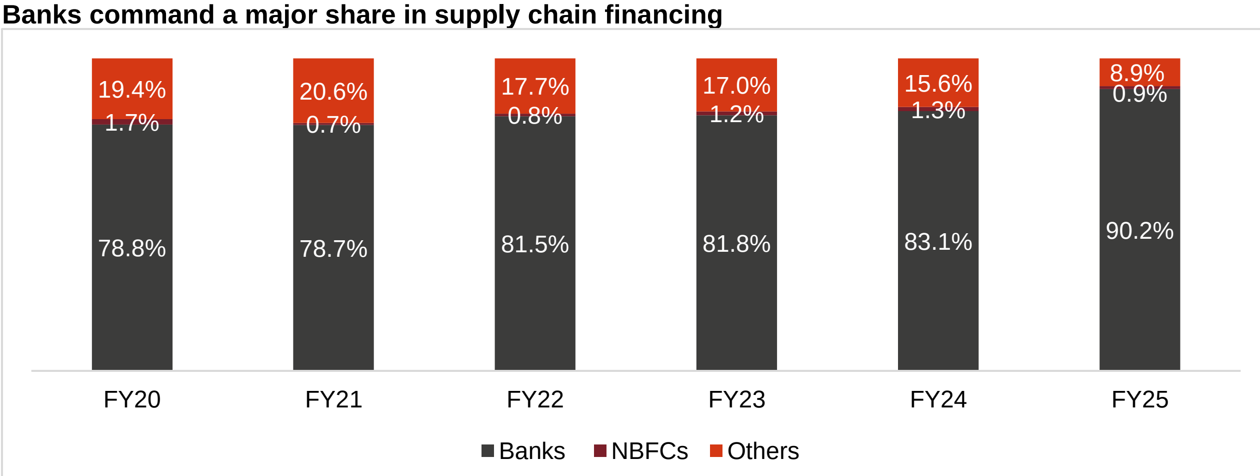
Supply Chain Finance portfolio outstanding grew at a CAGR of 18.7% from FY20 to FY25



Note: Supply Chain Finance includes products like Advances against export cash incentives, Advances against import bills, Cash Credit, Export bills advanced against, Export bills discounted, Export bills purchased, Factoring, Inland bills discounted, Inland bills purchased, Packing credit (all export pre-shipment finance),Seller Financing as reported in the commercial bureau.
Source: CRIF Highmark, Crisil Intelligence

Banks command the majority share in supply chain financing segment on account of their higher vintage in the asset class. Banks also service multinational corporations for supply chain financing, thereby increasing their share in the market. That said, NBFCs are also expected to register strong growth on account of digitization measures in the particular asset class.

Banks command a major share in supply chain financing



Note: Supply Chain Finance includes products like Advances against export cash incentives, Advances against import bills, Cash Credit, Export bills advanced against, Export bills discounted, Export bills purchased, Factoring, Inland bills discounted, Inland bills purchased, packing credit (all export pre-shipment finance),Seller Financing as reported in the commercial bureau. Others includes other financial institutions, Small Finance Banks and foreign banks.
Source: CRIF Highmark, Crisil Intelligence

20.3 Growth Factors for Supply Chain Finance:

- **Innovative Solutions in supply chain financing:** Various FinTech companies have introduced innovative solutions to enhance the efficiency in supply chain financing by introducing Software as a Service to banks and MSMEs. FinTech companies also employ machine learning and AI to evaluate the creditworthiness of suppliers and buyer to ensure speed of credit delivery.

- **Credit Gap for MSMEs:** MSMEs will need incremental supply chain financing solutions to optimize their working capital management.
- **Advanced use of AI and ML in providing innovative solutions:** NBFCs are using modern technology like AI and ML to understand the credit worthiness of the buyer and help disburse credit faster to MSMEs.
- **Government initiatives:** Government initiatives like TReDS, Account Aggregators will help digitize the process of inventory funding.

20.4 Threats and Challenges

- **High Operational Costs:** Expenses relating to technology integration for crediting and managing a supply chain finance loan can be high as compared to other loan products
- **Low adoption by supplier and buyer:** Most of the business owners are not aware of supply chain financing solutions

21. Developer Finance

21.1 Developer Finance market for NBFCs

NBFC's Developer Finance credit book to change direction owing to increasing developer's penetration in the Indian market

Over the past few fiscals, non-banking financial companies' (NBFCs) lending to the real-estate sector has undergone a considerable change in terms of size, complexity, and interconnectedness with the financial sector. Majority of home loans companies (HFCs) are downsizing their real-estate portfolios due to asset quality concerns, but few are actively expanding and have been able to do well owing to prudent credit quality and monitoring, diversified portfolio books and quality customer sourcing strategy.

Factors affecting residential housing demand post pandemic:

- Supply rationalisation post pandemic
- Pent-up demand and tax incentives
- Concessions in stamp duty
- Sustained economic growth and hybrid working model

Top residential markets witnessed strong momentum in the past few fiscals supported by sustained economic growth and continuation of hybrid working models, growth is expected to continue in FY25 primarily due to necessity for larger living spaces and an enhanced lifestyle, catalysed by the pandemic. Also, on account of the Real Estate Regulatory Authority (RERA), there has been increased demand for RERA compliant houses, which increases the social security of the home buyer that the House possession will be delivered on time.

In recent years, India has witnessed a significant surge in green finance, with investments in renewable energy and sustainable infrastructure projects on the rise. The country has set ambitious targets to reduce its carbon footprint and transition to a low-carbon economy, thus driving demand for green financing.

Rising supply of housing projects helped in housing sales revival post pandemic

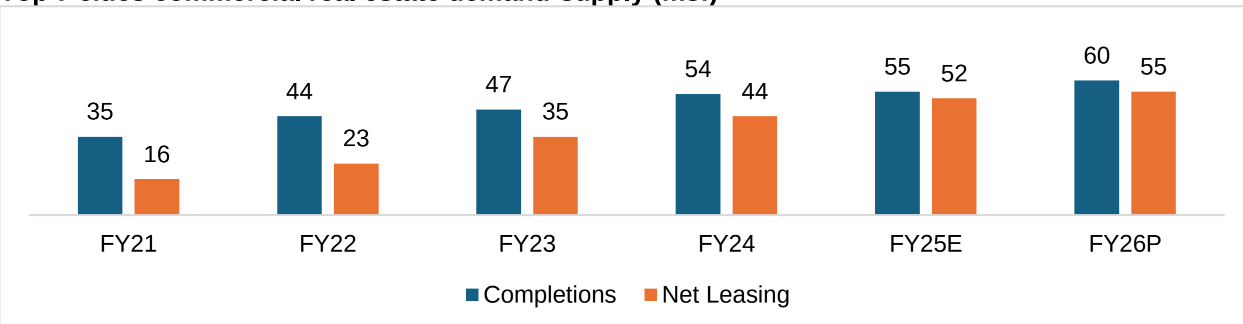
Top 7 cities	FY20	FY21	FY22	FY23	FY24	FY25E	FY26P
Annual Demand^ (msf)	206	141	234	288	354	348	365-372
Annual Supply (msf)	180	131	233	327	409	416	441-449
Inventory at Fiscal End (msf)	864	854	853	892	948	1,015	1,092
YTS*	4.2	6.1	3.6	3.1	2.7	2.9	3.0

Note: ^Demand refers to booking or absorption in the primary market (developer sales) in newly launched as well as under-construction projects; top 7 cities –MMR, NCR, Pune, Hyderabad, Chennai, Kolkata and Bengaluru Opening inventory for FY2020 is 890 msf
**YTS = years to sale, which denotes how many years it would take for the inventory to be liquidated at current pace of demand*
Source: Industry, Crisil Intelligence

Rising supply and demand of commercial real estate projects expected to grow

The commercial real estate market is expected to grow and expand supported by the healthy growth of Indian corporate and start-up ecosystem and their need for office space, strong office leasing trend and advent of the global capabilities centres (GCCs) of the multinationals.

Top 7 cities commercial real estate demand-supply (msf)

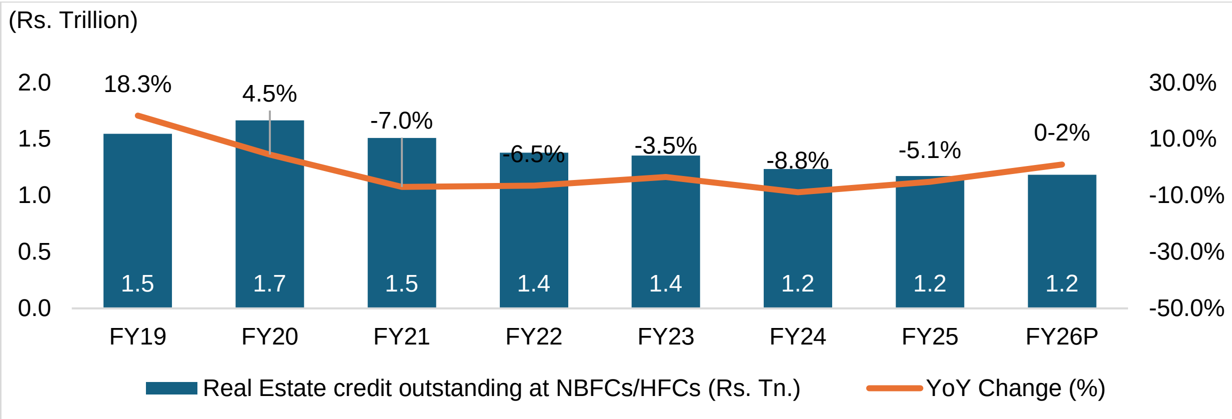


Note: Above numbers are for top 7 cities which account for more than 85% of top 10 cities in India, Top 7 cities include Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai (MMR), and Pune
Source: Crisil Intelligence estimates

NBFCs were cautious in lending to both the corporate and real-estate sectors. NBFCs have reported a decline in their lending to the segment, as they have been prioritising retail credit over wholesale lending. Volatile asset quality driven by high ticket sizes is the primary reason why these NBFCs have been gradually shedding their wholesale portfolios.

Defaults in these loans result in elevated delinquencies, causing the increase in overall gross non-performing assets (GNPAs) and asset quality deterioration. However over the last few years, there have been resolutions and the stress and NPAs have been reducing.

NBFCs' developer finance is estimated to grow by 0-2% in Fiscal 2026



Note: Data is of overall real-estate credit (residential and commercial) and is excluding of lease rental discounting (LRD)
Source: Company reports, RBI, Crisil Intelligence

NBFCs real-estate lending declined to ~Rs 1.2 trillion in Fiscal 2025 from ~Rs 1.5 trillion in Fiscal 2019, primarily due to asset quality stress aggravating from pandemic-led lockdowns as real estate industry was already in considerable stress before Covid-19. This created periods of no activity and labour shortages, leading to extended construction timelines and financing challenges. From 2018 to 2020, NBFCs were facing challenges related to tighter liquidity, riskier business models and asset liability mismatch resulting from DHFL and IL&FS crisis, post which growth and asset quality levels of the sector deteriorated.

However, government interventions, low repo rates and reduced stamp duties supported developers by providing the much-needed boost to keep construction projects afloat. These concessions led to an improvement in sales, benefitting the entire ecosystem. The pandemic and its aftermath accelerated the growth of affordable housing market, outpacing other segments. This was fuelled by an uptick in affordable real-estate demand in Tier II and III cities. With a young population demographic, major cities have been burdened to fill the supply-demand gap in housing and commercial real estate. Since the pandemic has now subsided, demand for luxury and prime housing is on the rise. Affordable housing demand, on the other hand, has moderated due to lower affordability within the targeted segment. The traditional funding practices of developers included payments collected at the time of property booking, construction-wise payments from customers or their lenders, developers' own capital and bank or NBFC borrowings. Furthermore, sudden changes in economic and global conditions have rendered projects volatile, elevating the risk of bankruptcies. To address this, the Government of India has promoted a more diversified resource mix for developers, wherein they are introduced to the capital markets to raise capital through real-estate investment trusts (REITs) as an alternative financing source.

NBFCs' developer finance book plummeted 5.1% in Fiscal 2025 with further downsizing of wholesale and real-estate lending books. In Fiscal 2026, the growth is expected to normalise to (1-2%) as most of the portfolio transition by NBFCs is likely to have been completed.

21.2 Key Growth Drivers

- **Rise in urbanization to create demand for residential real estate in urban India:** Urbanisation provides an impetus to housing demand in urban areas as migrants from rural areas require dwelling units. In 2020, about 35% of Indian population lived in urban areas of the country and this share of urban population is expected to increase to about 40% in by 2030. This trend in urbanization has pushed the demand for houses in urban areas.
- **Infrastructure development across India is driving growth in the real estate sector:** The development of infrastructure plays a key role in enhancing the demand for residential estate. Infrastructure development leads to an increase in connectivity through railways, air, and road, reducing commute time. Well planned transportation infrastructure attracts investments and business which further creates demand for commercial and residential real estate. Also, other infrastructure development such medical facilities, educational institutions, entertainment hubs, retail market, business centres, schools, retail outlets etc. promote real estate prices as these infrastructure projects are the most preferred aspect for residential real estate buyers.
- **Focus on integrated lifestyle especially by millennial buyers:** Nowadays, residential real estate buyers, especially millennials, have key preferences for their homes. These residential real estate buyers look for work-life balance and seek residences which offer modern amenities, vibrant communities, and access to leisure and entertainment options. They prefer integrated townships with gated communities which offer a variety of amenities such as fitness centres, swimming pools, and recreational spaces. Due to this, developers today are focusing on offerings to cater these lifestyle-based preferences, resulting in real estate development projects for aspirations and dreams of millennial generation.

21.3 Threats and challenges:

- **Operational risk in project approvals and construction:** Operational risks in real estate financing include project delays due to legal issues, funding shortfalls, or logistical challenges, and construction risks such as poor construction quality, labour shortages, and unreliable contractors. Effective project management, regular monitoring, and contingency planning are essential to mitigate these risks and ensure timely project completion.
- **Increasing preference towards renting rather than buying**: The millennial generation is expected to drive a significant shift in the housing market, with a growing preference for renting over buying homes. The rise of the sharing economy, co-living spaces, and online rental platforms is also contributing to this trend, making it easier and more appealing for millennials to rent rather than buy.

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

22. Climate financing (Cleantech Finance)

22.1 Cleantech Finance in India

The climate financing industry in India has gained significant momentum over the years and the Indian government is actively supporting and investing in renewable energy which has led to significant growth in the renewable energy sector. As of Fiscal 2025, the two leading power financing companies in India boasted gross loan assets of Rs.1,390 billion towards renewable energy sector, underscoring not just their current standing but also signalling the vast potential for expansion in other climate financing aspects. Tata Capital is one of India's largest private NBFC operating in cleantech finance segment as of March 31, 2025. This robust foundation and continued governmental backing position the sector for further sustainable development and environmental impact.

India, as one of the world's largest economies and a country highly vulnerable to climate change, has been actively engaged in climate financing to address these issues. India has shown a strong commitment to renewable energy in recent years. The government has implemented various policies and initiatives to support the growth of renewable energy sources like solar and wind, which aim to increase renewable energy capacity. India has also set ambitious targets for renewable energy generation, with a focus on reducing carbon emissions. Furthermore, the government has introduced financial incentives and subsidies to encourage investment in renewable energy projects. Overall, government is actively supporting and investing in renewable energy which has led to significant growth in the renewable energy sector. India's climate mission is advancing through significant developments in emerging cleantech industries such as electric vehicles (EVs), energy efficiency, biofuels, bioenergy, waste management, and green hydrogen. These sectors are pivotal in India's transition to a sustainable, low-carbon economy, aligning with its Net Zero 2070 target and commitments under the Paris Agreement.

Here's an overview of the trend in climate sectors financing industry in India:

- Renewable energy investment: India has become a global leader in renewable energy investments, particularly in solar and wind power. By 2030, India aims to reach 280 GW of solar power which will form a significant portion of country's overall target of 500 GW of renewable energy. India's installed renewable energy capacity has increased and stands at more than 220.1 Giga Watts as of 31st March 2025, up from 198.75 GW in the previous fiscal. The installed solar energy capacity has increased and stands at 105.65 GW as of 31st March 2025. The total cumulative installed wind capacity stands at 50.04 GW as of 31st March 2025, reinforcing wind energy's role in India's renewable energy mix.
- Electric Vehicles (EVs): The government aims for EVs to constitute 30% of passenger car sales by 2030. Initiatives like the PM E-DRIVE scheme allocate Rs.109 billion to promote EV adoption, including subsidies for e-two wheelers, e-three wheelers, e-ambulances, and e-trucks.

- Biofuels & Bioenergy: The National Bio-Energy Mission promotes ethanol blending, compressed biogas (CBG), and biomass energy, reducing reliance on crude oil. The government has set a target to achieve 20% ethanol blending in petrol by Ethanol Supply Year (ESY) 2025-26, advancing the use of biofuels. Blending of Ethanol increased to 17.98% in ESY 2024-25 upto 28th February 2025 from 12.06% in ESY 2022-23.
- Emission Reduction (Energy Efficiency) Projects: India has been actively involved in emission reduction projects, including afforestation, reforestation, and energy-efficient technologies.
- Market Based Mechanisms: Initiatives under the Clean Development Mechanism (CDM) and programs like the Perform, Achieve, and Trade (PAT) scheme, Carbon credit trading schemes have been crucial in reducing carbon emissions.
- Green Hydrogen: The National Green Hydrogen Mission aims to develop a green hydrogen production capacity of at least 5 million metric tonnes per annum by 2030, with an associated renewable energy capacity addition of 125 GW. Green hydrogen is expected to revolutionize industrial decarbonization, particularly in sectors like steel, cement, and chemicals.
- Green Bonds: Indian corporations and financial institutions have increasingly issued green bonds to fund climate projects. These bonds are designed to raise capital specifically for environmentally friendly projects. The Securities and Exchange Board of India (SEBI) has issued guidelines for green bonds to promote transparency and accountability.
- Waste management: Innovations in waste-to-energy conversion, plastic recycling, and sustainable waste disposal are mitigating environmental pollution. Government schemes like the Swachh Bharat Mission and Extended Producer Responsibility (EPR) drive better waste management practices.
- International Climate Finance: India has also been a recipient of international climate finance, including funds from the Green Climate Fund (GCF) and bilateral agreements with countries like Germany, Japan, and the United Kingdom. These funds are used to support various climate projects and enhance climate resilience in the country.

22.2 Challenges in the Climate Financing Industry in India:

- Risk Perception & Lack of Financial Instruments: Financial institutions perceive clean energy projects as high-risk due to technological uncertainties and creditworthiness issues, leading to limited loan availability and fewer specialized climate financing instruments.
- Limited Access to Capital & High Financing Costs: Cleantech projects face high upfront costs, long payback periods, and limited access to affordable financing, deterring private investments and slowing large-scale renewable energy adoption.
- Underdeveloped Carbon Market & Green Bonds: India's carbon credit market and green bond ecosystem remain underdeveloped, limiting alternative funding sources and restricting institutional investors from engaging in large-scale climate financing initiatives.

- Weak financial health of public utilities: Many state-owned power distribution companies (DISCOMs) struggle with high debts, payment delays, and operational inefficiencies, affecting their ability to purchase power from clean energy producers, discouraging private investments.

In its recent report "Towards a Greener Cleaner India" for the financial year 2022-23, the Reserve Bank of India (RBI) emphasizes that despite facing climate financing challenges, India remains committed to sustainable development. The RBI emphasizes the pivotal role of the financial sector, encompassing banks, NBFCs, insurance, and asset management, in facilitating a reasonable transition towards a sustainable economy. The RBI aligns itself with global trends by promoting Environmental, Social, and Governance (ESG) considerations, catering to the growing investor demand for ESG disclosure. Furthermore, the RBI suggests creating a low-cost funding window for banks to reduce borrowing costs for renewable energy companies and advocates reduced reserve requirements for green projects.

Examples of Private Sector Climate Finance Tools

Commercial bank lending with climate considerations	Conventional commercial bank lending with climate considerations is growing, driven by both commercial banks' voluntary climate strategy and financial regulations.
Green bonds and green loans	Green bonds and loans are used to exclusively finance projects that have positive climate and environmental impacts.
Sustainability-linked bonds and sustainability-linked loans	Sustainability-linked bonds and loans are used by corporates and sovereigns to raise capital often at lower costs, by committing to achieve predefined key performance indicators (KPIs) on sustainability.
Sustainability bonds and social bonds	Sustainability and social bonds are financing tools where the proceeds are used to finance projects that achieve positive climate and social impacts.
Green asset-backed securities (ABSs)	Green securitization can transform illiquid climate-friendly assets into tradable financial securities.
Other financial instruments	Other financial instruments are used in private climate finance, including through certain environmental, social, and governance funds (with climate considerations), as well as private equity and venture capital investments in climate-related firms. Shareholder engagement is also used to encourage companies' green investment decisions.

Sources: World Bank, IMF, Crisil Intelligence

22.3 Financing India's Clean Energy transition

India's ambitious clean energy transition is crucial for achieving net-zero emissions by 2070 while ensuring energy security, economic growth, and environmental sustainability. The shift requires massive financial investments, robust policies, and innovative financing mechanisms to scale renewable energy, green hydrogen, and energy efficiency projects. The World Bank has committed $1.5 billion to support India's low-carbon transition, focusing on renewables and private sector participation. The Ministry of Power highlights the need for affordable capital to accelerate the transition. Mobilizing global and domestic funding is essential for success.

Some key policies and regulations related to climate finance in India:

- Renewable Energy Target: India aims to install 450 GW of renewable energy capacity by 2030, with a major focus on solar (280 GW) and wind (140 GW), driving the clean energy transition.
- Green Bonds: The Securities and Exchange Board of India (SEBI) has introduced guidelines for green bonds to promote transparency and accountability in green financing. These bonds are used to raise capital for environmentally friendly projects.
- PLI for Domestic Manufacturing of Solar Modules, Battery Storage and Green Hydrogen: The Production-Linked Incentive (PLI) scheme supports solar PV modules, battery storage, and green hydrogen, strengthening domestic manufacturing and reducing import dependency.
- National Bioenergy Policy: Focuses on waste-to-energy, biomass power, and ethanol blending, promoting sustainable biofuel adoption to reduce fossil fuel reliance and enhance energy security.
- Carbon Credit Trading Scheme, 2023: Establishes a domestic carbon market where industries trade carbon credits, encouraging cost-effective emission reductions and corporate sustainability initiatives.
- India's Net Zero Target and Emission Reduction Targets: India aims for Net Zero by 2070, with 50% renewable energy by 2030 and a 45% reduction in carbon intensity from 2005 levels by 2030.

23. Alternative Asset Management (AIFs) Landscape in India

23.1 AIF Industry Evolution

Period	Particulars
1980 - 1990s	Indian entrepreneurs and startups sought funding to fuel their ideas, and PE and VC firms recognized the potential of the Indian market.
Early 2000s	Rise of Hedge Funds, Real Estate and Infrastructure Investments, growing interest in commodities
2012 – 2013	SEBI introduces AIF regulations; Risk Management Framework introduced for CAT III AIFs
2014 – 2015	Guidelines on overseas investments by AIFs; Launch of REITS and InvITs
2017 – 2018	Operational guidelines for IFSCs; Introduction of Online Registration System
2020	Enhanced and standardized disclosure norms; performance benchmarking for AIFs; Investment committee norms
2021	Code of conduct; New class of investors; Mandatory Filing of PPM; Enhanced Disclosures
2022	Introduction of special situation funds; Compliance Officer mandatory; Introduction of direct plan for AIFs; Standard approach to valuation
2023	

Source: Crisil Intelligence

Different categories of AIFs

Category I	Category II	Category III
Venture capital funds (Including Angel Funds) – New age startups with high-growth prospects that require large financing during their initial days can approach a VC fund. An angel investor invests in budding startups and bring in early business management experience.	Private Equity Funds (including Secondaries Funds) – A PE fund typically invests in unlisted private companies by availing equity interest.	Funds that engage in many complex trading techniques, e.g., listed, or unlisted derivatives

SME Funds – Funds that invest in small and medium businesses.	Real Estate Funds – Funds that invest in securities that are offered by public real estate companies.	Hedge Funds – A pooled investment vehicle from UHNIs/HNIs or institutional investors that invest and trade in many different markets, strategies and instruments (equity, debt and derivatives).
Social Venture Funds – Funds that invest in socially responsible businesses; they are in similar to philanthropic investments but have a scope for earning returns for investors.		
Infrastructure Funds – Funds that invest in infrastructure companies including those involved in road construction, railway construction etc.		

Note: Above list is illustrative in nature, Source: SEBI, Crisil Intelligence

Alternatives deployment in India as a proportion of GDP, and as a proportion of managed investment products shows huge headroom for growth

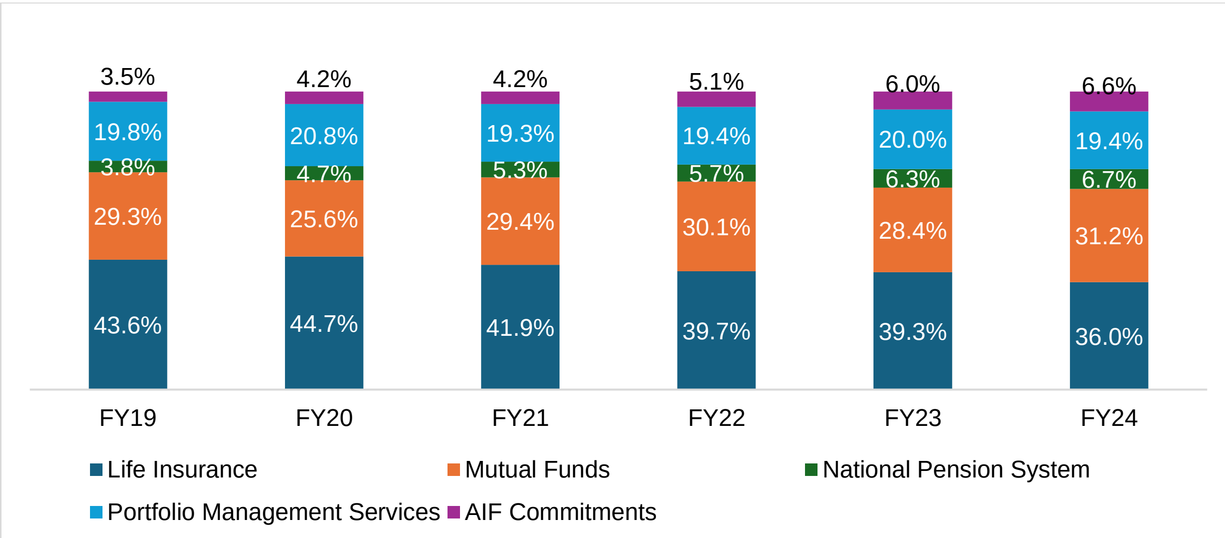
Products included as a part of Managed Investments

AIF Commitments	Mutual Funds	National Pension System (NPS)	Portfolio Management Services	Life Insurance

The share of alternative products, as represented by commitment raised by AIFs, grew to 6.6% in March 2024 from 3.5% of total AUM of managed investment products[1] in March 2019. The share of managed investment products was ~96.8% of India's GDP as of March 2024. Despite such a strong growth in AIF, India's AIF market is still underdeveloped as against the rest of world. In 2019, for example, the AIF industry size in the US was $10.3 trillion. As of March 2025, the ratio of Indian AIF industry's commitment to real GDP stood at ~7.2%, which is significantly underpenetrated when compared to the ratio of the AIF net asset value (NAV) to GDP in the European Union (EU), which stands at ~42% (as of calendar year 2022) indicating substantial scope for further penetration for AIFs in India.

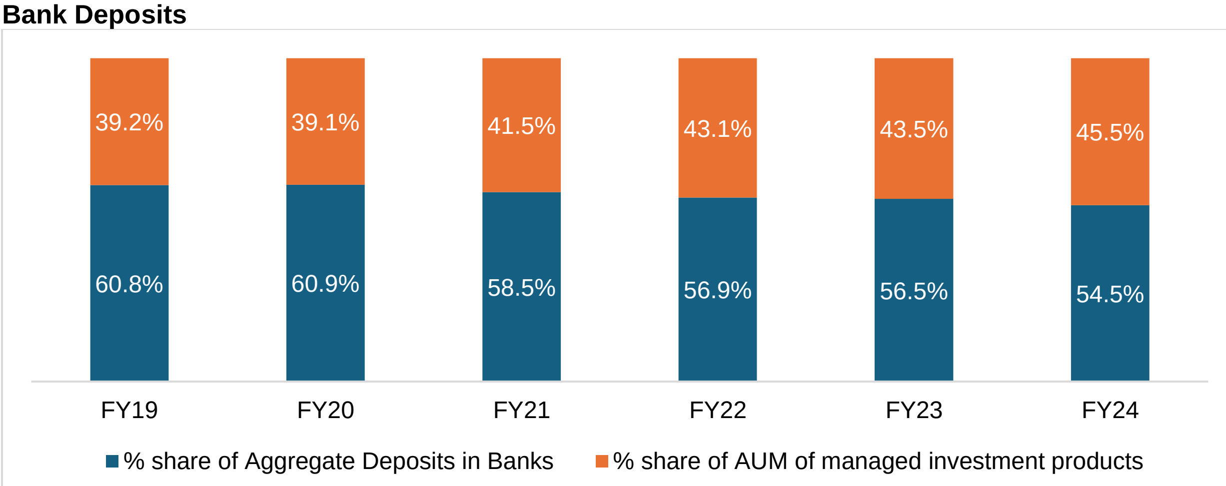
[1] *Includes AUM of life insurance, mutual funds, National Pension System, portfolio management services and commitments raised by AIFs.*

Percentage share of AIF Commitments has witnessed a steady increase over the years as compared to other Managed Investment Products (% Share of Managed Investment Products)



Source: SEBI, AMFI, IRDAI, NPS Trust, Crisil Intelligence

Percentage share of Managed Investment Products gaining higher share as compared to share of Bank Deposits



Source: SEBI, RBI, AMFI, IRDAI, NPS Trust, Crisil Intelligence

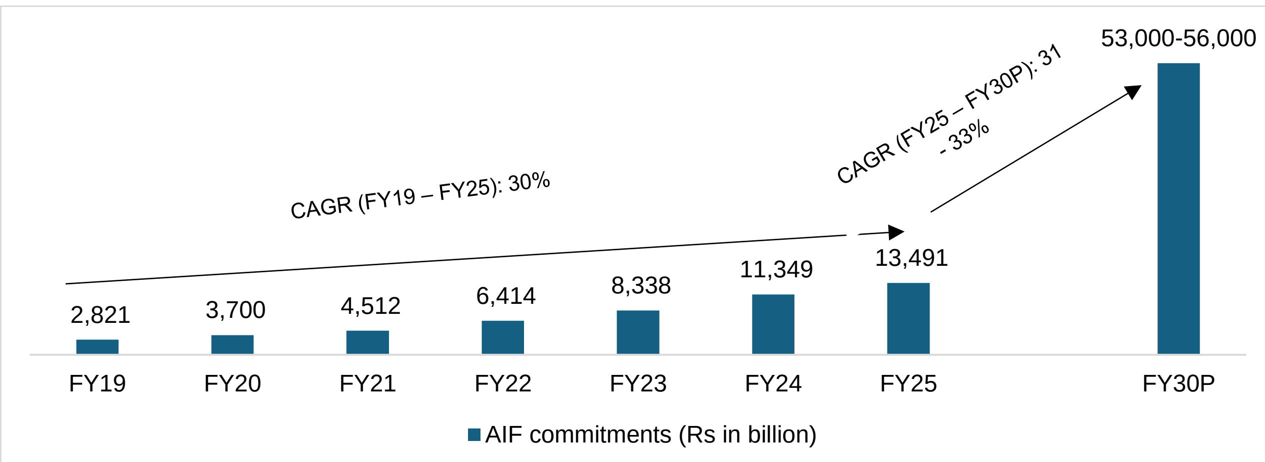
23.2 AIF Industry has displayed a strong growth trajectory between Fiscal 2019 and Fiscal 2025

Over the past few years, AIF has become one of the key segments in private markets in India. Total commitments have been growing at a steady pace seeing a ~30% CAGR between March 2019 and March 2025, with a total commitment of Rs 13,491 billion as on March 31, 2025. The segment is expected to remain one of the fastest growing managed products categories over the next few years as more and more high net worth individuals (HNIs), ultra-HNIs and institutional investors seek out differentiated products that give them an option to generate better returns on their investments.

Alternative investments are expanding the market by capturing share from other asset classes, not mutual funds. Their relatively higher yields than other asset classes add to increased profitability, driving growth in the investment landscape. As of March 31st, 2025, the AUM for alternative investments in India stood at Rs 13,491 billion and is expected to grow at ~31-33% between March 2025 and March 2030 and reach ~Rs 53-56 trillion by March 2030.

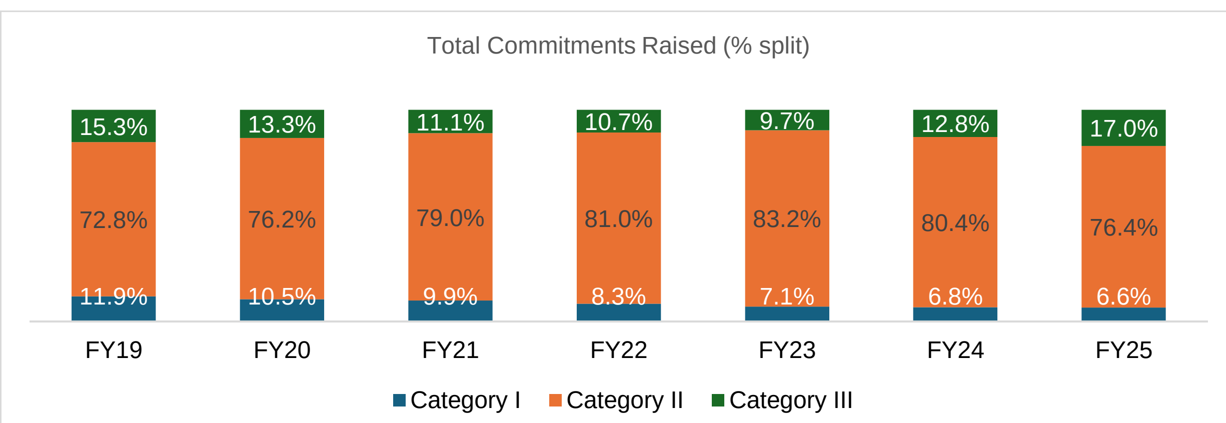
Category II AIFs have been at the forefront in the AIF space, contributing to 76.4% of the commitments raised as of fiscal 2025. This denotes their prominence and influence within the AIF market. Investments made refer to the amount invested by the AIFs. Investments made as a percentage of funds raised rose from 82% as of March 2017 to 96% as of March 2025. The increase was steady over the past five years, which would generally mean that after the fundraising process is completed, the investment managers and AIFs have been deploying the capital and making investments for the investors.

AIF commitments to grow at ~31-33% in the long-term



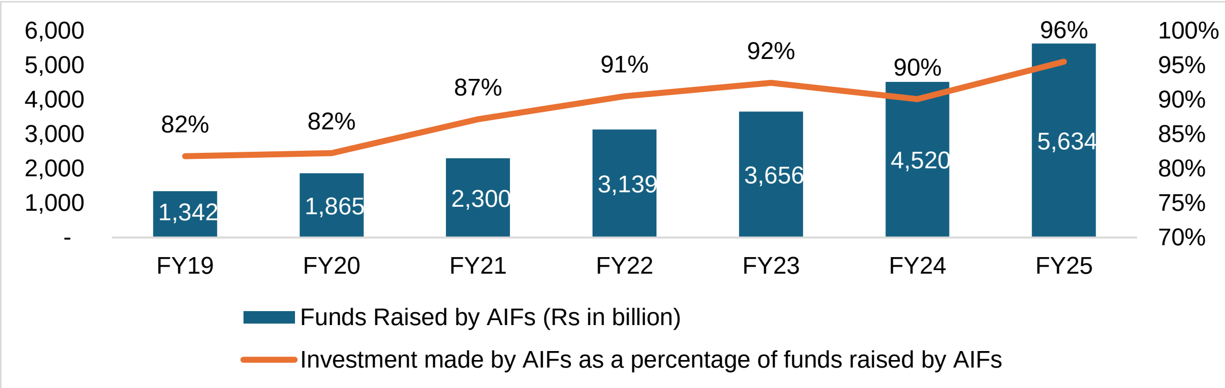
Source: SEBI, Crisil Intelligence

Category II AIFs constitute the majority share of AIF commitments over the years



Source: SEBI, Crisil Intelligence

Investment made by AIFs as a percentage of funds raised by AIFs seeing steady growth from Fiscal 2019 to Fiscal 2025

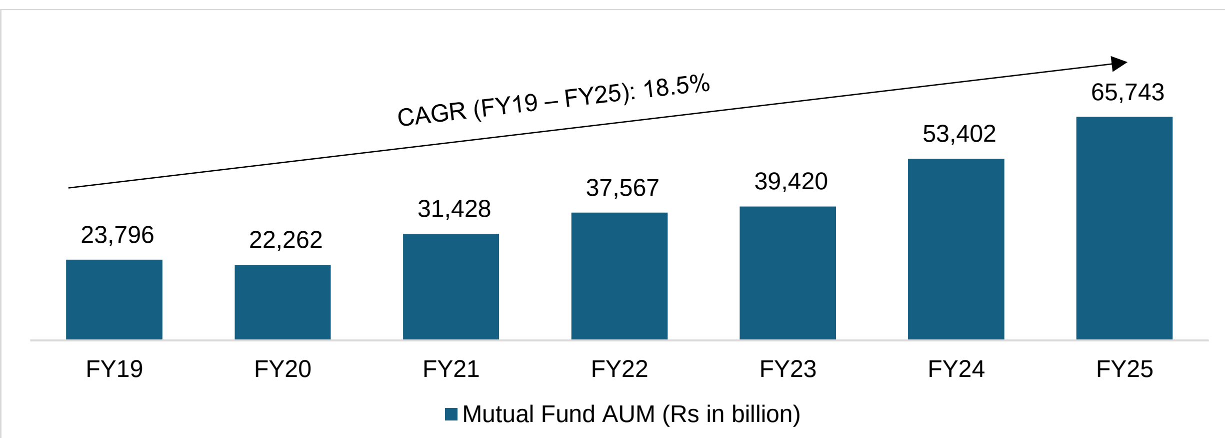


Source: SEBI, Crisil Intelligence

Growth in AIF AUM is significantly higher in comparison to traditional asset classes such as Mutual Fund and Deposits

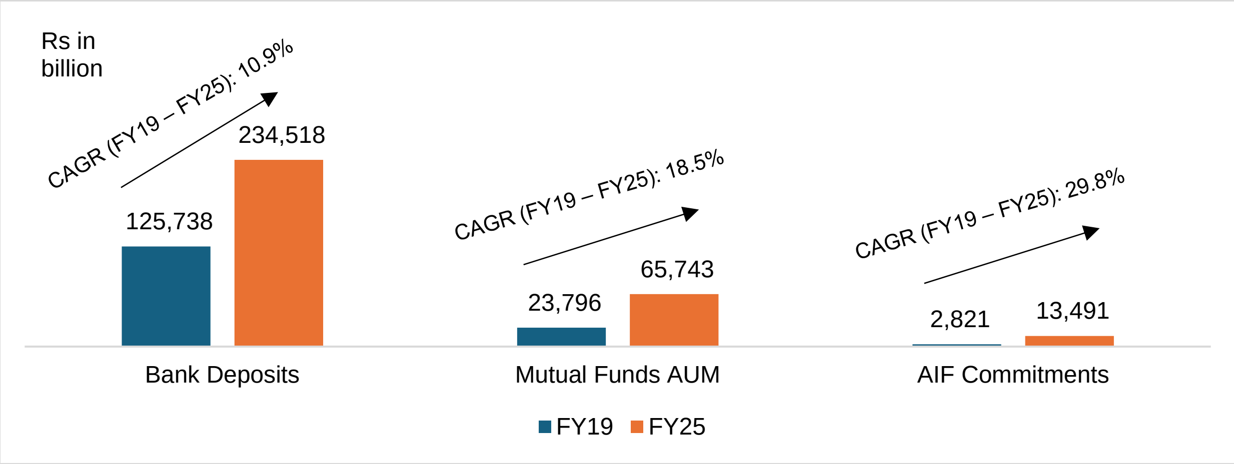
AIFs have shown strong growth in comparison to traditional asset classes such as Mutual Fund and Deposits. While AIFs logged a ~30% CAGR between fiscal 2019 and fiscal 2025, mutual funds saw a substantially slower 18.5% CAGR in the same period. Similarly, aggregate deposits in banks in India logged a 10.9% CAGR between fiscal 2019 and fiscal 2025, which was muted in comparison to the growth in AIFs. The scale of AIFs versus mutual fund AUMs and aggregate deposits in banks is still miniscule, indicating headroom to maintain the strong growth.

Mutual Fund AUM in India witnessed an 18.5% CAGR between Fiscal 2019 and Fiscal 2025



Source: AMFI, Crisil Intelligence

Comparison of AIF Commitments, Mutual Fund AUM and Bank Deposits indicate strong growth potential for AIFs



Source: SEBI, RBI, AMFI, Crisil Intelligence

23.3 Growth drivers for AIFs in India

AIFs have become widely popular in India because they offer investors a wide range of alternative assets, including private equity, real estate and infrastructure. They provide diversification beyond traditional asset classes such as listed equities, bonds, currencies, or gold and also offer potential for higher returns. Further, the experience of established managers, growing pool of UHNI and HNI and the increase in domestic capital flow and regulatory support are expected to aid the growth of this industry.

Indians have traditionally invested in fixed income instruments, especially bank fixed deposits. However, with investors becoming more aware, there has been a slow but steady change in investor attitude with their focus shifting towards capital market products. They are finding these products more attractive. AIFs are becoming more attractive for HNIs, ultra- HNI's and institutional investors because the SEBI has been proactively trying to bring in more transparency in the industry.

- **Diversification Benefits**

  AIFs offer diversification benefit beyond traditional asset classes and may generate higher returns due to their exposure to a wider range of assets and specialized investment strategies.

- **Emergence of experienced managers**

  Experienced and established managers offer a proven ability to navigate different market conditions. Their operational expertise and acumen along with a consistent track record across multiple funds and business cycles enhances their reputation and helps scale investments across asset classes.

- **Growing pool of eligible investors including UHNIs, HNIs and institutions**

  Over the past couple of years, the number of ultra-high net worth individuals/high net worth individuals (UHNI/HNI) and domestic capital flow from institutions in India have increased significantly. The increase in UHNI/HNIs and rise in awareness along with the availability of AIFs have led to a surge in demand. This has also resulted in increased requirement for professional advice.

- **Domestic capital flow increasing**

  SEBI's proactiveness in bringing in many regulatory changes are expected to help reverse the investment mix in favour of domestic investors in the coming years. In recent years domestic institutional investors, such as retirement funds and insurance companies, have been allowed to invest in AIFs. This will be a major growth driver for the industry.

- **Financial Deepening**

  Along with the advantage of demographics in the country, there is a flourishing financial ecosystem as well. Increasing credit penetration encourages growth in startups and MSMEs thereby creating opportunities for alternative investment funds to facilitate investment and infuse capital into these sectors thereby leading to overall economic expansion.

- **RBI allowance of foreign investment**

  Category III AIF with foreign investment are permitted to make portfolio investments in only those securities or instruments in which an FPI can invest under the Foreign Exchange Management Act rules or regulations made thereunder. In May 2021, SEBI, in consultation with RBI, doubled the overseas investment limit for AIFs from USD750 million to USD1500 million.

- **Increasing investment opportunities in cities beyond Tier 1**

  Tier 1 cities are usually the hub for majority of the VC and PE investments in India as they have well developed infrastructure, stable and growing economy, better technology, and many other advantages. While AIFs have preferred Tier 1 cities for making investments, lately, they have started shifting their focus to cities beyond Tier 1 as the activity has increased considerably mainly due to rise in entrepreneurship and talent in these cities and towns.

24. Wealth Management

24.1 Industry overview

Depending on goals and constraints of clients, the wealth management industry provides professional investment advice, financial planning and management services that best suits their requirement. It also provides value-added services, such as investing in art and antiques, and helps clients in philanthropic activities. The wealth management industry has seen robust growth over a low base, because of fresh investments from household savings going into organized financial assets, and increasing need for customization, with clients typically asking advice for asset management, financial planning, tax planning, estate planning, and succession planning.

24.2 Type of wealth management services

Advisory: In this type of service, investment decisions can be at the wealth management company's discretion or solely taken by the client. This is typically for HNIs and UHNIs. As the smaller investors are not accustomed to paying a fee for wealth management advice, the fee-based advisory model has not yet matured in India. Many wealth managers refrain from offering fee-based advisory services, instead focusing on commission from transactions.

Distribution: This type of service is primarily transaction-oriented, where the client assigns the wealth manager to execute specific transactions related to his/her wealth management. However, investment planning, decision and further management remain vested with the client. This service is offered for products, such as mutual funds, ETFs, portfolio management services, alternative investment funds, tax-free bonds, and fixed deposits. These services are also offered by brokerage firms, apart from the wealth management firms.

Custody, servicing, and safekeeping of assets: A wealth manager is only entrusted with management, administration, and oversight of the process of investment. All investment planning, investment decisions, and execution are done by the client.

Family office: Family office services provide large businesses and families with customized solutions to manage their wealth better, and aid in succession planning. It offers services, such as tax planning and wealth management, philanthropy, will execution, and estate planning. Family offices charge fees based on percentage of assets managed above the fixed amount of fees. Approximately 25-30 bps is the typical yield charged. Family offices is ideal if the portfolio is over Rs. 1 billion.

24.3 Customer profile in wealth management industry

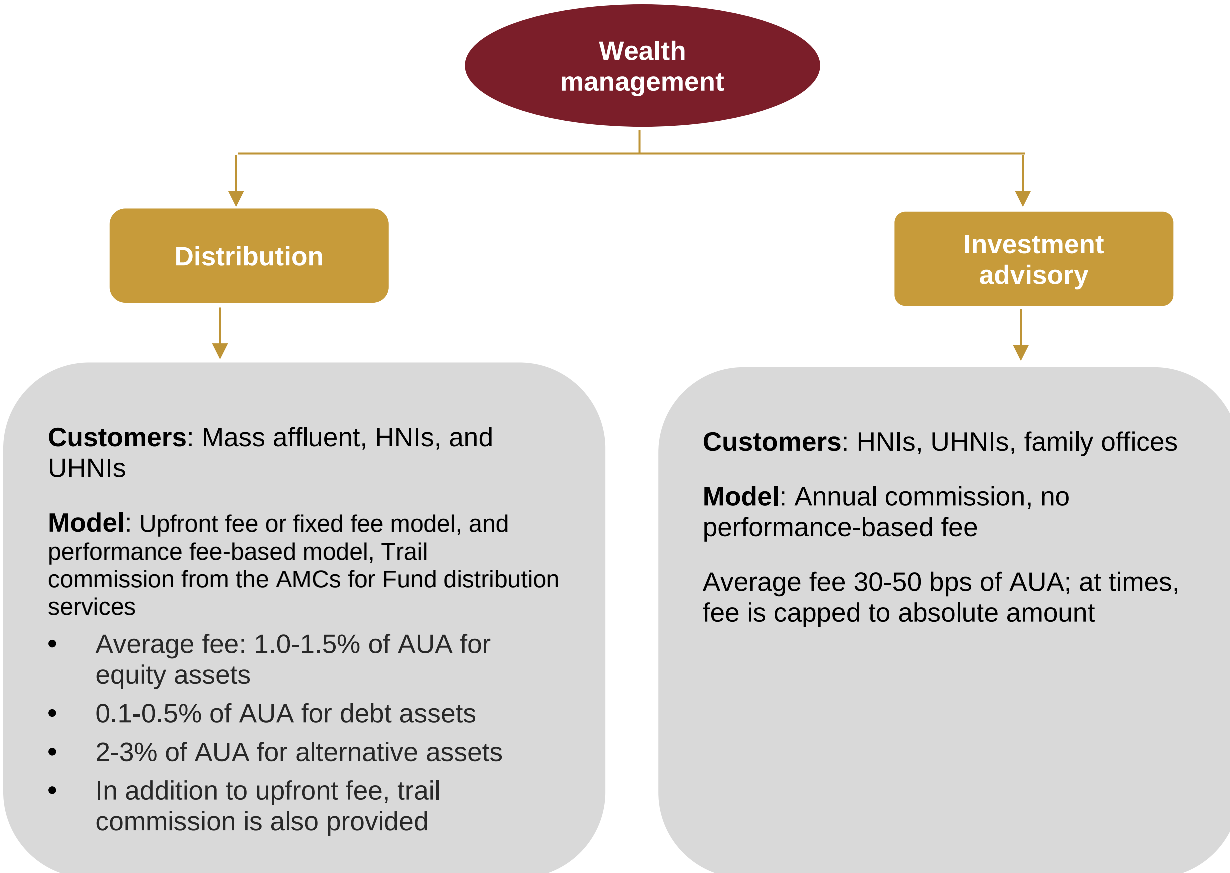
UHNIs: These are entrepreneurs, corporate executives, or wealthy families who have an investable assets base of over Rs. 250 million, excluding their primary residence, collectibles, consumables, and consumer durables. They usually require structured customized solutions from the wealth manager.

HNIs: They have an investable asset base of over Rs. 50 million, excluding their primary residence, collectibles, consumables, and consumer durables. With rising income levels, increasingly professionals and salaried individuals are able to generate surplus income, which they prefer to channel into productive investments. Thus, newer categories of customers, affluent and mass affluent, have emerged in the last few years

- **Affluent customers:** Wealth management players and brokers provide distribution and custodial services to this segment. Affluent customers are those who have investable asset base of Rs. 5.0 million to Rs. 50 million
- **Mass affluent/ retail investors:** These are customers with less than Rs. 5.0 million of investable asset base

Wealth management firms have different strategies, based on the profile of the customer. There are different teams catering to UHNIs and HNIs, and those catering to affluent and mass affluent customers. For instance, one relationship manager ("**RM**") typically services 400-700 customers in the affluent/mass affluent category; the corresponding number ranges between 50-70 clients per RM in the case of HNIs and 10-20 clients per RM for UHNIs.

Revenue model in wealth management services



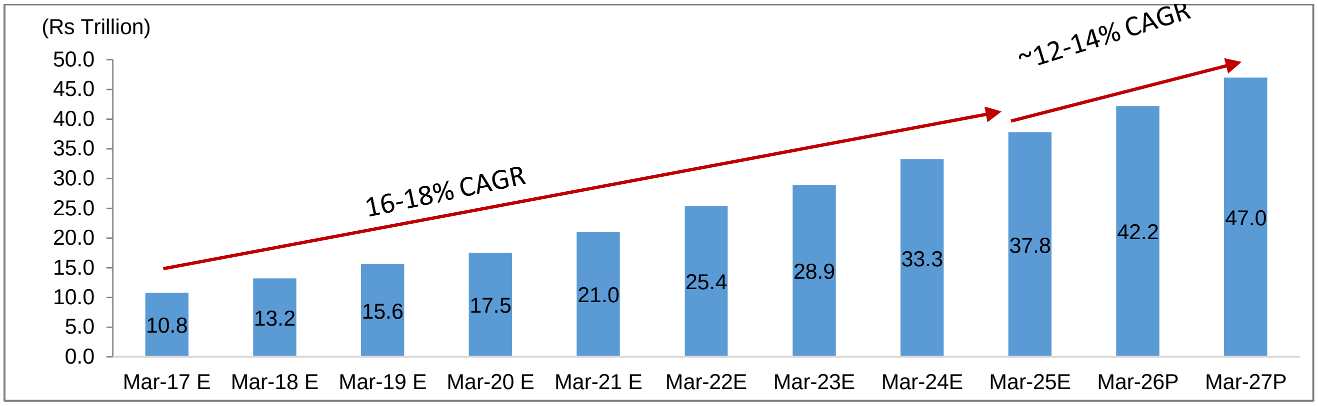
Source: Crisil Intelligence

24.4 Industry outlook for Wealth Management in India

The wealth management industry in India is still at a very nascent stage. It has huge potential to become a high-growth market supported by a young affluent investor base, improving wealth levels, strengthening regulatory environment, and an increasing share of organized players, including banks, independent wealth advisors, and brokers, who act as financial advisors. The thrust on customization, technology dependence, rising awareness, and thrust on financial assets as against physical assets is expected to create large opportunities for the wealth management industry in India. In terms of offerings, family office solutions and estate planning have been seeing increasing demand in recent years.

Crisil estimates India's wealth management industry, including banks and broking companies offering such services, assets to be at around Rs. 37.8 trillion as of fiscal 2025. Crisil projects the market to grow at a CAGR of 12-14% over March 2025 to March 2027 and to be around Rs. 47 trillion by Fiscal 2027. This is expected to be supported by significant under penetration compared to other developed economies, increasing population of affluent clients, increase shift from physical assets to financial assets and increasing complexity of assets amid rising competition

Wealth management industry AUM to grow at 12-14% CAGR over Fiscals 2025 to 2027



E: Estimated; P: Projected, Source: Crisil Intelligence

24.5 Key growth drivers for Indian Wealth Management

- **Low penetration of organized wealth management:** The assets under administration ("**AUA**") of wealth management market in India, at approximately Rs. 37.8 trillion as of fiscal 2025, is only approximately 11.4% of India's GDP. In established markets, advised wealth, as a percentage of GDP, is at 60-75%. However, there has been a rising demand for wealth managers in the tier 1 cities in India, owing to rising awareness among affluent and mass affluent customers, and increasing number of potential clients on account of growing income levels. The increase in penetration of wealth management companies into tier 2 and 3 cities is expected to help drive growth, given more than 40% of the UHNIs live in non-metros, and their wealth is majorly managed by independent financial advisors ("**IFAs**") and chartered accountants.
- **Increasing population of affluent clients with rising income levels:** With an expanding economy, middle class incomes and investable assets of UHNIs in India have increased sharply over the past few years. This, along with increasing financial literacy and growing customer awareness, has led to an increase in demand for wealth products. India has one of the world's fastest growing UHNI population, both in terms of the number of individuals and wealth levels. The rise in the UHNI population has been partly driven by e-commerce start-ups and rising income levels.
- **Increase in wealth allocated towards financial products**: Individuals and investors are increasingly moving away from traditional physical investments, such as real estate and gold, and making higher allocations into financial assets, such as equity, bonds, and alternative investments, thereby creating higher potential for wealth products. This, along with the ease in accessibility of different investment products on one platform, is expected to help propel growth.
- **Increasing complexity of products requiring advice:** There is increasing complexity of the financial products in the market, thereby requiring advice from professionals for better understanding

of the products before investing. This is expected to help drive growth of the investment advisory business.

The net average fees earned by the advisory services is in the range of 30-50 bps of AUA, with the fees being on the higher side for mass affluent and HNI customers compared with UHNIs. Sometimes, these advisory fees are capped up to a fixed amount for HNIs and UHNIs customers. For distribution, the average fee is approximately 1-1.5% of the AUA for equity products with similar or marginally lower trail yields and 0.1-0.5% of AUA for debt products. For alternative assets, the average upfront distribution fee is 2-3% of AUA with no trail commission. Firms have been trying to optimize their cost to income ratios through appropriate investments in talent acquisition, technology, and tools.

24.6 Threats and challenges

Market Volatility & Economic Uncertainty: Fluctuating markets, inflation risks, and global economic slowdowns challenge portfolio stability, affecting investor confidence and long-term wealth management strategies.

Technology Disruption & Cybersecurity Risks: Rapid fintech evolution, robo-advisors, and cybersecurity threats challenge traditional wealth management firms, requiring continuous innovation and digital transformation investments.

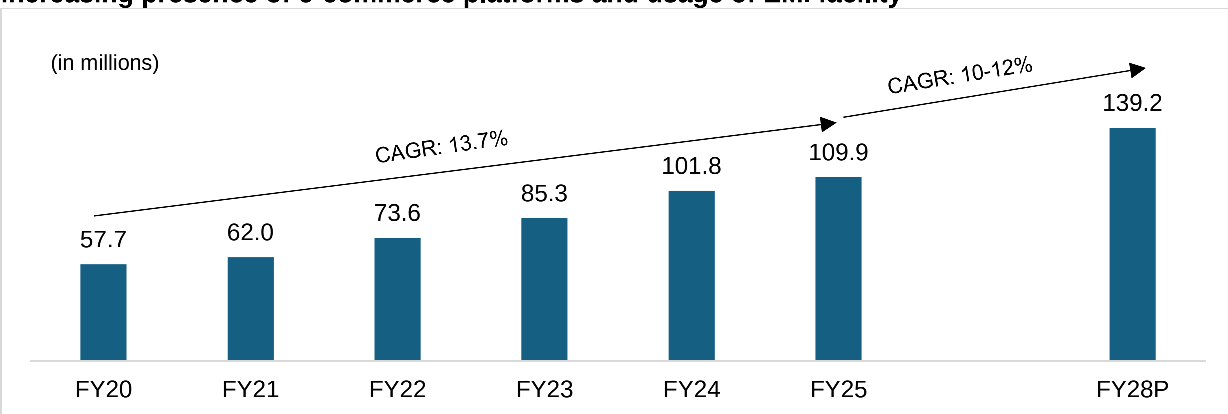
Changing Client Expectations & Competition: Rising demand for personalized, transparent services and competition from fintech startups pressures wealth managers to offer better advisory models and lower fees

25. Credit Cards

25.1 The Credit Card market has seen steady growth over the years

Credit cards have been gaining popularity in India. As per RBI data, the number of credit cards stands outstanding at 109.9 million as of March 2025. It grew at 13.7% CAGR from Fiscal 2020 to Fiscal 2025. Increasing acceptance of digital payments by Indian consumers and rise of e-commerce during this period gave a huge impetus to growth with credit-card players providing promotional-offers and EMI financing options. On the supply side, banks' focus on cross-selling to their existing customers in the form of pre-approved offers has driven growth. Co-branded cards by way of partnerships with various businesses have also pushed penetration of the product and is expected to increase going forward. Moreover, with the regulatory update from RBI on allowing NBFCs (with a minimum net owned fund of Rs.1 billion and subject to RBI approval) to operate and issue credit cards, the market could see more competition and higher volumes in credit cards outstanding. The increased use cases of cards for travel, shopping, lifestyle purchases, entertainment, healthcare, utility bill payments, etc. have increased the spending per card.

Growth momentum in number of cards to continue in volumes driven by higher retail growth, increasing presence of e-commerce platforms and usage of EMI facility



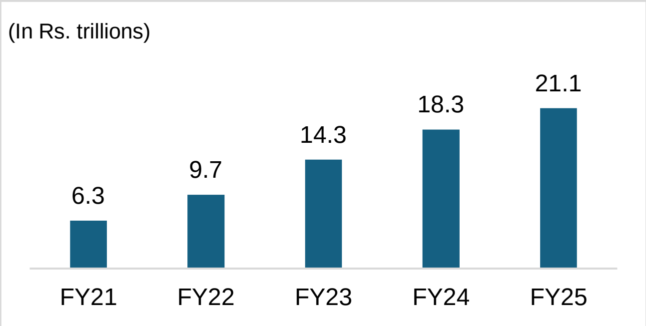
Note: Nos. outstanding as of March month end, P: Projected, Source: RBI, Crisil Intelligence

From Fiscal 2021 to Fiscal 2025, value and volume of credit card transactions have seen a surge in growth

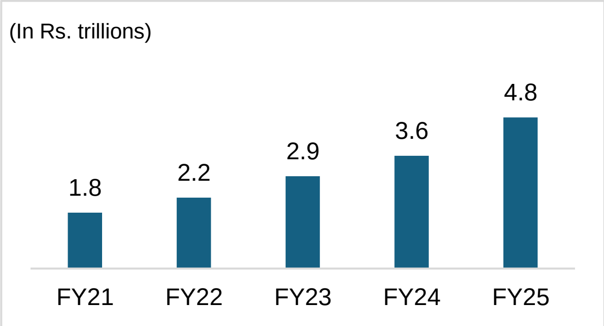
Value of credit card transactions has seen 35.2% CAGR from Fiscal 2021 to Fiscal 2025, while the volume of credit card transactions has seen a healthy 28.3% CAGR growth during the same period. The government's emerging version of a cash-less society, focus on digitalisation, developments in e-commerce, and availability of point-of-sale (PoS) infrastructure have significantly encouraged payments through credit cards. Further, the value and volume of credit card transactions are expected to grow due to expectations of increase in private final consumption expenditure (PFCE), growth in overall & organised retail, increasing presence of e-commerce industry and rise in digital payments.

Growth in credit cards transactions has sped-up as a result of increase in PFCE, organised retail, while transaction volumes has grown at a moderate rate

Credit card in terms of value reported CAGR of 35.2% from FY21 to FY25



Credit card in terms of volume reported CAGR of 28.3% from FY21 to FY25



Note: RBI Payment System Indicators, Crisil Intelligence

25.2 Credit Card distribution

Financial institutions have been adopting a variety of strategies to enhance the accessibility of credit cards through diverse channels. These strategies include traditional methods like direct bank branches, online applications, third-party agents, corporate collaborations, and retail partnerships.

Branch banking: This conventional method remains a widely used channel for credit card distribution. It offers customers the convenience of visiting a bank branch, filling out an application, and receiving a credit card instantly. This face-to-face interaction allows for immediate assistance and resolution of any queries, making the process more personalized and efficient

Online applications- Digital platforms have streamlined the application, verification, and issuance of credit cards, requiring minimal documentation. This not only saves time but also increases the reach, enabling potential customers from remote or underserved areas to access credit cards easily.

Third Party Agents Financial service providers and agents play a vital role in facilitating customer acquisitions and distributing credit cards effectively.

Corporate tie ups- Banks and NBFCs tie up with corporate to distribute co-branded or salary-based credit cards. Co-branded credit cards offer tailored benefits and rewards that are aligned with the partner company's products or services, enhancing the value proposition for cardholders.

Retail and merchant partnership- Retail outlets and e-commerce platforms often integrate credit cards into loyalty programs, offering customers additional incentives and exclusive benefits.

These strategies underscore the evolving landscape of credit card distribution, where financial institutions are leveraging both traditional and modern channels to make credit cards more accessible and appealing to a broader audience. By diversifying their distribution channels, financial institutions can cater to different customer preferences, increase market penetration, and ultimately contribute to financial inclusion.

25.3 Growth drivers

Rising issuance of new cards in smaller cities; E-commerce propelling growth

Credit card issuers are expanding their network in smaller cities. Going forward, the rise in e-retail, physical and payment infrastructure growth will be major drivers for higher originations in credit cards in smaller cities. E-commerce has opened the gates to premium brand shopping in even smaller cities, where people have money and aspirations but may lack access to physical stores and malls. With e-commerce companies linking specific credit cards with steep discounts, a lot of the young middle and lower middle-income salaried class are opting for credit cards.

Growth of NTC customers

NTC customers are the ones who get their bureau record for the first time. With the credit card issuers expanding in smaller cities and sourcing their existing debit-card, CASA or FD customers, NTC customers are expected to rise because of the low credit penetration in smaller cities. Apart from this, players are also creating awareness among these customers about the credit cards usage and credit score.

NBFCs and Fintech have been given approval to operate credit cards

In April 2022, RBI had opened the door for NBFCs to apply for a license to issue credit cards and tie-up with banks to issue co-branded credit cards. This move would allow the entry of new players, and foster innovation and competition in the credit card market. A wider customer base will be addressable for credit card issuances, with a focus on untapped customer segments.

Linking credit cards to UPI network

The RBI has allowed linking of credit cards to the UPI network in June 2022, with the initial facilitation planned for RuPay credit cards. This arrangement would further enhance convenience by providing more avenues to customers for making payments through the widely used UPI platform.

Widening the net with co-branding credit card partnerships

With increasing acceptance of digital payments combined with rising degree of convenience available with the customers today, players are striving to gain a fair share of consumers' wallets. Co-branded cards in such a scenario act as an important and differentiated product / tool to offer additional value to the customer. While co-branded cards have been part of the industry product offering for several years now, they have gained traction off late, as both card issuing companies as well as partner entities look at catering to a wider customer base and enhancing customer loyalty.

25.4 Threats and challenges

Highly competitive business

The credit card industry is characterized by intense competition, where financiers must allocate substantial resources to marketing and customer retention efforts. The high propensity of customers to switch to alternative credit card providers in pursuit of more favorable offers creates a challenging environment, where companies feel compelled to continuously offer enticing deals and discounts to retain their customer base. This leads to a significant investment of funds in customer retention strategies, as companies strive to outdo their competitors and maintain market share.

Fraud and Cybersecurity Threats

The increasing shift to digital transactions has heightened the risks associated with credit card fraud, identity theft, and data breaches. As hackers exploit sensitive information, credit card companies face substantial financial losses and reputational damage. This can lead to a loss of customer trust, resulting in decreased card usage and revenue decline.

26. Insurance Industry

26.1 Life Insurance Industry

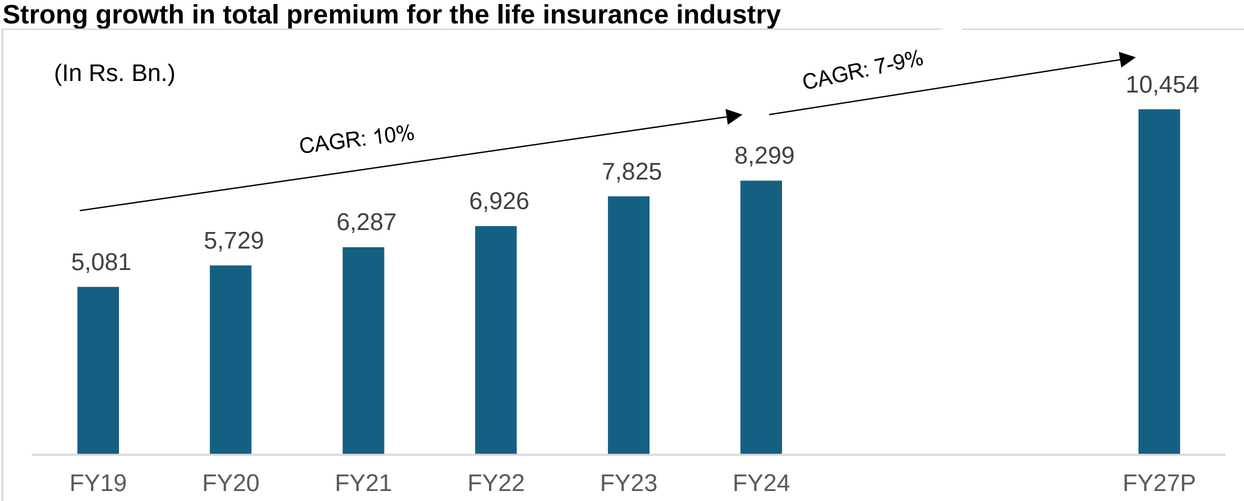
Total premium has grown at 10% CAGR in the last five years from Fiscal 2019 to Fiscal 2024

The life insurance premium has grown at a 10% CAGR between fiscals 2019 to 2024. Double-digit growth in premium can be attributed to expansion of the distribution network, rapid digitisation in the sector and development of new products led by COVID-19 pandemic, introduction of different government schemes and financial inclusion drives (Jan Dhan Yojana, etc). These factors have increased awareness about the need for insurance and propelled industry growth.

Among the different player groups, Life Insurance Corporation of India's (LIC) total premium grew at a 7% CAGR between fiscal 2019 and fiscal 2024 and share in total life insurance premium was around 57% in fiscal 2024, while total premium of private players grew at a 16% CAGR between fiscals 2019 and fiscal 2024 and their share in total life insurance premium was around 43%.

As per Crisil Intelligence, it is expected that total life insurance premium will grow at 7% to 9% CAGR by fiscal 2027, however, it should be noted that the impact of new regulations related to EOM, open architecture, etc. is yet to be seen. Further, given the dynamic business environment, chances of further regulatory changes in the industry cannot be undermined, which could alter outlook for the industry.

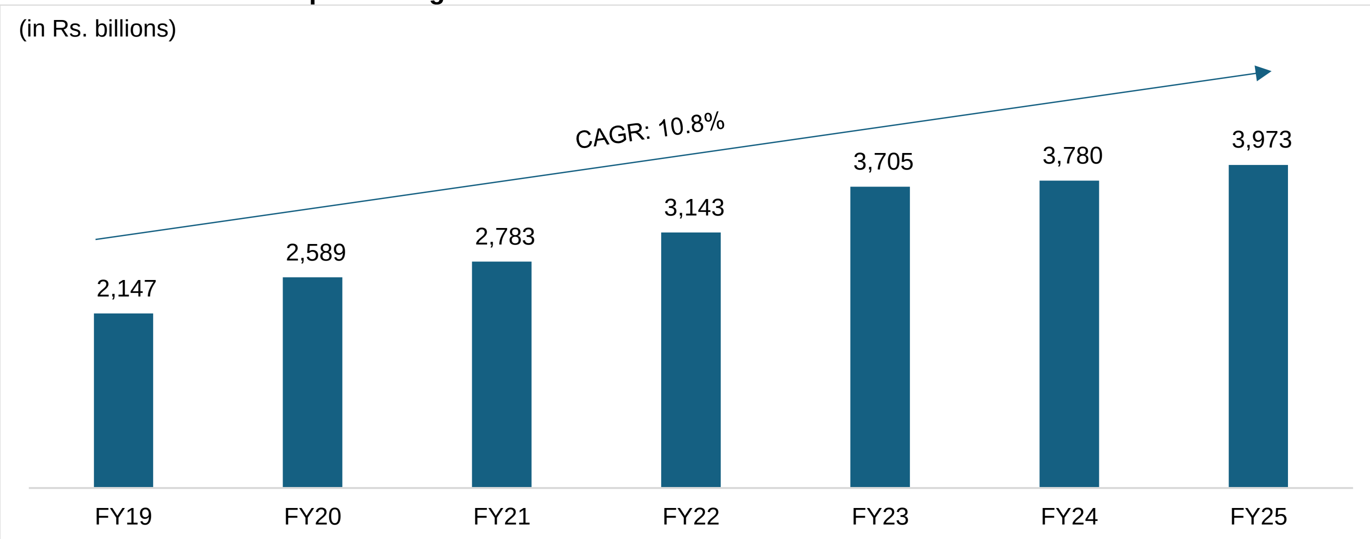
Strong growth in total premium for the life insurance industry



Source: IRDAI Annual report, Company reports, Crisil Intelligence

New business premium (NBP) has grown at CAGR 10.8% between Fiscal 2019 and Fiscal 2025 with LIC and private insurers growing at an 8.1% and 15.3% CAGR, respectively. Fiscal 2025 witnessed year-on-year growth of 5% compared with 2% and 18% in fiscals 2024 and 2023, respectively.

Trends in new business premium growth



Source: LI Council New Business Performance report, Crisil Intelligence

Structural factors such as the large proportion of insurable population, higher economic growth leading to rising incomes, increase in financial savings, increasing awareness about the utility of insurance, focus on financial inclusion and increasing adoption of insurance through digital channels is expected to drive the growth of life insurance in India. The introduction of standard life insurance scheme by the government and financial inclusion drive (Pradhan Mantri Jeevan Jyoti Bima Yojana, etc.) are expected to further aid market growth.

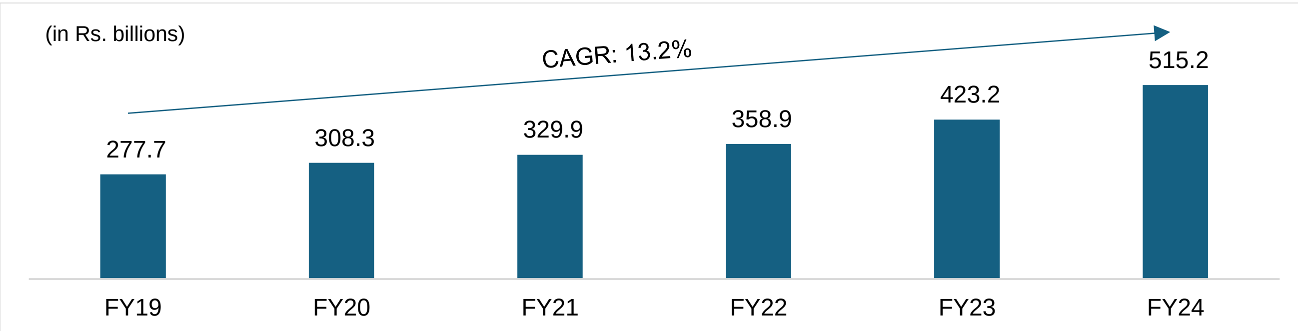
Life insurance companies in India enable customers to opt for disciplined savings to provide for meeting ones' life goals, provide suitable coverage in the event of the insured falling sick, and protect customers from the risk of outliving their savings or passing away early. Rising awareness on the need and benefits of insurance amongst customers, continuous innovation on the product side, and increase in reach as well as distribution network of insurers is expected to facilitate strong growth of the industry.

Furthermore, digital innovation is going to be the key to increase productivity of the core business, optimize costs, enhance customer experience, improve business quality and unlock partnerships with digital players outside insurance. Insurers in India are thus redefining business by deploying business intelligence (BI) and analytics which offers data visualization, self-service, data discovery with data governance and predictive planning. Increasing digitization is helping insurers in improving their risk selection, pricing, underwriting, ability to service and pay claims.

Distribution industry to grow, driven by increasing awareness and demand for life insurance

The commissions paid by the life insurance players increased at 13.2% CAGR during the last six years ending Fiscal 2024 to ~Rs. 515.2 billion, despite the increasing share of direct channel in new business premium. The commission paid to the Channel Partners as % of total premium has remained range bound from 4.8% in Fiscal 2016 to 6.2% in Fiscal 2024. However, despite this, the commissions paid to distributors has recorded strong growth, as evident from the below graph.

Trend in Commission Paid by Life Insurance Players



Source: IRDAI Handbook of Statistics, Crisil Intelligence

Going forward, commission paid by life insurers is expected to grow on account of robust growth in new business premium. Also, key structural factors such as the large proportion of insurable population, rising incomes and increasing awareness about the utility of insurance is expected to drive the growth of both life insurance and distribution income.

Shift in channels of distribution of policies

The life insurance players have significantly leveraged banking channels to market their products from fiscal 2018 onwards. This gradually led to an increase in share of bancassurance channel and a decline in the share of individual agents in distribution of individual life insurance products.

Lately, due to impetus on technology by the industry and the push provided by COVID-19, share of direct selling and others including web aggregators, etc., has increased with time and the companies have in turn been able to reduce their dependency on the agency channel thus passing on some benefits to the customers and have helped to increase the profitability of the players. The direct channel accounted for close to 10% of individual life insurance premium in Fiscal 2024.

Individual agents, however, continue to account for as much as 51% of the individual life insurance premium for Fiscal 2024 due to the personal connect that they can establish especially with individual customers. They can provide hand holding to these customers, make them understand the various advantages of the policies and differences amongst various products, advice on suitability of the product basis the customer's needs, premium reminders, cheque collection etc. Thus, individual agents will continue to be the dominant channel in the Indian market where the consumers are used to their services and serve the above purposes.

Trend in channel-wise share of individual NBP in overall life insurance industry

Channel-wise new business share	FY13	FY18	FY23	FY24
Individual agents	78%	66%	53%	51%
Corporate agents – Banks	16%	25%	33%	33%
Corporate agents – Others	2%	1%	2%	2%
Brokers	2%	1%	3%	3%
Direct business[2]	3%	6%	9%	10%

Note: *Individual NBP (overall industry) in fiscals 2013, 2018, 2023 and FY24 were Rs 622 billion, Rs 921 billion, Rs 1,440 billion and Rs 1,487 billion respectively. The remaining share of individual NBP is contributed by Referrals, Micro Agents, Web aggregators, CSCs, etc.*

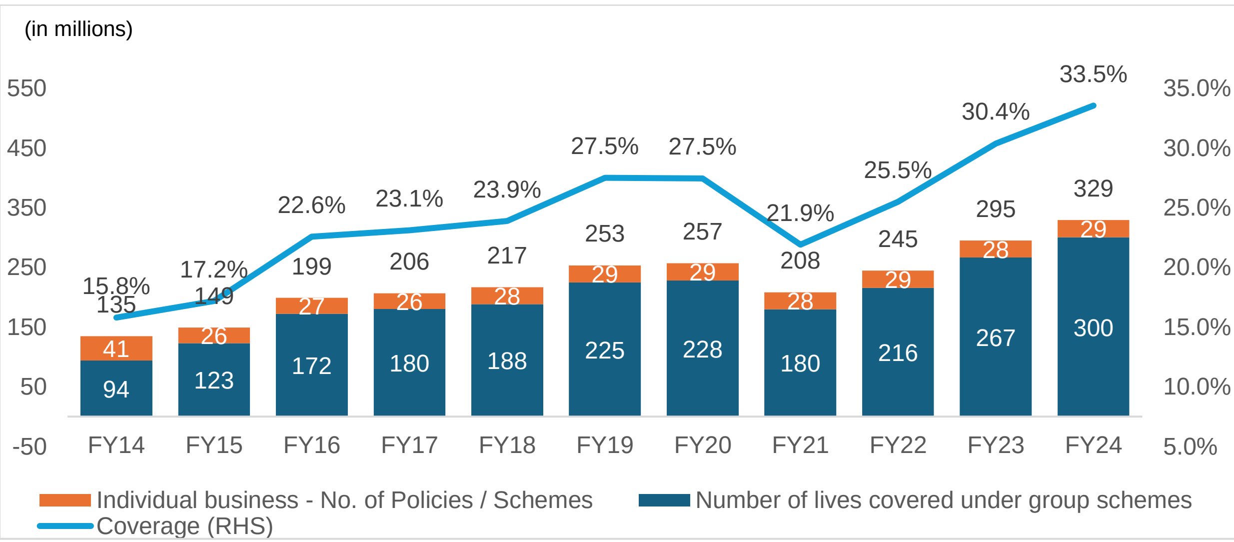
Source: IRDAI Handbook of Statistics, Public disclosures of LI players, Crisil Intelligence

26.2 Key Growth drivers for life insurance industry

Increasing life insurance coverage

The number of lives covered under life insurance increased from 66 million from Fiscal 2016 to 295 million for Fiscal 2023. However, number of lives covered declined significantly in fiscal 2021, largely due to impact of COVID 19 on group insurance business. Going forward, number of lives covered is expected to increase in both individual and group business due to increasing awareness, expanding distribution channels and enhanced product offerings.

Number of lives covered in life insurance in India

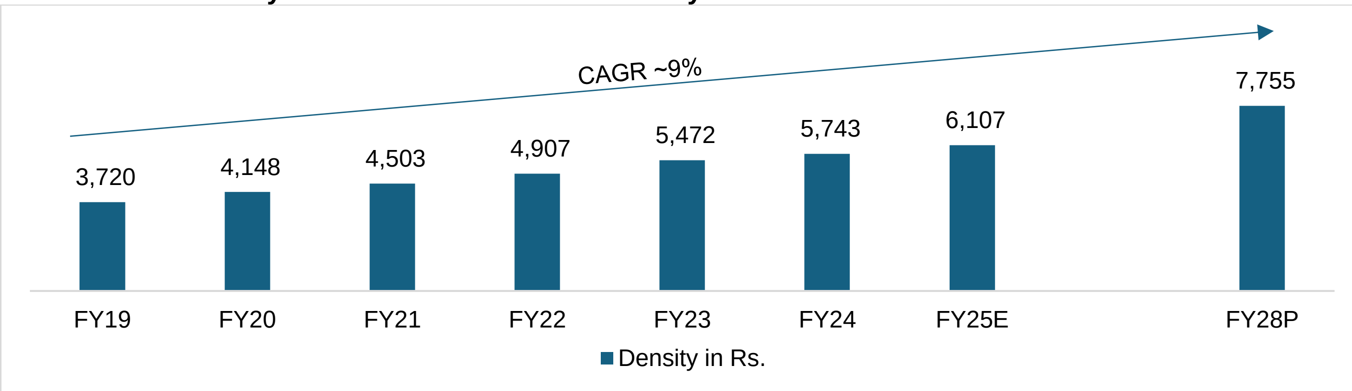


Note: Coverage is calculated as number of lives covered as a % of adult population (18+)

Source: IRDAI Handbook of Statistics, Company reports, Crisil Intelligence

[2] *Includes offline direct selling and online business through company website*

Life insurance density for Indian life insurance industry



Note: P: Projected; Density is calculated as total premium/ total population

Source: IRDAI annual reports, company reports, Ministry of Statistics and Programme Implementation, Crisil Intelligence

Contactless on-boarding	Distribution	Underwriting and risk management	Claim processing
Technological transformation in pre-sales/ sales and onboarding stage for end-to-end digital enablement Leverage analytics for providing pre-approved offerings to customers for whom no medical tests are required	AI-driven chatbots to solve customer queries, fill out applications forms and walk customers through some predefined process Customers can get most of their queries and requests addressed instantly at their fingertips through visual IVR or speech IVR	Insuretech led technological advancements such as AI, robotics, IOT and data analytics Tele or video based medical assessment Using AI to give health score to policyholder for appropriate life cover to them	Companies use multiple digital enablers like WhatsApp, mobile app or websites where customer could register, download and upload documents without needing any physical assistance Insurers are employing robotic process to automatically validate death certificates and reduce the turnaround time

Source: Crisil Intelligence

26.3 Key threats and challenges

Players to find it challenging to keep claims fraud in check

With rapid modernisation of the insurance industry, and penetration of insurtech and mobile adoption, there has been considerable progress in the way insurers work. Many insurers are setting up digital channels for claims settlement. The biggest challenge for insurers is checking integrity of customer claims data and identifying fraudulent claims. Additionally, lack of a mechanism to check quality of customer data received from external sources, lack of collaboration with other insurers for data exchange for pre-emptive fraud detection and lack of constant upgradation of the outdated fraud detection systems in order to identify the latest digital fraudulent techniques are going to be challenging for the entire industry.

Controlling persistency ratios

With customer retention being one of the most important drivers of long-term value creation and profitability, private insurance companies have substantially improved their persistency ratios over the past few years. Given the minimum premium-paying term of five years for all regular-premium products, the 61st month persistency is critical. Maintaining the 13^{th} and 61^{st} month persistency is the key as they are widely tracked and followed and are good indicators of customer retention ability of life insurers.

Since the cost of new customer acquisition is high, maintaining the persistency ratio is imperative for players, and major players have shown improvement in terms of the same in the past few years. With increasing competition, rapid product engineering and development, etc, factors coming into play, maintaining a similar improvement in the persistency will remain a key challenge and monitorable for life insurance industry.

Entry of fintech players

Indian consumer is moving towards digitalisation, and digital services are becoming more customer centric. As a result, the number of fintech and insurtech[3] companies is on the rise. The entry of new fintech and insuretech players in the life insurance business, especially after the drafted allowance in Insurance Laws (Amendment) Bill, 2022 of determination of the minimum paid-up capital based on the size and scale of operations, class or sub-class of insurance business and the category or type of insurer, existing life insurers will face competition from fintechs and insuretechs majorly in the younger and tech savvy customer segments.

Events impacting profitability and solvency of life insurers

The life insurance industry faces several risks due to rapidly evolving customer behaviour, changing demographic profile, increasing competition and dynamic macroeconomic conditions. Financial conditions and future prospects of insurers may be significantly affected by factors such as market fluctuations and changes in tax rates or interest rates. Even as the pandemic continues to pose several challenges for life insurers, there are new risks related to environmental, social and governance (ESG) issues. One of the most prominent ESG risks is that of climate change and its potentially far-reaching consequences. Apart from climate change, there are emerging risks associated with public health trends such as increase in obesity related disorders and demographic changes such as urbanisation and ageing population. These structural changes impact the industry in terms of growth, mortality, persistency and solvency. Insurers thus need to assess each of these factors impacting their profitability and solvency, evaluate the potential impacts of these factors on their business and implement requisite measures to mitigate these risks.

Coping up with digital transformation in the industry

While some companies are taking initiatives to implement various digital processes in the life insurance business, the life insurance industry as a whole needs to keep pace with the digital transformation taking place with increasing number of people now using digital platforms for searching and buying life insurance

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[3] Insurtechs are technology driven start-ups that help improve efficiencies in the insurance industry. Different insurtechs power different stages of the customer life cycle such as customer acquisition, underwriting, customer management or policy servicing and claims management

plans. Delay in technological investments by insurers may lead to loss of market share, lower new businesses and loss of new opportunities that can be derived by digitalisation and virtual interactions.

26.4 General Insurance Industry

The size of the Indian non-life insurance industry is Rs 3.08[4] trillion on total-gross direct premium basis as of Fiscal 2025. There are multiple products offered by the general insurance companies. Health segment constituted 38.6% share in the total premium while the motor segment alone accounted for around 32.2% of gross premium as of Fiscal 2025 as Motor TP is mandatory for all the vehicles.

Structure of non-life insurance industry:

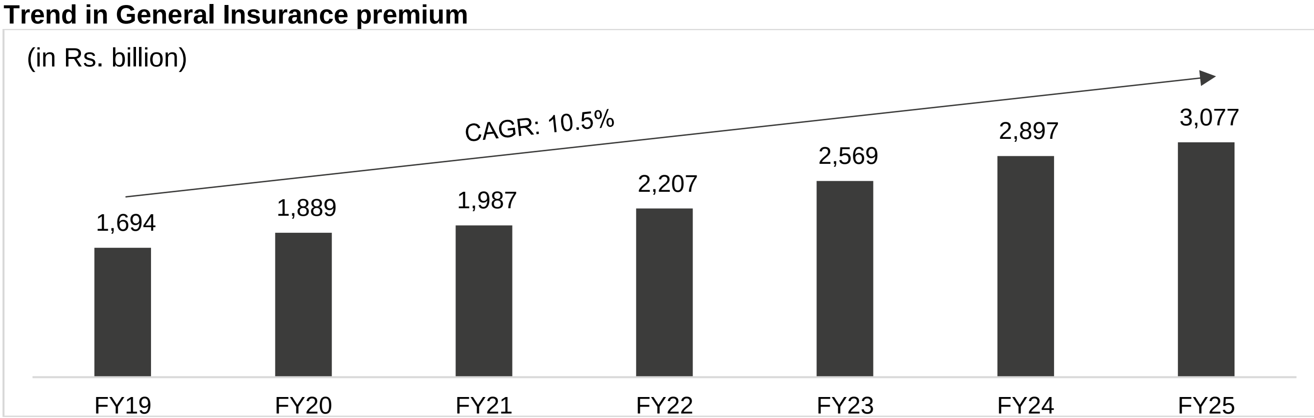
Non-life industry	Health	Motor (Total)	Fire	Marine	Others
Market share March 2025	38.6%	32.2%	7.9%	1.8%	19.5%

*Note - * Others includes Engineering, Aviation, Liability, Crop Insurance, P.A., Credit Guarantee and All other miscellaneous*

Gross direct premium has grown at ~10.5% CAGR in last six years

The non-life insurance industry in India has grown at ~10.5% CAGR in last six years i.e. from FY19 to FY25. The double-digit growth in industry premium can be attributed to increasing penetration, continuing growth in health insurance, introduction of government schemes in some specific segments, regulatory support and changes, financial inclusion drive that has increased the awareness about the need of insurance in non-life segments and continued growth in the economy.

Trend in General Insurance premium



Source: GI Council Segment Wise Report, Crisil Intelligence

With economic growth gradually picking up and structural drivers in place (rise in healthcare spending, expected growth in retail auto sector, agricultural reforms and schemes), Crisil Intelligence expects the growth trajectory of non-life insurance products to remain strong in the coming years as well.

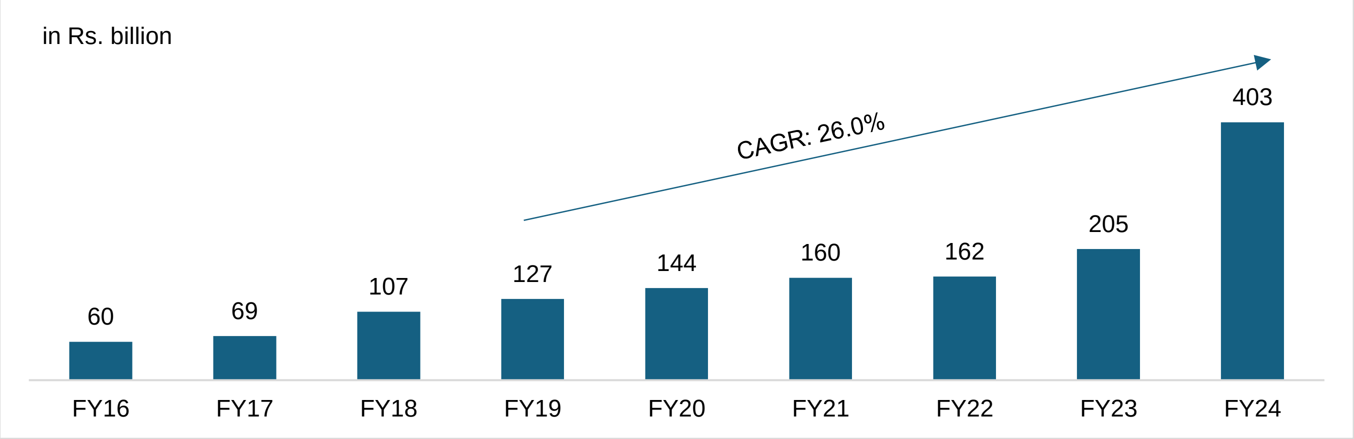
[4] *The total premium is gross direct premium and does not include premium from general insurance company (reinsurer)*

Distribution industry (general insurance) witnessed growth of 26.0% from Fiscal 2019-2024

The commissions paid by the general insurance players increased at strong 26.0% CAGR in the last six years from Fiscal 2019 to Fiscal 2024.

Going forward, commission paid by general insurers is expected to grow on account of robust growth in gross direct premium and increase in annual premium cost for customers during the same period. Also, key structural factors such as the increasing awareness about the utility of insurance, rise in vehicle sales and government policies to improve healthcare is expected to drive the growth of both general insurance and distribution income.

Trend in Commission Paid by General Insurance Players



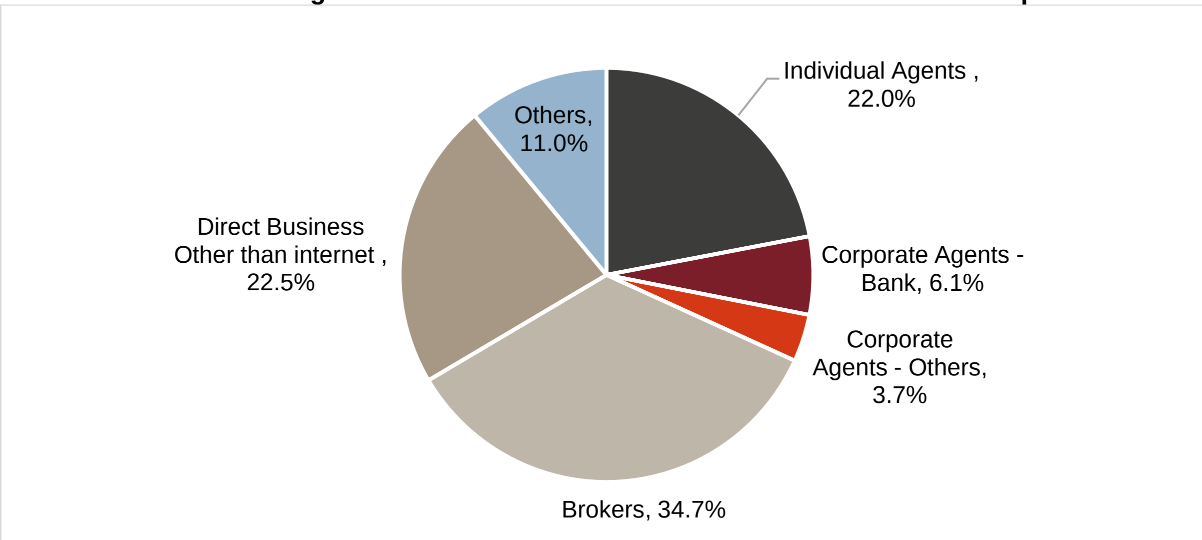
Source: GI Council Year Book, Crisil Intelligence

Distribution trends and impact of digital channels

Individual agents and brokers account for more than 50% of the general insurance premium collected

The choice of distribution channel in general insurance is dictated by product and the target segment of various insurers. For example, players catering to the motor insurance business largely rely on the broking and the individual agent channel for garnering business, while in the health insurance business; the direct channel is also one of the major drivers of business apart from individual agent and brokers, given the retail-oriented nature of the business. In aggregate, brokers have the highest share, accounting for 34.7% of the general insurance premium in FY24.

Brokers and individual agents account for more than 50% share in channel wise premium



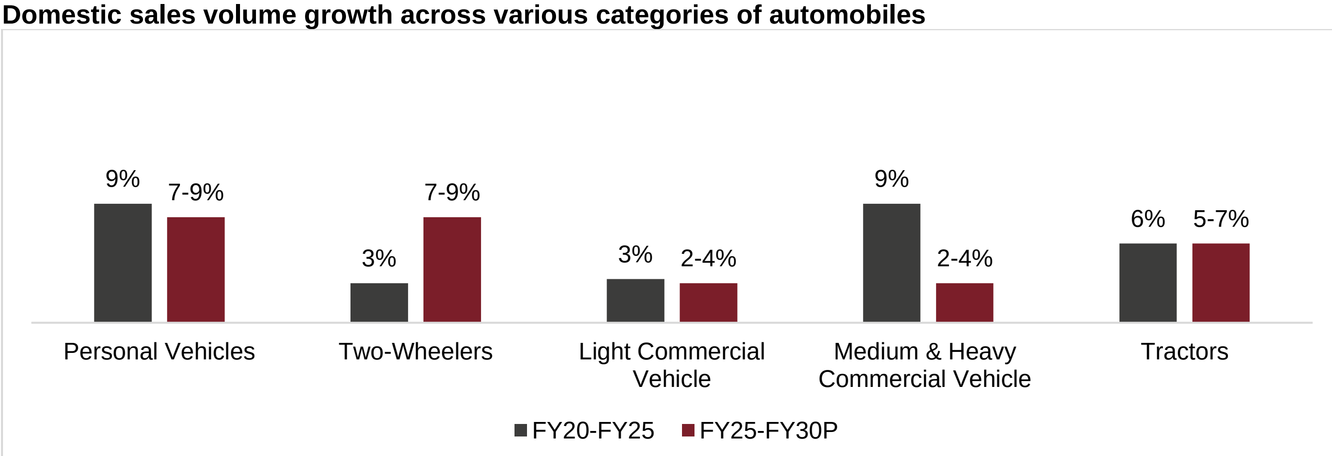
Source: GI Council Year Book, Crisil Intelligence

26.5 Key Growth drivers for general insurance industry

Rise in new vehicle sales increasing the population of vehicles on road

Crisil Intelligence expects the growing middle-class population, increasing consumerism, focus of financiers' on pushing retail credit and continuous improvement in road infrastructure to have a favourable impact on domestic automobile sales in the next few years. Sales growth trajectory over a five-year period is expected to be strong for most of the segments. As a result, the stock of vehicles on India's roads are expected to increase further. This, along with an increase in insurance penetration and rise in third party premium tariffs, will drive growth in motor insurance premiums.

Domestic sales volume growth across various categories of automobiles

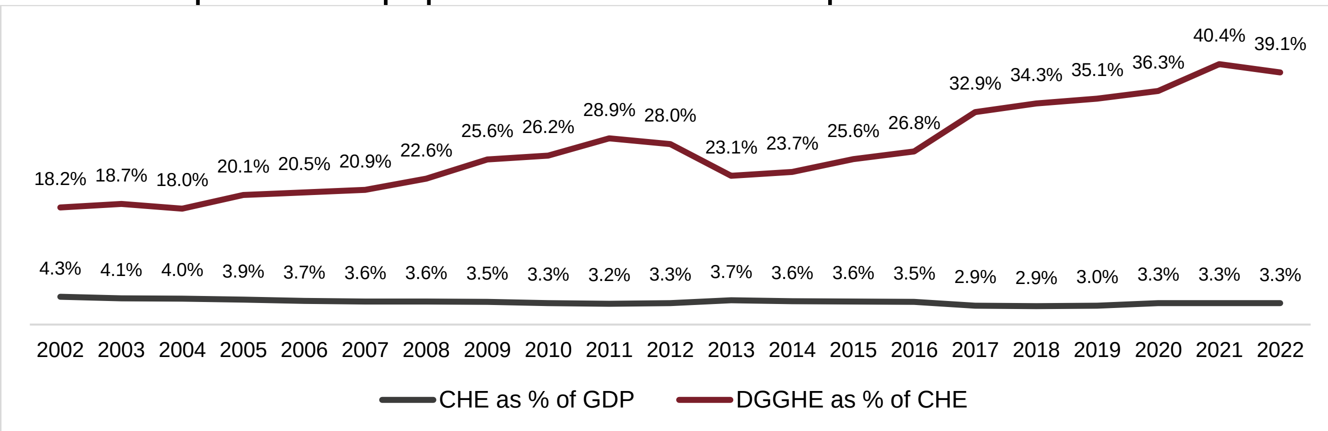


Note: P = Projected
Source: Crisil Intelligence

Government policies to improve healthcare coverage

The government has raised its healthcare budget by ~2% for Fiscal 2024-25 to Rs. 910 billion. The government through its National Health Mission aims to provide accessible, affordable and quality healthcare to all those who access public health facilities.

Government expenditure as a proportion of current healthcare expenditure

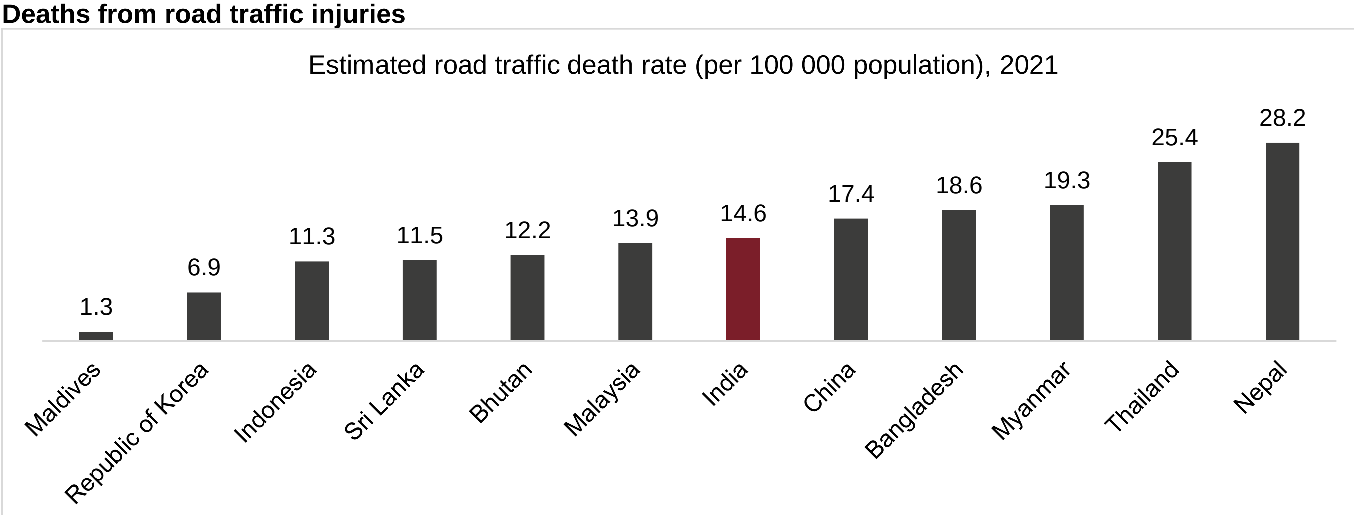


Note: CHE: Current healthcare expenditure; DGGHE: Domestic general government healthcare expenditure
Source: WHO Global Healthcare Expenditure Database

Need of insurance against personal accident

Insurance in personal accident segment also needs special focus from the insurers as India is among the nations where road traffic mortality rate is high. As per the WHO data for 2021, 14.6 people per 100,000 population pass away in India each year due to road accidents. Considering the poor traffic and road standards in India, there is an opportunity for insurers to increase the awareness of people on need of insurance against personal accident and improve their overall penetration in this segment.

Deaths from road traffic injuries



Source: WHO-Global health observatory data repository

Rising demand for fire and marine insurance

The demand from corporates for asset protection products such as fire and marine insurance is very low. As a percentage of industrial GDP, premiums from these policies are at less than 0.5%, as compared to global benchmarks of around 3-5%. Amongst small and medium enterprises (SMEs) in particular, the demand for asset protection is non-existent. We expect penetration for these products as well to rise gradually as awareness amongst corporates to these material risks, they are exposed to increases.

27.Peer Comparison

In this section, Crisil Intelligence has benchmarked Tata Capital with the financial and operating performance of upper layer NBFCs operating in diversified segments in India based on the latest available data for FY23, FY24, FY25 and Q1FY26.

Tata Capital is the flagship financial services company of the Tata Group. Founded in 1868, the Tata Group has the most diversified presence across industries in India, as of March 31, 2025, and is the largest group with 26 equity listed companies having a combined market capitalisation of Rs. 27.8 trillion, as of March 31, 2025. With a legacy of over 150 years, the Tata group is one of India's most distinguished business groups comprising various companies across 10 verticals such as automotive, technology, steel, financial services, aerospace and defence, and consumer and retail, as of March 31, 2025. The Tata group is a global enterprise headquartered in India, with operations in more than 100 countries across six continents and collectively employed over 1 million employees, as of March 31, 2025. In Fiscal 2025, Tata Capital ranked 4th in terms of Profit After Tax compared to the listed companies within the Tata group.

Consolidated financials of the companies have been taken into consideration wherever applicable, except for Shriram Finance and Aditya Birla Capital where standalone figures are considered. Players have been arranged in order of decreasing AUM in each category.

27.1 Tata Capital is the third largest diversified NBFC in India as of June 2025

Tata Capital is the third largest diversified non-banking financial company ("NBFC") in India with a gross loan book of Rs. 2,334.0 billion as of June 2025.

Tata Capital is one of the fastest growing NBFC in terms of gross loans among large diversified NBFCs from March 2023 to March 2025 at 37.3%.

Size of the companies

Gross Loan Book (in Rs. Billions)					
Players	**FY23**	**FY24**	**FY25**	**Q1 FY26**	**CAGR (FY23-25)**
Bajaj Finance	2,466.4	3,313.3	4,148.3	4,414.5	29.69%
Shriram Finance	1,833.4	2,216.7	2,599.2	2,722.5	19.07%
Tata Capital	**1,202.0**	**1,612.3**	**2,265.5**	**2,334.0**	**37.29%**
Cholamandalam Investment & Finance	1,071.4	1,469.8	1,854.5	1,921.5	31.56%
Aditya Birla Capital	805.6	1,056.4	1,263.5	1,312.3	25.24%
HDB Financial	700.3	902.2	1,068.8	1,093.4	23.54%
L&T Finance	808.9	855.6	977.6	1,023.1	9.93%
Sundaram Finance	453.6	555.4	653.8	713.1	20.06%

Note: 1) Companies are arranged in descending order of AUM as of March 2025. 2) Aditya Birla Finance has been merged into Aditya Birla Capital as of March 31, 2025; hence the numbers will not be comparable, 3) For Aditya Birla Capital the numbers indicate AUM. 4) Tata Capital figures for all periods refer to Gross Loans or Gross Advances; For companies other than Tata Capital figures for FY23, FY24 and FY25 refer to Gross Loans or Gross Advances while figures for Q1 FY26 refers to AUM.

Source: Company reports, Crisil Intelligence

27.2 Tata Capital is the most comprehensive amongst large diversified NBFCs

Tata Capital is the most comprehensive amongst large diversified NBFCs in India based on the number of loan product offerings, as of March 31, 2025.

List of Lending Product Categories

	Bajaj	Shriram	Tata	Chola	Aditya	HDB	L&T	Sundaram Finance
Construction/ Developer Finance	✓		✓		✓		✓	
Green Financing*		✓	✓					
Lease Rental Discounting	✓				✓			
Corporate Lending	✓		✓		✓			✓
Supply Chain Finance	✓	✓	✓	✓	✓		✓	✓
Housing Loans	✓		✓	✓	✓		✓	✓
Equipment Financing	✓	✓	✓	✓		✓	✓	✓
Loans against securities	✓		✓	✓	✓	✓		
Secured Business, Secured MSME , Loans against property	✓	✓	✓	✓	✓	✓	✓	
Education loans			✓					
SME Loans - Unsecured business loans, Working Capital Loans	✓	✓	✓	✓	✓	✓	✓	✓
Commercial Vehicle Loans	✓	✓	✓	✓		✓		✓
New/Used Car Loan	✓	✓	✓	✓		✓		✓
Gold Loan	✓	✓				✓	✓	
2 Wheeler/3 Wheeler/ Tractor Loan	✓	✓	✓	✓		✓	✓	✓
Personal loans	✓	✓	✓	✓	✓	✓	✓	
Microfinance	✓		✓			✓	✓	
Consumer Loans	✓		✓	✓	✓	✓		

Note: 1) (*) Includes Cleantech loans, EV Financing, 2) The table shows latest product portfolio of companies as according to each company's websites, 3) For comparison purpose, products across NBFCs are categorised into broader categories, 4) For Aditya Capital and Sundaram Finance, housing loans are provided by Aditya Birla Housing Finance and Sundaram Home Finance respectively.
Source: Company Websites, Crisil Intelligence

List of Non-Lending Product Categories

	Bajaj	Shriram	Tata	Chola	Aditya	HDB	L&T	Sundaram Finance
Insurance Distribution	✓	✓	✓	✓	✓	✓	✓	✓
Credit Cards	✓		✓		✓			
Mutual Fund Distribution	✓	✓	✓	✓	✓			✓
Wealth Management			✓	✓	✓			✓
Private Equity			✓					

Note: 1) The table shows latest product portfolio of companies as according to each company's websites.
Source: Company Websites, Crisil Intelligence

Product Portfolio Mix of the companies (FY25)

Product Mix of Companies (%)		
Players	**Product Category**	**AUM Mix (%)**
Bajaj Finance	Mortgage	31.1%
	Urban B2C Loans	21.0%
	SME Lending	12.1%
	Urban Sales Finance	7.0%
	Commercial Lending	6.7%
	Loans against securities	6.1%
	Rural B2C Loans	5.2%
	Two & Three-wheeler Finance	4.2%
	Car Loans	2.9%
	Gold Loans	2.0%
	Rural Sales Finance	1.9%
Shriram Finance	Commercial Vehicles	45.1%
	Passenger Vehicles	20.6%
	MSME	14.2%
	Construction Equipments	6.8%
	Two Wheelers	5.9%
	Personal Loans	3.6%
	Farm Equipments	2.0%
	Gold Loans	1.8%
Tata Capital	**Home Loans**	**17.0%**
	Term Loans	**15.1%**
	Loans Against Property	**11.7%**
	Commercial Vehicle	**11.7%**
	Cleantech and Infrastructure Finance	**8.0%**
	Supply Chain Finance	**7.3%**
	Personal Loans	**6.9%**
	Developer Finance	**5.1%**
	Business Loans	**4.1%**
	Two-Wheeler Loans	**3.0%**
	Construction Equipment	**2.6%**
	Car Loans	**2.4%**
	Loans Against Securities	**1.7%**
	Leasing Solutions	**1.3%**
	Microfinance	**1.1%**
	Equipment Finance	**0.9%**
	Education Loans	**0.1%**
	Secured Business Loans	**0.0%**
	Loans against property	21.0%

Product Mix of Companies (%)		
Cholamandalam Investment & Finance	Used Vehicle	16.0%
	LCV	11.0%
	Housing Loans	9.0%
	Consumer & Small Enterprise Loan	8.0%
	MUV	7.0%
	Car	7.0%
	HCV	4.0%
	Construction Equipment	4.0%
	2 Wheeler	4.0%
	Tractor	3.0%
	SME	3.0%
	Mini LCV	1.0%
	Secured Business & Personal loans	1.0%
	3 Wheeler	1.0%
Aditya Birla Capital	Secured Business Loans	46.0%
	Corporate / Mid-Market	32.0%
	Personal & Consumer loans	12.0%
	Unsecured Business Loans	10.0%
HDB Financial	Other assets backed loans	45.9%
	Mortgage backed loans	23.3%
	Personal Loans	27.0%
	Consumer Durable, Two wheeler loans, Gold Loans and Micro Lending	3.8%
L&T Finance	Rural Business Finance	26.9%
	Home Loans	19.7%
	Farmer Finance	15.6%
	Two wheeler Finance	12.6%
	Personal Loans	8.8%
	SME Finance	6.7%
	LAP	5.8%
	Wholesale Finance	2.6%
	Acquired	1.2%
Sundaram Finance^	Housing & Non-housing Loans	25.3%
	MHCV	18.4%
	Cars	18.2%
	Retail CV	15.3%
	Construction Equipment	8.1%
	Tractors	5.3%
	Commercial Lending	5.2%
	Others	4.2%

Note: (^) For Sundaram Finance gross loan book includes AUM of Sundaram Finance and Sundaram Home Finance.
Source: Company reports, Crisil Intelligence

27.3 Tata Capital has the fastest growing branch network amongst the peer set

Tata Capital had the highest CAGR in terms of number of branches from Fiscal 2023 to Fiscal 2025 at 66.6%.

Number of Branches for companies

Branches					
Players	FY23	FY24	FY25	Q1 FY26	CAGR (FY23-25)
Bajaj Finance	3,733	4,145	4,263	4,192	6.86%
Shriram Finance	2,922	3,082	3,220	3,225	4.98%
Tata Capital	**539**	**867**	**1,496**	**1,516**	**66.60%**
Cholamandalam Investment & Finance	1,191	1,387	1,613	1,703	16.38%
Aditya Birla Capital	323	412	449	461	17.90%
HDB Financial	1,492	1,682	1,771	1,771	8.95%
L&T Finance	1,862	1,965	2,297	2,496	11.07%
Sundaram Finance	788	848	878	885	5.56%

Note: For Sundaram Finance branches includes individual branches of Sundaram Finance and Sundaram Home Finance.
Source: Company reports, Crisil Intelligence

27.4 Tata Capital's credit cost is the third lowest among its peers as of Fiscal 2025

Tata Capital's credit cost at 1.4% was the third lowest amongst its peers as of Fiscal 2025. Aditya Birla Capital had the lowest opex (%) at 1.9% followed by Sundaram Finance and Tata Capital at 2.7% as of Fiscal 2025 amongst the peer set.

Profitability metrics of companies (FY2025)

Players	Yield on advances (%)	Cost of borrowing (%)	NIM (%)	Net Total Income (%)	Cost to Income (%)	Opex (%)	Credit cost (%)	RoA	RoE	Total Borrowing to Total Equity
Bajaj Finance	16.7%	7.6%	9.9%	12.2%	33.2%	4.1%	2.2%	4.5%	19.2%	3.7
Shriram Finance	17.8%	8.8%	9.6%	10.3%	30.5%	3.2%	2.3%	4.3%	18.6%	4.2
Tata Capital	**12.6%**	**7.8%**	**5.2%**	**6.5%**	**42.1%**	**2.7%**	**1.4%**	**1.8%**	**12.6%**	**6.6**
Cholamandalam Investment & Finance	14.5%	8.1%	6.9%	8.4%	39.7%	3.3%	1.5%	2.6%	19.7%	7.4
Aditya Birla Capital	12.4%	7.8%	5.3%	6.7%	29.0%	1.9%	1.3%	2.6%	12.5%	4.4
HDB Financial	14.6%	7.9%	7.8%	10.4%	49.1%	5.1%	2.2%	2.3%	14.7%	5.5

L&T Finance	16.7%	7.1%	9.9%	11.4%	40.1%	4.6%	2.5%	3.0%	10.8%	3.6
Sundaram Finance	11.9%	7.5%	4.9%	7.3%	37.8%	2.7%	0.4%	3.1%	15.5%	4.6

Note: 1) Yield on advances calculated as Total Interest divided by average of total net loans on book
2) Cost of borrowing calculated as total interest expense divided by average of total borrowings, Total Borrowings include debt securities, borrowings other than debt securities, subordinated liabilities and deposits
3) Net Interest Margin calculated as total interest income subtracted by total interest expense divided by average of total net loans on book
4) Net Total Income calculated as total income reduced by total interest expense divided by average of total net loans on book at the end of the financial year.
5) Cost to Income calculated as operating expenses divided by net total income at the end of the financial year.
6) Opex calculated as Operating expenses divided by average of net loans on book at the end of the financial year, Operating Expenses include employee expenses, depreciation and amortization, other expenses and fees and commission expense
7) Credit cost calculated as provision/impairment divided by average of net loans on book
8) RoA calculated as profit after tax attributable to Owners of the Company divided by average of net loans on book of the company
9) RoE calculated as profit after tax attributable to Owners of the Company divided by average of total equity of the company (attributable to owners).
10) Average Total Net Loans: For Fiscal 2025, in the case of TCL: Simple average of: (a) Total Net Loans as at the last day of the relevant Fiscal; and (b) Total Net Loans as at the last day of the immediately preceding Fiscal plus the Total Gross Loans acquired through the TMFL Scheme of Arrangement as of the acquisition date.
11) Average Total Borrowings: For Fiscal 2025, in the case of TCL: Simple average of: (a) Total Borrowings as at the last day of the relevant Fiscal; and (b) Total Borrowings as at the last day of the immediately preceding Fiscal plus Total Borrowings acquired through the TMFL Scheme of Arrangement as of the acquisition date.
12)Average Total Equity: For Fiscal 2025, in the case of TCL: Simple average of: (a) Total Equity as at the last day of the relevant Fiscal and (b) Total Equity as at the last day of the immediately preceding Fiscal plus equity shares issued less Goodwill arising on amalgamation and Settlement of Pre-existing relationship pursuant to the TMFL Scheme of Arrangement as of the acquisition date.
13) Total Borrowing to Total Equity calculated as Total Borrowing divided by Total Equity at the end of the financial year.
Source: Company reports, Crisil Intelligence

27.5 Tata Capital had the second largest outstanding debt securities among large diversified NBFCs in India as of March 2025

Tata Capital had Rs. 80,142 crores outstanding in debt securities as of March 31, 2025, second largest outstanding debt securities among large diversified NBFCs in India.

Debt Securities of companies (FY2025)

Players	Outstanding Debt Securities as of March 2025 (in Rs. crores)
Bajaj Finance	154,640
Shriram Finance	54,149
Tata Capital	**80,142**
Cholamandalam Investment & Finance	30,223
Aditya Birla Capital	37,066
HDB Financial	39,465
L&T Finance	28,854
Sundaram Finance	22,930

Source: Company reports, Crisil Intelligence

27.6 Tata Capital has one of the most diverse borrowing mixes among peers

Liability Mix of companies (FY2025)

Players	Liability Mix (%)							
	Term Loan	NCD/Bond	Deposit	Short Term Borrowing	ECB	Securitisation	Subordinated Debt	Others
Bajaj Finance	28.0%[1]	35.0%	20.0%	12.0%	4.0%	-	1.0%	-

Players	Liability Mix (%)							
	Term Loan	NCD/Bond	Deposit	Short Term Borrowing	ECB	Securitisation	Subordinated Debt	Others
Shriram Finance	21.1%	16.4%	24.0%	-	21.1%	16.3%	1.1%	0.2%
Tata Capital	**42.8%**	**31.5%**	**-**	**11.3%[5]**	**9.7%**	**-**	**4.6%**	**0.0%[6]**
Cholamandalam Investment & Finance	44.0%	15.0%	-	5.0%[4]	8.0%	15.0%	-	13.0%[2]
Aditya Birla Capital	49.0%	31.0%	-	15.0%[3]	6.0%	-	-	-
HDB Financial	37.7%	41.3%	-	3.9%	10.2%	-	5.2%	1.7%
L&T Finance	56.0%	27.0%	-	7.0%	8.0%	-	-	2.0%
Sundaram Finance	33.1%	30.2%	13.5%	9.6%	-	13.6%	-	-

Note: (1) Bank Loans (incl. CC/OD/WCDL), (2) IFI and Tier II Capital, (3) CP, CC/WCDL/Others. Others include working capital demand loan, cash credit, bank overdraft, inter corporate deposits, ECB: External Commercial Borrowing, (4) Includes CC/WCDL & STL and Commercial Papers/ICD, (5) Short Term Borrowing (incl. CP, Bank Overdraft and Working Capital Loan), (6) Others (incl. Inter Corporate Deposits).
Source: Company reports, Crisil Intelligence

Capital Adequacy Ratio of companies

Players	Capital Adequacy Ratio			Tier 1 Capital		
	FY24	FY25	Q1 FY26	FY24	FY25	Q1 FY26
Bajaj Finance	22.5%	21.9%	22.0%	21.5%	21.1%	21.2%
Shriram Finance	20.3%	20.7%	20.8%	19.6%	20.0%	20.2%
Tata Capital	**16.7%**	**16.9%**	**16.6%**	**11.9%**	**12.8%**	**12.8**
Cholamandalam Investment & Finance	18.6%	19.8%	20.0%	15.1%	14.4%	14.3%
Aditya Birla Capital	19.0%	18.2%	18.1%	17.0%	15.9%	15.6%
HDB Financial	19.3%	19.2%	20.2%	14.1%	14.7%	15.7%
L&T Finance	22.8%	22.3%	20.7%	21.0%	20.8%	19.5%
Sundaram Finance	20.5%	20.4%	20.0%	16.8%	17.4%	NA

Note: 1) On a standalone basis for all players, 2) L&T Finance's CRAR ratios and Tier 1 are on consolidated basis
Source: Company reports, Crisil Intelligence

27.7 Tata Capital had one of the lowest Gross Stage 3 and Net Stage 3 Loans Ratio and the third highest PCR amongst the peer set as of June 30, 2025

Amongst the peer set, Bajaj Finance's Gross stage 3 (%) was the lowest at 1.0%, followed by Sundaram Finance at 1.9% and Tata Capital at 2.1% as of June 2025.

Tata Capital has the third lowest Gross stage 3 (2.1%) and second lowest Net stage 3 (1.0%) and third highest provision coverage ratio (53.9%) amongst large diversified NBFCs as of June 2025 and is among the best among the peers.

Asset Quality of companies

Players	Gross Stage 3 (%)			Net Stage 3 (%)			PCR(%)		
	FY24	FY25	Q1 FY26	FY24	FY25	Q1 FY26	FY24	FY25	Q1 FY26
Bajaj Finance	0.9%	1.0%	1.0%	0.4%	0.4%	0.5%	57.0%	53.7%	51.9%

Shriram Finance*	5.5%	4.6%	4.5%	2.7%	2.6%	2.6%	51.8%	43.3%	44.3%
Tata Capital	**1.5%**	**1.9%**	**2.1%**	**0.4%**	**0.8%**	**1.0%**	**74.1%**	**58.5%**	**53.9%**
Cholamandalam Investment & Finance*	3.5%	4.0%	4.3%	2.3%	2.6%	2.9%	35.2%	34.6%	34.4%
Aditya Birla Capital*	2.5%	2.2%	2.3%	1.3%	1.2%	1.4%	49.9%	45.0%	41.2%
HDB Financial	1.9%	2.3%	2.6%	0.6%	1.0%	1.1%	66.8%	56.0%	56.7%
L&T Finance	3.2%	3.3%	3.3%	0.8%	1.0%	1.0%	76.0%	71.0%	71.0%
Sundaram Finance*	1.3%	1.4%	1.9%	0.6%	0.8%	1.1%	50.0%	49.0%	44.0%

Note: 1) PCR: Provision Coverage Ratio as declared by the company. 2) Cholamandalam Investment & Finance Gross, Net Stage 3 and PCR are as per RBI asset classification norms, 3) (*) Numbers on a standalone basis.
Source: Company reports, Crisil Intelligence

Asset Liability Management of companies (FY2025)

Players	Assets (Rs. bn)		Liabilities (Rs. bn)		Net (Rs. bn)		Asset – Liability Ratio	
	Within 12 Months	After 12 Months	Within 12 Months	After 12 Months	Within 12 Months	After 12 Months	Within 12 Months	After 12 Months
Bajaj Finance	1,715.4	2,945.9	1,354.1	2,317.8	361.3	628.1	126.7%	127.1%
Shriram Finance	1,334.5	1,600.9	672.3	1,700.3	662.2	(99.4)	198.5%	94.2%
Tata Capital	**1,043.0**	**1,441.7**	**774.8**	**1,366.2**	**268.2**	**75.5**	**134.6%**	**105.5%**
Cholamandalam Investment & Finance	552.1	1,464.4	591.9	1,188.3	(39.9)	276.2	93.3%	123.2%
Aditya Birla Capital	385.4	1,007.6	434.6	706.5	(49.2)	301.2	88.7%	142.6%
HDB Financial	398.1	688.6	412.4	516.0	(14.3)	172.6	96.5%	133.4%
L&T Finance	526.5	677.5	550.0	397.8	(23.4)	279.7	95.7%	170.3%
Sundaram Finance	NA	NA	NA	NA	NA	NA	NA	NA

Note: 1) NA: Not Available.
Source: Company reports, Crisil Intelligence

27.8 Tata Capital has the highest possible domestic credit rating of AAA for its borrowing program

Tata Capital's diverse liability franchise is backed by a strong credit rating of AAA, by each of Crisil, ICRA, and India Rating, which is the highest rating that can be assigned on the credit rating scale for any NBFC in India.

Latest Domestic credit rating of companies

Players	Latest Credit Rating	
	Long Term Rating	Short Term Rating
Bajaj Finance	CARE AAA, IND AAA, ICRA AAA, Crisil AAA	CARE A1+, IND A1+, ICRA A1+, Crisil A1+
Shriram Finance	CARE AA+, IND AA+, Crisil AA+/Crisil PPMLD AA+, ICRA AA+	CARE A1+, IND A1+, Crisil A1+

Tata Capital	**Crisil AAA/Crisil AA+/Crisil PPMLD AAA, IND AAA, ICRA AAA/ICRA AA+, CARE AAA/CARE AA+**	**Crisil A1+, IND A1+, ICRA A1+**
Cholamandalam Investment & Finance	CARE AA/CARE AA+, IND AA/IND AA+, ICRA AA/ICRA AA+	Crisil A1+, ICRA A1+
Aditya Birla Capital	ICRA AAA/ICRA AA+, IND AAA/IND AA+, Crisil AAA/Crisil AA+, CARE AAA*	ICRA A1+, IND A1+, Crisil A1+
HDB Financial	CARE AAA, Crisil AAA	CARE A1+, Crisil A1+
L&T Finance	Crisil AAA/Crisil PPMLD AAA, CARE AAA/CARE AA+, IND AAA, ICRA AAA/ICRA AA+	Crisil A1+, CARE A1+, IND A1+, ICRA A1+
Sundaram Finance	ICRA AAA, Crisil AAA	ICRA A1+, Crisil A1+

Note: (*) For Aditya Birla Finance Limited. Source: Company reports, Crisil Intelligence

27.9 Tata Capital is one of only three NBFCs with International Credit Rating of BBB as of latest credit rating available

Latest International credit rating of companies

Players	Latest Credit Rating	
	Long Term Rating	Short Term Rating
Bajaj Finance	BBB (S&P Global Ratings) *, Baa3 (Moody's)	A-2 (S&P Global Ratings), P-3 (Moody's)
Shriram Finance	BB+ (Fitch Ratings), BB+ (S&P Global Ratings)	B (Fitch Ratings), B (S&P Global Ratings)
Tata Capital	**BBB (S&P Global Ratings) ***	**A-2 (S&P Global Ratings)**
Cholamandalam Investment & Finance	-	-
Aditya Birla Capital	-	-
HDB Financial	-	-
L&T Finance	BBB (S&P Global Ratings) *	A-2 (S&P Global Ratings)
Sundaram Finance	-	-

Note: (*) Long Term Issuer Rating. Source: Company reports, Crisil Intelligence

28. Annexure

28.1 Annexure 1

Tata Motors Limited is one of India's largest automobile manufacturing companies based on vehicle production and domestic sales as of March 31, 2025. Tata Motors has one of the most diversified product portfolios with a presence across light, medium and heavy-duty segments of the commercial vehicles industry.

Tata Motors Limited is the market leader in the domestic production of commercial vehicles industry in India with a market share of 35.6% (in terms of production) and a sales volume of 0.4 million units in Fiscal 2025.

Players	Commercial Vehicle Production volume (FY25)	Commercial Vehicle Domestic Sales volume (FY25)	Market Share – Production FY25	Market Share – Domestic Sales FY25
Tata Motors Ltd.	367,763	342,910	35.6%	33.2%
Mahindra & Mahindra Ltd.	274,592	269,087	26.6%	26.1%
Ashok Leyland Ltd.	194,394	179,842	18.8%	17.4%
VECVs - Eicher	88,405	82,543	8.6%	8.0%
Maruti Suzuki India Ltd	38,938	34,492	3.8%	3.3%
Force Motors Ltd.	29,287	28,397	2.8%	2.8%
Isuzu	21,587	2,071	2.1%	0.2%
Swaraj Mazda Ltd.	14,445	13,511	1.4%	1.3%
Olectra Greentech Limited	805	805	0.1%	0.1%
Switch Mobility Automotive Limited	709	564	0.1%	0.1%
Volvo Group India Pvt Ltd	291	921	0.0%	0.1%
Pinnacle Mobility Solutions Private Limited	266	261	0.0%	0.0%
Toyota Kirloskar Motor Pvt Ltd	259	278	0.0%	0.0%
TI Clean Mobility Pvt Ltd	153	173	0.0%	0.0%

Source: Crisil Intelligence, SIAM

Tata Motors Limited is also one of the top three manufacturers of passenger vehicles (cars and utility vehicles) in India with a market share of 13.2% in Fiscal 2025 (as of domestic sales) and sales volume of 0.6 million units (domestic sales) in the same period.

Players	Production Volume (FY25)	Domestic Sales (FY5)	Market Share – Production (FY25)	Market Share – Domestic Sales (FY25)
Maruti Suzuki India Ltd.	2,063,870	1,760,767	40.8%	40.9%
Hyundai Motors India Ltd.	761,845	598,666	15.1%	13.9%
Tata Motors	568,149	569,247	11.2%	13.2%
Mahindra & Mahindra Ltd.	561,692	551,487	11.1%	12.8%
Toyota Kirloskar Motor Ltd.	385,765	309,230	7.6%	7.2%
Kia Motors India Pvt Ltd	281,435	255,207	5.6%	5.9%
Honda Cars India Ltd.	115,597	65,925	2.3%	1.5%

Players	Production Volume (FY25)	Domestic Sales (FY5)	Market Share – Production (FY25)	Market Share – Domestic Sales (FY25)
Nissan Motor India Pvt. Ltd.	99,332	27,881	2.0%	0.6%
Volkswagen	85,952	42,230	1.7%	1.0%
Renault	50,368	37,900	1.0%	0.9%
Skoda Auto India Pvt. Ltd	47,699	44,868	0.9%	1.0%
MG Motor India Pvt Ltd	22,741	25,543	0.4%	0.6%
Pca Motors Pvt. Ltd	7,125	6,516	0.1%	0.2%
Fiat India Ltd.	6,949	3,865	0.1%	0.1%
Force Motors Ltd.	2,160	2,134	0.0%	0.0%
Isuzu Motors India Pvt Ltd	389	359	0.0%	0.0%
International Cars & Motors Ltd.	90	25	0.0%	0.0%

Note: The above numbers include cars and utility vehicles
Source: Crisil Intelligence, SIAM

28.2 Annexure 2

Tata AIA is the third largest private life insurer based on individual weighted new business premium with market share of 10.0% basis individual weighted new business premium as of FY25.

Players	Weighted NBP (in Rs. Crores) – FY24	Market Share – FY24	Weighted NBP (in Rs. Crores) –FY25	Market Share – FY25
SBI Life Insurance Company Limited	17,234	23.3%	19,353	22.8%
HDFC Life Insurance Company Limited	11,376	15.4%	13,364	15.7%
TATA AIA Life Insurance Company Limited	7,413	10.0%	8,511	10.0%
AXIS MAX Life Insurance Limited	6,961	9.4%	8,329	9.8%
ICICI PRUDENTIAL Life Insurance Company Limited	7,213	9.8%	8,307	9.8%
BAJAJ ALLIANZ Life Insurance Company Limited	6,325	8.6%	7,066	8.3%
ADITYA BIRLA SUN Life Insurance Company Limited	3,075	4.2%	4,115	4.8%
KOTAK MAHINDRA Life Insurance Company Limited	2,823	3.8%	2,985	3.5%
PNB METLIFE Life Insurance Company Limited	2,318	3.1%	2,399	2.8%
CANARA HSBC Life Insurance Company Limited	1,702	2.3%	2,179	2.6%
STAR UNION DAI-ICHI Life Insurance Company Limited	1,501	2.0%	1,620	1.9%
INDIAFIRST Life Insurance Company Limited	1,376	1.9%	1,426	1.7%
SHRIRAM Life Insurance Company Limited	891	1.2%	1,289	1.5%
RELIANCE NIPPON Life Insurance Company Limited	1,103	1.5%	1,046	1.2%
AGEAS FEDERAL Life Insurance Company Limited	606	0.8%	799	0.9%
BHARTI AXA Life Insurance Company Limited	625	0.8%	616	0.7%
EDELWEISS TOKIO Life Insurance Company Limited	514	0.7%	575	0.7%
FUTURE GENERALI INDIA Life Insurance Company Limited	392	0.5%	437	0.5%
PRAMERICA Life Insurance Limited.	187	0.3%	177	0.3%
BANDHAN Life Insurance Limited (FORMERLY AEGON Life Insurance Company Limited)	12	0.0%	164	0.2%
AVIVA Life Insurance Company Limited	223	0.3%	136	0.2%
Go Digit Life Insurance Limited	0	0.0%	51	0.1%

ACKO Life Insurance Company Limited	0	0.0%	3	0.0%

Note: Weighted NBP is defined as addition of 10% of individual single new business premium and individual non single new business premium, Companies arranged in decreasing order as of Weight NBP of March 2025.
Source: LIC Council, Crisil Intelligence

28.3 Annexure 3

Tata AIG is the third largest private non-life insurer based on GWP with market share of 5.8% in FY25.

Players	Gross Premium FY25	Market Share – FY25
The New India Assurance Co Ltd	38,661	12.6%
ICICI Lombard General Insurance Co Ltd	26,833	8.7%
Bajaj Allianz General Insurance Co Ltd	21,417	7.0%
United India Insurance Co Ltd	20,074	6.5%
The Oriental Insurance Co Ltd	19,826	6.4%
Tata AIG General Insurance Co Ltd	17,703	5.8%
Star Health & Allied Insurance Co Ltd	16,716	5.4%
National Insurance Co Ltd	16,660	5.4%
HDFC Ergo General Insurance Co Ltd	15,817	5.1%
SBI General Insurance Co Ltd	13,890	4.5%
Reliance General Insurance Co Ltd	12,548	4.1%
Agriculture Insurance Co Of India Ltd	9,738	3.2%
Go Digit General Insurance Ltd	8,472	2.8%
Care Health Insurance Ltd	8,318	2.7%
IFFCO-Tokio General Insurance Co Ltd	8,312	2.7%
Cholamandalam MS General Insurance Co Ltd	8,124	2.6%
Niva bupa health insurance company limited	6,762	2.2%
Future Generali India Insurance Co Ltd	5,408	1.8%
Universal Sompo General Insurance Co Ltd	5,078	1.7%
Aditya Birla Health Insurance Co Ltd	4,822	1.6%
Royal Sundaram General Insurance Co Ltd	3,764	1.2%
Shriram General Insurance Co Ltd	3,753	1.2%
Magma General Insurance Limited	3,334	1.1%
Liberty General Insurance Co. Ltd	2,246	0.7%
Acko General Insurance Ltd	2,065	0.7%
Zurich Kotak Mahindra General Insurance Co Ltd	1,915	0.6%
ManipalCigna Health Insurance Co Ltd	1,798	0.6%
ECGC Ltd	1,367	0.4%
Zuno General Insurance Co Ltd	992	0.3%
Kshema General insurance	771	0.3%
Raheja QBE General Insurance Co Ltd	353	0.1%
Navi General Insurance Co. Ltd	100	0.0%

Players	Gross Premium FY25	Market Share – FY25
Galaxy Health Insurance Company Ltd	17	0.0%
Narayana Health Insurance Ltd	2	0.0%

Note: IRDAI has recently revised the formats for reporting, and they have excluded premium from long term policies from reporting of premiums with effect from October 1, 2024. Source: GIC Council, Crisil Intelligence

28.4 Annexure 4

Tata Mutual Fund is the 9th largest AMC based on Average AUM as of March 31, 2025.

Mutual Fund Houses	Average AUM – March 2025 in Rs. crore	Market Share – March 2025
SBI Mutual Fund	1,072,949	15.9%
ICICI Prudential Mutual Fund	879,412	13.0%
HDFC Mutual Fund	773,998	11.5%
Nippon India Mutual Fund	557,199	8.3%
Kotak Mahindra Mutual Fund	482,537	7.2%
Aditya Birla Sun Life Mutual Fund	381,724	5.7%
UTI Mutual Fund	339,750	5.0%
Axis Mutual Fund	321,506	4.8%
Tata Mutual Fund	187,698	2.8%
DSP Mutual Fund	187,311	2.8%
Mirae Asset Mutual Fund	186,269	2.8%
Bandhan Mutual Fund	167,166	2.5%
Edelweiss Mutual Fund	142,831	2.1%
HSBC Mutual Fund	124,397	1.8%
Franklin Templeton Mutual Fund	106,894	1.6%
Invesco Mutual Fund	106,581	1.6%
Canara Robeco Mutual Fund	103,344	1.5%
PPFAS Mutual Fund	101,700	1.5%
Motilal Oswal Mutual Fund	92,988	1.4%
quant Mutual Fund	88,637	1.3%
Sundaram Mutual Fund	65,593	1.0%
Baroda BNP Paribas Mutual Fund	45,541	0.7%
LIC Mutual Fund	36,476	0.5%
Mahindra Manulife Mutual Fund	27,256	0.4%
PGIM India Mutual Fund	24,165	0.4%
Bajaj Finserv Mutual Fund	20,133	0.3%
Union Mutual Fund	19,953	0.3%
WhiteOak Capital Mutual Fund	16,607	0.2%
JM Financial Mutual Fund	13,831	0.2%
Bank of India Mutual Fund	11,518	0.2%
360 ONE Mutual Fund	11,342	0.2%

Mutual Fund Houses	Average AUM – March 2025 in Rs. crore	Market Share – March 2025
ITI Mutual Fund	9,293	0.1%
Navi Mutual Fund	7,120	0.1%
NJ Mutual Fund	6,438	0.1%
Zerodha Mutual Fund	4,855	0.1%
Helios Mutual Fund	3,422	0.1%
Samco Mutual Fund	2,825	0.04%
Quantum Mutual Fund	2,607	0.04%
Trust Mutual Fund	2,596	0.04%
Groww Mutual Fund	1,547	0.02%
Old Bridge Mutual Fund	1,179	0.02%
IL&FS Mutual Fund (IDF)	1,103	0.02%
Shriram Mutual Fund	969	0.01%
Taurus Mutual Fund	872	0.01%
Unifi Mutual Fund	110	0.002%
Angel One Mutual Fund	19	0.000%

Note: Average AUM includes Excluding Fund of Funds - Domestic but including Fund of Funds – Overseas for January 2025 to March 2025 quarter
Source: AMFI, Crisil Intelligence

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